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November 17, 2004

British Columbia Utilities Commission
Sixth Floor - 900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Mr. Robert J. Pellatt, Commission Secretary

Dear Sir:

RE: Terasen Gas Inc. ("Terasen Gas")
2004 Annual Review
Terasen Gas Response to the Lower Mainland Large Gas Users Association ("LMLGUA") Information Request No. 1

Terasen Gas respectfully submits the attached responses to the LMLGUA Information Request No. 1.

Twenty copies will be sent to the Commission office, Thursday November 18th, 2004.

Yours very truly,

TERASEN GAS INC.

Original signed by Tom Loski

For: Scott A. Thomson

Attachment

cc: Registered Intervenors

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1. Reference: General, Incentive Programs and Impact on ROE

1.1 *We have had difficulty in reviewing the material identifying the ROE achieved by Terasen Gas Inc. ("Terasen") in 2004. Please identify the ROE achieved by Terasen in 2004.*

Response

The 2004 projected ROE is 9.12%, 0.03% below the allowed ROE of 9.15%. See Section A, Tab 8, Page 1 of the 2004 advance material filing for further details.

1.2 *We would like to understand how the ROE achieved by Terasen in 2004 was impacted by any incentive programs approved by the Commission which contribute to the ROE of Terasen. Please identify any and all incentive programs approved by the Commission which contribute to Terasen's ROE operated by Terasen.*

Response

Please refer to response to MEM Information Request #1, Question 5.1 for the causative factors behind the ROE variance from allowed. The current incentive mechanisms which have the potential to contribute to Terasen Gas' ROE are the Earnings Sharing Mechanism, the Property Tax Incentive and the DSM Achievement Incentive. The PBR includes the possibility of other incentive mechanism related to revenue generation (e.g., load building) and partially controllable costs but none beyond those identified are approved as yet. Terasen Gas also has a commodity-related incentive mechanism called the Gas Supply Mitigation Incentive Mechanism ("GSMIP") which was established by a separate regulatory process from the PBR and is not part of the delivery margin ROE.

1.3 *Please identify the contribution those incentive programs made to the ROE of Terasen in 2004.*

Response

Before consideration of the 2003 restructuring cost, Terasen Gas is projecting a 2004 return on common equity of 9.94%, or 0.79% higher than the authorized return of 9.15%. This is due largely to efficiencies achieved under the PBR Settlement which added $9.164 million to net earnings. After the restructuring cost is taken into consideration, the return on equity decreases to 9.12%. It is important to note that restructuring cost is non-recurring in nature whereas productivity improvements are ongoing through the PBR term so Terasen Gas anticipates future positive earnings sharing with customers for 2005 through 2007. There is no contribution to Terasen Gas' 2004 ROE from the Property Tax or DSM Achievement incentives.

The GSMIP incentive projected by Terasen Gas for 2004 is about $1.1 million before taxes and is not subject to sharing.

2. Reference: Coastal Facilities "Synthetic Lease"

2.1 *What is included in the coastal facilities "synthetic lease", i.e., what properties and locations?*

Response

The Coastal Facilities Project involved the construction of new facilities to replace two buildings in Burnaby (Lochburn) deemed to be structurally deficient and unsafe and to alleviate the overcrowding conditions at the Surrey (Fraser Valley) office. The final approve project scope per BCUC Order No C-14-98 involved the following:

1. Replacement of two buildings at Burnaby (Lochburn)
2. Replacement of two buildings in Surrey (Fraser Valley)
3. Construction of an operations centre, education/multi-use building, and satellite stores building in Surrey (Fraser Valley)
4. Construction of a field office and consolidated stores/shop at Burnaby (Lochburn)
5. Relocation of the majority of operating functions and related support services to Surrey (Fraser Valley)

The synthetic lease financed a portion of these costs, namely the design and construction of new facilities in Surrey and Burnaby described above, excluding the costs of furniture, fixtures and equipment (FF&E). The costs of FF&E could not be financed under the synthetic lease, and were included in rate base.

2.2 *What costs were replaced by the coastal facilities?*

Response

The Coastal Facilities Project was submitted to the Commission for consideration as a CPCN project in 1998. After careful review of the economics, BCUC issued Order No. C-14-98 approving the coastal facilities project. Please refer to the application and the subsequent BCUC Order C-14-98 for details of the economics in support of this project.

Once the Coastal Facilities Assets are included in rate base, annual lease payments of $4.5 million (2004 amount) will be replaced by the cost of service associated with ownership of the asset.

