



IN THE MATTER OF

FORTISBC INC.

**CERTIFICATE OF PUBLIC CONVENIENCE
AND NECESSITY APPLICATION**

FOR THE BIG WHITE SUPPLY PROJECT

DECISION

September 14, 2006

Before:

**L.F. Kelsey, Chairperson
A.W.K. Anderson, Commissioner
R.J. Milbourne, Commissioner**

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COMMISSION ORDER NO. C-17-06

APPENDICES

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1.0 THE APPLICATION

On March 9, 2006 FortisBC Inc. (“FortisBC”, “Company”) applied to the British Columbia Utilities Commission (“Commission”, “BCUC”) for a Certificate of Public Convenience and Necessity (“CPCN”) for the Big White Supply Project (the “Project”) pursuant to sections 45 and 46 of the Utilities Commission Act (“UCA”) (the “Application”). The Project involves the construction of 23 km of new 138 kV line, the reinsulation of 11.3 km of an existing section of line from the Joe Rich substation, a new substation located at the Big White development area (“Big White”) and distribution upgrades at Big White. The capital cost associated with the Project is estimated by FortisBC at \$20.32 million, which is equivalent to a one-time general rate increase of 0.70 percent.

1.1 History of Power Supply to Big White

Big White is located approximately 50 km southeast of Kelowna. Big White Ski Resort Ltd. (“BWSR”) owns and operates a ski resort at Big White under the terms of a Master Development Agreement (“MDA”) with the provincial government (BWSR Argument, p. 3). BWSR is owned by Schumann Resorts Ltd. (Exhibit B-5, BCUC IR 3.3).

In response to a Commission information request, FortisBC described the following regulatory history for the supply of power to Big White.

“The 25 kV distribution line of approximately 18 km from the junction of Highway 33, in the Joe Rich Valley, to the Big White Village was constructed in 1976 at a cost of \$202,315.

Due to the extent of time since the construction, and following a search for documentation, FortisBC has not been able to determine the final cost sharing arrangements for the original construction. Internal working documents from the time indicate that Big White Ski Development Ltd. (“BWSD”) was to pay the full cost of the 25 kV line, estimated at \$250,000, and would also be required to pay the full cost of upgrading the single-phase line to three-phase when required to meet the Big White Village load.

BWSD also paid a facility charge, which was intended to recover operation and maintenance costs that were above normal levels due to the length of the line, and a “Carrying Charge” associated with upgrading the Joe Rich Valley extension to a 4-wire three-phase circuit prior to 1986.

The Company has not been able to ascertain whether a contribution was received under the provincial Rural Electrification Act in existence at the time.

In order to ensure that all customers in the Big White area contributed to the costs of the facility charge, a Supplementary Rate for Power Supply to Big White Ski Village (Rate Schedule 83) was approved via Commission Order No. G-23-77. Rate Schedule 83 provided that customers would also contribute to the Facility Charge and the Carrying Charge described above.

As stated in the Company’s response to BCUC IR#1 Q4.2, Big White is a diverse community, and has been since the construction of the original 25 kV line. This is evident in the composition of the charges under the Supplementary Rate. The Company’s required monthly revenue to be recovered under the Supplementary Rate was divided into 225 shares and adjusted at six-month intervals based on the number of customers. Residential customers were allocated one share, commercial units allocated one share per 650 square feet, and motor loads were 20 horsepower per share. Of the 225 shares, 90 shares (comprising of nine facilities) were to the account of the Ski Resort.

In January 1996, the Company applied to cancel Rate Schedule 83 stating that “Since 1976 the number of shares has grown to 1,065 and the load is comparable to small, radially fed communities such as Kaslo. As a result, the monthly facility charge per share (or residence) has fallen to 57 cents. Because supply conditions are not different from communities with no facility charge, and facility charges of \$10.00 per month or less are not billed under our current extension policy (Schedule 73) we request termination of this rate. Order No. G-20-96 approved the cancellation of the Supplementary Rate” (Exhibit B-5 BCUC IR 3.1).

Subsequent upgrades to the service were carried out in 1997 and 1998 and involved minor reconductoring and rebuilding. These upgrades were considered minor and were not the subject of a hearing. The Project, which is the subject of this Application, was first identified in the FortisBC’s 1998 20-year Transmission and Distribution Plan and was forecast to be needed in 2004. At that time FortisBC’s plan was to meet the increasing loads in the area by upgrading the distribution feeders from the Joe Rich substation in a staged approach that would eventually culminate in the 138 kV transmission line and substation at Big White.

In 1999, by Commission Order No. C-8-99, the Commission approved stage 1 of a three stage program to create an express feeder to Big White, which would eventually be transformed into a transmission level voltage. The work involved the construction of a double circuit distribution line and reconductoring, at a cost of some \$1.523 million. Stages 2 and 3 were a continuation of this program and were approved by the Commission in 2002 by Commission Order No. C-11-02 and 2004 by Commission Order No. G-6-04, at a cost of some \$1.231 million and \$1.16 million, respectively. The pace of the upgrades was dictated by the rate of load growth at Big White (Exhibit B-5, BCUC IR 3.2). As with the upgrades carried out in 1997 and 1998 the three stage program was not the subject of a public hearing.

In summary, since 1999 some \$3.9 million (unadjusted to current dollars) has been directly approved by the Commission by way of CPCNs, and expended by FortisBC, to provide the existing service to the Big White resort area. As well, some additional expenditures have been authorized and incurred under FortisBC's annual capital programs. The improvements to the originally installed system since 1976 have not been the subject of public hearings, and the costs, in totality, have gone into FortisBC's rate base.

The proposed Project, at some \$20.32 million, to reinforce the system and meet the immediate and projected long-term growth demands, is materially larger than the aggregate of the expenditures to date, even if all prior expenditures were brought to 2006 dollars.

1.2 Regulatory Background

Following receipt of the Application by the Commission, the Commission by Order No. G-44-06 established a regulatory agenda and Oral Public Hearing to review the Application.

The Oral Hearing Commenced on July 4, 2006 and concluded on July 5, 2006. The hearing process allowed for two sets of information requests ("IR") to FortisBC prior to the Oral Hearing, and for arguments to be submitted in writing following the Oral Hearing. FortisBC's Reply Argument was submitted to the Commission on July 28, 2006.

1.3 Project Description

The Project proposed by FortisBC and described in the Application on pages 9 through 12, consists of the following elements:

- A transmission line to feed the Big White substation (the “Substation”) will originate from Line 54 which feeds the Joe Rich substation at 138 kV from the Lee and Bell Terminal Stations. The transmission line will utilize an 11.3 km section of a 25 kV feeder which has been built to 138 kV standards but requires reinsulation and the relocation of Telus lines to a new location. This section of line runs along Highway 33. A new line will be built, continuing along Highway 33 for .4 km and then exit to a new 22.3 km right of way to the Big White substation (“Substation”). FortisBC’s estimated cost for new construction is \$7.05 million; \$1.57 million for reinsulation of the existing section and terminations and \$.972 million for Telus work.
- The Substation will consist of a single 138/25 kV, 24/32/40 MVA transformer with provision for a second unit and facilities to connect a mobile substation. The Substation will be located on vacant land outside the Big White development area. FortisBC estimates the cost for the Substation to be \$5.74 million.
- The Distribution upgrades will involve provision for 4, 25 kV distribution feeders from the Substation, initially utilizing only 3 feeders. Feeder #1 will be upgraded to supply the upper village. Feeder #2 will be a new circuit to the lower Village and Feeder #3 will tie back to Joe Rich substation by way of the existing distribution line. Feeder #1 and Feeder #2 will be looped at the upper village and involve rebuilding the existing #2 ACSR conductor with 3/0 conductor (Exhibit B1, Appendix B, pp. 3, 6). FortisBC estimates the cost for the distribution upgrades to be \$0.87 million.

