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October 2, 2009

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

Attention: Mr. James L. Quail, Executive Director

Dear Mr. Quail:

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

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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 BCOAPO 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



Terasen Gas Inc. ("TGI", "Terasen Gas" or the "Company") Application for a Certificate of Public Convenience and Necessity ("CPCN") for the Customer Care Enhancement Program (the "Project")	Submission Date: October 2, 2009
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**1.0 Reference: Exhibit B-4, Application, p. 1  
Exhibit B-4, Table 6.1, pp 110-111**

- 1.1 Please confirm that the balance in the proposed non-rate base deferral account as of December 31, 2011 is expected to total \$13.620M as per the total O&M plus AFUDC in Table 6.1. If unable to so confirm, please explain.

**Response:**

Confirmed. Please refer to the responses to BCUC IR 1.1.1, 1.1.4, and 1.1.5.



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**2.0 Reference: Exhibit B-4, Executive Summary, p. 2**

**Preamble:** TGI is setting January 1, 2012 as the go-live date for this project.

2.1 In the event that the project's go-live date is delayed, please outline the specific cost consequences for (i) external contractors, (ii) TGI, and (iii) TGI's ratepayers. Please discuss fully.

**Response:**

Please refer to the responses to BCUC IRs 1.44.1, 1.106.4, 1.106.10, 1.106.11, and 1.106.12.

2.2 In the event that the project incurs cost overruns, please outline the specific cost consequences for (i) external contractors, (ii) TGI, and (iii) TGI's ratepayers. Please discuss fully.

**Response:**

Please refer to the response to BCUC IR 1.48.2 for discussion on cost consequences for external contractors. Also, please refer to Confidential Exhibit B-3, Attachment VI HCL Axon's Work Methodology, Section 14, Risk Management pp 121-126 for detailed discussion on the how TGI intends to mitigate project risks, including risks to the Project budget.

TGI intends to take appropriate steps to mitigate Project risks. These steps are outlined on pages 29 to 33 of the Amended Application. Please refer to BCUC IR 1.104.1 for additional discussion on Project Risk and Mitigation.

The Project is to provide service to customers and is in the long term best interests of customers. As such the prudently incurred costs associated with the Project are legitimately recoverable in rates.



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- 2.3 Please discuss the risk borne by TGI's shareholder in the event that there is a software cost escalation (SAP) after December 15, 2009.

**Response:**

Please refer to Exhibit B-4, Chapter 2 Project Description and Schedule, Section 2.5 Project Risks and Mitigation, Table 2.4 on page 30, and the response to BCUC IR 1.106.6.



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**3.0 Reference: Exhibit B-4, Executive Summary, p. 3 and Appendix J**

- 3.1 Does TGI intend to continue collecting SQI results and making the results public?  
If not, please explain why.

**Response:**

The Company will continue to measure service quality performance and describes its service quality improvement strategy in Exhibit B-4, Section 4.5.2.3, p. 99-104.

As discussed in response to TGI's 2010-2011 RRA BCOAPO IR 1.15.2, the current SQI's were arrived at as part of the Negotiated Settlement that resulted in the TGI PBR. The SQI's were meant to address both stakeholder and Company desires and were balanced against other factors and mechanisms of the Negotiated Settlement. In future PBR's TGI would be open to including SQI's in the terms of the agreement. However, TGI is not proposing any SQI's for the 2010-2011 RRA period, which predates the go live date for this Project.



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**4.0 Reference: Exhibit B-1, Table 2, p. 13, Exhibit B-4, Table 2.2, p. 17, and  
Appendix K**

- 4.1 Please reconcile the costs per customer at lines 5 and 9 of Table 2 in Exhibit B-1 with Table 2.2 in Exhibit B-4.

**Response:**

Table 2 in Exhibit B-1, the June 2, 2009 Application, includes a cost per customer that was prepared using the total number of *year ending* customers, while Table 2.2 in Exhibit B-4 includes a cost per customer that was prepared using the total *average* number of customers. This change was made to ensure that the cost per customer amounts in Table 2.2 were calculated in the same manner as all other costs per customer figures appearing in the Amended Application.

- 4.2 Please provide the customer numbers underpinning the costs per customer for both of these tables if either differs from the numbers provided in Appendix K, Schedule 7.

