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VIA E-MAIL
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December 15, 2004

Mr. Scott Thomson
Vice President, Finance and Regulatory Affairs
Terasen Gas Inc.
16705 Fraser Highway
Surrey, B.C. V3S 2X7

Dear Mr. Thomson:

Re: Terasen Gas Inc. ("Terasen Gas")
2004 Annual Review and Approval of 2005 Revenue Requirements and Delivery Rates

Further to your filing of the 2004 Annual Review and Approval of 2005 Revenue Requirements and Delivery Rates, we enclose Commission Order No. G-112-04 and Reasons for Decision attached as Appendix A to the Order.

Yours truly,

Robert J. Pellatt

cms
Enclosure
cc: Registered Intervenors/Interested Parties

BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-112-04

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IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

An Application by Terasen Gas Inc.
for Approval of 2005 Revenue Requirements and Delivery Rates

BEFORE: R.H. Hobbs, Chair
K.L. Hall, Commissioner December 14, 2004

O R D E R

WHEREAS:

A. Commission Order No. G-51-03 approved for Terasen Gas Inc. ("TGI" or "Company") a Negotiated Settlement for 2004 to 2007. The Settlement requires TGI to hold an Annual Review each November with projections and forecasts provided three weeks in advance; and

B. Commission Order No. G-95-04 scheduled an Annual Review for November 19, 2004 and directed TGI to file advance material by October 29, 2004 and to provide a copy of the material to participants in the Settlement discussions; and

C. On October 29, 2004, TGI filed the advance material for a 2005 revenue requirement decrease of $1.0 million. The Commission and Intervenors issued information requests to TGI on the advance materials with the Company responding on November 12 and November 18, 2004; and

D. At the Annual Review, participants requested additional information from TGI on the method of cost allocation to Terasen Gas (Vancouver Island) Inc. ("TGVI") based on a Shared Service Management Agreement, the capital investment for SAP system integration, 2004 customer additions, customer security deposits and Ontario Securities Commission ("OSC") compliance costs; and

E. On November 26, 2004, TGI applied for approval of its 2005 revenue requirements and delivery rates pursuant to the terms of the 2004-2007 Negotiated Settlement ("the Application"). The Application responded to the issues raised at the Annual Review and updated the Annual Review information to include the 2005 allowed rate of return on equity of 9.03 percent under the Commission's automatic adjustment mechanism; and

F. The Application requested approval, effective January 1, 2005, to decrease delivery rates by 0.45 percent resulting from a projected 2005 revenue surplus of $2.108 million. The Application also requested approval for the following:

- to decrease the Revenue Stabilization Adjustment Mechanism ("RSAM") rider from $0.195/GJ to $0.143/GJ; and

- to set the Earnings Sharing Mechanism ("ESM") rider to $0.002/GJ for customers served under Rate Schedules 1 and 1S and $0.001/GJ for customers served under Rate Schedule 2, 2U, 3, 3U, 23, 5, 25, 7, 27; and

- to transfer the balance of the Coastal Facilities assets into rate base and finance by 67 percent debt and 33 percent equity; and

- to utilize customer security deposits as a substitute for short-term borrowing; and

- to establish deferral accounts for OSC compliance costs and BCUC levies.

G. Submissions were received from Weyerhaeuser Company Ltd., Teck Cominco Metals Ltd., Celgar Pulp Company and Canadian Forest Products Ltd. (collectively referred to as the "Inland Industrials"), the British Columbia Public Interest Advocacy Centre representing the BC Old Age Pensioners' Organization et al ("BCOAPO") and Avista Energy ("Avista"). The Inland Industrials submitted that the $8 million in capital investment for the SAP integration should be borne entirely by TGVI, since the costs are TGVI specific and are being made to achieve cost efficiencies in TGVI's operation. BCOAPO submitted that the customer additions forecast is understated, customer security deposits should remain as a reduction to rate base and the provision for OSC and BCUC costs should be reduced. Avista requested the Commission to disallow the Energy Management Services ("EMS") program and TGI should not be allowed to market their gas supply services to unrelated companies. TGI filed a response to the submissions; and

