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October 5, 2006

Mr. Robert J. Pellatt
Commission Secretary
British Columbia Utilities Commission
Sixth Floor, 900 Howe Street
Box 250
Vancouver, BC V6Z 2N3

Dear Mr. Pellatt:

**Re: British Columbia Transmission Corporation (BCTC)
Application for Certificate of Public Convenience and Necessity (CPCN)
For Vancouver Island Transmission Reinforcement Project (VITR)
Project Number 3698395**

The British Columbia Utilities Commission (Commission) issued its Decision on the above referenced Application on July 7, 2006. At pages 206-207 of its Decision the Commission said:

The Commission Panel therefore orders BCTC to provide for approval by the Commission, within 30 days of a signed cable tender and no later than 90 days from this Decision, final P10 and P90 nominal dollar estimates for VITR that reflect the route option approved in this Decision and the signed cable tender. The estimates should be provided in a format similar to the P50 and P90 summary provided in response to Sea Breeze 2.45.1 in Exhibit B1-44. The estimate should show all adjustments made to reflect the final cable contract and there should no longer be any contingency included on the cable contract. In addition to the adjustments reflecting the final submarine cable contract, BCTC should clearly identify in its filing, with explanation, any other variances it makes to the P10 and P90 estimates for Option 1 through South Delta relative to the costs filed as part of this proceeding (Exhibit B1-1).

At page 135 of its Decision the Commission also stated concerning the cost of the submarine cable contract:

“Further, the Commission Panel would expect BCTC to provide an estimate and justification for any ongoing contingency required for the submarine cable portions of VITR, following execution of the cable contract.”

Through this correspondence BCTC provides, as directed, revised P10, P50 and P90 nominal dollar estimates for VITR that reflect the route option approved by the Commission and the signed cable contract.

In accordance with the above referenced direction, the revised cost estimates in millions of dollars are:

P10	\$241.5
P50	\$248.8
P90	\$259.0

These revised estimates are based on:

- a) the project cost estimate reported in Exhibit B1-67;
- b) revised project definition costs as described below;
- c) revised overhead and Interest During Construction (IDC) costs as described below;
- d) minus the cost of underground construction through Tsawwassen (Option 2) reported in Exhibit B1-67 of \$14.1 million;
- e) plus the cost of overhead construction through Tsawwassen (Option 1) as reported in Exhibit B1-67 of \$3.1 million;
- f) reflection of the signed submarine cable contract value of \$132 million; and
- g) adjustments to the project contingency through a monte carlo analysis as described in:
 - i. Exhibit B1-47 (BCTC's response to BCUC IR 3.175.2);
 - ii. Exhibit B1-44 (BCTC's response to BCUC IR 3.193.2);
 - iii. Exhibit B1-44 (BCTC's response to Sea Breeze IR 2.45.1);
 - iv. Exhibits B1-79 and B1-85; and
 - v. Transcript Volume 15 p. 2560, l. 25 – p. 2561, l. 9 and p. 2881, l. 7 – p. 2883, l. 7, and transcript volume 19, pp. 3434-3443 adjusted to reflect (a thru f) above, including the effect of reduced uncertainty resulting from the signed submarine cable contract.

The adjustments referenced above are summarized in the following table.

		P10 Estimate	P50 Estimate	P90 Estimate
1	Exhibit B1-67 Option 2 Project Cost Estimate	\$222,647,000	\$244,984,000	\$279,472,000
2	Definition Cost Revision	\$3,520,000	\$3,520,000	\$3,520,000
3	Remove Underground costs through Tsawwassen	(\$14,086,00)	(\$14,086,00)	(\$14,086,00)
4	Add Overhead costs through Tsawwassen	\$3,139,000	\$3,139,000	\$3,139,000
5	Reflect Signed Cable Contract	\$20,878,000	\$20,878,000	\$20,878,000
6	Revised Contingency	\$4,380,000	(\$10,000,000)	(\$32,500,000)
7	Revised Overhead Estimate	\$636,000	\$267,000	(\$359,000)
8	Revised IDC Estimate	\$342,000	\$115,000	(\$1,074,000)
9	Subtotal Net Change	\$18,809,000	\$3,833,000	(\$20,482,000)
10	Revised Project Estimate	\$241,456,000	\$248,817,000	\$258,990,000

The attached Schedule 1 provides the revised cost estimates in a similar form as Exhibit B1-44, response to Sea Breeze IR 2.45.1 with additional detail where necessary.

