Terasen Gas

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

16705 Fraser Highway
Surrey, B.C. V4N 0E8
Tel: (604) 443-6565
Fax: (604) 443-6534
Email: scott.thomson@terasengas.com
www.terasengas.com

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

October 20, 2009

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. ("TGI", the "Company"), Terasen Gas (Vancouver Island) Inc. ("TGVI") and Terasen Gas (Whistler) Inc. ("TGW")
Collectively the "Terasen Utilities"
Return on Equity and Capital Structure Application (the "Application")

Terasen Utilities Outstanding Undertakings – Exhibit B-28

On May 15, 2009, the Terasen Utilities filed the Application as referenced above. In accordance with the British Columbia Utilities Commission Order No. G-70-09, the Oral Hearing regarding the Application was held from September 28, 2009 through to October 1, 2009.

On October 1, 2009, the concluding day of the hearing, it was established that the Terasen Utilities file any outstanding undertakings on or before Tuesday, October 20th (reference: Transcript, Volume 5, page 725, lines 15-18). Attached please find the outstanding undertakings of the Terasen Utilities which will be assigned the next exhibit number in the sequence, being Exhibit B-28.

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

Sincerely,

TERASEN GAS INC.
TERASEN GAS (VANCOUVER ISLAND) INC. and
TERASEN GAS (WHISTLER) INC.

Original signed by:

Scott A. Thomson
Vice President, Regulatory Affairs & CFO

Attachments

cc (email only): Registered Parties

TERASEN UTILITIES UNDERTAKING

HEARING DATE: September 28, 2009

TRANSCRIPT REFERENCE: Volume 2, Page 157, Lines 10 to 25

REQUESTOR: Mr. Weafer

WITNESS: Mr. Thomson

QUESTION: Confirm Average Loss of Load per Year.

RESPONSE:

Over the period 1999 through 2008, total normalized annual throughput has declined by approximately 12% (from 238 PJ's in 1999 to 209 PJ's in 2008), on average approximately 1.4% per year. The supporting tables for this can be found in TGI's response to BCUC IR 1.3.1.

Over the same period 1999 through 2008, the Lower Mainland Residential Normalized Average Use Per Customer rate has declined by approximately 21% (from 116.7 GJ/year in 1997 to 92.5 GJ/year in 2008), on average approximately 2.1% per year. The supporting table for this calculation follows and is illustrated graphically in Figure 4-2 on page 35 of the Application.

TGI Residential Normalized Actual Use Per Customer Rates

Year	1997	1998	1999	2000	2001	2002
Rate 1	117.3	116.7	116.7	111.7	100.5	105.6

Year	2003	2004	2005	2006	2007	2008
Rate 1	103.1	102.6	97.4	96.8	96	92.5

HEARING DATE: September 29, 2009

TRANSCRIPT REFERENCE: Volume 3, Page 360, Lines 9 to 23

REQUESTOR: Mr. Wallace

WITNESS: Mr. Vander Weide

QUESTION: Provide analysis if available that supports evidence that more utilities are BBB+ than BBB- if for the industry in general.

RESPONSE:

STANDARD & POOR'S BOND RATINGS FOR U.S. UTILITIES

Company Name	S&P Bond Rating	S&P Bond Rating Numerical
Nicor Inc.	AA	1
Madison Gas and Electric Company	AA-	2
Northwest Natural Gas Company	AA-	2
WGL Holdings, Inc.	AA-	2
NSTAR	A+	3
FPL Group, Inc.	A	4
Southern Company	A	4
Laclede Group, Inc. (The)	A	4
New Jersey Natural Gas Company	A	4
Piedmont Natural Gas Company, Inc.	A	4
Central Hudson Gas & Electric Corp	A	4
Wisconsin Public Service Corp	A-	5
Consolidated Edison, Inc.	A-	5
PacifiCorp	A-	5
Duke Energy Corporation	A-	5
Dominion Resources, Inc.	A-	5
DPL Inc.	A-	5
Energy East Corporation	A-	5
Vectren Corporation	A-	5

