1. Reference: ROE/CS Application, Page 3; BCUC IR 4.3.3, Appendix.

Explanation: *Terasen Gas (Vancouver Island) Inc. ("TGVI") submits that the common equity component in the capital structure of TGVI allowed for rate making purposes should be 40% (as compared to the current 35%). TGVI further submits that it should be granted a 75 basis point increment over the allowed return on equity for Terasen Gas Inc. ("TGI") (i.e. 11.25% when the forecast yield on long-term Canada bonds is 5.24%) to reflect TGVI's greater risk profile.*

Request: *For TGVI, in comparative table format, please provide the following:*

Response:

The forecast results set out below, use as their basis the revised TGVI Revenue Requirement Application submitted on September 22, 2005. Several key assumptions have been made for the forecast period beginning in 2008, in order to respond to the Information Requests. Two of the key assumptions, represent business risks, each of which has a significant effect on the results and financial viability of the Company.

The first is gas costs. For this forecast, the Company has used the 2006 forecast unit rate, consistent with the revised Revenue Requirement application, for the entire period.

The second is revenue from transportation service, and in particular transportation service demand of the ICP. As part of its discussion regarding the extension of service for BC Hydro and the ICP, BC Hydro has indicated they intend to operate the ICP on an economic dispatch basis, likely commencing the winter of 2008/2009. Accordingly, for the purposes of this forecast, the Company has not included any firm or interruptible transportation service to the ICP subsequent to October 31, 2008.

In this scenario the RDDA is not eliminated by 2011, and actually is increasing in 2009 through 2011. Under either scenario the RDDA balance at the end of 2011 is projected to be in excess of $35 million. In 2012 the revenue requirement would increase by more than $60 million (based on the gas costs used in the forecast) as a result of the loss of the Royalty Revenues, which would either need to be offset by significant rate increases or would result in an increase in the annual deficit.

The following specific assumptions are made to produce responses to Q1.1-1.5:

1. BC Hydro Firm Transportation service at 45,000 TJ/day through October 31, 2008, and no Firm or Interruptible transportation service thereafter.
2. Gas Cost Forecast Unit rate held constant for forecast period through 2011 consistent with the gas costs used in the revised Revenue Requirement Application submitted on September 22, 2005.
3. Royalty Revenue credit calculation is consistent with the VINGPA through 2011.
4. VIGJV Demand at 12,500 TJ/day from 2006 through 2011 with effective rates as per contract agreement adjusted for half of inflation through 2011.
5. Texada Island Compressor Station will be purchased in 2008 and included in TGVI Rate Base in 2009.
6. Core rate change logic for entire forecast period consistent with Revenue Requirement Application.

1.1 The increase in revenue requirements resulting from the application by year for 2006 to 2015;

Response:

Revenue Requirement ($000)	2006	2007	2008	2009	2010	2011
40% Equity, 75 bps Premium & 11.25% ROE	$186,485	$188,279	$185,046	$184,263	$186,429	$186,487
35% Equity, 50 bps Premium & 9.25% ROE	$178,028	$180,114	$178,600	$178,264	$180,582	$180,735
Difference	$8,457	$8,164	$6,446	$5,998	$5,847	$5,751

1.2 The RDDA recovery by year for 2006 to 2015;

Response:

RDDA Recovery ($000)	2006	2007	2008	2009	2010	2011
40% Equity, 75 bps Premium & 11.25% ROE	$3,756	$5,952	$2,990	($6,643)	($5,827)	($5,076)
35% Equity, 50 bps Premium & 9.25% ROE	$5,016	$6,886	$6,548	($1,927)	($889)	($7)
Difference	($1,260)	($934)	($3,558)	($4,716)	($4,937)	($5,069)

1.3 The annual revenue from BC Hydro for deliveries to ICP for 2006 to 2015;

Response:

Revenue from BC Hydro ($000)	2006	2007	2008	2009	2010	2011
40% Equity, 75 bps Premium & 11.25% ROE	$16,642	$17,081	$15,003	$0	$0	$0
35% Equity, 50 bps Premium & 9.25% ROE	$15,427	$15,909	$14,182	$0	$0	$0
Difference	$1,215	$1,172	$822	$0	$0	$0

1.4 The annual revenue from VIGJV for 2006 to 2015; and

Response:

Revenue from VIGJV ($000)	2006	2007	2008	2009	2010	2011
40% Equity, 75 bps Premium & 11.25% ROE	$4,147	$4,209	$4,263	$4,293	$4,336	$4,380
35% Equity, 50 bps Premium & 9.25% ROE	$4,147	$4,209	$4,263	$4,293	$4,336	$4,380
Difference	$0	$0	$0	$0	$0	$0

1.5 The annual royalty credit for 2006 to 2015.

Response:

Royalty Credit ($000)	2006	2007	2008	2009	2010	2011
40% Equity, 75 bps Premium & 11.25% ROE	$58,887	$59,301	$59,714	$59,990	$60,404	$60,680
35% Equity, 50 bps Premium & 9.25% ROE	$58,887	$59,301	$59,714	$59,990	$60,404	$60,680
Difference	$0	$0	$0	$0	$0	$0

