Scott A. Thomson
Vice President, Regulatory Affairs and
Chief Financial Officer

16705 Fraser Highway
Surrey, B.C. V4N 0E8
Tel: (604) 592-7784
Fax: (604) 576-7074
Email: scott.thomson@terasengas.com
www.terasengas.com

Regulatory Affairs Correspondence
Email: regulatory.affairs@terasengas.com

November 2, 2007

The British Columbia Public Interest Advocacy Centre
208 – 1090 West Pender Street
Vancouver, BC
V6E 2N7

Attention: Ms. Patricia MacDonald, Barrister & Solicitor

Dear Ms. MacDonald:

Re: Terasen Gas Inc. ("Terasen Gas")
2007 Annual Review of 2008 Revenue Requirements

Response to the British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization *et al* ("BCOAPO") Information Request ("IR") No. 1

On October 5, 2007, Terasen Gas filed its Advance Materials for the 2007 Annual Review of 2008 Revenue Requirements. In accordance with Commission Order No. G-112-07 setting out the Regulatory Timetable for the Application.

TGI respectfully submits the attached response to BCOAPO IR No. 1. TGI wishes to note that these responses reflect the TGI November 2, 2007 Revised Annual Review Filing (Exhibit B-1-3).

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

Yours very truly,

TERASEN GAS INC.

Original signed

For: Scott A. Thomson

Attachment

cc (e-mail only): TGI Multi Year PBR (2004-2007 PBR & 2008-2009 Extension) Participants and
2006 Annual Review & Mid-Term Settlement Update Participants

1.0 Reference: Exhibit B-1, Tab A-1, Summary, pp. 2 and p. 4

1.1 Please reconcile the impacts of the reduction in use ($7.8M increase) and customer growth ($5.4M decrease) on the revenue requirement as stated on p. 2, with the figure of $4.2M shown at the top of the Table on p. 4 for "Customer Growth and Use Rate."

<u>Response:</u>

Please refer to the response to BCUC IR No. 1, Question 1.1.

2.0 Reference: Exhibit B-1, Tab A-2, Cost Drivers, p. 1

2.1 For each of the cost drivers identified on this page and for each year, 2004-2007 inclusive, please provide the number forecast by TGI in the preceding year annual review and the actual numbers. (For 2007, the most recent forecast should be provided rather than actual.)

<u>Response:</u>

The columns in the table following headed “Approved” are the forecast approved by the Commission in the Annual Review Decisions for each year.

	2004		2005		2006		2007		2008
	Approved	Actual	Approved	Actual	Approved	Actual	Approved	Projected	Forecast
Cost Drivers									
Year End Customer Counts	782,258	787,020	797,072	799,365	812,388	812,683	828,700	825,812	837,609
Customer Additions	8,604	11,504	10,144	12,345	12,692	13,318	13,385	13,129	11,797
Average Customer Counts	777,779	779,461	790,385	791,593	804,316	805,844	820,347	817,480	829,970
Change in Average Customers	7,411	8,837	10,887	12,132	12,669	14,251	13,587	11,636	12,490
Percentage of Customer Growth - Average	0.96%	1.15%	1.40%	1.56%	1.60%	1.80%	1.68%	1.44%	1.53%
Escalators									
B.C. Inflation (CPI)	1.7%	1.98%	2.0%	2.03%	2.2%	1.76%	2.0%	2.0%	2.1%
Adjustment Factor - % of CPI	50.0%		50.0%		66.0%		66.0%		66.0%
Adjustment Factor	-0.85%		-1.0%		-1.45%		-1.32%		-1.4%

2.2 Please provide the average number of customers broken down by rate class.

Response:

	2006 Actual	2007 Projected	2008 Forecast
Rate Class			
Sales			
Residential	725,536	736,274	748,595
Small Commercial	73,168	74,172	74,407
Large Commercial	4,736	4,673	4,505
Seasonal Service	20	21	21
General Firm Service	362	318	316
General Interruptible Service	4	3	2
NGV	38	34	30
Total Sales	803,864	815,495	827,876
T-Service			
Large Commercial	1,179	1,234	1,346
General Firm T-Service	645	601	603
General Interruptible T-Service	100	97	95
Large Volume T-Service	53	50	47
Fording Coal - Coal Mountain	1	1	1
BC Hydro - Burrard	1	1	1
PCEC	1	1	1
Total T-Service	1,980	1,985	2,094
Total Average # of Customers	805,844	817,480	829,970

2.3 Please provide the dollar impact on revenue requirement (before earnings sharing) of a 1% decrease in average use rate by Rate 1 customers.