H. The Commission has reviewed the Application and the submissions received.

NOW THEREFORE pursuant to Sections 23, 60 and 61 of the Utilities Commission Act, the Commission orders for TGI as follows:

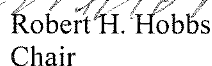
1. The Commission approves TGI's 2005 Revenue Requirement Application for a decrease in delivery rates effective January 1, 2005 as adjusted by the Reasons for Decision attached as Appendix A to this Order.

2. The Commission will accept, subject to timely filing, an amended Summary of Delivery-related Rate Changes and Rate Impact Tables as contained in Tabs 2 and 3 of the Application conforming to the terms of the Reasons for Decision attached as Appendix A to this Order.

3. TGI is to inform all affected customers of the final rates by way of a customer notice.

DATED at the City of Vancouver, in the Province of British Columbia, this 15 day of December 2004.

BY ORDER



Robert H. Hobbs
Chair

Attachment
Order/TGI_2005RR-Delivery Rates Reasons

IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

An Application by Terasen Gas Inc.
for Approval of 2005 Revenue Requirements and Delivery Rates

REASONS FOR DECISION

1.0 BACKGROUND

By Order No. G-51-03, the Commission approved a Negotiated Settlement for Terasen Gas Inc. ("TGI" or "Company") for 2004-2007. The Settlement uses the 2003 Decision to establish base costs then applied specified drivers to determine allowed expenditure levels. In accordance with that Order, TGI is required to hold an Annual Review each November with projections and forecasts provided three weeks in advance.

Commission Order No. G-95-04 scheduled an Annual Review for November 19, 2004 and directed TGI to file advance material by October 29, 2004 and to provide a copy of the material to participants in the Negotiated Settlement. TGI filed its advance Annual Review material which showed that at current rates there would be a projected 2005 revenue surplus of $1.0 million based on a forecast rate of return on common equity ("ROE") of 9.15 percent.

On November 12 and November 18, 2004, TGI responded to information requests from the Commission and Intervenors and copied all registered participants. Prior to the Annual Review, the Commission advised the utilities by Letter No. L-55-04 that the 2005 allowed ROE for a low risk benchmark utility is 9.03 percent. TGI determined that the change in ROE will increase the 2005 revenue surplus to $2.1 million, which was presented to the participants at the Annual Review.

At the Annual Review, the participants requested additional information from TGI regarding the cost allocation process between TGI and Terasen Gas (Vancouver Island) Inc. ("TGVI") for the Shared Service Management costs as well as Core Market Administration and Ontario Securities Commission Certification Compliance costs.

On November 26, 2004, TGI responded to issues raised at the Annual Review and applied for approval of 2005 revenue requirements and delivery rates pursuant to the terms of the 2004-2007 Settlement Agreement ("the Application"). Submissions were received from Avista Energy ("Avista"), the BC Public Interest Advocacy Centre representing the BC Old Age Pensioners' Organization et al ("BCOAPO") and Weyerhaeuser Company Ltd., Teck Cominco Metals Ltd., Celgar Pulp Company and Canadian Forest Products Ltd. (collectively referred to as the "Inland Industrials") on December 1, 2004. TGI replied to the Intervenor submissions on December 3, 2004.

2.0 ISSUES

2.1 2005 Volume and Revenue Forecast

TGI is forecasting an increase of approximately $4.7 million in revenues, largely due to customer growth. The forecast is comprised of three main components: a customer additions forecast, a forecast of average use per residential and commercial account, and an industrial forecast. Underlying assumptions of the TGI forecast include the following:

- Natural gas commodity prices remain high relative to historical levels and experience some volatility;
- The regional economy recovers and grows moderately for the remainder of 2004 and 2005;
- Energy efficiency improves;
- The competitive position of natural gas improves relative to electricity; and
- Key industrial and transportation sectors grow, but volumes remain relatively constant due to increased energy efficiency.

