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**ELECTRONIC FILING**

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

**Attention: Erica Hamilton**  
**Commission Secretary**

Dear Sirs/Mesdames:

**Re: Terasen Gas Inc.**  
**An Application for Approval of a Biomethane Service Offering and**  
**Supporting Business Model and for Approval of the Salmon Arm**  
**Biomethane Project and for Approval of the Catalyst Biomethane Project**

We enclose for filing in the above proceeding the electronic version of the Reply Submissions on behalf of Terasen Gas Inc.

Twenty hard copies of the Submissions will follow by courier.

Yours truly,

**FASKEN MARTINEAU DuMOULIN LLP**

*[original signed by Matthew Ghikas]*

Matthew Ghikas

MTG/fxm  
Enc

**An Application by Terasen Gas Inc.**

**for Approval of a Biomethane Service Offering and Supporting  
Business Model**

**and**

**for Approval of the Salmon Arm Biomethane Project and  
for Approval of the Catalyst Biomethane Project**

**Reply Submissions of Terasen Gas Inc.**

**September 27, 2010**

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## A. Introduction

1. British Columbia Hydro and Power Authority (BC Hydro), BC Sustainable Energy Association (BCSEA), Commercial Energy Consumers Association (CEC), and British Columbia Old Age Pensioners Organization et al (BCOAPO) filed written arguments in response to TGI's final argument. All of these parties recognize the policy basis and legislative authority for the development of Biomethane as a renewable and carbon neutral energy option for BC energy consumers. Intervenor representing customer groups also explicitly (in the case of CEC and BCSEA) or implicitly (BCOAPO) support the structure of TGI's proposed Green Gas rate offering.<sup>1</sup> The customer groups also support TGI's involvement in the two proposed supply projects. The only issues raised in Intervenor submissions relate to the prospective supply-side model. In particular, these Reply Submissions address:

- CEC's comments regarding the proposed streamlined process for review of future supply contracts and annual reporting, which are in most respects aligned with TGI's intended approach; and
- BCOAPO's concerns relating to TGI's future involvement in the supply side of the Green Gas offering, which are asserted without addressing the evidence or the law in a meaningful way.

TGI submits that the Green Gas offering and related investments are in the public interest and that the proposed rates are just and reasonable.

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<sup>1</sup> BCSEA expressed a concern (at paragraph 24) with one of the guiding principles that TGI relied on to develop the Green Gas offering, specifically the principle that the program "should support the future attractiveness of natural gas as part of the solution of a low carbon energy future" (see p. 49 of the Application). TGI submits that it is not necessary for the Commission to address this point because TGI is not seeking approval of the guiding principles used to develop the program (described in Section 6.2 of the Application) and BCSEA "strongly supports" the application. However, TGI submits that it has a duty to its natural gas customers to make efficient use of the existing infrastructure, as customers benefit through lower delivery rates. Natural gas remains an important element of BC's overall energy future, as recognized through government policy.

## **B. Reply to Intervenor Submissions Regarding Supply-Side Business Model**

### **(a) CEC Submissions**

2. CEC would prefer to see the price ceiling for Biomethane supply independent of the BC Hydro RIB Tier 2 rate.<sup>2</sup> There are currently no available external pricing benchmarks for Biomethane, and TGI acknowledged that the RIB rate will serve only as an initial reference point for Biomethane pricing until a Biomethane market has matured.<sup>3</sup> In any event, CEC agrees with TGI's proposed price ceiling.<sup>4</sup> TGI will propose a change to the price ceiling should that become appropriate at a future date.

3. CEC proposes two additional criteria for the assessment of future supply contracts under TGI's proposed review process.<sup>5</sup> They are as follows: TGI must have "reasonable prospects for customer purchase of service"; and TGI must "continue to have adequate back-up plans for mitigation of risk for the magnitude of the supply it has under contract and proposes to have under contract." The concerns underlying CEC's two criteria have been adequately addressed by TGI in its proposal.<sup>6</sup> With respect to the adequacy of demand, TGI has already undertaken market research to provide an indication of the maximum potential demand at this time. TGI has indicated a willingness to report to the Commission annually on matters such as participation numbers, production volume, and sales volume,<sup>7</sup> all of which inform the assessment regarding prospective demand. With regard to mitigation of risk, TGI intends for the proposed supply risk mitigation plans set out in the Application to stay in place going forward.<sup>8</sup> In short, while TGI supports linking supply development to potential demand and supports supply risk mitigation, formalizing CEC's proposed criteria adds little and introduces unnecessary ambiguity.

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<sup>2</sup> CEC Final Submission, p. 3.

<sup>3</sup> B-1, Application, p. 76.

<sup>4</sup> TGI notes that CEC states agreement with the proposed ceiling of "\$15/GJ". The proposed ceiling in the Application is \$15.28/GJ (see p. 77).

<sup>5</sup> CEC Final Submission, p. 3. The criteria as proposed by TGI are set out at p. 80 of the Application.

