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October 2, 2009

Regulatory Affairs Correspondence
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CustomerWorks LP
c/o Miller Thomson LLP
Barristers & Solicitors
Robson Court, 1000-840 Howe Street
Vancouver, BC
V6Z 2M1

Attention: Mr. Charles W. Bois

Dear Mr. Bois:

**Re: Terasen Gas Inc. ("Terasen Gas")
Customer Care Enhancement Project Application for a Certificate of Public
Convenience and Necessity ("CPCN") to Insource Customer Care Services and
Implement a New Customer Information System ("CIS") (the "Application")
Response to the CustomerWorks LP ("CWLP") Information Request ("IR") No. 1**

On June 2, 2009, Terasen Gas filed the Application as referenced above. In accordance with Commission Order No. G-107-09 setting out the Revised Regulatory Timetable for the Application, Terasen Gas respectfully submits the attached response to CWLP IR No. 1.

If you have any questions or require further information related to this Application, please do not hesitate to contact Danielle Wensink, Director, Customer Care & Services at (604) 592-7497.

Yours very truly,

TERASEN GAS INC.

Original signed:

Tom A. Loski

Attachments

cc (email only): Registered Parties



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1. REFERENCE: EXHIBIT B-4, SECTION 1.1.2 DRIVERS FOR CHANGE, PAGE 3

Terasen states that:

Service Quality Indicators ("SQI") put in place as part of the Terasen Gas Performance Based Rate Making Settlement Agreement have indicated performance has in general met call centre and billing related targets through much of the intervening period (complete SQI results are provided in Appendix J). When services have fallen short of contractual standards, which has happened more frequently of late, CustomerWorks LP has been required to pay contractual penalties to Terasen Gas. The payment of penalties to Terasen Gas accompanied by service shortfalls is not a sustainable model going forward.

- 1.1 Please confirm that the SQIs agreed to in the Performance Based Rate Settlement Agreement (PBR) formed part of the CSA metrics. If not, what metrics are used to assess performance under the CSA and how do these metrics compare to those in the PBR?

Response:

A subset of the metrics in the Client Services Agreement was included in the Performance Based Rate Making Settlement Agreement's SQIs. For a full set of Metrics please refer to Schedules A through I attached to the Client Services Agreement in Appendix L.

- 1.2 In Appendix J Terasen sets out the service level benchmarks and the service levels achieved by CustomerWorks. Please confirm that for the period 2003-2008, CustomerWorks met or exceeded benchmark service levels.

Response:

Appendix J sets out the Company's performance results for SQIs under the current PBR Agreement rather than CustomerWorks' performance results for all service levels under the Client Services Agreement (CSA). Certain service levels under the CSA are represented in SQIs 2, 3, 5(a) and 5(b) in Appendix J.

As indicated in Appendix J, CustomerWorks LP did not meet or exceed all of the annual SQI service metrics that are based on performance against certain service levels under the CSA for the period 2003-2008. SQI 3, "speed of answer – non-emergency", was not met in 2008. SQI 5(a), "index of customer bills not meeting criteria", was not met in 2008. SQI 5 (b), "percent of transportation customer bills not accurate", was not met in 2004 or in 2008.



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- 1.3 Please confirm that all penalties paid by CustomerWorks are treated as a reduction to the cost of the services provided by CustomerWorks and that such reductions ultimately flow to the benefit of ratepayers.

Response:

During the initial term and subsequent extension of the PBR Settlement Agreement (2004 through to 2009), the amount of O&M to be included in rates has been determined by a formula. Any variances between the amount included in rates and the actual O&M realized were shared equally between ratepayers and the Company. Since the CustomerWorks penalties were not included in the O&M base to which the formula was applied, they resulted in a variance between the formula and allowed. Thus, the revenue associated with the penalties has been shared equally between the ratepayers and the Company, in accordance with the PBR Settlement Agreement.

During the period 2010-2011, the rates are set on a forecast basis, with the shareholder being either at risk of amounts in excess of the revenue requirement, or benefiting from any amounts below the approved revenue requirement. The 2010-2011 RRA does not include a provision for penalties.

