

September 16, 2008

**Via Email**  
**Original via Courier**

Ms. Erica M. Hamilton  
Commission Secretary  
BC Utilities Commission  
Sixth Floor, 900 Howe Street, Box 250  
Vancouver, BC V6Z 2N3

Dear Ms. Hamilton:

***Re: An Application for the 2009-2010 Capital Expenditure Plan Project No. 3698519***

Please find enclosed FortisBC Inc.'s Final Submission with regard to the above noted project. Twenty copies will be couriered to the Commission.

Sincerely,



David Bennett  
Vice President, Regulatory Affairs  
and General Counsel

cc: Registered Intervenors

## FINAL SUBMISSION OF FORTISBC INC.

### A. INTRODUCTION

1. On June 27, 2008, FortisBC Inc. (“FortisBC” or the “Company”) filed its 2009-2010 Capital Expenditure Plan (“2009/10 Capital Plan”, the “Application”), (Exhibit B-1) and 2009 System Development Plan Update (“2009 SDP Update”), (Exhibit B-1-1) with the British Columbia Utilities Commission (“Commission” or “BCUC”).
2. The Commission, by Order No. G-109-08 dated July 9, 2008, established a written public hearing process for the Application that included a Workshop by FortisBC on August 12, 2008 in Kelowna.
3. On August 7, 2008, FortisBC filed its response to Commission Information Request No. 1 (Exhibit B-2) and on September 11, 2008 the Company filed responses to Commission Information Request No. 2 and Intervenor Information Request No.1 (Exhibit B-4).

### B. 2009-2010 CAPITAL EXPENDITURE PLAN

4. Table 1.1 of the Application summarizes FortisBC’s level of planned 2009 and 2010 capital expenditures (Exhibit B-1, page 6)

**Table 1.1**  
**2009/10 Capital Expenditure Plan**

		<b>2009</b>	<b>2010</b>	<b>Future</b>
		<b>Expenditures</b>	<b>Expenditures</b>	<b>Expenditures</b>
		<b>(\$millions)</b>		
1	Generation	21.9	22.6	24.7
2	Transmission and Stations	96.1	88.7	3.0
3	Distribution	28.2	33.8	
4	Telecom, SCADA, Protection and Control	2.2	2.2	1.6
5	Demand Side Management	2.5	2.7	
6	General Plant	27.8	31.2	
7	<b>TOTAL Capital</b>	<b>178.8</b>	<b>181.1</b>	<b>29.3</b>
8	Annual Operating Savings	0.2	0.72	

5. The Company states in its response to BCUC Information Request No. 2, Q112.2.1 (Exhibit B-4) that the majority of projects included in the 2009/10 Capital Plan are necessary to provide service; to ensure public and employee safety; and to provide a reliable supply to the Company’s growing customer base, and that \$236.9 million of the \$359.9 million or two-thirds of the proposed projects have either been previously approved or are the subject of existing or future CPCN applications and will be tested in separate regulatory processes. Approximately \$123.2 million or over one-half of the CPCN expenditures relate to the Okanagan Transmission Reinforcement (“OTR”) project and a further \$36.7 million relate to the Advanced Metering Infrastructure (“AMI”) project.
6. The level of expenditures by status of approval is summarized in Table 1.4 of Exhibit B-1 at page 15, which is reproduced below.

**Table 1.4  
2009/10 Capital Plan Summary**

		<b>2009</b>	<b>2010</b>	<b>Total</b>
		<b>(\$millions)</b>		
1	Previously Approved	31.0	18.1	49.1
2	CPCN Submitted	81.8	78.1	159.9
3	CPCN to be Submitted	7.7	20.1	27.9
4	<b>Subtotal</b>	<b>120.5</b>	<b>116.4</b>	<b>236.9</b>
5	Remainder	58.3	64.7	123.0
6	<b>Total</b>	<b>178.8</b>	<b>181.1</b>	<b>359.9</b>

7. The capital budget expenditures for which FortisBC is seeking approval in the Application total \$58.3 million for 2009 and \$64.7 million for 2010, as well as future expenditures of \$17.3 million and \$3.0 million related to the Corra Linn Unit 2 Life Extension and Huth Substation Upgrade projects (Exhibit B-1, Tables 2.1, page 20, and 3.1, page 42). The remainder of the future expenditures shown in Table 1.1 are for projects previously approved by the Commission.