Response:

The impact of a 1% reduction in the use rates of Rate 1 customers is to increase the revenue deficiency by $1,975,000. The reduced gas sales volume, 720 TJ, results in a revenue reduction of $8,359,000 which is offset by a cost of gas reduction of $6,390,000. In addition there is a small cash working capital effect of $87,000 which causes the earned return and income tax expense to increase by $6,000.

	Amount ($000's)
Revenue Requirement / Revenue Deficiency Impact	
Cost of Gas Reduction	$ (6,390)
Income Tax Increas	1
Earned Return Increase	5
Cost of Service Impact	(6,384)
Revenue Reduction	8,359
Revenue Deficiency Impact	$ 1,975

3.0 Reference: Exhibit B-1, Tab A-3, Rate Base

3.1 Although base capital expenditures will not be rebased to actual amounts during the term, please provide the estimated impact on the revenue requirements for 2008 and 2009 if base capital expenditures were rebased to the actual for 2008. Please state any assumptions made in performing this calculation.

Response:

TGI has not prepared a revenue requirement / rate base forecast for 2009. In the table below TGI has estimated the 2008 rate base and revenue requirement impacts under the assumption that base capital expenditures were rebased to actual, from forecast in 2008. The rebasing to actual includes actual capital additions from 2004 through the forecast year 2008. The table shows the impact on rate base, revenue requirement and revenue deficiency resulting from rebasing plant costs from the formula based opening to projected non-formula based opening plant costs plus non-formula based additions for 2008. The 2008 Rate Base would decrease by $69.6 million and the revenue requirement/revenue deficiency would decrease by $12.1 million, without consideration of the capital efficiency incentive mechanism.

It is important to note that throughout the PBR period, including the extension period through 2009, that to the extent the incentive from capital efficiency has contributed to earnings that has exceeded the allowed ROE the excess earnings have been equally shared between the utility and customers, to the benefit of all customers. As a result of this incentive mechanism customers have effectively realized benefits equaling one-half of the revenue requirement difference associated with the difference between the allowed rate base and actual rate base. Therefore, for the 2008, under the scenario set out in the response, the revenue requirement impact of the re-basing would only be $6.069 million (50% of $12.137 million). Finally, under the terms of the Settlement Agreement, after it expires, the difference between the actual rate base and the formula driven rate base will be re-based over a three year period.

	2008 Amount ($000's)
Rate Base Impact	
Net Plant in Service mid-year	$ (63,982)
Work in Progress, no AFUDC	(5,658)
Cash Working Capital	17
Total Rate Base Impact	**$ (69,623)**
Revenue Requirement / Deficiency Impact	
Depreciation Expense	$ (6,530)
Income Tax	(1,304)
Earned Return	(4,303)
Total Revenue Requirement / Deficiency Impact Before Sharing	**$ (12,137)**

As stated above, the Company has not prepared a 2009 forecast of rate base and revenue requirements. However if it is assumed that 2009, customer additions are approximately 11,350 customers (as per Exhibit B-1, Tab B1, Page 2, Table 1) and CPI of 2%, the formula driven capital additions will be approximately $99.8 million. In the referenced Table 1, the non-formula capital additions are forecast to be $85.8 million resulting in an estimated difference of $14.0. After consideration of the mid-year effect of rate base for 2008 and 2009, it is estimated that the cumulative Rate Base difference through 2009 would be approximately $80.1 million. The related reduction to the revenue requirement would be approximately $15 million in 2009, exclusive of consideration of the earnings sharing mechanism. Under the earnings sharing mechanism customers would receive back approximately $7.5 million. The Company notes that this analysis is a crude estimation of the rate base and revenue requirement impact for 2009, and is provided in an effort to be responsive to the Information Request.