Please see the response to CEC IR 1.3.2 where Terasen Gas expands on why the model of paying penalties to Terasen Gas accompanied by service shortfalls is not sustainable going forward for the Company or our customers.



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2. REFERENCE: EXHIBIT B-4, SECTION 1.1.2 – DRIVERS FOR CHANGE, PAGES 3 & 4 AND APPENDIX L – CLIENT SERVICES AGREEMENT

In the first paragraph in Section 1.1.2 – Drivers for Change, Terasen indicates that it believes that it is appropriate to revisit and reduce the scope of the current Business Process Outsourcing Arrangement with CustomerWorks. Terasen goes on to suggest that such changes in scope are permitted under the CSA.

In the first full paragraph on page 4 of Exhibit B-4, Terasen states:

The current scope of services outsourced to CustomerWorks LP will, of necessity, remain in place beyond 2009.

- 2.1 Turning to the CSA, filed as Appendix L to Exhibit B-4 and specifically Section 15 of the CSA, please confirm that Section 15 sets out the contractual framework to be used by the parties to negotiate and agree to scope changes.

Response:

Terasen Gas confirms that Section 15 sets out the contractual framework to be used by the parties to negotiate and agree to scope changes.

- 2.2 Please confirm that Section 15 of the CSA contemplates that Scope Changes may be required from time to time for a variety of reasons, including the need for increased functionality in a system, increased functionality beyond that contemplated in the Project Transfer Agreement; changes in Terasen's needs; or to change some aspect of a Service to reflect improvements in prevailing industry standards or practises; and other circumstances.

Response:

Terasen Gas confirms that Section 15 of the CSA contemplates that Scope Changes may be required from time to time for a variety of reasons, including the need for increased functionality in a system; increased functionality beyond that contemplated in the Project Transfer Agreement; changes in TGI's needs; or to change some aspect of a Service to reflect improvements in prevailing industry standards or practices; and other circumstances.



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- 2.3 Please confirm that you have presented the written transition requirements for In-Sourcing to CWLP. If not, why not? Please confirm that you have received a quote for such services.

Response:

Terasen Gas has had ongoing verbal discussions with CustomerWorks regarding transition requirements and continues to work with CustomerWorks toward a resolution of those issues and costs.

- 2.4 Terasen is targeting an in-service date of January 2012 for its new inhouse system. Please confirm that, subject to Terasen and CustomerWorks negotiating and agreeing to the necessary amendments to the CSA, January 2012 will be latest date that CustomerWorks will be required to provide services to Terasen under the CSA.

Response:

Terasen Gas cannot confirm the statement in CWLP IR 1.2.4.

Terasen Gas may continue to require meter reading services from CustomerWorks, and as such does not anticipate necessarily removing this service from the current scope of services. The Company expects that CustomerWorks may continue to provide this service up to and after January 2012.

- 2.5 Turning to the Services provided by CustomerWorks and having regard to defined terms in the CSA, please confirm that the Services provided by CustomerWorks are set out in and include, but are not limited to:
- (a) Schedule A - Customer Contact Services;
 - (b) Schedule B – Billing Support Services;
 - (c) Schedule C – Meter Reading Services;
 - (d) Schedule D – Credit and Collection Services;



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- (e) Schedule E – Industrial and Off System Support Services;
- (f) Schedule F – Commercial Unbundling Operational Services;
- (g) Schedule H – Terasen Gas (Vancouver Island) Inc. and Terasen Gas Whistler Inc. Services; and
- (h) Schedule I – Customer Choice Operational Services.

Response:

The services provided to TGI by CustomerWorks LP under the CSA are those set out in the above-listed schedules.

- 2.6 With respect to the Terasen's service requirements prior to January 2012, please confirm that Terasen expects that CustomerWorks will continue to provide the foregoing Services beyond 2009 through to the implementation of Terasen's inhouse system. If CustomerWorks will not be required to provide all of the foregoing Services during this period, please provide a detailed list of Terasen's requirements and the services that Terasen will require from CustomerWorks beyond 2009, as well as the period of time Terasen will require each of the services.

Response:

Terasen Gas confirms that it expects CWLP will continue to provide the services specified in the agreement beyond 2009 through to the implementation of Terasen Gas' in-house system.

