



**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER C-6-14**

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IN THE MATTER OF  
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

an Application by FortisBC Energy Inc.  
for a Certificate of Public Convenience and Necessity  
for the Huntingdon Station Bypass Project

**BEFORE:** R.D. Revel, Commissioner April 4, 2014

### **O R D E R**

#### **WHEREAS:**

- A. On October 25, 2013, FortisBC Energy Inc. (FEI) applied to the British Columbia Utilities Commission (Commission) for a Certificate of Public Convenience and Necessity (CPCN) to construct a bypass pipeline around FEI's Huntingdon Flow and Pressure Control Station (Huntingdon Station) (Project), pursuant to sections 45 and 46 of the *Utilities Commission Act* (UCA) (Application);
- B. FEI also seeks Commission approval under sections 59-61 of the UCA for:
  - deferral treatment of costs for preparing this CPCN Application and to amortize these costs over a three-year period commencing in 2015; and
  - deferral treatment of prefeasibility costs which will be recorded on a net-of-tax basis attracting Allowance for Funds Used During Construction (AFUDC) until December 31, 2015, and amortization of the prefeasibility costs over a three-year period commencing in 2016;
- C. The Project involves the construction of a new Nominal Pipe Size (NPS) 36 inch bypass pipeline and the installation of the necessary valves. FEI proposes to start construction of the Project in May 2015 and expects the Project to be in-service by October 2015;
- D. FEI estimates the capital cost of the Project to be approximately \$8.0 million in as-spent dollars including AFUDC and contingency, but not including deferred Application or prefeasibility costs. The Total Project Cost Estimate is \$8.624 million and FEI proposes to use a control budget excluding AFUDC of \$8.2 million;
- E. FEI also requests that detailed information relating to equipment risk assessments and Project cost estimates for material and construction work be treated as confidential because it is commercially sensitive;

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- F. On November 15, 2013, by Order G-185-13, the Commission granted FEI's request for confidentiality and established a Written Hearing Process with two rounds of Commission and Intervener Information Requests for review of the Application in accordance with the preliminary Regulatory Timetable;
- G. The Commercial Energy Consumers Association of BC (CEC) and the British Columbia Pensioners' and Seniors' Organization et al. (BCPSO) registered as Interveners;
- H. On January 13, 2014, the Commission issued a letter to FEI and all Registered Interveners requesting Interveners to advise if they intended to file Intervener Evidence and proposing a shortened Regulatory Timetable. In response, both CEC and BCPSO advised that they did not intend to submit Intervener Evidence. No parties objected to the shortened timetable;
- I. By Order G-11-14, on February 3, 2014, the Commission amended the preliminary Regulatory Timetable by eliminating the Intervener Evidence deadline and advancing to the Argument phase of the proceeding;
- J. On March 5, 2014, CEC and BCPSO submitted Final Arguments and on March 12, 2014, FEI submitted its Reply Argument; and
- K. The Commission has considered the evidence and concludes that the Project is in the public interest and that a CPCN should be granted.

**NOW THEREFORE** with Reasons attached as Appendix A to this Order, the Commission orders as follows:

1. Pursuant to sections 45 and 46 of the *Utilities Commission Act* (UCA), a Certificate of Public Convenience and Necessity (CPCN) is granted to FortisBC Energy Inc. (FEI) to construct a bypass pipeline around FEI's Huntingdon Flow and Pressure Control Station, defined as Option 4 in the Application.
2. The CPCN approval is based on the Total Project Cost Estimate of \$8.624 million in as-spent dollars.
3. Pursuant to sections 59 to 61 of the UCA, the deferral treatment and the amortization period for the prefeasibility costs as applied for are approved. FEI shall record the prefeasibility costs in a non-rate base deferral account (the Prefeasibility Deferral Account) on a net-of-tax basis attracting Allowance for Funds Used During Construction until December 31, 2015. On January 1, 2016, the Prefeasibility Deferral will be included in rate base and will be amortized over a three-year period commencing in 2016.
4. Pursuant to sections 59 to 61 of the UCA, recording the costs of preparing the Application in a deferral account (the Application Deferral Account) is approved. FEI must amortize the costs in the Application Deferral Account over a one-year period commencing in 2015.

