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June 18, 2015

Via Email
Original via Mail

British Columbia Public Interest Advocacy Centre
Suite 209 – 1090 West Pender Street
Vancouver, B.C. V6E 2N7

Attention: Ms. Tannis Braithwaite, Executive Director

Dear Ms. Braithwaite:

Re: FortisBC Energy Inc. (FEI)

Application for a Certificate of Public Convenience and Necessity (CPCN) for Approval of the Lower Mainland Intermediate Pressure (IP) System Upgrade (LMIPSU) Projects (the Application)

Response to the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre *et al.* (BCOAPO) Information Request (IR) No. 2

On December 19, 2014, FEI filed the Application referenced above. In accordance with Exhibit A-7 setting out the Regulatory Timetable for the review of the Application, FEI respectfully submits the attached response to BCOAPO IR No. 2.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachments

cc: Commission Secretary
Registered Parties (e-mail only)



FortisBC Energy Inc. (FEI or the Company) Application for a Certificate of Public Convenience and Necessity (CPCN) for Approval of the Lower Mainland Intermediate Pressure (IP) System Upgrade (LMIPSU) Projects (the Application)	Submission Date: June 18, 2015
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1 **1. APRIL 30 EVIDENCE UPDATE**

2 **Reference: Exhibit B-1-6 April 30 Evidence Update, pg. 16**

3 At page 16 FEI states *“However, during review of the original Alternative 4 cost estimate,*
4 *for the new proposed Lougheed Highway alignment, the allowance for contractors’*
5 *overhead and markup was determined to be too low. Therefore, the revised Alternative 4*
6 *estimate has been amended to reflect the appropriate estimated amount for contractors’*
7 *overhead and markup.”*

8 1.1 What is the effect of this change in terms of additional dollars for the projects?

9

10 **Response:**

11 Please refer to the response to CEC IR 2.21.1.

12

13

14

15 1.2 Please explain how it was determined that the overhead and markup was too low

16

17 **Response:**

18 Please refer to the response to CEC IR 2.21.1.

19

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22 1.3 Please provide the additional information that caused this change to be made.

23

24 **Response:**

25 Please refer to the response to CEC IR 2.21.1.

26

27



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1 **Reference: Exhibit B-1-6, Evidence Update, p.30; Exhibit B-1-8, Appendix B-1,**
2 **Table 15**

3 FEI states that it “will follow best management practices and mitigation measures during
4 construction” and makes reference to the EOA report and the best management
5 practices that were identified in Table 15.

6 1.4 Does FEI intend to follow all of the best management practices identified in Table
7 15 of the EOA report? If not, please identify which it intends to follow and which
8 it will not and why it will not.

9
10 **Response:**

11 Yes, FEI intends to follow all of the best management practices (BMPs) identified in Table 15 of
12 the EOA report where and when each BMP is applicable and appropriate.

13
14

15 **Reference: Exhibit B-1-6, Evidence Update, p. 39; Exhibit B-1-8, Appendix D-1,**
16 **First Nations Engagement**

17 FEI states that the Company has provided updates to First Nations who had previously
18 expressed interest in the Projects and at the time of filing it had not received any
19 feedback from those First Nations regarding the changes.

20 1.5 Why did the Company choose to not also provide the update to all First Nations
21 who may be impacted by the project instead of only those who had previously
22 expressed interest in the Projects?

23
24 **Response:**

25 FEI has long-standing working relationships with First Nations throughout British Columbia. Its
26 experience has shown that First Nations generally like to be contacted at the outset of project
27 development and will indicate a level of interest to FEI based on their own resources and
28 interests, which FEI takes into account during the engagement process. In order to respect
29 First Nations’ administrative capacity, the Company chose to provide the update only to those
30 First Nations who had previously expressed an interest in the Project.

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1
2 1.6 Has the Company received any feedback now, since at the time of filing, it had
3 only been approximately one week since it had emailed the First Nations with the
4 update on the project?

5
6 **Response:**

7 FEI was contacted by the Lands Manager for Kwikwetlem First Nation (KFN), who is new to her
8 role and asked to be briefed on the Project. Meetings were held on June 12 and 16, 2015, with
9 collaborative discussions focused on how to provide greater opportunities for the KFN's
10 involvement in archaeological and environmental processes and programs related to the
11 Projects. FEI expects further feedback from First Nations as discussions and collaboration
12 progress.