Company Name	S&P Bond Rating	S&P Bond Rating Numerical
AGL Resources Inc.	A-	5
MidAmerican Energy Company	A-	5
Wisconsin Energy Corporation	BBB+	6
ALLETE, Inc.	BBB+	6
Alliant Energy Corporation	BBB+	6
MDU Resources Group, Inc.	BBB+	6
PG&E Corporation	BBB+	6
Sempra Energy	BBB+	6
Xcel Energy Inc.	BBB+	6
South Jersey Gas Company	BBB+	6
SCANA Corporation	BBB+	6
Integrys Energy Group, Inc.	BBB+	6
OGE Energy Corp.	BBB+	6
Oncor Electric Delivery Company LLC	BBB+	6
Progress Energy, Inc.	BBB+	6
Atmos Energy Corp.	BBB+	6
Questar Gas Company	BBB+	6
Spectra Energy Corporation	BBB+	6
American Electric Power Company, Inc.	BBB	7
Northeast Utilities	BBB	7
Pepco Holdings, Inc.	BBB	7
CenterPoint Energy, Inc.	BBB	7
Exelon Corporation	BBB	7
IDACORP, Inc.	BBB	7
PPL Corporation	BBB	7
Entergy Corporation	BBB	7
FirstEnergy Corp.	BBB	7
Puget Sound Energy, Inc.	BBB	7
Cleco Corporation	BBB	7
Constellation Energy Group, Inc.	BBB	7
DTE Energy Company	BBB	7
Great Plains Energy, Inc.	BBB	7
Hawaiian Electric Industries, Inc.	BBB	7
NorthWestern Corporation	BBB	7
Public Service Enterprise Group Incorporated	BBB	7
TECO Energy, Inc.	BBB	7
Energen Corporation	BBB	7
Equitable Resources, Inc.	BBB	7
National Fuel Gas Company	BBB	7
ONEOK, Inc.	BBB	7

Company Name	**S&P Bond Rating**	**S&P Bond Rating Numerical**
Southwest Gas Corporation	BBB	7
CMS Energy Corporation	BBB-	8
Edison International	BBB-	8
Empire District Electric Company	BBB-	8
Ameren Corporation	BBB-	8
Avista Corporation	BBB-	8
Black Hills Corporation	BBB-	8
Pinnacle West Capital Corporation	BBB-	8
Westar Energy, Inc.	BBB-	8
Allegheny Energy, Inc.	BBB-	8
NiSource Inc.	BBB-	8
Central Vermont Public Service Corporation	BB+	9
NV Energy Inc.	BB	10
PNM Resources, Inc.	BB-	11
Average	**BBB+**	**6**

SUMMARY OF BOND RATINGS FOR U.S. UTILITIES

Rating Category	**No. of Companies**	**% of Total**	**Rating Category**	**% of Total**
AA	1	1.4%	A- to AA	28.8%
AA-	3	4.1%		
A+	1	1.4%		
A	6	8.2%		
A-	10	13.7%		
BBB+	16	21.9%	BBB+	21.9%
BBB	23	31.5%	BBB	31.5%
BBB-	10	13.7%	BBB-	13.7%
BB+	1	1.4%		
BB	1	1.4%	BB+ to BB-	4.1%
BB-	1	1.4%		
Total	73	100.0%		100.0%

Source of Data: Standard & Poor's, October 2009

Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc. and Terasen Gas (Whistler) Inc. collectively as "Terasen Utilities" Return on Equity and Capital Structure Application Project No. # 3698558

TERASEN UTILITIES UNDERTAKING

HEARING DATE: September 29, 2009

TRANSCRIPT REFERENCE: Volume 3, Page 387, Line 7 to Page 388, Line 23

REQUESTOR: The Chairperson

WITNESS: Mr. Vander Weide

QUESTION: What would the weighted average cost of equity of the companies on page 61 of the evidence be if Equitable Resources were excluded?

RESPONSE:

Line No.	Company	D_0	P_0	Growth	Cost of Equity
1	AGL Resources	0.430	30.354	4.25%	10.6%
2	Atmos Energy	0.330	23.847	5.00%	11.3%
3	Nicor Inc.	0.465	34.098	2.85%	9.0%
4	NiSource Inc.	0.230	10.462	1.60%	11.4%
5	Northwest Nat. Gas	0.395	43.777	4.75%	8.8%
6	Piedmont Natural Gas	0.260	28.345	7.13%	11.4%
7	South Jersey Inds.	0.284	37.268	7.50%	11.0%
8	Questar Corp.	0.125	31.988	9.00%	10.8%
9	Southwest Gas	0.238	24.100	6.00%	10.3%
10	Market-Weighted Average				10.7%