2.3 *Have the business case forecast of the savings at relocation to the new facilities proven to be accurate?*

Response

Terasen's internal auditors conducted a post evaluation of the Coastal Facilities Project and concluded in a report to the audit committee that the project was implemented successfully based on the business case objectives and that the project benefits anticipated had been realized.

2.4 *What is the status of the Lockburn facilities and are they being marketed for sale by Terasen? If so, would sale proceeds be to the account of customers and if so, why is Terasen not pursuing the sale more aggressively to offset the negative impact of the collapse of the synthetic lease on customers?*

Response

The surplus land at the Lochburn facility has not been sold and is not currently being actively marketed for sale. Terasen Gas has evaluated the value proposition with respect to the sale of the Lochburn property. It was determined that maximum value would be obtained if the property was subdivided and rezoned. Terasen Gas attempted to subdivide and rezone the property, however, municipal authorities would not approve the Terasen Gas request until a Certificate of Compliance from the Ministry of Environment was obtained. An assessment is currently underway to determine what additional reports will need to be completed in order to obtain a Certificate of Compliance. Upon receipt of the certificate Terasen Gas can commence marketing the property. Once sold, Terasen Gas expects that the sale proceeds would be apportioned based on an allocation method approved by the Commission.

3. Reference: Post Employment Benefits, Section 1, Tab 3, Page 11

3.1 *Other post employment benefits go from $12,825,000 in 2004 to $17,163,000 in 2005 (line 38).*

3.1.1 *Please explain these differences.*

Response

The increase to the other post employment expense (OPEB) deferral account is due to the incremental 2005 forecast OPEB expense additions. The deferral treatment is in accordance with the terms of the negotiated settlement (Appendix A, Page 11). The magnitude of the increase is also similar to that experienced in 2004. The increase to the OPEB deferral account has the effect of reducing rate base, which lowers revenue requirement so customers actually benefit when the OPEB deferral account increases.

3.1.2 *Do these post employment benefits include exercise of stock option rights?*

Response

No.

3.1.3 *If so, in what amount are you anticipating the exercise of such options?*

Response

See response to 3.1.2.

3.2 *Do post employment benefits include payment of stock options costs where such stock options are exercised in any given year? If so, has there been any impact on the 2004 results as a result of stock options being exercised by employees of Terasen or Terasen Gas Utilities?*

Response

No.

3.3 *How are stock option costs provided for in the 2004 results of Terasen? Is there a matching of those costs against years of service or any other measurements?*

Response

Stock option costs for employees working directly for Terasen Gas Inc. are expensed on a straight-line basis over the periods in which the stock options vest. Currently Terasen Gas stock options vest over a three year period. Terasen Gas has adopted the fair value based method of accounting for stock options granted after January 1, 2003 which is in accordance with CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments". A Black-Scholes model is used to calculate the fair value of stock options, using assumptions as disclosed in the 2003 Annual Report of Terasen Inc. Should individuals forfeit any of their stock option entitlement those charges are reversed against the income statement in the period they are forfeited.

The stock compensation charge for 2004 includes a charge of one-third of the fair value of the 2003 stock option grants and a charge of one-third of the fair value of the 2004 stock option grants. This O&M amount is projected to be $0.3 million in 2004.

Additional details on Terasen Inc.'s Share Option Plan and Stock-Based Compensation can be found in Note 10 of the 2003 Annual Report of Terasen Inc.

4. Reference: General – Customer Additions Driven Capital, Section A, Tab 3, Page 4

4.1 *The 2004 forecast of customer additions was 8,604 and the projected figure for 2004 is now 11,412, a difference of 32%. The formula based capital expenditures rose from $85.4 million to $91.5 million; $91.5 million divided by 11,412 equals $8,012.00 per customer addition.*

4.1.1 *Please explain how this occurs when the service line installation fee is, as the Association understands, $215 per service line.*

Response

The formula based capital expenditure level is dependent on the capital requirements necessary to provide safe and reliable service to new customer additions and existing customer base. The methodology used is in accordance with the terms of the negotiated settlement. The PBR capital formula allows capital expenditures of $24.1 million for new customer additions (11,412 customer additions x $2,111 per customer addition). The PBR capital formula also allows capital expenditures of $67.4 million ($86 per customer) for the entire customer base of 779,498 customers. The capital expenditures in this latter category are in areas such as system integrity and reliability which are not linked to new customer additions. Together, the capital requirement totals $91.5 necessary to service all customers of Terasen Gas. It is therefore not appropriate to conclude that the $91.5 million of capital expenditures are all due to the current year customer additions of 11,412.