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1 **2. EXHIBIT B-5 BCOAPO IR No. 1 RESPONSES**

2 **Reference: Exhibit B-5, IR 5.2 (pg.26)**

3 2.1 Please explain how the expected accuracy of the costs estimate (noted as +30/-
4 20%) is derived? Specifically why is the variance/variability so large?

5
6 **Response:**

7 The expected accuracy range of the Coquitlam Gate IP Project AACE Class 3 cost estimate is
8 derived from Table 1 in AACE International Recommended Practice No. 18R-97: Cost Estimate
9 Classification System – As Applied in Engineering, Procurement, and Construction for the
10 Process Industries (Rev. November 29, 2011). Table 1 illustrates the expected low and high
11 accuracy ranges, and typical variation in low and high ranges, that are associated with cost
12 estimates for the process industry (including the utility industry). The estimate accuracy range
13 for a particular class of estimate depends on the degree of project definition, the technical and
14 project deliverables and the risks associated with the project at the time the estimate is
15 prepared; the accuracy range for an AACE Class 3 cost estimate is expected to fall into the
16 following ranges:

- 17 • Low range: -10% to -20%;
18 • High range: +10% to + 30%

19 It should be noted that the current project estimates are not based on firm bids received from
20 vendors or contractors for materials or services. Consistent with past practice, FEI does not
21 issue competitive tenders until receipt of Commission approval to proceed with a project.
22 Instead, budgetary estimates have been developed using the professional judgment of FEI and
23 its consultants and are based on cost information from previous similar projects. The resulting
24 cost uncertainty, combined with the urban nature of the Project location and risk profile, are
25 reflected in the expected accuracy range of -20% to +30%. This is further justified by the cost
26 risk analysis and quantitative risk assessment model results in Appendix A-27 of the Application
27 which calculated a P10/P90 confidence level accuracy range for the Project cost estimate of
28 approximately -16% to +22%.

29
30

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32 2.2 Please also explain why the estimate of potential cost variance is not
33 asymmetrical? That is, why does FEI consider it more likely the project costs will
34 be more than forecast and not less? Does this expected variance include or



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1 exclude contingency costs already included in the estimates provided in this
2 Application?

3
4 **Response:**

5 In responding to this IR, FEI assumes that BCOAPO intended to question why the estimate of
6 potential cost variance is not “symmetrical” rather than “asymmetrical”.

7 The expected cost estimate accuracy range (or estimate of potential cost variance) reflects the
8 typical variation in low and high ranges after the application of contingency (determined at P50
9 level of confidence), and it is driven by the level of development of the project scope information
10 available at the time of the estimate. This is further addressed in the response to BCOAPO IR
11 2.2.1.

12 In terms of cost estimate quantitative risk analysis, the estimate accuracy high range reflects the
13 estimate upper bound at P90/P10 level of confidence (probability of underrun/overrun
14 respectively), and the estimate accuracy low range reflects the estimate lower bound at
15 P10/P90 level of confidence (probability of underrun/overrun respectively). The P50 is the value
16 that occurs most frequently (mode) in the statistical cost risk analysis and is referred to as the
17 estimated amount (i.e. there is a 50% chance of exceeding, and a 50% chance of not exceeding
18 this value); the estimated amount represents the base cost estimate plus contingency.
19 However, this analysis does not result in a symmetrical distribution of high range values
20 (P90/P10) and low range values (P10/P90) around the mode (P50); unidentified project costs
21 have a tendency to skew towards the high range. Therefore, the expected cost estimate
22 accuracy range is typically asymmetrical and skewed towards the high range e.g. -20% to
23 +30%. This is further evidenced by the cost risk analysis and quantitative risk assessment
24 model results in Appendix A-27 of the Application which calculated a lower bound (P10/P90)
25 and upper bound (P90/P10) accuracy range for the Project cost estimate (base cost estimate
26 plus contingency) of approximately -16% to + 22%.