8. The Company’s response to BCUC Information Request No. 1 Q8.1 (Exhibit B-2) states that project costs for 2009 and 2010 were escalated based on its own experience, and on discussions with BC Hydro, which commissioned the MMK Consulting report “BC Hydro Construction Cost Trends and Outlook, Spring 2008” contained in Appendix 4 of Exhibit B-1.

**(a) Generation Projects**

9. FortisBC is requesting approval for the Corra Linn Unit 2 Life Extension project, which is the last unit in its ongoing Upgrade and Life Extension (“ULE”) Program. This is a multi-year project with initial expenditures occurring in 2009 and project completion in 2012, and an estimated cost of \$22.7 million (Exhibit B-1, pages 23-24).
10. The Company is also requesting approval for an All Plants Spare Unit Transformer at a cost of \$1.8 million to acquire a spare 25 MVA transformer capable of replacing any of the eleven unit transformers at FortisBC’s Kootenay River Plants (Exhibit B-1 page 28). Its response to BCUC Information Request No. 2 Q117.1 (Exhibit B-4, pages 38-39) states that the 2006 loss of the Lower Bonnington Unit 2 step-up transformer alone resulted in outage costs, including replacement energy costs, in excess of \$1.9 million. The age and condition of the eleven transformers is summarized in the Company’s response to BCUC Information Request No. 2, Table A117.4 (Exhibit B-4, pages 41-43).
11. In addition to the Generating Plants Area Lighting Project (\$0.8 million), the Application describes necessary expenditures in the amounts of \$2.1 million and \$1.5 million respectively in 2009 and 2010 for Generation Minor Projects (Exhibit B-1, pages 30 – 39).

**(b) Transmission and Stations**

12. Capital expenditures for Transmission and Stations in 2009 will include \$10.6 million to complete the Ellison, Black Mountain, Naramata and Ootischenia Substation projects previously approved by the Commission (Exhibit B-1, Table 3.1 page 42, lines 1-4 and 6). A CPCN Application for the OTR project (\$65.3 million in 2009 and \$57.9 million in 2010) is awaiting Commission approval.
13. FortisBC will file a CPCN Application for the Benvoulin Substation project at a total cost of \$17.7 million, including \$2.9 million in 2009 and \$13.6 million in 2010.

14. The Company is requesting approval in this Application of Transmission and Stations Capital Projects in the amount of \$17.3 million in 2009 and \$17.2 million in 2010 for a total of \$34.5 million (Exhibit B-1, pages 42 - 43, Table 3.1, lines 8 – 13 and line 39). \$5.6 million and \$4.7 million respectively in these years are necessary to meet continuing load growth within the service territory due to six projects: the Recreation Capacity Increase, Kelowna Distribution Capacity Requirements, Tarrys Capacity Increase, Huth Substation Upgrade, 30 Line Conversion and Static var Compensators projects (Exhibit B-1, page 42, Table 3.1, lines 8 - 13).
15. The majority of the Transmission and Stations projects for which approval is requested, \$11.7 million and \$12.5 million in 2009 and 2010 respectively, are required for the sustainment of FortisBC's existing transmission and substation infrastructure (Exhibit B-1, page 43, Table 3.1, line 39).

**(c) Distribution**

16. The Application requests approval of \$12.2 million in 2009 and \$15.4 million in 2010 for Distribution Growth Projects (Exhibit B-1, page 78, Table 4.1, line 11).
17. Continuing load growth in the greater Kelowna area is forecast to place an additional load of 100 MW on the Kelowna distribution system by 2012 (Exhibit B-2, response to BCUC Information Request No. 1 Q30.1).
18. The Application also requests approval of \$10.1 million in 2009 and \$10.5 million in 2010 for Distribution Sustaining Projects (Exhibit B-1, page 78, Table 4.1, lines 14 - 22), excluding previously approved projects and the Copper Conductor Replacement ("CCR") project.
19. The CCR project is the subject of a CPCN Application filed on June 27, 2008. This project involves the replacement of FortisBC's copper distribution conductor that is more than 50 years old (Exhibit B-2, response to BCUC Information Request No. 1 Q6.2), which has now become a safety concern as a result of age and condition. Planned expenditures in 2009 and 2010 are \$4.8 million and \$6.6 million respectively.
20. The majority of the sustaining projects for which approval is requested are either based on average historical costs adjusted for inflation (Condition Assessment, Right-of-Way

