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November 3, 2008

British Columbia Public Interest Advocacy Centre
Suite 209 – 1090 West Pender Street
Vancouver, BC
V6E 2N7

Attention: Mr. James Quail, Executive Director

Dear Mr. Quail:

RE: Terasen Gas Inc. ("Terasen Gas")
2008–2009 Extension of the 2004–2007 Multi-Year Performance Based Rate Plan

2008 Annual Review of 2009 Revenue Requirements and Rates

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

In accordance with British Columbia Utilities Commission (the "Commission") Order No. G-142-08, on October 8, 2008 Terasen Gas submitted its 2008 Annual Review Advance Materials (the "Advance Materials") for the purposes of setting rates for 2009. Subsequent to the October 8th filing, economic circumstances warranted review of the industrial forecast and customer additions assumptions embedded in the Advance Materials. Terasen Gas filed an Amended Application on November 3, 2008 (the "November 3 Amended Application").

Pursuant to Commission Order No. G-142-08 setting out the Regulatory Timetable Terasen Gas respectfully submits the attached response to BCOAPO IR No. 1. Please note that all of the responses to the IRs are based on and reflect the November 3 Amended Application.

If there are any questions regarding the attached, please contact the undersigned.

Yours very truly,

TERASEN GAS INC.

Original signed:

Tom A. Loski

Attachment

cc: Erica M. Hamilton, Commission Secretary, BCUC
Registered Parties (e-mail only)

1.0 Reference: Exhibit B-2, Section A-1, p. 4 - Summary of 2009 Revenue Requirement Increase

Please indicate whether the $14.4 M amount for earnings sharing will be received in full by ratepayers or whether the figure is a pre-tax amount.

<u>Response:</u>

The $14.4 million earnings sharing amount is pre-tax and will be received in full by ratepayers.

2.0 Reference: Exhibit B-2, Section A-3, p. 4 - Rate Base

a) For 2008, the projected customer addition driven capital expenditures are $19.891M while the approved number for 2008 is $25.685M. Please provide the net impact of this variance on ratepayers in 2008 and 2009.

Response:

There is no direct impact of this variance to ratepayers in either the 2008 or 2009 revenue requirement calculation.

The 2009 rate base reflects the lower 2008 projected customer addition driven capital expenditures in the opening net plant in service balance, so that 2009 revenue requirement has been calculated using these lower projected 2008 additions.

b) Please confirm that the amounts shown as "actual" capital expenditures for each year are actual customer additions/numbers multiplied by a formulaically derived amount of capital expenditure per addition/number.

Response:

Confirmed.

c) Please indicate whether the approved capital additions and the approved average number of customers shown on this table represent TGI's forecasts filed with this application each year between 2004 and 2008. If not, please provide TGI's forecasts of customer additions and average number of customers for each year as initially filed.

Response:

Confirmed.

d) For the years 2004 and 2005, the approved customer additions are significantly lower than the actual numbers whereas for 2006-2008, the approved numbers exceed actual (projected in the case of 2008). Please indicate (i) the cumulative impact on ratepayers over the period 2004-2008 and (ii) whether this indicates a systemic forecasting problem in TGI's methodology.

Response:

The cumulative impact to ratepayers of variances between actual and approved customer additions for the 2004-2008 period is nil. There is no impact to the test year's revenue requirement of this variance because the formula based capital is restated, or trued-up, based on prior year actual customer additions as well as projected year customer additions.

The cumulative difference over the PBR term between the trued up formula based capital expenditures and actual base capital expenditures will be subject to a phase out of the benefits of 2/3 in the year after the term and 1/3 in the second year after as per BCUC Order No. G-51-03 and Order No. G-33-07 and as discussed in detail in Appendix A to Order No. G-51-03, Appendix 3 and Appendix A to Order No. G-33-07.

The customer additions forecast is based on the best available information at the time of preparation for the annual review filings, which is typically 18 months prior to the determination of actual customer additions. Considering the time lag, the number of factors that influence the actual customer additions and the variability in direction of the variances, there is no reason to conclude that the discrepancy between approved and actual customer additions indicates a systemic forecasting problem in TGI's methodology.