Because of a housing boom encouraged by low mortgage rates and increased consumer confidence, TGI is projecting 11,711 new residential customers in 2004 and forecasts 9,652 in 2005. TGI is forecasting a net loss of commercial and industrial customers in 2004 for a total projected number of customer additions of 11,412, although the utility notes that the total number of new customers for 2004 must be adjusted downward to account for 1,500 new customers attached at the end of 2003, but not counted until January 2004. TGI is forecasting an increase of 501 commercial customers in 2005 and a loss of 9 industrial accounts for a total change of 10,144 new customers for 2005.

During the Annual Review session concern was raised about potential biasing of the customer additions forecasts because of the need for an adjustment to account for customers attached to the system before the year-end, but not counted until the following year. TGI, in its November 26, 2004 submission responding to issues raised during and subsequent to the Annual Review session, states that it is confident that it has addressed the process issues that caused such a large backlog of unrecorded additions at the end of 2003.

TGI is projecting a residential annual use per account of 103.1 GJ for 2004, which is the same as the 2003 normalized use per account and lower than the approved forecast for 2004. For 2005, the utility is forecasting a residential use per account of 103.3 GJ per year. The small commercial (Rate 2) annual use per account is projected to be 305.3 GJ for 2004 and 317.1 GJ for 2005. These compare to a normalized use per account of 303.6 GJ for 2003 and an approved forecast of 300.1 GJ for 2004. TGI expects the large commercial (Rate 3) annual use per account to increase slightly over the 2004 approved rate of 3,342.4 GJ to a projected actual value of 3,488.6 GJ for 2004. The large commercial use per account is forecast to decline slightly from the 2004 projected value to 3,426 GJ/year for 2005 (Exhibit B1-1, Tab A4, p. 7). The large commercial transportation service use per account is forecast to be 4,981.8 GJ annually for 2004 and 4,975.3 GJ for 2005. Annual industrial use, which is derived from survey data, is forecast to decrease slightly from 58.8 PJ in 2003 (normalized) to 57.7 PJ for 2004 and 57.6 PJ for 2005 (Exhibit B1-1, Tab A4, pp. 7-8).

BCOAPO submitted in its letter dated December 1, 2004 that TGI should increase the residential customer attachment projection from 10,144 to at least 10,211 which is equal to the actual customer attachments in 2004 less the 1,500 customers that were attached in 2003. BCOAPO submitted that information provided in the information requests supported a higher number. BCOAPO also submitted that the industrial forecast be revised upward based on a "...lack of substantiation for a decline due to fuel switching by greenhouse growers" (Exhibit C4-6, p. 3).

Avista, in comments submitted on December 1, 2004, expressed surprise that TGI's industrial forecast remained unchanged. Avista stated that it was aware of four large industrials that planned to increase gas consumption in 2005. Avista also disagreed with a statement that greenhouses were not shifting from gas to wood but only using wood as a backup fuel. Avista stated that, in its group of customers, greenhouses with wood burning capability are using wood as a primary energy source (Exhibit C5-3, p. 1).

TGI, in reply to the BCOAPO and Avista, submits that the number of residential additions is reasonable and that its record of forecasting additions has been good. TGI concurs that the provincial economy is strong but argues that the forecast reflects, in part, the shift in housing starts to multi-family dwellings where TGI has historically had a lower market share than for detached dwellings (Exhibit B1-9, p. 6).

With respect to its Industrial Volume forecast, TGI submits that its forecast volumes reflect consideration of the probable range of natural gas prices for 2005. The primary source of information for TGI in forecasting industrial volumes was its customer survey conducted over the summer of 2004. TGI notes that its survey received responses from 35 percent of its industrial customers. The survey results showed a decrease between the 2003 actual and the 2004 projected volumes, and a small increase between 2004 projected and the 2005 forecast volumes (Exhibit B1-9, pp. 7-9).