Notes:

d_0	=	Most recent quarterly dividend.
d_1,d_2,d_3,d_4	=	Next four quarterly dividends, calculated by multiplying the last four quarterly dividends per *Value Line* by the factor (1 + g).
P_0	=	Average of the monthly high and low stock prices during the three months ending February 2009 per Thomson Reuters.
FC	=	Flotation costs expressed as a percent of gross proceeds.
g	=	I/B/E/S forecast of future earnings growth February 2009.[1]
k	=	Cost of equity using the quarterly version of the DCF model.

$$k = \frac{d_1(1+k)^{.75} + d_2(1+k)^{.50} + d_3(1+k)^{.25} + d_4}{P_0(1-FC)} + g$$

[1] Although I normally specify that the I/B/E/S long-term earnings growth forecast must include the forecasts of at least three analysts, in March 2009 there are only four companies with growth forecasts from at least three analysts. In this study, therefore, I also include results for companies that had growth forecasts based on two analysts' growth forecasts.

TERASEN UTILITIES UNDERTAKING

HEARING DATE: September 29, 2009

TRANSCRIPT REFERENCE: Volume 3, Page 388, Line 25 to Page 390, Line 8

REQUESTOR: Mr. Chairperson

WITNESS: Mr. Vander Weide

QUESTION: Re-do table on page 12 of the Response to Commission Panel IR 5.0 (Exhibit B-11) to comply with the 9 or 10 LDCs on page 61 of evidence.

RESPONSE:

ROE AND STANDARD DEVIATION OF RETURNS FOR VALUE LINE LDCS
2004 - 2008

Company	2004	2005	2006	2007	2008	Standard Deviation 2004 - 2008
AGL Resources	11.0%	12.9%	13.2%	12.7%	12.6%	0.86%
Atmos Energy	7.6%	8.5%	9.8%	8.7%	8.8%	0.79%
EQT (formerly Equitable)	21.5%	NMF[1]	23.6%	15.9%	12.5%	5.09%
NICOR	13.1%	12.5%	14.7%	14.3%	12.3%	1.07%
NiSource	9.0%	6.0%	6.3%	6.1%	7.8%	1.32%
Northwest Natural Gas	8.9%	9.9%	10.9%	12.5%	10.9%	1.34%
Piedmont Natural Gas	11.1%	11.5%	11.0%	11.9%	12.4%	0.58%
Questar	15.9%	21.7%	19.6%	19.5%	20.4%	2.16%
South Jersey Industries	12.5%	12.4%	16.3%	12.8%	13.1%	1.63%
Southwest Gas	8.3%	6.4%	8.9%	8.5%	5.9%	1.35%
Average	11.9%	11.3%	13.4%	12.3%	11.7%	1.62%
Average 2004 - 2008	12.1%					

Source: Value Line Investment Survey.
Value Line Reports, September 11, 2009

[1] No Meaningful Figure

TERASEN UTILITIES UNDERTAKING

HEARING DATE: September 30, 2009

TRANSCRIPT REFERENCE: Volume 4, Page 471, Line 23 to Page 472, Line 9

REQUESTOR: Mr. Wallace

WITNESS: Ms. McShane

QUESTION: Dividend yield on the TSX, advise if differs from 3.

RESPONSE:

The dividend yield on the TSX at the end of September 2009 was 2.76%. The September 2009 dividend yield reflects both an increase in price and a decrease in dividends since March 2009.

Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc. and Terasen Gas (Whistler) Inc. collectively as "Terasen Utilities" Return on Equity and Capital Structure Application Project No. # 3698558

TERASEN UTILITIES UNDERTAKING

HEARING DATE: September 30, 2009

TRANSCRIPT REFERENCE: Volume 4, Page 473, Lines 6 to 23

REQUESTOR: Mr. Wallace

WITNESS: Ms. McShane

QUESTION: What was the forecast economic growth rate for 2010 when the evidence was written and what is it now?

RESPONSE:

When I prepared my testimony, the Consensus Forecasts (April 2009) anticipated GDP growth of 2.1% for 2010. The most recent Consensus Forecasts (September 2009) anticipates GDP growth for 2010 of 2.4%.