3.0 Reference: Exhibit B-2, Section A-3, p. 12 and p. 14.1 line 31 – Rate Base

The evidence states that, "[t]he addition to the deferral account for 2009 and 2010 is projected to be $3.8 million; $0.7 M in 2009 and $2.7 million in 2010." Please reconcile these numbers indicating where the $0.4M discrepancy lies.

<u>Response:</u>

The $3.8 million amount erroneously reflected the total for all the Terasen Utilities, rather than just for TGI. The TGI portion should have been stated $3.4 million; $0.7 million in 2009 and $2.7 million in 2010 as shown in the schedules.

4.0 Reference: Exhibit B-2, Section A-3, p. 13 -Rate Base

Please explain how the $6 tax adjustment related to the RSAM rider is calculated.

Response:

The tax adjustment is to recalculate the pre-tax amount of the projected year end RSAM balance based on the 2009 tax rate of 30% instead of the 2008 tax rate of 31%. While confirming this calculation it has come to our attention that a minor misstatement of the interest associated with the RSAM balance occurred in the original calculation of the amortization expense and the tax adjustment.

The revised interest and tax adjustment calculation decreases amortization by $5,000 (from $82,000 down to $77,000) but does not impact the rider amount. Therefore no change is required to the requested RSAM rider of $0.001/GJ.

5.0 Reference: Exhibit B-2, Section A-4, pp 4-5 - Gas Sales and Transportation Volumes

Please indicate whether TGI has noticed any "seasonality" with respect to customer additions and customer turnover, e.g., differences in incidence depending on the season. If so, please elaborate.

<u>Response:</u>

New construction or "gross" customer addition volumes have historically been highest in the last quarter of the year as builders and developers work to reach a level of completion that will allow them to complete the building interior during the winter months.

Customer turnover trends have historically seen customers primarily leaving the system in the spring and summer months with returns occurring in the fall as temperatures decline.

6.0 Reference: Exhibit B-2, Section A-4, p. 5 - Gas Sales and Transportation Volumes

a) If applicable, please explain how TGI distinguishes between changes in forecasted usage per customer

(i) reflected in "recent historical normalized use per account," and

(ii) changes in average use due to "efficiency improvements."

Response:

Recent historical normalized residential use per account rates are considered to be a good indication of the current years' annual use per account. That is, for 2008, the year-to-date normalized actual use per account, when compared to the same period in the prior year, provides a good indication of the year-end normalized actual use per account. Efficiency improvements are considered to be a good indicator of future use per account rates, beyond the current forecast year. For this application, the 2009 residential use per customer rates are assumed to decline by 1% from 2008 projected use per customer rates due to efficiency improvements.

b) Please explain whether TGI regards historical normalized average use as a good proxy for average use for customer additions.

Response:

Typically, TGI does not regard historical normalized average use as a good proxy for average use for customer additions. For quite some time now, the Company has observed residential average use decline, and this has been attributed primarily to efficiency improvements and technological advancements. Once those improvements / advancements have been made, they do not unwind, and therefore it is not reasonable to suggest average use would return to historical levels. For commercial rate classes, where historical average use is more stable, it is reasonable to expect future average use to remain at or near historical levels.

c) Please provide a high level description explaining the methodology used to forecast use per customer for each class.

Response:

For Commercial rate classes, the 2008 projection was based upon the ratio of the most recent year-to-date normalized actuals to the same period of the prior year, applied to the prior years' normalized annual use rate. The 2009 forecast was then based upon the 2008 projection with the average three-year growth rate applied to it.

For Residential customers, the same methodology described above was followed, except that 2009 forecast use per customer rates were based upon a 1% decline from the 2008 projected use per customer rates.

For Industrial customers, demand is estimated on a per customer basis, derived from the annual Industrial Survey.

7.0 Reference: Exhibit B-2, Section A-4, pp 6-7 - Gas Sales and Transportation Volumes

a) Please extend the Tables on pages 6 and 7 to show the forecast usage and forecast energy for the years 2005, 2006, 2007, as initially forecast by TGI, i.e., ex ante forecasts.

