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Regulatory Affairs Correspondence
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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” or “TGI”)

Application for Approval of a Biomethane Service Offering and Supporting Business Model, for the Approval of the Salmon Arm Biomethane Project and for the Approval the Catalyst Biomethane Project (the “Application”)

Response to Workshop Undertaking

On June 8, 2009, Terasen Gas filed the above noted Application. On June 24th, a Workshop was held to review the Application.

During the Workshop, there was discussion about the treatment of carbon offsets from the supply and consumption sides. The British Columbia Public Interest Advocacy Centre on behalf of the British Columbia Old Age Pensioners Organization *et al* (“BCOAPO”) requested that Terasen Gas undertake to provide the details of the carbon offsets discussion into the record of the proceeding. What follows is a discussion about carbon offsets, recognizing that this is an emerging market and much remains uncertain about the rules and regulations at this time.

The creation of offsets and the potential value they create could help reduce the costs to customers who purchase Biomethane as proposed in Terasen Gas’ Biomethane Application.

Outlined below is information describing how these offsets could potentially reduce costs to customers who purchase Biomethane.

a) What is an offset?

A carbon offset is a mechanism which enables the transfer of greenhouse gas emissions (GHGs) reductions credit from one entity to another. Carbon offsets are typically measured in metric tons of carbon dioxide-equivalent and one carbon offset represents the reduction of one metric ton of carbon dioxide or its equivalent in other GHGs.

Once these offsets are created and validated they can be sold to parties as part of a financial transaction.

There are two markets for buyers of carbon offsets. The first is the “compliance market” where companies, government or other entities buy carbon offsets in order to comply with GHG caps or regulations on the total amount of carbon dioxide they are allowed to emit. The second marketplace is the “voluntary market” in which individuals, companies or governments buy offsets on a voluntary basis to reduce their carbon emissions.

On the supply side an offset is created by a project that reduces the total emissions of GHG in the short or long term. These offsets are typically created through renewable energy projects such as wind farms and biomass energy by displacing fossil fuels.

The offset industry and the business rules that apply to it is an evolving industry. The TGI Biomethane business model as presented in the application has the ability to adapt to the offset market as it evolves and this has the potential to help reduce customer costs to those who purchase Biomethane.

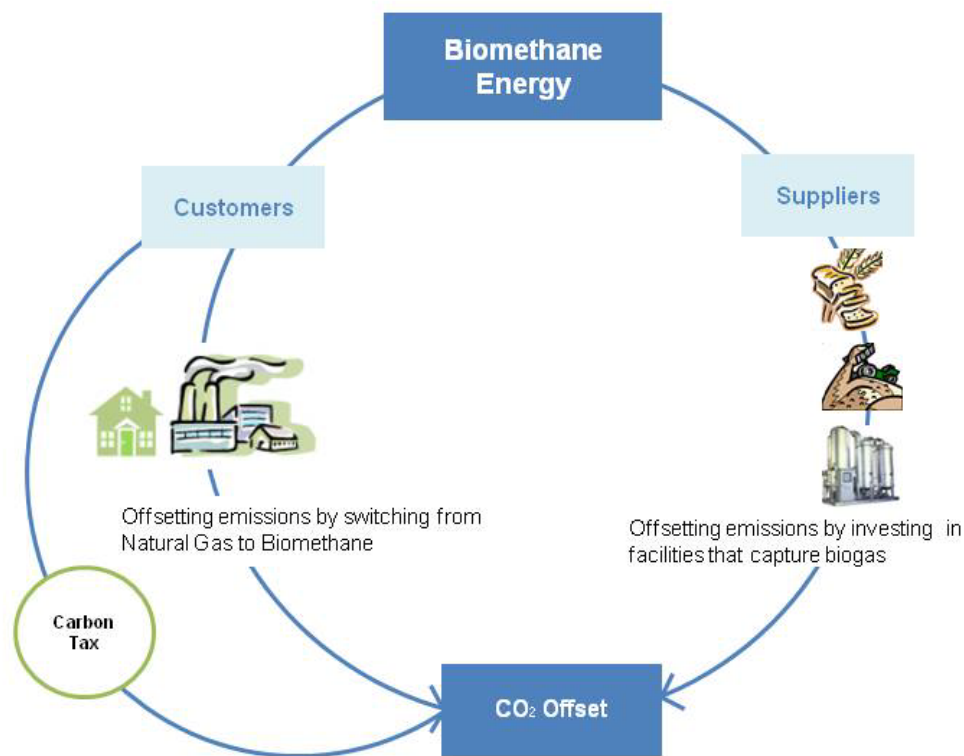
b) How are offsets created within the Terasen Gas Biomethane Application? Who has ownership of these offsets? How are the revenues from selling these offsets treated?

