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November 19, 2008

Regulatory Affairs Correspondence  
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British Columbia Utilities Commission  
Sixth Floor  
900 Howe Street  
Vancouver, B.C. V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

**Re: Terasen Gas Inc. (“Terasen Gas”, “TGI” or the “Company”)  
2008 Annual Review of 2009 Revenue Requirements  
Response to Workshop Undertakings**

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On November 7, 2008, a Joint Workshop (the “Workshop”) was held for the 2008 Terasen Gas Annual Review and the Terasen Gas (Vancouver Island) Inc. (“TGVI”) Settlement Update for their respective 2009 Revenue Requirements in accordance with the Regulatory Timetables established by British Columbia Utilities Commission (“BCUC” or the “Commission”) in Order No. G-142-08 and G-143-08 respectively. Included in Attachment 1 is a listing of the Workshop participants.

During the Workshop, Terasen Gas committed to several undertakings for additional information with response due by November 19, 2008. This filing represents the Terasen Gas response to these undertakings. The TGVI response to its Workshop Undertakings is filed under a separate letter.

## 1. Forecast Actual Retirements vs. Formula for 2008 and 2009

TGI was requested to provide a summary of Forecast Actual Retirements as compared to the Formula Retirements for the 2008 and 2009 years. The following table provides that summary:

### Mains and Meters Retirements Actual vs Formula (\$000's)

	2008		2009	
	Projection	Formula	Forecast	Formula
475-00 Mains	2,677	3,351	2,119	3,261
474-00 House Regulators & Meter Installations	2,462	509	2,218	511
478-00 Meters	1,740	575	1,447	563

Note that in all cases, retirements are assumed to have zero NBV so the amount of the retirements has no impact on rate base.

## 2. Forecast Actual Additions vs. Formula for 2008 and 2009

TGI was requested to provide a summary of Forecast Actual Capital Additions as compared to the Formula Capital Additions for the 2008 and 2009 years. The following table provides that summary:

### Capital Additions Actual vs Formula (\$000s)

	2008		2009	
	Projection	Formula	Forecast	Formula
Customer Driven Capital	32,285	19,891	21,212	15,237
Other Regular Capital	57,733	73,618	61,945	74,894
<b>Total Regular Capital</b>	<b>90,018</b>	<b>93,509</b>	<b>83,157</b>	<b>90,131</b>

## 3. Utility Allocation of 1111 W. Georgia (10<sup>th</sup> floor) Office Space

The Utility allocation was determined on a square footage basis. The office space assigned to each Utility employee was either 100% allocated to Utility, or a percentage was used based on the existing Continuing Services contracts (percentage of hours the employee spends on utility work as a percentage of total hours). This square footage was then allocated a proportionate share of the common area floor space to determine a total Utility square footage, which was then multiplied by the lease cost per square foot to determine the rent. The result is that 32% of the total rent for the 10<sup>th</sup> floor office space is allocated to the Utility.

## 4. Determination of Difficulty Weightings for International Financial Reporting Standards (“IFRS”) Cost Allocation

The general approach to developing a weighting for the IFRS standards was to evaluate each standard based on both its applicability and its complexity. Generally, where items have lower values on these measures, they receive a lower weighting, and as these measures increase, so does the weighting. The results of the analysis can be summarized as follows:

1. Standards with no or extremely limited applicability to the Terasen group, or no changes from existing Canadian GAAP
  - IAS 40 Investment Property (1)
  - IAS 2 Inventories (1)
  - IAS 28 Investments in Associates (1)
  - IAS 31 Investments in Joint Ventures (1)
  - IAS 21 Changes in Foreign Exchange Rates (1)

2. Presentation standard only with limited impact throughout the organization and therefore a difficulty weighting of 3 or less
  - IAS 34 Interim Financial Reporting (1)
  - IAS 7 Cash Flow Statements (2)
  - IAS 27 Consolidated Financial Statements (3)
  - IFRS 8 Operating Segments (3)
  - IAS 10 Events after the Balance Sheet Date (2)
  - IAS 24 Related Party Disclosures (2)
  - IAS 33 Earnings per Share (3)
  - IAS 8 Changes in Accounting Policies (3)
  - IAS 1 Financial Statement Presentation (5)
  
3. Complex standards but limited applicability to Terasen group
  - IFRS 3 Business Combinations (2)
  - IFRS 2 Share Based Payments (3)
  - IAS 11 Construction Contracts (2)
  
4. Complex standard requiring extensive review of all items and calculations at a detailed level
  - IAS 36 Impairment of Assets (8)
  - IAS 37 Provisions, Contingent Liabilities and Contingent Assets (including AROs) (8)
  - IAS 19 Employee Benefits (8)
  - IAS 18 Revenues (7)
  - IAS 17 Leases (7)
  - IAS 32, IAS 39, IFRS 7 Financial Instruments (7)

Other standards were given a rating reflecting individual characteristics.

- IFRS 1 First Time Adoption covers off 13 elective exemptions (primarily PP&E, employee benefits, financial instruments (3), decommissioning liabilities, leases) and 4 mandatory exemptions (primarily financial instruments and leases). These are all complex and require a detailed understanding of the implications. Difficulty weighting was 8.
- IAS 12 Income Taxes does not currently have a large number of differences that have been identified, but the standard is changing and will require continual monitoring and evaluation throughout the course of the project. Difficulty weighting was 5.
- IAS 23 Borrowing Costs, although the number of identified differences are not large, requires careful evaluation of alternative methods of calculation. Difficulty weighting was 7.
- IAS 38 Intangible Assets, although substantially converged with the existing Canadian standard, this is the standard under which rate regulated assets/deferrals would be recognized. Therefore a significant effort will be required to document all deferrals and how they meet the criteria for recognition. Difficulty weighting was 8.
- IAS 16 Property Plant & Equipment is the most labour-intensive standard for the project as far as analyzing current processes and requiring changes at the most detailed level. It will have the most implications throughout the operational level

of the company and therefore will require the most extensive communication and evaluation. Difficulty weighting was 10.

### **Future Revisions to Application**

Terasen Gas anticipates the Commission will issue an Order setting the benchmark allowed Return on Equity (“ROE”) for 2008 within the next two weeks. Subsequent to that Order and consistent with past practice, Terasen Gas will revise its Application (and rate proposals) and expects to submit that revision with the Reply Comments due on December 3, 2008. The Company anticipates that the approved ROE will be reduced from 8.62% to 8.47% with the resulting reduction in revenue requirements.

If there are any questions regarding this submission please do not hesitate to contact the undersigned.

Sincerely,

**TERASEN GAS INC.**

***Original signed:***

Tom A. Loski

Attachment

cc (e-mail only): TGI 2008 Annual Review Participants

# **Attachment 1**

Attendee Sign-in Sheet

2008 Joint Workshop - Friday, November 7, 2008

Terasen Gas Inc. ANNUAL REVIEW and  
Terasen Gas (Vancouver Island) Inc. SETTLEMENT UPDATE

PLEASE PRINT NAME	ORGANIZATION	EMAIL	PHONE
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Mike Hopkins	Terasen Gas		592-7842
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