BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER NUMBER G-76-06

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, B.C. V6Z 2N3 CANADA
web site: http://www.bcuc.com

TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

A Submission by Terasen Gas (Whistler) Inc.
for Review of its of 2005 Resource Plan Update

and

An Application by Terasen Gas (Whistler) Inc.
for a Certificate of Public Convenience and Necessity to convert its propane grid system
to natural gas and approval to enter into a Natural Gas Transportation Service
Agreement with Terasen Gas (Vancouver Island) Inc.

and

An Application by Terasen Gas (Vancouver Island) Inc.
for a Certificate of Public Convenience and Necessity
for a natural gas pipeline lateral from Squamish to Whistler

BEFORE: A.J. Pullman, Panel Chair and Commissioner
R.J. Milbourne, Commissioner
P.E. Vivian, Commissioner June 26, 2006

O R D E R

WHEREAS:

A. On December 12, 2005, Terasen Gas (Whistler) Inc. (“TGW”) filed with the Commission its 2005 Resource Plan Update (“the Resource Plan”) that provides an assessment of the current and future energy requirements at the Resort Municipality of Whistler (“RMOW”) and concludes that the existing propane grid system should be converted to natural gas; and

B. On December 16, 2005, TGW filed with the Commission its application for a Certificate of Public Convenience and Necessity (“CPCN”) to convert its system to natural gas and for approval to enter into a long-term natural gas transportation agreement with Terasen Gas (Vancouver Island) Inc. (“TGVI”). In the application, TGW also requests approval to make a capital contribution to TGVI and to add the contribution to rate base, to amortize the net book value of the propane facilities and to recover pipeline study costs incurred prior to 2004 (“the TGW Application”); and

…/2

C. Also, on December 16, 2005, TGVI filed with the Commission its application for a CPCN for construction of a natural gas pipeline lateral to connect RMOW to the TGVI transmission system at Squamish and to enter into a Transportation Service Agreement with TGW ("the TGVI Application"). The Resource Plan Application, the TGW Application and the TGVI Application will be referred to collectively as the "Applications"; and

D. Order No. G-23-06 dated January 26, 2006 determined that the Applications would be examined through a Written Hearing Process, and set out the Regulatory Timetable; and

E. Order No. G-53-06 dated May 19, 2006 provided that the issue of a CPCN for the Project would be in the public interest provided certain conditions precedent (including a cost risk sharing mechanism for the IP Pipeline) were met; and

F. On June 2, 2006 the Companies filed with the Commission a letter accepting the conditions but stating that the proposed cost risk sharing mechanism could not be implemented in a practical manner; and

G. On June 9, 2006 the Companies filed an Application for Reconsideration of the Commission's May 19, 2006 Decision and Order No. G-53-06 limited to reconsideration of the cost risk sharing mechanism; and

H. In Letter No. L-28-06 dated June 14, 2006 the Commission allowed reconsideration of this single matter; and

I. The Commission has considered the Application and the evidence and submissions presented to it and has determined that the cost risk sharing mechanism be amended.

NOW THEREFORE the Commission finds that the cost risk sharing mechanism set out on Page 51 of the Commission's May 19, 2006 Decision be amended to read as follows:

- The Adjusted Average Cost Estimate for the Base Case is determined by removing cost estimates related to the Squamish Meter/Regulating station and the Named Stream Crossings. This results in an Initial Incentive Cost Base of $30.2 million in 2005 dollars.

- If the final cost of the IP Pipeline project is between 90 and 110 percent of the Initial Cost Base (adjusted for inflation), 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 is less than 90 percent or greater than 110 percent of the Initial Incentive Cost Base (adjusted for inflation), savings or costs outside of the +/-10 percent "dead band" around the Incentive Cost Base, will be shared equally between TGW's ratepayers and shareholders.

- The adjustment for the average annual rate of inflation will be based on the Consumer Price Index published by Statistics Canada, with July 1, 2005 being the base.

DATED at the City of Vancouver, in the Province of British Columbia, this 27th day of June 2006.

BY ORDER

Original signed by:

A.J. Pullman
Panel Chair and Commissioner

Attachment

An Application by Terasen Gas (Whistler) Inc.
For Review of its 2005 Resource Plan Update
and
An Application by Terasen Gas (Whistler) Inc.
For a Certificate of Public Convenience and Necessity to convert its propane grid system
To natural gas and approval to enter into a Natural Gas Transportation Service
Agreement with Terasen Gas (Vancouver Island) Inc.
and
An Application by Terasen Gas (Vancouver Island) Inc.
For a Certificate of Public Convenience and Necessity
For a natural gas pipeline lateral from Squamish to Whistler

REASONS FOR DECISION

BACKGROUND

On June 9, 2006 the Companies requested that the Commission reconsider its Decision issued May 19, 2006 and Order No. G-53-0-6 limited to the cost risk sharing mechanism of the IP Pipeline. The Commission issued Letter No. L-26-06 on June 12, 2006 seeking input from intervenors. Intervenors responded on June 13, 2006, being amenable to reconsideration and the Commission instructed the Companies to file further evidence on the mechanism by June 16, 2006 for a hearing on June 20, 2006, at which the Companies' witnesses presented evidence and were examined upon it. The Companies made an oral submission following examination of their witnesses. Reply submissions were received from the Vancouver Island Gas Joint Venture ("VIGJV"), British Columbia Hydro and Power Authority ("BC Hydro"), the British Columbia Old Age Pensioners Organization ("BCOAPO et al"), the Ministry of Energy, Mines and Petroleum Resources ("MEMPR") and the Companies submitted their final submission on June 25, 2006.