Definition Phase Costs

The attached Schedule 2 is a revised definition phase cost forecast for the project reflecting the actual costs (excluding contingency, overhead and IDC) of the regulatory processes to date with an updated estimate for completion. The revised definition phase cost forecast is approximately \$13.1 million of which \$9.6 million are actual costs as of August 06, 2006.

The increase in the definition phase cost reflects the higher costs of dealing with the impact of the VIC application on BCTC's VITR proceeding and increased Environmental Assessment costs arising from the need to file an amendment to the Environment Assessment Certificate Application to reflect the Commission's decision approving Option 1 rather than the previously applied for Option 2 through Tsawwassen.

The revised definition phase costs and revised project costs contained in this report to the Commission do not include forecast costs for dealing with any

reconsideration applications before the Commission or for dealing with appeals before the courts. These processes are outside the control of BCTC and were not included in the cost estimates in Exhibit B1-67 or in the estimates determined by the Commission.

Submarine Cable Cost and Contingency

The Implementation Phase cost forecast has been updated for the Submarine Cable component to reflect the contract executed with Mitsubishi Canada Ltd. for design, manufacture, installation and testing of the 230 kV submarine cables, splices, terminations, pumping plants, related systems and spare parts. The Submarine Cable component cost is consistent with the preliminary figures filed by BCTC in correspondence dated April 27, 2006 and referenced by the Commission in the analysis provided in its Decision. All of the price escalation since BCTC's application forecast from July 2005 can be attributable to substantial increases in copper and other commodity prices since that time, partially offset by favorable foreign exchange movements.

The revised project estimates reported herein do not eliminate all contingency associated with submarine cables. The submarine cable costs identified at line 20 of Exhibit B1-67 included items not included in the cable tender, but associated with the submarine cable portion of the project, and items included in the cable contract but not fixed upon contract execution. These items include:

- a) a unit price adjustment provided for in the cable contract for the final (and as yet unsurveyed) circuit length¹;
- b) the terminal station work to be done by others based on the equipment proposed by Mitsubishi;
- c) engineering costs for:
 - a. project management
 - b. construction management
 - c. environmental monitoring
 - d. contract administration
 - e. design review and quality assurance;
- d) environmental compensation and permit compliance; and
- e) First Nations accommodation.

Considering the above listed items that remain unfixed following the execution of the cable contract, the contingency for the submarine cable portion of the P50 project cost reduces from \$12.8 million included in Exhibit B1-67 and Exhibit B1-44, BCTC response to Sea Breeze IR 2.45.1 to \$3.8 million. The P90 contingency for submarine cables reduces from \$36.6 million to \$6.3 million.

¹ At Transcript Volume 17, pp. 3057-3058 Mr. Nelson testified "I think in terms of the cable length, the final route is not determined until after the contract is awarded. It is then agreed between our engineering group and the cable supplier as to what that final route will be and what the final cable lengths will be. So in that respect, they have no risk. It is a matter of determining whether we're dealing in per cable 24,000 metres, 24,100 metres. Those final lengths will be determined and the risk on the per unit length, on the cable length is not with the supplier, it is with BCTC."

Overhead and Interest During Construction (IDC)

The forecast in Exhibit B1-67 included Overhead and IDC at rates consistent with BCTC's approved F2006 revenue requirement.

As part of the approved negotiated settlement agreement on BCTC's F2006 Revenue Requirement (Order G-60-05) BCTC agreed to conduct an overhead capitalization study and file it as part of its next Revenue Requirement application. This study was filed with BCTC's F2007 Revenue Requirement application dated May 25, 2006. The result of the overhead capitalization study is an increase in the capitalized overhead rates. Although the Commission has yet to approve BCTC's F2007 Revenue Requirement, BCTC has reflected the results of the study in the forecast overhead rates in the revised project forecast contained herein. Specifically, overhead on the project increases from \$6.3 million to \$6.5 million in the P50 estimate and to \$6.8 million in the P90 estimate.

In addition, BCTC has reflected its most up to date interest rate forecast for calculating IDC. This revised rate applied to the current forecast project cash flow results in IDC on the the project changing from \$12.0 million to \$12.1 million in the P50 estimate and to \$12.6 million in the P90 estimate.

