



Tom A. Loski
Chief Regulatory Officer

16705 Fraser Highway
Surrey, B.C. V4N 0E8
Tel: (604) 592-7464
Cell: (604) 250-2722
Fax: (604) 576-7074
Email: tom.loski@terasengas.com
www.terasengas.com

September 2, 2010

Regulatory Affairs Correspondence
Email: 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. 2**

On June 8, 2010, Terasen Gas filed the Application as referenced above. On August 23, 2010, the BCSEA issued BCSEA IR No. 2. In accordance with Commission Order No. G-109-10 setting out the Regulatory Timetable for the review of the Application, Terasen Gas respectfully submits the attached response to BCSEA IR No. 2, one day in advance of the deadline.

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: September 2, 2010
Response to B.C. Sustainable Energy Association ("BCSEA") Information Request ("IR") No. 2	Page 1

2.21 Topic: Carbon tax

Reference: Exhibit B-5, cover letter; Exhibit B-7, TGI-BCSEA IR 20.3

"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."

2.21.1 What is the current status of the tax treatment of the biomethane portion of the proposed blended gas product?

Response:

As discussed in the Company's response to BCSEA IR 1.20.2, the British Columbia Ministry of Finance has confirmed that Biomethane is exempt from the Carbon Tax but the current status of the Carbon Tax treatment of the Biomethane contained within a blend with conventional natural gas is ambiguous to Terasen Gas and we are actively seeking to gain clarity. Unfortunately obtaining a timely meeting with the British Columbia Ministry of Finance has been difficult and the earliest time we have been able to schedule is September 27th. The Company is confident that the proposed method of accounting for Biomethane injected into and delivered on the Terasen Gas distribution system will meet the requirements of the British Columbia Ministry of Finance for exemption of the Biomethane portion of the blended product from the Carbon Tax, however, in the interest of conservatism, TGI is treating the product as if it were not exempt from Carbon Tax until such certainty is reached.

Terasen Gas continues to seek to maximize value for our customers and will diligently work to obtain this exemption for Biomethane delivered on our distribution system, however even if this ultimately is not possible due to a technicality in the *Carbon Tax Act* we know that our customers have demanded the Green Gas offering even without there being a mention of a Carbon Tax exemption in the survey through which they expressed their demand, and as such we would not alter our customer participation forecasts in the event that our efforts to obtain a Carbon Tax exemption are not successful.



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: September 2, 2010
Response to B.C. Sustainable Energy Association ("BCSEA") Information Request ("IR") No. 2	Page 2

2.22 Topic: Market for blended biomethane program

Reference: Exhibit 5, TGI-BCSEA IR 5.4, 5.5; Attachment 5.4, Attachment 5.5

2.22.1 To recap, please confirm that, under the TGI proposal, the total bill of an average customer in the biomethane blend program is only approximately 4% higher than that of a customer not in the program, assuming the same consumption – even though the “Cost of Gas per GJ” for the biomethane blend customer would be approximately 10% higher than the “Cost of Gas per GJ” for the customer not in the program – because the “Cost of Gas per GJ” contributes less than half of the average customer’s total bill.

Response:

Confirmed.

2.23 Topic: Business risk

Reference: Exhibit B-3, TGI-BCUC IR 10.5

“...Customers also benefit directly if the current trend towards increasing business risk can be slowed in the longer term through a comprehensive suite of new alternative energy product initiatives.”

2.23.1 What does Terasen mean by “the current trend towards increasing business risk”?

Response:

In the 2009 Terasen Utilities ROE & Capital Structure Application, approved by the Commission in Order G-158-09, the Company outlined how the competitive environment in which Terasen Gas operates today and expects to operate in the future, and the related business risks, are very different than the circumstances that existed when the former automatic adjustment mechanism for ROE was introduced in 1994, and even since the business risks of Terasen Gas and the automatic adjustment mechanism were previously reviewed by the Commission in 2005. Terasen Gas filed evidence that our business risks have increased and therefore warranted both a higher return on equity than the formula produced and a more robust capital structure containing more equity. Examples of trends driving this increased business risk included the introduction of new technologies and service offerings, the declining competitive advantage of natural gas, challenges in maintaining our customer base and government policies negatively impacting the desirability of natural gas as an energy source. In reaching their decision, the Commission Panel accepted the existence of this increased business risk and granted increases in both our approved ROE and equity thickness. This changing business risk, which informed the 2009 ROE Decision is what TGI was referring to in the quoted statement..