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5. FEI must file a letter with the Commission confirming the conclusion of landowner negotiations and provide an explanation and justification of any landowner costs in excess of the estimate in Appendix F3 of the Application when negotiations are concluded. FEI must inform the Commission of any unresolved matters in relation to First Nations' considerations.
6. FEI must provide the Commission an updated Total Project Cost Estimate with a revised accuracy range when major materials are purchased and the construction contract is awarded.
7. FEI must file a report expeditiously with the Commission if FEI encounters or has a reasonable expectation to encounter a material risk in excess of 10 percent of the Total Project Cost Estimate. In the report, FEI must provide the options to address the risks, the actions that FEI is taking to deal with the risks and the likely impact to Project schedule and costs.
8. FEI must file a final report with the Commission, including a publicly available version, within three months of the actual in-service date of the Project that provides a complete breakdown of the final costs of the Project, which compares these costs to the original as applied for costs and provides an explanation and justification of any cost variance of 10 percent or more from the \$8.624 million Total Project Cost Estimate that approval of this CPCN is based on.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 4<sup>th</sup> day of April 2014.

BY ORDER

*Original signed by:*

R.D. Revel  
Commissioner

An Application by FortisBC Energy Inc.  
for a Certificate of Public Convenience and Necessity  
for the Huntingdon Station Bypass

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**REASONS FOR DECISION**

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**1.0 BACKGROUND**

On October 25, 2013, FortisBC Energy Inc. (FEI) applied to the British Columbia Utilities Commission (Commission) for a Certificate of Public Convenience and Necessity (CPCN) to construct a bypass pipeline around FEI's Huntingdon Flow and Pressure Control Station (Huntingdon Station) (Project), pursuant to sections 45 and 46 of the *Utilities Commission Act* (UCA) (Application). As described in FEI's application, the Huntingdon Station is the sole source of natural gas supply for FEI's Coastal Transmission System and FortisBC Energy (Vancouver Island) Inc. system. FEI suggests that the proposed bypass would provide redundancy to Huntingdon Station, to mitigate the risk of loss of gas supply to approximately 600,000 customers downstream of Huntingdon Station in the event of a failure (Exhibit B-1, p. 1).

FEI also requests approval, under sections 59 to 61 of the UCA, for deferral treatment of the Application costs, forecast to be about \$100 thousand (after tax \$74 thousand), and prefeasibility costs, estimated at \$573 thousand, and to amortize these costs over a three-year period (Exhibit B-1, p. 39). FEI further requests that detailed information relating to equipment risk assessments and Project cost estimates for material and construction work be treated as confidential because it is commercially sensitive (Exhibit B-1, Cover Letter, pp. 2–3).

On November 15, 2013, by Order G-185-13, the Commission granted FEI's request for confidentiality to protect FEI's business interests and maintain public safety. The Order also established a Written Hearing Process for review of the Application in accordance with a preliminary Regulatory Timetable. Commercial Energy Consumers Association of BC (CEC) and the British Columbia Pensioners' and Seniors' Organization et al. (BCPSO) registered as an Interveners in the proceeding.

On January 13, 2014, the Commission issued a letter to FEI and all Registered Interveners requesting Interveners to advise if they intended to file Intervener Evidence and proposing a shortened Regulatory Timetable. In response, both CEC and BCPSO advised that they did not intend to submit Intervener Evidence. No parties objected to the shortened timetable. On February 3, 2014, the Commission amended the preliminary Regulatory Timetable by eliminating the Intervener Evidence deadline and advancing to the Argument phase of the proceeding.

**2.0 PROJECT JUSTIFICATION**

In the Application, FEI provided three reasons for proposing the Project:

1. The potential severe consequence of large-scale service disruption to 600,000 customers and economic losses resulting from failure of the Huntingdon Station, which is the sole source of natural gas supply to FEI's Coastal Transmission System (CTS) and the FortisBC Energy (Vancouver Island) Inc. (FEVI) system;

2. Failure of certain critical components and sections of piping within the Huntingdon Station could lead to a Station shutdown and cause the complete outage on both the CTS and the FEVI system; and
3. Lack of redundancy with the Huntingdon Station prevents FEI from performing complete maintenance and inspection of critical components and sections of piping unless the entire Station is taken out of service (Exhibit B-1, p. 7).