27
28

29 **Reference: Exhibit B-5, IR 5.3 (pg.27)**

30 No incentives or specific cost containment proposals were provided in response to the
31 interrogatory. The projects appear to be forecast to be completed prior to the Utility's
32 next full rate rebasing. Upon rebasing rates the Applicant will, in the normal course,
33 have rates calculated with the additional rate base incurred by these projects. The



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1 response to this and other interrogatories indicate that FEI expects all costs to be
2 included in future rates.

3 2.3 Please explain why under these circumstances the BCUC should not order that a
4 variance account be established to capture differences in projects costs and so
5 as to have those costs subject to a review prior to their inclusion in rates?
6

7 **Response:**

8 Prudently incurred costs are recoverable in rates. The creation of an account to capture
9 variances for the purpose described in the question is contrary to the presumption of
10 prudence. That is, it assumes that any amount over the forecast costs for the Projects is
11 sufficient to rebut the presumption of prudence and trigger a prudency review. FEI does not
12 accept this premise. There can be any number of reasons why costs vary from initial forecasts.

13 The Company will be filing regular progress reports with the Commission so that the
14 Commission can remain apprised of the progress of the Projects.

15 Further, the Company considers the Projects to be integrity and safety projects and as such
16 they should proceed in a timely manner. The timing of the Projects is not related to the timing of
17 the next rate rebalancing.

18
19

20
21 2.4 What is FEI's proposal for a prudence review of the costs incurred for this major
22 project being undertaken during its PBR period?
23

24 **Response:**

25 FEI does not believe a proposal as referenced in the question is necessary. The Commission
26 has the ability to oversee the progress of the Projects and has tools, such as a prudency review
27 if necessary, to examine costs incurred for the Projects. The fact that FEI is in a PBR period
28 does not change this.

29
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1 **Reference: Exhibit B-5, IR 5.5 (pg.28)**

2 2.5 Please provide the proposed form of periodic reports discussed in response to
3 this interrogatory. Please explain what process, if any, FEI anticipates the
4 Commission to engage in with interested parties to consider these reports.

5

6 **Response:**

7 In the response to BCOAPO IR 1.5.5, FEI indicated that it anticipates providing some form of
8 periodic report to the Commission as determined by the Commission. The Commission retains
9 oversight of the Projects, and FEI has the responsibility for ongoing management of the
10 execution of the Projects and will report as directed. FEI normally files progress reports directly
11 with the Commission, certain components of which are filed on a confidential basis, such as
12 project budget details. As the Commission's usual practice as FEI understands it, the
13 Commission does not engage with interested parties to consider these reports; however, if the
14 Commission felt it necessary and appropriate, FEI could copy registered interveners on the non-
15 confidential portion of the progress reports when filed.



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1 **3. EXHIBIT B-4 BCUC IR No.1 RESPONSES**

2 **Reference: B-4, IR 1.1.9 (pg.14)**

3 The purpose of this interrogatory is to understand the relative portion of maintenance
 4 costs that are expended on the Coquitlam line relative to FEI's overall maintenance
 5 costs for IP pipelines

6 3.1 The table attached as a response is labelled as showing incremental inspections
 7 and leak survey and repairs. For each of the years shown please provide the
 8 total budget for each of the categories (for all plant not just the NPS 20 Coquitlam
 9 line) if these are different?

10
 11 **Response:**

12 FEI does not budget maintenance activities on an asset-specific basis. Maintenance budgets
 13 are typically created at a system-wide aggregate level for various activity categories (i.e. leak
 14 repairs) based on historical maintenance expenditure experience in previous years and allowing
 15 for any known or unusual one-time adjustments, either additions or deletions.

16 The table below provides the actual expenditures for all IP lines within FEI's system for the
 17 years requested.

Year	All IP Inspections (Excavations), \$	All IP Leak Repairs, \$	All IP Leak Surveys, \$	All IP Routine ¹ O&M, \$	All IP Total O&M, \$
2010	0	103,406	40,179	744,495	888,080
2011	1,039,797	233,484	55,848	232,674	1,561,803
2012	157,156	110,411	33,014	361,221	661,802
2013	463,000	788,507	48,652	585,678	1,885,837
2014	1,176,547	246,717	91,060	641,278	2,155,602

18
 19 FEI notes that IP condition monitoring inspections (excavations) are not conducted as typical
 20 practice, and as such these expenditures were not forecast or budgeted. Instead, FEI
 21 reallocated budget from transmission-pressure excavations which could be deferred over a
 22 short-to-medium term.

