



LETTER L-60-13

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, B.C. CANADA V6Z 2N3
TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

Log No. 43223

ERICA HAMILTON
COMMISSION SECRETARY
Commission.Secretary@bcuc.com
web site: <http://www.bcuc.com>

VIA EMAIL

bchydroregulatorygroup@bchydro.com

October 10, 2013

Ms. Janet Fraser
Chief Regulatory Officer
British Columbia Hydro and Power Authority
16th Floor, 333 Dunsmuir Street
Vancouver, BC V6B 5R3

Dear Ms. Fraser:

Re: British Columbia Hydro and Power Authority
Compliance Filing Pursuant to Commission Order G-177-10
Hugh Keenleyside Spillway Gates Project
Public Semi-Annual Project Progress Reports No. 4 and No. 5
Project No. 3698605

The BC Utilities Commission writes to acknowledge British Columbia Hydro and Power Authority's Semi-Annual Progress Report No. 4 and Semi-Annual Progress Report No. 5 for the Hugh Keenleyside Spillway Gates Project (Project). BC Hydro submitted Report No. 4 on March 15, 2013 and Report No. 5 on July 31, 2013.

The Commission reviewed Report No. 4 and Report No. 5 and writes to raise concerns with the changes noted in Report No. 4. As Report No. 5 is generally on track with the changes reported in Report No. 4, it is the changes reported in Report No. 4 that are the focus of this letter.

On July 16, 2010, BC Hydro applied to the Commission pursuant to section 44.2(1)(b) of the *Utilities Commission Act* (Act), for an Order accepting that the expenditures associated with the Hugh Keenleyside Spillway Gates Project are in the public interest.

Section 44.2(3) – Expenditure Schedule, of the Act states, "After reviewing an expenditure schedule submitted under subsection (1), the commission, subject to subsections (5), (5.1) and (6), must

- (a) accept the schedule, if the commission considers that making the expenditures referred to in the schedule would be in the public interest, or
- (b) reject the schedule."

The Expected Amount in the Project Application was \$90.2 million with an Authorized Amount of \$102.5 million. By Order G-177-10 the Commission determined "The expenditures required by BC Hydro to complete the Project, as described in the Application, in the amount of \$90.2 million, are in the public interest in accordance with section 44.2(3)(a) of the Act." In October 2012, the Expected and Authorized Amounts were adjusted to reflect changes as a result of implementing International Financial Reporting Standards (IFRS). The adjustments

resulted in a reduction in the Expected Amount of the Project from \$90.2 million to \$81.3 million and the Authorized Amount from \$102.5 million to \$91.6 million. (Report No. 4, p. 1)

In Report No. 4, BC Hydro indicates the Project is forecasted to exceed the Authorized Amount of \$102.5 million set out in BC Hydro's Application. On February 21, 2013, BC Hydro's Board of Directors reviewed and approved a revised Expected Amount of \$117.4 million and a revised Authorized Amount of \$124.7 million for the Project.¹ (Report No. 4, p. 1) The revised Project In-Service Date is December 31, 2015; 24 months later than the original Project In-Service Date and two months later than the revised date of October 31, 2015 described in Project Progress Report No. 3. (Report No. 4, p. 1)

The underestimated Project costs are "collectively attributed to: 1) an insufficient level of engineering and design at the time the Project moved to Implementation Phase; 2) greater than anticipated engineering, design and construction planning; 3) scope growth during detailed design; 4) scope growth related to worse than anticipated site and equipment conditions; 5) an underestimate of required construction resources and durations and overestimate of labour productivity; and 6) market pricing exceeding estimated amounts." (Report No. 4, p. 5)

BC Hydro also indicates, "In retrospect, the preliminary design details including construction schedules and cost estimate for the Project, at the conclusion of the Definition Phase, were not sufficiently advanced to estimate the project work to within the quoted plus 25% minus 15% accuracy range." (Report No. 4, Appendix A - BC Hydro Board Materials and Resolution, Executive Summary, p. 3)

The estimates provided by BC Hydro assist the Commission in determining whether planned capital expenditures are in the public interest. To address the concerns raised in this Project on a go-forward basis, the Commission may require greater detail surrounding the definition phase of proposed projects including design planning, cost estimating and engineering work. Ultimately, the burden rests on BC Hydro to develop sound cost estimates for planned projects. The Commission will continue to monitor these projects as they evolve with these concerns in mind.

Yours truly,

Erica Hamilton

¹ The adjusted Expected Amount and adjusted Authorized Amount include a net book value write down value of \$0.5 million.