**Response:**

The number of customers used to calculate the cost per customer amounts in Table 2.2 of Exhibit B-4 are the same as those used in Appendix K, Schedule 7. As discussed in the response to BCOAPO IR 1.4.1, Table 2 of Exhibit B-1 (the original Application) used the total number of *year ending* customers as the basis for calculating the cost per customer amounts recorded in that table. This change was made to ensure that the cost per customer amounts in Table 2.2 were calculated in the same manner as all other costs per customer figures appearing in the Amended Application.

The number of customers used to calculate the cost per customer amounts in both tables is provided below.



<p style="text-align: center;">Terasen Gas Inc. ("TGI", "Terasen Gas" or the "Company")          Application for a Certificate of Public Convenience and Necessity ("CPCN") for the          Customer Care Enhancement Program (the "Project")</p>	<p style="text-align: center;">Submission Date:          October 2, 2009</p>
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	Number of Customers	
	Year-Ending	Total Average
	Table 2, Exhibit B-1	Table 2.2, Exhibit B-4
2002	772,092	768,368
2003	777,674	772,746
2004	789,209	781,705
2005	801,663	793,897
2006	901,715	892,645
2007	918,608	910,421
2008	931,516	923,442
2009p	941,655	936,577
2010p		943,278
2011p		951,379
2012p		959,757

4.3 Please provide the inflation assumptions underpinning the cost increases in these tables and indicate whether they are applied to costs or cost per customer, explaining TGI's rationale.

**Response:**

Please refer to the responses to BCUC IR 1.135.1.1, CWLP IR 1.3.3(a), CWLP IR 1.3.3(b), and CWLP IR 1.3.7.

4.4 Please confirm that the Annual Total Customer Care Costs presented in these tables include all associated revenue requirement components. If unable to so confirm, please explain.

**Response:**

Confirmed, subject to updates to these exhibits filed on October 2, 2009.



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- 4.5 Please confirm that the 2012 cost estimates included in Table 2.2 reflect the total asset costs (for the full year) included in rate base.

**Response:**

Yes, the 2012 cost estimates included in Table 2.2 reflect the total asset costs included in rate base.

The cost estimate provided in Table 2.2 for 2012, however, only provides an illustration of the notional cost of the current customer care arrangement. This cost is not comparable to that of the cost of the restructured customer care function that will place it on a sustainable footing that is the subject of the Amended Application.

For clarity, the only customer care assets owned by the Company are those related to the Banner CIS conversion. The cost of this conversion is included in the total for 2012.

- 4.6 Please provide a detailed summary schedule to 2012 and beyond, showing for each year a breakdown of external costs including the contract costs, costs of other external services including support, etc., and the internal OM&A costs, contingency costs, depreciation costs, taxes, and return on rate base as incurred yearly by TGI through 2031, indicating the component amounts by customer care service (e.g., call centre, billing and payments, collections, etc.)

**Response:**

Appendix K, Schedule 7 provides information based on cost of service for the Project and the notional costs of the current model. The response to BCUC IR 1.113.1 also extends Table 2.2 (p.17 of the Amended Application), which addresses the notional costs of the existing model to 2020.





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**5.0 Reference: Exhibit B-4, Section 2.5, Project Risks and Mitigation, Tables 2.4 – 2.7 inclusive, pp 39-33**

5.1 Please confirm that under TGI's proposal, the shareholder will bear no financial risk regardless as to how the project proceeds and is implemented and that ratepayers will be required to fully fund any missteps, delays, cost overruns etc. If unable to so confirm, please describe fully and specifically the financial risks that the shareholder will bear under the proposal.

**Response:**

Please refer to the response to BCUC IR1.98.1.1.

5.2 Please identify the total contingency amounts that TGI has included in its cost estimates for each component part separately.

**Response:**

Please see below for a summary of total contingency amounts for each of the four components of the Project.

Please also refer to the responses to BCUC IR 1.126.1 through 1.126.10 for explanations of the contingency amounts.

**Contingency Amounts in \$000s**

CIS Software Acquisition	270
CIS Implementation	5,829
Call Centre Implementation	4,734
Billing Operations Implementation	773
Total	11,606



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5.3 Please provide any analysis that assesses the shareholder benefit from the Project.