Sincerely,

Original signed by:

Marcel Reghelini
Director, Regulatory Affairs

Attachment
cc: Registered Intervenors

SCHEDULE 1

British Columbia Transmission Corporation
 Vancouver Island Transmission Reinforcement
 Cost Update and Contingency Analysis

Oct 5, 2006

	CPCN Application - Tsawwassen Option 1				Updated Option 1 Cost Forecast			
	Direct Capital Cost	P10	P50	P90	Direct Capital Cost	P10	P50	P90
1 Phase 1 Direct Capital (1)	\$9,540,000				\$13,060,000			
2 Contingency	\$ -	\$ 500,000	\$ 500,000		\$ -	\$ 100,000	\$ 300,000	
3 Direct Capital	\$ 9,540,000	\$ 9,540,000	\$ 9,540,000		\$ 13,060,000	\$ 13,060,000	\$ 13,060,000	
4 Overhead	\$ 265,000	\$ 278,000	\$ 278,000		\$ 370,904	\$ 373,744	\$ 379,424	
5 Subtotal	\$ 9,805,000	\$ 10,318,000	\$ 10,318,000		\$ 13,430,904	\$ 13,533,744	\$ 13,739,424	
6 IDC	\$ 506,000	\$ 532,000	\$ 532,000		\$ 688,739	\$ 694,013	\$ 703,505	
7 TOTAL DEFINITION PHASE	\$ 10,311,000	\$ 10,850,000	\$ 10,850,000		\$ 14,119,643	\$ 14,227,757	\$ 14,442,929	
		Contingency P10	Contingency P50	Contingency P90		Contingency P10	Contingency P50	Contingency P90
Submarine Cables								
8 Submarine Cable Contract	\$ 112,196,000	(2,100,000)	\$ 11,482,000	32,960,000	\$ 132,040,000	\$ 1,400,000	\$ 2,500,000	\$ 4,200,000
9 Environmental Compensation	\$ 600,000	(10,000)	\$ 60,000	180,000	\$ 600,000	\$ 20,000	\$ 50,000	\$ 90,000
10 Engineering (PM, CM, EM)	\$ 4,600,000	(90,000)	\$ 470,000	1,340,000	\$ 4,790,000	\$ 170,000	\$ 440,000	\$ 700,000
11 FN Accommodation	\$ 1,800,000	(30,000)	\$ 180,000	530,000	\$ 1,800,000	\$ 60,000	\$ 160,000	\$ 270,000
12 Subtotal Submarine Cables	\$ 119,196,000	\$ (2,230,000)	\$ 12,192,000	\$ 35,010,000	\$ 139,230,000	\$ 1,650,000	\$ 3,150,000	\$ 5,260,000
Terminal Stations								
13 Engineering	\$ 550,000	(10,000)	\$ 60,000	160,000	\$ 550,000	\$ 20,000	\$ 50,000	\$ 80,000
14 Construction	\$ 4,916,000	(80,000)	\$ 460,000	1,230,000	\$ 6,500,000	\$ 90,000	\$ 600,000	\$ 960,000
15 Subtotal Terminal Stations	\$ 5,466,000	(90,000)	\$ 520,000	1,390,000	\$ 7,050,000	\$ 250,000	\$ 650,000	\$ 1,040,000
16 Subtotal Submarine Systems	\$ 124,662,000	\$ (2,320,000)	\$ 12,712,000	\$ 36,400,000	\$ 146,280,000	\$ 1,900,000	\$ 3,800,000	\$ 6,300,000
17 Overhead Line	\$ 41,156,000	\$ 120,000	\$ 3,247,000	\$ 8,600,000	\$ 41,156,000	\$ 150,000	\$ 3,650,000	\$ 8,600,000
18 ARN	\$ 1,515,000	\$ 10,000	\$ 110,000	\$ 200,000	\$ 1,515,000	\$ 10,000	\$ 110,000	\$ 200,000
19 VIT	\$ 13,310,000	\$ 36,000	\$ 880,000	\$ 2,100,000	\$ 13,310,000	\$ 36,000	\$ 880,000	\$ 2,100,000
20 TBV	\$ 3,283,000	\$ 62,000	\$ 270,000	\$ 500,000	\$ 3,283,000	\$ 62,000	\$ 270,000	\$ 500,000
21 SAT	\$ 2,550,000	\$ 23,000	\$ 180,000	\$ 400,000	\$ 2,550,000	\$ 23,000	\$ 180,000	\$ 400,000
22 Subtotal Stations	\$ 20,658,000	\$ 131,000	\$ 1,440,000	\$ 3,200,000	\$ 20,658,000	\$ 131,000	\$ 1,440,000	\$ 3,200,000
23 Subtotal Terrestrial Work	\$ 61,814,000	\$ 251,000	\$ 4,687,000	\$ 11,800,000	\$ 61,814,000	\$ 281,000	\$ 5,090,000	\$ 11,800,000
24 Phase 2 Direct Capital	\$ 186,476,000				\$ 208,094,000			
25 Contingency	\$ (2,069,000)	\$ 17,399,000	\$ 48,200,000		\$ 2,181,000	\$ 8,890,000	\$ 18,100,000	
26 Direct Capital	\$ 186,476,000	\$ 186,476,000	\$ 186,476,000		\$ 208,094,000	\$ 208,094,000	\$ 208,094,000	
27 Overhead	\$ 5,109,000	\$ 5,647,000	\$ 6,498,761		\$ 5,971,810	\$ 6,162,346	\$ 6,423,910	
28 IDC	\$ 9,756,000	\$ 10,812,000	\$ 12,434,453		\$ 11,089,178	\$ 11,442,987	\$ 11,928,691	
29 TOTAL IMPLEMENTATION PHASE	\$ 199,272,000	\$ 220,334,000	\$ 253,609,214		\$ 227,335,988	\$ 234,589,333	\$ 244,546,601	
30 TOTAL CAPITAL COST	\$ 209,583,000	\$ 231,184,000	\$ 264,459,214		\$ 241,455,631	\$ 248,817,090	\$ 258,989,530	

