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November 10, 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. 2

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. 2.

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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1.0 Reference: Exhibit B-4, Executive Summary, p. 2 and BCOAPO IR 1.2.1

- 1.1 Please confirm that in the event that the project's go-live date is delayed, regardless as to the cause for such a delay, there are no financial consequences for TGI's shareholder. If unable to so confirm, please explain.

Response:

Not confirmed.

The question appears to assume that a delay in go-live date will necessarily result in increased costs for the Project. While this might be true, it might also be possible for the Project to be introduced after a targeted go-live date, but still complete within budget. The impact on TGI's shareholder resulting from any increases in Project costs will depend on the cause of the delay. Prudently incurred costs of providing service are recoverable from customers; therefore, the shareholder will only be affected if there is a future finding that the Company had somehow acted imprudently and thereby contributed to the delay. The Company is putting in place appropriate measures to reduce the risk of overruns.



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2.0 Reference: Exhibit B-4, Executive Summary, p. 2 and BCOAPO IR 1.2.2

- 2.1 Please confirm that in the event that the project incurs cost overruns, regardless as to the cause for any such cost overruns, there are no financial consequences for TGI's shareholder. If unable to so confirm, please explain.

Response:

Not confirmed. The Company is entitled to recover prudently incurred costs from customers. If overruns do not directly result from some imprudent conduct on the part of the Company then it is accurate that the customers will bear the full cost of the overruns. Costs incurred by the Company are, however, always potentially subject to a future prudence review, and any disallowance of costs for recovery in rates would have a direct impact on TGI's shareholder. The Company is taking appropriate steps to mitigate Project risks, including the risk of overruns.



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3.0 Reference: Exhibit B-4, Executive Summary, p. 2 and BCOAPO IR 1.2.3

- 3.1 Please confirm that in the event that there is a software cost escalation (SAP) after December 15, 2009, there are no financial consequences for TGI's shareholder. If unable to so confirm, please explain.

Response:

Terasen Gas confirms that in the event that there is a software cost escalation (SAP) after December 15, 2009, there are no financial consequences for TGI's shareholder. Prudently incurred costs of providing service are recoverable from customers.

Please refer to BCUC IRs 1.106.6 through to 1.106.9 and BCUC IR 1.106.11.



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4.0 Reference: Exhibit B-4, Executive Summary, p. 3, Appendix J, and BCOAPO IR 1.3.1

4.1 Please explain fully why it would not be a good idea – and in the public interest – for TGI to collect and report on SQIs during 2010-2011.

Response:

As discussed in response to BCOAPO IR 1.3.1, TGI will continue to measure service quality performance. During 2010 and 2011, the Company's customer care services will continue to be provided under the CSA and service level metrics and targets will apply as defined within the CSA. These service levels contribute to the customer care related SQIs that are in place under the 2004-2009 TGI PBR agreement. The issue of whether or not to report on company SQIs during the 2010-2011 Revenue Requirement period is most appropriately addressed within the proceeding associated with the TGI 2010 – 2011 Revenue Requirement Application.

As explained in the response to BCUC IR 1.8.1 an updated approach to service metrics will be a key deliverable of the CCE Project. This is discussed in more detail in Exhibit B-4, Section 4.5.2.3. Terasen Gas is committed to a process for establishing updated metrics for use beginning in 2013 and anticipates reporting Customer Care performance results once those metrics are in place.



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5.0 Reference: BCOAPO IR 1.5.2, BCOAPO IR 1.5.3 and Attachment 5.3, and BCUC IR's 1.126.1 – 1.126.10

- 5.1 Please confirm that (i) the contingency amounts included in the estimates provide TGI and contractors with additional "budget headroom" at ratepayers' expense (ii) TGI is indifferent financially as to whether the contingency amounts are or are not spent, and (iii) fixed price contractors who will be able to bill amounts in excess of the fixed price are not financially indifferent as to whether the contingency amounts are or are not spent.

Response:

The question appears to suggest a pejorative connotation to the inclusion of a contingency in the Project estimates presented in the Amended Application. TGI believes, however, that the inclusion of a contingency is appropriate and in the interests of customers. A contingency reserve is included in project estimates either to address uncertainties due to a lack of detailed information at the time the estimate is developed or as a safeguard against unforeseen events. It is common practice in developing project estimates to include such a contingency, and the inclusion of a contingency improves the transparency of the estimating process. On this Project, the amount of the contingency has been established to reflect the specific risk factors identified in the Amended Application and the Company's degree of confidence in the cost components based on currently available information. In that context, Terasen Gas confirms that Project contingency could be characterized as providing TGI with "budget headroom". TGI understands the reference to the contingency being "at ratepayers' expense" to mean that customers will be responsible for the prudently incurred Project costs. TGI concurs that, to the extent the contingency is required to address factors that arise on the Project, customers do bear the prudently incurred additional costs.