The total estimated cost for the project is \$20.32 Million and includes the Telus line relocation along Highway 33, land, planning and allowance for funds used during construction (“AFUDC”) costs. The Project is scheduled to commence with right of way clearing in the third quarter of 2006 with project completion by December 1, 2008.

2.0 PROJECT JUSTIFICATION

FortisBC states that the need for the Project is being driven by an increased load growth and development in the Big White area. FortisBC forecasts that the capacity of the existing distribution feeder to Big White will be exceeded in 2007/2008 and the capacity of the Joe Rich transformer is forecast to be exceeded in 2010/2011 (Exhibit B1, p. 3).

2.1 Peak Load

The load forecasts are based on actual load, adjusted for weather, to 2005 and on discussions with developers for load growth in the near future. The feeder serving Big White, from the Joe Rich substation, is rated at 20 MVA. The 2005 recorded peak load was 14.6 MVA which occurred on December 31, 2005 and which, adjusted for weather normalization is equivalent to 16.6 MVA (Exhibit B1, p. 29). FortisBC estimates the load growth for 2006 and 2007 to be 2.3 MVA or increases of 2 percent and 12 percent, respectively. These forecasts were based on discussions with developers and verified by visiting sites where construction activity was occurring, and subsequently, discussing these and other proposed developments with the developers (Exhibit B-3, BCUC IR 2.4). FortisBC is forecasting strong load growth to the year 2010 and thereafter, leveling off.

2.2 Nature of Load

The Big White load peaks in winter primarily driven by the winter activity at the ski resort, as evidenced by the recorded peak load identified in 2.1 above, with an annual load factor of 43.5 percent. The load is primarily residential and commercial. This load factor compares to load factors of 50 percent for Osoyoos which has a summer peaking load and 51 percent for Kelowna which is not seasonal. The overall load factor for the FortisBC system is 54 percent (Exhibit B-5, BCUC IR 7.0). The average monthly consumption over a year, of the residents in Big White, is similar to other customers (T1:130) but it mainly occurs during the winter months when electric heating loads for residences and hot tubs etc. are at the maximum (T1:132).

2.3 Intervenor Arguments

The BC Old Age Pensioners Organization *et al.* (“BCPOAPO”), the BWSR, Buryl Jonas Slack and Mr. Wait supported the need for the Project and accepted that FortisBC load forecasts were prudent. Mr. Gabana expressed a concern about whether growth projections will be realized. Other intervenors did not express an opinion.

Commission Determination

The Commission Panel accepts that the need for the Project has been adequately demonstrated and that FortisBC’s load forecasts are not unreasonable.

3.0 POWER SUPPLY AND ROUTE OPTIONS

3.1 Power Supply Options

FortisBC examined four options for the supply of power to the Big White Area. These included:

1. 138 kV Transmission
2. A staged 25 kV Distribution/Substation Upgrade/138 kV Transmission
3. 63 kV Transmission
4. Local generation at the Big White village.

1. The 138 kV transmission option is FortisBC's recommended option and is described in Section 1.3. With this option FortisBC examined four alternative routes described below. All four originate at a tap from Line 54 and terminate at the proposed Substation.

Route alternative #1 is FortisBC's preferred alternative and utilizes Highway 33 from the Joe Rich substation for 11.7 km and then traverses primarily crown land for the remaining 22.6 km on a new corridor.

Route alternative #2 also utilizes Highway 33, however this stretch is approximately 14.7 km and the remaining 18km would be primarily across crown land on a new corridor. It presents a greater environmental impact than alternative #1 as it traverses more wetland environment.

Route Alternative #3 is a greenfield route along its entire length of 28.9 km. It traverses the watershed of the Kelowna water supply.

Route alternative #4 is a greenfield route of 32 km and also traverses the watershed of the Kelowna water supply.

FortisBC states that the costs of all alternatives are comparable. Alternative #2 was rejected because FortisBC believes the Ministry of Transportation would not allow a permit for the additional length along Highway 33 and it has a greater environmental impact on wetlands. Alternatives 3 and 4 were rejected because they crossed the Kelowna water supply watershed.

2. The second power supply option is the same as Option 1 but delays the need for the Substation and 138 kV conversion along Highway 33 until 2022 by adding a transformer at Joe Rich substation and utilizing the 138 kV line at 25 kV.
3. The third power supply option would involve adding a 138 kV to 63 kV step-down transformer at Joe Rich substation and building a 63 kV transmission line to Big White along the same route as the 138 kV option.
4. The fourth power supply option would involve supplementing the supply on the existing distribution line during peak loads by installing local generation at Big White in modular diesel units of 1.5 MW until the size of the facility reached 16.5 MW (in approximately 2030) and at that time convert to a combined cycle gas turbine (“CCGT”) with a gas pipeline.

3.2 Comparison of Options

FortisBC compared the advantages and disadvantages of each option on a reliability, systems operations, environmental and economic basis and concluded that Option 1 was the least cost option with a NPV of \$18.02 million and a one time equivalent rate impact of 0.7 percent and was also technically and environmentally superior.

In comparison to Option 1, Option 2 has the advantage of deferring expenditures for the Substation to 2022, however it has the disadvantage of requiring land additions and enhancements at Joe Rich substation, it fails to create a back up supply, and it increases operating expenses through additional line losses. The NPV for this option is \$19.8 million with a one time equivalent rate impact of 0.77 percent.

The disadvantage of Option 3 is that it would require a 138/63 kV step-down transformer and more land at Joe Rich substation and it has larger line losses than Option 1. The NPV for this option is \$20.256 million with a one time equivalent rate impact of 0.87 percent.

Option 4 has the advantage of being able to be increased in discrete increments until such a size that other options such as CCGT with a gas pipeline could be justified. However the disadvantages are that special permits would be required which may have an uncertain renewal. Noise and pollution levels may cause public concern, there may be larger risk of environmental contamination due to the use of fuel oil, fuel prices are subject to a high degree of volatility, operations costs would increase because of the need to acquire specialized staff or contractors, diesel generators are considered to be less reliable than wires and may have larger outage durations due to the lack of qualified staff, and at present there is no supply of gas to Big White. The NPV of this option is \$26.806 million with a one time equivalent rate impact of 1.15 percent. This NPV includes the assumption that an 18 MW CCGT unit would be required in the year 2030 (Exhibit B-1, pp. 42, 45).

The Commission noted that the NPV comparison for the various options were based on different time frames and in particular the NPV for Option 4 was taken to 2030 to include the CCGT. The Commission therefore asked FortisBC to produce a NPV comparison based on 10, 15, and 20 year periods. FortisBC's response (Exhibit B-5, BCUC 9.3) is as follows.

Table 9.3

Options	NPV			
	As in CPCN Application	10 Yrs (2016)	15 Yrs (2021)	20 Yrs (2026)
Option-1	\$ 18.02 M	\$ 11.11 M	\$ 14.03 M	\$ 15.75 M
Option-2	\$ 19.81 M	\$ 10.17 M	\$ 14.06 M	\$ 16.42 M
Option-3	\$ 20.26 M	\$ 12.08 M	\$ 15.39 M	\$ 17.38M
Option-4	\$ 26.81 M	\$ 9.22 M	\$ 13.30 M	\$ 16.55 M

The Commission notes that for a 20-year NPV, Option 4 would not include the CCGT but is larger than Option 1.

3.3 Intervenor Arguments

Mr. Wait was the only intervenor to suggest that Option 1 should be modified to delay rate impacts from the capital expenditure. He suggested that the Substation, reinsulating existing 57 Line and moving the Telus Lines, could be delayed by 3 or 4 years by providing a tie to an existing 13 kV line from Kelowna and adding step up transformers to convert power to 25 kV (Wait Argument).

