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**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER** C-9-07

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

**and**

**An Application by Terasen Gas (Vancouver Island) Inc.  
for a Certificate of Public Convenience and Necessity  
for the Mt. Hayes Liquefied Natural Gas Storage Project  
and Approval of a Storage and Delivery Agreement**

**and**

**An Application by Terasen Gas Inc.  
for Approval of a Storage and Delivery Agreement**

**BEFORE:** R.H. Hobbs, Chair  
R.J. Milbourne, Commissioner  
A.J. Pullman, Commissioner

November 15, 2007

**O R D E R**

**WHEREAS:**

- A. By a Decision and Order No. C-2-05 dated February 15, 2005, the Commission granted Terasen Gas (Vancouver Island) Inc. ("TGVI") a Certificate of Public Convenience and Necessity ("CPCN") for a liquefied natural gas ("LNG") storage facility at Mt. Hayes on Vancouver Island, subject to several conditions that included the execution of a firm long-term transportation service agreement with British Columbia Hydro and Power Authority ("BC Hydro") in respect of the Duke Point Power Project; and
- B. As no firm long-term transportation agreement was executed and construction of the LNG project did not commence by December 31, 2005, the CPCN granted by Order No. C-2-05 terminated; and
- C. On June 5, 2007, TGVI filed with the Commission another application (the "TGVI Application") for a CPCN to construct and operate a LNG Storage Facility at Mt. Hayes in the Cowichan Valley Regional District in the vicinity of Ladysmith (the "LNG Storage Facility"), and the facilities required for the connection of the LNG Storage Facility to TGVI's gas transmission system (collectively, the "Project"); and
- D. In the TGVI Application, TGVI also requests Commission approval for a 50 basis point premium in its return on equity for the rate base associated with the LNG Storage Facility, a deferred schedule for the depreciation of the LNG Storage Facility and the recovery of pre-construction development costs associated with the project, and approval to enter into a Storage and Delivery Agreement with its affiliate Terasen Gas Inc. ("TGI"); and

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- E. On June 5, 2007, TGI filed with the Commission an application for approval to enter into a Storage and Delivery Agreement with TGVI (the “TGI Application”); and
- F. By Order No. G-63-07, the Commission established a written process to obtain comments on issues and procedural matters, and established dates for Commission and Intervenor Information Requests; and
- G. By Order No. G-78-07, the Commission established a Written Public Hearing process and Regulatory Timetable for the regulatory review of the TGVI Application and the TGI Application; and
- H. By Letter No. L-64-07, the Commission responded to a request from the Vancouver Island Gas Joint Venture (“VIGJV”) regarding two matters related to the TGVI Application and the TGI Application; and
- I. By Order No. G-101-07, the Commission issued a Revised Regulatory Timetable in recognition of an Evidentiary Update filed by TGVI and TGI, and by letter dated September 28, 2007 extended the dates for filing submissions in the proceeding; and
- J. The VIGJV, BC Hydro, WestPac LNG Corporation (“WestPac”), the British Columbia Old Age Pensioners’ Organization et al. (“BCOAPO”), the Ministry of Energy, Mines and Petroleum Resources and Pacific Northern Gas Ltd./Pacific Northern Gas (N.E.) Ltd. intervened in the proceeding; and
- K. Submissions in the proceeding concluded with the Reply Submission of TGVI and TGI on October 12, 2007; and
- L. The Commission Panel has considered the evidence and submissions in the proceeding and has determined that a CPCN that is subject to certain conditions should be granted to TGVI for the Project and that the Storage and Delivery Agreement should be approved subject to certain conditions, for the reasons that are set out in Reasons for Decision that will be issued at a future date.

**NOW THEREFORE** the Commission orders as follows:

- 1. Pursuant to Sections 45 and 46 of the Utilities Commission Act (the “Act”), a Certificate of Public Convenience and Necessity is granted to TGVI for the Project as described in the TGVI Application, subject to the following conditions:
  - 1.1 the Companies have submitted a fully executed Storage and Delivery Agreement in a form that is acceptable to the Commission within 60 calendar days of the date of this Order;

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- 1.2 TGVI has filed by March 31, 2008 a Report (the “Report”) providing a description of the contract with the Engineering, Procurement and Construction (“EPC”) contractor; identification of the components of the Project where cost risk is with the utility and its ratepayers; a description and analysis of risk allocation; updated and detailed P10, P50 and P90 cost estimates for the Project; an updated Project schedule; and TGVI’s intentions and recommendations with regard to the completion of the Project; and
- 1.3 the P90 cost estimate in the Report in nominal dollars is equal to or less than the comparable P90 cost estimate in the Application (\$200 million), and the Commission has approved the terms of the EPC contract, following a process by which Intervenor may file written submissions on the matter within seven (7) calendar days of the date that the Report is filed with the Commission, and TGVI may reply in writing to the submissions within eleven (11) calendar days of the filing of the Report.
4. In the event that the P90 cost estimate in nominal dollars in the Report is greater than \$200 million, TGVI may seek Commission approval of a further CPCN for the Project, and a regulatory process for review of the Report and TGVI’s request will be established at a future date.
5. The Storage and Delivery Agreement in the TGVI Application is approved pursuant to Section 61 of the Act for TGVI and pursuant to Section 71 of the Act for TGI, subject to the filing of the Agreement in fully executed form with amendments necessary to give effect to an Agreement that does not include provisions establishing rates, as contemplated in the Agreement in Section 13 and Schedule A. The amendments are to provide for the filing from time to time of a rate schedule to be approved by the Commission. The first rate schedule is to be filed for Commission approval prior to the provision of service under the Agreement.
6. The request in the TGVI Application for approval of a 50 basis point premium in TGVI’s return on equity for the rate base associated with the LNG Storage Facility is denied.
7. The request in the TGVI Application for an adjusted depreciation schedule for the annual depreciation expense for the LNG Storage Facility is denied.
8. The request in the TGVI Application for approval to recover from customers over a five-year period the prudently incurred Pre-Construction Development Costs in the event that the Project does not proceed as a result of unexpected cost escalation, to a maximum of \$1,865,000, is approved.
9. TGVI and TGI are directed to comply with the directions of the Commission in the Reasons for Decision to follow.