Reclamation, Small Planned Capital, Forced Upgrades and Line Moves, and Urgent Repairs) or are the result of equipment condition assessments (Line Rehabilitation and Line Rebuilds), as identified in the Project descriptions on pages 86-97 of the Application (Exhibit B-1). The method of estimating based on historical costs is described in response to BCUC Information Request No. 2 Q102.3 (Exhibit B-4).

**(d) Telecommunications, SCADA, and Protection and Control Projects**

21. FortisBC requests approval for three projects in this category: Harmonic Remediation, Protection Upgrades including protection and fault locating upgrades and utility systems compliance, and Communication Upgrades at a combined cost of \$0.9 and \$0.7 million respectively in 2009 and 2010 (Exhibit B-1, page 101, Table 5.1, line 10). These are multi-year projects that will enhance the protection, control and monitoring of the FortisBC power system as well as operations and business communications requirements.
22. The Distribution Substation Automation Program approved by Commission Order C-11-07 will see expenditures of \$1.3 million in 2009 and \$1.4 million in 2010.

**(e) Demand Side Management**

23. Demand Side Management (“DSM”) expenditures of \$3.7 million in 2009 and \$4.0 million in 2010 (\$2.6 million and \$2.8 million respectively, net of tax) are planned for these years (Exhibit B-1-2, page 107, Table 6.1). The DSM initiatives that comprise the FortisBC PowerSense program provide information, co-fund engineering studies and provide incentives towards energy conservation measures undertaken by customers.
24. DSM is becoming increasingly important in meeting the government’s energy objectives as set out in the Utilities Commission Act. Expenditures in 2009 and 2010 are planned to exceed 2008 spending. This decision reflects the major shift in provincial policy that places demand side management as the priority resource to meet growing electricity demand in BC. The 2007 BC Energy Plan will require utilities to increase the acquisition rate of DSM resources (Exhibit B-1-2, page 107, lines 3-7). FortisBC is preparing a long-term Strategic DSM Plan that will build upon the programs outlined in 2009 and 2010, which are a mix of sustained growth in existing programs, customer education and new program development.

25. The Company's DSM Advisory Committee is comprised of customer and industry representatives (Exhibit B-4, response to OEIA Information Request No. 1 Q8.3).
26. FortisBC's DSM Program supports the Provincial Government's energy objectives, including the objective: (b) to encourage public utilities to pursue demand-side measures. These projects also support Policy Actions No. 1, 2, and 3 contained in the 2007 BC Energy Plan:
  - (1) Set ambitious conservation targets to acquire 50 percent incremental resource needs through conservation by 2020;
  - (2) Ensure a coordinated approach to conservation and efficiency is actively pursued in British Columbia; and
  - (3) Encourage utilities to pursue cost effective and competitive demand side management opportunities.(Exhibit B-1, page 106, lines 16-25)
27. The Company's response to BCOAPO Information Request No. 1 Q22.1 (Exhibit B-4) confirms that its DSM programs are cost-effective.

**(f) General Plant**

28. General Plant consists of Vehicles, Metering, Information Systems, Telecommunications, Buildings, Furniture and Fixtures, and Tools and Equipment. FortisBC requests approval for expenditures of \$11.3 million in 2009 and \$11.0 million in 2010 (Exhibit B-1, page 116, Table 7.1, lines 1 and 3 – 8). The capital budget also includes expenditures of \$16.5 million and \$20.2 million in 2009 and 2010 respectively under the AMI project. A CPCN Application for the AMI project was filed on December 19, 2007. A Commission decision is pending.
29. Planned expenditures for Information Systems comprise \$5.2 million in 2009 and \$4.5 million in 2010 (Exhibit B-1, page 116, Table 7.1, line 4). The Company's Information Systems focus on its base of core applications, including SAP (Financial, Human Resources, Project Management and Materials Management), CIS (Customer Information System), Java Based Internet/Intranet, AM/FM (Asset and Facilities Management),

SCADA (System Control and Data Acquisition) and Cascade (Plant Management), which are used to support the Company's business and technology requirements.

