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Utilities Commission

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September 17, 2019

Sent via eFile

FEI BIOGAS PURCHASE AGREEMENT BETWEEN FEI AND THE COV EXHIBIT A2-1

Re: FortisBC Energy Inc. – Application for Acceptance of the Biogas Purchase Agreement Between FortisBC Energy Inc. and the City of Vancouver – Project No. 1598977

British Columbia Utilities Commission staff submit the following document for the record in this proceeding:

Terasen Gas (Vancouver Island) Inc./Terasen Gas (Whistler) Inc.
Letter in response to British Columbia Utilities Commission Order G-53-06
June 2, 2006

Sincerely,

Original signed by:

Patrick Wruck
Commission Secretary

/dc
Attachment



Scott A. Thomson
VP, Finance & Regulatory Affairs and
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June 2, 2006

British Columbia Utilities Commission
Sixth Floor
900 Howe Street
Vancouver, B.C. V6Z 2N3

Attention: Mr. Robert J. Pellatt, Commission Secretary

Dear Sir:

**Re: Terasen Gas (Vancouver Island) Inc. ("TGVI") and
Terasen Gas (Whistler) Inc. ("TGW")
British Columbia Utilities Commission ("BCUC" or the "Commission")
Order No. G-53-06**

On May 19, 2006 the Commission issued its Decision respecting the applications of TGVI and TGW and Order No. G-53-06. By that Decision and Order the Commission finds that the issue of a CPCN for TGW to convert its system to natural gas and for TGVI to construct a natural gas pipeline lateral to connect Whistler with its high pressure transmission system at Squamish will be in the public interest providing that the following conditions precedent are met:

1. TGW files within 10 days of the date of this Order, a statement regarding its willingness to accept a CPCN for the conversion of its propane system to natural gas that includes, as a condition, the mechanism to limit customer exposure to capital cost overruns that is described in Section 6.0 of the Decision that accompanies the Order.
2. TGVI files within 10 days of the date of this Order, a statement regarding its willingness to accept a CPCN for the construction of a natural gas pipeline lateral to connect Whistler and Squamish that includes, as a condition, the mechanism to limit customer exposure to capital cost overruns that is described in Section 6.0 of the Decision that accompanies this Order, together with the calculations required thereunder.
3. The Companies file, within 10 days of the date of this Order, a TSA revised in the following clauses: Contract Demand, Interruptible Tolls, and Termination as described in Section 7.0 of the Decision.
4. The Companies file, within 10 days of the date of this Order, a Contribution Agreement revised in the following manner: the timing and the methodology of the calculation of the amount of the contribution as described in Section 7.0 of the Decision.

Subject to the discussion below respecting the condition relating to the TGVI CPCN, TGW and TGVI hereby advise of their acceptance of the conditions in Order No. G-53-06. TGW and TGVI also note that the decision to proceed with the IP Pipeline project and the conversion of the TGW system will require satisfactory conclusion of current negotiations with Peter Kiewit Sons

June 2, 2006
 British Columbia Utilities Commission
 TGVV & TGVW – BCUC Order No. G-53-06
 Page 2



Co. Ltd. (the Sea to Sky Highway contractor) and final approval of the Companies' Boards of Directors.

TGW Cost Risk Sharing Mechanism (Section 6 of the Decision)

Section 6.0 of the Decision discusses the TGW Development Costs, TGW Conversion Costs and Squamish Meter Station Upgrades. For clarification, the Squamish Meter/Regulating station is part of the TGVV system and therefore is not a direct cost borne by TGW. In effect, however, the marginal cost of the meter station upgrade will be part of the calculation of the Capital Contribution TGW makes to TGVV. Therefore, TGW and TGVV agree to include these costs as part of the cost incentive base estimate as follows:

<u>Cost Item</u>	<u>Base Cost (\$2005)</u>
Development Budget	750,000
Whistler Conversion	5,188,000
Squamish M/R Station	<u>332,200</u>
Total Incentive Base	6,270,200

TGW and TGVV accept a mechanism whereby direct costs allowed into rate base for these items, in aggregate, are capped at 110 percent of the Total Incentive Base of \$6,270,200, adjusting for the average annual rate of inflation provided by the Consumer's Price Index published by Statistics Canada. Similarly, if these items can be completed for less than 90% of the Total Incentive Base, as adjusted for inflation, these savings will accrue to the benefit of TGW and its shareholder.