**Response:**

Please see Attachment 5.3.

On a twenty year discounted basis, the estimated total shareholder earnings associated with the CCE project are approximately \$11.0 million on an after tax basis. The estimated annual earnings peak at \$2.9 million in 2013.



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**6.0 Reference: Exhibit B-4, Section 3.3.1, Evolution of Customer Care, pp 46-50**

6.1 Did TGI receive any advice from UtiliPoint prior to its 2002 outsourcing? If so, please provide a copy of any such information.

**Response:**

No, Terasen Gas did not receive any advice from UtiliPoint prior to its 2002 outsourcing.

6.2 Please provide a full discussion, supported by any available documentation, as to what constituted "best practices in outsourcing" in 2002 and differentiate these from "best practices in outsourcing" in 2009, explaining the reasons for any differences.

**Response:**

In 2001 when Terasen Gas made the decision to continue to outsource customer care functions for the Lower Mainland and extend that arrangement to the Interior customer base an internal analysis of the marketplace was completed. Business process outsourcing (BPO) was relatively new in the utilities industry. Terasen Gas was one of the early adopters that had had significant outsourcing experience through its 14 year arrangement with BC Hydro for the meter to cash functions. Because the industry was maturing the determination of best practice in outsourcing was not well established. Following is a discussion of current best practices, paraphrased from the UtiliPoint report in Appendix B, as compared to the practices and beliefs from 2002.

1. Develop a disaster recovery / business continuity plan and ensure it is in place before transition.
  - Terasen Gas would agree with this best practice today. In 2002 disaster recovery and business continuity were viewed as technical requirements rather an operational transition strategy.
2. Design, build and enable granular Activity Based Costing in support of contract governance.
  - In 2002 "cost certainty" was a significant decision driver. Today this creates challenges for the Company as we have no insight into what the discrete services cost and therefore have limited ability to budget or validate the costs associated with process changes or the addition of new services.



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3. Understand and believe that outsourcing is not a public service – outsourcers should be expected to make a profit.
  - In 2002 the Company believed that the fixed cost per customer was the best solution and that transactional volume risk should be absorbed by the outsourcer. Whether the outsourcer is profit motivated or is simply trying to control costs, this transfer of risk is no longer considered a best practice as it works to the detriment of business change.
4. Design, build and institute a continuous meter-to-cash business process improvement program.
  - In 2002 the practice was to transfer all responsibility. Governance was thought to be primarily an administrative function. Today, arrangements are being designed with joint business process ownership with the ultimate responsibility remaining with the Utility client.
5. View outsourcing as a procurement of transactional capability augmented by service provider competency as an enhancement to Utility organizational flexibility and responsiveness.
  - In 2002 outsourcers were expected to fully understand and manage the complex business processes of the Company. Today, the focus is on transactional processes where outsourcers can create real economies of scale by processing large transaction volumes quickly and cost effectively. Today, the transactions are outsourced but process ownership remains the responsibility of the utility client.
6. Negotiate a principled contract wherein a mid-term exit strategy, plan and cost profile are clearly articulated.
  - In 2002 outsourcing agreements assumed long term value. The complexities of termination and business change were not factored into the arrangements. Now companies contemplating outsourcing are realizing that these decisions need to be reviewed and adjusted in response to changes in the company's business environment and contract provisions are negotiated to support this.
7. Emphasize the contact centre recognizing that a model, customer-focused call centre that operates seamlessly, with motivated and well-equipped and trained employees is essential to supporting and coordinating all of the business services and processes and meet internal and external customer needs.
  - In 2002 the contact centre was thought to be the simplest business area to outsource because it could be highly scripted. Today, companies realize the strategic



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importance of the call centre as the "Face of the Company" in managing the corporate image or reputation. With the degree of change most utility companies are facing it is no longer believed that the call centre is a static service.

