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August 17, 2010

Regulatory Affairs Correspondence  
Email: [regulatory.affairs@terasengas.com](mailto:regulatory.affairs@terasengas.com)

BC Sustainable Energy Association  
5-4217 Glanford Avenue  
Victoria, BC  
V8Z 4B9

Attention: Thomas Hackney, Director

Dear Mr. Hackney:

**Re: Terasen Gas Inc. ("Terasen Gas" or the "Company")  
Application for Approval of Biomethane Service Offering and Supporting  
Business Model, for the Approval of the Salmon Arm Biomethane Project and  
for the Approval of the Catalyst Biomethane Project (the "Application")  
Response to the BC Sustainable Energy Association ("BCSEA") Information  
Request ("IR") No. 1, Question 20.2**

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On June 8, 2010, Terasen Gas filed the Application as referenced above. In accordance with Commission Order No. G-109-10 setting out the Regulatory Timetable for the review of the Application, Terasen Gas submitted its response to BCSEA IR No. 1 on August 6, 2010.

In order to take into account discussions with the Ministry of Finance and any recent developments, Terasen Gas committed to responding to IRs relating to the application of carbon tax by August 18, 2010. Accordingly, Terasen Gas respectfully submits the attached response to BCSEA IR 1.20.2.

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:***

Tom A. Loski

Attachment

cc (e-mail only): Erica Hamilton, Commission Secretary  
Registered Parties



Terasen Gas Inc. ("TGI", "Terasen Gas" or the "Company") Application for Approval of Biomethane Service Offering and Supporting Business Model, for the Approval of the Salmon Arm Biomethane Project and for the Approval of the Catalyst Biomethane Project (the "Application")	Submission Date: August 17, 2010
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**20.0 Topic: GHG offsets**

**Reference: Exhibit B-2-1, Workshop Undertaking Response, GHG Offsets**

"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."

20.2 Please confirm that the program is not designed to, or intended to, provide participating customers with any marketable carbon offset.

**Response:**

Confirmed.

The intent of the program is not to sell customers a marketable carbon offset, rather a renewable energy product which in turn, reduces their carbon footprint.

The current regulation is unclear about carbon offset opportunities for customers. As indicated in the Response to Workshop Undertaking, dated July 8, 2010, TGI may look at creating offsets on the customers' behalf in the future as a result of the offset created by consuming Biomethane in place of natural gas. However, this would involve third party validation and verification and the establishment of accepted protocols for these projects which have not been defined at this time and would be more appropriate if TGI were to develop a carbon offset program, rather than the proposed renewable energy-based program. 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 which is the green attribute that customers would be paying for under the proposed program.

Seeking to maximize value for our customers, the Company has applied to the British Columbia Ministry of Finance for confirmation that Biomethane as described in the Application will be exempt from Carbon Tax. On July 28<sup>th</sup>, 2010 Terasen Gas received a letter from the British Columbia Ministry of Finance, found in Attachment 20.2, confirming that combustion of both Biogas and Biomethane are activities exempt from the Carbon Tax. The Company had hoped to be able to provide a clear answer at this time as to whether or not the proposed Green Gas program will allow customers to be exempted from paying Carbon Tax on the portion of their purchased gas that is Biomethane. The Company is still in ongoing discussions with the British Columbia Ministry of Finance to clarify a point of ambiguity within the letter received on July 28<sup>th</sup>, 2010. In their letter, the Ministry of Finance stated that:



Terasen Gas Inc. ("TGI", "Terasen Gas" or the "Company") Application for Approval of Biomethane Service Offering and Supporting Business Model, for the Approval of the Salmon Arm Biomethane Project and for the Approval of the Catalyst Biomethane Project (the "Application")	Submission Date: August 17, 2010
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*Terasen is proposing that carbon tax is invoiced and collected from customers based on a standard 90% natural gas/10% biomethane blend, when in fact the blend could vary. Under Section 13 of the CTA (Carbon Tax Act), Terasen is obligated to determine the amount of natural gas in the blend and invoice and collect carbon tax from purchasers accordingly. As biomethane is considered a non-taxable substance, no reference to the application/exemption of carbon tax on the biomethane in the blend is required on the invoice.*

Terasen Gas believes that this statement is based on a misunderstanding of the concept of notional delivery, and will propose to the Ministry of Finance that we are in fact ensuring the integrity of the 90%/10% blend through our extensive monitoring of the Biomethane injected into the system and the Biomethane purchased by our customers to displace 10% of their natural gas consumption.

The Company is of the opinion that the likelihood of agreement between the parties is strong. The transportation and delivery of Natural Gas across North America is premised on all participant's acceptance of the concept of notional delivery through displacement, and the delivery of Biomethane to Green Gas customers through the existing gas distribution system will work no differently.

For taxation purposes, a comparable example is that of marketer gas moving through the existing distribution system. Marketers deliver their gas to supply hubs to displace gas the Company would otherwise have delivered to those supply hubs. Terasen Gas then notionally delivers this gas to customers of marketers. Since, the Company does not track molecules across our system, there is no way of knowing if the marketer gas is the same gas physically received by the customer, but the customer who purchased that gas from the marketer is billed for the gas they chose to purchase and consume at the agreed to price, and taxes are applied accordingly, even if the marketer gas was in actual fact delivered to a Terasen Gas commodity customer, or a customer of a different marketer. Based on this precedent, the Company believes that the existing gas tracking mechanisms will allow for the level of surety that the Ministry of Finance needs in order to allow Green Gas customers to be exempted from the Carbon Tax on the portion of their purchased gas that is Biomethane.