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10. TGVI is directed to file with the Commission Quarterly Progress Reports on the Project showing planned versus actual schedule, planned versus actual costs, and any variances or difficulties that the Project may be encountering. The Quarterly Progress Reports will be filed within 30 days of the end of each reporting period and will be generally as set out in Appendix A to this Order.
11. TGVI is directed to file with the Commission a Final Report within six months of the end or substantial completion of the Project that provides a complete breakdown of the final costs of the Project, compares these costs to the updated P50 cost estimate and provides a detailed explanation and justification of all material cost variances.
12. Subject to paragraphs 10 and 11 of this Order, the format and content of the Progress Reports and the Final Report will be determined by TGVI in consultation with Commission staff, or by determination of the Commission.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 15<sup>th</sup> day of November 2007.

BY ORDER

*Original signed by*

Robert H. Hobbs  
Chair

Attachment

Terasen Gas (Vancouver Island) Inc.  
Certificate of Public Convenience and Necessity  
for the Mt. Hayes Liquefied Natural Gas Storage Project  
and Storage and Delivery Agreement

and

Terasen Gas Inc.  
Storage and Delivery Agreement

Project Quarterly Progress Report Format

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**Table of Contents**

**1. Project Status**

- 1.1.1 General Project Status
- 1.1.2 Major Accomplishments, Work Completed and Key Decisions Made
- 1.1.3 Project Challenges and Issues; Issues Currently Open, Date Opened, Dated Closed, Those Issues that are Past Due
- 1.1.4 Plans for Next Period
- 1.1.5 Site Photographs

**2. Project Earned Value – Schedule and Cost**

- 2.1.1 Project “S” Curve showing the budget at completion, earned value to date, actual cost to date, planned value, estimate to completion, estimate at completion, cost variance between actual cost and budgeted cost to date, schedule variance, cost performance index, schedule performance index, status (average of cost performance index and schedule performance index). All values are to be shown in each report throughout the duration of the project.

**3. Project Schedule**

- 3.1.1 Milestone Summary with the planned finish date, actual finish date, variance in days, status
- 3.1.2 Procurement Summary with the planned finish date, actual finish date, variance in days, status
- 3.1.3 Contract Summary with the planned finish date, actual finish date, variance in days, status
- 3.1.4 Current Schedule
- 3.1.5 Schedule Summary
  - 3.1.5.1 Schedule Performance to Date
  - 3.1.5.2 Schedule Projection Going Forward
  - 3.1.5.3 Schedule Difficulties and Variances
- 3.1.6 Design Scope Change Summary with Description of Request, Explanation for Request, Request Amount, Approved Amount, Deferred Amount, Reject Amount, Under Investigation Amount.

- 3.1.7 Construction Scope Change Summary with Description of Request, Explanation for Request, Request Amount, Approved Amount, Deferred Amount, Reject Amount, Under Investigation Amount.

#### **4. Project Costs**

- 4.1.1 Project Cost Summary including explanation of variances
- 4.1.2 Financial Summary including explanation of variances
- 4.1.3 Summary of Individual Contracts (Construction and Procurement) Exceeding \$3M with Budget Amount, Award Amount, Approved Change Orders

#### **5. Project Resource Management**

- 5.1.1 Engineering Resources (Man-hours, Planned vs. Actual – non- cumulative) both in chart and table format. Provide explanation for variance and corrective action taken.
- 5.1.2 Construction Resources (Man-hours, Planned vs. Actual – non-cumulative) both in chart and table format. Provide explanation for variance and corrective action taken.

#### **6. Project Risks**

- 6.1.1 Current Project Risks
- 6.1.2 Risks Going Forward

#### **7. Stakeholder or First Nation Issues**

- 7.1.1 An ongoing cost report of all existing and new issues using the updated P50 cost estimate as a budget. For each issue, the report should show “amount in capital budget”, “spent to date”, “estimate to complete”, “forecast total to complete”, and “variance”.
- 7.1.2 An Explanation of new issues and variances will be provided.

#### **LIST OF TABLES**

- Table 1 Project Milestones
- Table 2 Project Expenditure Summary, Table & Chart of CAPEX Cumulative Distribution Function showing an Updated P50 Approved, Upper Bound (Updated P90), Current Forecast to Complete, Spent to Date (Escalation and Contingency are to be identified separately).
- Table 3 Summary of Variances Greater than \$3M
- Table 4 Summary of Contracts exceeding \$3M
- Table 5 Summary of Outstanding Claims greater than \$3M
- Table 6 Table of Project Risks including Risk Description & Explanation, Date Risk Originated, Date Risk Last Reviewed, Level/Severity of Risk, Mitigation Plan, Contingency Plan, Mitigation Cost Amount (including schedule delay), Contingency Reserve Amount Required, Total Contingency Reserve Required to Date, Contingency Reserve Remaining.