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January 5, 2010

British Columbia Utilities Commission
6th Floor, 900 Howe Street
Vancouver, BC
V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

Re: Terasen Gas Inc. ("Terasen Gas")

Application for a Certificate of Public Convenience and Necessity ("CPCN") for the Tilbury Property Purchase (the "Application")

Response to the British Columbia Utilities Commission ("BCUC" or the "Commission") Information Request ("IR") No. 1

On October 28, 2009, Terasen Gas filed the Application as referenced above. In accordance with Commission Order No. G-138-09 setting out the Regulatory Timetable for the review of the Application, Terasen Gas respectfully submits the attached response to BCUC IR No. 1.

If you have any questions or require further information related to this Application, please do not hesitate to the undersigned.

Yours very truly,

TERASEN GAS INC.

Original signed:

Tom A. Loski

Attachments

cc: Registered Parties

1.0 Reference: Application, 4.3 Risk Assessments, pp. 13-14

"a change in land use resulting in higher occupancy of this property would increase the risk profile of the LNG facility."

1.1 Has TGI considered seeking a restrictive covenant on the Property that restricts its development for as long as there is a Tilbury LNG facility? What is the estimated cost of seeking this restrictive covenant?

Response:

TGI has not considered obtaining a restrictive covenant on the Property rather than purchasing fee simple title to the Property for a number of reasons.

A restrictive covenant is not the equivalent of fee simple ownership. Ownership of the Property in fee simple will give TGI direct and long term control over density and development on the Property so as to minimize the potential for changes in the risk profile of operating the LNG Facility which could impact on TGI's continuing ability to demonstrate compliance with CSA Z276 and, in particular, its ability to rely on the Retroactivity Clause in CSA Z276 (as discussed in Part 4 of the CPCN Application). Ownership in fee simple will also provide TGI with flexibility for future expansion of the existing LNG Facility, if required.

If TGI's only interest in the Property were a restrictive covenant, the owner of the Property would have exclusive use and possession of the property and therefore be able to lease the Property and grant other rights in respect of it that would permit other parties to use it. TGI would have to monitor the use of the property by the owner and all parties deriving their rights from the owner. If the restrictive covenant were breached, TGI would have to seek to enforce the restrictive covenant by making an application to the court for an injunction ordering that the use or activity that is in violation of the restrictive covenant cease. Injunctive relief is not an "as of right" remedy for TGI and a court would not necessarily grant TGI an injunction to stop the offending use or activity. This could result in TGI being out of compliance with the requirements of CSA Z276.

A restrictive covenant does not provide the long term certainty that fee simple ownership provides and that TGI requires to maintain continued compliance with CSA Z276 and provide future operational flexibility. Restrictive covenants are subject to being challenged by property owners as being void if not in compliance with the applicable rules, including being against public policy. In addition, section 35 of the *Property Law Act* (R.S.B.C. 1996, c 377), provides that a landowner may apply to the court to modify or cancel a restrictive covenant and a court may do so in certain circumstances including where "because of changes in the character of the land, the neighbourhood or other circumstances the court considers material, the registered charge or interest is obsolete."

In addition, it is possible that the restrictions imposed in a restrictive covenant may be inadequate to meet future CSA Z276 requirements. In that case, TGI would need to negotiate with the Property owner to amend the restrictive covenant to further restrict density and development. It is unlikely that the Property owner would agree to such major concessions; however, if the Property owner did agree it is unknown what compensation would be required in exchange.

Finally, the facts of this particular transaction support TGI acquiring fee simple ownership of the Property rather than a restrictive covenant. The Vendor is seeking to sell the Property and TGI does not believe that the Vendor is or would have been prepared to sell TGI a restrictive covenant on terms that would be required by TGI. The restrictive covenant would make the Property unattractive to many potential purchasers because the restrictions imposed would permit only lower intensity uses, such as surface storage, than would be permitted under the zoning and the duration of the restrictive covenant would have to be for as long as the LNG Facility was located on the adjacent property - thereby substantially diminishing the value of the property.

In summary, it is in the best interests of customers, and cost effective, for TGI to obtain fee simple ownership of the land as proposed in the Application.

1.2 Does TGI agree that the existing LNG plant already acts as a deterrent for the Property to become a medium / high occupancy site?

Response:

TGI does not believe the existing LNG facility will be a deterrent to development of the Property for uses that are permitted in the current zoning specifications. If the LNG Facility acted as such a deterrent, this would presumably be reflected in the market value of the property, but there is no indication in either the Colliers Report or the CBRE opinion of value that this is the case. CBRE has informed TGI that in its opinion the presence of the LNG Facility does not impact the value of the property. TGI remains concerned that if is not successful in acquiring the Property and controlling development, the type of development that has occurred on the southwest end of Tilbury Island could occur up to the southwest property line of the Tilbury facility. TGI requires more certainty with respect to the development of the Property than can be offered by doing nothing in the hope that the presence of the LNG Facility alone will deter future development.

1.3 Please confirm that the existing LNG facility meets all of the current safety and zoning requirements.

Response:

The existing LNG facility meets all current zoning requirements. With respect to safety requirements, TGI has relied on Risk Assessments ("RA's") to demonstrate compliance by satisfying the CSA Z276 Retroactivity Clause. The 1999 Acres RA (Appendix 6 of the Application) concluded that the LNG facility was in compliance and TGI is not aware of any subsequent developments that would have changed this conclusion. Please refer also to the response to BCUC IR 1.1.6.

1.4 Please prepare a detailed map of the Tilbury facility and surrounding properties complete with legible property lines, showing the required containment and buffer zones related to hydrocarbon vapour dispersion and thermal radiation criteria to be met as specified in CSA Z276-2007.

Response:

This response is being filed confidentially under separate cover as it references sensitive information that was filed confidentially under Appendix 6 of the Application.

1.5 To TGI's knowledge, has the usage zoning of the Property changed since the original construction of the Tilbury LNG facility?

Response:

The Corporation of Delta confirmed that the Property has been zoned as I2 (heavy industrial) since 1983 with the adoption of By-Law #3670 which repealed Part 8 of the original industrial zones and inserted new industrial zone designations in the area. Construction of the LNG Facility commenced in 1969 and was operational in 1971. Delta has informed TGI that it was not able to confirm the zoning of the Property prior to 1983 after conducting a preliminary search of their records.

1.6 Does TGI plan on commissioning another independent risk assessment. If so, when?

Response:

The ACRES risk assessment was in 1999 was based on the 1994 edition of CSA Z276, and based on the land use at the time of neighboring properties to the Tilbury LNG Facility. The assessment concluded that the Facility can remain in use at an acceptable risk to life, thus satisfying the Retroactivity Clause of the CSA Z276.

The conclusions of the latest risk assessment remain valid for the present conditions; therefore, TGI does not plan on commissioning another report until the conditions are warranted. TGI continues to monitor risk factors at the Facility including changes to CSA 276, development in neighboring properties that would change their land use, and changes to potential hazardous events such as predicted seismic ground motions. Since the last risk assessment in 1999, there has been no change to the CSA Z276 from the 1994 edition to the current 2007 edition, and no change in land use on the Seaspan site. At this time, TGI is only aware of one change that would significantly increase the risk profile of the LNG Facility, that being the closure of the Weyerhaeuser mill on the Property and its high potential for change in land use resulting in higher occupancy. TGI is proactively addressing this concern with the proposed purchase of the Property in order to manage the risk profile of the LNG Facility at an acceptable level.