TERASEN UTILITIES UNDERTAKING

HEARING DATE: September 30, 2009

TRANSCRIPT REFERENCE: Volume 4, Page 517, Line 14 to Page 518 Line 21

REQUESTOR: Mr. Fulton

WITNESS: Ms. McShane

QUESTION: What have been the awarded returns on the 7 low-risk utilities that are identified on page 7 of Appendix G of Dr. Booth's evidence.

RESPONSE:

Companies	Last Allowed ROE	Date	Last Allowed Equity Ratio	Date	State	Service
AGL Resources						
Atlanta Gas Light	10.90	6/10/2005	47.00	4/29/2002	GA	Gas
Chattanooga Gas	10.20	12/5/2006	44.80	12/5/2006	TN	Gas
Pivotal Utility Holdings	10.00	11/20/2002	NA	NA	NJ	Gas
New Jersey Resources						
New Jersey Natural Gas	10.30	10/3/2008	51.20	10/3/2008	NJ	Gas
NICOR						
Northern Illinois Gas	10.17	3/25/2009	46.42	3/25/2009	IL	Gas
Northwest Nat. Gas						
Northwest Natural Gas	10.20	8/22/2003	49.50	8/22/2003	OR	Gas
Northwest Natural Gas	10.10	12/26/2008	50.74	12/26/2008	WA	Gas
Piedmont Natural Gas						
Piedmont Natural Gas	10.60	10/24/2008	51.00	10/24/2008	NC	Gas
Vectren						
Indiana Gas	10.20	2/13/2008	48.99	2/13/2008	IN	Gas

Companies	**Last Allowed ROE**	**Date**	**Last Allowed Equity Ratio**	**Date**	**State**	**Service**
Southern Indiana Gas & Electric	10.40	8/15/2007	47.05	8/15/2007	IN	Electric
Vectren Energy Delivery Ohio	10.60	4/13/2005	48.10	4/13/2005	OH	Gas
WGL Holdings Inc.						
Washington Gas Light	10.00	11/15/2007	53.02	11/15/2007	MD	Gas
Washington Gas Light	10.00	9/19/2007	50.96	9/27/2004	VA	Gas
Washington Gas Light	10.60	11/10/2003	50.30	11/10/2003	DC	Gas

TERASEN UTILITIES UNDERTAKING

HEARING DATE: October 1, 2009

TRANSCRIPT REFERENCE: Volume 5, Page 723, Line 26 to Page 724 Line 16

REQUESTOR: The Chairperson

WITNESS: Mr. Dall'Antonia

QUESTION: TGI Moody's Interest Coverage Ratio and Trust Indenture Issuance Test.

RESPONSE:

Description of Moody's Interest Coverage Ratio

The Moody's Interest Coverage ratio is calculated as TGI's adjusted Earnings before Interest and Taxes ("EBIT") divided by its adjusted Interest Expense on total debt. The adjusted amounts are calculated by Moody's, after making changes to TGI's reported financial results disclosed in TGI's annual audited financial statements. While the TGI statements are prepared in accordance with Canadian GAAP, the adjustments are made by Moody's in accordance with their assessment methodology. Moody's takes the reported EBIT and Interest Expense and adjusts for obligations it considers to be in effect debt, such as pension interest, interest associated with operating leases, capitalized interest and other items. The response to BCUC Commission Panel Information Request 7.0 calculates the Interest Coverage ratio utilizing the Moody's calculation for 2008, adjusted for the various ROE and equity ratios.

Description of the Trust Indenture Issuance Coverage Test

The Issuance Coverage test as set out in the 10th supplemental indenture of TGI's trust indenture provides that TGI will not issue debentures or other debt instruments (other than First Mortgage Bonds ("FMB")[1] or Purchase Money Mortgages ("PMM")) maturing 18 months or more after date of issue unless Consolidated Available Net Earnings ("CANE") are at least two times the annual interest requirements on all Additional Obligations (including the additional debt to be issued). The test is a financial covenant and is summarized, along with the key defined terms, on pages 7 to 9 of TGI's Short Form Base Prospectus dated April 24, 2008, which has been submitted as Attachment 84.6 in Exhibit B3-2. In general, CANE is defined as net earnings, before income taxes and interest on

[1] TGI does not have any First Mortgage Bonds outstanding.

Funded Obligations (which is effectively interest on debt in excess of 18 months, excluding interest on PMM's and short term debt) and excluding gains or losses on disposal of investments or fixed asset and other non-recurring items, all in accordance with TGI's audited financial statements. Additional Obligations means bonds, debentures or other debt instruments which the due date is 18 months or more after the date of issue, excluding FMB's or PMM's.