8. Recognize that providing customers with flexible options to interact with the utility is the key to being customer centric.
  - In 2002 the impact of new technologies, particularly in the call centre space, were not well understood. Outsourcing companies also believed that, under the then accepted relative fixed pricing structures, outsourcing companies would be leading edge in implementing these new technologies in order to attract new clients. The expectation was that, by default, existing clients would also benefit. This is no longer the case. The initiator and driver of change related to these services tends to be the utility client.
9. Seek service level agreement and performance measures that at a minimum are based on leading indicators as opposed to lagging indicators and ideally incent the right behavior rather than penalizing the wrong behavior.
  - In 2002, the then current thinking was that service metrics were fixed, and in Terasen's case were based on historical experience. Today, the Company considers that service metrics should be leading indicators. The Company also now considers that penalties, which were thought of as providing protection for customers in 2002, in fact create issues in that these have become the focus of the outsourcer. These create the work priority for the outsourcer to the detriment of other business processes that potentially have a greater customer impact.

There has been significant evolution in the marketplace related to business process outsourcing for utilities. Utilizing the current best practices outsourcing may still be the right decision for some organizations. For Terasen Gas we believe that the best solution for the Company and our customers at this time is a Strategic Sourcing solution whereby the customer facing processes are brought back in-house.

- 6.3 Ex post, does TGI agree that its 2002 outsourcing implementation entailed greater costs (including internal and external project costs, RFP/RFQ costs, transitional costs, selling and re-acquiring assets, etc.) for ratepayers than had it



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not outsourced in 2002? If not, please explain specifically and quantitatively why not.

**Response:**

Terasen Gas believes that the implementation of the 2002 outsourcing arrangement was more cost effective than had BC Gas not outsourced in 2002.

Cost savings was not the only driver in 2001 that led to the decision to outsource, and the arrangement did yield other benefits.

As stated in the Amended Application, in 2001 the key drivers that favoured a comprehensive BPO model for the customer care function were cost certainty, maintaining or enhancing customer service levels and implementation risk transfer related to expanding and redefining operations to support the repatriation of the Company's 535,000 Lower Mainland customers. It was consistent with a broader industry trend. In terms of cost savings, the analysis presented in 2002 based on the information available at that time indicated that the cost per customer under the Client Services Agreement of \$54.54 for the first five years of the arrangement was advantageous when compared to the estimated cost of delivering the services in house. The internal cost estimate at that time was \$55.89 for 2003 increasing to \$57.80 in 2007. The Commission's approval of the arrangement in 2002 demonstrates the overall prudence of the decision to outsource at the time.

The arrangement with CWLP in fact yielded a number of benefits for customers and the Company as outlined above. The expected cost savings would have materialized based on the analysis performed in 2002. Apart from relying on that analysis, Terasen Gas cannot recreate with any certainty what the cost of services would have been had the work not been outsourced. Terasen Gas is able to confirm future costs based on detailed negotiations regarding labour, technologies and facilities, but these conditions cannot be applied retroactively to calculate a proxy for what might have been.

This Project responds to subsequent developments in Terasen Gas' operating environment, which would have affected Terasen Gas and required investment by the Company in customer care regardless of the operating model pursued. In terms of cost, after the initial five year term of the Client Services Agreement the cost per customer has been increasing by ½ of CPI each year, but additional functionality results in an additional cost. Additional costs were in fact incurred by the Company and customers over the base fees to support an increasing number of unanticipated changes in the Company's business environment than had been experienced historically. Please refer to the response to BCUC IR 1 2.1 for a list of the costs that have been incurred throughout the outsourcing period.

Because of the magnitude of these changes - changes like Customer Choice and changes in taxation requirements - and the degree of change the Company expects in the future as



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discussed in the Business Drivers section of the Amended Application (Section 3.3.1), the Company believes a significant technology change is required as well as a delivery model that provides greater flexibility and direct control over cost.

- 6.4 Please indicate whether the events described in Table 3.1 reasonably describe the decisions made by typical Canadian regulated distributors with respect to outsourcing decisions over the period, or whether they describe atypical behaviour.

**Response:**

Terasen Gas believes the events described in Table 3.1 describe typical behaviors. In the early 2000's when these companies made their initial decision to outsource, utilities had specific concerns they were addressing related to risk and cost. In fact the companies noted in Table 3.1, like Terasen Gas, were all part of the "early adopters" group. The more recent actions taken are as a result of the evolution of the outsourcing marketplace and a re-evaluation of the value proposition at the time of the original decision in light of the substantial business, legislative and regulatory changes that have been experienced in the last five years in the utilities industry and the prospect of even more significant change moving forward. Please refer to the Amended Application, Section 3, for further information.

