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June 19, 2006

British Columbia Utilities Commission
6th Floor, 900 Howe Street
Vancouver, B.C. V6Z 2N3

Attention: Mr. R.J. Pellatt, Commission Secretary

Dear Sir:

Re: Terasen Gas Inc. ("Terasen Gas" or the "Company")
Application for a Certificate of Public Convenience and Necessity ("CPCN")
Replacement and Upgrading of the Vancouver Low-Pressure Gas Distribution System to Distribution Pressure
Project # 3698423

Response to British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 2

and Errata Clarification of BCUC IR No. 1 Response to Question 2.3

Please find attached Terasen Gas' response to Commission Information Request ("IR") No. 2, dated Thursday, June 15, 2006. Further to Terasen Gas' response to Commission IR No. 1, submitted on June 2, 2006, the Company wishes to clarify the response to question 2.3, which stated:

"2.3 Please confirm that the smaller PE pipes will not cause constraints with respect to system capacity."

Terasen Gas confirms that the smaller PE pipes will not cause constraints with respect to system capacity. As noted by the Commission staff in a telephone conversation with Terasen Gas, an error was made in the response as filed on June 2, 2006, with respect to the calculation of capacity improvement which would be realized in the upgrade to the system. However, the mathematical error does not change the response to IR No. 1 question 2.3; the cross-sectional area of the new main will be approximately 25% of the existing mains. The increase in pressure will more than offset the decrease in diameter.

The Company has recalculated the difference in flow in the DP and LP systems using the nominal input pressures and minimum allowable pressures as shown in the table below.

Calculations are based on 1km of length; however, the capacity ratio remains relatively constant when using greater lengths.

	Nominal Input	**Minimum Allowable**	**Flow**
4"LP	2 kPa	1.2 kPa	91.8m3/h
2"DP	420 kPa	70 kPa	719.1m3/h

The net result using this criteria is an increase in capacity of approximately 8 times for the 2" DP over the 4" LP system.

If there are any questions regarding this submission, please contact Mr. Tom Loski, Director, Regulatory Affairs at (604) 592-7464.

Yours very truly,

TERASEN GAS INC.

Original signed by: Tom Loski

For: Scott A. Thomson

Attachment

13.0 Reference: Terasen Gas Response to Commission IR No. 1, dated June 2, 2006

13.1 Please review the provisions of subsections 45(2) and 45(5) of the Utilities Commission Act, and clarify whether Terasen Gas believes that the Commission has ordered that subsection 45(2) does not apply for the Low-Pressure Distribution Upgrade Project. If the Commission has not ordered that a CPCN is required for the Project, please discuss whether Terasen Gas believes that a CPCN is required or advisable.

Response:

Terasen Gas is not aware of any Commission Orders that set out that Section 45(2) of the *Utilities Commission Act* does not apply for the Low-Pressure Distribution Upgrade Project. Additionally, Terasen Gas is not aware of any Commission Orders for the Low-Pressure Distribution Upgrade Project, pursuant to Section 45 of the *Act*, and Section 45(1) in particular, which states *"…a person must not begin the construction or operation of a public utility plant or system, **or an extension of either** (**emphasis added**), without first obtaining from the commission a certificate that public convenience and necessity require or will require the construction or operation"*.

Past practice and the Commission's CPCN Application Guidelines, as set out in Commission Letter No. L-18-04 and Order No. G-28-04, dictate that CPCN Applications are required for significant projects. As per Letter No. L-18-04, the CPCN Guidelines state *"The Commission may also establish project thresholds that may relate to size, production capacity or type that will determine CPCN application requirements for each utility."* The threshold for Terasen Gas, which has been set out in the Company's 2004-2007 PBR Settlement Agreement, has been set at $5 million regardless of the nature of the project. There are not any other project threshold criteria that the Company is aware of that exclude the need for a CPCN application, even if the project is in excess of $5 million. No other criteria were considered in the Company's 2004-2007 PBR Settlement Agreement.

Terasen Gas is of the view that arbitrarily excluding the need for a CPCN for the Low-Pressure Distribution Upgrade Project, even thought it meets the one and only threshold criteria that has been established for the Company, would not only be a departure from past practice but also inconsistent with the terms of the Commission approved 2004-2007 PBR Settlement Agreement. The Company is of the view that it would be inappropriate to make changes of this nature to the terms of the 2004-2007 PBR Settlement Agreement.

13.2 Please discuss whether confirmation by the Commission that a CPCN is not needed for this project is sufficient, rather than an Order granting a CPCN.

Response:

As stated in the response to IR 13.1, the Company's 2004-2007 PBR Settlement sets out that CPCN Applications are required for all capital projects in excess of $5 million. As such, confirmation by the Commission that a CPCN is not needed for this project is not sufficient. Terasen Gas is of the view that this project meets the threshold criteria for CPCN projects, and changing the criteria would result in changes to the terms of the 2004-2007 PBR Settlement Agreement. Terasen Gas points out that the Company's proposal in its 2004-2008 PBR Application included a provision for CPCN expenditures to be included in the capital formula, however, stakeholders were of the view that it would be preferable to have separate review and approval processes for these projects, as CPCNs. As stated above, this was agreed to by parties to the 2004-2007 PBR Settlement Agreement.