At this time Terasen Gas is planning to increase the level of oversight of the agreement specifically related to the management of escalated complaints and sensitive customer issues. Specific services may be considered should circumstances warrant a change to a service earlier than January 1, 2012.



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3. REFERENCE: EXHIBIT B-4, SECTION 1.1.4 – PROJECT COST AND RATE IMPACT, PAGES 7-8, TABLE 2.2, ANNUAL TOTAL CUSTOMER CARE COSTS, PAGE 17, SCHEDULES 5 & 7 OF APPENDIX K – FINANCIAL SCHEDULES AND APPENDIX X – DETAILED COSTS AND FINANCIAL MODEL, FILED CONFIDENTIALLY

In the third paragraph of Section 1.1.4, Terasen indicates that on a "cost of service basis" the estimated annual cost per customer to support the new customer care function is \$64.00 per customer in 2012, as compared to the projected costs of \$65.50 per customer of the current arrangement with CustomerWorks. Terasen goes on to state that by 2019 the annual cost per customer of the new system will be below the "notional cost" of the current customer care arrangement.

In Table 2.2 Terasen outlines its current customer care costs per customer for all Terasen utilities.

In Schedule 5 Terasen sets out its Revenue Requirements and in Schedule 7, Terasen purports to set out a cost per customer analysis of its inhouse system as compared to the cost per customer of the current customer care arrangement with CustomerWorks.

3.1 Please confirm that the costs reported in Table 2.2 were used in the preparation of Schedules 5 and 7 in Appendix K. Are there any costs included in Schedules 5 & 7 identified as being related to the current customer care arrangement that are not included in Table 2.2 and vice versa. If yes, please identify those costs and explain why they are not included.

Response:

TGI confirms that the costs reported in Table 2.2 were used in the preparation of Schedules 5 and 7 provided in Appendix K. There are no additional costs related to the current customer care arrangement included in Schedules 5 and 7 that are not also included in Table 2.2 (and vice versa), subject to rounding differences between the costs recorded in these areas.

3.2 Turning to Table 2.2.;

(a) please confirm that the Banner conversion costs indicated in line 7 will continue to be incurred by Terasen beyond 2012 after its new inhouse system is implemented. Please confirm whether this cost is included in



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the cost per customer of the new inhouse system and at what value. If not, why not?

Response:

TGI confirms that the Banner conversion costs as set out in line 7 of Table 2.2 of the Amended Application will continue to be incurred by Terasen Gas after 2012 after the new in-house CIS platform is implemented. This treatment of the Banner conversion costs is consistent with Commission Order C-15-05. Please also refer to the response to BCUC IR 1.10.9.

TGI confirms that the same Banner conversion cost is included in the cost per customer of the new in-house CIS platform and customer care function as filed in the updated financial schedules dated October 2, 2009.

- (b) is it appropriate for the Banner conversion costs to be included in the current annual and per customer, customer care costs? If Terasen considers it appropriate then please explain in detail why it is appropriate.

Response:

Yes, it is appropriate for the Banner conversion costs to be included in the current annual and per customer, customer care costs. For clarity, these costs represent the revenue requirement of the conversion project that was implemented in late 2005. These costs need to be included as they form part of the total customer care costs that customers are responsible for paying in rates. Their inclusion provides a complete overview of all customer care costs incurred by Terasen Gas. In order to ensure that a comparison of the notional cost of the current customer care arrangement and the cost of the reconfigured customer care function are comparable, the same Banner conversion revenue requirement cost is included in the cost per customer calculation that is set out in the Application.

3.3 Terasen states on page 17 of Exhibit B-4 that the annual increase in the total cost of the CSA as a result of the inflation adjustment alone is expected to be approximately \$600,000 for 2012.

- (a) Please provide the escalation rates for inflation under the CSA and confirm that those rates were used in all of Terasen's evidence and



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calculations relating to and projecting the costs in Schedules 5 & 7 of Appendix K, of the current customer care system though to 2031.