The $215 service line installation fee represents a customer contribution and not the cost of adding a service line. Please refer to response to Question #4.2 for more discussion of the $215 fee.

4.1.2 *What is the actual amount calculated in security deposits expected to be collected in 2004?*

Response

The 2004 customer security deposits are currently projected to be $18 million.

4.1.3 *What number of customers were disconnects for credit reasons or otherwise in 2003 and expected in 2004?*

Response

A total of 50,002 lock-off activities of all types were completed in 2003; approximately 40,300 lock-offs are expected to be completed in 2004. The total number of individual customers affected is typically less than the total lock-off activity, as some customers are locked-off more than once in any given year.

4.2 *What is the economic service connection fee formula to arrive at $215 per customer connection fee and how does it reflect the change in the declining average customer use? If there 11,412 customer additions at $215 this would only raise $2,453,580. What is the formula to ensure that customer connection charges are sufficient? Is there a formula driven disconnect fee? What is it and how is it calculated?*

Response

The $215 service line installation fee was established in 1997 by BCUC Order G-104-96. This Commission order did not require that customers seeking service pay the full service line cost to connect to the natural gas system. The $215, when combined with the $85 application fee for new customers, means that new customers in single family dwellings pay a total of $300 to attach to the system. The $215 fee was established in lieu of an economic service line test to ensure that new customers paid a reasonable share of the costs of connecting to the system while avoiding the administrative burden of having to run an economic test for each service line. The same Commission Decision (issued with BCUC Order No. G-104-96) also established the Service Line Cost Allowance which set the maximum amount that the Terasen Gas (then BC Gas) would pay for a service line at $1,100. Customers requesting a service connection therefore pay the first $215 and any amounts over $1,100.

There is not a formula-driven disconnection fee. The amounts collected from customers in relation to disconnections are considered to be cost recoveries.

4.3 *What was the amount collected to offset infrastructure connections from developers in 2004?*

Response

Terasen Gas does not track customer contributions by whether they were paid by developers or other parties. Terasen Gas receives contributions from customers in various categories including main extension contributions, service line installation fees (i.e., the $215 charge), excess service line charges, billable alterations, meter/regulator work and others. The projections for 2004 included in the Annual Review materials did not estimate each of these amounts individually but included $6.0 million in total of such contributions. Assuming "infrastructure connections" in the question refers to main extension contributions, service line installation fees and excess service line charges, the Annual Review projection for these amounts is approximately $4.8 million. If actual 2004 customer contributions vary from this projected amount, the effect of the variance will be trued up in final calculation of the 2004 Earnings Sharing Mechanism.

4.4 *Customer addition driven capital expenditures are $24,089,000; customers added were 11,412, the cost per customer is $2,110.84. What is the expected revenue stream from the average customer to recover the $2,110.84 per customer versus the $215 fee?*

Response

The average residential customer contributes approximately $400 per year of delivery margin revenue. The rate base carrying cost of $1,896 ($2,110.84 - $215) is about $200 per year. The $200 recovers debt interest, return on equity, depreciation and income taxes.

4.5 *What is the average length of time the 779,498 customers have been on the utility system?*

Response

The first customers were connected to the interior system [Inland Natural Gas Ltd.] system in 1957, which suggests some customers in that region have been on the system for 47 years. Considering other customers have been attached for less than one year, this results in an average length of time of approximately 24 years that customers have been on the interior system. As the Lower Mainland system dates back prior to 1957 it would be reasonable to assume that the average length of time that customers have been on that system is greater than 24 years. These estimates are rough approximations and do not account for several factors. For example, a particular premise may have been connected to the gas system for many years but has had a number of residents or businesses (i.e. customers) occupying it during that time. Other premises may have been abandoned or demolished and therefore do not receive gas service any longer. The foregoing two factors would reduce the average period that customers have been on the gas system. Also, annual growth rates have varied considerably since the inception of natural gas service and the estimates do not provide any weighting of these annual growth patterns.