FEI submits that, based on a quantitative risk assessment performed by Dynamic Risk Assessment Systems (DRAS), deferring the Project will increase the overall risk to operations in five years by 275 percent (Exhibit B-1, p. 18).

Both BCPSO and CEC expressed support of a risk mitigation project. In its Final Argument, CEC states: "...the CEC agrees that a risk mitigation project with respect to Huntingdon Station is in the customers' interests from a reliability and socioeconomic perspective and is appropriately undertaken at this time" (CEC Final Argument, p. 3).

In BCPSO's Final Argument, it states: "...BCPSO is satisfied that the information on record establishes that the risk of a Station failure, and potentially substantial consequences if this occurs, suggests it is necessary for public convenience to reduce that risk" (BCPSO Final Argument, p. 3).

**The Commission Panel finds that, given the risks and potential severe consequences of large-scale service disruption to 600,000 customers and economic loss resulting from failure of Huntingdon Station, a risk mitigation project is in the public interest.**

### **3.0 ASSESSMENT OF OPTIONS**

In its Application, FEI assessed four options:

1. do nothing or defer the capital improvements,
2. make operations and maintenance changes at the Station,
3. perform internal station upgrades, or
4. install a bypass pipeline near the Huntingdon Station (Exhibit B-1, p. 20).

FEI seeks approval of Option 4, a bypass pipeline (Exhibit B-1, p. 1). At the preliminary stage, FEI also reviewed alternate bypass pipeline alignment routes upstream of the Spectra facility (Exhibit B-1, p. 26).

Option 1 was rejected by FEI because the operational, economic and business risks will remain and the risk of potential failure of critical components will increase over time (Exhibit B-1, p. 21).

Option 2, implementing operations and maintenance changes, would involve manning the Station and inspecting the pipe for flaws and defects and recoating the piping to deter corrosion. FEI explains that manning the station can help support reduced response time for minor failures, but major spontaneous failures are likely to still require the Station to be shut down. Furthermore, FEI explains the sub-surface piping could be exposed and integrity evaluations conducted. However, if a piping defect were discovered, the Company may have to construct a temporary bypass to complete the work (Exhibit B-1, pp. 21–22). Bypass, isolation, excavation,

inspection, repair and re-coating of the station outlet piping could cost approximately \$2.8 million (Exhibit B-2, BCUC IR1.8.1, Attachment 8.1).

The third option, to perform internal station upgrades, consists of upgrades and additions to the valving and piping configuration within the Huntingdon Station to eliminate the majority of the single points of failure. FEI explains that for this option, although a few non-redundant sections and components remain within the Station, the operational risk is reduced by 96 percent according to the DRAS report, compared to the current situation (Exhibit B-1, pp. 23–24, 28).

Option 4 involves constructing an external bypass route immediately around FEI's Huntingdon Station to allow for the flow of natural gas from the Spectra pipeline to the CTS. The proposed bypass will be located within a new right-of-way (Exhibit B-1, p. 24) and will eliminate all single points of failure within the Station (Exhibit B-1, Table 4-3). According to FEI's consultant, the bypass will result in a reduction in operational risk by 99 percent compared to the current situation (Exhibit B-1, pp. 26, 28).

In the Application, FEI provides cost estimates for Options 3 and 4 (Exhibit B-1, Table 4-1, p. 27). For Option 3, the AACE Class 4 estimate (+50%/-30%) of the total direct capital cost excluding AFUDC is \$6.3 million and the present value (PV) incremental cost of service for 60 years is \$9.1 million. For Option 4, the ACCE Class 3 estimate (+30%/-20%) of the total direct capital cost excluding AFUDC is \$6.8 million and the PV incremental cost of service for 60 years is \$12.1 million.

FEI also reviewed alternate bypass alignment routes, including larger, longer alignments which would involve a tie-in upstream of the Spectra facility at Huntingdon. FEI dismissed these alternative routes due to different construction requirements and significantly higher construction costs, with negligible incremental reduction in operational risk for the Huntingdon Station (Exhibit B-1, p. 26). In response to confidential Information Requests, FEI provided information supporting its statement that the cost of these alternatives would be significantly higher (Exhibit B-3, BCUC IR 1.6.1; Exhibit B-6, BCUC IR 2.4.1).