- 6.5 Please indicate why the events described in Table 3.1 should not be interpreted as indicating a kind of 'fad following behaviour' by certain large utilities.

**Response:**

Utilities within North America are experiencing similar issues such as those described in section 3 of the Amended Application. Terasen Gas believes the events described in Table 3.1 reflect the reactions of utilities to a changing marketplace. TGI believes there is a general recognition among these utilities that more direct control of key systems and processes is required to respond to changing business needs and customer expectations more cost effectively and appropriately.

Terasen Gas is pursuing these changes as it believes that the current model is not sustainable for the Company, and a strategic sourcing model is the most appropriate approach to meet the needs of customers now and in the future.



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**7.0 Reference: Exhibit B-4, Section 3.3.3.1, page 54**

**Preamble:** The evidence states that "[i]n recent years, largely due to staff turnover and the need to upgrade the underlying technologies to a more stable environment, the quality of services has been declining."

7.1 Please indicate whether the "staff turnover issue" refers to TGI or CustomerWorks. If it refers to TGI, please explain why an insourced capability would not have encountered the same problems.

**Response:**

The staff turnover issue in this section refers to CWLP.

7.2 Please describe what is meant by "the need to upgrade the underlying technologies to a more stable environment" and how it impacts the insourcing decision.

**Response:**

The reference to "underlying technologies" was a reference to the CIS platform. CustomerWorks did implement a technical upgrade to the Peace platform in October 2008. This was the first material upgrade undertaken since the systems and services were outsourced in 2002 and Terasen Gas believes it was in direct response to the significant stability issues that were beginning to be experienced in 2007 and which escalated through 2008 until the upgrade was deployed. This upgrade, although it did improve the overall stability of the CIS, did not add functional improvements for the benefit of customers or to support improvements in operating efficiency.

Terasen Gas does not believe the outsourcer is likely to be motivated to upgrade any of the core customer technologies under the current model as their only requirement is to provide a supportable and sustainable system. Any improvements in functionality to support changing customer expectations or Terasen Gas' changing business needs would have to be negotiated through a scope change as per the CSA and sole sourced through the current service provider (as they have ownership and control over these technologies). The changes would likely result in increased costs to customers.





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- 7.3 Please describe the extent to which the increase in Service Delivery Failures in 2008 can be attributed to changes in the number of service metrics.

**Response:**

The Service Delivery Failures in 2008 were not attributed to changes in the number of service metrics.

The only refinement in services metrics occurred in 2006 when the call quality service metric was divided into two components, one measuring internal call quality and one measuring customer satisfaction through an external party. The objective was to provide greater insight into call handling service quality from a customer perspective. Any impacts to Service Delivery Failures would have been seen in the remaining months of 2006 and in 2007. As this was not the case, the change to the service metrics cannot be attributed to the increase in Service Delivery Failures in 2008.

For a discussion on the reasons for the service quality failures please refer to the response to BCUC IR 1.8.5.

- 7.4 Please indicate whether during the time since customer care functions were outsourced TGI had to compensate CustomerWorks for enhancements such as increasing the number of service quality metrics.

**Response:**

Since the services were outsourced Terasen Gas has not requested an increase in the number of service quality metrics and therefore has not had to compensate CustomerWorks in this area.

In 2006, Terasen Gas did split the inbound call quality metric into two components, one measuring call quality from an internal perspective and the other from an external perspective. The penalty associated with the original internal metric was also divided between the two components.

A list of other enhancements funded since the customer care functions were outsourced is included in the response to BCUC IR 1.2.1.



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- 7.5 Please explain why insourced customer care functions as proposed would not be vulnerable to the same factors which led to the decline in service quality in 2008.