Once the control of land use of the Property is addressed, TGI does not have any immediate plan to commission another independent risk assessment. TGI will commission another independent assessment when there are changes to the risk factors that could potentially increase a risk to a significant level.

2.0 Reference: Application, 4.4.2 Canadian Pacific ("CP") Site, p. 17

TGI states that it met with CP in 1993 to discuss the radiant heat risk from the LNG plant. Subsequently, CP relocated their plans for an administration building further away from Hopcott road. TGI paid for the relocation.

2.1 Did TGI to pay for CP's relocation in 1993 out of goodwill or did TGI believe that they were obliged to compensate CP?

Response:

TGI believes that CP would not have considered changing the location of their proposed administration building unless the incremental costs were paid by TGI. CP was not obligated to relocate their planned building and, if they had not, the Tilbury Facility may have been in violation of mandatory safety standards. TGI believed that the expenditure was prudent and in ratepayers' best interest and therefore agreed to pay these costs.

Please note that, in the Application, TGI had inadvertently referred to the property immediately across Hopcott Road as the "CP Property". While the property was purchased by CP for their dangerous goods ferry service in 1993, it was subsequently sold to Seaspan Coastal Intermodal Company in 1998, who continued to provide this ferry service. TGI continued to have operations related discussions with the new property owner on a periodic basis, in particular to ensure each company was aware of the other company's risk profiles and emergency response plans. TGI recently met with Seaspan to advise them of the potential property transaction and confirms that Seaspan was one of the property owners that received the Notice of Application and Written Public Hearing as directed by the Commission in Order Number G-138-09.

2.2 How much was TGI's portion of CP's relocation expense in 1993? Was this amount added to rate base?

Response:

TGI paid CP $177 thousand in 1995 which represented the incremental cost to CP to relocate their building to a different location on their property. This amount was added to PP&E in rate base.

In 2000, it was determined that adding to PP&E was not the appropriate cost treatment since there was no purchase of a tangible asset (like land) involved. The usual treatment for an intangible asset would be to defer the cost and amortize it over an appropriate period, but due to

the relatively small amount involved, TGI removed the amount from rate base and added it to cost of service at the time the determination was made.

"…through proactive discussions and negotiations with neighbours in an effort to control the use of the adjoining properties." (Application, p. 24)

2.3 The above statement suggests that TGI has generally been successful in managing its risk profile by negotiating and influencing surrounding parties. Why has TGI not considered this to be a viable option with regards to the Property on a go-forward basis?

Response:

To date, TGI has only found it necessary to negotiate or attempt to influence the two major property owners on either side of the Tilbury facility. The relocation of the CP administration building was the only instance where a negotiated change was necessary. Fortunately, the use of both properties has not changed significantly since they began their current operations and similar negotiations have not been necessary.

The approach has yielded positive outcomes so far, primarily because TGI has been dealing with owners of industrial facilities whose operations have remained relatively unchanged. TGI, however, does not believe that this approach will continue to work in the future as the operations of its neighbours change over time and/or neighbouring properties are sold and the intended use changes. In particular, TGI does not believe this approach would work with a developer or with a number of smaller business owners because of the significant potential impact on the use of the property. A developer purchasing the property, for instance, would be paying market value for the property and would expect to be able to use the property to the full extent permitted by applicable bylaws in order to earn a return on that investment. While in some cases TGI may be able to negotiate with and compensate a landowner for minor changes to plans, TGI does not believe it should rely on negotiations with third party landowners as its preferred strategy for managing the LNG Facility's risk profile over the long term. There is, in TGI's view, considerable uncertainty with respect to the success it would have in attempting to negotiate significant restrictions on a developer's intended use of the property as may be required to ensure the LNG Facility continues to comply with CSA Z276 and other regulatory requirements going forward. In addition, depending upon the type of agreement reached with a landowner, TGI may be required to enter into negotiations for restrictions on land use each time ownership of a property changed.

Accordingly, TGI does not believe relying on negotiating restrictions on land use is the preferred approach to controlling use of land in the immediate vicinity of the LNG facility, particularly where the preferred option of acquiring fee simple title to the property is available.

3.0 Reference: Application, 4.5 Acquisition of the Northwest Hardwoods Site, p. 19

According to Section 3061.04 of the CICA Handbook, Property, plant and equipment is defined to be identifiable tangible assets when it meets all of the following criteria:

(a) are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other property, plant and equipment;

(b) have been acquired, constructed or developed with the intention of being used on a continuing basis; and

(c) are not intended for sale in the ordinary course of business.

3.1 Please confirm if all of the above criteria will be met with the purchase of this Property. If yes, has TGI obtained an external auditor's opinion to support this conclusion? If no, please explain.

Response:

Due to the adoption of IFRS in Canada, Section 3061 will not be applicable to this transaction, although IAS 16 (the IFRS equivalent) will be. For this property, the paragraphs below describe first the proposed regulatory classification and then the anticipated financial statement classification under IFRS. TGI has not obtained an audit opinion on the classification of the land under either Canadian GAAP or IFRS, and would not normally request advance audit opinions on classification of items for financial statements purposes.

In the CPCN Application, TGI proposes to purchase the entire 22.8 acre parcel of land. To mitigate costs, TGI is considering options that include renting out a portion of land for 3rd party storage and sale of the 5.13 acres not required to meet CSA Z276.

For regulatory purposes, TGI will classify the land in accordance with the Uniform System of Accounts.

The entire purchase will initially be recorded into a non-rate base deferral account, until January 1, 2012. At that time, any portion that will be retained will be recorded in account 440 Land Local Storage Plant.

"This account shall include the cost of land owned in fee simple and used for the construction and operation of local storage plant; the cost of land for storage, station, office, shop, and other grounds; the cost of land for ingress to or egress from such grounds; the cost of land for storage of material adjoining the right of way; the cost of removing from the land and locating elsewhere the property of others, and the cost of

> *necessary land for relocation of the property, when such costs are assumed by the company."*

Any land that has been subdivided and is being held for sale will be recorded in account 110 Other Plant until it is disposed of:

> "*This account shall include the cost of land, structures, equipment or other tangible or intangible plant owned by the utility, but not used in gas service and not properly includible in account Nos. 101, "Gas Plant Lease to Others", 102 "Gas Plant Held for Future Use" or 115, "Gas Plant Under Construction".*

For financial statement purposes, TGI will follow GAAP. Under current Canadian GAAP and proposed IFRS, the amounts recorded in a regulated deferral account prior to 2012 will be classified as a regulatory asset. Subsequent to 2011, any land that is being retained (including any part that is rented out) will be recorded as Property, Plant and Equipment under IAS 16. Under IAS 16, Property, Plant and Equipment is defined as tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period.

For financial statement purposes, any portion of land that has been subdivided and is held for sale will be recorded separately under IFRS 5 at the lower of carrying amount or fair value, less costs to sell. IFRS 5 has two general requirements for a non-current asset to be classified as held for sale:

1. the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets; and
2. its sale must be highly probable.

Therefore, the portion of land that has been subdivided and is being held for sale would be separately classified in TGI's financial statements subsequent to 2011; otherwise the classification is expected to be consistent with regulatory treatment.

TGI, therefore, believes that Section 3061 of the CICA Handbook will at no time be applicable to this transaction.