4.6 *What is the expected average customer use for:*

(a) *residential;*

(b) *commercial; and*

(c) *industrial?*

Response

The projected average use rates for customers in the Terasen Gas system in 2004 are set out as follows:

(a) Residential (Rate Schedule 1) 103.1 GJs;

(b) Commercial weighted average (Rate Schedules 2, 3, & 23) 578.1 GJs; and

(c) Industrial weighted average (Rate Schedules 5, 7, 22, 25, & 27, excluding Burrard Thermal) 54,443.4 GJs

4.7 *How does the utility account for the connection deposits? What is the accounts balance and when is paid back to customers charged the connection deposit?*

Response

Connection deposits are recorded in BCUC Account No. 255 - customer advances. In accordance with the general terms and conditions of Terasen's tariff, a review is conducted after a five-year period from receipt of deposit to determine if the economics of the connection have been realized. If the economics have been realized, the amount received from customers is refunded with interest. If the economics have not been realized, the amount is transferred to BCUC Account 211 - contributions in aid of construction. At present, only $2,000 remains in the customer advances account.

5. Reference: Computer Costs, Section A, Tab 3, Page 7.1

5.1 *Terasen has almost $160 million committed to computer hardware and software.*

5.1.1 *Given the customer service outsourcing that has taken place, what are these assets now contributing to Terasen and why did the costs increase at over $5 million between 2003 versus 2004?*

Response

Although customer service has been outsourced, the dependency on customer data to integrate with the existing and invest in the changing business processes and technologies still remains. There are also other information technology systems that are necessary in managing the day-to-day functions of a multi-billion dollar utility efficiently. For example, the financial, human resources and work management systems are dependent on SAP software and related hardware. Enabling technology such as AM/FM, Integrated Resource Management and Predictive Maintenance increase the Company's efficiencies. Communication between applications enables different applications to share data and present it on a single screen that speeds responses to customer requests and enable Company personnel to be efficient. IT security systems are also required. Also, applications and especially hardware have a limited life-cycle. Ongoing maintenance such as upgrades and replacements are a reality of technology today. As can be noted, these systems are vital to the efficient operations of Terasen Gas.

It should be noted that the 2004 capital additions forecast was presented at the November 2003 annual review when the 2004 rates were being set and since the determination of the capital expenditures for the purpose of rate making is formula driven in accordance with the terms of the negotiated settlement, the benefits of variances between the formula-based and actual plant account balances will be captured in the earnings sharing mechanism.

5.1.2 *Computer hardware additions are forecasted to increase by $6.5 million while retirements are $3.3 million. Please provide a schedule that shows what customers are paying for in this category.*

Response

Gas plant balances and capital expenditures for 2003 were subject to a full review by all parties during the 2003 revenue requirement hearing. The Commission, in its Decision dated February 4, 2003 approved the 2003 rates, including the 2003 capital expenditures and plant account balances. For 2004-2007, the terms of the PBR negotiated settlement base capital expenditures are determined on a formula-basis. The PBR capital formula uses the 2003 Decision capital expenditures by asset class (excluding CPCN expenditures) as the base for the term of the PBR. The PBR capital formula sets the appropriate level of capital spending by asset class but does not generate a bottom-up itemized schedule of spending to support the formula-based amount in any category. Under the PBR mechanism Terasen Gas has an incentive to spend less than the formula-allowed capital spending. The benefits of lower capital spending will create earnings sharing benefits for customers in future years.

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6. Reference: Miscellaneous Expense Increases, Section A, Tab 3, Page 7.1

6.1 *Transportation Equipment (line 484) has increased 8%. Please explain this increase.*

Response

The change in the Transportation Equipment account balance results from the combination of asset retirements and the formula-based capital expenditures for that account. As indicated in the response to Question 5.1.2 the PBR capital formula does not generate an itemized list of capital expenditures in any given account.

6.2 *Tools and Equipment costs are $29 million versus computers of $160 million and Communications Equipment at $15,459,000. What is the reason for $15,459,000 in costs in Communication Equipment?*

Response

Since the capital additions in the plant accounts are formula-based during the term of the PBR, a complete listing of the costs in the Communications Equipment account is not available. See Question 5.1.2 for additional discussion of the capital expenditures by asset class under the PBR capital formula.

6.3 *The total cost of General Equipment is up 20% to $288,735,000 in 2004 versus $346,912,000 in 2005. Customer growth is up approximately 1%. Where is the evidence of Terasen's cost containment given these significant increases?*

Response

Of the 20% increase, or $58.177 million, $50.258 million is due to the inclusion of the coastal facilities assets in rate base brought on as a result of a change in accounting rules (See Section B, Tab 7).