Differences

The Moody's ratio and the Issuance Coverage test are not directly comparable for the following reasons:

- In the Moody's ratio, the numerator, EBIT, is before all interest expense, while the denominator is total interest expense. For the Issuance Coverage test, the numerator CANE, interest on short term debt and PMM's are not added back, while the denominator includes only interest expense on the Additional Obligations, as defined (excludes interest on PMM's and short term interest expense); and
- Moody's makes adjustments to both the numerator and denominator, whereas the Issuance Coverage test uses the financial statements in accordance with GAAP.

Illustrative Calculation of Issuance Coverage Test

The Issuance Coverage test has been calculated over the ROE and equity ratio range requested in BCUC Commission Panel Information Request 7.0. The analysis is based on the audited financial results for the year ended December 31, 2008, with an allowed ROE of 8.62% and equity ratio of 35.01%. The 2008 financial results are then adjusted for changes in ROE and equity ratio from the baseline 8.62% ROE and 35.01% equity ratio. Incentive earnings have been eliminated as they cease to be earned at the end of 2009.

As noted, the Issuance Coverage test is a covenant that is required to be met in order to issue additional debentures. To demonstrate this, the attached table calculates the Issuance Coverage test assuming two prospective debt issues. The first issue is $100 million, similar to the actual February 2009 issue by TGI at 6.55%; the second issue is $200 million, also at 6.55%.

In order to have been able to issue either amount, the Issuance Coverage test would need to be greater than 2 times. The baseline Issuance Coverage test for TGI, for the $100 million February 2009 issue was at approximately 2.22 times. If TGI had undertaken the originally planned $200 million issue, the result would have been much closer to the minimum, at 2.05 times. The table demonstrates that under lower ROE, equity ratios and the absence of incentive earnings, TGI may have been constrained to issue either $100 million or $200 million, which is of concern given TGI has ongoing capital expenditure requirements that are funded by debt issuance[2].

ROE	Equity	Issuance Coverage $100M	Issuance Coverage $200M
Baseline (Includes Incentive Earnings)			
8.62%	**35.01%**	**2.22x**	**2.05x**
Adjusted (Excludes Incentive Earnings)			
8.62%	**35.01%**	**2.05x**	**1.90x**
Estimated (Excludes Incentive Earnings)			
7.75%	35.01%	1.91x	1.77x
7.75%	36.00%	1.95x	1.80x
7.75%	37.00%	1.98x	1.83x
7.75%	38.00%	2.02x	1.87x
7.75%	39.00%	2.06x	1.90x
7.75%	40.00%	2.09x	1.93x
8.00%	35.01%	1.95x	1.80x
8.00%	36.00%	1.99x	1.84x
8.00%	37.00%	2.03x	1.87x
8.00%	38.00%	2.06x	1.91x
8.00%	39.00%	2.10x	1.94x
8.00%	40.00%	2.14x	1.97x
9.00%	35.01%	2.12x	1.95x
9.00%	36.00%	2.16x	1.99x
9.00%	37.00%	2.20x	2.03x
9.00%	38.00%	2.24x	2.07x
9.00%	39.00%	2.28x	2.11x
9.00%	40.00%	2.32x	2.14x
10.00%	35.01%	2.28x	2.10x
10.00%	36.00%	2.32x	2.14x
10.00%	37.00%	2.37x	2.19x
10.00%	38.00%	2.41x	2.23x
10.00%	39.00%	2.46x	2.27x
10.00%	40.00%	2.51x	2.31x
11.00%	35.01%	2.44x	2.25x
11.00%	36.00%	2.49x	2.30x
11.00%	37.00%	2.54x	2.34x
11.00%	38.00%	2.59x	2.39x
11.00%	39.00%	2.64x	2.44x
11.00%	40.00%	2.69x	2.48x

[2] TGI has approximately $275 million Purchase Money Mortgages outstanding. While a determination has not been made, TGI is currently of the view that it may not be able to reissue the PMM's on maturity. The PMM's will be refinanced with unsecured debentures. As the PMM's are not subject to the Issuance Coverage test, while replacement unsecured debentures would be, the refinancing of the PMM's on maturity in 2015/2016 are expected to lead to further constraints on the Issuance Coverage test.