Within the Terasen Gas Biomethane Application there is the potential for two different sources to generate or create offsets:

- 1) Suppliers
- 2) Customers

These two sources of offsets are outlined in Figure 1 and are discussed further below.

Figure 1: Sources of Offsets Created from Biomethane by Suppliers and Customers



Suppliers:

During the process of capturing Biogas, there is the potential to create an offset. The offset in theory is created by capturing the Biogas that otherwise would have been released from the landfill, wastewater treatment plant or from the agricultural waste naturally decomposing. There is potential to have a greater quantity of offsets that associated with the biogas produced by the facility due to the fact that the release of raw methane has approximately 21 times the GHGs than that produced by burning the same quantity of natural gas.

Within the Application and specifically the two projects contained in the Application (Columbia Shuswap Regional District and Catalyst Power Inc.) the responsibility in creating offsets, having them validated, and qualifying them for sale resides with the Biogas producer. Each of the two supply contracts filed in this Application contain a clause that discusses the ownership of such an offset. Within these two contracts, the producer has ownership and therefore retains the value of this type of offset.

Over time, if the producer is able to qualify the project through third-party certification to show that an offset of this type has been created, the value of this offset would be incorporated into the producers revenue streams and therefore reduce the sale price TGI negotiates with the producers to pay for Biogas or Biomethane.

Given the uncertainty in this emerging field, TGI has chosen at this time to let the producer deal with the logistics and costs associated with establishing whether or not offsets from

these projects can bring about a revenue stream to the project proponent. This was also the preference of the producers because it would be difficult to establish a long term price given the infancy of the market in BC.

Customers:

On the customer side, there is the potential for a further offset to be created by having customers consume the Biomethane in place of natural gas. Natural gas and the CO₂ produced from its combustion are considered to be GHGs because they add to the total amount of CO₂ in circulation in the atmosphere. This occurs once natural gas is removed from an underground source and is combusted. By displacing natural gas with Biomethane in end-use applications, all else being equal, there is a net reduction in the amount of GHGs in the atmosphere.

With regard to this type of offset, TGI is currently exploring an alternative in generating value to the customers that consume Biomethane by having them exempt from the carbon tax on the Biomethane they consume. On March 30, 2010 KPMG sent a letter to the Ministry of Finance on behalf of Terasen Gas Inc., (a copy of the letter is attached for reference) to ask for an exemption related to the carbon tax for the volume of Biomethane that customers consume. TGI is awaiting a tax ruling on this request from the B.C. provincial government. If this request is granted, in TGI's opinion, value has been created for the customer by not having to pay for the carbon tax.

Based on TGI's current understand of the rules to establish offsets through such organizations as the BC Carbon Trust, it is unclear if offsets can be created on the customer side even though the carbon tax may not apply to the consumption of Biomethane. TGI will continue to explore creating offsets of this type on behalf of Biomethane customers.

If the ruling regarding the carbon tax is not a positive one, TGI would request a change in the carbon tax regulation to allow the consumption of Biomethane to be exempted from the tax. Further, TGI may work to validate, qualify and sell the offset on the customer's behalf. This revenue stream would get reflected to the customer through the Biomethane Energy Recovery Charge by reducing their overall costs of Biomethane.

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

Yours very truly,

TERASEN GAS INC.

Original signed by: Shawn Hill

For Tom A. Loski

Attachments

cc (email only): Registered Participants to the Biomethane Application