Response:

The following tables illustrate the annual use per customer and energy forecasts, as originally forecast by TGI, as well as the actual normalized user per customer and energy demand:

Forecast Use Per Customer Rates (GJ)

	2005	2006	2007
Rate 1	103.3	100.6	99.8
Rate 2	317	308	314
Rate 3	3,426	3,402	3,394
Rate 23	4,975	4,977	4,796

Actual Normalized Use Per Customer (GJ)

	2005	2006	2007
Rate 1	97.4	96.8	96.0
Rate 2	306	314	317
Rate 3	3,388	3,314	3,426
Rate 23	4,714	4,686	4,778

Forecast Energy Demand (PJ)

	2005	2006	2007
Residential	73.6	72.9	73.6
Commercial	45.4	43.8	44.3
Firm Sales	5.3	4.5	4.1
Industrial & Transportation	57.6	57.5	56.3

Actual Normalized Energy Demand (PJ)

	2005	2006	2007
Residential	69.3	70.0	70.6
Commercial	43.9	44.1	45.5
Firm Sales	4.7	4.1	3.8
Industrial & Transportation	58.6	54.2	56.3

b) Please confirm that the "Firm Sales" customers referred to in the Table on page 7 refers to transportation customers. If unable to so confirm, please explain.

Response:

Firm sales refers to Rate Schedule 4 (Seasonal Firm Gas Service), Rate Schedule 5 (General Firm Service), and also Rate Schedule 6 (Natural Gas Vehicle Service) customers.

8.0 Reference: Exhibit B-2, Section A-4, p. 10 -Gas Sales and Transportation Volumes

Does the recent significant depreciation of the Canadian dollar with respect to the US dollar have any implications for "Forecast Risks?"

Response:

Normally, it would be reasonable to assume the recent significant depreciation of the Canadian dollar with respect to the US dollar would lead to increased exports and also attract tourists from the US. However, with the current economic crisis rooted in the US, demand may not be sufficient for exportable goods to have an impact. This certainly has implications for "Forecast Risks", but is not quantifiable.

9.0 Reference: Exhibit B-2, Section B-1, Five-Year Major Capital Plan

a) Please indicate how frequently TGI prepares its five-year major capital plan.

Response:

TGI prepares its five-year major capital plan annually in conjunction with the Annual Review preparation.

b) Please provide a copy of the most recent Five-Year Major Capital Plan prior to the one currently in use.

Response:

Below is a summary of last year's Five-Year Major Capital Plan, as filed in the 2007 Annual Review material.

	2007 Forecast	2007 Projection	2008 Forecast	2009 Forecast	2010 Forecast	2011 Forecast	2012 Forecast
Forecasted Year End Customer Additions	13,160	13,129	11,797	11,346	11,148	11,047	11,048
Customer Driven Capital							
Mains	7,728	8,972	9,527	9,437	9,551	9,749	10,043
Services	15,552	17,871	19,443	19,260	19,492	19,896	20,496
Meters (Customer Additions)	4,172	4,140	3,834	3,798	3,844	3,924	4,042
	27,452	**30,983**	**32,804**	**32,496**	**32,888**	**33,569**	**34,581**
Other Regular Capital							
Replacement Customer Meters (Allocation)	12,327	11,089	13,392	17,231	21,082	25,414	27,310
Transmission Plant	6,401	4,912	11,652	4,841	5,063	5,164	5,267
Distribution Plant	8,806	10,224	9,174	7,793	7,814	8,058	8,270
IT	12,742	5,255	10,736	11,038	11,246	11,471	11,471
Non-IT	11,946	12,036	12,301	12,450	12,699	12,953	13,212
	52,222	**43,517**	**57,255**	**53,352**	**57,904**	**63,060**	**65,530**
Total Regular Capital	**79,674**	**74,500**	**90,059**	**85,848**	**90,791**	**96,629**	**100,111**

Figures exclude AFUDC and Capitalized Overheads.

10.0 Reference: Exhibit B-2, Section B-1, p. 3 - Five Year Major Capital Plan

Please explain how the number of customer removals will be reflected in rate base when TGI is rebased.

Response:

When TGI is rebased, the rate base will incorporate any impacts of customer removals in the actual opening plant in service balance.

11.0 Reference: Exhibit B-2, Section B-1, p. 4 - Five Year Major Capital Plan

With respect to the SCP Code Compliance Upgrades, please explain how the increase in population density and class location has lowered the allowable operating pressure.