The Commission Panel accepts the 2005 volume and revenue forecasts of TGI as set forth in Exhibit B1-1.

2.2 Code of Conduct and Transfer Pricing Policy

No issues were raised specifically with regard to the Code of Conduct and Transfer Pricing Policy. Both TGI's internal and external auditors concluded that nothing had come to their attention that caused them to believe that the utility is not in compliance with the Code of Conduct and Transfer Pricing Policy.

However, in comments filed December 1, 2004 with respect to TGI's Energy Management Services ("EMS"), Avista commented that it believed that TGI should not be allowed to market its EMS to unrelated companies. Avista submitted that subsidized resources of the utility are competing with established non-regulated entities and that the amounts allocated to the EMS programs seem unreasonably small. Avista suggested that, if the program was allowed to continue through 2005, the Commission should establish a much higher revenue 'floor' (e.g. $2,000,000 per year) before the utility would share in EMS earnings and that, beyond 2005, the EMS program should be disallowed.

TGI, in its reply to Avista, submits that it has charged current EMS services to customers on the basis of "free market prices". TGI also submits that it is offering service to Pacific Northern Gas Ltd. ("PNG") and one of PNG's customers and does not intend to offer the service to customers within its own service territories.

The Commission Panel notes that the Code of Conduct for TGI states that the price for all transfers of assets or services shall be determined in accordance with the Company's Transfer Pricing Policy. TGI's Transfer Pricing Policy filed with the Commission states that, where no tariff rate exists, the Transfer Price will be set at either the full cost or, where feasible and practical, the competitive market price, whichever is greater.

Both the internal and external auditors have found no breach of the Code of Conduct or the Transfer Pricing Policy. TGI has argued that it is charging a competitive market price and it is not offering the service to customers within its own service areas (Exhibit B1-9, p. 4).

2.3 Core Market Administration Expense

As per TGI advance Annual Review material, the Core Market Administration Expense ("CMAE") for TGVI was $100,000 annually prior to the restructuring of TGI and TGVI. However, after the integration the cost has increased to $356,000 for 2004 as a result of TGI assuming all gas supply related activities. In response to a Commission information request, TGI confirmed that the current allocation percentage of the CMAE would be 80 percent, 19 percent, 1 percent for TGI, TGVI, Terasen Gas (Whistler) Inc. ("TGW"). TGI proposes to continue with these allocation percentages for 2005 and beyond (Exhibit B1-2, BCUC IR 20.5).

TGI revised the CMAE allocation to 10 percent to TGVI, 1 percent to TGW and the remaining 89 percent to TGI (Exhibit B1-7, p. 3).

The Commission Panel accepts TGI's proposal for the allocation of CMAE. The allocation is to be made on the basis of the number of customers. As a result, 10 percent of the total of the CMAE will be allocated to TGVI, 1 percent to TGW and the remaining 89 percent allocated to TGI.

Profit Sharing Incentive for 2005 on Net EMS Revenue

In 2003, the BC Gas (now Terasen Gas Inc.) Gas Supply group assumed gas supply coordinating activities for Centra Gas BC (now TGVI) with the intention of optimizing the management costs for the two companies. In 2004 Terasen Gas successfully realized opportunities to market the expertise of EMS outside the corporate sphere of companies and Methanex and PNG became customers. TGI now proposes that it be encouraged to continue to capture incremental net revenue from such services through a 50/50 sharing incentive between the customer and shareholder.

The approved Gross CMAE for all Terasen Gas utilities (TGI, TGVI, TGW, Terasen Gas (Squamish) Inc.) in 2004 was $2,140,982. This included increases in 2004 for labour inflation and software and hardware costs amounted to $131,000 or 6.5 percent of gross CMAE. Commission letter dated February 23, 2004 stated that Terasen Gas increases in gross CMAE were to be offset by EMS revenue. This incremental revenue of $131,000 was applied against incremental expenses of the same amount. Therefore, the net CMAE for 2004 is expected to be $2,009,862 (Exhibit B1-1, Tab B8, p.3).