TGI is not indifferent to whether or not the contingency is spent. Terasen Gas has overall responsibility for the management of the Project and only prudently incurred costs can be recovered from customers. TGI has outlined in the Amended Application a number of ways in which the Company has sought to manage risks that have been identified. It is Terasen Gas' intent to manage its contingency judiciously and ensure it is only utilized where absolutely necessary and appropriately justified and approved by the Executive Steering Committee.

Fixed price contractors are contractually obligated to provide the agreed-to scope of services for the fixed fee proposal they have submitted. There is no allowance for potential overruns on the effort and resources required to complete the agreed to scope of work. The use of contingency funds is strictly at the control of the client of those services, and information about the amount of contingency allocated to a project is rarely shared with third-party consultants. If Terasen Gas introduces a change to the original proposal, either new requirements or a change to the



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timeline that were not part of the initially agreed-to scope of services, then the scope change process is triggered. This would involve a cost/benefit analysis of the requested change. If approved by the Company, a change order is created. Typically, the funding for this change in scope would come from contingency funds, but that is a decision of Terasen Gas. For further details on the Change Control process to be utilized as part of the Project governance process, please refer to Confidential Exhibit B-3, Attachment VI, Change and Scope Control Process pp 118 - 120. Contractors will be indifferent as to the *source* of the funding (i.e. a contingency fund versus some other funding source) used to compensate them for legitimate extra work beyond the scope of their contract.

- 5.2 Please provide a historical summary with respect to major TGI projects indicating the sums of contingency amounts that have actually been spent.

Response:

TGI infers from the question that "major TGI projects" refers to IT projects in excess of \$1M. The table below provides an approximate 5 year summary of applicable projects.

Terasen Gas believes that contingency should be treated as a risk mitigation factor either to address uncertainties due to a lack of detailed information at the time the project estimates are developed or as a safeguard against unforeseen events. It is difficult to draw any general conclusions about historical information in the absence of a discussion about the complexity of a specific project and the specific circumstances that caused the contingency to be spent. Each component¹ of a project has a different risk profile and these individual components as well as the dependencies between project components must be reviewed. The lessons learned from previous projects combined with the detailed review of the nature and complexity of the specific project drive the best estimates with the information at hand for the assignment of contingency dollars. It is Terasen Gas' intent to manage the contingency judiciously and ensure it is only utilized where absolutely necessary and appropriately justified and approved by the Executive Steering Committee. Please refer to the responses to BCOAPO IR 2.5.1 and the confidential responses to the BCUC IRs 1.126.1 – 1.126.8 for additional discussion on contingency for the proposed CCE Project.

¹ For the purposes of this discussion, components are defined as labour, consulting, hardware, software, facilities, training and implementation.



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Project	Year Completed	Original Project Budget (including contingency)	Contingency Amt	Contingency Spent
Deal Capture (Nucleus)	2004	\$1,998,000	\$320,800	\$140,100
IRM H/W Upgrade	2004	\$1,160,000	\$ 116,000	\$ 50,300
Retail Unbundling	2005	\$ 7,150,000	\$ 1,020,000	\$ 70,200
Server Refresh	2005	\$ 1,119,000	\$ 111,900	\$ 12,600
Desktop refresh	2005	\$ 1,600,000	\$ 160,000	\$ 157,700
Scheduling	2005	\$2,150,000	\$150,000	\$148,100
Café	2006	\$1,700,000	\$220,000	\$ 321,900 ²
TGVI Integration	2006	\$ 8,000,000	\$750,000	\$749,630
Desktop Refresh	2006	\$ 1,070,000	\$ 107,000	\$ 0
Records Information System – Pilot	2006	\$ 1,055,000	\$ 115,000	\$72,502
Residential Unbundling	2007	\$ 12,077,000	\$ 536,000	\$ 265,000
Distribution Mobile Solution	2008	\$ 5,646,000	\$ 395,000	\$ 865,000 ³
SAP Upgrade	2009	\$ 4,640,000	\$ 355,900	\$ 0
Learning Management System	2009	\$ 1,612,100	\$ 234,000	\$ 71,900

5.3 The attachment indicates the estimated present value of the shareholder benefit from the Project is \$11.110M. Please discuss fully all of the risks the shareholder is bearing under TGI's proposal in order to "earn" this reward.

Response:

The \$11.110 million referenced in the question represents the shareholder's return on the equity component of the capital invested to finance the Project. It is not a "reward", but rather represents the recovery of a legitimate Project cost. The rate of return on equity has been

² Complex custom build application – vendor was fixed price and did not exceed committed amount but project delay drove additional costs for supporting resources that were not fixed price (Time & Materials).