Response:

The Client Services Agreement (CSA) was escalated per the terms of that agreement. Specifically, at the rate of one half of inflation (BC-CPI) plus customer growth. The assumed rate of inflation was 2% for the period of 2009 to 2012 and over the 20 year analysis period. The total number of customers used to determine customer growth is provided in Appendix K, Schedule 2, on row 7. This rate of inflation and customer growth was used to prepare the Company's evidence in support of this Application.

Please also refer to the response to BCUC IR 1.135.1.1.

- (b) Please identify the inflation escalator and other cost escalators Terasen used to account for inflation when determining and projecting Terasen's costs.

Response:

Please refer to the response to CWLP IR 1.3.3(a).

- (c) Please confirm whether the rates used by Terasen to account for cost escalation and inflation are the same rates it used in its Revenue Requirements Applications and if not why not.

Response:

Yes, the rates used by Terasen Gas to account for cost escalation and inflation are the same rates used in the Company's Revenue Requirements Applications for 2010 and 2011. For the period after 2011, labour inflation, except for staff assumed to be part of the new collective agreement for the staffing of the call centres and billing operations, is assumed to be 3%. Labour that is assumed to be part of the new collective agreement is inflated per the terms of that agreement. Materials inflation is 2%.



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3.4 Terasen also indicates on page 17 of Exhibit B-4 that the cost per customer of the current arrangement will rise from a projected \$55.88 in 2009 to \$63.40 in 2012 based on the inflation adjustment. Terasen then goes on to state that changes necessitated by regulation or legislation during this period would add to that cost. As an example of a legislative change Terasen refers to the implementation of the Carbon Tax.

- (a) does Terasen have any evidence of any pending or planned regulation or legislation that would impact the cost of the current system? If so, please provide all such evidence;

Response:

Terasen Gas is anticipating a significant tax change in 2010 with the introduction of the Harmonized Sales Tax (HST). The specific implementation and transition rules have not yet been defined but could require a system change in which case there would be a development cost related to the CIS change. This cost would be in addition to the implementation costs that would be billable by CWLP. The Company is analyzing the impacts of this new tax. Refer to the September Budget Update 2009 – British Columbia for further information.

Once the implementation and transition rules have been defined, Terasen Gas will submit a change order to CWLP for a cost estimate to complete the work required. For a preliminary estimate of the cost refer to CWLP IR 1.3.4 (b).

Terasen Gas is not aware of any other changes at this time, but based on past experience it is reasonable to expect other changes in the future.

The need for changes of this nature will be significantly reduced once the Project goes live. The Company believes that the SAP CIS has very strong functional support for rates and taxes. Additionally, in the future these types of changes will be able to be implemented in most cases with in-house staff. The Company will not require third party support to implement.

- (b) please confirm that the current customer care systems and arrangement have successfully accommodated the implementation of the Carbon Tax;

Response:

Terasen Gas confirms that the requirements for Carbon Tax were successfully accommodated. The incremental cost associated with the implementation of this change was \$159,000 plus an additional \$4,600 required to support the first rate change. Under the current model, Terasen



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Gas expects that incremental costs will be required for future changes, whereas the SAP product provides additional functionality in its base application. Please see the response to CWLP IR 1.3.4.a.

- (c) please confirm that customers' bills currently identify the government taxes and other levies and charges imposed by legislation or regulation; and

Response:

Yes, customer bills currently identify the government taxes and other levies and charges imposed by legislation or regulation.

- (d) please confirm that once Terasen's systems are implemented in 2012, any changes necessitated by regulation or legislation could result in Terasen incurring costs to assess and implement such change. Will these costs increase the per customer cost of Terasen's inhouse system. If not, why not?

Response:

Once Terasen Gas implements its new system in 2012, any changes necessitated by legislation or regulation could result in additional charges. The Company believes this is unlikely because the new system is highly configurable and the onsite configuration and testing is expected to be performed with internal staff. Terasen Gas does not believe it will be necessary to engage third party support. Under the current arrangement all implementation costs including configuration, testing, and training would be at an additional cost paid to a third party.

In the future, the costs required to support changes necessitated by regulation or legislation would increase the cost per customer. Terasen Gas believes the magnitude of these potential costs is significantly reduced though an in-house system.

- 3.5 Please provide a detailed explanation and all supporting evidence of whether Terasen is aware of any technical obstacles that would preclude further changes



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or upgrades to the existing customer care systems to accommodate the legislative changes anticipated by Terasen.