**Response:**

There are two main reasons why Terasen Gas believes that the Project will facilitate maintaining appropriate service levels:

1. Technology Upgrade Processes – where CWLP is only required under the contract to provide a sustainable and supportable system, Terasen Gas' policy is to ensure all key applications are upgraded according to the support policies of the vendor. SAP has a very clear product support strategy that Terasen Gas adheres to (refer to the responses to BCUC IR 1.23.1 and BCUC IR 1.58.1). Terasen Gas follows an industry best practice of refreshing all server hardware every five years to mitigate reliability risk of hardware. The Company also has a stringent maintenance process for all production hardware including weekly scheduled maintenance windows where all applicable software relating to the operation and security of the server is maintained. The difference between these two models would result in Terasen Gas having a more advanced and robust technological solution in place. From a staff stability standpoint, Terasen Gas' Enterprise Support and Delivery group, the group responsible for the operation and maintenance of the SAP platform, has only had three employees leave the company in the last 5 years. This demonstrates a high degree of stability.
2. Call Centre Location –an outsourced provider is 'incented' to find low cost locations in order to maintain or increase profit margins, e.g., off-shoring billing business processes to Manila or near-shoring call centers to New Brunswick. Terasen Gas would not undertake this degree of work relocation, which TGI believes will facilitate maintaining an appropriate level of service for our customers. TGI believes that by moving the call centre staff offshore or near-shore, service quality is impacted due to three factors:
  - a. Call centre staff do not have a regional understanding of the customer-base that they serve, and therefore, cannot relate to the customers' circumstances;
  - b. Training and process changes become more difficult to manage, administer and implement due to geographic issues (e.g. time zone challenges; integration of operations; communications, etc.) with the client's operations;
  - c. Traditional offshore countries, e.g. India, Philippines, have an abundance of outsource providers operating within a region that results in high staff turnover as call centre employees have many opportunities available to them for work. This results in an impact to an existing client's operation as new staff require to be trained, and move up the 'learning curve' to become experienced call centre agents.



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As discussed in the Application, Terasen Gas' call centre solution is an in-Province solution, where customers will be served by local employees knowledgeable in regional issues and the energy business. In addition, the location of the call centres will be in proximity to other Terasen Gas operations thereby reducing the integration risks associated with training and end-to-end processes involving multiple departments. Finally, Terasen has a track record of being an 'employer of choice' within the Province, with lower levels of employee turnover than traditional call centres, thereby reducing the new staff training risk.

As a result, Terasen Gas is confident that the Project will position TGI to deliver appropriate levels of customer service.



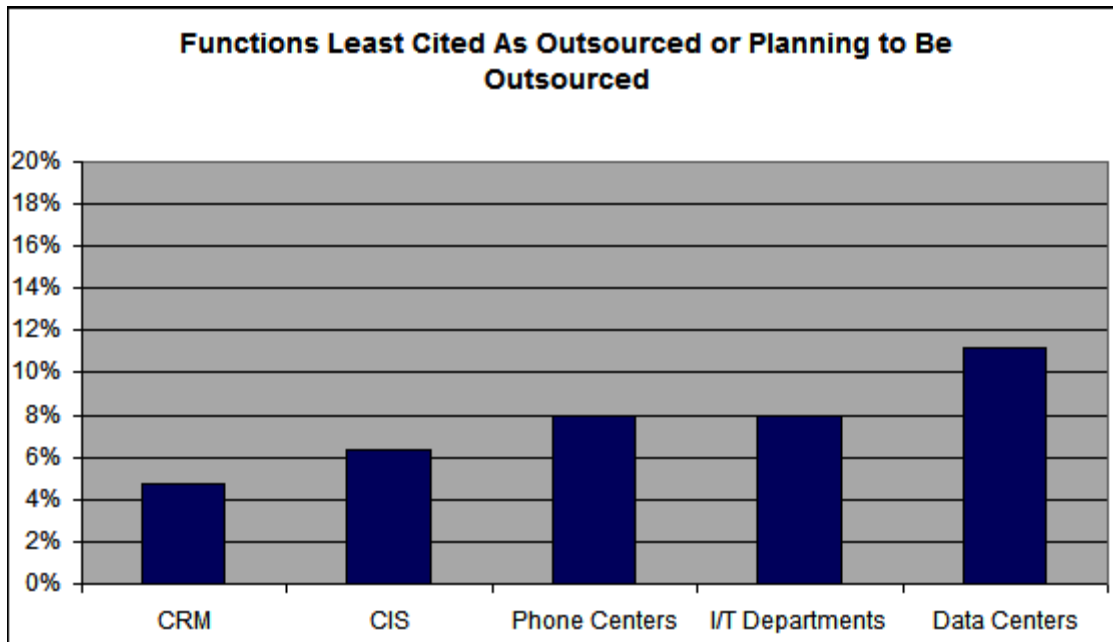
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**8.0 Reference: Exhibit B-4, Section 4.1.1, Figure 4.1, page 58**

8.1 If available, please provide a comparative figure for 2002.

**Response:**

A comparative figure for 2002 is not available. However, the outsourcing survey performed by UtiliPoint from 2003 is available. Below is a comparable survey result from the 2003 report.



