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January 5, 2011

British Columbia Utilities Commission
Sixth Floor
900 Howe Street
Vancouver, B.C.
V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

Re: Terasen Gas Inc. ("Terasen Gas")
Application for Approval of a Service Agreement for Compressed Natural Gas ("CNG") Service and for Approval of General Terms and Conditions ("GT&Cs") for CNG and Liquified Natural Gas ("LNG") Service (the "Application")

Redacted Responses to the Information Requests ("IR") No. 1

On December 20, 2010, Terasen Gas submitted its responses to British Columbia Utilities Commission ("BCUC" or the "Commission") Confidential IR No. 1 and the B.C. Sustainable Energy Association ("BCSEA") IR No. 1 on a Confidential basis.

In order to file IR responses which do not contain confidential information in the public proceeding record, Terasen Gas has reviewed the Responses to IRs No. 1 which were filed confidentially and created a redacted version by removing full pages containing confidential information and redacting or "blacking out" the portions of pages containing confidential information. Terasen Gas submits that the remaining IRs which have not been disclosed in this redacted version are market sensitive and contain details and information which are the result of commercial negotiations that may prejudice future commercial negotiations if disclosed publicly.

If you have any questions or require further information related to this Application, please do not hesitate to contact Shawn Hill at (604) 592-7840.

Yours very truly,

TERASEN GAS INC.

Original signed by: Shawn Hill

For: Diane Roy

Attachment

cc (e-mail only): Registered Parties

Diane Roy
Director, Regulatory Affairs

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~~CONFIDENTIAL~~

December 20, 2010

British Columbia Utilities Commission
Sixth Floor
900 Howe Street
Vancouver, B.C.
V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

Re: Terasen Gas Inc. ("Terasen Gas")
Application for Approval of a Service Agreement for Compressed Natural Gas ("CNG") Service and for Approval of General Terms and Conditions ("GT&Cs") for CNG and Liquified Natural Gas ("LNG") Service (the "Application")

Response to the British Columbia Utilities Commission ("BCUC" or the "Commission") Confidential Information Request ("IR") No. 1

On December 1, 2010, Terasen Gas filed the Application as referenced above. In accordance with Commission Order No. G-181-10 setting out the Regulatory Timetable for the review of the Application, Terasen Gas respectfully submits the attached response to BCUC Confidential IR No. 1.

Please note that at this time, TGI was unable to respond to IRs 11.3 and 11.4. We will continue to investigate accounting records and previous submissions and we intend to file the responses to BCUC Confidential IRs 11.3 and 11.4 as soon as possible.

If you have any questions or require further information related to this Application, please do not hesitate to contact Shawn Hill at (604) 592-7840.

Yours very truly,

TERASEN GAS INC.

Original signed by: Shawn Hill

For: Diane Roy

Attachment

cc (e-mail only): Registered Parties who have executed the Undertaking of Confidentiality

1.0 WM AGREEMENT - EXPEDITED APPROVAL

Reference: Exhibit B-1, Section 1.1, p. 2

"With respect to process, WM requires service to commence no later than January 24, 2011, and accordingly TGI is respectfully requesting that TGI's request for approval of the WM Agreement be considered on an expedited basis.

...If the Commission is unable to approve the WM Agreement on a permanent basis by January 14, 2011, TGI then requests an interim order pursuant to section 89 of the Act on or before January 14, 2011 approving the WM Agreement on an interim basis pending the final determination of this Application."

1.1 Please provide reasons why Terasen Gas Inc. (Terasen Gas or TGI) could not file this Application earlier in the year, which would have allowed for an orderly (as compared to an expedited) review and approval process by the British Columbia Utilities Commission (Commission).

Response:

The request for an expedited process only relates to the requested approval of the Waste Management ("WM") Agreement, with the balance of the application proceeding over the course of several months. The WM agreement, which is the subject of the request for expedited approval, was not finalized until December 3, 2010, which was one day after TGI filed this Application. TGI filed it in unfinalized form once we were certain that the key terms had been settled, in order to permit as much time as possible for the review of the WM Agreement. Filing the agreement before that time would have been inefficient and would have interfered with the negotiations.