Response:

Terasen Gas cannot determine if there are any technical obstacles in the Peace platform because the vendor did not respond to Terasen Gas' detailed requirements document to the degree of detail required to make this determination. Although a response was provided that discussed at a high level the application's features, Hansen declined TGI's request to file its response as evidence for this proceeding.

For further information regarding the capabilities of the current CIS system please refer to the response to BCUC IR 1.37.1.

- 3.6 With respect to Schedules 5 & 7 of Appendix K, please confirm that the costs reported in line 4 on Schedule 5 are the same costs reported in line 70 of Schedule 7. If these costs are not the same, please explain the differences. Please confirm that the same discount factors were used in preparing Schedules 5 & 7.

Response:

The costs reported in line 4 on Schedule 5 are not the same costs reported in line 70 of Schedule 7.

Line 4 of Schedule 5 represents TGI's portion of the total cost of the current customer care function. Line 70 of Schedule 7 represents the discounted total cost of the entire customer care function for the Terasen Utilities that forms part of the levelized cost calculation.

In order to match the costs in these two schedules, lines 4, 38, and 72 of Schedule 5 must be summed. This total is the same as the amount recorded on line 68 of Schedule 7.

The same discount factor was used to prepare both Schedule 5 and 7.

- 3.7 With respect to Schedule 7 and the costs of the existing customer care contract, please confirm that the costs reported in line 68 represent the total costs for the customer care services for all of Terasen's utilities. Please explain the process



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Terasen used when determining the total cost per customer of the existing customer care systems. Please confirm whether Terasen used the total number of customers for TGI, TGVI and TGW as the denominator in the cost per customer calculation. If not, advise what customer numbers Terasen used and why. Please provide a new schedule similar to Schedule 7 that produces a cost per customer that incorporates all of the customers in the denominator.

Response:

TGI confirms that line 68 of Schedule 7 records the total estimated cost of the current customer care arrangement for all of the Terasen Utilities. This cost is comprised of the projected cost of the Client Services Agreement, the projected cost by Terasen Gas to manage the current customer care function and administer the Client Services Agreement, and the cost of the revenue requirement caused by the Banner CIS Conversion. These components are the same as those provided in Table 2.2 of the Amended Application on page 17.

Determining the total cost of the current customer care function involved reviewing each of the three components separately as follows.

- The Client Services Agreement was escalated as described in the response to CWLP IR 1.3.3(a).
- The management and administration costs were inflated as described in the response to BCUC IR 1.135.1.1.
- The revenue requirement is an outcome of the depreciation of the Banner CIS conversion following the standard cost of service calculation methodology.

The resulting total cost of the current customer care function assumes no significant upgrades that would be required to place it on a footing equal to that proposed by the Company in its Amended Application for the reasons set out in that filing.

In calculating the cost per customer, the total average number of customers served by TGI, TGVI, and TGW were summed and used as the denominator to produce the cost per customer included in the Amended Application, including in Schedule 7.

- 3.8 With respect to Schedule 7 and the determination of the cost per customer, please confirm whether the number of customers used to derive the cost per customer is discounted as indicated in line 55, and explain why the number of customers was discounted. In addition, please explain why line 55 shows the



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number of customers declining each year when the overall number of customers is projected to increase in each service area as shown in lines 19, 30 and 41 of the spreadsheet.

Response:

The apparent decrease in the number of customers that appears in Schedule 7 is the result of completing a calculation input that is used to determine the levelized cost per customer. In order to correctly calculate a present value of the levelized average cost per customer it is necessary to not only discount the total cost of service, but also to discount the denominator, i.e. the number of customers. Terasen Gas confirms it is discounting the total average number of customers in each year; the discounted number of customers is shown on line 55.

Similarly, this approach to calculating a levelized cost per GJ has been used by the Company in other Applications accepted by the Commission, whereby the total annual costs and annual volumes are discounted to derive a levelized cost per GJ. In this Schedule Terasen Gas is showing a levelized cost per customer to compare against the outsourced cost per customer.