3.2 If the Property will be held for future use, as suggested in 4.6 "Other Considerations," please provide a schedule of expected revenues offsetting the cost of service for ratepayers for the next 15 years.

Response:

As discussed in the responses to BCUC IRs 1.3.1, 1.3.3, 1.3.4 and 1.8.2, the Property will not be held for future use. The principal purpose in acquiring the Property is to assist in maintaining ongoing compliance with the governing CSA Z276 standard. The Company has indicated on page 29 of the Application that it will make reasonable and prudent efforts to mitigate the cost impact of the Property on ratepayers by pursuing low impact revenue-generating or cost-mitigating opportunities that do not interfere with CSA Z276 code compliance. A preliminary estimate of savings from these cost mitigating activities is identified in Section 6.3 as being $200,000 to $300,000 annually. TGI would like to emphasize that these estimates are preliminary and, as discussed in the response to BCUC IR 1.8.2, more definitive work on the magnitude of these possible benefits cannot take place until the property has been acquired and the appropriate regulatory and permitting requirements have been met.

3.3 Please identify which account (in the UNIFORM SYSTEM OF ACCOUNTS PRESCRIBED FOR GAS UTILITIES) TGI intends to record this Property: 100 Gas Plant in Service, 101 Gas Plant Lease to Others, 102 Gas Plant Held for Future Use, or other.

Response:

Please see response to BCUC IR 1.3.1.

In reference to James E. Suelflow's book Public Utility Accounting: Theory and Application (p.168), "property and plant which is currently not used by the utility in producing its service," should be excluded from rate base considerations.

3.4 According to the above, should this Property be properly classified as a non-rate base asset?

Response:

The Property will be used in producing utility service since controlling use of the land will enable TGI to maintain ongoing compliance with CSA Z276, the applicable standard for LNG facilities. As such, TGI believes the Property would be properly classified as a rate base asset.

3.5 Utility assets can functionally be classified as production (generation), transmission, or distribution. Please explain which utility function this Property is intended for.

Response:

In addition to the functions of production, transmission and distribution identified in the question TGI also employs storage and billing/customer care functions in its Fully Allocated Cost of Service studies. The land acquired with the purchase of the Property will be included as part of the storage function since it will be part of the Tilbury LNG storage facility.

"…an opportunity to purchase this Property at a reasonable price based on current market conditions." (p.19)

3.6 Please provide the justification for why this Property is "at a reasonable price based on current market conditions."

Response:

CBRE has advised TGI that industrial property values in Metro Vancouver have increased significantly over the last five years. In many cases, prices have more than doubled. This is due in large part to increases in demand arising from geographic limitations and pressure from residential growth on industrial land, all restricting supply. The economic slow down in mid 2008 impacted on industrial land values with examples sited in the CBRE Opinion of Value (Appendix 8). CBRE provided TGI with guidance on the market value for the Property and the ultimate purchase price for the Property was the result of negotiations between the Vendor and TGI. Further details are set out in the responses to BCUC Confidential IR 1.3.1 and 1.3.2.

4.0 Reference: Application, 4.5.2 Alternatives Analysis: Risk of Not Proceeding, p. 21-22

4.1 TGI asserts that "replacement costs for the Tilbury LNG Facility peaking supply are estimated to range from $9 to $11 million per year." (page 21). Please provide the details of how this estimate was determined, and the circumstances and associated probability of occurrence.

Response:

TGI estimated the Tilbury peaking supply replacement costs to be in the range of $9 - $11 million per year through a comparative analysis that was compiled using the Sendout ® model, a long term portfolio evaluation model used by the TGI Gas Supply department to evaluate longer term resources. Two scenarios of replacement alternatives for Tilbury LNG were modeled and form the estimated upper and lower bounds of the $9-$11 million range.

The two independent scenarios were developed using Sendout®, both examining the cost of replacement of the Tilbury LNG facility through a combination of market resources including Station 2 supply and associated T-South transportation and Sumas supply. The resources under both scenarios is based on forecasted forward price and costs and represents mixes of resources that would be required to replace the Tilbury LNG facility. Given the uncertainty around the availability of future market area storage, such as Jackson Prairie or Mist, the analysis focused on Spectra pipeline resources such as Station 2 and Sumas supply.

The replacement costs were then calculated on an annual basis for the twelve year scope of the study and averaged for each of the two scenarios. The estimated average yearly replacement costs under the two scenarios formed the range of $9 - $11 million. The scenarios modeled take into consideration the expected total annual costs, which include all variable and fixed costs for both storage and transportation as well the commodity cost of gas for the supply contracts.

As defined in the TGI Annual Contracting Plan ("ACP"), the objectives are to contract for cost-effective supply resources which ensure safe and reliable natural gas deliveries to meet core customer design peak day and annual requirements while mitigating against potential upstream and downstream supply disruptions. While the peak day load requirement is based on a once in twenty year expected chance of occurrence (or 5% probability), TGI believes it to be appropriate and prudent to satisfy the objective to contract for reliable and cost effective resources to meet this peak day, should it occur or not in a particular year. It should be recognized that unlike the resources used in the evaluation Tilbury LNG provides the additional benefits of an on-system resource, providing mitigation against potential upstream and downstream supply disruptions.

4.2 TGI asserts that absent the Tilbury LNG Facility, "an immediate improvement to the Fraser Gate station at an approximate cost of $1 million would be required" in order handle lower inlet pressures (System Capacity, p.22). Please explain what specific Fraser Gate station improvements would be required and the basis for the estimated cost of $1 million.

Response:

Since the Tilbury LNG Facility provides pressure support to the CTS during high demand periods, in its absence Fraser Gate station will receive lower inlet pressures which would affect the capacities of station equipment including its two line heaters, two filter units, five pressure regulator runs, a flow meter, as well as the transmission pressure station piping. The cost estimate breakdowns to upgrade the station equipment are shown as follows:

Upgrade Items	**Costs**
Filters	150,000
Regulation and Measurement	400,000
Piping & Block Valves	183,000
Engineering & Project Management	69,000
Installation	60,000
Contingency	130,000
Total	**992,000**

4.3 TGI asserts that absent the Tilbury LNG Facility, "Other gate stations would require similar improvements although the timing and cost has not been established" (System Capacity, p. 22). Please provide an estimate of the timing and cost of anticipated significant improvements at all relevant gate stations that would be required for operational purposes in the next 20 years assuming that the Tilbury LNG Facility continues to operate as it currently does.

Response:

Assuming Tilbury LNG Facility continues to operate as it currently does, TGI does not foresee the need for any significant capacity improvement to gate stations downstream of the Tilbury facility during the next 20 years.

"If TGI does not purchase the Property and the Property is developed such that the Tilbury Facility is no longer in compliance with CSA Z276, then TGI will be in a difficult situation. It would be required to either replace the existing tank, attempt to mitigate the risk reactively after the Property was sold, or even decommission the LNG Facility." (p. 20)

4.4 Has TGI sought an independent, qualified legal opinion as to whether or not the municipal government could be successfully sued by TGI, if that the municipal government issued a development permit for a project that would in effect require TGI to shut down the Tilbury LNG Facility and/or incur substantial costs associated with modifications required to meet all applicable safety standards? If such a legal opinion has been obtained, please provide it. If not, please explain why TGI has not obtained such an opinion.