<sup>6</sup> In particular, these concerns are addressed in the risk mitigation measures that TGI has committed to in Section 11 of the Application.

<sup>7</sup> B-3, BCUC 1.25.3.

4. Finally, CEC recommends that the annual report to the Commission on the Green Gas offering not only deal with participation rates, production rates, and sales volumes, but should also deal with ongoing investment expenditures, operating costs, and update projections for customers, volumes and costs. TGI will include this information in the reports should the Commission wish to have it addressed in the reports as well; however, CEC's proposal is redundant. The information CEC references will already be addressed in TGI's future resource plans and/or revenue requirements applications. Regulatory efficiency is best achieved by the Commission reviewing TGI's expenditures in a revenue requirements proceeding and addressing issues of supply and demand in the resource plan, just as it does today. The avoidable costs incurred by TGI in redundant reporting will ultimately be borne by customers.

**(b) BCOAPO Submissions**

5. BCOAPO agrees that the Application should be approved and the supply projects should be permitted to proceed.<sup>9</sup> Its "strings attached" relate to prospective supply development. In particular, BCOAPO speaks to the need, over time, to reconcile TGI's role in developing Biomethane supply with the emergence of an "unregulated, competitive" Biomethane supply market.<sup>10</sup> However, BCOAPO has not articulated how or why TGI's supply model will impair fair competition, prevent a competitive marketplace, or negatively impact ratepayers. The evidence is that TGI is promoting a competitive market for supply development and will only invest in regulated upgrading assets.

6. The following points are of particular note in this regard:

- TGI's evidence is that its involvement in supply acquisition will be limited to interconnection and upgrading facilities, and not Biogas production and collection facilities. The Company explained in response to BCUC IR 1.1.1 and TGI's initial Submissions why both interconnection and upgrading facilities are

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<sup>8</sup> B-1, Application, pp. 119-121.

<sup>9</sup> BCOAPO Final Submission, p. 3.

regulated services under the Act. BCOAPO did not address these legal submissions.

- TGI provided evidence of why it is essential for TGI to own interconnection facilities to protect the integrity and safety of the distribution system.<sup>11</sup> BCOAPO did not challenge this evidence.
- TGI provided evidence of why it, or a reliable partner, needs to own and operate Biogas upgrading equipment to ensure reliability of supply.<sup>12</sup> BCOAPO did not address this evidence.
- TGI has addressed the development of a competitive marketplace (among, by definition, regulated entities) for Biogas upgrading.<sup>13</sup> BCOAPO did not address this evidence.
- TGI's evidence is that it is encouraging third-party development of Biogas supply. TGI's Request for Expressions of Interest in Biogas development illustrates its commitment to opening the market for supply.<sup>14</sup> These potential suppliers will compete with one another to provide cost-effective supply to TGI. BCOAPO did not address this evidence.

TGI maintains that the model proposed by TGI for the acquisition of supply is in the best interests of customers and suppliers, and BCOAPO has not presented any compelling reason why TGI's investment in the CSRD and Catalyst supply projects should be "one-off" investments.<sup>15</sup>

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<sup>10</sup> BCOAPO Final Submission, p. 2.

<sup>11</sup> B-1, Application, p. 72.

<sup>12</sup> B-3, BCUC 1.2.2.

<sup>13</sup> B-3, BCUC 1.21.6.

<sup>14</sup> B-1, Application, pp. 61, 69-71.

<sup>15</sup> See generally TGI's Final Submission, pp. 29-34, for TGI's detailed submissions on the supply-side ownership model.

**C. Conclusion**

7. The interests of customers<sup>16</sup>, Government<sup>17</sup>, environmentalists<sup>18</sup>, suppliers and supplier organizations<sup>19</sup>, and utilities<sup>20</sup> are fundamentally aligned in this proceeding. The broad support highlights that TGI's investment in acquiring a safe and reliable Biomethane supply is in the public interest. The Green Gas rate structures, which have the explicit or implicit approval of Intervenor representing customers, are just and reasonable. TGI submits that the Application should be approved and the orders sought should be granted as requested.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated: September 27, 2010

*[original signed by Matthew Ghikas]*

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**Matthew Ghikas**  
**Counsel for Terasen Gas Inc.**

Dated: September 27, 2010

*[original signed by David Curtis]*

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**David Curtis**  
**Counsel for Terasen Gas Inc.**

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<sup>16</sup> BCOAPO, CEC and BCSEA Final Submissions.

<sup>17</sup> E-1, Letter of Support from Ministry of Energy, Mines and Petroleum Resources; see also B-1, Appendix L, letters of support from the City of Abbotsford and Columbia Shuswap Regional District.

<sup>18</sup> BCSEA Final Submission and see also B-1, Appendix L, letter of support from David Suzuki Foundation.

<sup>19</sup> B-1, Appendix L, letters of support from Ardcorp, BC Bioenergy Network, and Bullfrog Power.

<sup>20</sup> BC Hydro Final Submission.