The forecast total average number of customers is, as pointed out in the question, growing, but the rate of growth is less than the discount rate which is why it appears on line 55 that the discounted average number of customers is declining. The same discount rate is applied to discounting the annual cost of service for each year as for total average number of customers.

- 3.9 With respect to Appendix X of Exhibit B-4, which has been filed confidentially, CustomerWorks is mindful of Terasen's desire that its estimate of the transition costs that might be payable to CustomerWorks remain confidential. However, to the extent that Appendix X purports to include financial or cost data and projections connected with, arising out of, or incurred as a result of the current customer care arrangement, CustomerWorks requests that Terasen provide all such information to CustomerWorks on a confidential basis.

Response:

Appendix X of Exhibit B-4 contains a number of confidential filings, including an estimate of the transition costs that might be payable to CustomerWorks that must remain confidential as indicated in the question. These confidential filings do not contain any other reference to the current customer care arrangement, or its cost, other than what has been disclosed as part of the non-confidential filings made in support of this Application. As a result, there is no confidential material that Terasen Gas has filed meeting the description in this question.



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4. REFERENCE: EXHIBIT B-4, SECTION 2.2.1 – CLIENT SERVICES AGREEMENT, PAGE 15 AND CLIENT SERVICES AGREEMENT, APPENDIX L

In Section 2.2.1 Terasen states in part:

As indicated above, the Client Services Agreement defines the scope of services provided under the business processing outsourcing ("BPO") CustomerWorks LP. These contract provisions are foundational to understanding the alternatives investigated by Terasen Gas, which were discussed further in Section 4."

A copy of the CSA as well as any new schedules relating to any additional services added as amendments to agreement is included in Appendix L. After the expiry of the initial five year term in 2006, the CSA is automatically renewed in perpetuity for additional terms, each being one year. The services included in the CSA are customer contact (call handling and correspondence services), meter reading, billing support, industrial and off system sales, credit and collections, and the technical support of the current CIS [emphasis added].

In mid 2002, CustomerWorks LP reached an agreement with Accenture Inc. to take over responsibility for the delivery of customer care services under the CSA on a subcontract basis. Since that agreement was negotiated, Accenture Utilities Business Process Outsourcing Services, a subsidiary of Accenture Inc., has provided all customer care services set out in the CSA on behalf of CustomerWorks LP to Terasen Gas. Terasen Gas is not privy to the details of the subcontracting arrangement.

- 4.1 Did Terasen approve CustomerWorks subcontracting with Accenture for the provision of services under the CSA as is contemplated under Section 22 of the CSA?

Response:

Yes, Terasen Gas approved the subcontracting with Accenture for the provision of the services under Section 22 of the CSA, which required TGI not to unreasonably withhold its consent.



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- 4.2 Please confirm that CustomerWorks authorized Terasen and Accenture to communicate directly with each other on a daily basis in connection with the operation and provision of the current customer care services provided under the CSA.

Response:

Yes, CustomerWorks authorized Accenture and Terasen Gas to communicate directly with each other in connection with the operation and provision of the current customer services provided under the CSA.



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5. REFERENCE: EXHIBIT B-4, PAGE 16

In the second full paragraph on page 16, Terasen states:

The Client Services Agreement includes a right of first refusal provision whereby, if Terasen Gas choose to go out to the market to obtain cost estimates for continued outsourcing of the customer care services, the Company is required to include all of the services included in the agreement. If Terasen selects an alternate provider through this process, CustomerWorks LP has the right to retain the work by matching the selected bid in terms of costs, scope and quality of service articulated in the selected response. This right of first refusal provision is critical in this regard because it restricts the Company's ability to look at potential alternate providers for subsets of the service currently provided under the Client Services Agreement.

- 5.1 Please confirm whether CustomerWorks has advised Terasen of CustomerWorks' objections with respect to Terasen's intention to in-source its customer care and replace the existing CIS systems. Please confirm whether CustomerWorks has advised Terasen in writing of its intention to resolve these matters pursuant to the Internal Dispute Resolution process set out in Section 16 of the Client Service Agreement.

Response:

Yes, CustomerWorks has advised Terasen Gas of its objections and has advised Terasen Gas of its intention to resolve these matters pursuant to the Internal Dispute Resolution process set out in Section 16 of the CSA. Discussions to resolve this matter are concurrent and ongoing.