Response:

TGI has not sought a formal legal opinion on the question on this issue as there is no basis for such a position (that Delta would be liable if it issued a development permit for a development that conflicted with the operation of the LNG facility) under current legislation or the current Official Community Plan for Delta (in which development permit areas for Delta must be designated). (TGI notes that describing legal advice in response to questions of this nature, or providing the Commission with a legal opinion (had one existed) gives rise to the risk of waiver of privilege over broader solicitor client communications, making those communications potentially accessible to third parties (such as the municipality) in the event the Company were to become involved in any litigation. For this reason, TGI as a rule seeks to preserve solicitor client privilege, and believes that it is also in the best interest of customers to do so.)

TGI can state that under the *Local Government Act* (R.S.B.C. 1996, c. 323) ("LGA"), a development permit for land designated as a development permit area (section 919.1(1) of the LGA), can regulate or restrict development for certain purposes, none of which includes protection from facilities such as the LNG storage facility. In that regarding see in particular Section 919.1(1)(b) and (section 920(7.1) of the LGA) which do not include restricting development in areas adjacent to an LNG storage facility.

Currently the lands on Tilbury Island (including the Property) are within only one development permit area, namely the Streamside Protection and Enhancement Area (SPEA). The justification for the designation of the lands within that development permit area is as set out on page E-65 of the Official Community Plan is as follows:

"The purpose of designating a Streamside Protection and Enhancement Development Permit Area (SPEA) is to preserve, protect, restore and enhance fish and wildlife, and

their habitats, in and along streams. Stream systems that flow through the urban and rural portions of the municipality serve a productive habitat role for both aquatic and land-based wildlife species. However, encroachment by development or the alteration of lands adjacent to streams can cause the deterioration of these systems. Therefore, the primary function of the SPEA Development Permit Area is to ensure that decision makers can secure the necessary information and establish conditions for development or land alteration so that fisheries and wildlife resources located in streamside areas are protected and development impacts mitigated."

The designation of these lands does not permit Delta to regulate development for the purposes of protection from facilities such as the LNG Facility.

5.0 Reference: Application, 4.6 Other Considerations, pp. 22-23

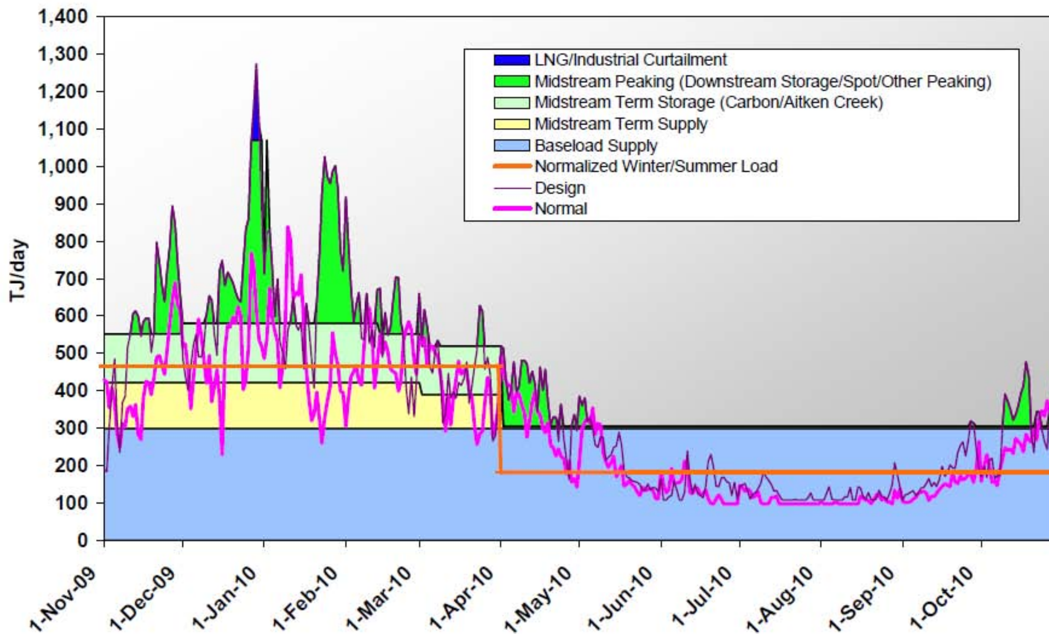
TGI identifies two other considerations that could represent a benefit to TGI purchasing the Property. First, an expanded property could facilitate the siting of future LNG facilities associated with expansion. Second, the potential to add buffer storage tanks to facilitate and support the LNG market for transportation use. (p. 22)

"Recent investments to increase the region's storage capacity include expansions at Jackson Prairie and Mist storage facilities, and the construction of the Mt. Hayes LNG Facility on Vancouver Island. With growing demand, these recent investments will not fully satisfy the region's future need for storage resources. To address the potential long term need for market storage resources in the region, TGI may consider the development of a new LNG storage facility in the Lower Mainland." (p. 23)

5.1 Please discuss TGI's long term storage capacity and expansion plans within the next 10, 20, and 30 years given the recent developments at Jackson Prairie, Mist and Mt. Hayes.

Response:

As part of its annual contracting process, TGI continuously assesses its mix of pipeline, storage and supply options in order maintain cost-effectiveness and reliability of its gas supply and midstream portfolio. As shown in the figure below, TGI storage is used to meet seasonal and peaking demand during winter, and is an essential part of TGI's midstream portfolio. In order to meet the peaking requirements of TGI, market area storage has typically been a more cost-effective short-term resource option as compared to seasonal storage or baseload pipeline capacity. Market area storage in the PNW is limited to Jackson Prairie ("JPS") in Washington and Mist in Oregon. TGI currently contracts at both facilities. Seasonal storage provides flexibility for balancing loads in the summer, shoulder and warmer than average winter days. TGI currently contracts for seasonal storage at Aitken Creek in NE BC and Carbon in Alberta.



Currently JPS is fully contracted. TGI holds three JPS contracts with Northwest Pipeline Corporation ("NPC") that extend out a little over 20 years that were acquired as part of the recent expansion of the JPS facility. In addition TGI has another contract with NPC that expires in 2011 that TGI is seeking to extend for a similar term. Since JPS is located downstream of TGI's service area TGI also holds NPC redelivery transportation capacity to move supply from the storage facility to the Lower Mainland. Currently this storage re-delivery transportation capacity is priced at a discount to firm transport capacity.