Settling the terms of the WM Agreement was itself subject to some time constraints. In advance of negotiating the commercial agreement, Terasen Gas had to initiate engineering design and costing work regarding the station so as to have appropriate inputs into the commercial negotiations.

3.4 Please discuss why the longstanding regulatory practice that utility rates, rate schedules and Tariff Supplements are filed publicly and available for public inspection should not apply for the WM Agreement.

Response:

Terasen Gas consistently seeks to protect our customers by keeping contracts that are the result of commercial negotiation confidential. Gas Supply agreements filed confidentially under Rate Schedule 30 as well storage and transportation contracts provide an excellent example of how all customers benefit from confidentiality in relationships where price is a key negotiation output. The Company notes also that the key information about this service offering that is relevant to interested parties is contained within the proposed amendments to our General Terms and Conditions, which were filed publicly and would be part of a public document upon approval.

Please see also the response to BCUC Confidential IR 1.3.3.

3.5 Please provide a list of all Terasen Gas Inc. rates, rate schedules and Tariff Supplements that are currently approved and in effect, which are filed as a confidential basis.

Response:

Please see the response to BCUC Confidential IR 1.3.4.

3.6 If an Intervener executes the confidentiality undertaking in Appendix G of the Application and subsequently enters into negotiations with TGI for NGV service, will the Intervener be able to refer to information from the WM Agreement in the negotiations? If yes, what is the point of keeping the WM Agreement confidential?

Response:

In theory, the answer is "yes". However, in the event that an intervenor who, in the opinion of Terasen Gas, were likely to be a future NGV fuelling customer were to request access to the confidential appendices by executing the confidentiality undertaking, the Company would raise an objection to their having access to the confidential appendices because having access could prejudice future negotiations. Terasen Gas currently has no reasons to object to customer groups like the Commercial Energy Consumers, British Columbia Old Age Pensioners Association or the British Columbia Sustainable Energy Association having access to these appendices because any harm of this nature is unlikely to materialize.

3.7 If the Intervener referred to in the previous question cannot refer to the WM Agreement, how can the party make representations to TGI or the Commission about whether the terms for NGV Service being offered by TGI are unduly discriminatory?

Response:

That hypothetical intervener would have to make submissions based on the public information included in the Application, which is at a higher level than the WM Agreement itself. However, Terasen Gas is not aware of any registered interveners, with the possible exception of BC Hydro, that have large heavy duty return-to-home fleets that would make them interested in participating in the type of project for which the Company seeks approval in this proceeding. The Company does not believe there would be any commercial harm from granting access to the confidential appendices to the Commercial Energy Consumers, British Columbia Old Age Pensioners Association or the British Columbia Sustainable Energy Association.

3.8 Speaking broadly, if the WM Agreement is filed confidentially, how can other customers and the Commission be assured that the rates for NGV Service comply with the prohibition in section 59 of the UCA against undue discrimination in rates.

Response:

The Commission has full access to all materials required to make its determination on whether or not the WM Agreement represents a just and reasonable rate. In terms of obtaining public input on that decision, there is a significant amount of evidence on the public record, including information regarding the "take-or-pay" nature of the agreement and how the cost of service model works. Certain terms in the agreement are kept off the public record to protect the interests of customers and WM. However, as explained in the response to BCUC Confidential IR 1.3.3, customer groups that sign confidentiality agreements are able to view the confidential information and participate in the Commission's review process. TGI believes that, on the whole, the public interest is best served by maintaining confidentiality over the WM Agreement.

4.0 WM AGREEMENT – VEHICLE REIMBURSEMENT

Reference: Exhibit B-1, Section 4 pp. 46-53; Appendix D-1; Commission Decision on Energy Efficiency and Conservation dated April 16, 2009

4.1 The Application at page 47 states, "WM's proposal to obtain funding for its purchase of NGVs met the terms and conditions required for Innovative Technologies Energy Efficiency and Conservation ("EEC") incentive funding for low-carbon fuel switching, which were approved on April 16th, 2009 in *Commission Order G-36-09*". Please identify each of the terms and conditions and explain in detail and with specific references to the Decision that accompanied Order G 36 09 why TGI believes this Application meets the term or condition.

