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VIA EMAIL

February 20, 2015

**TO: Regulated Utilities
Stakeholders**

Re: Review of 2010 Certificate of Public Convenience and Necessity
Application Guidelines and the Project Reporting Process and Purposes

2015 Certificate of Public Convenience and Necessity Application Guidelines

Following its review of the 2010 Certificate of Public Convenience and Necessity Guidelines and comments provided by the regulated utilities and stakeholders, the Commission is pleased to release the 2015 Certificate of Public Convenience and Necessity Application Guidelines.

The Commission wishes to thank all parties who provided comment on the draft guidelines. The 2015 CPCN Application Guidelines will be posted to the Commission's web site.

Yours truly,

Erica Hamilton

cms
Enclosure



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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-20-15**

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

and

2015 Certificate of Public Convenience and Necessity Application Guidelines

BEFORE: L. F. Kelsey, Commissioner
C. A. Brown, Commissioner
H. G. Harowitz, Commissioner
K. A. Keilty, Commissioner
N. E. MacMurchy, Commissioner
B. A. Magnan, Commissioner
D. M. Morton, Commissioner
R. D. Revel, Commissioner

February 12, 2015

ORDER

WHEREAS:

- A. The *Utilities Commission Act* (the Act) states in section 46(1) that an applicant for a Certificate of Public Convenience and Necessity (CPCN) must file with the British Columbia Utilities Commission (the Commission) information, material, evidence and documents that the Commission prescribes;
- B. On April 3, 2013, the Commission, by Order G-47-13, issued its Decision on the Stage 2 Prudency Expenditure Inquiry for the Kettle Valley Distribution Source Project. In the Decision, the Panel stated a review of the revised CPCN Guidelines in the areas of the preparation of project estimates including the analysis of project risk; a review of document retention policies; and a review of the project reporting process and purposes was required;
- C. On August 19, 2014, the Commission, by Letter L-41-14, issued the draft 2015 CPCN Application Guidelines for comments from the stakeholders;
- D. On October 30, 2014, the Commission, by Letter L-57-14, requested reply comments from the stakeholders,
- E. Comments were received from British Columbia Hydro and Power Authority, FortisBC Utilities (comprised of FortisBC Inc., FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., FortisBC Energy (Whistler) Inc., and FortisBC Alternative Energy Services Inc.), Pacific Northern Gas Ltd., British Columbia Old Age

**BRITISH COLUMBIA
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Pensioners' Organization *et al.*, the B.C. Sustainable Energy Association and the Sierra Club British Columbia, and the Commercial Energy Consumers Association of British Columbia; and

- F. The Commission reviewed the comments and considers that establishment of the 2015 CPCN Application Guidelines is warranted.

NOW THEREFORE the British Columbia Utilities Commission orders as follows:

1. As of the date of this order, an application for a Certificate of Public Convenience and Necessity pursuant to sections 45 and 46 of the *Utilities Commission Act* is to be made in a form that satisfies the requirements outlined in Appendix A to this order.
2. This order supersedes Commission Order G-50-10.

DATED at the City of Vancouver, in the Province of British Columbia, this 20th day of February 2015.

BY ORDER

Original signed by:

D.M. Morton
Commissioner

Attachment



British Columbia Utilities Commission

***2015 Certificate of Public Convenience and Necessity
Application Guidelines***

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PURPOSE AND SCOPE OF GUIDELINES

The purpose of these guidelines is to assist public utilities and other parties wishing to construct or operate utility facilities in preparing their applications for a Certificate of Public Convenience and Necessity (CPCN) so the review of these applications by the British Columbia Utilities Commission (Commission) can proceed as efficiently as possible. The Commission expects CPCN applications will generally be prepared in accordance with the guidelines.

A person must not begin the construction or operation of a public utility plant or system, or an extension of either, without first obtaining from the Commission a CPCN approving the construction or operation, as required by section 45(1) of the *Utilities Commission Act* (UCA). Section 46(1) of the UCA requires an application for a CPCN be filed with Commission.

The guidelines do not alter the fundamental regulatory relationship between utilities and the Commission. They provides general guidance regarding the Commission's expectations of the information that should be included in CPCN applications while providing the flexibility for an application to reflect the specific circumstances of the applicant, the size and nature of the project, and the issues raised by the application. An applicant is expected to apply the guidelines in a flexible and reasonable manner that reflects the spirit and intent of the guidelines. The Commission may issue further directions relating to the information to be included in specific CPCN applications and may require applicants to provide further information to supplement material in filed applications.

