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VIA E-MAIL

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December 18, 2007

Mr. David Bennett
Vice President, Regulatory Affairs & General Counsel
Regulatory Affairs Department
FortisBC Inc.
1290 Esplanade
PO Box 130
Trail, BC V1R 4L4

Dear Mr. Bennett:

Re: FortisBC Inc.
Project No. 3698476/Order No. G-110-07
Certificate of Public Convenience and Necessity
for the Ootischenia Substation Project

Further to your September 7, 2007 application for a Certificate of Public Convenience and Necessity for the Ootischenia Substation Project, enclosed is Order No. C-10-07 and Reasons for Decision.

Yours truly,

Original signed by:

Erica M. Hamilton

cms

Enclosure

cc: Registered Intervenors/Interested Parties

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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER C-10-07**

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

and

**An Application by FortisBC Inc.
for a Certificate of Public Convenience and Necessity
for the Ootischenia Substation Project**

BEFORE: A.W.K. Anderson, Panel Chair
and Commissioner December 17, 2007
N.F. Nicholls, Commissioner

O R D E R

WHEREAS:

- A. On September 7, 2007, FortisBC Inc. ("FortisBC") applied (the "Application") to the British Columbia Utilities Commission (the "Commission") for a Certificate of Public Convenience and Necessity ("CPCN") for the Ootischenia Substation Project ("the Project"); and
- B. FortisBC is proposing the Project as the preferred solution for the Castlegar area, as it has the lowest cost, provides both capacity and reliability backup through the planning horizon and is best able to balance the needs of stakeholders; and
- C. The Project has an estimated capital cost of approximately \$8.16 million and includes the construction of a new substation and the transmission and distribution egress necessary to connect the substation into the existing network; and
- D. The Project is scheduled to commence in the fourth quarter of 2007 and to be completed by the end of 2008; and
- E. On September 18, 2007 the Commission by Order No. G-110-07, established an Oral Public Hearing for the regulatory review of the Application, commencing on Wednesday, November 14, 2007, at 9:00 a.m. in the Sandman Hotel in Castlegar, B.C.; and
- F. On October 23, 2007, FortisBC, based on the comprehensive public consultation undertaken in regard to this Project, requested an amendment to Order No. G-110-07 and submitted that this Application should be disposed by way of a written proceeding; and
- G. On October 30, 2007, the Commission issued Order No. G-131-07 amending the Oral Public Hearing to a written proceeding; and

**BRITISH COLUMBIA
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- H. The British Columbia Old Age Pensioners' Organization *et al.*, B.C. Coalition of People with Disabilities, Council of Senior Citizens' Organizations, Federated Anti-Poverty Groups of B.C., and the Tenant Resource and Advisory Centre (collectively known as BCOAPO *et al.*) submission dated November 26, 2007 was the only Intervenor written submission filed on the Project; and
- I. The FortisBC Reply Submission dated December 3, 2007 completed the written review process; and
- J. The Commission has considered the Application, the related submissions and replies and has determined that the Project is in the public interest and that a CPCN should be issued to FortisBC for the Reasons for Decision attached to this Order.

NOW THEREFORE pursuant to Sections 45 and 46 of the Utilities Commission Act, the Commission orders as follows:

1. A CPCN is granted to FortisBC for the Ootischenia Substation Project as set out in the Application.
2. FortisBC will file with the Commission Quarterly Progress Reports on the Project showing the planned vs. actual schedule, planned vs. actual costs, and any variances or difficulties that the Project may be encountering. The Quarterly Progress Reports will be filed within 30 days of the end of each reporting period.
3. The progress report format will be generally as set out in Appendix B to this Order.
4. FortisBC is directed to file with the Commission a Final Project Report as well as a Post-Implementation Report, as outlined in Appendix B, within six months of the end or substantial completion of the Project that provides a complete breakdown of the final costs of the Project, compares the final costs to those included in the Application, and provides an explanation and justification of variances.

DATED at the City of Vancouver, in the Province of British Columbia, this 18th day of December 2007.