3.4 FortisBC Reply

In reply to Mr. Wait FortisBC asserted that Mr. Wait's suggestion would involve a greater total cost and in any case is not technically feasible because of voltage instability problems.

3.5 Commission Determination

The Commission Panel notes that the relative cost effectiveness of the various options depends on the time frame selected for evaluation, as highlighted in Table 9.3. In particular, in 2016, both Option 2 and Option 4 are materially lower cost than FortisBC's preferred Option 1. As well, all else equal, by 2021, while Option 2 is equivalent to the preferred Option, Option 4 still is materially lower in cost. It is not until 2026, some 20 years out, that Option 1 becomes the least cost Option by a meaningful margin.

Given, however, the submissions from FortisBC regarding the other beneficial aspects of the preferred Option, in particular with respect to Option 4, the incremental on-site generation option, the Commission Panel accepts FortisBC's judgment on the preferred option. The Commission Panel accepts FortisBC's selection of Option 1 as the preferred Option for the Project and addresses the risks and uncertainties in the selection process by way of its determinations at Section 5.0 of this Decision.

4.0 PROJECT SITING AND AESTHETICS

4.0.1 Substation

The proposed Substation site is on land owned by the Provincial Crown within the Controlled Recreation Area, controlled by BWSR (Exhibit B-3, BCUC IR 1, 4.1). The proposed Substation will be located immediately north of the waste transfer station on Horsefly Tap Road. The initial fenced area is planned to be 60 meters by 70 meters (approximately 1.03 acres), with an allowance for ultimate expansion to a size of 75 meters by 85 meters (1.58 acres). The property size, at 125 meters by 115 meters, is just over 3.55 acres (Exhibit B-5, A1.2 (f)).

In its Application, FortisBC states that the proposed site for the Substation was identified after consultation with the Regional District of Kootenay Boundary and the management of the Big White Ski Resort Ltd. and will be located in an area reserved for industrial development. The proposed Substation location was included in the Environment and Social Impact assessment and Public and First Nations Consultation carried out for the proposed transmission line (Exhibit B-1, p. 22).

4.0.2 Intervenor Comments

FortisBC, in the Application, reports that it held Public Consultation meetings for the Project and states that at the sessions held on April 6 and 7, 2005, two issues were raised with respect to the Substation; the visual impact and impact of noise and light (Exhibit B-1, p. 53).

The visual and aesthetic impact of the Substation was also discussed at some length at the Hearing. BWSR when presenting evidence stated “It is in the interests of all residents, businesses and visitors to make the new transmission lines and the Big White substation as visually unobtrusive as possible” (T2:163). On the same theme, BWSR asked “Given the fact that the substation itself is considerably smaller than the area that will be obtained to house the substation, is there any reason a buffer of trees could not be left all around the substation for visual impact purposes?” (T1:100).

4.0.3 FortisBC Response and Undertakings

FortisBC states that in response to the two issues raised with respect to the Substation during the Public Consultation process, it explained that the site for the Substation is off the Highway behind the recycling depot and the topography of the transmission line route falls away from the road minimizing the visual impact. “There are no residential properties close to the proposed [S]ubstation location. Consequently there will be no impact on residences” (Exhibit B-1, p. 54).

During cross examination and in response to BWSR questions and concern about visual impact, FortisBC explained that the particular location was selected to lessen visual impact. “When we build the [S]ubstation, we're certainly going to look at that [a buffer of trees could not be left all around the [S]ubstation], but we have to ensure that we have a tree-free zone as required for safety reasons around the [S]ubstation.” FortisBC did state that if it could put the substation in the middle and leave some trees as a visual barrier, “We wouldn't have any objection to doing that” (T1:101).

However, FortisBC has no plans to construct visual buffers, responding to an IR from BWSR regarding the size and features of the tree or other buffers, stating that “no visual barriers are to be constructed” [Exhibit B-5, BWSR IR A1.2 (e)].

4.0.4 Distribution Upgrades

The proposed distribution upgrades raised some discussion and questions from BWSR with respect to the positioning of distribution lines and decisions to install those lines overhead or underground. BWSR, in cross-examining the FortisBC Panel reviewed the distribution plans in detail, seeking clarification on many technical issues.

4.0.5 Intervenor Comments

With respect to the positioning of poles, when being replaced, BWSR appeared to seek a commitment from FortisBC to reroute lines for aesthetic purposes.

“So, for example, let's assume that costs are still in the same ballpark. Would you anticipate there would be a problem with putting the line further into the tree line off the road a bit for aesthetic purposes, again assuming the cost was similar?” (T1:83)

“Is an option here of going around that area, up and to the right to go around that whole developed area, and come in at a higher level, as opposed to going -- trying to go through that section.

[FORTISBC]: A: Without looking at that area, I couldn't comment on that.

Right. Well, would it be fair to say, and so you know where I'm coming from, that is an area in which the resort has some concerns for the reason that I've mentioned” (T1:96).

“And so the question that they would like you to deal with is, what do they do to resolve those concerns? And I guess the concern is, whether or not Fortis -- if the CPCN was issued by the Commission, from Fortis's perspective, would you consider that you're bound to build a line through that area as shown on this map, even though there would be the kinds of problems that I've referred to? Or do you consider that there's sufficient flexibility in this type of an approval that you could change it to go around it, or come up with some other solution that would solve that problem?” (T1:96-97)

In general terms, BWSR sought FortisBC commitment to have the flexibility to listen to what people have to say and make changes to what was presented on the map if FortisBC thought it reasonable and costs being in the ballpark (T1:97).

In cross-examination, BWSR indicated that it was not aware that FortisBC had a beautification program where BWSR could contribute to the cost of aesthetic upgrades. BWSR stated “Yes, in principle, we would be willing to contribute in a cost sharing manner with Fortis” (T2:185, 187).

4.0.6 FortisBC Response and Undertakings

FortisBC, for the most part, expressed the need to pursue the least cost solution, unless safety or reliability concerns dictated a more expensive alternative. As an example, in providing power service to the upper village, FortisBC explained that there were a number of options, however, the option chosen “was our least-cost solution” (T1:89). In some locations undergrounding was selected by FortisBC because “It's cheaper and safer and more reliable” (T1:95). FortisBC did indicate a willingness to exercise some measure of flexibility, stating with respect to a specific area, that there is sufficient

flexibility within the plan and within cost estimates to be able to move. “We’re looking at 30 or 40 metres of line there. I’m certain we can be flexible with moving the overhead line to a different location, if necessary” (T1:97). However, FortisBC clarified “we are an overhead company, primarily, so unless there’s cost, reliability or safety reasons, we wouldn’t – would not be prepared to underground a piece of the line based on aesthetics” (T1:98).

4.1 Commission Comment

The Commission Panel is sensitive to the concerns of BWSR regarding consultation on distribution infrastructure siting and is satisfied that FortisBC has expressed a willingness to “exercise some measure of flexibility”. Both parties are reminded, however, that current Tariffs and well established FortisBC Policy provide specific direction on how costs are to be assigned when departing from the least cost, safe and reliable option. Adherence to the Tariff and established Company Policy could be subject to a prudence review.

4.2 Commission Determination

In the case of the installation to the Gem Lake Chair, the Commission Panel notes that the original line was an overhead line paid for by BWSR. When it became apparent that the overhead line was not suitable, FortisBC installed the line underground at its own cost. The Commission Panel recognizes that this issue is not related to this Application; however, the Commission Panel believes that on a prima facie basis FortisBC may have applied its extension policies incorrectly. **The Commission Panel directs FortisBC to investigate, within 90 days of this Decision, the basis for this decision and report on the prudence of accepting this expense as a rate base item.**

5.0 CAPITAL COST/RISK SHARING

5.1 FortisBC's Position

FortisBC states that the capital cost of its preferred alternative is \$20.3 million, and supports that estimate with design and engineering data and a cost estimate inclusive of contingency factors for each of the component projects (Exhibit B-1, Appendices B, C).