¹ Included in routine O&M is: pipeline patrols, creek crossing inspections, valve maintenance, close interval surveys, vegetation management, cathodic protection operations.



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3.2 What is 2015 budget for the Coquitlam line maintenance and repairs?

Response:

FEI does not budget maintenance activities on an asset-specific basis. Maintenance budgets are created on a system-wide aggregate level for each of the various maintenance categories and are based on historical maintenance expenditures adjusted for known changes.

FEI has therefore provided its expected level of expenditures on the Coquitlam Gate IP for 2015.

Activity	Coquitlam Gate IP 2015 YEF (\$)
Pipeline Patrol	1,623
Leak Survey	35,681
Valve Maintenance	2,500
Vegetation Management	10,000
Cathodic Protection	1,000
Leak Repairs	1,200,000
Other Repairs	705
Total	1,251,509

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In the table above, the YEF for leak repairs has been estimated based on the same assumptions as applied in the response to BCUC IR 1.7.1:

- The cost to repair a leak is the average actual cost (\$107,902) to repair the leaks that occurred in the 2010 to 2014 time period;
- The frequency of leaks will increase at the rate outlined in Appendix A-1 of the Application; and
- The rate of inflation is estimated at 2% per year.



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1
2 3.3 What is FEI's estimate avoided costs from the replacement of this asset?

3
4 **Response:**

5 Please refer to the response to BCUC IR 1.7.1.

6
7

8 **Reference: B-4, IR 24.1.1**

9 3.4 Given FEI has characterized the current Coquitlam line as past life and subject
10 to high costs of maintenance, please explain why FEI does not expect O&M
11 costs related to maintenance of the a new Coquitlam line to be less than those
12 currently incurred.

13
14 **Response:**

15 The response to BCUC IR 1.24.1 was regarding O&M savings related to the 2013 O&M PBR
16 base for the formula spending envelope, and the subsequent information request (BCUC
17 1.24.1.1) was related to **all other FEI O&M savings** resulting from the Coquitlam Gate IP
18 Project by year from 2018-2019. Neither of these two responses addressed a comparison to
19 costs currently being incurred by FEI.

20 FEI's responses to BCOAPO IRs 2.3.1, 2.3.2, and 2.3.3 pertain to actual and forecast
21 expenditures to operate the existing NPS 20 Coquitlam Gate IP pipeline through to its proposed
22 replacement by November 2018.

23 Further, FEI's response to BCUC IR 1.24.1.1 identifies incremental costs that would be incurred
24 beginning in 2019 for the proposed NPS 30 Coquitlam Gate IP pipeline. As these expenditures
25 for operating the new NPS 30 pipeline are not included in the 2013 O&M PBR base, they are
26 considered to be incremental.

27 Please also refer to the response to CEC IR 2.19.1 for a full explanation of why there will be no
28 net O&M savings during the term of the PBR as compared to the amount embedded in the O&M
29 Base.

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1 3.5 In response to the referenced interrogatory it states that FEI expects its
 2 incremental costs in four areas (e.g. Vegetation maintenance and leak survey of
 3 \$3,000 per year). For each of these areas please provide the current annual
 4 costs incurred in each of 2010 through 2014.

5
 6 **Response:**

7 The annual incurred costs from 2010-2014 for the Coquitlam IP pipeline in each of the areas
 8 listed in BCUC IR 1.24.1.1 are as follows:

	Pressure Safety Valve and Valve Inspections, and Instrument and Meter Maintenance	Corrective Valve Maintenance	Vegetation Maintenance and Leak Survey	Facilities Operating Lease Charges
2010	\$15,100	\$9,200	\$ 5,572	\$ 0
2011	\$40,400	\$11,600	\$ 8,817	\$ 0
2012	\$11,200	\$31,700	\$ 6,447	\$ 0
2013	\$9,000	\$13,700	\$ 18,594	\$ 0
2014	\$14,100	\$2,100	\$ 55,529	\$ 0

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 11

12 **Reference: B-4, IR 6.3**

13 3.6 Please confirm the response to how many customers can be served from the
 14 Coquitlam line only is in respect to the current NPS 20 line. If this is correct
 15 please modify the response for the proposed project (i.e. delivery subject to
 16 Fraser Gate station after the commissioning of the Coquitlam project).