2. Reference: Testimony of Cathleen C. McShane, page 20; BCUC IR 1.4.8; TGVI 2006 RR Application, page 32.

Explanation: *While TGVI has an opportunity to recover the remainder of the RDDA (at $60 million, about 10% of total assts), it has no assurance that it will be able to do so. While, currently, TGVI is being assisted by the VINGPA royalty payments, those payments will terminate at the end of 2011. After 2011, TGVI's customers will be required to absorb the full commodity cost of gas. Further, TGVI has $75 million in interest free senior government loans outstanding that currently are a credit to rate base; as they are repaid the rate base will rise creating higher capital costs. The ability of TGVI to mitigate the impact of rising costs on customer rates will partly depend on its ability to add new customers and thus reduce its unit delivery costs. However, the ability to add new customers (both through conversion and new construction) hinges in large part on the competitiveness of TGVI's rates versus electricity rates. Given the intensely competitive market in which TGVI operates, there is a material risk that it will be unable to fully recover its full investment in utility assets.*

Terasen Inc. had a relatively short period of exclusivity within which to make its assessment and confirm its offer. As such it did not have complete and full knowledge of all risks and potential rewards of ownership but satisfied itself that it was interested in completing the transaction. As shareholder of TGVI, Terasen Inc. understands that the risks of ownership of TGVI are greater than those of TGI and accordingly, it expected that the capital structure and TGVI allowed for rate making purposes would appropriately reflect the risks of TGVI and that TGVI would be allowed the opportunity to earn a fair and reasonable return, commensurate with such higher risks, both in accordance with common regulatory principles of rate base rate of return regulation over time.

TGVI is forecasting repayment of government loans commencing in 2005 in the amount of $7.1 million. In the past, repayments were not forecast until the RDDA was repaid in 2011.

Request:

2.1 Provide a discussion of the risks related to ownership of TGVI that are identified in this Application that Terasen Inc. did identify and consider along with the magnitude of the risk and how the risks were reflected in the purchase price. If there is an internal report identifying the risks and rewards to support the acquisition, provide a copy.

Response:

The issues before the Commission regarding TGVI are the determination of the capital structure and return on equity for TGVI that reflect the risks of TGVI.

This information request relates to the risks of TGVI as perceived by Terasen Inc. and how the risks were reflected in the purchase price of the shares of TGVI paid by Terasen Inc. The question is not relevant to the issues the Commission is to determine in this proceeding.

The Commission's determination of the appropriate capital structure and return on equity for TGVI should not be influenced by the price Terasen Inc. paid for the shares of TGVI. For example, if Terasen Inc. paid more than book value for the shares of TGVI should the Commission provide TGVI with a higher return on equity to provide TGVI's shareholder with a greater return on the purchase price? Conversely, if Terasen Inc. paid less than book value for the shares of TGVI should the Commission provide TGVI with a lower return on equity to recognize the less than book value price paid for the shares of TGVI?

2.2 Provide an explanation of why the repayment of the government loans was triggered, the threshold and the margin above the threshold.

Response:

To clarify, TGVI has not definitively determined that the government loan repayment obligation has been triggered. Recent developments with respect to BC Hydro's plans to convert the Island Cogeneration Plant to a dispatchable facility need to be assessed and reviewed with the credit rating agencies. Given that the potential future loss of firm service revenue from ICP is adverse to TGVI, it is not clear at this time whether the obligation to repay the government loans has been triggered.

The government loans are governed by the Pacific Coast Energy Pipeline Agreement ("PCEPA"), which is a schedule to the Vancouver Island Natural Gas Pipeline Agreement. Early repayment is triggered on the occurrence of a set of events:

- In a given fiscal year, both unpaid and current interest on the Class B instruments are fully paid by TGVI; and
- TGVI's forecast cost of service for that fiscal year provides for the recovery of the principal amount of the Class B instruments deemed by the BCUC to be repaid in that fiscal year;
- Then, subject to availability of non-government debt financing (which is subordinated to the Class B instruments and is available on reasonable commercial terms for typical Canadian utility having a minimum investment grade rating), TGVI pays an installment equal to one-half the principal amount of Class B Instruments so deemed to the repaid by TGVI in that fiscal year. The installment will be financed by the non-government debt financing up to a percentage that reflects the debt component of TGVI's capital structure.

The trigger events are considered annually, and if any one event is not met, no repayment is required. The first two of the three tests noted above are currently being met.

If TGVI was able to secure a credit rating of at least BBB+, the third test noted above would likely be met as well. Because of the uncertainty that now is present regarding revenues from the ICP plant, it is not clear at this time whether TGVI meets, or will meet, this test.

2.3 When did TGVI or TGI become aware that the repayment of government loans would be triggered in 2005?

Response:

TGVI has not definitively concluded that the government loans are repayable as there is still uncertainty as to whether the triggers noted in the response to 2.2 have been met.