3.2 Please provide the impact of a 1% decrease in forecast customer additions for 2008 on (i) 2008 capital expenditure, (ii) 2008 rate base, and (iii) 2008 revenue requirement.

Response:

The total customer additions for 2008 are forecast to be 11,797. For the purposes of this exercise, the 1% customer reduction of 118 was assigned to Rate 1 - 112 customers and to Rate 2 – 6 customers. The decrease of 118 additional customers results in a decrease in average number of customers of 42, since customer additions do not occur evenly throughout the year, they are weighted in late summer and the fall.

The total impact on capital expenditure is a reduction of $261,000; the impact on Rate Base is a reduction of $111,000; and the impact on Revenue Requirement is an increase of $39,000. The revenue requirement increase is driven principally by the loss of margin from reduced sales ($22,000) and the increase in income tax expense ($28,000). The income tax expense increase is driven by the reduction in the CCA, due to the capital expenditure reduction, which increases taxable income. There would be a minimal earned return decrease of $7,000, $3,000 of which is earnings and $4,000 is interest under this scenario.

The following table summarizes the effect on capital expenditure, rate base and revenue requirement.

	Amount $000's
Capital Expenditure Impact	
Customer Reduction	(118)
Average # of Customer Reduction	(42)
Customer Addition Driven Expenditure Unit Cost	$ 2,177.94
Other Base Capital Expenditure Unit Cost	$ 89.16
Customer Addition Driven Capital Expenditure Reduction	$ (257)
Other Base Capital Expenditure Reduction	(4)
Total Capital Expenditure Reduction	**$ (261)**
Rate Base Impact	
Total Capital Expenditure Reduction	$ (261)
Overhead Capitalized Reduction	(1)
Contributions in Aid of Construction Reduction	38
Net Plant Addition Impact	$ (224)
Net Plant Addition Impact Mid-year Impact	$ (112)
Cash Working Capital Impact	1
Total Rate Base Impact	**$ (111)**
Revenue Requirement Impact	
Revenue Reduction Impact	$ 63
Reduced Cost of Gas Impact	(46)
Reduced Margin Impact	17
Operating & Maintenance Expense Reduction Impact	(9)
Other Revenue Reduction Impact	10
Income Tax Expense Increase Impact	28
Earned Return Reduction Impact	(7)
Revenue Requirement Impact	**$ 39**

3.3 Please provide a table showing, for or each year, 2004-2007, the capital expenditures as calculated by the formula in the preceding year and the actual capital expenditure made in the year. (For 2007, the most recent forecast should be provided rather than actual.) Also, please break down each year's capital spending into two components, customer addition driven capital expenditures and other capital expenditures.

Response:

The requested detail can be found in Section A, Tab 3, Page 5 Lines 28 and 29.

Approved 2004 – Column (3),

Actual 2004 – Column (4),

Approved 2005 – Column (5),

Actual 2005 – Column (6),

Approved 2006 – Column (7),

Actual 2006 – Column (8),

Approved 2007 – Column (7) (to the right of 2006) and

Projected 2007 – Column (8) (to the right of the preceding column).

3.4 For each year, 2004-2007, please provide a table showing what TGI's forecast rate base was (in the previous year) and the actual rate base for the year (mid-year).

Response:

In the materials filed October 5, 2007, under Section A, Tab 8, Page 2, the 2007 projected Rate Base was $2,424,283,000. In the November 2, 2007 Revised Annual Review Filing, the projected Rate Base is $2,425,144,000.

The columns in the following table headed "Approved" are the forecast amounts that were included in Annual Review materials for each year.

($000's)

	2004		2005		2006		2007	
	Approved	Actual	Approved	Actual	Approved	Actual	Approved	Projected
Rate Base	$ 2,299,866	$ 2,305,591	$ 2,395,751	$ 2,408,116	$ 2,505,910	$ 2,442,352	$ 2,474,218	$ 2,425,144

3.5 With respect to the potential land sale described on p. 12, please indicate whether TGI considers this asset to be currently used and useful in the provision of natural gas service. If not, please provide the rationale for its inclusion in rate base pending its sale.