30. Enhancements and interfaces to the Company's core systems are undertaken to improve productivity and data integrity by minimizing manual input into multiple systems, thereby reducing the chances of human error. Upgrades are done to enhance customer service or maintain vendor support if support is discontinued on outdated technology (and then only when support is no longer available and systems and/or data are considered to be at risk) (Exhibit B-4, response to BCUC Information Request No. 2 Q109.1.2), as well as for compatibility with the larger business technological population. An example is the Distribution Design Software Solution project, which is required to improve FortisBC's ability and efficiency in delivering design packages to customers (Exhibit B-4, response to BCUC Information Request No. 2 Q107.2).
31. Expenditures on Buildings projects are related to FortisBC's fifteen office, shop, warehouse and yard sites ranging in age from 5 to 85 years (Exhibit B-1, page 128, line 12). Proposed expenditures of \$3.2 million in 2009 and \$2.0 million in 2010 are primarily required to meet health, safety and environmental standards at these sites.
32. Vehicles expenditures are planned to be levelized over the long term. As shown in the Company's response to BCOAPO Information Request No. 1, Q26.1 (Exhibit B-4), combined expenditures of \$4.2 million in 2009 and 2010 are lower than the combined expenditures of \$7.2 million in 2007 and 2008.

**C. RATE MITIGATION**

33. As stated in the Company's response to BCUC Information Request No. 2 Q121.2 (Exhibit B-4), the majority of projects included in the 2009/10 Capital Plan are necessary to provide service; to ensure public and employee safety; and to provide a reliable supply to the Company's growing customer base. The response fully describes FortisBC's efforts to levelize annual capital expenditures and to mitigate associated rate impacts. The 2005 System Development Plan provided the basis for cost mitigation as described in that response, and FortisBC continues to strive to balance customer needs with necessary capital expenditures.



34. In addition to its previous efforts to levelize capital expenditures, in response to the Commission’s request, the Company agreed to consider revisiting its decision with regard to the timing of \$400,000 in 2010 for preliminary work for the Kelowna Static var Compensators (“SVC”) Project. FortisBC states (Exhibit B-4, response to BCUC Information Request No. 2, Q151.7), that “double contingency reliability is the appropriate planning criteria for evaluation of this project, however the exposure to N-2 events is, subject to actual load growth, limited in the near term and for that reason is prepared to defer the initial \$400,000 expenditure planned for 2010” and to determine the timing of the SVC Project as part of its next System Development Plan.
35. The Company also agreed in the same response to consider removing from the capital budget the forecast expenditure for its Aesthetic and Environmental Upgrade Program of \$100,000 in each year. FortisBC does not propose to cancel the Program and therefore requests that actual expenditures under the Program be included in rate base.
36. FortisBC notes that increasing customer and load growth will also serve to reduce rate increases (Exhibit B-4, response to IMEU Information Request No. 1 Q3.1 and Q3.2).

**D. APPROVALS UNDER THE APPLICATION**

37. In its Decision issued concurrently with Order G-52-05, the Commission stated its general agreement, subject to the Commission’s determination for individual projects, with FortisBC’s proposed criteria (set out below) for determining whether a capital project should be the subject of a CPCN Application:
  - The total project cost is \$20 million or greater; or
  - The project is likely to generate significant public concerns; or
  - FortisBC believes for any reason that a CPCN application should proceed; or
  - After presentation of a Capital Plan to FortisBC’s stakeholders, a credible majority of those stakeholders express a desire for a CPCN application.
38. As stated in paragraph 13 and pursuant to Commission Order G-147-06, the Company will file a CPCN application for the Benvoulin Substation Project. The Company submits that

all other projects with the exception of those previously approved or for which a Commission decision is pending, should be approved in this Application.