2.4 Describe what business factors or regulatory action that either (i) could have been taken before the repayment of the government loans was triggered, or (ii) might still be taken, to delay the repayment of the government loans.

Response:

If it is determined that the government loans are repayable, the only action that might be taken would be to make a request to the federal and provincial governments to waive the repayment requirement.

2.5 Provide comprehensive information on all discussions with both levels of government along with any presentations, on the financial projections and conversion of the government loans to non-refundable grants or contributions.

Response:

TGVI is not aware of any discussions with either level of Government subsequent to the reorganization in 1995 related to converting the government loans into non-refundable grants or contributions. The governments had made contributions when the pipeline was originally constructed and expect to be repaid pursuant to the terms of the PCEPA. Rather than converting the loans to grants the provincial government has continued to express its interest in ensuring the viability of TGVI and the eventually recovery of such loans.

3. Reference: TGVI 2006 RR Application, page 32.

Explanation: *TGI and TGVI undertook a joint restructuring and integration effort.*

Request:

3.1 Provide a discussion of the level of integration or consolidation of management, operations and information systems (i) currently in place (ii) planned, and (iii) still under consideration but not yet in place or planned.

Response:

One of the main goals of the integration was the establishment of business processes supported by a common technology platform for both TGVI and Terasen Gas operating areas. The back-office support processes associated with Finance, Procurement and Human Resources have been completed. TGVI is now focusing on operational standardization related to the other areas of the business including field operations and customer care.

The next step is the standardization related to meter management, dispatching, customer related field work and new customer attachments. These processes rely upon information from the customer billing application and it was not economical to complete this work until TGVI and TGI were on a common system. Recently a CPCN application was approved which will place all TGVI customers on the Energy billing platform in the first quarter of 2006. Once that is completed the operational standardization can be completed which will encompass a common Work Order system and associated processes, automated dispatching of customer work including real-time capture of completion details, meter inventory and meter program management, customer and consumption, forecasting, integrated financial and operational reporting and customer attachment processes.

At the present time there are no significant management or information systems still under consideration for integration.

3.2 Provide the target date for completion of the integration or consolidation of TGI and TGVI.

Response:

All planned operational integration work will be completed in 2006 once TGVI customers have been migrated onto the Energy billing system. However, management is considering how, whether and when it might make sense to seek to formally amalgamate the two utilities and rate bases. The significant driver of this issue is the competitive environment caused by BC Hydro's postage stamp delivery rates across the Province.

TGVI must compete with such postage stamp rates which use historic embedded hydro electric generation costs, low water rental rates, outdated electric service extension cost assumptions that drive uneconomic service extensions (i.e. inappropriate price signals to connect to electric) with market priced natural gas, distance based transportation costs and modern (relatively current cost/high depreciation) rate base cost of service based rates.

TGVI customers would benefit from a blended cost of service across the Terasen Gas utilities service areas throughout the Province. The dilutive impact on unit cost of service could provide significant relief to gas users on Vancouver Island and the Sunshine coast. It would however, result in cost pressures to customers in Mainland service areas. The relative level of increases on the Mainland would be significantly lower than the reductions on the island but could face opposition from customers on the Mainland.

Legislative changes would be required to enable such a change. TGVI has held exploratory discussions with Ministry of Energy & Mines staff to begin to consider the feasibility of such an amalgamation. These discussions have not progressed sufficiently to assess the likelihood and timing of such a change however, due to rate settlement agreements currently in place with TGI and TGVI customer groups, it is unlikely that an amalgamation would be completed prior to the end of 2007.

In the event that amalgamation is pursued/approved, it is also likely that changes in rates would be phased in.

3.3 Provide the rate setting and competitive strategy following the integration or consolidation of TGI and TGVI.

Response:

Based on the already completed and planned operational integration activities, the rate setting strategy, for current rates and those in the short-term, is based on the Soft Cap rate mechanism and the approved Rate Design principles. In the medium to longer term, with BC Hydro maintaining postage stamp rates throughout BC, Terasen may pursue amalgamation/consolidation of the two utilities and move to harmonize rates across its service territories in order to level the competitive playing field. It is likely that a phased approach to rate harmonization would be pursued to mitigate impacts on the Mainland service areas while providing rate relief on Vancouver Island and the Sunshine Coast.

3.4 Provide the capital structure and ROE strategy following the integration or consolidation of TGI and TGVI.

Response:

Assuming the question is referring to the prospect of a full amalgamation of the two utilities into one, the capital structure and allowed returns would be subject to BCUC approval. The Company's strategy would depend on the business risks and competitive landscape at the time. Based on current information and as a starting point, the Company would likely pursue rate base and capital structure amalgamation that would blend the pre-amalgamation weightings and returns.

3.5 If a full integration or consolidation of TGI and TGVI is not planned or being considered, explain why.

Response:

The current plans for operational integration of components of TGI and TGVI management and back office functions will be completed in 2006. As noted in the response to question 3.2 above, TGVI is considering full amalgamation of the two utilities. Timing and ultimate approval is dependent on certain factors beyond the direct control of the Company.