Response:

Terasen Gas has included the land in rate base pending the sale, as that is the directive given by the Commission, In Order No. G-116-07 the Commission approved the "removal of the amount of $1,136,155 from the rate base of Terasen Gas following the sale…".

4.0 Reference: Exhibit B-1, Tab A-4, Gas Sales and Transportation Volumes

4.1 For each of the years 2004 -2007, in the table on p. 4 (TGI Customer Growth), please add a column which gives TGI's forecast (made in the previous year).

Response:

The columns in the table following headed "Approved" are the forecast approved by the Commission in Annual Review Decisions for each year.

TGI Customer Growth

	2004		2005		2006		2007	
	Approved	Actual	Approved	Actual	Approved	Actual	Approved	Projected
Residential	8,000	10,716	9,652	11,427	12,204	9,595	12,764	12,764
Commercial	500	756	501	1,002	489	656	235	382
Squamish							240	
Industrial & Transportation	104	32	(9)	(9)	(1)	(70)	146	(17)
Total	8,604	11,504	10,144	12,420	12,692	10,181	13,385	13,129
Year Ending Customers	782,258	786,958	797,072	799,378	812,388	812,683	828,700	825,812
Housing Starts	24,600	32,925	32,400	34,667	31,600	36,443	34,900	35,525

4.2 Please provide a similar enhancement (as immediately above) to the table shown on p. 5.

Response:

The columns in the table following headed "Approved" are the forecast approved by the Commission in Annual Review Decisions for each year.

Historic Approved and Normal Usage - Rates 1, 2, 3 & 23 (GJ)

	2004		2005		2006		2007	
	Approved	Normal	Approved	Normal	Approved	Normal	Approved	Projected
Rate 1	104.7	102.6	103.3	97.4	100.6	96.8	99.8	97.1
Rate 2	300.1	313.8	317.1	305.8	307.6	314.3	314.2	319.9
Rate 3	3,342.4	3,500.9	3,426.0	3,387.6	3,401.7	3,314.1	3,393.7	3,445.4
Rate 23	5,301.2	5,112.6	4,975.3	4,714.3	4,976.7	4,685.7	4,796.4	4,916.3

4.3 Please indicate what the drivers of the slight increase in projected use per customer by Rate 1 in 2007 as shown in the table on p. 5. Also, please indicate whether the 97.1 GJ figure is on a normalized basis.

Response:

A variation of 0.3 GJ/yr. - when estimated using only a partial year's worth of data - is more indicative that use rates are relatively stable from 2006 to 2007 rather than an indication that there are any specific drivers at work.

4.4 In preparing the residential and commercial energy forecast (as described on p. 6), please confirm that the average number of consumers is used.

Response:

Confirmed.

4.5 For each of the years 2004 -2007, in the table on p. 7, Historic and Forecast Revenue, please add a column which gives TGI's forecast (made in the previous year).

Response:

The columns in the table following headed "Approved" are the forecast approved by the Commission in Annual Review Decisions for each year.

Historic Approved and Normal Revenue ($ million)

	2004		2005		2006		2007	
	Approved	Normal	Approved	Normal	Approved	Normal	Approved	Projected
Residential	$ 851.8	$ 815.0	$ 850.2	$ 864.5	$ 1,024.2	$ 931.2	$ 907.4	$ 928.2
Commercial	427.5	421.1	430.5	446.9	507.8	478.4	445.9	486.0
Firm Sales	64.1	47.6	49.0	46.7	52.6	44.5	41.6	39.4
Industrial	46.1	47.1	47.2	49.6	51.6	50.7	50.8	49.0
Total	$ 1,389.5	$ 1,330.8	$ 1,376.9	$ 1,407.7	$ 1,636.2	$ 1,504.8	$ 1,445.7	$ 1,502.6

4.6 For each of the years 2004 -2007, in the table on p. 8, Historic and Forecast margin, please add a column which gives TGI's forecast (made in the previous year).

Response:

The columns in the table following headed "Approved" are the forecast approved by the Commission in Annual Review Decisions for each year.