Where they exist, long-term resource plans filed under section 44.1 of the UCA should support CPCN applications. These long-term resource plans may deal with significant aspects of project justification, particularly the need for the project and the assessment of the overall costs and benefits of the project and alternatives to the project. Under section 44.1(9) of the UCA, in approving a long-term resource plan, the Commission may order that a proposed utility plant or system, or an extension of either, is exempt from the requirements of section 45(1) of the UCA.

Public utilities and other project proponents are encouraged to initiate discussions with appropriate government agencies and consult with the public and potentially affected First Nations as early as possible in the planning and design phase of a project in order to gain an understanding of the issues to be addressed prior to the filing of an application.

DEEMED CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY

Sections 45(2), 45(5) and 45(6) of the UCA state:

(2) For the purposes of subsection (1), a public utility that is operating a public utility plant or system on September 11, 1980 is deemed to have received a certificate of public convenience and necessity, authorizing it:

- (a) to operate the plant or system; and
- (b) subject to subsection (5), to construct and operate extensions to the plant or system.

(5) If it appears to the commission that a public utility should, before constructing or operating an extension to a utility plant or system, apply for a separate certificate of public convenience and necessity, the commission may, not later than 30 days after construction of the extension is begun, order that subsection (2) does not apply in respect of the construction or operation of the extension.

(6) A public utility must file with the commission at least once each year a statement in a form prescribed by the commission of the extensions to its facilities that it plans to construct.

In order to evaluate whether a public utility should apply for a CPCN for a specific extension to a utility plant or system and therefore whether to make an order pursuant to section 45(5), the Commission needs to be aware of planned extensions that are significant. This information is provided in the statement of planned extensions that a public utility is required to file at least once a year. The statement should be filed in a timely fashion and should identify each discrete extension to a utility plant or system that may have a material impact on customer rates or raise some other significant issue. The statement should include all extensions that the utility is likely to initiate over the period until the filing of the next statement on extensions, and should use a definition of extension that is as broad and inclusive as possible. A utility should inform the Commission in the event it plans to initiate a significant extension that was not identified in its most recent statement on extensions.

A long-term resource plan filed pursuant to section 44.1 of the UCA or a capital expenditure schedule filed pursuant to section 44.2(1)(b) may meet the requirements of section 45(6) provided it is filed prior to the start of the construction of the extensions. Also, section 45(4) provides that the Commission may, by regulation, exclude utility plant or categories of utility plant from the operation of section 45(1). Under this provision, the Commission may establish project thresholds relating to size, production capacity, type and absence of local impacts that will determine projects that would generally not require a CPCN application.

PROCEDURAL CONSIDERATIONS

An application for a CPCN pursuant to sections 45 and 46 of the UCA will be made to the Commission Secretary. Applications are to be filed in accordance with the Commission's document filing protocols. Applications are made public, except where special circumstances require confidentiality in accordance with the Commission's Confidential Filing Practice Directive, which can be found on the Commission's website (<http://www.bcuc.com>).

The Commission undertakes a preliminary review of the application to ensure it meets the criteria of the CPCN guidelines. Incomplete applications may be returned to the applicant. Once a complete application is received, the Commission may proceed with any testing the application through information requests to the applicant and/or to other parties involved in the review process. Pursuant to section 46(2) of the UCA, the Commission has discretion whether or not to hold any hearing on the application. The Commission may grant a CPCN or establish an appropriate hearing method to proceed with the review of the application. The Commission also may refuse to issue a CPCN subject to subsections (3.1) to (3.3) of section 46(3) the UCA.

An order granting a CPCN may include terms and conditions which the Commission believes the public convenience or necessity require (s. 45(9) of the UCA).

To assist in a possible future review of CPCN expenditures, the Commission expects utilities to have a document retention policy similar to that of the Association of Professional Engineers and Geoscientists of British Columbia Quality Management "Retention of Project Documentation" Guidelines.^{1,2}

For further information, contact:

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¹ <https://www.apeg.bc.ca/For-Members/Professional-Practice/Practice-Guidelines-and-Documents>.

² FortisBC Inc. Kettle Valley Distribution Source Project Commission Order C-5-06 for a Stage 2 Prudency Expenditure Inquiry under sections 59 and 60 of the *Utilities Commission Act*, Decision, p. 23.

APPLICATION REQUIREMENTS

An application under sections 45 and 46 of the UCA should contain the following information:

1. Applicant

- (i) Name, address and description of the nature of the applicant's business and all other persons having a direct interest in project ownership or management;
- (ii) Evidence of the financial and technical capacity of the applicant and other persons involved, if any, to undertake and operate the project;
- (iii) Name, title and address of the person with whom communication should be made respecting the application;
- (iv) Name and address of legal counsel for the applicant, if any;
- (v) Organizational chart of the project team, including the names of the Project Manager and Executive Sponsor for the project; and
- (vi) Outline of the regulatory process the applicant recommends for the Commission's review of the application, including how persons who were consulted about the project can raise outstanding application-related concerns with the Commission.