Response:

The increase in population along the pipeline has increased the class location designation as defined by the Canadian Standards Association Z662-07 (Oil and Gas Pipeline Systems Standard). As the class location increases, the standard recognizes the additional risk associated with the higher population density. In this case, this resulted in a decrease in the allowable operating pressure to recognize the additional risk of the higher population density.

12.0 Reference: Exhibit B-2, Section B-1, p. 9 - Five-Year Major Capital Plan

Please provide a breakdown of the equipment to be replaced under the Desktop Refresh program, i.e., type of equipment and number of items.

Response:

The first table below shows a breakdown of the type of equipment and number of items scheduled to be replaced under the Desktop Refresh program.

In addition, there are a number of smaller items that are not forecast based on individual units, but rather as a set dollar amount. These amounts are displayed in the second table below.

Summary of Desktop Refresh Program Equipment Replacements (units)

Hardware	2009	2010	2011	2012	2013
Desktop Computers	413	289	67	9	433
LCD Flat Panel Monitors	126	76	11	17	621
Laptops	233	144	21	53	245
Port Replicator	126	76	11	27	132
USB Keys, Disk Drives, or CD/DVD Writers	251	150	21	53	264

Additional Items Included in Desktop Refresh Program ($ '000's)

Deployment Lab Equipment (DVD Writer, Portable Drives, etc.)	7	4	1	-	7
Accessories/Miscellaneous (software licenses (Adobe), serial port adapters, rush delivery charges, test video cards, etc.	15	7	7	7	15

13.0 Reference: Exhibit B-2, Section B-2, Service Quality Indicators

a) Please indicate whether TGI has noticed any seasonality in any of these indicators; that is, can one simply take the 2008 Jan-Aug figures for indicators 1, 2, 3, 5a, 5b, 6, 7, and 8 and assume that they will be representative of the year as a whole?

Response:

TGI's focus is to maintain consistent performance throughout the year. Results for the above noted indicators typically do not have seasonal impacts. TGI anticipates that the 2008 Jan-Aug figures will be representative of 2008 as a whole at year-end.

b) Similarly, can one assume that the figures for 2008 Jan-Aug for SQI's 4, 9, and 10 can be prorated to provide a full year estimate?

Response:

Yes, this is an appropriate assumption for SQI's 4 and 10. Regarding SQI 9, while TGI generally sees lower volumes in July, September and December, prorating the Jan-Aug figures is a reasonable approach to derive a full year estimate.

c) With respect to SQI 3, the 2008 figure seems to be trending close to the benchmark. Does the recent slippage in performance reflect productivity improvements?

Response:

SQI 3 tracks the percent of non-emergency calls (i.e. billing inquiries, service applications) that are answered by a person within 30 seconds. Performance for this indicator in 2008 is only slightly ahead of the benchmark due to not meeting the benchmark in January and February. This was a result of higher call volumes than forecast due to statement mailing delays after the business failure of TGI's third party print provider in January. Monthly results from March through September have been in line with historical performance and exceeded the benchmark.

14.0 Reference: Exhibit B-2, Section B-4, Uncontrollable/Partially Controllable Expenses

a) Please discuss the net benefit of TGI reducing its property taxes for those ratepayers who also pay, directly or indirectly, property taxes.

Response:

To the extent that TGI can reduce its property taxes, these reductions will be reflected in customers rates under the current Extended Settlement.

b) Please provide an estimate of the incremental costs that TGI incurs annually in its efforts to mitigate property taxes, if available.

Response:

Mitigation is an integral part of the property tax management process which includes duties such as negotiating appropriate methodologies of valuation for complex, non-market properties, continuous review of the assessment portfolio for accuracy, fulfilling legislated reporting requirements, timely payment of property taxes and monitoring the application of taxation policies, preparing annual budgets and forecasts, analysis of property tax impacts on projects, and as a last resort filing appeals to resolve differences of opinions on the application of assessment legislation.

Property taxes are managed entirely with internal resources consisting of one full-time property tax specialist, and one part-time administrative assistant. In the past 10 years, total incremental costs for external resources amounted to about $1,800. This consisted primarily of advice from external legal council that specializes in property taxation matters.