(1) See Schedule 2 for a breakdown of Definition Phase direct costs

SCHEDULE 2

**British Columbia Transmission Corporation
Vancouver Island Transmission Reinforcement
Definition Phase Direct Costs**

October 5, 2006

	CPCN Application July/05 Estimate (\$000)	Actual Costs Through August/06 (\$000)	Forecast to Complete (\$000)	Updated Definition Phase Forecast (\$000)
CPCN Application				
1	Intervenor Funding	0	900	900
2	Commission Costs	0	910	910
3	Expenses (Allwest Reporting)	230	0	230
4	BCTC Legal	1269	0	1269
5	Subtotal Regulatory	\$995	\$1,499	\$3,309
6	BCH Eng Support	868	1162	1212
7	BCTC (System Planning & Other)	612	581	581
8	Expert Witnesses	0	83	83
9	Sub-total CPCN Application	\$2,475	\$3,325	\$5,185
Environmental Assessment Application				
10	FN Capacity Funding	676	132	532
11	BCEAO Costs	0	0	0
12	BCTC Legal	284	186	336
13	BCH Eng Support	413	431	481
14	BCTC Other (MP & SPA)	98	119	169
15	Consultants/Experts	1820	1563	2073
16	Accommodation/Mitigation costs (1)	0	0	0
17	Sub-total Environmental Assessment	\$3,291	\$2,431	\$3,591
US Permits/Approvals				
18	FN Capacity Funding	0	0	0
19	Agency Costs	0	0	0
20	BCTC Legal	142	93	168
21	BCH Eng Support	106	168	198
22	BCTC Other (MP & SPA)	30	56	56
23	Consultants/Experts	520	601	826
24	Accommodation/Mitigation costs (1)	0	0	0
25	Sub-total US Approvals	\$798	\$918	\$1,248
26	Preliminary Design Engineering	\$2,976	\$2,951	\$3,036
27	DEFINITION PHASE DIRECT COSTS (2)	\$9,540	\$9,625	\$13,060

(1) FN Accommodation and Environmental Mitigation/Compensation Costs are part of the Implementation Phase

(2) See Schedule 1 for Contingency, IDC & OH on P10, P50 & P90 estimates

(3) Expert witness costs for L. Erdreich and L Dybvig are included in line 4 (BCTC Legal) and not on line 8.