2. Project Need, Alternatives and Justification

- (i) Studies or summary statements identifying the need for the project and confirming the technical, economic and financial feasibility of the project, identifying assumptions, sources of data, and feasible alternatives considered. The applicant should identify alternatives that it deemed to be not feasible at an early screening stage, and provide the reason(s) why it did not consider them further;
- (ii) A comparison of the costs, benefits and associated risks of the project and feasible alternatives, including estimates of the value of all of the costs and benefits of each alternative or, where these costs and benefits are not quantifiable, identification of the cost area or benefit that cannot be quantified. Cost estimates used in the economic comparison should have, at a minimum, a Class 4³ degree of accuracy as defined in the most recent revision of the applicable AACE International Cost Estimate Classification System Recommended Practices.
- (iii) A schedule calculating the revenue requirements of the project and feasible alternatives, and the resulting impacts on customer rates;

³ Class 4 estimates are generally prepared based on limited information and subsequently have fairly wide accuracy ranges. They are typically used for project screening, determination of feasibility, concept evaluation, and preliminary budget approval.

- (iv) A schedule calculating the net present values of the incremental cost and benefit cash flows of the project and feasible alternatives, and justification of the length of the term and discount rate used for the calculation;
- (v) A schedule and supporting discussion comparing the project and feasible alternatives in terms of social and environmental factors, and the applicant's assessment regarding the overall social and environmental impact of the project relative to the overall impact of the feasible alternatives; and
- (vi) Information relating the project to the applicant's approved long-term resource plan filed pursuant to section 44.1 of the UCA, including the extent to which the project was considered in the plan, and, if applicable, a discussion explaining how the plan provides support and justification for the need for the project.

3. Consultation

First Nations Consultation

Note: Crown utilities are required to provide the information requirements set out in the most recent version of the British Columbia Utilities Commission First Nations Information Filing Guidelines for Crown Utilities, which replace and supersede the application requirements in this First Nations Consultation section of the CPCN Application Guidelines.

If an applicant is of the view that the application does not require consultation with First Nations, reasons supporting its conclusion must be provided to the Commission. Unless otherwise justified, the following information should be filed:

- (i) Identification of the First Nations potentially affected by the application or filing, including the feasible project alternatives; and the information considered to identify these First Nations.

For each potentially affected First Nation, summarize the consultation to date, including:

- (ii) Identification of any group, body, specific band or specific person(s) that have been consulting on behalf of the First Nation in connection with the application. Identify the specific member bands represented by any group or body.
- (iii) A chronology of meetings, other communications and actions.
- (iv) Any relevant, non-confidential written documentation regarding consultation, such as notes or minutes of meetings or phone calls, or letters received from or sent to the First Nation.
- (v) Identification of specific issues or concerns raised by the First Nation.
- (vi) Description of how the specific issues or concerns raised by the First Nation were avoided, mitigated or otherwise accommodated, or explain why no further action is required to address an issue or concern.

- (vii) Copies of any documents which confirm that the First Nation is satisfied with the consultation to date.
- (viii) Evidence that the First Nation has been notified of the filing of the application with the Commission and has been informed on how to raise outstanding concerns with the Commission.
- (ix) The applicant's overall view as to the sufficiency of the consultation process with the First Nation to date, in the context of the decision which is being sought from the Commission.
- (x) A statement of what future consultation with First Nations is contemplated subsequent to the preparation of the CPCN application.

Public Consultation

- (i) Overview of the community, social and environmental setting in which the project and its feasible alternatives will be constructed and operated, and of the public who may be directly impacted by the project and its feasible alternatives.
- (ii) Description of the information and consultation programs with the public, including the organizations, agencies and individuals consulted, the information provided to these parties, and a chronology of meetings and other communications with members of the public and their representatives. This includes consultation with both the public who may be directly impacted by the project and the public that may experience impacts on their rates and service.
- (iii) Description of the issues and concerns raised during consultations, the measures taken or planned to address issues or concerns, or an explanation of why no further action is required to address an issue or concern.
- (iv) Identification of any outstanding issues or concerns.
- (v) Applicant's overall assessment as to the sufficiency of the public consultation process with respect to the project, in the context of the decision which is being sought from the Commission.
- (vi) A statement of what future public consultation is contemplated subsequent to the preparation of the CPCN application.

4. Project Description

- (i) Description of the project, its purpose and cost, including engineering design, capacity, location options and preference, safety and reliability considerations, and all ancillary or related facilities that are proposed to be constructed, owned or operated by the applicant.
- (ii) Outline of the anticipated construction and operation schedule, including critical dates of key events, a chart of major activities showing the critical path (e.g., GANTT⁴ chart), and the timing of approvals required from other agencies to ensure continued economic viability.