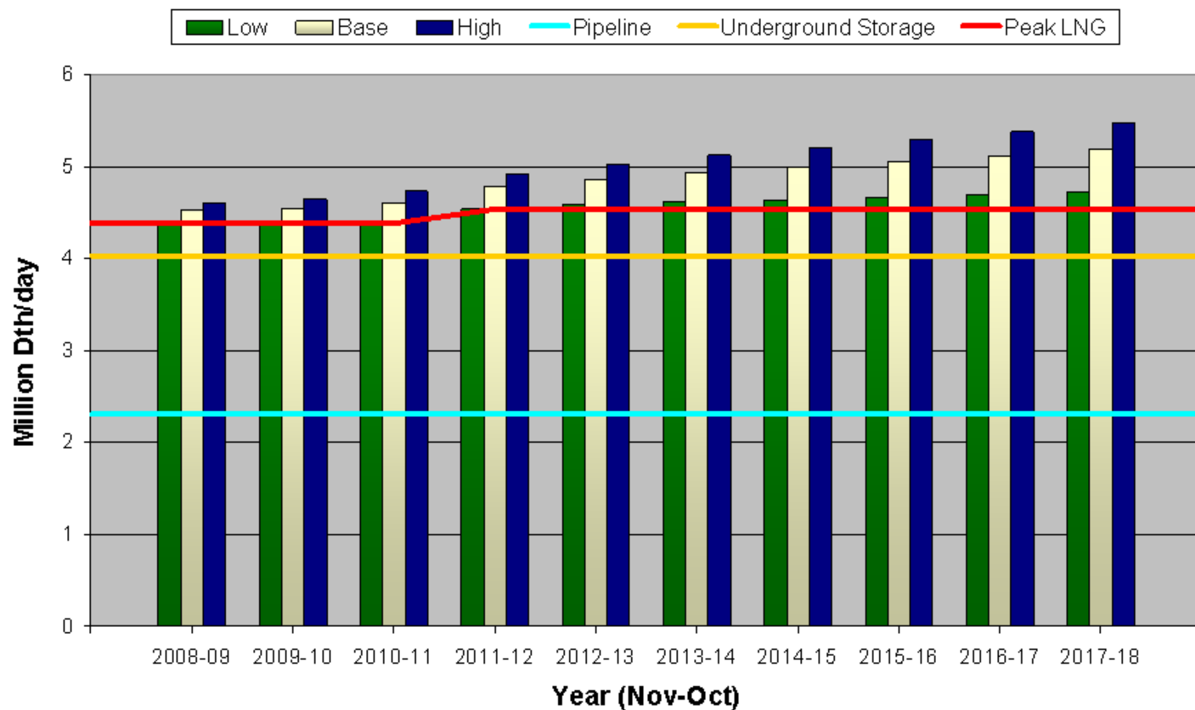
In addition to these long term contracts, from time to time TGI has been able to put shorter term arrangements in place with other parties such as Puget Sound Energy and Avista to hold additional JPS capacity. However, over time these parties have retained the majority of their storage capacity to meet their own requirements. In addition, it is understood that further expansion potential at JPS is limited and possibly cost prohibitive. Redelivery transportation capacity is also very limited, and would require facilities expansion on NPC which would be priced at the firm transport rate. As such, at this time TGI believes that its ability to acquire additional JPS capacity is very limited.

TGI also contracts for Mist storage resources with the facility owner Northwest Natural ("NWN"). Currently TGI holds contracts of varying terms, the longest of which expires in 2015. The Mist facility is also fully contracted but it is understood NWN is currently assessing the feasibility of a future expansion to be phased in over the next 10 to 15 years. However, the redelivery of gas from Mist storage to Sumas/Huntington is restricted due to the limited availability of incremental

NPC transportation capacity from Mist to Sumas/Huntingdon. Based on the increasing demand in the PNW region driven by core growth and gas-fired generation load it will become increasingly difficult for TGI to secure cost effective firm redelivery contracts for Mist storage through third party arrangements. As a result it is anticipated that TGI will contract for less Mist storage over time as a result of the availability and cost of redelivery and not necessarily as the result of lack of Mist storage capacity.

As an on-system resource, the Tilbury facility provides needle peaking supply for TGI as well as significant reliability and system capacity benefits. Beginning in 2011, TGI will also have access to peaking supply from the Mt Hayes facility. The Mt Hayes supply will be used to meet peak day growth requirements, replace expiring market area storage capacity and to reduce reliance on Sumas/Huntingdon peaking supplies. TGI considers both Tilbury and Mt Hayes as long term peaking storage resources in its portfolio.

As stated in the reference to this question, these storage developments are not expected to fully satisfy the PNW region's future need for storage resources. As shown in the following figure, natural gas peak day demand in the PNW is expected to continue to grow driven both by core demand and gas fired generation and the capacity to serve the region is becoming increasingly constrained during cold day events. Although on-system resources, both Tilbury and Mt Hayes (starting in 2011) contribute to the capacity to serve regional peak day demand.



TGI is continually monitoring regional supply and demand market developments and investigating the development of pipeline and storage infrastructure alternatives. This includes investigating the potential to use existing capacity or develop new on-system resources to allow greater access to supply developments in NE BC or Alberta or meet regional capacity requirements (e.g. through the extension of Southern Crossing Pipeline or the development of additional on-system storage). These alternatives will be more fully explored in TGI's 2010 Resource Plan expected to be filed in mid 2010.

5.2 Please provide a schedule of TGI's development plans for this Property for the next 10-20 years.

Response:

Based on the preamble, TGI understands the question to relate to development of LNG-related facilities. TGI does not have definitive development plans for this Property in the next 10 – 20 years. In order for TGI to more fully establish and evaluate opportunities to expand the LNG Storage Facility, TGI is monitoring the development of regional pipelines and storage infrastructures in the PNW Region, as well as the development of the market of LNG for transportation use.

5.3 What level of certainty can TGI provide that future economic benefits to rate payers from this Property would materialize?

Response:

TGI understands from the preamble of the question that the economic benefits being discussed relate to the use of the Property for LNG related facilities. The future economic benefits to rate payers from the potential use of the Property for expanded LNG facilities or buffer storage tanks would materialize if the markets for regional peaking supply storage and LNG for transportation use are developed in the long term. At this point in time, TGI does not know the certainty of these benefits materializing, but is continuing to monitor and assess these developments as they arise.

5.4 Please explain whether the expansion of "future LNG facilities" on the Property would require a further increase in the safety / buffer zones in order to maintain compliance with CSA Z276.

Response:

While the primary justification of this project is to control the development of the land use to ensure ongoing compliance with mandatory safety standards for the existing facility, TGI has done some very preliminary analysis on the land requirements for an expanded site. More detailed siting requirements would be needed to know the full extent of whether a further increase in safety / buffer zones would be needed, including consideration for the capacity and design of the facility, regulatory requirements, and stakeholder consultation. Our preliminary analysis demonstrates, however, that there are likely facility designs that could be accommodated on the combined properties, without a requirement for a further increase in safety / buffer zones in order to maintain compliance with the current CSA Z276. For example, the requirement could be met by different designs of secondary containment for the LNG storage tank(s), such as double or full containment tanks, which would reduce safety/buffer zone requirements in order to be in compliance with CSA Z276.

If TGI were to further develop this project, we would evaluate a range of potential alternatives, which may or may not require the acquisition of additional property and/or larger buffer zones.

5.5 Please comment on the potential for additional peaking supply to be sourced from the Pacific North West (PNW) given the planned or proposed PNW infrastructure improvements and new builds on US pipelines intended to increase US sourced supply to the PNW. Please explain how this might impact the continued need for the Tilbury LNG facility.

Response:

As stated in the Application (Exhibit B-1, pages 21-22), the Tilbury facility is both a valuable system capacity resource as well as a peaking gas resource. It is a key component of TGI's Coastal Transmission System providing both capacity and security of supply benefits in particular during extreme or extended cold weather events. The facility also helps to mitigate temporary but potentially significant operational problems associated with the pipeline infrastructure supplying the Terasen systems.

As discussed in the response to BCUC IR 1.5.1, TGI believes the potential for additional cost-effective peaking supply and redelivery to Terasen's market from the PNW is limited. Regardless, these resources would not provide the same level of benefits to TGI's system as an

on-system resource provided by the Tilbury facility, and it is unlikely that the development of additional peaking supply sourced from the PNW will replace the need for the Tilbury facility.