39. The Commission in Information Request No. 1 Q15.1 (Exhibit A-2) asked whether a CPCN Application would be filed for the Corra Linn Unit 2 Life Extension Project, the cost of which is \$22.7 million.
40. CPCN applications have been approved for ULE projects up to 2005, at which time the Commission at page 62 of its Reasons for Decision issued concurrently with Order G-52-05 invited the Company to withdraw its application for the Lower Bonnington Unit 1 ULE project, demonstrating that the ULE Program as a whole is in the public interest.
41. Further, the cost threshold for the requirement of a CPCN of \$20.0 million was established in 2005, and has remained at that level while project costs have been subject to escalating factors (Exhibit B-2, response to BCUC Information Request No. 1 Q15.1).
42. The Company stated during its presentation on Generation projects at the August 12, 2008 Workshop that the Corra Linn Unit 2 project includes \$3.7 million for “Plant Completion” tasks that are undertaken once all of the plant’s generating units have been refurbished but which have in other cases been identified as a separate project. Plant completion work for the South Slocan Plant, for example, is being undertaken in a separate project as shown in Table 2.1 of the Application (Exhibit B-1, page 20). The cost of the Corra Linn Unit 2 Life Extension at \$22.7 million, without the Plant Completion work, would be reduced to \$19.0 million, which is lower than the CPCN threshold.
43. The Commission has discretion to not only require a CPCN application for projects that do not meet the recommended criteria listed above, but to approve a project that otherwise meets one or more of the criteria, without a CPCN application. FortisBC submits that a CPCN application is not required for the Corra Linn Unit 2 Upgrade Project and that the costs associated with a CPCN process would not be prudent.
44. A number of clarifications to FortisBC’s accounting policy and practice were made in response to Information Requests. The Company confirms that, except as provided for by Commission accounting variance Orders, the Company follows the accounting procedures

in the BCUC’s “Uniform System of Accounts for Electric Utilities (Exhibit B-4, response to BCUC Information Request No. 2, Q114.1).

**E. 2009 SYSTEM DEVELOPMENT PLAN UPDATE**

45. FortisBC’s 2005-2024 System Development Plan (“2005 SDP”) identified necessary reinforcements in the Company’s bulk transmission system, regional transmission and distribution systems, telecommunication and SCADA networks, and protection systems. Subsequent updates in 2006 and 2007, as well as the 2009 SDP Update have continually updated the 2005 SDP in response to changes in load forecast, equipment condition assessments and other emerging issues.
46. The load forecast was developed in the first quarter of 2008 and continues to show a high level of load growth in the north and south Okanagan areas, with average winter growth rates exceeding five percent and three percent respectively over the next five years. The Kootenay and Boundary areas continue to experience modest growth with an average annual growth rate of less than two percent over the next five years (Exhibit B-1-1, 2009 SDP Update, page 3, lines 19-23).
47. The load forecasts are based on known and proposed residential and commercial development. Financial indicators suggest that in the event of slowing economic growth, the impact may be less in British Columbia than other parts of Canada (Exhibit B-4, response to BCUC Information Request No. 2, Q135.1).
48. Expenditures in the 2009-2010 timeframe increased from \$150.4 million in the 2007 SDP Update to \$251.1 million. The changes are primarily attributable to the following factors (Exhibit B-2, response to BCUC Information Request No. 1 Q98.1):

**Table A98.1  
Cost Increase Allocation**

<b>Category</b>	<b>(\$million)</b>
Inflation	30.1
AFUDC	4.9
Project Scope Changes	32.1
More Accurate Estimates	11.8
Schedule changes	(4.2)
Added Projects	33.1
Cancelled Projects	(7.0)
<b>Total</b>	<b>100.8</b>

49. The execution of the projects listed in the 2009/10 Capital Plan will complete all of the major projects outlined in the 2005 SDP with the exception a small number that have been deferred or cancelled, for reasons explained in the 2009 SDP Update (Exhibit B-1-1, pages 4 – 6). FortisBC intends to file a new long term system plan in 2010.

**F. CONCLUSION**

50. The Company submits that the 2009/10 Capital Plan meets the requirements of the Utilities Commission Act, and, as set out in the 2009/10 Capital Plan the projects support the BC Government Energy Objects as defined in the Utilities Commission Act and Policy Actions as set out in the 2007 Energy Plan, and that all are in the public interest.
51. Accordingly, FortisBC requests that the Application for its 2009-2010 Capital Expenditure Plan be approved as submitted.

ALL OF WHICH IS RESPECTFULLY SUBMITTED



David Bennett  
Vice President, Regulatory and General Counsel