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January 12, 2011
File No.: 240148.00592/15275

BY ELECTRONIC FILING

British Columbia Utilities Commission
6th floor, 900 Howe Street
Vancouver, B.C. V6Z 2N3

**Attention: Erica M. Hamilton,
Commission Secretary**

Dear Sirs/Mesdames:

**Re: Terasen Gas Inc.
2011 Revenue Requirements Application for the Fort Nelson Service Area**

We enclose the electronic copy of Terasen Gas Inc.'s Reply Submission with respect to the above application.

The requisite hard copies of same will follow by courier.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[Original signed by Christopher Bystrom]

Christopher Bystrom

CRB/ccm
Encl.

TERASEN GAS INC.

**2011 REVENUE REQUIREMENTS APPLICATION
FOR THE FORT NELSON SERVICE AREA**

REPLY SUBMISSION OF TERASEN GAS INC.

JANUARY 12, 2011

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A. Introduction

1. The sole intervener in this proceeding British Columbia Old Age Pensioners' Organization ("BCOAPO") submitted its arguments with respect to Terasen Gas Inc.'s ("TGI") 2011 Revenue Requirements Application for the Fort Nelson Service Area (the "Application").¹ BCOAPO "take[s] no objection to the approval of the Application" subject to its comments on the proposed Muskwa River Crossing.²
2. This reply submission will address BCOAPO's comments.

B. Reply to BCOAPO

3. TGI is proposing the Muskwa River Crossing Project to address the potential failure of the current pipeline. TGI has analysed the potential options and submits that the option to attach the pipeline to the existing Alaska Highway bridge (the "IP Bridge Option") is the best alternative for the project.
4. BCOAPO agrees with the need for the Muskwa River Crossing Project and agrees that the horizontal directional drilling peak-to-peak option is now too risky to pursue because of technical risks and high costs.³ BCOAPO's main comments are with respect to the "permit uncertainty" associated with the IP Bridge Option and the resulting risks, such as the delay of the project schedule and the potential pipeline failure.⁴ To address this uncertainty, BCOAPO states that it would accept the inclusion of a maximum amount of \$3,000,000 into rate base to account for the IP Bridge Option and an additional regulatory process in the event that the IP Bridge Option cannot be pursued.⁵
5. TGI acknowledges that the primary risk to the IP Bridge Crossing is the necessity to obtain a permit from Public Works and Government Services Canada (PWGSC) to proceed with the IP Bridge Option⁶ and TGI is addressing that risk. TGI submits that the Commission should accept the Muskwa River Crossing Project as being in the public interest and include the estimated cost of \$3,015,650, for the IP Bridge Option in the rate base for the purpose of F2011 rates,⁷ for the following reasons:

¹ Exhibit B-1, as updated by the Evidentiary Update filed on November 19, 2010 (Exhibit B-5).

² BCOAPO Submissions, at pages 1, 5.

³ BCOAPO Submissions, at page 4.

⁴ BCOAPO Submissions, at page 4. BCOAPO states that it prefers further environmental analysis of the in-stream options, but acknowledges that such analysis may not be possible at this time.

⁵ BCOAPO Submissions, at pages 4-5.

⁶ Exhibit B-7, BCUC IR 2.1.1.1, 2.1.1.2 and 2.1.1.3.

⁷ Exhibit B-7, BCUC IR 2.14.5.2.

- As discussed in TGI's Final Submissions, the IP Bridge Option is currently the preferred option based on the available information.⁸
 - The estimated amount of \$3,015,650 for the IP Bridge Project is reasonable and is based on a Class 3 estimate.
 - TGI's analysis of the in-stream options is based on Class 4 cost estimates, which is consistent with the Commission's CPCN Guidelines.
 - TGI is diligently working with PWGSC and will make a formal application to install a new crossing on the bridge in early 2011 with a request for approval by the end of January.⁹
 - The IP Bridge Option is estimated to be in service in late 2011. The likelihood of the in-service date has been assessed by Chinook Engineering Ltd.¹⁰
 - Since the Muskwa River crossing is not scheduled to enter rate base until late 2011, the rates in 2011 are not as sensitive to variations in the cost of the project as the 2012 rates would be.¹¹ Thus, inclusion of \$3,015,650 into rate base results in an increase of only \$45,000 to the revenue requirement in 2011, or approximately \$11 to the annual bill of a residential customer. Future rates will reflect the actual cost of the project.¹²
6. TGI has proposed a regulatory process should the IP Bridge Option not be achievable. As stated in Exhibit B-7, BCUC IR 2.1.4, TGI would advise the Commission if it fails to obtain the necessary permit from PWGSC, reconsider all of the remaining crossing options and may investigate any of the remaining options more closely to determine feasibility and preference. When a new recommendation is reached based on the then available information, that recommendation along with the supporting documentation will be provided to the Commission for review and approval on an expedited basis.¹³

C. Conclusion

7. TGI submits that based on the evidence in this proceeding, the Muskwa River Crossing Project is in the public interest and should be accepted pursuant to section 44.1 of the

⁸ TGI Final Submissions, at paras. 27-33; see also Exhibit B-8, BCOAPO IR 2.13.

⁹ Exhibit B-7, BCUC IR 2.12.1.

¹⁰ Exhibit B-7, BCUC IR 2.14.1 and 2.14.2. Chinook Engineering Ltd. estimates that the likelihood that the crossing will be completed in October 2011 is 70% with a P50 confidence interval. Chinook's estimate of the likelihood of the crossing being completed before the end of the 2011 fiscal year is 80% with a P50 confidence interval

¹¹ Exhibit B-7, BCUC IR 2.1.1.5.

¹² Exhibit B-7, BCUC IR 2.1.4.

¹³ Exhibit B-7, BCUC IR 2.1.4.

Act and that the rates sought for TG Fort Nelson for 2011 are just and reasonable and should be approved as filed.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated: January 12, 2011

original signed by

Chris Bystrom
Counsel for Terasen Gas Inc.