In response to an IR concerning the level of accuracy of its estimates, FortisBC states that:

“The total cost estimate was compiled based on historical data and experience from past projects using contractors and consultants. FortisBC is comfortable that the estimate submitted is within +/- 10% of actual costs based on current market conditions” (Exhibit B-3, BCUC IR 12.3).

In response to IRs concerning FortisBC's willingness to accept a +/- 10 percent collar on the capital cost of its preferred alternative, FortisBC states that:

“FortisBC submits that a process based on periodic progress reports to the Commission, in conjunction with a prudency review if required, is the appropriate means of ensuring cost control” (Exhibit B-5; BCUC IR2 12.2; BCPIAC IR 5.1).

FortisBC states that its NPV and rate impact analyses leading to the selection of the preferred alternative (Option1) are based on a capital cost of \$20.32 million for Option 1, with comparable values of \$26.15-, \$21.83-, and \$46.21 million for Options 2 through 4 respectively (Application, Table 13, p. 49).

5.2 Intervenor Submissions

The BCOAPO notes the difference between a prudency review and an incentive mechanism intended to foster good project management, and the Commission's endorsement of the incentive mechanism - with reference to the Commissions' Decision of July 7, 2006 regarding BCTC's CPCN Application for the VITR Project. Particular reference is made to page 204 of that Decision, where the key objectives of an

incentive/penalty mechanism are delineated as: risk sharing, fairness, and an alignment of ratepayer and utility interests in a symmetrical manner (BCOAPO Argument, para. 13).

BCOAPO submits that the Big White Project should be subject to a 10 percent cost collar, in order to cap costs recoverable from ratepayers at 110 percent of the current cost estimate. Further, that construction on the Project is to begin right away, the project is due to be completed within a relatively short timeframe of two years, and the Company has said several times that it is confident the cost estimates set out in the Application are correct (BCOAPO Argument, para. 14).

5.3 FortisBC's Response

FortisBC disagrees with the BCOAPO submissions on the basis that FortisBC has a history of projects such that costs are well managed and controlled. FortisBC submits that if the Commission decides to implement a cost collar mechanism the key objectives should be those as delineated in the VITR decision above (FortisBC Reply, para. 11).

FortisBC also submits that the circumstances of the Big White project can be distinguished from those of the VITR, and that the VITR decision is not a clear precedent establishing the appropriateness of incentive/penalty mechanisms for capital projects, but that the VITR decision on the whole emphasizes that the best approach is to consider costs on a project by project basis (FortisBC Reply, para. 13).

FortisBC further submits that if there is to be a cost collar or cap, it should not be based on the estimates provided in the Application, but rather be based on a final estimate to be provided by the Company to the Commission at the time of entering into contracts with the major contractors at Project commencement (FortisBC Reply, para. 15).

5.4 Commission Determination

The Commission Panel supports incentive mechanisms both in rate setting and for capital projects, with reference to the Commission's Decision of June 5, 2000 in the matter of West Kootenay Power Ltd.'s CPCN Application for the Kootenay 230 kV System Development Project (BCOAPO Final Argument, para. 11). The Commission Panel also concurs with the Commission's view in the VITR Decision that the best approach is to consider costs on a project by project basis.

The Commission Panel notes that the cost estimates provided in the Application have formed the basis for FortisBC's recommended option, and Intervener support for it. The Commission Panel further notes that there is a relatively narrow advantage to the preferred option over the second most attractive, and that the apparently unattractive options - based on NPV and rate impact- nonetheless could have significant attractiveness by deferring a rate increase.

In its Decision of May 18, 2006 in the matter of Terasen Gas (Whistler) Inc.'s ("TGW") 2005 Resource Plan Update and CPCN for the Whistler Natural Gas Project, at page 49 the Commission addressed not dissimilar circumstances as follows:

"The Commission Panel shares the concerns expressed by the RMOW and CEC over the uncertainty of costs related to this project, in light of the relatively narrow levelized price advantage that delivered natural gas is forecast to offer over propane. The Commission Panel therefore feels that a risk sharing mechanism in this instance is appropriate.

TGW expresses confidence both in its knowledge of the scope of work and the estimated cost of the various components for conversion of the system from propane to natural gas. As a result the Commission Panel expects that TGW should be able to manage costs and complete this work within the \$5.819 estimate provided (Base Case \$2005, inclusive of a 15% contingency) and the \$0.75 million estimate for development costs. Therefore like the decision for the SCP [Southern Crossing Pipeline], it finds that costs allowed into rate base for this work and development should be capped at 110% of the estimated Base Case cost, adjusting for the average annual rate of inflation provided by the Consumer Price Index published by Statistics Canada and before taking into account any funding received from the various levels of government. As an incentive, if this work and development are completed at less than 90 percent of the estimated Base Case cost in \$2008, the savings will accrue to the benefit of TGW."

FortisBC expresses confidence in both its knowledge of the scope of work and the estimated costs to complete it. As a result, the Commission Panel expects that FortisBC should be able to manage costs and complete this work within the \$20.3 million estimate provided (Option 1, \$2006, inclusive of contingencies as specified). Therefore, as with the Decisions for the SCP and TGW, **the Commission Panel finds that the costs allowed into rate base for the Project should be capped at 110 percent of the estimated Option 1 cost, adjusting for the average annual rate of inflation provided by the Consumer Price Index published by Statistics Canada. As an incentive, if this work is completed at less than 90 percent of the estimated Option 1 cost in nominal dollars at the time the expenditures are incurred, the savings will accrue to the benefit of FortisBC.**

The Commission Panel approves for FortisBC the CPCN requested in the Application on condition that, within ten business days of the date of this Decision, FortisBC provides, in writing, confirmation that the foregoing risk sharing mechanism is acceptable to it.

6.0 BIG WHITE COMMUNITY

6.0.1 The Nature of the Community

The nature of the Big White community is of interest in this proceeding in terms of the “fit” of the existing Tariff structure and as a consequence, how parts or all of the Project should be funded. The matter first appears in the Application at page 54 where FortisBC, in response to a question at an April 2005 community Information Session, about whether the cost of the project would be borne by the area developers, responded; “FortisBC is of the opinion that since Big White has diverse residential and commercial customers similar to many of the communities in our service territory, we are obligated to provide the electrical supply and share the cost between all our ratepayers.”

In response to BCUC IR 4.3, FortisBC states “The Big White Supply Project is not an extension specific to any one customer, but is a system capacity upgrade project for the community as a whole which apart from the ski resort, also includes community elements / facilities such as a fire hall, school, daycare, church services, commercial stores, restaurants, medical services, and community police services.” In the Application at page 27, the area, as described by BWSR, has about 200 year round residents and an additional 14,000 seasonal and vacationing residents in high season. In its application for Intervenor status, BWSR described Big White as “British Columbia's second largest ski resort.” FortisBC in Argument suggests the area might be named or classified as an area, a village, a community, a resort or a ski facility (FortisBC Argument, p. 13).

6.0.2 Governance Structure

BWSR states that Big White is located in the Penticton Assessment Area which is governed by the Regional District of Kootenay Boundary (the “Regional District”). As an unincorporated area, the approving authority for the Regional District is the Ministry of Transportation (Kelowna branch) (“MOT”). In unincorporated areas such as Big White, the Regional District's Board of Directors serves as the local government much the same as a municipal council. Most non utility services are provided to Big White by the Regional District (Exhibit C2-4, p. 5). The majority of roads are provincially owned and maintained, with a small number of bare land roads owned and maintained as common

property by the strata corporations. The water and sewer systems are owned by BWSR, paid for by developers, and recovered through the sale of properties. Big White Gas Utility Ltd. operates an underground propane grid system, and is subject to normal regulation by the BCUC, effective June 1, 2006 (BCUC IR 2, 3.5). The planners are the Regional District of Kootenay Boundary and BWSR. The Government of BC's Integrated Land Management Bureau ("ILMB") approves all development plans (BCUC IR 1 2.3).