It should also be noted that on-system storage, such as the Tilbury and the future Mt Hayes facilities, has certain advantages over market hub peaking supply. As such facilities are located on the TGI system side of the Huntingdon-Sumas trading point they decrease TGI's dependence on storage resources that rely on trading point capacity, re-delivery constraints and peaking supply arrangements. On-system storage also reduces gas price volatility at Huntingdon by providing regional capacity to meet peak demand and acting as a backstop against temporary commodity price increases, utilizing gas purchased and injected during the off-peak summer season.

6.0 Reference: Application, 6.1 Treatment of Costs, p. 29

"Once acquired, the Property will be incorporated into the Tilbury LNG Facility operations. As such the Property will be used to provide utility service to customers and the costs to acquire and own the property will be recovered through customer rates."

6.1 Please explain how this Property will be utilized to "provide utility service" (i.e. "used and useful") to existing gas customers?

Response:

As described in Section 4 of the Application, the principal purpose in acquiring the Property is to facilitate ongoing compliance with the relevant Canadian Standards Association standard for LNG facilities (CSA Z276). As such, the Property will be used to provide utility service to customers as part of the Tilbury LNG Facility by ensuring that TGI conducts its operations safely and prudently in accordance with applicable external codes and standards. In this way, the acquired Property will be no different than the existing land on which the Tilbury LNG Facility is located.

7.0 Reference: Application, 6.1 Treatment of Costs, p. 29

7.1 Why is TGI proposing to recover the costs of this Property purchase over 3 years when the financial calculations provided are based on a 25 year amortization?

Response:

It is only the non-capital costs associated with the purchase of the Property that will be amortized over three years after the Property comes into rate base on January 1, 2012. The categories of non-capital costs that TGI will be responsible for after the closing date of the transaction are property taxes and O&M expenses. Since the transaction closing date depends on the receipt of an environmental Certificate of Compliance and can occur as late as August 25, 2011 (per Table 5.3-1 on Page 27 of the Application) the amounts to be incurred in these non-capital cost categories are uncertain. The estimated annual costs for property taxes and O&M expenses for the Property are identified in the listing of Financial Assumptions in confidential Appendix 9. A three-year amortization period is proposed for the deferred non-capital costs because property taxes are expected to comprise the majority of these costs and three years is the approved amortization period for the existing property tax deferral account.

The capital costs of the Property, consisting of the land purchase costs, property transfer taxes, real estate broker fees and legal fees, along with any recorded AFUDC will be coded in the Local Storage Plant land account (BCUC Account No. 440) where the existing land costs of Tilbury LNG facility are recorded. As land costs are non-depreciable there is no depreciation or amortization period associated with the capital costs of the Property.

7.2 What is the rate impact to customers when considering the incremental cost of service under a 3 year amortization compared to a 25 year amortization?

Response:

Please refer to the response to BCUC IR 1.7.1 for an explanation of the distinction between the capital costs of the Property (consisting of the land purchase cost and related transaction fees and taxes), and the deferred non-capital costs (consisting of property taxes and O&M incurred between the transaction closing date and January 1, 2012 when the Property will be added to rate base).

Since it is only the deferred non-capital costs that are proposed to be amortized over a three-year period and amount expected to be deferred is small relative to the capital cost of the Property, the difference in the rate impact between a 3-year amortization and 25-year amortization of the deferred non-capital costs will be $0.001/GJ or less.

As further explained in BCUC 1.7.1, TGI has proposed a three-year amortization period for the deferred non-capital costs to be consistent with the current approved amortization period for TGI's existing property tax deferral account. TGI does not believe a 25-year amortization period would be suitable for these costs which are not expected to be large and are of a transitional nature, occurring between the transaction closing date and the beginning of 2012 when the Property will be added to rate base. TGI is not aware of any deferral accounts being amortized over 25 years.

8.0 Reference: Application, 6.1 Treatment of Costs, p. 29

"Although TGI will use reasonable and prudent measures to pursue opportunities to reduce the cost impact to ratepayers, TGI believes that the acquisition of the Property is in the interests of customers regardless of the success of any mitigation measures." (p. 29)

8.1 What incentive does TGI have to actively seek this potential revenue offset to TGI's cost of service once the Property has been included in ratebase and earning a guaranteed utility return?

Response:

After the Property has been included in rate base TGI will continue to have the incentive to seek revenues or other cost offsets for various reasons. TGI is motivated to maintain and enhance the trust placed in it by its customers and the competitive position of the products and services that it offers. Seeking ways to mitigate costs for our customers is clearly aligned with both of these objectives.

TGI has engaged in cost mitigating or revenue generating activities in other areas in the past and continues to seek such opportunities for the benefit of our customers. For example, TGI has leased space to third parties in its facilities where such space is surplus for a period of time to its needs for utility operations. TGI has also provided metering and measurement services to third parties through its meter shops. The revenues received from such activities are used to offset TGI's revenue requirements.

8.2 Would TGI's shareholders be willing to enter into a binding obligation to offset ratepayers' cost of service by a fixed amount, if future storage rental revenues do not materialize?

Response:

No, TGI is not be willing to enter into a binding agreement to offset ratepayers' cost of service by a fixed amount if future storage rental revenues do not materialize. As has been described in the Application and in various IR responses, the principal reason TGI is seeking to acquire the Property is to facilitate continued compliance with the mandatory safety requirements of CSA Z276. TGI believes the acquisition of the Property is in the interests of customers, regardless of the success in cost mitigation efforts.

Further, TGI does not at this time have a way to forecast the degree of success it will have in cost mitigation or the time it will take to achieve such success. Although TGI has obtained broker opinions of value and of the opportunities for leasing the property (as per confidential Appendices 8 and 10) the amount of time required to subdivide and sell the portion of the Property or to find interested parties and lease portions of the retained land are not known at this time. As indicated on page 29 of the Application, the cost mitigation opportunities can only be pursued once the purchase of property is completed and the appropriate regulatory and permitting requirements are met.

9.0 Reference: Application, 6.3 Potential Future Uses, pp. 30-31

"TGI has identified two potential opportunities. The first is to subdivide the Property and sell the portion not required to meet CSA Z276. The second is to earn revenue from low impact activities on the Property, such as third party storage." (p. 31)

9.1 Please identify how the potential for third party storage is aligned with TGI's core business of providing a gas utility service?

Response:

TGI is purchasing the land to ensure the Company's ability to remain in compliance with CSA Z276, which is core to TGI's business of providing gas utility service. Revenue-generating prospects such as third party storage support the reduction of costs to do so. It is not uncommon for revenue or cost mitigation activities that are not rate-regulated to be included in a utility's revenue requirements. Please see the response to BCUC IR 1.9.2. Third party storage is thus directly aligned with TGI being a prudent operator of its system and keeping natural gas competitive by reducing operating costs for the benefit of our customers.

9.2 Please explain why the potential for third party storage should be included as a regulated business?

Response:

The Property is appropriately a utility asset as it is required for utility purposes, namely to assist in ensuring the continued safe and reliable operation of the Tilbury LNG Facility in compliance with mandatory safety standards. The cost of acquiring the Property represents a legitimate cost of service, and should be included in rate base as set out in the Application and recovered in (regulated) rates.