BCPSO states in its Final Argument:

“BCPSO is persuaded that the proposed option (i.e. the Bypass [Option 4]) is preferable. While the Internal Station Upgrades would be slightly cheaper in the short term, the Bypass would allow FEI to upgrade or replace critical components of the Station in the future, while still providing uninterrupted service.” (BCPSO Final Argument, pp. 3–4)

CEC states in its Final Argument:

“The CEC submits that the Bypass Option (Option 4) Huntingdon Station is appropriately cost effective relative to other options and that the rate impact is acceptable. The CEC recommends that the Commission adopt FEI's recommendation of Option 4 as the preferred alternative to addressing the risk at Huntingdon Station.” (CEC Final Argument, p. 4)

Because the operational, economic and business risks will remain and the risk of potential failure of critical components will increase, this Panel's view is that the “do nothing or defer the capital improvements” option is not in the public interest. Further, since operations and maintenance changes are likely to still require the Station to be shut down for major spontaneous failures, the making operations and maintenance changes option is not in the public interest. The Panel notes that the AACE Class 4 estimate of the total direct capital cost excluding AFUDC for Option 3 is similar to the ACCE Class 3 estimate of the total direct capital cost excluding AFUDC for Option 4, and also that a few non-redundant sections and components will remain within the Station

for Option 3. Because Option 4 provides the greatest redundancy considering its costs, **the Commission Panel finds that Option 4 is the preferred option and is in the public interest.**

#### 4.0 PROJECT DESCRIPTION AND COST ESTIMATE

Option 4 is a bypass external to the Huntingdon Station and consists of a Nominal Pipe Size (NPS) 36 (inch) Transmission Pressure pipeline, inline pressure control and monitoring valves, four isolation valves and an odorant injection tap. In addition, there will be instrumentation, control and telemetry installed as part of the Project (FEI Final Argument, p. 10).

The capital cost for the Project is estimated to be \$7.6 million (excluding AFUDC) in as-spent dollars. Items in the estimate include project management, costs for right-of-way acquisition, piping and coating materials, and pipeline construction. The capital cost estimate utilizes equipment and material quotations for standard and non-standard materials, labour activity breakdown at the task level and a risk evaluation. The cost estimate includes a contingency budget of \$802,000 in as-spent dollars that was developed using an “Expected Value” methodology. The estimate is based on completion of 40 percent of the engineering design and an expected in-service date of October 2015. The expected accuracy of the estimate is plus 30 percent to minus 20 percent. This is in accordance with a Class 3 degree of accuracy as defined by AACE International Recommended Practice (FEI Final Argument, pp. 13 and 14).

In addition to the foregoing capital costs, there are prefeasibility costs estimated at \$573,000 (after tax and including AFUDC) and estimated Application costs of \$74,000 after tax (Exhibit B-1, p. 39; Exhibit B-1-1, Appendix F3). The total estimated cost for the Project is approximately \$8.624 million in as-spent dollars:

Application Costs	\$ 74,000
Prefeasibility Costs	\$ 573,000
Project Capital Costs (excl. contingency)	\$ 6,835,000
AFUDC on Project Capital Costs	\$ 340,000
Contingency	\$ <u>802,000</u>
Total Project Cost Estimate	\$ 8,624,000

CEC states “The CEC finds the total project costs to be acceptable in terms of rate impact and the appropriateness of the costing” (CEC Final Argument, p. 4).

BCPSO states “this is a relatively low-cost project” and notes that FEI submits that “the evidence shows that the rate impact of this Project is minimal” (BCPSO Final Argument, pp. 2, 4).