⁴ GANTT chart is a bar chart which illustrates a project schedule.

- (iii) Description of any new or expanded public works, undertakings or infrastructure that will result from or be required by the project, and an estimate of the costs and necessary completion dates.
- (iv) Human capital resources required to undertake the project.
- (v) Risk analysis identifying all significant risks to successful completion of the project, including an assessment of the probability of each risk occurring, and the consequences and the cost to mitigate the risk. The applicant should provide a summary description of significant project risks, including an assessment of the impact of each risk, the proposed risk mitigation strategy, and to the extent known, the financial and schedule impacts if the risk is realized. The risk evaluation should incorporate a risk assessment matrix with appropriate levels of severity and probability, a risk register and risk treatment as recommended in the latest revision of AACE International Recommended Practices.
- (vi) Identification and preliminary assessment of potential effects of the project on the physical, biological and social environments or on potentially affected First Nations and the public, proposals for reducing potentially negative effects and maximizing benefits from positive effects, and the cost to the project of implementing the proposals;
- (vii) Identification of the customers to be served by the project and, where the project would expand the area served by the applicant, a geographical description of the expanded service area.
- (viii) A list of all required federal, provincial and municipal approvals, permits, licenses or authorizations and any applicable environmental assessment or other required project review processes.
- (ix) A summary of the material conditions that are anticipated in federal, provincial and municipal approvals and confirmation that the costs of complying with these conditions are included in the cost estimate in the application.

5. Project Cost Estimate

- (i) The project cost estimate should comply with applicable AACE International Cost Estimate Classification System Recommended Practices, use the terminology in the latest revision of AACE International Recommended Practice - Cost Engineering Terminology and list the AACE Recommended Practices used in the preparation of the cost estimate.
- (ii) The project cost estimate should include the basis of estimate, the preparation effort (level of effort used to develop the cost estimate), as defined in the latest revision of the AACE International Recommended Practices, along with a description of the method of estimating used, the percentage of project definition and design complete at the time of the estimate based on the judgment of the utility's management, identification and justification of all assumptions, exclusions, inflation and discount factors, and sources of benchmarks and other data including lessons learned from relevant past projects.

- (iii) The cost estimate should be stated in nominal as well as real dollars, identify an expected accuracy range with stated confidence level and have, at a minimum, a Class 3⁵ degree of accuracy as defined in the latest revision of the AACE International Recommended Practices.
- (iv) The cost estimate should provide:
 - (a) Any funds spent in prior years attributable to the project.
 - (b) A list of all project direct and indirect costs using an appropriate level of work breakdown structure, based on the nature, size and complexity of the project, by year until completion.
 - (c) Escalation (including inflation) amount and justification.
 - (d) Contingency amount and justification.
 - (e) Interest during construction or allowance for funds used during construction and corporate overhead.
 - (f) Identification and explanation of any management or other reserves.
 - (g) Any legal, regulatory and other project costs, including costs associated with First Nations and public consultation and accommodation.
 - (h) The amounts and sources of any contributions in aid of construction, grants or other funding or credits related to the project.
- (v) Identification of any cost items not included in the estimate, such as transportation costs, sunk costs and the reason for the exclusion.
- (vi) If a Monte Carlo analysis was used to model and provide justification for the amount of project contingency included in the cost estimate, then provide the following:
 - (i) the base estimate
 - (j) the P50 expected value estimate
 - (k) the P-value including contingency and the dollar value
 - (l) the P-value including reserves, if any, and the dollar value
 - (m) the P90, the input probability curves
 - (n) the relationship between the inputs and the output
 - (o) the output histogram and cumulative curves
 - (p) tornado graphs

⁵ Class 3 estimates are typically prepared to support full project funding requests, and become the first project phase “control estimate” against which all actual costs and resources will be monitored for variations to the budget. They are used as the project budget until replaced by more detailed estimates.

6. Provincial Government Energy Objectives and Policy Considerations

- (i) Discuss how the project is consistent with and will advance the government's energy objectives as set out in the *Clean Energy Act*, Part 1 – BC Energy Objectives. If the nature of the project precludes a direct link to the energy objectives, the application should discuss how the project does not hamper other projects or initiatives undertaken by the applicant or others, from advancing these energy objectives.

7. New Service Areas

- (i) Telephone number or other means by which customers will be able to contact the utility, particularly regarding an emergency.
- (ii) Description of facilities and trained personnel that will provide emergency response.
- (iii) Tariff including terms and conditions of service, rate schedules and initial rates the applicant proposes for customers in the new service area.
- (iv) Information confirming the proposed rates will be competitive with other service options that are available to customers in the new service area.