In 2005 TGI is proposing a 50/50 profit sharing formula based on net EMS revenue or EMS revenue after the EMS cost of service has been removed. The gross Gas Supply EMS revenue from signed contracts for 2005 is expected to be $274,200. After deducting the Gas Supply EMS cost of service of $135,000, the net Gas Supply EMS revenue would be $139,200. Under the proposed 50/50 sharing formula the offset to the CMAE would be a credit of about $70,000. The proportionate share of any additional EMS revenue opportunities that may arise during the year is offset against CMAE reducing core customer costs (Exhibit B1-2, BCUC IR 20.1).

The Commission Panel denies the proposed TGI revenue sharing formula for 2005. The signed contracts for 2005 were entered into by TGI without any assurance of an agreement on the revenue sharing formula and with the knowledge that incremental CMAE would be well over the inflation rate. In fact the 2005 budget is forecast to increase by 20.1 percent (or $295,000 + $135,000 / $2,140,982) which is over twice the increase that occurred in 2004. Since the EMS cost of service is not included in the 2005 Gross CMAE of $2,435,982, the EMS revenue of $274,200 should be allocated directly to reduce these expenses to a more acceptable level. Once this adjustment is made, the 2005 Net CMAE is

decreased to $2,296,782 (Exhibit B1-2, BCUC IR 20.6). **TGI may apply to the Commission for a future sharing mechanism.**

Avista's letter of December 1, 2004 (Exhibit C5-3, p. 2) indicated that in its opinion, TGI should not be allowed to market its services to third parties. The Commission agrees with the exception that TGI should be permitted to apply its expertise in EMS to other utilities such as PNG. This business is outside the target market of independent gas marketers and should be allowed to continue.

2.4 Coastal Facilities Project – Variable Interest Entity

The Accounting Standards Board in June 2003 issued a new Accounting Guideline (AcG-15) recommending the Consolidation of Variable Interest Entities and was subsequently amended to harmonize with the US Financial Accounting Standards Board (FASB) FIN 46. In September 2003, under AcG-15, the effective date of mandating the Consolidation of Variable Interest Entities was revised from January 1, 2004 to January 1, 2005 (Exhibit B1-1, Tab B7, p. 2).

TGI submits that a change in the Accounting Guideline (AcG-15) - Consolidation of Variable Interest Entities requires the balance of the coastal facilities assets of $50.3 million to be transferred into rate base at a depreciation rate of 1.5 percent effective January 1, 2005. If the guideline were to be adopted, TGI proposes to assume the existing interest rate swaps to avoid the up front costs of $3.2 million associated with the unwinding of the swaps and the synthetic lease. The Company will fund the assets with a conventional mix of 67 percent debt and 33 percent equity. Since the rate of conventional debt is lower than the debt on the synthetic lease, the Company estimates that refinancing should result in an annual interest savings of approximately $200,000. However, the total cost impact of adopting this guideline would be $1.1 million increase annually to ratepayers, which has been reflected in the 2005 revenue surplus of $2.5 million (Exhibit B1-1, Tab B7, pp. 1-3).

TGI contends that failure to comply with AcG-15 would result in a material misstatement of the financial position of the Company and a resulting qualification of the Auditor's opinion on the Company's financial statements. This could result in the Company being denied access to debt and equity financing on the Canadian Securities Exchange. Moreover, the shareholders would not earn a return on the equity on the Coastal Facilities assets. In accordance with Order No. C-14-98 which states, " the Company shareholders will be protected from the impact of changes to the current accounting and tax rules" and "if it is not feasible to renew the lease arrangement, the outstanding cost of the Project may be financed as a traditional rate base item" (Exhibit B1-1, Tab B7, pp. 2-4).