**The Commission accepts \$8.624 million as the Total Project Cost Estimate and, subject to revision as the Project definition matures, will use this amount for Project Cost Reporting.**

#### 5.0 PUBLIC AND FIRST NATIONS CONSULTATION

In the Application, FEI set out the consultation process it followed with key community stakeholders and affected parties near the Project, including two affected farmland owners, Spectra Energy Transmission, Williams Pipelines, Kinder Morgan Pipelines, neighbours adjacent to the Huntingdon Station, the Mayor, the City Manager and the Director of Engineering of the City of Abbotsford, and First Nations communities and

leadership in the area. FEI explained that no major issues have been raised by the parties who have been contacted or have received information regarding the Application (Exhibit B-1, p. 46).

In response to Commission IRs, FEI confirmed that only three property owners are directly affected by the proposed Project: 1) Whatcom Acres Dairy Ltd. to the north, 2) a blueberry farm to the west, and 3) Spectra to the east (Exhibit B-8, BCUC IR 2.2.1, p. 3). FEI explained that they are in active negotiation with the property owners regarding compensation for the right-of-way and expects that the right-of-way acquisition will be completed in early 2014 (Exhibit B-8, BCUC IR 2.2.3, p. 5).

In its Final Argument, FEI submits that given the limited geographical scope of the Project, its consultation plan and public consultation activities carried out to date have been appropriate and have met the expectations of landowners and interested key stakeholders (FEI Final Argument, p. 18).

In its Final Argument, BCPSO states: “While FEI states that the landowners understand the necessity of the infrastructure and are willing to work with the Company, BCPSO notes that the outcome of these negotiations may impact Project costs” (BCPSO Final Argument, p. 5).

With respect to First Nations consultation, FEI indicates that the Project, as proposed, will be completely on private land and thus the potential project impact on the interests and titles of First Nations is limited (FEI Final Argument, p. 18).

FEI also states:

“The BC Oil and Gas Commission (OGC) is the Crown agency responsible for First Nations consultation in this Project. Guided by OGC’s documentation, FEI has commenced engagement activities with the First Nations it has identified as having an interest in the general area of the Project including Sto:lo Nation Tribal Council, Sto:lo Tribal Council, and Kwikwetlem First Nation...If the OGC in its consultation process identifies any other First nation that will need to be engaged, FEI will have further discussions with these identified First Nations...

To date, FEI has not received any opposition to the Project from the First Nations identified and contacted. FEI’s attentiveness to First Nations’ interests and potential concerns will continue in the construction phase of the Project. For example, the Sto:lo Research and Resource Management Centre (SRRMC) will be engaged to conduct the detailed Archaeological Impact Assessment prior to ground disturbing activities and to provide input to the archeological protection measures.” (FEI Final Argument, pp. 18–19)

In CEC’s Final Argument, CEC states: “There is extensive consultation around the project with local governments, First Nations and the government” (CEC Final Argument, p. 6).

In BCPSO’s Final Argument, BCPSO states: “BCPSO is pleased to see that FEI began its engagement with and consultation of affected First Nations well before the application was filed, but notes that FEI is relying on the fact there has been no ‘expressed opposition’...FEI should follow up with First Nations that are potentially affected...” (BCPSO Final Argument, pp. 5–6).

Because of the limited geographical scope of the Project and FEI’s consultation to date with affected landowners, Spectra, Williams, neighbours adjacent to the Huntingdon Station, the Mayor, the City Manager and the Director of Engineering of the City of Abbotsford, **the Commission Panel finds that the CPCN**



**requirement for public consultation has been met.** Furthermore, because of FEI's efforts to identify, notify and follow up with all First Nations whose interests may be affected by the Project, and FEI's use of SRRMC for any necessary archaeological work, the Commission considers that FEI's consultation with First Nations has been sufficient to date.

Both the Commission Panel and an Intervener are concerned that the outcome of landowner negotiations may significantly impact Project costs and therefore, **the Commission Panel directs FEI to file a letter with the Commission confirming the conclusion of landowner negotiations and provide an explanation and justification of any landowner costs in excess of the estimate provided in Appendix F3 of the Application to the Commission when negotiations are concluded. Furthermore, FEI is directed to inform the Commission of any unresolved matters arising in relation to First Nations' considerations.**