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6. REFERENCE: EXHIBIT B-4, PAGE 37

In the first full paragraph on page 37 of the Application, Terasen states:

An additional challenge Terasen Gas anticipates in the future incurs as a result of Provincial Government Policy regarding advance metering, discussed earlier. BC Hydro is expected to move toward a fully functional smart metering solution by the end of 2012, which at this point does not accommodate support for parallel gas read through the same infrastructure. Terasen Gas expects to be faced with a challenge of a stand alone manual natural gas read as BC Hydro moves away from the joint manual read that is placed today."

The Company will also be faced with the challenge of not being able to provide customers with consumption information like that which BC Hydro will enable through their metering initiative. This will create a competitive challenge for TGI. Terasen intends to continue with manual meter reading to continue to take advantage of the cost benefits associated with the joint gas / electric read for as long as that option is available. However, Terasen would expect to bring forward a technology project in the near term once BC Hydro has confirmed its plans to move forward with its smart metering initiative.

- 6.1 Please describe the competitive challenges facing Terasen as a result of BC Hydro implementing a smart metering initiative. Please provide the evidence Terasen relied upon to support this statement. Please confirm whether Terasen has investigated whether the existing customer care systems can be upgraded to accommodate a smart metering initiative.

Response:

As discussed in the Amended Application and referenced above, the Company anticipates that BC Hydro's implementation of a smart metering initiative would lead to BC Hydro discontinuing its participation in the joint manual read (shared between Terasen Gas and BC Hydro) that is in place today. This would result in the costs associated with the provision of the manual read being attributable to one organization rather than two. The Company expects that this change for its service provider will have an impact for Terasen Gas in the form of increased costs. However, formal discussions on the topic have not taken place to date with the service provider as BC Hydro's final plans related to smart metering have not been communicated.

Based on the Company's understanding of the additional information that smart metering technology enables for customers through industry publications, presentations and conversations with peers, Terasen Gas anticipates a smart metering initiative implemented by BC Hydro would bring enhanced information to customers to support Provincial energy



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conservation and carbon emissions reduction objectives. The Company believes that this will present a competitive challenge if we are unable to provide similar information for customers in support of conservation and carbon emission reduction goals.

Terasen Gas is not seeking any approvals related to smart metering in this Amended Application, either in terms of the smart metering technology or in terms of upgrading the existing Peace CIS to accommodate a smart metering initiative. Based on the incomplete information received from Hansen regarding the Peace CIS functionality, Terasen Gas does not believe the functionality currently exists nor is it likely to be part of the standard package in the future unless the Company partners with Peace to develop the detailed design. Terasen Gas believes that acquiring an industry-leading SAP commercial off the shelf CIS solution makes the most sense for Terasen Gas and our customers. The base SAP CIS will provide the necessary functionality to accommodate a future smart metering initiative and software if pursued by the Company.



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7. REFERENCE: EXHIBIT B-4, SECTION 3.1.3.2 –CUSTOMER CARE DELIVERY MODEL, PAGE 38 AND 39

In Section 3.1.3.2 of the Application, Terasen discusses the current Customer Care Delivery Model and states as follows:

Terasen Gas's current Business Process Outsourcing customer care operated model, with front line customer care representatives employed by Accenture Inc. in New Brunswick, Ontario and Oregon and most billing where performed in offshore locations, limits the ability for representatives to internalize regional issues and understanding when working with customers. Regardless of the amount of training provided, it is difficult for representatives to relate to customer experience and the particulars of regional factors if they have no direct regional experience or no knowledge to draw on. TGI is found through the duration with the CSA with CustomerWorks LP that a great deal of change has taken place within the contractor's organization, including a significant relocation of work over time. While service levels generally meet the minimal contractual requirements, staff turnover has led to a significant degradation in gas industry and end to end business process knowledge as a consequence of these changes. As a result of this decline, preventable errors occur that drive additional customer inquiries and complaints and it can take a significant effort to correct.