TGI is not pursuing the Property as an investment opportunity, regulated or otherwise. Rather, TGI is proposing to apply the rental income to offset the costs associated with acquiring the Property. This approach benefits TGI's customers. It is not uncommon for revenue or cost mitigation activities that are not rate-regulated to be included in a utility's revenue requirements. These may be recorded as Other Income or Non-Operating Revenue, or if closely related to a particular category of operating costs, as a cost offset against that operating cost account. As an example, TGI has offices and other operations facilities in a number of locations in which the Company is also a landlord and leases portions of these facilities as office or storage space to third parties. This is the case in Cranbrook, Kelowna, Kamloops, Prince George and Vernon.

The revenue generated from these leases is used to partially offset the operating cost for the particular facility.

Based on the quoted statements above, it appears that this Property may be "surplus land" not required for the ongoing and core operations of the utility. In accordance with the 2006 Supreme Court of Canada decision, ATCO's shareholders benefitted with all of the net proceeds from the sale of surplus utility assets.

9.3 What is TGI's position in regards to the 2006 Supreme Court of Canada decision?

Response:

As stated in the Application, TGI is applying to acquire the land for the purpose of safely and reliably operating the Tilbury LNG facility in accordance with mandatory safety standards. Once the property is acquired it will be incorporated into the operations of the Tilbury LNG Facility. As such, the property is required for the ongoing and core operations of the utility and is not surplus land.

The quoted statements in the preamble reference TGI's plans to reduce the cost to customers of the property purchase by subdividing and selling the piece of the property south of Tilbury Road and by earning revenue through low impact activities on the property. These plans are consistent with TGI's goal to acquire the Property to ensure that it meets the mandatory safety standards applicable to the Tilbury LNG facility, and recognizes that the current owner of the Property is unwilling to incur the cost to subdivide and sell to TGI only that portion TGI plans to hold as part of the Tilbury facility. As a result, as part of this Application to purchase the Property, TGI is proposing to pursue the sale of the land south of Tilbury Road and use the net proceeds to reduce rate base and the overall rate impact of the property acquisition.

TGI's position with respect to ATCO Gas & Pipelines Ltd. v. Alberta (Energy and Utilities Board), 2006 SCC 4, is that, amongst other things, it stands for the proposition that the Alberta Energy Utilities Commission, and by the same reasoning the BCUC, does not have the jurisdiction to allocate to customers net proceeds from the sale of utility property that is no longer required to provide service to customers (i.e "surplus utility assets"). Please refer to TGI's response to BCUC IR 1.9.6.

9.4 Please explain why utility ratepayers should finance the purchase of this surplus land?

Response:

The Property is not surplus land. It is required to facilitate ongoing compliance with mandatory safety standards for the Tilbury LNG Facility. Please see the response to BCUC IR 1.9.3.

As indicated on page 31 of the Application, TGI has determined that the smaller piece of the Property to the south of Tilbury Road is not needed for compliance with CSA Z276 and TGI will be investigating subdividing and selling this piece. The current owner was very clear that it wanted to sell the entire property and that it did not wish to sell only a portion of the Property or to incur the costs and effort involved in subdividing the Property. As such, TGI is acquiring the Property in its entirety so when the transaction closes there will not be a separate piece of the Property that is surplus. TGI must undertake a series of activities and incur an estimated $0.5 million to subdivide the 5.13 acre section south of Tilbury Rd and make it ready for sale. As further stated on page 31 TGI is proposing to credit rate base with the full net proceeds of the sale of this portion of the land that is not needed for CSA Z276 compliance, when this sale is successfully concluded.

The net effect of this proposed treatment is that the amount to be left in rate base after successfully subdividing and selling will be the overall net cost of acquiring the portion of land needed for ongoing CSA Z276 compliance.

9.5 Please provide the details of TGI's most recent sale of land and discuss the treatment of the net proceeds of that sale?

Response:

The following is a summary of the Lochburn land sale that the Commission approved in 2007.

On July 27, 2007, Terasen Gas filed an Application requesting approval for the disposal of vacant land at 3700 2nd Avenue, Burnaby, B.C. (referred to as Lochburn).

The vacant land at Lochburn was part of what was purchased by Terasen Gas (formally B.C. Gas Inc.) from British Columbia Hydro and Power Authority in 1988 for $729 million. Order in Council No. 1830/1988 established the appraised value of the plant in service ("rate base") to be $582,699,000 and allocated $24,781,000 to "Land and land rights". The difference between the purchased price of $729 million and the $582,699,000 allowed as rate base represented the proportion of the purchase price that was not included for rate making purposes. This meant

that 20.07 percent of the cost of the land was treated as a non-regulated asset and 79.93 percent of the purchased cost of the land was included in the rate base.

The Company sought approval for the sale of the 7.67 acres of vacant land at Lochburn, which was 39.21 percent of the entire parcel of land at Lochburn. In the Application for the sale of this land, the Company stated that the vacant land was no longer required for the provision of utility service and that its disposition would not result in degradation of natural gas service and harm to customers of Terasen Gas. At the time of the Application, the amount in rate base for the entire 19.56 acres of land at the Lochburn site was $2,897,418. In the Application, Terasen Gas requested approval to remove the amount of $1,136,155 from rate base, representing the value of the 7.67 acres, following the sale of the vacant land.

The Company had been entitled to the entirety of any gain on the sale of the vacant land. But in order to expedite the approval required to preserve the Purchase and Sale Agreement with the potential purchase, Terasen Gas also set out that it was prepared, on a without prejudice basis, to provide $2.5 million of the gain on the sale of the vacant land to its customers through a rider.

The Commission, by Order No. G-86-07, dated September 21, 2007, approved the following:

- the disposition of the vacant land at Lochburn, consisting of 7.67 acres of the entire parcel of land;
- removal of the amount of $1,136,155 from the base rate of Terasen Gas following the sale; and
- a refund of $2.5 million to rate payers over one year by a rate rider to be filed with the first quarterly gas review following the date of completion of the sale.

9.6 If TGI does sell the Property in the future (for any reasons within or outside the Company’s control) how will TGI treat the net proceeds? What will be the allocation of any profits between the shareholders and customers? Please explain the basis of any such allocation.

Response:

With respect to the portion of the property south of Tilbury Road, as explained in the Application, TGI plans to investigate subdividing and selling that portion and to use the proceeds to offset the cost of the property purchase for customers.

With respect to the property that TGI is intending to retain, pursuant to the ATCO decision, TGI’s shareholder(s) would benefit from any net proceeds or bear the risk of any net loss resulting from the sale of property that is no longer used for utility purposes. However, the

Property is not being acquired for investment purposes. Rather, TGI is acquiring the Property because it is a cost-effective option to ensure the continued safe and reliable operation of the Tilbury LNG Facility. TGI intends to keep the Property (except for the portion south of Tilbury Road that it will be seeking to subdivide as described in the Application) for at least as long as the Tilbury LNG facility is in service.

9.7 Has Terasen Inc. considered purchasing the Property in order to control its development and then sell a portion to TGI, as the need for additional storage or future LNG facilities arise? Please explain.

Response:

Terasen Inc. has not considered purchasing the property and then selling a portion to TGI. TGI is acquiring the property for public utility purposes, namely, to ensure the continued safe and reliable operation of the Tilbury LNG Facility in compliance with mandatory safety standards. As such, the purchase is properly funded by ratepayers, not TGI's shareholder.