17
 18 **Response:**

19 Confirmed. The response to BCUC IR 1.6.3 considers the situation related to the existing NPS
 20 20 Coquitlam Gate IP pipeline operating at 1200 kPa. The proposed Project, an NPS 30
 21 Coquitlam Gate IP pipeline operating at 2070 kPa, would be capable of maintaining service to
 22 all customers under peak hour demand without the support of the Fraser Gate station. As noted
 23 in the responses to BCUC IRs 1.9.2 and 1.11.2, the NPS 30 Coquitlam Gate IP Project with the
 24 Cape Horn to Coquitlam TP loop provides year round resiliency.



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4 3.7 Are any customers served by either the Fraser Gate facilities or the Coquitlam
5 line subject to (contract) curtailment? If so please provide the number of
6 customers and volumes allowed to be curtailed.

7

8 **Response:**

9 Yes, there are customers with interruptible rate classes served either directly or indirectly
10 (connected to the downstream distribution system) from the Metro IP System connecting Fraser
11 Gate and Coquitlam Gate. Presently there are 31 customers in rate classes 7, 22 and 27
12 subject to curtailment in the area served. Only one of these customers, Creative Energy
13 (formerly Central Heat Distribution Ltd.) in downtown Vancouver, has a firm component of 2000
14 GJ/day. All other customers can be curtailed fully and these loads are not included in design
15 day peak hour demand, with the exception of Creative Energy's firm demand allotment. Please
16 see the responses to BCUC IRs 2.4.1 and 2.4.1.1 for more specific information related to
17 Creative Energy. The total maximum peak hour load currently estimated to be removed from
18 the Metro IP system when these 31 customers are curtailed is approximately 91,800 m³/hr.

19 Please refer also to the response to BCUC IR 2.6.1 for additional discussion on interruptible
20 customers' impact on the resiliency of the proposed Project alternatives.

21

22

23 **Reference: B-4, IR 25.1 (pg. 126) & B-5, IR 3.11**

24 3.8 Does the \$1,522,640 in allocated net book value represent the additional
25 depreciation that will be recorded upon disposal of the current Coquitlam assets?
26 If not please provide the expected depreciation (expected write off) to be
27 recorded as a result of the Coquitlam assets being put into service and the
28 retirement/disposal of the existing assets. Have these costs been included in the
29 projected costs of the Coquitlam line?

30

31 **Response:**

32 No, the \$1,522,640 does not represent additional depreciation that will be recorded upon
33 retirement of the current Coquitlam IP pipeline assets. The \$1,522,640 represents the
34 approximate remaining net book value of the pipeline at the time of retirement; this is not an



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1 incremental cost to the Coquitlam Gate IP Project since it would have been recovered through
2 rates even if the asset was not disposed of.

3 Although these costs are not considered incremental to the Project, in the context of relevant
4 considerations for rate impact analysis FEI has included this retirement, and the associated
5 reduction to depreciation expense of approximately \$42 thousand per year, in the cost of
6 service analysis.

7
8

9 **Reference: B-4, IR 41.1 (pg. 163)**

10 3.9 Does the \$1,361,405 in allocated net book value represent the additional
11 depreciation expected to be booked when the Fraser Gate project is completed
12 and put into service? If not please provide the expected additional depreciation
13 associated with retirement of all replaced assets. Have these costs been
14 included in the projected cost of the Fraser Gate project?

15
16

Response:

17 No, the \$1,361,405 does not represent additional depreciation that will be recorded upon
18 retirement of the current Coquitlam IP pipeline assets. The NPS 30 Fraser Gate IP pipeline
19 portion of the \$1,361,405 is \$162,072, as shown in the first row in the table provided in the
20 response to BCUC IR 1.41.1. The \$162,072 represents the approximate remaining net book
21 value of the pipeline at the time of retirement; this is not an incremental cost to the Fraser Gate
22 IP Project since it would have been recovered through rates even if the asset was not disposed
23 of.

24 Although these costs are not considered incremental to the Project, in the context of relevant
25 considerations for rate impact analysis FEI has included this retirement, and the associated
26 reduction to depreciation expense of approximately \$4 thousand per year, in the cost of service
27 analysis.