In the Annual Review, TGI stated that the benefit to date resulting from the Synthetic Lease amounts to $6 million for ratepayers (Exhibit B1-1, Tab B7, pp. 1-2). In their submission, BCOAPO also recognize the ratepayers have benefited year to date from the Synthetic Lease and supports the asset being transferred to rate base (Exhibit C4-5, p. 6).

The Commission Panel accepts TGI's proposal to include the Coastal Facilities assets of $50.3 million in rate base with a depreciation rate of 1.5 percent and the financing by 67 percent debt and 33 percent equity.

2.5 Customer Security Deposits

TGI forecasts 2005 customer security deposits to be an average of $23 million which is significantly higher than prior years due to the rising price of natural gas and resulting meter lock offs and corresponding customer security deposits (Exhibit B1-1, Tab B7, p. 7).

TGI identified two regulatory options that it considered were fair to all parties involved. The first option was to keep the $23 million in a separate bank account and have it self funding where the interest earned would be the same rate of prime less 2 percent that is paid on the security deposits. TGI proposes the second option which would use the $23 million customer security deposits as a substitute for short-term borrowing requirements. TGI will combine the incremental customer security deposits with short-term borrowings in the capital structure with variations in the interest rates being captured in the interest rate deferral account (Exhibit B1-1, Tab B7, pp. 7-8).

TGI indicated that the interest rate for short-term borrowing on the traditional financial market exceeds the rate paid on the security deposits, thus the difference would be a net interest savings to the customers. TGI contends that the rate for conventional short-term borrowing would be 1.1 percent below prime whereas the rate paid on the security deposit is prime minus 2.0 percent. This would effectively result in a net interest savings of $207,000 ($23 million *0.9 percent) on the customer security deposits for existing customers (Exhibit B1-1, Tab B7, p. 7).

TGI historically treated customer deposits as an "interest free" source of working capital for regulatory rate setting purposes. The annual interest paid to customers was absorbed by the Company and was not included as part of revenue requirement. TGI proposes to continue the "interest free" status for the historical customer deposits on the $2.6 million which have been embedded in the Negotiated Settlement (TGI 2004-2008 Multi-Year Performance-Based Rate Plan, Section H, Tab 5, p. 2, Exhibit B1-1, Tab B7, p. 8). For incremental customer security deposits estimated at $20.4 million for 2005, TGI would utilize the funds as proposed above.

BCOAPO did not oppose the inclusion of interest expense on the incremental customer security deposits but submits that the customer security deposits should be treated as a reduction in rate base in the form of a reduction to the cash working capital (Exhibit C4-5, pp. 3-4). The submission by Avista supports the alternative of keeping the $23 million of customer security deposits in a separate bank account and having it self funding (Exhibit C5-3, p. 1).

The Commission Panel accepts TGI's proposal.

2.6 Ontario Security Commission ("OSC") Certification Compliance – MI52-109

Multilateral Instrument 52-109 came into effect March 30, 2004 as an investor confidence initiative aimed at improving the quality and reliability of reporting issuers' financial disclosure. It requires CEOs and CFOs of reporting issuers to personally certify certain matters with respect to the annual and interim filings. TGI estimates its share of the total project cost associated with compliance is $433,000 and $421,000 respectively for 2004 and 2005 which represent 50 percent of the total estimated compliance cost cross-charged from Terasen Inc. TGI proposes to defer the 2004 costs and 2005 costs and amortize fully in 2005 (Exhibit B1-1, Tab B8, p. 18-19).

The submission by BCOAPO contends that the amount estimated for 2004 of $432,828 is excessive given that only $153,000 actual costs have been incurred to September 2004. The BCOAPO requests that the Commission approve the deferral account with an adjusted 2004 budget for the OSC compliance costs of only $300,000 and recommend that TGI submit actual costs in the next annual review for amortization in 2006 (Exhibit C4-5, p. 5). TGI's reply to BCOAPO indicates that the amount is a reasonable estimate and comparable to the costs other companies have incurred. Therefore, TGI argues that it would be inappropriate to reduce the amount from $433,000 to $300,000 as suggested by the BCOAPO (Exhibit B1-9, p. 2).