9.8 What would the estimated net cost to rate payers be if TGI purchased the Property in order to place appropriate development related restrictive covenents on the title and then sold the Property as incumbered within five years. If this purchase/re-sale strategy was pursued, would TGI be willing to do so on a not-for-profit basis, i.e. any profit or loss associated with the purchase/re-sale would be to the rate payers' cost or benefit?

Response:

For the reasons set out in the response to BCUC IR 1.1.1, TGI does not believe a restrictive covenant will achieve our objectives of obtaining direct and long term control over the density, use of, and development on the Property and ensuring future business and operational flexibility. Accordingly, TGI would not be willing to pursue the strategy of purchasing the Property, registering a restrictive covenant, and selling the Property. It is difficult to estimate the cost to rate payers if this strategy were pursued, but TGI believes the costs would be substantial since the restrictive covenant would significantly limit the use of the Property.

10.0 Reference: Application, p. 9 and Appendix 9, p.2

10.1 Why does TGI assume that only a small portion of the Property could derive rental revenue when the CBRE report (Appendix 10) suggests that there is a substantial portion of land that could generate income?

How does TGI plan to treat the potential rental revenue? Will this be flowed through as a revenue offset benefitting rate payers and trued up annually?

Response:

As discussed below, at this time there is still considerable uncertainty on how much of the area could be rented and the level of rental revenue could be generated through third party storage activities. In the sensitivity cases described in Confidential Appendix 9, TGI provided an example whereby 10% of the area was used to provide third party container storage in order to directionally provide an estimate of mitigating revenue that may be generated based on the data provided in the CBRE report.

TGI's principal purpose in acquiring the Property is enable it to maintain ongoing compliance with the CSA Z276 standard to ensure that safety and risk management objectives are met. Subject to this principal purpose being served, TGI will pursue cost mitigation opportunities to reduce the rate impact for customers. Although there may be the possibility of generating greater leasing revenues from low impact use of the Property, TGI believes there is considerable uncertainty about the timing of when such cost mitigating initiatives can be put in place and the amount of revenues that can be generated. For example, TGI has recently become aware of restrictions by the Corporation of Delta (through its bylaws) on the outdoor storage of containers in Industrial Zones. Other forms of third party storage may be possible, but it may be necessary to make expenditures to prepare the site for these activities. These foregoing comments are made to demonstrate that securing cost mitigating revenue sources from the Property will take considerable effort and due diligence. TGI does not wish to create unreasonable expectations of how much it will be able to achieve through cost mitigation efforts.

TGI will record any revenue it does receive through third party use of the Property in an Other Income or Non-Operating Revenue account. Similar to other categories of revenue included in these accounts, TGI will make a forecast of these revenues in its revenue requirement applications based on the most up-to-date information available at the time. TGI does not believe truing up for third party revenues from the Property is warranted at this time. Truing up, as TGI understands it, would require some form of a deferral account mechanism. Since this is likely to be a fairly modest source of revenue and not subject to large fluctuations in amount, TGI does not believe a deferral account or true-up mechanism is necessary.

11.0 Reference: Appendix 9 Financial Schedules and Summary, AFUDC rate

11.1 Please provide a calculation of TGI's annualized AFUDC rate assumed in the Application and explain how this is different / same as TGI's current weighted average cost of capital.

Response:

The annual AFUDC rate has been calculated as follows:

Line	Calculation Particulars	Reference	2009	Year 2010	2011
1	Tax Rate		30.00%	28.50%	26.50%
2					
3	Short Term Debt %		5.80%	3.50%	2.93%
4	Short Term Debt Pre-Tax Rate		4.25%	2.25%	4.50%
5	Short Term Debt After Tax Rate	Line 4 * (1- Tax Rate)	2.98%	1.61%	3.31%
6	Short Term Debt Weighted Average	Line 3 x Line 5	0.17%	0.06%	0.10%
7					
8	Long Term Debt %		59.19%	61.49%	62.06%
9	Long Term Debt Pre-Tax Rate		6.96%	6.87%	6.84%
10	Long Term Debt After Tax Rate	Line 9 * (1- Tax Rate)	4.87%	4.91%	5.03%
11	Long Term Debt Weighted Average	Line 8 x Line 10	2.88%	3.02%	3.12%
12					
13	Common Equity %		35.01%	35.01%	35.01%
14	Common Equity After Tax Rate		8.47%	8.47%	8.47%
15	Common Equity Weighted Average	Line 13 x Line 14	2.97%	2.97%	2.97%
16					
17	Total AFUDC	Line 6 + Line 11 + Line 15	6.02%	6.04%	6.18%
18					
19	Monthly AFUDC	Line 17/ (12 months)	0.50%	0.50%	0.52%

The TGI nominal after tax weighted average cost of capital is a very similar calculation to the AFUDC calculation shown above. The only difference being that the nominal after tax weighted average cost of capital excludes the short term debt component and therefore, correspondingly adjusts the long term debt ratio to ensure that the capital structure remains at 100%.

Since the long term debt rate is currently forecast to be greater than the short term debt rate, the forecast nominal after tax weighted average cost of capital will be slightly higher than the forecast AFUDC rate.

11.2 Please discuss any changes to the AFUDC rate in the Application pursuant to the upcoming decision on the Terasen Gas Utilities' ROE and Capital Structure decision.

Response:

Please refer to the AFUDC table below which has been updated to reflect the decision associated with the Terasen Gas Utilities' ROE and Capital Structure Application (BCUC Order No. G-158-09).

The change in the capital structure impacts the short term, long term and common equity ratios applied to the respective rates and used to determine the weighted average contribution to the total AFUDC rate (i.e. lines 3, 8 and 13 of the table as compared to the same lines in the table provided in the response to BCUC IR 1.11.1). The change in the ROE impacts only the common equity rate component of the AFUDC rate (i.e. line 14 of the table as compared to the same line in the table provided in the response to BCUC IR 1.11.1). The net annual impact of the changes is an approximate increase of 0.7% over the AFUDC rate that was embedded in the Application.

AFUDC Calculation revised to reflect impacts of BCUC Order No. G-158-09 (ROE Decision)

Line	Calculation Particulars	Reference	2009	Year 2010	2011
1	Tax Rate		30.00%	28.50%	26.50%
2					
3	Short Term Debt %		5.80%	1.45%	1.63%
4	Short Term Debt Pre-Tax Rate		4.25%	2.25%	4.50%
5	Short Term Debt After Tax Rate	Line 4 * (1- Tax Rate)	2.98%	1.61%	3.31%
6	Short Term Debt Weighted Average	Line 3 x Line 5	0.17%	0.02%	0.05%
7					
8	Long Term Debt %		59.19%	58.55%	58.37%
9	Long Term Debt Pre-Tax Rate		6.96%	6.95%	6.95%
10	Long Term Debt After Tax Rate	Line 9 * (1- Tax Rate)	4.87%	4.97%	5.10%
11	Long Term Debt Weighted Average	Line 8 x Line 10	2.88%	2.91%	2.98%
12					
13	Common Equity %		35.01%	40.00%	40.00%
14	Common Equity After Tax Rate		9.50%	9.50%	9.50%
15	Common Equity Weighted Average	Line 13 x Line 14	3.33%	3.80%	3.80%
16					
17	Total AFUDC	Line 6 + Line 11 + Line 15	6.38%	6.73%	6.83%
18					
19	Monthly AFUDC	Line 17/ (12 months)	0.53%	0.56%	0.57%

*2009 change in effect July 1, 2009