Through an internally managed customer care organization based in British Columbia, the employee representatives of Terasen Gas will have improved knowledge of our broader environment and the impact of events in our marketplace in order to better understand and relate to customer experiences. The company will also have ownership of employee selection and training and will be able to more effectively enhance the customer focused culture at Terasen Gas. Direct ownership and oversight of employee training will ensure customers can access the information they need from knowledgeable representatives.

- 7.1 In respect of the call centre operations history and with respect to Terasen's projected nature of the calls coming into the call centre, please identify the percentage of customer calls where the customer representative's specific knowledge of the gas industry or end to end business process knowledge was specifically required to respond to and resolve the customer's call. In answering this question, do not include calls relating to simple billing enquiries, gas turnons and turnoffs, disconnects and other similar relatively minor enquiries.



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Response:

Terasen Gas does not have daily access to call type information beyond the volumes in each of the inbound queues, those being emergencies, billing inquires and collections. The Company investigates all executive and BCUC escalated complaints as well as performing periodic call quality audits of recorded calls evaluated as part of the internal call quality program. The company believes at least 20% of all of the inbound inquiries are of a complex nature. We have also noted examples of what would be considered simple billing calls that have become very complex to resolve as a result of shortcomings in initial call handling or due to the agent's lack of regional or industry knowledge.



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8. REFERENCE: EXHIBIT B-4, SECTION 3.3.3.1 – SUSTAINABILITY CONCERNS, PAGE 52

In Section 3.3.3.1 Terasen discusses its concerns with respect to the sustainability of the current arrangement with CustomerWorks. Terasen goes on to state that “without significant investment the current outsourcing arrangement can not keep pace with the Company’s changing business needs and customer expectations relating to service delivery and increased information.” Terasen then identifies two key factors that it believes challenge the sustainability of the arrangement with CustomerWorks. These factors are:

- (a) investment required to upgrade to more robust CIS and call center technologies;
- (b) investment required to support a more skilled work force.

8.1 Please provide the evidence Terasen relied upon and that supports the foregoing statement that the current systems cannot keep pace with Terasen’s needs or customer expectations.

Response:

The quoted passage referred to the “current outsourcing arrangement” not keeping pace with the Company’s changing needs and customer expectations, whereas the question focuses on the current systems. The issues with respect to the sustainability of the current model include, but are not limited to, the Company’s experience with the Peace CIS.

Dealing first with the CIS, the issues regarding the sustainability of the Peace system to meet Terasen’s future business needs were discussed in Exhibit B-4, Chapter 4, Section 4.1.3.4 of the Amended Application. TGI does not have the necessary information to achieve any reasonable level of comfort regarding the future prospects for using Peace as a platform for Terasen Gas. Terasen Gas developed detailed requirements related to CIS which were provided to Peace. The response received could not confirm that the functions required were adequately supported. A partnering arrangement to design and develop a Terasen Gas specific solution was suggested although no detailed costing was provided.

The Company also does not have confidence that there is an adequate skilled work force available related to the current CIS application to either sustain or enhance the system to meet the Company’s changing business needs and customer expectations in a cost effective manner.

The broader issue is with the sustainability of the outsourcing model itself as a means of meeting Company and customer expectations. Please refer to BCUC IR 1 37.1 for a discussion



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on the Company's need to move to a strategic sourcing strategy related to customer care services including the implementation of key technologies.

For information relating to past service shortfalls please see the response to BCUC IR 1.8.5.

- 8.2 Please advise whether Terasen has discussed the two key factors set out above with CustomerWorks. If yes, has Terasen requested cost estimates from CustomerWorks to determine the investment or other work necessary to eliminate these factors as concerns?

Response:

Terasen Gas did not discuss the two factors noted above directly with CustomerWorks. However, the Company did discuss with Hansen Technologies as the developer and provider of the CIS application.

- 8.3 Please advise whether Terasen has investigated the cost of upgrading the existing services provided by CustomerWorks independently of CustomerWorks. If yes, please describe in detail the information received by Terasen, and provide copies of all such information, and any costs estimates provided to or developed to upgrade the existing services and systems.

Response:

No, Terasen Gas did not investigate the cost of upgrading the existing services provided by CWLP.

The Company believes that the right model for customers going forward is as discussed in the Amended Application (please refer to Section 4).