6.0.3 Property Acquisition and Development

BWSR in its Argument, beginning at paragraph 10, describes the manner in which property is acquired and made available for all development at Big White.

"All resorts in British Columbia operate under the Land Use Policy All Seasons Resort (the 'Policy'). This is the Province's chosen method of developing infrastructure on Crown land for the benefit of tourism objectives without the Crown having to expend the capital to do so. The Policy allows resorts to purchase Crown land at specified prices, depending upon the particular year of the development of the particular resort. (Para 12)

Big White is a Type 2 resort. Type 2 resorts are meant to serve both local and international markets. Type 2 provides for overnight accommodation and often other recreational facilities for year round business. (Para 14)

As a Type 2 ski resort, the MDA [Master Development Agreement] also provides for the purchase of Crown land by the Resort for the purpose of developing commercial, residential and recreational properties to be owned by the private sector. The Resort makes applications to the Province for areas of Crown land within the CRA [Controlled Recreation Area]. Each application contains the proposed use of the land and the potential economic benefit to Big White and other local communities which will be created by a grant of the land to the Resort. If the Province is agreeable, it offers the land to the Resort, and sets out the conditions which must be satisfied before the Province will transfer the land to the Resort by way of Crown Grant. For most of the properties purchased from the Province by the Resort, the Resort plans for a further subdivision or bare land strata subdivision of the property. It then provides utility and infrastructure servicing to the proposed new lot boundaries. It then further subdivides or stratifies the property. The newly created lots are then sold to arm's length third parties ('Developer'). Usually, the Developer then constructs chalets, condominiums or townhouses which are offered to the general public for sale. Developers often plan for commercial areas within their developments for restaurant, pub and other retail businesses as well as common facilities such as fitness centres, swimming pools and hot tubs, games rooms, meeting rooms and theatres. The commercial areas are planned to make the amenities easily accessible and available to the residential owners of their

developments and give guests of Big White a broad range of businesses to patronize. (Para 18/19)

In addition to the expenses referred to in the previous paragraph, the Resort is responsible for installing services from the utility grids to the property line, and if it chooses to subdivide the property that it has purchased into parcels, it would put in an extension of the existing services to the individual lots. The Resort pays for the costs of installing all the services (i.e. pipe, conduits and connections) in the development from the existing grids all the way to the end of the development. (Para 28)”

BWSR explained that “accommodation at Big White must be developed that will serve the long run business model of the Resort and the Province. This includes an abundance of accommodation of different types and within different budget ranges. At Big White, there is the full spectrum of tourist accommodation, resident accommodation and staff accommodation, as well as commercial facilities that the community needs as it grows. (Para 30)”

6.0.4 Economy

BWSR provided a Panel for cross examination. The Panel members were:

Paul Plocktis, Vice-President, Real Estate and Development for Schumann Resorts Limited,

Michael J. Ballingall, Senior Vice-President of Sales and Marketing for Schumann Resorts Limited,

Paul Mailey, general contractor and developer at Big White,

Alan Griffiths, project director of the High Forest housing development at Big White.

Schumann Resorts Limited is the parent company of BWSR (T2:153).

In cross-examination, BWSR described the community as a world-class resort (T2:163). It further explained that it seeks a balance of different elements of the community. “We want to have an abundance of accommodation of different types, different budget ranges available to the guests who want to stay at the resort, whether it's inexpensive, older units or smaller units, or whether it's luxury chalets that are being built, that are worth two and a half or \$3 million at the resort now. We want a

wide range of accommodation so that our marketing department can rent those products to our travel wholesalers and travel agents across the world” (T2:191).

Paul Mailey explained that with more and more people hearing of Big White and coming for an initial visit or return visits based on Big White's positive reputation and their positive experiences, the demand for accommodation at Big White is increasing each year. Once units have been built and sold, many owners place their units in rental pools, which provide additional accommodation available to tourists (Exhibit C2-4, Mailey, para. 8, 9). Alan Griffiths confirmed this arrangement, stating “[M]any visitors to Big White rent accommodation from the owners of individual units, through rental agencies” (Exhibit C2-4, Griffiths, Para 8).

Mr. Plocktis testified that, not unlike other communities, the accommodation at Big White consists of a mixture of unit types. “Different sections of the community have been designed for and have attracted different types of residents. In addition to tourist based accommodation, there are certain areas that have been developed for staff accommodation and others have been developed for people who choose to reside at Big White throughout the year. A large number of units at Big White are not available for rent. They are recreational properties and second homes to many people” (T2:218). Mr. Griffiths stated that of the chalets that he sells, probably 40 percent are not rented. “People that have them will use them as a second home, and the vast majority of people intend to make Big White their home at some time when they retire” (BWSR Argument, para. 51, 52).

In cross-examination, FortisBC explained that the bulk of the growth (in the demand for power) is the community of Big White. “It’s coming from a series of condos and the community is starting to look very much like any other community with commercial, firehalls, and -- that the business line that’s generating that in this case is the ski hill, but I don’t think that’s uncommon to a lot of the towns and villages that form around a single-source industry that starts around a sawmill, around those types of things” (T1:126).

6.0.5 Seasonality

Mr. Plocktis explained that the Policy directs the Resort to be an all seasons resort. Due to the volume of construction in recent years, summer activities at Big White have been limited. The Resort currently has various plans to further fulfill its obligations under the Policy business model in creating additional summer and shoulder season business. The Master Plan shows land suitable for an 18-hole golf course, the Resort has logged lands for three golf holes and a driving range, and has engaged in discussions with potential operators of the golf course. Golf will evolve into the community at Big White. A developer has purchased a large parcel of land at the bottom of the Ridge Chair, where he is planning to locate a large hotel/conference centre. That project is valued at \$200 Million and will create all seasons resort activities. Big White is surrounded by existing trail networks and roads suitable for trail bike riding and motorized all terrain vehicle activities (T2:173-176).

In cross examination BWSR stated that at the present time there is not much in the way of services being offered to guests other than during the ski season. Typically one or two restaurants are open, a deli is open, servicing the full-time staff and those visitors that come from town to see their place, or maybe they're shopping for a new real estate investment. “[But] we really don't have an abundance of services being offered to potential tourists during the summer months at present” (T2:220). The grocery store, normally closes for maintenance and development after the ski season and then opens July 1st and remains open all summer long (T2:226).

The Chamber of Commerce of Big White has a mandate to smooth out their members' income streams over the course of the year by developing all season activities” (BWSR Argument, p. 50).

FortisBC reports a percentage seasonal population variation of 90 percent and that the economy is driven primarily by tourism (ski activity) and supporting service industry (BCUC IR2, 7.0).

6.0.6 Other Issues

BWSR, when registering as an Intervenor, described Big White as British Columbia's second largest ski resort and states that BWSR owns and operates the ski lift facilities on the mountain, which are all powered by electricity, and other facilities including day lodges (Exhibit C2-1). FortisBC states that there has been a commercially successful ski hill operation in the Big White area since 1963. “By comparison, the ski hill operation has a better record of growth than the fruit industry in the Okanagan. It is remarkable that the record of growth of the Big White ski hill operation exceeds the record of growth and development for tourism and recreation in the Okanagan Valley. Big White forms an integral part of the largest and busiest tourism and recreation area in the Province” (FortisBC Argument, p. 13).