Utilities' reasons for outsourcing vary, and for some organizations it may still be a good decision. For example, if the Company cannot attract and retain skilled resources or if it is challenged by aging technologies, these are issues that are more readily addressed through an outsourcing arrangement. Overall call centre outsourcing continues to have a fairly conservative adoption, with the amount of outsourcing remaining relatively static (4% growth rate) between 2003 and 2009.



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**9.0 Reference: Exhibit B-4, Section 4.1.2.2, page 60**

9.1 Please describe fully the functionalities of the proposed system that are beyond current regulatory, legislative, or operational requirements but are expected to be required in the coming decade.

**Response:**

The full list of functional requirements is included in the CIS and Call handling technologies RFQ's. Although many of these are performed today, the degree of application support for these functions was also assessed as part of the requirements evaluation. The requirements were not categorized as regulatory, legislative and operational or "other" as these are all components of an overall service delivery model. The requirements review process addressed not only what the technologies supported but how they were supported in terms of flexibility and automation. Although the Company does not believe it is possible to isolate specific functions that do not to some degree support both current (regulatory, legislative, and operational) and new business needs, the following list is provided of the types of functions that Terasen Gas believes are incremental to the base services available today.

- Improvements in billing and payments including offering a broader range of options.
- Improvements in customer communications channels to allow customers better and more convenient access to their billing and consumption information as well as how they prefer to interact with the Utility.
- Improvements in rate and tax configuration to be able to support a broader range of service offerings in the future.
- Improvements in the underlying CIS technology to be able to enable increased functionality through the web.
- Improvements in the Company's ability to track premise specific equipment including customer appliances. This is to improve the quality of service we provide both in the billing and call handling areas and provide the opportunities for new product development.
- A system that would allow the Company to support the billing of new products and services through configuration.



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- Improvements in performance, program and operational reporting to allow the Company to better manage operations and understand those factors impacting customers including assessing customer interest and participation in new services and energy alternatives.

The Company cannot confirm that all new initiatives will be supported through the selected solution over the next decade but believes that the system will support the types of programs that are being considered today. The Company also believes that SAP will continue its demonstrated attention to the industry trends of its customers and continue to invest in R&D and make significant product improvements that Terasen Gas can take advantage of in the future. If in the future new products or programs are developed that require functionality that is beyond the capabilities of the CIS system at that time, any incremental development will be funded by that initiative.

- 9.2 Please indicate whether TGI expects to incur any incremental costs not included in this application to expand the functionality of the proposed system over the coming decade in response to regulatory, legislative, or operational requirements. If so, please provide cost estimates.

**Response:**

The Company is not currently aware of any specific regulatory, legislative or operational requirements that would not be able to be handled through this Project. TGI expects that, realistically, there will be at least some changes required to the technology and organization put in place as part of this Project in the next decade in response to unforeseen changes in customer needs or the Company's operating environment. It would be too speculative to provide cost estimates for unforeseen changes. The Company believes that the combined technologies and in-sourced solution proposed in this Application will provide the best platform for handling any changes in the future as efficiently and cost effectively as possible.



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**10.0 Reference: Exhibit B-4, Section 2.4, Project Schedule, Table 2.3, page 27**

10.1 In the event that TGI encounters any material delays in the various phases of the separate project components, does TGI intend to advise the BCUC of such delays and report the financial impacts of any such delays?

**Response:**

As is current practice with CPCN projects, Terasen Gas will provide the Commission with periodic status updates related to this initiative. Through this process any material delays and their implications will be communicated and discussed.



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**11.0 Reference: Exhibit B-4, Section 4.2.1.2.1, Advantages and Disadvantages of One-Time Full Implementation, page 70**

11.1 Please discuss how Terasen's preferred implementation strategy affects the risk that extra costs may be incurred later due to the fact that "[t]here is no time for extra additions."