BY ORDER

Original signed by:

A.W.K. Anderson,
Panel Chair and Commissioner

Attachments

FORTISBC INC.
Certificate of Public Convenience and Necessity Application
for the Ootischema Substation Project

REASONS FOR DECISION

INTRODUCTION

The FortisBC Inc. (“FortisBC”) Application for the Certificate of Public Convenience and Necessity (“CPCN”) for the Ootischema Substation Project (“Project”) and the Commission process to review the Application are described in the Order that accompanies these Reasons for Decision. The Reasons for Decision will address two areas of particular interest to the Intervenor and the Commission Panel.

PUBLIC CONSULTATION

FortisBC submits that its public consultation has been comprehensive as described in Appendix E of its Application. FortisBC further advises that following the Open House on May 9 and 10, 2007 exit surveys were received from a number of attendees including three from landowners within a 500 metre radius of the proposed site, one of whom expressed a negative opinion (Exhibit B-1, p. 9; Exhibit B-1, Appendix E).

FortisBC representatives have met with a group of Ootischema community leaders, as discussed in the Application, to discuss possible alternate sites for the substation including the selected site; and FortisBC mailed a follow-up letter, included in Attachment E to the Application, to the Open House attendees identifying the sites investigated and the selected site. FortisBC received no comments in response to this letter (Exhibit B-3, Attachment E).

On October 23, 2007, FortisBC submitted a request for an amendment to Order No. G-110-07, citing the comprehensive public consultation undertaken with respect to this Project, and proposed that the Application be addressed by way of a written proceeding (Exhibit B-3).

The only party registering as an Intervenor, the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners’ Organization *et al.* (“BCOAPO”), advised that they were not opposed to this Application being dealt with through a written proceeding and suggested that FortisBC be required to notify residents of Castlegar and Ootischema of this change in procedure; extend the time limit for interventions; and allow for an additional round of information requests (Exhibit C1-2). FortisBC submitted that the opportunity to participate in the process, including submission of Information Requests, has been made available and was not acted upon by area residents. On October 30, 2007, the Commission issued Order No. G-131-07 amending the oral hearing to a written proceeding (Exhibit A-3).

Commission Determination

Only BCOAPO registered as an Intervenor and filed a written submission on the Application and only the Ministry of Transportation registered as an Interested Party. The Commission received no Letters of Comment.

The Commission Panel therefore concludes that the extensive public consultation undertaken by FortisBC was in the public interest as it significantly reduced the regulatory costs, and the need to hold an oral hearing was reduced to a written proceeding.

PROGRESSION OF COST ESTIMATES

The Castlegar Substation Project was initially presented in the System Development Plan 2005-2024, Section 4.1.4.1, page 36 and Appendix C, page 2, at an unloaded cost not including Overhead and Allowance for Funds Used During Construction of \$2.1 million (\$2004). The project concept was different at that time, which essentially considered upgrading the capacity of the existing Castlegar Substation by installing a second transformer at the same location. Princeton Transformer 3 was to be refurbished and relocated to the Castlegar Substation site. The work was to be carried out during 2006 (Exhibit B-1, Appendix A, p. 1).

The project was further updated in the 2006 Capital Expenditure Plan and 2006 System Development Plan Update, Section 2.1.3.1, page 11 and Appendix 2, page 42. Preliminary engineering assessment at this time indicated that the existing substation site would not be adequate to accommodate the second transformer and therefore an additional substation would be required. The project was reassessed as a new substation for \$4.1 million and was deferred to 2007. However, FortisBC inadvertently omitted the costs for additional land requirements and the transmission and distribution upgrades that would be necessary to integrate the new substation into the system network (Exhibit B-1, Appendix A, p. 1).

A further project update was submitted with the 2007-2008 Capital Expenditure Plan and 2007 System Development Plan Update, Section 2.1.3.1, page 14 and Appendix 2, page 44. The concept of commissioning a new substation at Castlegar remained unchanged; however, the refurbishment and reuse of Princeton Transformer 3 was no longer found to be practical. The project was re-assessed with relevant corrections for land and transmission and distribution requirements, and additional overhead loadings of \$1.1 million, for a total cost of \$6.38 million and was deferred to 2008. This cost estimate was based on 2006 dollars and did not consider the additional regulatory costs associated with the CPCN submission (Exhibit B-1, Appendix A, p. 1).

The Application is for a project with an estimated cost of \$8.16 million (as spent dollars) likely to have a +/- 10 percent accuracy (Exhibit B-2, p. 32) and having a rate impact of 0.22 percent (Exhibit B-2, p. 12).