## 6.0 PANEL CONCLUSION CONCERNING THE CPCN

Because previously in these Reasons it was determined that a risk mitigation project is in the public interest, Option 4 is the preferred option, the Total Project Cost Estimate is \$8.624 million, the CPCN requirement for public consultation has been met, and the Panel considers First Nations consultation has been sufficient to date; subject to the directives and reporting requirements contained herein, **the Commission Panel approves FEI's request for a CPCN to construct a bypass pipeline around FEI's Huntingdon Flow and Pressure Control Station, defined as Option 4 in the Application.**

## 7.0 TREATMENT OF PREFEASIBILITY AND APPLICATION COSTS

FEI is seeking Commission approval under sections 59 to 61 of the UCA for deferral treatment of costs for preparing this Application, forecast to be about \$100 thousand (after tax \$74 thousand), and to amortize these costs over a three-year period, commencing in 2015. FEI is also seeking Commission approval under sections 59 to 61 of the UCA to defer prefeasibility costs, estimated at \$573,000, and to amortize these costs over a three-year period commencing in 2016. FEI proposes that the prefeasibility charges would be recorded in a non-rate base deferral account on a net-of-tax basis attracting AFUDC and at the beginning of 2016 be included in rate base, and no further AFUDC would be charged to the deferral account. (Exhibit B-1, pp. 1, 39-40)

FEI explains its position on Application costs in its Final Argument:

"FEI submits that Commission approval under sections 59-61 of the Act for deferral treatment of the Application Costs and for an amortization period of three years, beginning in 2015, should be granted for the following reasons:

- The deferral treatment is consistent with FEI's past practice over the past several decades and this treatment has been previously approved by the Commission.
- A three-year amortization period is consistent with the amortization period approved for similar deferral accounts in the past and is appropriate in consideration of the benefits of rate smoothing, the matching of the amortization period to the benefits of the Project, and avoiding an inordinately long amortization period.
- A three-year amortization period aligns with the recovery period requested for the Prefeasibility Costs deferral account.

- Although the Application Costs could be considered capital costs under the US GAAP guidance, and because there is no difference in the rate of return afforded to capital assets as compared to deferral accounts, inclusion of application costs in the capital assets would result in the cost being recovered over an inappropriately long recovery period, and ultimately result in higher costs for customers.” (FEI Final Argument, pp. 15–16)

In CEC’s Final Argument, CEC provides its position on Application costs:

“...FEI is requesting approval for deferral treatment of the costs for preparing this application and to amortize these costs over a subsequent three-year period... The CEC submits that approval of this request is appropriate. The deferral treatment of application costs period is consistent with FEI practice and has been previously approved by the Commission. They were not forecast in the last approved revenue requirements application for setting 2013 rates nor the PBR process currently underway. The CEC agrees that 3 years is an appropriate term for rate smoothing and other reasons identified.” (CEC Final Argument, pp. 6–7)

In BCPSO’s Final Argument, BCPSO provides its position on Application costs:

“BCPSO does not oppose deferral treatment, but is of the view that the Application Costs deferral account should be amortized over a one-year time period, rather than the proposed three-year period...On a balance, BCPSO submits that the benefit to ratepayers of paying the Application Costs deferral account off over a shorter term outweighs the minor administrative inconvenience the separate amortization periods present for FEI” (BCPSO Final Argument, pp. 4-5).

In response to a Commission IR, FEI confirms that amortizing the Application Costs deferral account over a one-year time period would have a minimal impact on FEI’s cost of service and on rates (Exhibit B-8, BCUC IR 2.10.1, p. 17). FEI also confirms that a benefit to ratepayers of reducing the amortization period for the Application Costs deferral account is that less carrying costs would be added to the overall cost of the deferral account (Exhibit B-8, BCUC 2.10.2, p. 18). When asked by Commission staff to “...describe the additional administrative burden, if any, FEI would experience if it were to amortize the Application Costs deferral account over a separate time period than the Prefeasibility Costs deferral account”, FEI submits: “The additional administrative burden would be small, but would relate to the extra administrative effort to record and track these costs in the SAP accounting system and in reporting this account for regulatory purposes” (Exhibit B-8, BCUC 2.10.3, p. 18).