³ Extremely complex project involving multiple vendors. Key vendors fixed priced. Change order for \$160K for one vendor who was delayed by issues encountered by the other vendor. Project delayed 5 months due to the loss of critical resources from one vendor and then having to wait for the next appropriate implementation window. Project was a CPCN with a 10% overrun cap which the project stayed within. The nature of the Distribution Mobile Solution was technically more complicated than the CCE Project, involving many more variables. As such TGI does not expect similar types of problems as experienced on the Distribution Mobile Solution.



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determined by the Commission. The right of a public utility like TGI to an opportunity to earn a fair return on and of its capital invested is the essence of rate base rate of return regulation, which is the model of regulation employed in British Columbia.



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6.0 Reference: BCOAPO IR 1.6.2

- 6.1 Please confirm that the "cost certainty" referenced in the second point was a benefit mainly to ratepayers who were responsible for paying the costs of outsourcing.

Response:

The response to BCOAPO IR 1.6.2 discusses current best practices in outsourcing compared to the practices and beliefs from 2002. The reference to "cost certainty" in the second point speaks to one of the decision drivers at that time. TGI confirms that the cost certainty established for the suite of services defined in 2002 under the CSA was a benefit to customers. TGI notes that cost certainty is only present with respect to the base fees, and is not present related to changes (see BCUC IR 1.2.1). As it related to base services the value of cost certainty to ratepayers is discussed in BCOAPO IR 1.6.3. In light of the expectation that material changes would be required to respond to changes, the cost certainty originally enjoyed by customers is no longer present. As discussed in BCOAPO IR 1.6.2, the bundled fixed cost within the CSA creates challenges for the Company today when it comes to changes because the bundling obscures the true costs to CWLP of meeting new service requirements. Thus, it limits TGI's ability to budget or validate the costs associated with process changes or the addition of new services.

TGI believes that the current customer care delivery model has served customers well; however, it is not a sustainable model for the future given the changes that have taken place in our business environment since 2002. The CCE Project will benefit customers by bringing a sustainable customer care platform and additional services to customers upon implementation, direct control of our customer experience, service quality and operational costs, broader economic benefits to British Columbia communities and our customers through the associated job creation, and other benefits to customers over the long term at a lower cost than the notional long term cost of the current model.

- 6.2 Regarding the transactional volume risk formerly being absorbed by the outsourcer referenced in the third point, given that the utility believes it is no longer a "best practice" to transfer such risk, to what extent should the price of outsourced services decline in order to reflect the outsourcer's reduced risk?



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Response:

As noted in BCOAPO 2.6.1, the response to BCOAPO IR 1.6.2 discusses current best practices in outsourcing compared to the practices and beliefs from 2002. TGI's comment related to "transactional volume risk" in this instance refers to the risks associated with the repatriation of the Company's Lower Mainland customers from BC Hydro's billing system at that time.

Under the strategic sourcing model within the CCE Project, TGI's fees related to outsourced services will be reduced to reflect only the services that will be delivered via outsourcing arrangements. Examples include services requiring highly specialized knowledge or equipment such as translation services and statement printing. With respect to the CSA with CWLP, TGI has reached an agreement in principle with CWLP related to the CCE Project and associated scope changes. TGI will not pay any ongoing fees to CWLP after the Project is implemented.

- 6.3 With respect to the 2002 view that "the practice was to transfer all responsibility" as mentioned in the fourth point, to what extent should the price of outsourced services decline in order to reflect the outsourcer's reduced risk?

Response:

Please see the response to BCOAPO IR 2.6.2.



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7.0 Reference: Exhibit B-4, Section 4.1.1, Figure 4.1, page 58 and BCOAPO IR 1.8.1

7.1 Does the IR response referenced along with Figure 4.1 of Exhibit B-4 indicate that in 2009 and in 2003, CIS is and was one of the least likely services to be outsourced?

Response:

Yes. In 2003, although full business process outsourcing was more prevalent, CIS was one of the least likely services to be outsourced. This is also the case in 2009. Figure 4.1 of Exhibit B-4 also highlights that the transactional services TGI will continue to outsource under the strategic sourcing model are among those most likely to be outsourced.



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8.0 Reference: Exhibit B-4, Section 4.1.2.2, page 60 and BCOAPO IR 1.9.2

8.1 Please confirm that any incremental costs to expand the functionality of the system that are not included in the Application will be the ratepayers' responsibility.

Response:

Confirmed. It is Terasen Gas' practice that any expansion of functionality beyond what was delivered as part of the initial implementation for any application is justified and business-cased separately. Any incremental costs associated with an expansion of functionality are addressed in such a business case and would follow Terasen Gas' standard capital approval processes. Any incremental O&M costs that such changes require would also be included. The costs will be included as part of TGI's revenue requirements in future years.