On a percentage basis, if the coastal facilities assets were excluded from the calculation, the increase would amount to 2.7%, which when one considers that on going renewal of plant assets at current replacement costs impacts plant investment so that a straight comparison of customer growth rates and net additions is not appropriate. That actual plant additions are running below those allowed in the formulas is evidence of cost containment.

7. Reference: Section A, Tab 3, Page 11 and 11.1

7.1 *DSM balances between 2004 versus 2005 are to increase over 40%. Explain how these balances will be cleared and whether the customer is at risk for those increases.*

Response

In setting the 2003 rates, the Commission, in its Decision dated February 4, 2003 approved the continuation of a DSM deferral account for up to $1.5 million of incentive grants for 2003. In the 2004 -2007 negotiated settlement, the Commission approved the continuation of the DSM program and incentive grants of up to $1.5 million per year for 2004 to 2007. The account is cleared by amortizing the actual deferral account balance over three years. The PBR Settlement sets the limit on annual DSM grants at $1.5 million as well as the limit on the amortization expense in rates. If Terasen Gas' DSM programs do not results in $1.5 million of grants being issued in a year the future amortization in rates will be reduced accordingly.

7.2 *The RSM balance for 2004 is $33,360,000 and in 2005 it is $27,800,00 for the mid-year average. How confident is Terasen in this estimate given the recent significant increase in the forward strip prices for natural gas?*

Response

The computer model used by Terasen in forecasting use per customer rates includes a variable for the effects of price elasticity due to expected future changes in commodity prices (see Response to BCUC Information Request #1, Question 6.1). Despite our best efforts at building complex computer models to simulate current events, forecasting forward strip prices for natural gas will always be a challenge since it is subject to considerable volatility. The RSAM account captures weather-related use rate variances so the account balance may vary from forecast for reasons that have no relation to natural gas prices. As well, the RSAM balance implicitly includes variations due to factors such as economic influences, price elasticity impacts, demand side management effects, and underlying changes to customer behavior, amongst others. In combination, these factors mean that the RSAM balance is not predictable.

The Commission recognized the difficulties in projecting RSAM balances for rate setting purposes. In its Decision dated February 4, 2003, the Commission approved the booking of interest on variances between forecast and actual balances in the RSAM account. If the forecast RSAM balance is higher than the actual an interest credit is recorded in favour of customers. If the forecast balance is lower than the actual, an interest debit is recorded that the Company can recover in future rates.

7.3 *Tab total deferral charge to rate basis in 2004 is at $8,000,059. In 2005 it is expected to be $21,502,000. What is causing this increase and when are these increases anticipated to come into customer rates?*

Response

The primary cause of the increase is due to forecast increases to CCRA and MCRA as a result of recent significant increase in forward strip prices for natural gas which the writer noted in response to IR 7.2. Please see further comments in response to IR 8.2.

8. Reference: Burrard Thermal Revenue

8.1 *Revenues are forecasted at $9.9 million per year. How long does Terasen anticipate this revenue charges being achieved given the declining the use of Burrard Thermal?*

Response

Revenues for Burrard Thermal / BC Hydro Bypass Agreement are forecasted at a fixed $9.9 million per year to November 2009, when BC Hydro may, with 12 months notice, elect to terminate the Agreement on or after November 1, 2009.

8.2 *There is a CCRA increase of $30 million at Section A, Tab 3, Page 11. Please explain this increase.*

Response

As noted in response to IR 7.2, the recent increases to the commodity forward strip prices for natural gas have added to the deficit balance of the CCRA for 2005. Price of natural gas is dependent on the commodity markets and is subject to considerable volatility in natural gas commodity markets in which a cold weather snap or unexpected negative news can change the commodity market outlook quite quickly. Terasen has in place an interest deferral mechanism to capture financing costs for variances between the forecast and actual balances in the CCRA account. To the extent forward strip drops, customers will be credited with the interest savings of not having to buy the gas at the higher forecast cost. Conversely, to the extent that forward strip increases, customers will be required to pay the incremental interest associated with the higher carrying cost.

In addition the quarterly gas cost reviews provide a mechanism to flow through cost increases or decreases outside the set parameters to guard against extreme builds or declines in the balance of the deferral account.

9. Reference: BCUC Information Request 1.1

9.1 *Please describe any changes that incorporated into Terasen's methodology for estimating use per account which have been made since the year 2000.*

Response

Terasen Gas' basic methodology for estimating use per account using a statistical approach of regression analysis, correlating end use rates to different factors remain unchanged.

