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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”)

Application for a Certificate of Public Convenience and Necessity (“CPCN”) for the Tilbury Property Purchase (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 October 28, 2009, Terasen Gas filed the Application as referenced above. In accordance with Commission Letter No. L-2-10 setting out a Revised Regulatory Timetable, 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 the undersigned.

Yours very truly,

TERASEN GAS INC.

Original signed:

Tom A. Loski

Attachments

cc: Registered Parties



Terasen Gas Inc. ("TGI", "Terasen Gas" or the "Company") Application for a Certificate of Public Convenience and Necessity ("CPCN") for the Tilbury Property Purchase (the "Application")	Submission Date: January 15, 2010
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1.0 Reference: BCUC IR No. 1.9.3, 1.9.6 and CEC IR 1.4.2, 1.4.3, and 1.14.2

- 1.1 Please confirm that notwithstanding the assertion that the Tilbury LNG Facility is expected to have an indefinite lifetime going forward, there is no commitment on the part of TGI to operate this facility and provide utility services for the indefinite future to the benefit of ratepayers.

Response:

TGI has an ongoing commitment to provide cost-effective natural gas service to all of its customers. As stated in the Application and in the responses to CEC IRs 1.4.2 and 1.4.3, TGI considers the Tilbury LNG Facility to be an important and valuable system capacity and peaking resource in TGI's supply portfolio. TGI intends to operate and maintain the Tilbury LNG facility for the foreseeable future to continue to provide the benefits the facility delivers to customers. However, if circumstances were to arise in which it was necessary to take the Tilbury LNG facility out of service, the interests of customers would be protected by virtue of the fact that a public review process under the Commission would be required to deal with taking the facility out of service and acquiring the most cost-effective supply resources in replacement. If the existing LNG Facility were to reach the end of its useful life TGI would consider, along with other options, the replacement of the existing LNG Facility with expanded LNG storage, liquefaction and sendout capabilities. Assuming that replacement and expansion of LNG capabilities at Tilbury was the preferred option, TGI would use the combined footprint of the existing plant property and the purchased Property to accommodate the new LNG Facility.

- 1.2 Please confirm that excepting the property south of Tilbury Road – which TGI has proposed to subdivide, sell, and apply the net proceeds as an offset to the cost of service – nothing in the current Application would prevent TGI from selling the rest of the property (and plant) long before the approximate end of life of the current facility (i.e., 20 years).

Response:

Not confirmed. The Tilbury LNG Facility is an important asset in providing service to customers and its expected life is indefinite (not 20 years).¹ TGI would not sell the Property before the end

¹ As stated in the responses to CEC IR 1.4.2 and 1.4.3, the useful life of the LNG Facility is indefinite. In order to be responsive the Company also included in CEC IR 1.4.2 an accounting perspective on the remaining composite life as filed in its Revenue Requirements Application.



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of life of the current LNG facility since the Company would run the risk of CSA Z276 non-compliance to the detriment of its customers and ratepayers. In the unlikely scenario where the Property north of Tilbury Road or the existing LNG Facility or both were no longer needed for utility purposes and TGI sought to sell these assets, Commission approval would be required for this disposition to safeguard the interests of customers. It is speculative to consider why such an event would occur and TGI believes that the possibility of this event poses no potential for harm to customers.

- 1.3 Please confirm that if the Application is approved, TGI would not entertain selling the property that houses the LNG Facility along with the plant and equipment unless such a sale was cost effective and maximized the benefit to ratepayers.

Response:

Please see the responses to BCOAPO IRs 2.1.1 and 2.1.2. TGI considers it quite unlikely that it would entertain selling the current LNG Facility property and equipment. The details of such a sale, if it were to occur, would be highly dependent on the circumstances at the time. The interests of customers in such a disposition of assets by TGI would be protected through the public review process under the Commission's oversight.



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2.0 Reference: CEC IR No. 1.17.1

- 2.1 In the event that 3rd party storage did take up all the acquired property, would the property plant and equipment still be regarded as utility assets? Please discuss.

Response:

The purpose of acquiring the Property, as stated in the Application and a number of places in previous IR responses, is to control the land use near the Tilbury LNG facility to maintain ongoing compliance with CSA Z276, the applicable standard for LNG facilities. Once purchased, the Property will be incorporated into the Tilbury LNG facility operations and, as such, will be no different than the existing land on which the LNG facility is situated. Therefore, yes, even if, contrary to TGI's expectation outlined in CEC IR 1.17.1, the unlikely outcome occurred that third party storage took up all the acquired Property, TGI would still regard the Property and any related assets or improvements on the Property as utility assets. In pursuing revenue generating opportunities at the Property TGI will only allow low impact activities that do not in any way jeopardize the primary purpose of acquiring the Property which is to assist in maintaining ongoing compliance with CSA Z276. If circumstances occurred in which low impact activities could be carried out on most or all of the Property the revenues generated therefrom would still be a secondary benefit relative to the purpose of controlling land use around the Tilbury LNG facility for ongoing code compliance. As stated in the response to BCUC IR 1.10.1, TGI believes there is considerable uncertainty concerning the cost mitigating initiatives that the Company can put in place and the level of revenues it can generate.



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3.0 Reference: BCUC IR No. 1.5.4

- 3.1 Is it possible that TGI could purchase additional safety/buffer properties, include them in rate base, and later – either due to changes in regulations or TGI's long-term supply portfolio – declare such properties as surplus and dispose of them to the shareholder's benefit?.

Response:

While possible, it is unlikely in the case of the Tilbury LNG facility that TGI would purchase additional buffer properties, include them in rate base, and later for reasons such as those identified in the question or others seek to dispose of them. The purchase of such property would likely require a CPCN and, in any case, Commission approval would be required to recover the costs in rates. Therefore, presumably the purchase of the property would be justified in this hypothetical scenario. If TGI required the property as a safety/buffer zone, it would likely not dispose of the property as long as the LNG facility was still in service as TGI is concerned with ongoing compliance with safety standards that may change over time. And, given the importance of the LNG facility to TGI's long-term supply portfolio, it is unlikely that TGI would dispose of it. Nonetheless, it would, of course, be possible in this hypothetical scenario that TGI would seek to dispose of such property at some point in time. In any case, Commission approval would be required for such a property disposition and the interests of customers would be protected. TGI therefore does not believe that this possibility poses any risk of harm to ratepayers and is not relevant to the present Application.