TGVV IP Pipeline Cost Risk Sharing Mechanism (Section 6 of the Decision)

With respect to the IP Pipeline, in Section 6.0 of the Decision the Commission recognizes that there is considerable cost uncertainty related to the MOT approvals for major stream crossings and related to co-ordination of the construction of the pipeline project with the Sea to Sky Highway upgrade construction. The Commission required as a condition that TGVV accept a risk sharing arrangement as follows:

- Adjusted Average Cost Estimates for each of the Low, Base and High should be determined by removing costs related to the Squamish Meter/Regulating station and the Named Stream Crossings;
- At the completion of the work, a determination as to what percentage of it is in shoulder, ditch or an off highway alignment and those percentages applied to each of the Adjusted Average Cost Estimates to identify an Overall As Built Estimated Incentive Base cost;
- All reductions and increases in the cost of the project (adjusted for inflation but excluding AFUDC) that fall between 90 and 110 percent of the Overall As Built Estimated Incentive Base Cost will be for the account of customers; and

June 2, 2006
British Columbia Utilities Commission
TGVI & TGVW – BCUC Order No. G-53-06
Page 3



- All reductions and increases in the cost of the project (adjusted for inflation but excluding AFUDC) below 90 percent or above 110 percent of the Overall As Built Estimated Incentive Base Cost will be shared 50/50 between (i) customers and (ii) TGW and its shareholder.

TGVI respectfully submits that in developing the risk sharing mechanism described above the Commission has incorrectly concluded that once the costs of the major stream crossings have been removed from the cost estimates, the differences between the three cost scenarios can be clearly defined by differences in pipeline placement alone. Regrettably, this is not the case. In TGVI's CPCN Application (Exhibit B2-1, page 21), the description of the Low, Base and High Cost scenarios was provided:

- A "low cost" scenario whereby a shoulder or ditch alignment is permitted but the construction is well coordinated with S2S, and MOT provides approval to install the pipeline on all new bridges;
- A "base cost" scenario whereby a shoulder or ditch alignment is permitted but the construction is out of sequence with S2S and separate aerial crossings are employed; and
- A "high cost" scenario whereby the construction is out of sequence with S2S and includes unfavourable alignments and/or extensive use of horizontal directional drilling.

As further provided in the TGVI CPCN Application (Exhibit B2-1, page 22) each of the Low, Base and High cost scenarios has been developed using three independent construction cost estimates (for a total of 9 estimates), which in turn were based on different assumptions of pipeline alignment and highway construction coordination as well as variances in unit costs. For example, in the Base Cost scenario the IPPI estimate assumed the majority of the route was ditch alignment while the Chinook estimate assumed close to 100% shoulder alignment. In addition, although pipeline placement is a major determining factor, there are other factors that are dependant on alignment that can also have a significant impact on costs. For example, the costs for pipeline alignment in the shoulder of the highway can vary significantly depending on the need for repaving, which in turn is dependant on the degree of construction co-ordination with the highway contractor.

TGVI accepts the principles of the Commission's proposed risk sharing mechanism, but believes the adjustments based on pipeline alignment alone as set out in the Decision cannot be implemented in a practical manner and could result in unintended consequences. It is not clear how the base numbers would be adjusted for the purposes of calculating the Overall As Built Estimated Incentive Base Cost. The Decision does not provide an objective or formula based method for determining this amount. TGVI therefore proposes clarifications to the IP Pipeline risk sharing arrangement described in the Decision. TGVI believes the following proposed clarifications to the risk sharing mechanism meet the Commission's principles and objectives, and are required to make the mechanism work in practice. The proposed mechanism is discussed more fully in Attachment 1 to this letter and is summarized below:

June 2, 2006
British Columbia Utilities Commission
TGVI & TGVW – BCUC Order No. G-53-06
Page 4



TGVI proposes, and is willing to accept, the mechanism as follows:

- An Adjusted Average Cost Estimates for the Base Case (2005\$) will be determined by removing cost estimate related to the Squamish Meter/Regulating station and the Named Stream Crossings (provided in Table 5 of Attachment 1).
- If the final cost of the IP Pipeline project (adjusted for the inflation but excluding AFUDC) is between 90 and 110 percent of the Adjusted Average Cost Estimate for the Base Case, no further adjustment will be made and the final cost will be allowed into rate base.
- If the final cost of the IP Pipeline project (adjusted for the inflation but excluding AFUDC) is less than 90 percent or greater than 110 percent of the Adjusted Average Cost Estimate for the Base Case, then an Overall As Built Estimated Incentive Base Cost will be determined by revising the Adjusted Average Cost Estimate for the Base Case as follows:
 - Subtract an amount equal to \$66,600 per km of pipeline that is placed in the highway shoulder where repaving costs are avoided; and
 - Add an amount equal to \$42,600 per km of pipeline that requires off-highway alignment (i.e. where shoulder or ditch alignment was not realized).
- All reductions and increases in the cost of the IP pipeline project (adjusted for inflation but excluding AFUDC) that fall between 90 percent and 110 percent of the Overall As Built Estimated Incentive Base Cost will be allowed in rate base. All reductions and increases in the final cost of the IP Pipeline project (adjusted for inflation but excluding AFUDC) below 90% or above 110% of the Overall As Built Estimated Incentive Base Cost will be shared 50/50 between the (i) customers and (ii) TGW and its shareholder.

TGVI believes that this mechanism is consistent with the principles that the Commission Panel established in the Decision. There is no incentive mechanism related to stream crossings, which are largely beyond TGVI's control. In addition TGVI will not receive any incentive for achieving costs within +/- 10% of the embedded base cost estimate. The clarifications the Company is proposing also create a mechanism that provides objective cost adjustments based on the material cost drivers that are in play such that no unintended incentive will be earned or penalty will be assessed. Further, it encourages the Company to pursue the lowest cost approach to the project and protects customers from cost overruns.

The Company is prepared to submit to a further process involving the Commission on these clarifications if that is considered desirable.

June 2, 2006
British Columbia Utilities Commission
TGVI & TGVW – BCUC Order No. G-53-06
Page 5



Transportation Service Agreement

Included in Attachment 2, is an executed transportation service agreement (“TSA”) dated May 31, 2006 between TGVI and TGW that replaces in its entirety the agreement filed on March 31, 2006 (part of Exhibit B1-33). The terms of this May 31, 2006 TSA implement the revisions described in Section 7.0 of the Decision and satisfy the condition in Order No. G-53-06 respecting the TSA. The May 31, 2006 TSA has been revised from the March 31, 2006 version as follows:

- Article 2.1 - Definitions for “Demand Toll” and “Interruptible Toll” replace the definition of “Unit Toll”
- Article 3.3 has been revised to reflect the Commission’s instruction on page 66 of the Decision regarding the termination clause
- Article 4.1 and Article 5.1 have been revised to reflect the Commission’s instruction in section 7.2.4 of the Decision regarding Contract Demand and toll methodology
- Article 5.2, 5.3 and 5.4 have been revised to reflect the changes to the use of a demand charge and Interruptible Toll in lieu of a Unit Toll.

Capital Contribution Agreement

Included in Attachment 3, is an executed Capital Contribution Agreement dated May 31, 2006 between TGVI and TGW that replaces in its entirety the agreement filed on March 31, 2006 (part of Exhibit B1-33). The terms of this May 31, 2006 Capital Contribution Agreement implement the revisions described in Section 7.0 of the Decision and satisfy the condition in Order No. G-53-06 respecting the Capital Contribution Agreement. The May 31, 2006 Capital Contribution Agreement has been revised to reflect the timing of the calculation and the methodology of the calculation to determine the amount of the contribution.

All of which is respectfully submitted.

Sincerely,

**TERASEN GAS (VANCOUVER ISLAND) INC., and
TERASEN GAS (WHISTLER) INC.**

Original signed

Scott A. Thomson

Attachments