9.2 *How has Terasen factored in:*

(a) *addition of smaller square foot premises in new customers;*

(b) *increase gas prices;*

(c) *the legislative requirement of higher cost, high efficiency gas water heaters in residences,*

in arriving at its forecast use for accounts for resident customers?

Response

(a) Please refer to response to BCUC Information Request # 1, Question 6.1. A Customer Choice factor of minus 0.5% is applied to the expected residential normalized use rate to account for customer choice in housing space (i.e. addition of smaller square foot premises in new customers).

(b) Please refer to response to BCUC Information Request # 1, Question 6.1. Changes in gas prices (i.e. increase or decrease) and its impact on residential use rates are accounted for using a Price Effect factor which incorporates the expected change in the natural gas commodity price along with the estimated consumer price elasticity.

(c) Please refer to response to BCUC Information Request # 1, Question 6.1. A Technology factor of minus 0.5% is applied to the expected residential normalized use rate to account for technology / efficiency improvements in equipment (i.e. legislative requirement of higher cost, high efficiency gas water heater example).

9.3 Reference: BCUC Information Request #1.14

9.3.1 *It is the Association's understanding that a commitment was made to ensure that Mainland customers do not subsidize the acquisition of Centra Gas of Vancouver Island by BC Gas Inc at the time that transaction was approved. Does that remain the position of Terasen and if so, how does Terasen intend to ensure that that commitment is met?*

Response

BC Gas Inc. (now Terasen Inc.) acquired Centra Gas BC (now TGVI) in 2002 and paid a fair market value premium over the book value of the assets. The acquisition was financed by BC Gas Inc and as such Mainland customers did not subsidize the acquisition. During consultations with stakeholders leading up to the 2003 revenue requirements hearing, the Company suggested that one way of ensuring that TGVI and Terasen Gas maintained separate rate bases was to establish a long term PBR arrangement for Terasen Gas. No commitment was made to never roll TGVI into Terasen Gas but if the Company ever proposed this it would be the subject of an Application. The Company has indicated that where Terasen Gas provides management services to TGVI it would charge fees representing the full cost of such services including charges for the utilization of its technology platforms that enables the provision of the management services. The management services agreement fee structure/proposal was submitted to the Commission for review. As such there is no subsidization of the acquisition of TGVI by the customers of Terasen Gas.

9.4 Reference: BCUC Information Request #1.15, the Triple Point Project

9.4.1 *It would appear that this opportunity has been developed by utility employees in the course of their work for the utility. What steps does Terasen take to ensure that employees are working matters related specific to their day-to-day functions are utility employees as opposed to investigating other commercial opportunities for Terasen?*

Response

Under the terms of the negotiated settlement, Terasen Gas is incentivized to reduce O&M dollars. Accordingly, Terasen Gas employees are motivated to seek out revenue enhancing/expense opportunities for the utility in the course of their day-to-day activities and devise and implement innovative and cost competitive solutions. In this instance, the employee, in anticipation of expected future changes to regulations, developed a new technique that will result in reduced annual O&M costs of approximately $200,000 dollars compared with the current practice of external meter testing. The development of the testing approach was directed at reducing utility costs, however, as other utilities will be affected of these changes in regulations it is anticipated there may likely be an external market for the service. Furthermore, some interest has been expressed by potential customers. However, it was identified that the Company may not have the resources in-house to effectively market the service outside the Company. on The Company is investigating the possibility of outsourcing the marketing efforts.

9.4.2 *In the event that the acquisition for the Triple Point Project is approved, is there any compensation which would flow back to utility for the employee time that would have been spent while working for utility developing this initiative?*

Response

The primary goal of this initiative is to reduce meter testing costs driver by changes in regulation which will be of benefit to customers. As such, Terasen Gas submits that the activities associated with the development of this cost saving measure should be borne by utility customers as they allow the utility to avoid costs that would otherwise flow through to customers. If the service can be successfully marketed to third parties then the Company is proposing that the benefits be shared back with utility customers.

9.4.3 *Please provide the documentation which would demonstrate the amount of time spent by employees working on this initiative which utility employees in order to provide a practical and actual experience for application of the conduct and transfer pricing guidelines of the Commission. The assumption is that employee time was spent developing this unique idea outside of utility working hours.*

Response

As noted, in response to IR 9.4.1, this solution was developed by utility personnel, on utility working hours, in order to better serve customers of the utility. As such, Terasen Gas contends this is not a situation where of the Code of Conduct and Transfer Pricing Policy applies.