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9.0 Reference: BCUC IR 1.7.6 and BCUC IR 1.7.7

- 9.1 Please indicate the extent to which TGI is financially indifferent with respect to transitional costs under its proposal.

Response:

TGI is not indifferent to transition costs, as the Company must pay transition costs. If the above reference to TGI was intended to refer to TGI's shareholder, then TGI confirms that as discussed in BCUC IR 1.7.8, customers will be responsible for transition costs under the CSA as a legitimate cost of providing service.

As discussed in BCUC IR 1.7.7, TGI understands that Terasen Inc. does not anticipate that transition costs will result in a net gain or loss to CWLP.

- 9.2 Please describe the relative financial risks with respect to scope changes and transitional costs being borne by (i) TGI's shareholder, (ii) the limited partners of CWLP, and (iii) TGI's ratepayers.

Response:

Please refer to the response to BCOAPO IR 2.9.1.



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10. Reference: BCUC IR 1.108.2

10.1 For each of the three CPCN projects listed, please provide the details of forecasted versus actual of all cost components (O&M, capital, etc.), transitional costs forecasted versus actual, and contingency costs.

Response:

The three CPCN projects listed in BCUC IR 1.108.2 were completed within budget. Terasen Gas believes that the appropriate level of rigor and due diligence has also been applied to the estimating process in the development of the costs required to successfully complete the CCE Project as described in the Amended Application.

Please see tables below for detail regarding forecasts and variance of the individual cost components. Note that all three projects were capital projects, containing capital and contingency costs. There were no O&M or transitional costs. The figures provided for individual cost components are estimates due to the way in which costs were tracked in those projects.

Residential Unbundling

The level of detail provided below is consistent with the line items approved by Commission in order number C-6-06, page 21. The data also includes AFUDC (embedded in each line item), which was excluded in the data provided in BCUC IR 1.108.2.

Residential Unbundling - Cost Estimate Versus Actuals (\$000s)

	Cost	
	Estimate	Actual
Pre-scoping and Scoping Phase	1,400	1,400
Build - Terasen Gas	208	216
Build - ABSU & KTC	4,843	4,859
Finance Process Changes	500	750
Customer Education	5,000	5,000
Contingency	555	-
Total	12,506	12,225

Notes:

- 1) Figures include AFUDC
- 2) Cost Estimate is consistent with BCUC Order No. C-6-06



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Distribution Mobile Solution

The level of detail provided below is consistent with the revised financial schedule provided to Commission in the Distribution Mobile Solution project's BCUC IR 1.26.6 response. The data also includes the 10% contingency approved by the Commission in Commission Order No. C-5-07, over and above Terasen Gas' project contingency.

Distribution Mobile Solution – Cost Estimate Versus Actuals (\$000s)

	Cost Estimate	BCUC 10% Contingency	Cost Estimate with Contingency	Actuals
Internal Labour	717	72	789	897
Consulting	2,938	294	3,232	4,025
Hardware	312	31	343	128
Software	592	59	651	588
Expenses	436	44	479	477
Contingency	395	39	434	
2006 spend	256	26	282	
Total	5,646	565	6,210	6,116
AFUDC	318	32	349	299
TOTAL	5,963	596	6,559	6,415

Vancouver Low Pressure Replacement

The level of detail provided below is consistent with the main line item headings approved by Commission in order number C-2-06, page 4. Terasen Gas did not track the sub-line items within its financial systems. The data also includes AFUDC, which was excluded in the data provided in BCUC IR 1.108.2.



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Vancouver Low Pressure Replacement - Cost Estimate Versus Actuals (\$000s)

	Cost Estimate	Project Cost Forecast Total
Project Management	356	280
Mains and Services	22,369	17,000
Stations	376	260
Total	23,101	17,540
AFUDC	645	460
Total	23,746	18,000

Notes:

- 1) In its application, Terasen Gas indicated that the Cost Estimate had a plus / minus 10% confidence range. However, Commission Order No. C-2-06 did not address this contingency; therefore, no contingency is included in the above data.

10.2 Is it TGI's view that CIS and Customer Care projects tend to be atypical in that *ante* forecasted costs tend to be materially exceeded in practice? If not, please provide support.

Response:

TGI believes that it is difficult to draw any conclusions one way or the other with respect to past experience and the proposed Project should be addressed on its merits. However, TGI has demonstrated in the past that it has the capabilities to manage IT projects (Refer to BCUC IR 1.47.1). There is always a risk of unforeseen factors beyond the control of the Company resulting in higher than expected costs. With respect to the Application, TGI believes that it has developed a reasonable cost estimate based on the information available, with appropriate contingencies to minimize the risk of project cost overruns. TGI's approach to project risk mitigation is discussed in CEC IR 1.9.1, and Confidential Exhibit B-3, Attachment VI, Risk Management (pp 121-126).