Terasen Gas believes that the measurement process proposed in the Application will provide sufficient documentation as to make the Biomethane portion of gas purchased through the Green Gas program exempt from Carbon Tax, and is seeking to clarify agreement on that point with the Ministry of Finance.

As soon as the Company has certainty on this issue, TGI will provide written documentation to the Commission and all registered interveners. Regardless of the outcome, Terasen Gas will work with the Ministry of Finance to ensure that we have done everything we can to protect the best interests of our customers.



July 28, 2010

228665

Mark Worrall, CA  
Associate Partner, Indirect Tax  
KPMG LLP  
Chartered Accountants  
PO Box 10426  
777 Dunsmuir Street  
Vancouver, BC V7Y 1K3

Dear Mr. Worrall,

Thank you for your letter dated March 30, 2010, regarding the application of carbon tax on the sale of natural gas by your client Terasen Gas Inc. (Terasen). I apologize for the delay in responding to your ruling request. The Ministry has now completed the review of the facts you have presented.

You have requested 3 rulings that confirm the following:

- a) Terasen is not required to pay security under the Carbon Tax Act (CTA) in respect of its purchase of biogas and biomethane.
- b) Terasen is not required to collect carbon tax on sales of natural gas to customers purchasing the biomethane product from Terasen based on the proportion of biomethane price paid by the customer.
- c) Terasen's proposed method of disclosing the exemption from carbon tax to biomethane customers are appropriate.

In order to issue the rulings, the Ministry considered whether "biogas" and "biomethane" are substances which are intended to be:

- subject to security or tax
  - not subject to security or tax (non-taxable substance), or
  - exempt from security or tax
- under the CTA.

.../2

The ministry has determined that biogas and biomethane are not subject to security or tax under the CTA. Based on your explanation of how biogas and biomethane are derived, the Ministry does not consider that these substances are "natural gas" as it is currently defined under the CTA. And, as biogas and biomethane are not themselves substances that are included in Schedule 1 of the Act they are not considered "fuel" for the purposes of the CTA. The security and tax scheme under the CTA is such that only substances that fall into the definition of "fuel" are subject to payment of security or tax.

"fuel" means a substance set out in column 2 of the Table in Schedule 1 but does not include

- (a) methanol produced from biomass, and
- (b) methane produced by waste in a landfill.

"natural gas" means natural gas, whether or not the natural gas

- (a) occurs naturally or results from processing, or
  - (b) contains gas liquids,
- but does not include refinery gas.

As biomethane is considered a non-taxable substance, section 13(1) of the Act would apply to the application of carbon tax on the biomethane/natural gas blend.

Section 13 reads:

**Calculation of tax for blends or mixtures**

13 (1) If a mixture or blend is composed of one or both of the following combinations:

- (a) one or more fuels, with or without one or more non-taxable substances or items;
- (b) one or more combustibles, with or without one or more non-taxable substances or items,

the amount of tax payable for a fuel or combustible in the mixture or blend is to be determined by multiplying the rate of tax determined under the applicable provision of this Act by the amount of that fuel or combustible in the mixture or blend.

(2) Subsection (1) does not apply to a prescribed fuel, combustible, substance or item or in prescribed circumstances.

(3) Subject to subsection (4), if a mixture or blend includes a prescribed fuel, combustible, substance or item referred to in subsection (2), the amount of tax payable on the mixture or blend is the amount determined in accordance with the regulations.

(4) If a substance or item is not taxable under this Act, the regulations may deem the substance or item to be taxable at a prescribed rate if the substance or item is included in a mixture or blend but comprises less than the prescribed percentage of the mixture or blend.

Fact #10, 11 and 14 in your correspondence appear to state that Terasen is proposing that carbon tax is invoiced and collected from customers based on a standard 90% natural gas/10% biomethane blend, when in fact the actual content of biomethane in the blend could vary. Under

section 13 of the CTA, Terasen is obligated to determine the amount of natural gas in the blend and invoice and collect carbon tax from purchasers accordingly. As biomethane is considered a non-taxable substance, no reference to the application/exemption of carbon tax on the biomethane in the blend is required on the invoice.

In your correspondence you reference a purification process that is undertaken to convert biogas into pipeline quality biomethane. If this process is similar to the processing of natural gas which includes the removal and combustion of acid gases ( $H_2S$  and  $CO_2$ ); then the combustion of the acid gases is not subject to carbon tax. However, any "fuel" used to lift, or assist, in the combustion of acid gases is subject to carbon tax and should be included in the self-assessed amount on Terasen's tax return.

I trust this information adequately responds to your enquires. If you would like to discuss this response or require further clarification, please contact me directly at 250- 387-4174.

Yours truly,



Mary Kimpton  
Director  
Policy and Legislation Branch  
Ministry of Finance