Historic Approved and Normal Margin ($ million)

	2004		2005		2006		2007	
	Approved	Normal	Approved	Normal	Approved	Normal	Approved	Projected
Residential	$ 287.3	$ 284.2	$ 288.5	$ 277.0	$ 300.6	$ 292.2	$ 297.4	$ 296.4
Commercial	121.2	123.4	123.4	120.4	125.3	126.4	124.7	129.7
Firm Sales	13.6	10.9	10.8	9.4	9.7	8.3	8.4	7.6
Industrial	44.6	45.4	46.1	48.5	49.7	49.0	49.1	46.5
Total	$ 466.7	$ 463.9	$ 468.8	$ 455.3	$ 485.3	$ 475.9	$ 479.6	$ 480.2

5.0 Reference: Exhibit B-1, Tab A-5, O&M Expense

5.1 Please provide a table showing Gross and Net O&M per customer for the years 2004-2007.

Response:

The Net Utility O&M Expense is from Section A, Tab 5, Page 2, Line 31, Overhead Capitalized from Line 26 and Average Number of Customers from Lines 1 and 4.

The columns in the table following headed "Approved" are the forecast approved by the Commission in Annual Review Decisions for each year.

	Operating & Maintenance Expense			
	2004 Approved	2005 Approved	2006 Approved	2007 Approved
Gross Utility O&M Expense / Customer	$ 238.41	$ 237.94	$ 241.61	$ 239.91
Net Utility O&M Expense / Customer	$ 204.96	$ 204.62	$ 207.74	$ 206.34
Net Utility O&M Expense	$ 159,417	$ 161,728	$ 167,091	$ 169,272
Add: Overhead Capitalized	26,010	26,335	27,243	27,535
Gross Utility O&M Expense	$ 185,427	$ 188,063	$ 194,334	$ 196,807
Average # of Customers	777,779	790,385	804,316	820,347

6.0 Reference: Exhibit B-1, Tab 6, Taxes and Other Expenses

6.1 Please provide a table showing the previous year forecast of property taxes along with actual property taxes for each year 2004-2007.

Response:

Property Taxes ($000's)

	2004		2005		2006		2007	
	Approved Forecast Expense	Actual	Approved Forecast Expense	Actual	Approved Forecast Expense	Actual	Approved Forecast Expense	Actual
Property Taxes	$ 13,090	$ 13,016	$ 13,178	$ 13,191	$ 12,992	$ 12,677	$ 14,356	$ 14,521
1% in Lieu of General Municipal Tax	26,330	25,573	26,395	27,130	28,387	27,718	30,096	28,862
Total	$ 39,420	$ 38,589	$ 39,573	$ 40,321	$ 41,379	$ 40,395	$ 44,452	$ 43,383

7.0 Reference: Exhibit B-1, Tab 8, Projections, p. 1

7.1 Please confirm that the projected 2007 ROE of 10.323% is entirely productivity-related (as opposed to weather-related.)

Response:

The Company assumes that this question relates to that portion of ROE that exceeds the allowed ROE of 8.37%, an earnings surplus which is subject to the earnings sharing mechanism.

It is not likely that there are weather related gains associated with the projected earnings surplus for 2007. Forecast vs. actual revenue variances resulting from differences in forecast vs. actual use-rates for core customers, including weather related variances, are captured in the RSAM and do not impact ROE. Revenues from industrial customers are at risk and are shared equally between customers and the Company and therefore impact ROE. It is likely that a small, but undefined, portion of industrial revenues could be subject to variances caused by weather. In the event that weather is warmer than normal, revenues could be lower as a result, which would reduce the ROE. A reduction would offset the productivity gains. To date in 2007, weather has been marginally colder than normal in the Lower Mainland region, while it has been marginally warmer than normal in the Interior regions.

The projected earnings surplus shared equally with customers is primarily a result of productivity-related incentives. Capital efficiency incentives and other incentives as detailed in the 2004-2007 PBR and extended to 2008 and 2009 also contribute, to a lesser degree, to the earnings surplus.

7.2 Please provide a breakdown as to the productivity improvements related to capital and the productivity improvements related to operations?

Response:

The $25.2 million in earnings surplus, before tax and earnings sharing can be broken into O&M productivity related gains of $16.9 million and capital related and other gains of $8.3 million.

