



LETTER NO. L-14-06

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VIA E-MAIL

April 13, 2006

FortisBC – Kettle Valley CPCN Exhibit A-3

To: FortisBC Inc.
Registered Intervenors (*Fortis-KettleValley-RI*)

Dear Participants:

Re: FortisBC Inc. ("FortisBC")
Certificate of Public Convenience and Necessity Application
for the Kettle Valley Project

The Commission Panel for the above written public proceeding has determined that the process and regulatory timetable set down in Commission Order No. G-115-05 needs to be amended to allow for another set of information requests.

The Panel feels this is necessary in order to assist the Panel in coming to a decision regarding this project.

Therefore, by this Letter, the Commission hereby amends the Regulatory Timetable as follows:

1. Information Requests No. 2 from Commission and Intervenors are required to be submitted to FortisBC by April 21, 2006
2. FortisBC is required to respond to those information requests by May 5, 2006.
3. Intervenors are to submit comments to the Commission by May 12, 2006.
4. FortisBC is to respond to those comments and make final argument by May 19, 2006.

Also attached is Commission Information Request No. 2.

Yours truly,

Original signed by:

Robert J. Pellatt

RWR/rt
Attachment

BRITISH COLUMBIA UTILITIES COMMISSION
Commission Information Request No. 2 to FortisBC Inc. ("FortisBC")
April 13, 2006

FortisBC Application for a CPCN for the Kettle Valley Project

1.0 Reference: Exhibit B-1 p. 26

FortisBC states that the System Development Plan ("SDP") identified more than one hundred projects to be implemented over the next six years. The 2004 SDP priority matrix identified the Kettle Valley project as a high priority with an overall weighting of 26.

- 1.1 Has the Kettle Valley project been re-evaluated within the context of this priority matrix? If so what is the ranking of this project now?

2.0 Reference: Exhibit B-1, Application, table 4, p. 27

In this table, FortisBC describes various drivers for the Kettle Valley project. In particular, FortisBC describes the condition of the various facilities which will be replaced.

- 2.1 Please provide condition assessment reports and photographs showing the state of the equipment.
- 2.2 Please also provide the maintenance costs for these facilities over the last three years and the projected maintenance costs over the next five years. Please provide these costs on a facility basis.

FortisBC also lists extensive safety concerns with the present substations.

- 2.3 For all the concerns cited by FortisBC in Table 4, please describe the present measures FortisBC is using to mitigate workers or public risks.

3.0 Reference: Exhibit B-1 Application pp. 28 and 29

FortisBC states that the overall load growth in the Kettle Valley area is expected to be 7.8 percent.

- 3.1 Please provide a table showing actual loads per station, the capacity of each substation and the expected load growth for each station. Please also identify the expected cause of the load growth.

4.0 Reference: BCUC IR 1.2.1

FortisBC notes that it has no contractual commitments from the Mt. Baldy Resort, which incorporates a number of residences.

- 4.1 What portion of the above load increase is attributable to the Mt. Baldy Resort development?
- 4.2 Please provide Mt. Baldy Resort's development plan and business plans for the resort.

- 4.3 Has FortisBC evaluated these plans to determine the likely hood of them being completed with in the development time frame claimed by the developers? If so, please provide your analysis and the reasons for your conclusions. If not, please explain FortisBC's confidence in the load forecast for this area.
- 4.4 Please describe the facilities that are being constructed to serve the load at the Mt. Baldy resort.
- 4.5 Is this system extension being built pursuant to FortisBC tariff schedule No. 74? If these facilities are being built pursuant to Schedule No. 74, please confirm that the costs for the extension are not part of this application, if not, please explain why not.

5.0 Reference: BCUC IR 1.2.4

The impact of renewable energy alternatives for the Mt. Baldy Village is not factored into the load forecast. The PowerSense group contacted Mt. Baldy Ski Corporation regarding their master plan development and a "Partners in Efficiency" program.

- 5.1 Do the programs offered by FortisBC include geothermal and geo-exchange systems, solar and photovoltaic systems, and/or combined heat and power district heating systems?
- 5.2 Has FortisBC considered the potential impact of such systems on the level of investment that is or may be required to serve Mt. Baldy?
- 5.3 Please describe in detail the relationship between FortisBC and Mt. Baldy with respect to renewable energy systems.

6.0 Reference: BCUC IR 1.5.3

- 6.1 What is the present capacity of the Rock Creek substation? Please compare this capacity to the expected load growth in this area (including the Baldy resort) and show what portion is attributable to the Baldy Resort.
- 6.2 Please explain what options FortisBC has for serving this load if it materializes. What kind of lead-time is necessary to implement these options?

7.0 Reference: BCUC IR 1.2.4

- 7.1 Please explain the "n/a" entries in Table A2.4 and, if appropriate, substitute the kVA values.

8.0 Reference: BCUC IR 1.4.2

FortisBC notes that there is no mobile substation available to provide backup at 161 kV. FortisBC further notes that, without the additional 138 kV breaker at Kettle Valley, the remaining transformer would be directly connected to one of the incoming transmission lines. In that scenario, a fault on the transmission line would cause an outage to Kettle Valley load, a situation that results in a violation of FortisBC's N-1 transmission reliability criterion.

- 8.1 Can FortisBC's N-1 planning criterion be met by using either two substation transformers or one substation transformer with along with provision for a mobile unit?

- 8.2 If yes, how does FortisBC determine which of the two configurations is to be implemented at a particular substation?