The difference between the present estimate in the CPCN Application and the 2007-2008 Capital Plan is primarily attributable to the following:

1. Differential Substation Costs,
2. Planning / pre Engineering and Regulatory Costs, and
3. Differential Land Cost.

BCOAPO requested that, in addition to any reporting requirements and prudency reviews, FortisBC be required to specifically address Project costs during the 2008 Annual Review and 2009 Revenue Requirements application (BCOAPO Final Submission, p. 2).

Commission Determination

The Commission accepts that the escalation of Project costs was largely due to a delay in Project schedule and significant changes in Project scope involving a new site, new transformer and land costs, and accepts the estimate of \$8.16 million for the Project cost (less the amount included for an Oral Hearing). However, the Commission Panel is concerned about some aspects of the cost estimate escalation and finds it unreasonable that a utility would inadvertently omit key costs such as land, overhead, and transmission and distribution upgrades from its cost estimates.

The Commission Panel agrees with BCOAPO's submission regarding the further review of Project costs, and directs FortisBC to meet the reporting requirements contained in the accompanying Order and to address Project costs during the 2008 Annual Review and 2009 Revenue Requirements application.

FORTISBC INC.
CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY APPLICATION
FOR THE OOTISCHENIA SUBSTATION PROJECT

PROJECT REPORT FORMAT

Table of Contents

1. Project Status – Quarterly
 - 1.1 General Project Status
 - 1.2 Major Accomplishments, Work Completed and Key Decisions Made
 - 1.3 Project Challenges and Issues; Issues Currently Open, Date Opened, Dated Closed, Those Issues that are Past Due
 - 1.4 Plans for Next Period
 - 1.5 Site Photographs (if useful)
2. Project Earned Value – Quarterly
 - 2.1 Project “S” Curve showing the budget at completion, earned value, actual cost to date, planned value, estimate to completion, estimate at completion, cost variance, schedule variance, cost performance index, schedule performance index, status (average of cost performance index and schedule performance index). All values are to be shown throughout the duration of the project.
3. Project Schedule – Quarterly
 - 3.1 Project Milestone Summary Table with the planned finish date, actual finish date, variance in days, status
 - 3.2 Procurement Summary with the planned finish date, actual finish date, variance in days, status
 - 3.3 Contract Summary with the planned finish date, actual finish date, variance in days, status
 - 3.5 Schedule Summary
 - 3.5.1 Schedule Performance to Date
 - 3.5.2 Schedule Difficulties and Variances
 - 3.6 Scope Change Summary with Description of Request, Explanation for Request, Request Amount, Approved Amount, Deferred Amount, Reject Amount, Under Investigation Amount.
4. Project Costs – Quarterly
 - 4.1 Project Cost Summary including explanation of variances
 - 4.2 Financial Summary including explanation of variances
5. Project Resource Management – Quarterly
 - 5.1 Engineering & Construction Resources (Manhours, Planned vs. Actual – non-cumulative) both in chart and table format. Provide explanation for variance and corrective action taken.
6. Project Risks – Quarterly
 - 6.1 Project Risks including Risk Description & Explanation, Date Risk Originated, Date Risk Last Reviewed, Level/Severity of Risk, Mitigation Plan, Contingency Plan, Mitigation Cost Amount (including schedule delay), Contingency Reserve Amount Required, Total Contingency Reserve Required to Date, Contingency Reserve Remaining.

7. Post Project Implementation Review – End of Project

7.1 Performance against Objectives and Outcomes

Describe the actual performance of the project against planned in relation to the achievement of objectives, outcomes and target outcomes.

7.2 Performance against Outputs

Describe the actual performance of the project against planned in relation to the delivery of outputs.

7.3 Performance against Budget

Describe the actual performance of the project against planned in relation to the project budget.

7.4 Performance against Schedule

Describe the actual performance of the project against planned in relation to the project schedule.

7.5 Lessons Learned

7.5.1 What worked well?

Describe the project management and quality management processes that were perceived to be appropriate and/or effective for the project

7.5.2 What could be improved?

Describe the project management and quality management processes that were perceived to be inappropriate and/or ineffective for the project, as reflected by the stakeholders and the project records/documentation.

7.6 Conclusions

7.6.1 Provide a summary of the conclusions drawn throughout the Report.