Mr. Plocktis, in his Opening Statement on behalf of BWSR states that there is constant economic and physical interaction of its residents and visitors within the regional community. “What happens in our community impacts surrounding communities and the Okanagan Valley, Big White is among the top three employers in the Okanagan Valley. Kelowna has a vibrant winter tourist industry solely as a result of the success of Big White” (T2:160).

6.1 Intervenor Comments

BCOAPO is of the view that the Big White area is not a typical suburban development like many others in FortisBC's service territory and BWSR will make considerable returns from the increased development at Big White. “Aside from having only 200 year round residents and few businesses that operate for the full year, Schumann Resorts Limited, the owner of BWSR, has a special arrangement with the provincial government regarding land purchase and development. This arrangement, governed under the provincial Land Use Policy All Seasons Resort, allows BWSR to purchase Crown land in the Resort area for 10 percent of market value, based on fully serviced land. In return, BWSR is required to provide infrastructure services, including electricity, to the lot line of parcelled out land, before selling that land at market value to private developers. Roughly 25 percent of BWSR's revenues stem from the sale of land to developers, and additional money is earned as a result of the increased number of customers using the Ski Resort (BCOAPO Argument, para. 16). BCOAPO further argues that the

upgrade to the Big White system will have a significant benefit for BWSR. BCOAOP states “Unlike other communities that also have higher than average seasonal populations, development in the Big White area is controlled by one company that buys land at a preferential rate from the provincial government and sells it for a profit” (BCOAPO Argument, para. 17).

BWSR argues that “[T]hrough implementation of the Policy, Big White is helping to promote new investment, economic development and job creation at Big White and in the region. The Policy recognizes the need for investment incentives and to be competitive and meet changing market and business conditions”.

No other comments or arguments, with respect to the nature of the Big White Community were received from Intervenors.

6.1.1 FortisBC Response

FortisBC argues that the evidence does not support the allegation that the upgrade of the transmission facilities will have a direct significant financial benefit to BWSR. “As noted in the evidence, the existing facilities are adequate to meet BWSR’s power supply requirement. The Project does not entail the provision of additional capacity to BWSR to operate its ski business” (FortisBC Reply Argument). FortisBC agrees that BWSR will profit from the continued growth and development of the Big White area which however, contrary to the submission of BCOAPO, FortisBC states that this is by no means solely controlled by BWSR. “The evidence at the Hearing by the Big White Panel shows that the Province of British Columbia, other developers and the land development market, generally, each play a major role in development in the Big White area in addition to BWSR. The development will be encouraged and supported by the upgraded facilities, however, it is submitted that this benefit to BWSR is an indirect economic benefit...” (FortisBC Reply Argument). FortisBC is of the view that there are a great number of other businesses and residential customers who will similarly indirectly benefit from the Project.

6.2 Commission Determination

As stated in 6.1.1, the nature of the Big White community is of interest in this proceeding in terms of the “fit” of the existing Tariff structure. FortisBC stated its opinion that “since Big White has diverse residential and commercial customers similar to many of the communities in our service territory, we are obligated to provide the electrical supply and share the cost between all our ratepayers” (Exhibit B-1, p. 54). An issue therefore, in determining FortisBC’s obligations to serve under an existing Tariff, is to determine if the circumstances and conditions of the Big White community are substantially similar to other communities to which the existing Tariff structure applies.

BWSR, throughout most of its submissions describes Big White as the Big White Community. The residential “core” of Big White is described as 200 permanent residents with accompanying essential services including a school, fire and police facilities, some retail, albeit seasonal, and a year round economic base to provide an appropriate level of employment for a community of that size.

The Big White Community is governed by the Regional District of Kootenay Boundary. This governance structure is of the same form as found in other unincorporated areas. The economy is seasonal. The community impacts surrounding communities and the Okanagan Valley, with Big White reported to be among the top three employers in the Okanagan Valley. In these respects, the Big White Community would seem to be similar to many of the communities in the FortisBC service territory.

On the other hand there are some characteristics which seem to make the Big White Community rather unique and uncharacteristic. The population is reported to swing from the 200 permanent residents with an additional 14,000 seasonal and vacationing residents in high season. This swing would seem to be extreme compared to the several examples cited in the hearing. Even Osoyoos, which BWSR cites in its evidence, as a prime example that has the opposite seasonality issues to Big White, with a booming summer business is reported by FortisBC to have a population swing of 50 percent as compared to Big White at 90 percent. Both communities are described by FortisBC as having an economy driven primarily by tourism and supporting service industry. (Exhibit BCUC IR 2, 7.0)

The property development process under the Policy and a single financial beneficiary of all land development, as land is moved from the CRA through initial development and subsequently sold to other parties for final development, described by BCOAPO as a “special arrangement with the provincial government” (BCOAPO Argument, p. 4), also seems to be uncharacteristic of most other communities. (Other than “communities” formed around the business interests of companies which hold similar MDA’s with the Provincial Government). BWSR reports that 40 percent of the chalets sold are not rented. This implies that 60 percent are available to the rental “pool” to provide additional accommodation to tourists.

FortisBC in Argument suggests the area might be named or classified as an area, a village, a community, a resort or a ski facility. The Commission Panel is not persuaded that Big White should be considered a village or community in the same way as other “communities” in the FortisBC service area. While there may come a day when such a comparison may be made, at this point in time and for the foreseeable future as the “all seasons” strategy develops, Big White might better be described as a comprehensive ski facility or a resort, being developed by Schumann Resorts Limited and/or BWSR under a commercial agreement with the Crown.

The Commission Panel determines that the circumstances and conditions found at Big White are sufficiently unique that it should not be considered a community in the same sense as many other communities in the FortisBC service area.

Accordingly, for purposes of determining the appropriateness of sharing the costs of the Project amongst all ratepayers, special consideration is warranted.

7.0 PROJECT FUNDING

7.1 Revenue Analysis

One of the major related issues addressed in this hearing has been the question of whether there should be some form of contribution required of one or more customers or class of customers in the Big White area to assist in the funding of the costs of the Project.

FortisBC was requested, in a supplementary IR from the Commission, to respond to questions with respect to “. . . the revenue shortfall which would be incurred for FortisBC’s proposed Big White Supply Project system reinforcement project” (Exhibit B-9, Q1).

FortisBC’s response was based on the use of BC Hydro’s methodology for their System Extension Test (“SET”), and was made on “. . . a ‘best efforts’ basis . . . and is intended to give an indication of a possible System Extension Test”.

In summary, FortisBC’s application of the SET methodology to the Project reflected a revenue shortfall of some \$7.1 million over a 10-year period, based on applying the test to all customers [in the Big White area], which in turn indicated a potential average rate impact of 14.8 percent for those customers.

The Commission Panel acknowledges FortisBC’s efforts applying the SET methodology on a ‘best efforts’ basis, and understands the potential limitations of using this approach as a tool in the case of the Project. However, the Commission Panel does view the results of the approach as generally reflecting, directionally, the magnitude and costs of the Project relative to the size and nature of the Big White area customer and usage profiles.

7.2 Applicable Tariff

As discussed below, the Commission Panel has concluded that there does not currently exist in FortisBC's tariff schedules a provision to require a contribution from one or more specific customers, nor is there provision for a special rate rider to be levied against one or more specific customers or customer classes in the Big White area.

7.3 FortisBC Application and Argument

With respect to customers providing contributions toward the funding of the project, FortisBC includes the following positions in its argument:

“The evidence arising at the Hearing does not establish a requirement for customer contribution or special rates paid by the customers in the Big White area alone.