The Companies state that the Commission's mechanism whereby incentive cost base would be adjusted based on shoulder, ditch or off highway alone cannot be applied in a practical manner and would result in inappropriate reference cost adjustments for risk sharing purposes since the percentage of pipeline in shoulder, ditch, or off-highway does not have any direct correlation to project costs. Further, the shoulder alignment, which the Commission mechanism appears to assume leads to a low cost scenario, can result in outcomes whereby costs are in the base and high cost range. Instead, it is the MOT approval conditions specific to depth of cover and culvert crossing conditions which have the greatest influence on costs, and this is not considered in the Commission's mechanism.

The Companies propose that the cost risk sharing arrangement be based on the Adjusted Base Cost Estimate for the IP Pipeline. The incentive mechanism is based on direct costs in 2005 dollars and does not include an allowance for funds used during construction.

- The Adjusted Average Cost Estimate for the Base Case is determined by removing cost estimates related to the Squamish Meter/Regulating station and the Named Stream Crossings. This results in an Initial Incentive Cost Base of $30.2 million.

- If the final cost of the IP Pipeline project (adjusted for inflation) is between 90 and 110 percent of the Initial Incentive Cost Base, no further adjustment will be made and the final cost will be allowed into rate base. As provided in the Decision, the adjustment for the average annual rate of inflation will be based on the Consumer Price Index published by Statistics Canada.

- If final cost of the IP Pipeline project is less than 90 percent or greater than 110 percent of the Initial Incentive Cost Base, savings or costs outside of the +/-10 percent "dead band" around the Incentive Cost Base, as adjusted if applicable, will be shared 50/50 between TGW's ratepayers and shareholders.

In addition, the Companies offer to adjust the Incentive Cost Base as follows:

> Where the final costs are below 90 percent of the Initial Cost Base by a $66,600 deduct per kilometer of pipeline that is placed in the highway shoulder and asphalt removal and repaving costs are avoided before the 50/50 sharing of any savings would be earned; and
>
> Where final costs are higher than 110 percent of the Incentive Cost TGI would adjust the Incentive Cost Base upward by a $42,600 adder per kilometer of pipeline where shoulder or ditch alignment is not realized before the 50/50 cost sharing would be applied.

The Companies state that their preference is for a cost sharing mechanism with no adjustments for repaving or highway alignment (TR: 52).

The Companies state that TGVI will not be affected by the mechanism, and the sharing, if any, of costs or benefits will be between TGW's ratepayers and TGW's shareholder (TR: 70-71).

VIEWS OF THE INTERVENORS

Both the VIGJV and BC Hydro satisfy themselves that existing customers of TGVI will be protected from cost overruns and support the Companies' proposed mechanism. The BCOAPO et al support the proposal with no adjustments for repaving or highway alignment. The MEMPR submits that the Whistler customers should not bear the entire risk of cost increases for the Named Stream Crossings.

VIEWS OF THE COMMISSION PANEL

The Commission Panel accepts the Companies' submission for reconsideration of Order No. G-53-06 and Decision and finds that the Risk Sharing arrangement for the IP Pipeline should be established with no adjustments for repaving or highway alignment as follows:

- The Adjusted Average Cost Estimate for the Base Case is determined by removing cost estimates related to the Squamish Meter/Regulating station and the Named Stream Crossings. This results in an Incentive Cost Base of $30.2 million in 2005 dollars.

- If the final cost of the IP Pipeline project is between 90 and 110 percent of the Incentive Cost Base (adjusted for inflation) 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 is less than 90 percent or greater than 110 percent of the Incentive Cost Base (adjusted for inflation), savings or costs outside of the +/-10 percent "dead band" around the Incentive Cost Base, will be shared equally between TGW's ratepayers and shareholder.

- The adjustment to the average annual rate of inflation will be based on the Consumer Price Index published by Statistics Canada, with July 1, 2005 being the base.

The Commission Panel does not accept the Ministry of Energy, Mines and Petroleum Resources submission in respect to the Named Stream Crossings as this matter was thoroughly canvassed in its earlier decision of May 18, 2006. It will however expect the Companies to demonstrate that they have taken all necessary steps to control and minimize the costs to the Named Stream Crossings, and will require the Companies to provide information on a quarterly basis as to the status of the permitting, design and construction of each Named Stream Crossing.