13.3 Further to the response to BCUC IR 11.4, please provide a schedule that shows the impact on Terasen Gas' annual revenue requirements over the period that would be affected by the 2004-2007 PBR Settlement, particularly the capital expenditures incentive component, for construction of the $23.7 million project under each of the following two scenarios:

- A CPCN is approved for the project.
- A CPCN is not approved for the project. (For example, the Commission confirms that Terasen Gas does not require a CPCN to proceed with the project.)

Response:

If a CPCN is not approved for the project and the work is carried out under Base Capital Expenditures for 2006 and 2007 the costs would have no impact on the revenue requirements for 2006 and 2007 before Earnings Sharing Mechanism ("ESM") consideration. The reason for this is the amount for Base Capital Expenditure is set by formula in each of the years as per the 2004 – 2007 PBR Settlement approved by the Commission.

If the project proceeds as an approved CPCN, the estimated incremental impact on the revenue requirement for 2007 is $0.003 / GJ or $495,000. The average cost per GJ is based on using the 2006 Non-Bypass forecast volumes before consideration of the ESM. The 2007 forecast volume will be determined later this year for the 2006 Annual Review.

TERASEN GAS INC.
REVENUE REQUIREMENT IMPACT
FROM VANCOUVER LOW PRESSURE UPGRADE CPCN
($000's)

Capital Expenditures from Appendix B2 & Section 4.2 of the Application

	2006				2007			
Particulars	Direct	Project Management	AFUDC	Total	Direct	Project Management	AFUDC	Total
Mains	$ 3,229	$ 106	$ 93	$ 3,428	$ 4,911	$ 63	$ 139	$ 5,113
Services	2,018	66	58	2,142	3,314	42	94	3,450
Meters	172	6	5	183	215	3	6	224
Station Removal Costs	75	2	2	80	156	2	4	162
Project Management	180				110			
AFUDC	158				243			
Total	$ 5,832	$ 180	$ 158	$ 5,832	$ 8,949	$ 110	$ 243	$ 8,949
Retirement				$ 0.4				$ 1.0

2006 Expenditures are not included in the Rate Base / Revenue Requirement for 2006; they are included in opening balance of 2007. Similarly, 2007 capital expenditures are not included in the 2007 Rate Base / Revenue Requirement but are included in the opening balance for 2008.

		Accumulated Dep'n			
Rate Base Impact for 2007	GPIS	Provision	Mid-Year	Rate Base Impact	Dep'n Rate
Mains	$ 3,428	$ (69)	$ (34)	$ 3,393	2%
Services	2,142	(43)	(21)	2,121	2%
Meters	183	(7)	(3)	179	3.57%
M/R Station - removal costs			80	80	
Total	$ 5,752	$ (118)	$ 21	$ 5,773	

Revenue Requirement Impact				
Capital Structure & Rate of Return for 2006				
Short Term Debt	7.82%	4.000%	0.313%	$ 18
Long Term Debt	57.18%	7.072%	4.044%	233
Common Equity	35%	8.800%	3.080%	178
Total / Earned Return	100.00%		7.437%	429
Depreciation Expense				118
Income Tax Expense				(52)
Total Incremental Revenue Requirement Impact				$ 495
Total Forecast Non-Bypass Sales & Transport Volume 2006 (TJ) [1]				166,158.9
Incremental Impact / GJ				$ 0.003

1 2005 Annual Review - Advanced Materials, Section A, Tab 4, Page 15, Column 3, Line 33.

13.4 As a condition of the Commission approving a CPCN for the Project, would Terasen Gas be prepared to reduce the Target Base Capital Expenditure amounts under the 2004-2007 PBR Settlement by the amount of Project expenditures in each year (e.g. by $5.8 million in 2006)?

Response:

No. Terasen Gas is of the view that making the proposed change would be changing the terms of the approved 2004-2007 PBR Settlement Agreement, and therefore inappropriate. Furthermore, as per the Response to BCUC IR #1, question 3.1 in the preceding years prior to the PBR Base Year (2000 through 2002) there were no expenditures on the Vancouver LP System. In 2003, the Base Year for the 2004-2007 PBR Settlement Agreement only 392 meters of main was replaced for a total cost of $50.8k. Although the Company is of the view that adjusting the Target Base Capital Expenditure amounts is not appropriate, as discussed above, if the Base Capital Expenditure formula is applied to the base year (2003) expenditures, the resulting target expenditure amount would be only $52.5k for 2007 ($50,814 x 1.0085 x 1.01 x 1.0075 x 1.0075[1] = $52,538), which is a mere fraction of the total capital costs included in the CPCN Application. To reiterate the primary point in the responses to BCUC IR #1, questions 11.3 and 11.4 as well as IR #2 questions 13.1 and 13.2, the proper treatment for project expenditures exceeding $5MM is as a CPCN as per the 2004 – 2007 PBR Settlement Agreement that was approved by the BCUC in Order G-51-03.

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[1] CPI Adjustment factors as per 2005 Annual Review Section A, Tab 3, Page 4, Line 4; the last CPI Adjustment factor in formula in sentence above for 2007 assumes a 2.2% CPI – BC rate (as taken from Table A10, page 141 of the BC government "Budget and Fiscal Plan – 2006/07 to 2008/9").