It is the position of FortisBC that this Application and the evidence filed in support of the Application does not warrant or support the Commission making, as a condition of the granting of the CPCN, any requirement as to capital contribution from one or more local customers nor any surcharge, rate rider or other means of FortisBC recovering the capital cost of the Project other than through its existing rate base. The Company's current Electric Tariff does not provide for such capital contributions or surcharges.

If the Commission is of the view that the circumstances may warrant a capital regional rate or surcharge, then another process such as a cost of service analysis or rate design should be undertaken in order to explore and fully analyze the questions or issues arising as to the suitability or fairness of regional rates in regard to the Big White area or other various local areas throughout FortisBC's service territory.

FortisBC's rate structure does not differentiate between regions within its service territory. The introduction of a new tariff structure is a matter of significant complexity. It would require extensive study, research and stakeholder consultation in order to ensure fair and consistent treatment to all customers in the FortisBC service territory. The application of a differential tariff as a result of this application without the necessary process would potentially impact every community in FortisBC's service territory and may well give rise to unintended results and inequities.”

(FortisBC Argument, paras. 28, 29, 32, 37)

7.4 Intervenor Arguments

7.4.1 Big White Ski Resort

BWSR supports the FortisBC position, as outlined in its argument:

“The issue of who pays for the estimated \$20.3 Million in costs for the Project has been raised during the course of the proceeding. It has been suggested that the Resort should bear the costs. The Resort does not agree to pay those costs. Apart from the absence of the Resort's agreement, there are various other reasons why it is inappropriate that the Resort pay these costs.

It has also been suggested that the Big White customers alone pay the costs. This is also inappropriate for various reasons.

Fortis has dealt with the issue of payment of these costs at some length in its Argument at paragraphs 28 to 42. The Resort adopts those submissions” (BWSR argument, paras. 76-78).

The Resort goes on in its argument to list some 14 reasons why, in its view “. . . . the cost of the Big White CPCN project should be rolled into the FortisBC rate base and paid for by all FortisBC customers” (BWSR Argument, paras. 79, 80).

7.4.2 BCOAPO

BCOAPO's argument in support of customer contributions for funding the project include the following statements:

“In BCOAPO's submission, because of the unique nature of the Big White area and based on Schedule #74, there should be some customer contribution towards the costs of this Project.

The upgrade to the Big White system will have a significant benefit for the BWSR. Unlike other communities that also have higher than average seasonal populations, development in the Big White area is controlled by one company that buys land at a preferential rate from the provincial government and sells it for a profit.

In BCOAPO's submission, it is one thing for FortisBC to be responsible to meet the growing load. It is another thing for all ratepayers of the Company to pay for providing a service that has a direct financial benefit to one customer.

BCOAPO therefore submits that because of this special relationship that BWSR has with the provincial government, requiring a contribution from BWSR would not set a precedent that would open up the floodgates for differential rates in the FortisBC service territory."

(BCOAPO Argument, paras. 15, 17, 18, 19)

BCOAPO also argues that "Another alternative to achieving customer contributions is to require the contributions in accordance with Schedule #74".

In support of this suggestion, BCOAPA goes on to argue that "the wording of Schedule #74 does appear to apply to the in this circumstance. The wording states (Sheet 49) that **'the Applicant may be required to make a contribution in addition to the CPC in the following circumstances ...'**" (emphasis in argument).

The Commission Panel notes that in this CPCN proceeding, there is only one applicant, FortisBC. FortisBC does not have specific customers requesting or applying for the upgrade, but rather the need for the project is driven by the need to meet the immediate and projected long-term growth demand in the Big White resort area.

Notwithstanding its argument for contributions from customers in the Big White resort area, BCOAPO goes on to state:

"BCOAPO acknowledges that requiring customer contributions through a special area rate is likely unworkable at this time. BCOAPO also accepts that it is not possible under the current tariffs to require a contribution, at this time, from the current and future developers of the Big White area. FortisBC has acknowledged, however, that it does have the ability to require a contribution from future new customers under Schedule #74" (BCOAPO Argument, para 24).

The Commission Panel notes that a contribution under Schedule 74 could only be required under very limited circumstances for the costs for connections (extensions) to the distribution system which require expenditures in excess of those required for the standards specified in Schedule 74.

7.4.3 Reg Volk/Joe Rich Community

Mr. Volk, in his final submission states that: “We are equally concerned still with Big White’s/FortisBC position that ALL should pay for this upgrade.” He goes on to request that: “Big White and the residents there also be charged the greater portion of the installation costs.”

7.4.4 Alan Wait

Mr. Wait did not address the issue of project funding or customer contributions in his submission.

7.4.5 Norman Gabana

Mr. Gabana, in his submission suggested that “If [FortisBC’s] expectations do not come to pass I think it would be fair for the [C]ommission to impose a special rate to cover the difference between optimism and reality for the duration of the debt that this project will incur.” Mr. Gabana did not suggest who should pay the special rate, nor did he indicate how the “...difference between optimism and reality...” might be quantified.

7.5 FortisBC Reply Argument

In its reply argument, FortisBC expresses the view that one of the remaining two issues requiring resolution in this application is “. . . whether the Commission should impose, as a condition of granting a CPCN, a requirement for a capital contribution from customers in the Big White area toward the construction costs of the Project” (Reply Argument, para. 3).

In addressing the BCOAPO submission with respect to customer contributions, FortisBC replies that:

“...the evidence does not support the allegation that the upgrade of the transmission facilities will have a direct significant financial benefit to BWSR. . . . the existing facilities are adequate to meet BWSR’s power supply requirement. The Project does not entail the provision of additional capacity to BWSR to operate its ski business. BWSR will, of course, profit in the continued growth and development of the Big White area . . . There are a great number of other businesses and residential customers who will similarly indirectly benefit from the Project. The presumption that a customer will derive an economic benefit (either direct or indirect) from the provision of electrical service to another customer is neither a criterion for charging a capital contribution under Rate Schedule 74, nor, FortisBC respectfully submits, a circumstance for which the Commission should require a capital contribution” (Reply Argument, para 18).

7.6 Commission Determination

In arriving at its determination with respect to the funding of the cost of the Big White CNCP project, a number of matters were of particular concern to the Commission Panel:

1. There is significant consensus that there is a need for the Project in order to meet expected customer demand for the 2007-2008 winter season.
2. The Commission Panel has concluded that the circumstances and conditions found at Big White are unique, compared to typical communities/areas/municipalities in FortisBC’s service area, in that the Big White area:
 - (a) Is a development under the direction and control of a single commercial entity operating under a commercial agreement with the government of BC. In addition, the single commercial entity is required to provide infrastructure services, including electricity to the lot line of parceled out land.
 - (b) Is, at this time, almost exclusively a single season resort, albeit with a small permanent base population of some 200 residents;
 - (c) Has a peak population of some 15 thousand overnight seasonal residents/guests during the peak occupancy period in the ski season.

- (d) Has a relatively low annual electricity load factor of 43.5 percent, largely as a result of a very sharp spike in demand during the winter peak ski season and a low demand in the non-peak seasons.
 - (e) Has a relatively high percentage of residences available for tourist rental accommodation.
 - (f) Is currently being served at distribution voltage by a line that was paid for by the original operator of the development, BWSO.
3. FortisBC does not have a tariff structure which specifically provides for a special rate area (as distinct from a specific customer) to be subjected to a rate rider for the collection of costs of meeting an increase in the general demand for services in a discrete area.
 4. The magnitude and cost of this Project providing service to this special area, appears to be somewhat disproportionate to the expected revenue recovery, as indicated by FortisBC's best efforts application of the BC Hydro System Extension Test (SET) methodology.

The Commission Panel concurs with FortisBC's view that “. . . there is a very broad range of issues and considerations to be explored and inquiries undertaken before any regional rate or surcharge is levied against any one particular customer or any one or more class of regional customers.”