**Response:**

Terasen Gas' preferred implementation strategy mitigates the risk of requiring "extra additions" by ensuring sufficient time has been allocated to perform an extensive detailed design of the proposed solution. The plan also has accommodated for an extensive testing period for both the proposed business processes and the supporting technologies. It is typically overly optimistic timeframes in these areas that necessitate the need for "extra additions" late in a project. Terasen Gas has also included what it believes is an appropriate and prudent contingency fund to address any additional requirements that are absolutely required for go live and approved by the executive steering committee. Terasen Gas is confident that the above factors, combined with what it believes is a comprehensive list of documented requirements, is a sufficient risk mitigation factor for this particular risk.





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**12.0 Reference: Exhibit B-4, Section 4.3.2.2.1, Staffing, Table 4.1, page 70**

12.1 Please confirm that the estimates provided in the table assume that the total compensation assumed, i.e., wages/salaries plus benefits, is \$50K per FTE per year. Also, please indicate the basis for this figure.

**Response:**

The response to this IR is being filed confidentially under separate cover as it may provide insight into the COPE collective agreement that has been submitted in confidence. In accordance with Commission Letter No. L-83-09, intervenors representing ratepayer groups may request access to this confidential material by executing the standard undertakings of confidentiality.

12.2 Please indicate the year to which the \$50K/FTE applies.

**Response:**

The response to this IR is being filed confidentially under separate cover as it may provide insight into the COPE collective agreement that has been submitted in confidence. In accordance with Commission Letter No. L-83-09, intervenors representing ratepayer groups may request access to this confidential material by executing the standard undertakings of confidentiality.



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**13.0 Reference: Exhibit B-4, Section 6.2.1, Summary of Changes in Project Implementation Cost, page 111**

13.1 Please explain how the reduction in labour costs lowered the total project capital costs and please quantify that reduction.

**Response:**

The response to this IR is being filed confidentially under separate cover at the request of COPE. In accordance with Commission Letter No. L-83-09, intervenors representing ratepayer groups may request access to this confidential material by executing the standard undertakings of confidentiality.

13.2 Please provide the amount of the overall reduction in capital costs that is attributed to the decision to forgo construction of the two call centres.

**Response:**

The response to this IR is being filed confidentially under separate cover. In accordance with Commission Letter No. L-83-09, intervenors representing ratepayer groups may request access to this confidential material by executing the standard undertakings of confidentiality.



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**14.0 Reference: Exhibit B-4, Section 6.4, page 113 and Appendix K, Schedule 7**

14.1 Please explain specifically how the levelized costs per customer are calculated and TGI's interpretation of the meaning of "levelized cost per customer."

**Response:**

For the purposes of the Amended Application, a levelized cost is the average unit cost over the project period discounted to a present value expressed as \$ / GJ or \$ / Customer. The result, a levelized cost per unit, allows for a cost comparison of two or more alternatives.

In order to correctly calculate a present value of the levelized average cost per customer it is necessary to complete a present value calculation of the total cost of service and to discount the denominator, which in the case of the Amended Application, is the number of customers. This calculation is shown in Schedule 7, starting on line 50.

This approach to calculating a levelized cost per GJ has been used in other applications for projects that have been approved by the Commission, whereby the total annual costs and annual volumes over the project period are discounted to derive a levelized cost per GJ. In Schedule 7, Terasen Gas is showing a levelized cost per customer to compare against the outsourced cost per customer.

14.2 Please provide all assumptions involved in calculating the cost per customer of the current system in 2012 through 2031.

**Response:**

The cost per customer of the current system is calculated by dividing the annual projected notional cost of the current customer care arrangement by the projected total annual average number of customers for the same period.

The total average number of customers is projected as described in the Amended Application on page 114 (see footnote). The notional cost of the current customer care arrangement has been projected as described in the responses to CWLP IR 1.3.3(a) and 1.3.3(b).



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**15.0 Reference: Exhibit B-4, Section 6.3.1, Lower Mainland Contact Centre, page 112**

15.1 Please provide a table showing the cost of service impacts, by cost of service component and year, of treating the cost of the expected lease as (i) an operating lease versus (ii) a capital lease.

**Response:**

Please refer to the response to BCUC IR 1.80.1 and its corresponding attachment, Attachment 80.1.

**Attachment 5.3**

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