8.0 Reference: Exhibit B-1, Five Year Major Capital Plan, p. 2

8.1 The plan states that "[w]hen compared with the figures presented in the 2006 Five Year Capital Plan, the year-end forecast for 2007 is lower by 6.5%." The text subsequently provides a variance explanation. Please comment on whether it has been TGI's experience that a successive capital plan tends to show decreases in year-end forecast spending with respect to the previous year's plan or, whether the experience has been that the capital plan's forecasts have been unbiased.

Response:

The schedule below compares the historical actual spending against the capital plan for that year. The experience shows that TGI's capital spending has been unbiased in regards to the capital plan. Capital spending is dedicated to servicing new and existing customers as well as maintaining the safety and integrity of the gas distribution system. The variances that exist between actual spending and the previous year's plan are attributed to many factors primarily driven by the prioritization of projects, resources available, and external factors. The performance based rate plan provides incentives to reduce spending under the formula-based targeted amounts to mutually benefit customers and the Company. Terasen Gas strives to achieve this goal while being committed to managing the safety and integrity of the system.

Plan vs. Actual - Regular Capital ('000s)

	2004	**2005**	**2006**
Plan	77,493	71,278	80,435
Actual	70,360	75,587	83,442

9.0 Reference: Exhibit B-2, Service Quality Indicators

9.1 Regarding TGI's improved performance in 2007 (to date) with respect to the Emergency Response Time SQI, to what extent does it reflect TGI's enhanced performance versus, for example, a change in proximity of the emergencies experienced so far in 2007 to the utility's offices?

Response:

Response times to hit line emergencies, which are reported in the SQI, have customer service technicians and crews reacting as first responders. These employees are dispatched from the location of the job they are working on at the time of the emergency. Response time is not linked to proximity of an emergency to utility offices. Several elements can affect emergency response time including:

- Number of emergencies happening in an area concurrently,
- Overall emergency manpower complement,
- Technician's travel time if it is necessary to respond from another town or a distant part of the same town or city,
- Traffic volumes and delays,
- Technician responding outside of regular working hours – on call or call out.

It is difficult to identify which factor most impacts response time. Performance improvement since 2005 can be attributed in part to process changes in the geographical assignment of regular work and the dispatching of emergency work.

9.2 With respect to Customer Satisfaction SQI's 8 and 9, is TGI actively trying to improve its scores? If so, please describe any initiatives that TGI has undertaken to engage and educate ratepayers or to identify and address the sources of any customer discontent.

Response:

With respect to SQI 8, TGI's focus is on maintaining overall satisfaction levels within a 75%-80% band. This represents positive performance for a regulated utility. Regarding SQI 9, TGI is focused on reducing the number of complaints to the BCUC that are due to issues within the utility's control and could have been resolved in prior communication between the utility and the customer.

Survey responses, customer complaints and customer feedback allow TGI to monitor customer needs over time and identify service improvement opportunities. In order to continue delivering quality service to customers, TGI works to implement improvements based on learning derived from survey results and the complaints process. Initiatives in 2007 included the significant re-design and re-launch of the terasengas.com web site, radio advertising regarding the Equal Payment Plan and Pre-Authorized Payment Plan billing options, promotion of electronic bill presentment through epost™, and a new Terasen Gas overview video for call centre staff to assist in the training process.

In the call centre, transactional surveys are conducted monthly to determine customer satisfaction with the call experience. As well, BCUC complaint statistics are posted in a visible location with a focus on reducing the number of preventable complaints. A winter readiness training program has also been prepared for the call centre staff as TGI call volumes increase with the heating season and to prepare for the initial billing for residential customers who have enrolled in the Customer Choice program.

9.3 Please indicate the extent to which any of the SQI benchmarks are adjusted in response to TGI's actual achievement.

Response:

The SQI benchmarks were established as part of the 2004-2007 PBR Settlement Agreement. The primary purpose of SQI's was to ensure that the Company did not sacrifice service quality in the pursuit of cost savings to enhance earnings. As such, the Settlement Agreement, as well as the Extended Settlement, established benchmarks from which to measure service levels and did not allow for changes to the SQI benchmarks during the term of the settlements.

9.4 Please provide a list of all benchmarks that have been changed since first set.

Response:

Please refer to the response to Question 9.3.