9.0 Reference: BCUC IR 1.5.3

The cancellation or delay of the Kettle Valley project would have no effect on the Baldy project. However, as the Baldy load is now supplied by the Rock Creek substation, that load along with all other Rock Creek load, will be at risk as the area power requirements increase.

- 9.1 What is the existing capacity of the substation?
- 9.2 Please provide the peak load on the substation for each of the last five years, as well as the projected load for the next five years, in the former case as adjusted to account for the load that has been transferred to the substation.

10.0 Reference: BCUC IR 1.12.1

FortisBC discusses two options for the substation location.

- 10.1 Has a final recommendation been made?
- 10.2 If a recommendation has been made, what were the deciding factors?
- 10.3 Please describe the involvement of local residents in the decision since the time of the response to Commission IR #1.

11.0 Reference: BCUC IR 1.17

FortisBC notes that the detailed engineering for the Bentley project, as well as its timing, will be explored in the South Okanagan Transmission Reinforcement Project. Certain decisions about the existing Oliver Substation and the use of 161 kV also depend on the South Okanagan project.

- 11.1 When will the South Okanagan studies be completed? If they are completed please provide them.
- 11.2 What would be the impact of delaying the Kettle Valley project until the South Okanagan study has been completed? If a detrimental impact on reliability is expected, please provide FortisBC's best quantitative estimate of that impact.
- 11.3 Has FortisBC considered using the 161 kV facility at 69kV? If so, please comment on the relative advantages and disadvantages of this voltage compared to the 138 kV option. If not, please explain why. Would this voltage class eliminate the need for a Bentley substation?
- 11.4 Please describe the drivers for the conversion to 138 kV. Please also describe the expected timing for this conversion. If the driver is the failure of a system element (i.e., a transformer), please describe the condition and expected life of the element.

12.0 Reference: BCUC IR 1.17.5, through 1.17.8

FortisBC's responses to these information requests deal with its 161 kV assets.

- 12.1 Please provide a detailed financial comparison of the Bentley, Kettle Valley, and Grand Forks projects (as a group) under three scenarios: one in which the project envisions using only 161 kV assets indefinitely, one in which the 161 kV system is used initially and then converted to 138 kV (essentially the application), and one in which the 138 kV system is built immediately. Planning estimates may be used where more detailed information is not yet available.

13.0 Reference: IMEU IR 1.3.0

The existing 63/13 kV transformer at Grand Forks was installed in 2002. The peak load on the 20 MVA transformer was 4.4 MVA in 2003.

- 13.1 Given a load of 4.4 MVA, why was a 20 MVA transformer used here?

income in affiliated companies, which had the effect of transferring losses that would not otherwise be deductible by TGI's affiliates.

TGI intends to continue to utilize TLUP structures. TGV I anticipates it will enter into similar arrangements commencing in 2006. The inter-company loans underpinning the TLUP structures have been, and will continue to be, less than one year in duration and as such there is no requirement to obtain Commission approval under Section 50 of the *Utilities Commission Act*, even if the loans were part of regulated utility operations, which they are not. As in the past, the TLUP transactions will involve only Canadian affiliates of the TGI and TGV I, the transactions will not involve any Kinder Morgan, Inc affiliates in the U.S. nor any cross border tax related transactions.

While the TLUP transactions TGV I intends to enter into will be substantially similar to those TGI has entered into in the past and are "non-utility" in nature, TGV I is seeking a similar acknowledgement from the Commission that it has no concerns with TGV I entering into such arrangements, particularly in light of the Ring Fencing Conditions included in Commission Order No. G-116-05 approving the Kinder Morgan, Inc. and 0731297 B.C. Ltd. indirect acquisition of the Terasen Utilities regulated by the Commission. Section 7.2.1 of the Decision supporting Order G-116-05 imposed certain Ring Fencing Conditions on the Terasen Utilities. Condition 3 (c) states:

"No Terasen Utility will enter into a tax sharing agreement with any affiliate of the Terasen Utility, unless the agreement has been approved by the Commission."

TGI and TGV I do not consider TLUP transactions to be "tax sharing agreements". TGV I understands that the Ring Fencing Conditions were imposed to preserve the financial integrity and capital structure of the Terasen Utilities. As noted above, the TLUP transactions have the effect of creating tax deductible interest expense in the Terasen Utility and creating taxable income in non-regulated affiliates. The transactions have no impact on the regulated tax expense of the Terasen Utility and the benefits of the tax deductible interest expenses are recorded as part of Contributed Surplus in the Shareholders Equity section of the Balance Sheet, which effectively provides a source of capital for the company. Such transactions have no impact on regulated operations of the Terasen Utilities or on customer rates or costs. Costs related to the establishment of the TLUP structures are born by Terasen Inc. and/or the affiliate. It is also important to recognize that the TLUP structures are short term in nature, being set up and unwound within the same tax year. TGV I, like TGI, will have the right of set off such that the TLUP structures may be instantaneously unwound at the discretion of the Terasen Utility, and with such provision there is no default risk absorbed by the Terasen Utility.

Based on the wording of the Decision it is not clear if the Commission intended that TLUP transactions be captured by the Ring Fencing Conditions. Should the Commission have so intended Condition 3(c) to apply to transactions of this type, and because TGV I has not entered into such transactions in the past, TGV I seeks either an acknowledgement in form similar to that provided by the Commission to TGI in 1998 or, if necessary, Commission approval to enter into TLUP transactions.

In order to facilitate a review and following discussions with Commission Staff, we have requested and received written confirmation from KPMG (attached) that the accounting treatment for TLUP transactions continues to be applied in a manner consistent with the original material forwarded to the Commission in 1998. We also enclose opinion letters we obtained