The Commission Panel concludes that there does not currently exist in FortisBC's tariff schedules, a provision to require a contribution from one or more specific customers, nor is there provision for a special rate rider to be levied against one or more customers or customer classes in the Big White area, based on the evidence and arguments in this application.

Commission Determination

The Commission Panel approves the CPCN Application for the Project subject to the condition in Section 5.0, and FortisBC is authorized to proceed with the Project, subject to the following directions.

FortisBC is directed to file, within 90 days of this Decision, an application for a rate design for the Project which considers the circumstances and conditions pertaining to this Project. That application will be the subject of a separate proceeding and a determination by the Commission as to how the costs of the Project will be recovered.

FortisBC is directed to establish a deferral account for the Project. The deferral account will accumulate the costs of the Project, together with related AFUDC, to be recovered by FortisBC as determined by the Commission in conjunction with the application for a rate design for the Project.

DATED at the City of Vancouver, in the Province of British Columbia, this 14th day of September 2006.

Original signed by: _____

L.F. Kelsey
Chairperson

Original signed by: _____

A.W. Keith Anderson
Commissioner

Original signed by: _____

R.J. Milbourne
Commissioner

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** C-17-06

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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 Big White Supply Project

BEFORE: L.F. Kelsey, Panel Chair and Commissioner
R.J. Milbourne, Commissioner September 15, 2006
K.A. Anderson, Commissioner

CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

WHEREAS:

- A. On March 9, 2006 FortisBC Inc. ("FortisBC") applied (the "Application") to the British Columbia Utilities Commission (the "Commission") for a Certificate of Public Convenience and Necessity ("CPCN"), pursuant to Sections 45 and 46 of the Utilities Commission Act, for the Big White Supply Project ("the Project"); and
- B. The Commission Panel, by Order No. G-44-06, ordered that an Oral Public Hearing be held to review the Application and set down a regulatory timetable: and
- C. An Oral Public Hearing was held in Kelowna on July 4 and July 5, 2006.

NOW THEREFORE the Commission orders as follows:

- 1. That all directions given in the attached Decision shall be followed by FortisBC Inc.
- 2. The Commission approves a CPCN for FortisBC for Option 1 upon meeting the condition set out in the attached Decision.

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** C-17-06

2

3. Upon Commencement of construction, FortisBC is required to file monthly reports regarding the progress of the project and to advise the Commission of any variances or difficulties that the project may be encountering. If FortisBC decides to alter its schedule FortisBC is to inform the Commission and registered Intervenors to this Hearing.

DATED at the City of Vancouver, in the Province of British Columbia, this 14th day of September 2006.

BY ORDER

Original signed by:

L.F. Kelsey
Panel Chair and Commissioner

Attachment

LIST OF APPEARANCES

P.R. MILLER	Commission Counsel
R. MCDONELL D. BENNETT	FortisBC Inc.
S. KHAN	B.C. Old Age Pensioners' Organization Council of Senior Citizens' Organizations Federated Anti-Poverty Groups of British COLUMBIA End Legislated Poverty Active Support Against Poverty Tenants' Rights Action Coalition
R.W. LUSK, Q.C.	Big White Ski Resort Limited
A. WAIT	Himself
R. VOLK	Joe Rich Ratepayers and Tenants Society

R.W. RERIE	Commission Staff
ALLWEST REPORTING LTD.	Court Reporter

An Application by FortisBC Inc.
for a Certificate of Public Convenience and Necessity
for the Big White Supply Project

EXHIBIT LIST

Exhibit No.	Description
A-1	Letter dated April 13, 2006 and Order No. G-44-06 establishing an Oral Public Hearing process and Regulatory Timetable
A-2	Letter dated May 12, 2006 and Commission Information Request No. 1
A-3	Letter dated June 5, 2006 setting Regulatory Timetable with Order No. G-63-06
A-4	Letter dated June 9, 2006 issuing Commission Information Request No. 2
A-5	Letter dated June 20, 2006 filing a supplemental Information Request No. 1 to FortisBC
B-1	Certificate of Public Convenience and Necessity Application for the Big White Supply Project dated March 9, 2006
B-2	Letter dated April 26, 2006 confirming the schedule of publication of the Regulatory Timetable in local and community newspapers
B-3	Letter dated May 26, 2006 filing responses to Commission Information Request No. 1
B-4	CONFIDENTIAL – Letter dated May 26, 2006 filing Confidential Response to Commission Information Request No. 1, Question 9.1
B-5	Letter dated June 23, 2006 filing response to Intervenors' and Commission Information Request No. 2
B-6	Fax received June 30, 2006 filing biographies of Doug Ruse, Tory Martin, Joyce Martin and Pierre Dufour as Panel of Witness members
B-7	Letter received June 30, 2006 filing an Addendum to the Commission's Information Request No. 1 Q1.4, containing a portion of the data that has been recovered (Exhibit B-3)
B-8	SUBMISSION AT HEARING – Errata Sheet
B-9	SUBMISSION AT HEARING – Response to Supplementary Information Request issued by the Commission to FortisBC on June 20, 2006

Exhibit No.	Description
B-10	SUBMISSION AT HEARING – FortisBC Inc. Opening Statement
B-11	SUBMISSION AT HEARING – Filing responses to Information Requests 1 through 9
B-12	SUBMISSION AT HEARING – Filing responses to Information Request 10
C1-1	SLACK, BURLY JONAS – Fax dated April 23, 2006 requesting Intervenor Status
C1-2	SUBMISSION AT HEARING – Fax dated July 2, 2006 filing letter of comment and support
C2-1	BIG WHITE SKI RESORT LTD. – Letter from Russell W. Lusk, Borden Ladner Gervais, dated April 24, 2006 requesting Intervenor Status
C2-2	Letter dated June 9, 2006 from Russell Lusk filing Information Request No. 1 to FortisBC
C2-3	Letter dated June 23, 2006 from Russell Lusk, of Borden Ladner Gervais LLP, filing notice of Witness Panel
C2-4	Letter dated June 28, 2006 from Russell Lusk, of Borden Ladner Gervais filing Evidence of Big White Ski Resort Ltd.
C2-5	Letter dated June 30, 2006 filing Supplemental Evidence supporting data provided on the number and assessed values of separately titled properties (Exhibit C2-4)
C2-6	SUBMISSION AT HEARING – Errata from the evidence of Paul Mailey
C2-7	SUBMISSION AT HEARING – Opening Statement of Mr. Paul Plocktis
C2-8	SUBMISSION AT HEARING – Package of Photographs
C3-1	KAROW, HANS – Letter dated April 27, 2006 requesting Intervenor Status and filing comments
C4-1	GABANA, NORMAN – Email dated April 28, 2006 requesting Intervenor Status
C4-2	Email dated June 4, 2006 filing Information Request No. 1 to FortisBC

Exhibit No.	Description
C5-1	WAIT, ALAN – Received online web registration dated May 1, 2006 requesting Intervenor Status
C5-2	Information Request No. 1 from Alan Wait received June 9, 2006
C6-1	THE BC OLD AGE PENSIONERS ORGANIZATION ET AL. (BCOAPO) – Letter dated May 5, 2006 requesting Intervenor status from R.J. Gathercole
C6-2	Letter dated June 9, 2006 filing BCOAPO Information Request No. 1
C7-1	JOE RICH RATEPAYERS AND TENANTS SOCIETY – Email dated May 12, 2006 requesting Intervenor status from Reg Volk
C7-2	Email dated June 28, 2006, filing summary of concerns from meeting with FortisBC on April 7, 2005
D-1	SPENCER, JOHN J. AND JOCELYNE M.T. – Email dated May 12, 2006 requesting Interested Party status
D-1-1	Email dated May 24, 2006 requesting withdrawal of Interested Party status