At the Annual Review TGI confirmed that TGVI obtains debt from Terasen Inc. but an allocation of OSC compliance costs have not been charged to TGVI for the associated MI52-109 compliance certification since the incremental cost is considered to be negligible.

To be consistent with the allocation process proposed under the Shared Services Management agreement for TGI and TGVI, the Commission Panel directs that an allocation of 10 percent of the estimated project costs for MI52-109 compliance incurred by Terasen Inc. should be allocated to TGVI, prior to the allocation of the compliance costs to TGI. Accordingly, the allocation to TGI has been reduced by 5 percent.

The Commission Panel approves the deferral account, forecast amounts as adjusted and amortization as requested for the forecast costs of the OSC Certification Compliance.

2.7 BCUC Levies

TGI states in its advance material that the 2004 actual BCUC levies exceeded the amount provided for in the 2004 rates by $196,000 (Exhibit B1-1, Tab B8, p. 20). TGI is seeking approval to treat this variance as an exogenous factor given the Company has little or no control over these levies. TGI proposes to defer the variance between actual BCUC levies and the amount embedded in rates with full amortization in the following year (Exhibit B1-7, p. 6). The 2004-2007 Negotiated Settlement described exogenous factors as items beyond the Company's control that will be adjusted in rates (flow through). These factors include judicial, legislative or administrative changes, orders or directions, catastrophic events, bypass or similar events, major seismic incident, acts of war, terrorism or violence, changes in generally accepted accounting principles, standards and policies, changes in revenue requirements due to Commission directions (Commission Order No. G-51-03, Appendix A, pp. 12-13).

The BCOAPO submits "there has been no qualitative change in the regulatory process (which we would acknowledge to be a legitimate exogenous factor), but rather an under-estimation of the total levies for the year". If the Company had a surplus as a result of an over-estimation of the levies, BCOAPO believes this surplus would not have been returned to the ratepayers. The BCOAPO contends that the Company must adhere to the underlying principle of the PBR by accepting the risks along with the rewards. In TGI's argument it states that, "if the BCUC levies are overestimated in accordance with the formula determined amount, the variance will be returned to customers".

The Commission Panel accepts that the treatment of increased BCUC levies requested by TGI is consistent with the terms of the 2004-2007 Negotiated Settlement approved by Commission Order No. G-51-03.

2.8 Utilities Strategy Project

TGI filed a Shared Services Management Agreement with the Commission on May 31, 2004, providing details of the annual allocated shared service cost resulting from the operational integration of TGI and TGVI. TGI proposes to integrate the SAP systems utilized by both companies by having TGVI make an initial capital investment of $8 million for the integration. TGVI will subsequently pay an annual operating lease cost for the use of the SAP system, which is equivalent to a 10 percent interest in the net book value of the SAP technology platform assets. In addition, TGVI would be allocated a portion of the cost for common shared services such as human resources, distribution, and marketing which total $3.211 million for 2004 (Exhibit B1-1, Tab B4, Executive Summary, p. 1).

Questions were raised at the Annual Review on the method used for allocation of shared services between TGI and TGVI as compared to the TGVI capital investment to integrate with the SAP system. The Inland Industrials submitted that the $8 million capital expenditure is TGVI-specific and incurred in order for TGVI to achieve cost efficiencies in its operation. The Inland Industrials commented that there was no justification on the record to support any allocation to TGI (Exhibit C9-2).

The Commission Panel approves the allocation of Shared Services costs, the operating lease costs based on 10 percent of the SAP related costs to be allocated to TGVI and the $8 million capital investment to be borne in entirety by TGVI.