In regards to its position on prefeasibility costs, FEI submits:

“The reasons supporting the deferral treatment for the Application Costs and a three-year amortization period for that deferral account are similarly applicable to the Prefeasibility costs, including consideration of the benefits of rate smoothing, the matching of the amortization period to the benefits of the project, avoiding an inordinately long amortization period, and consistency with the amortization period approved for similar deferral accounts in the past.” (FEI Final Argument, p. 17)

**The Commission Panel approves the deferral treatment and amortization period for prefeasibility costs as requested by FEI; the Panel finds this reasonable because it is supported by all parties and is consistent with past practices approved by the Commission. FEI shall record the prefeasibility costs in a non-rate base deferral account (the Prefeasibility Deferral Account) on a net-of-tax basis which will attract AFUDC until**

**December 31, 2015. On January 1, 2016, the Prefeasibility Deferral will be included in rate base and will be amortized over a three-year period commencing in 2016.**

**The Commission Panel approves FEI to record the costs of preparing the Application in a deferral account but directs FEI to amortize the deferral account over a one-year period commencing in 2015.** The Commission Panel considers a one-year amortization period for the Application Costs deferral account to be most appropriate, as it minimizes the carrying costs incurred on the deferral balance while still achieving a minimal impact on customer rates.

## **8.0 PROJECT COSTS REPORTING**

In response to an information request from CEC regarding revising the project cost estimate and accuracy range after detailed engineering is complete, FEI states the following:

“FEI does not plan to update the cost estimate after detailed engineering is complete. Rather, if requested, FEI can provide updates at the points when the major materials are purchased and when the construction contract is awarded. The expected accuracy range will be governed by the maturity level of the project deliverables, which notably include the procurement of materials and construction services as well as the property agreements, archaeological impact assessment, and permits. The expected accuracy range will be narrowed over the project lifecycle.” (Exhibit B-10, CEC IR 2.9.5, p. 16)

In CEC’s Final Argument, CEC recommends that FEI provide updated costs when the construction estimates are finalized, and that FEI report on any material change that exceeds 10 percent of any single component or of the total budget (CEC Final Argument, p. 1).

In BCPSO’s Final Argument, BCPSO explains:

“FEI has noted that the Commission recently stated in a recent CPCN application that “a ‘material change’ could be for any component or the whole control budget with a variance of ten percent or more” (emphasis added). BCPSO submits that FEI should follow a similar approach for this project.” (BCPSO Final Argument, p. 4)

In response to CEC IR 2.9.4, FEI states the following:

“The Commission in a recent CPCN project (estimated capital cost for that project of \$6.7 million, not including AFUDC) has stated that a “material change” could be for any component or the whole control budget with a variance of ten percent or more. (See Order C-2-14.) If requested, FEI can follow a similar approach.” (Exhibit B-10, CEC IR 2.9.4, p. 16)

In FEI’s Reply Argument, FEI explains: “...that some of the components of the capital costs can be relatively small (in light of the total project costs) and changes to such cost components (such as ten percent increase) may accordingly have little or no impact on the entire Project control budget and capital costs” (FEI Reply Argument, p. 1).

The Commission Panel agrees with CEC concerning the need for cost estimate updates at the points when the construction estimates are finalized. **The Commission Panel directs FEI to provide an updated Total Project**

**Cost Estimate with a revised accuracy range when major materials are purchased and the construction contract is awarded.**

The Commission Panel acknowledges that both Interveners expressed support of FEI reporting variances of ten percent or more on any component or of the whole control budget. The Commission Panel also acknowledges and accepts, as FEI has stated, that some of the components of the capital costs can be relatively small and changes to such cost component may accordingly have little or no impact on the entire Project control budget. **The Commission Panel therefore directs FEI to file a report expeditiously with the Commission if FEI encounters or has a reasonable expectation to encounter a material risk in excess of 10 percent of the Total Project Cost Estimate. In the report, FEI must provide the options to address the risks, the actions that FEI is taking to deal with the risks and the likely impact to Project schedule and costs.**

**The Commission Panel also directs FEI to file a final report with the Commission, including a publicly available version, within three months of the actual in-service date of the Project that provides a complete breakdown of the final costs of the Project, which compares these costs to the original as applied for costs and provides an explanation and justification of any cost variance of 10 percent or more from the Total Project Cost Estimate.**