Response:

The EEC incentives made to WM are tied to assets (20 trucks) that are not determining factors in establishing the fuelling rate that TGI is seeking approval for within this Application. The EEC funding provided to WM in conjunction with the WM Agreement is being paid from EEC funds previously approved by the Commission. TGI believes that it has provided funding in a manner that is consistent with the Commission's EEC Decision (Order No. G-36-09) (the "EEC Decision") and also the Commission's approval of the negotiated settlement in the 2010-2011 Revenue Requirements Application ("RRA"). In addition, there are established accountability mechanisms in place for EEC funding matters, and (as indicated on p.1 of the Application) TGI is not seeking to address Energy Efficiency and Conservation funding within this Application.

This response addresses:

- The approvals obtained in the context of the 2010-2011 RRA;
- The reasons why funding provided to WM is also consistent with the EEC Decision; and
- The accountability mechanisms in place for EEC funding matters.

Innovative Technology Approved as Part of 2010-2011 RRA

The question refers to the fact that the Commission, in its EEC Decision, rejected the funding request made by TGI for Innovated Technology, including NGV. However, subsequent to Commission Order G-36-09, TGI and TGVI sought funding approval for EEC Programs related to Innovative Technologies in their respective 2010-2011 Revenue Requirements Applications. On November 26, 2009, the Commission released Order No. G-141-09 and G-140-09 approving

Negotiated Settlement Agreements ("NSAs") in the 2010 – 2011 Revenue Requirement Applications for TGI and TGVI respectively. The Commission's approved NSAs included the approval of EEC funding for Innovative Technologies for TGI and TGVI for 2010 and 2011. Thus, TGI has express approval to use funding from the Innovative Technologies "bucket" to fund initiatives such as the WM project.

<u>Funding WM Project is Also Consistent with the EEC Decision</u>

The EEC expenditures approved in the EEC Decision are a funding envelope to develop and implement programs that conform to meeting the portfolio TRC of greater than one, and TGI has the ability to transfer funds to where it makes the most sense provided it can justify it after the fact. TGI requires the flexibility to move funds to programs like the WM EEC expenditures so that programs can be designed and implemented efficiently within an approved funding envelope. The measure for determining whether or the not expenditure was made appropriately is the TRC test, and TGI's reporting obligations permit the regular assessment of TGI's expenditures.

The Commission addressed reporting obligations on page 42 of the EEC Decision, and expressly anticipated that TGI could shift funding provided it was transparent:

> *"Commission Panel directs that the annual EEC Report include the following:*
>
> *• TRC, RIM, UC, and Participant test calculations of DSM at the Program Area initiative and individual measure levels in addition to the total Portfolio level reporting. Reporting of the Residential & Commercial EE program areas should also be made at the New Construction and Retrofit levels.*
>
> *• <u>any inter and intra Program Area initiative funding transfers, with supporting rationale, and the impact of such transfers on the transferor and transferee Program areas, initiatives, and measures as the case may be</u>.*
>
> *• data for fuel switching programs should be tracked in a manner which allows for reporting types of fuels replaced by natural gas, including estimated GHG impacts."*

As part of the 2010 EEC Report to the Commission that will be filed by March 31, 2011 (which is the next report after the WM funding) TGI will conform to the reporting requirement of the EEC Decision. The two rationales that would support reallocating funding from other "buckets" to fund the WM Agreement are: the favourable TRC; and, benefits from load building associated with switching the transport industry from higher carbon fuel sources. These two points are addressed briefly below.

1) WM business case for the 20 trucks has a TRC that meet the threshold as defined in EEC Decision

TGI assesses all EEC funding according to the framework established in the EEC Decision, which involves, among other things, the application of TRC test. The WM business case for the 20 trucks has a TRC that met the threshold as defined in the EEC Decision.

The Commission discussed the application of a TRC at per page 34 of the EEC Decision:

> *"The Commission Panel also takes note of the DSM Regulation which will apply to Terasen as of June 01, 2009 requiring the Commission to use, in addition to any other test it considers appropriate, the TRC test in determining whether a demand-side measure is cost-effective. While the DSM Regulation is not in effect for the purposes of this EEC Decision, the Commission Panel does consider the TRC test to be appropriate and adequate for the purposes of this Application and accepts it as such. "*

The EEC incentive payment made to WM has a positive TRC of 1.2. Please see BCUC Confidential IR 1.4.8 for more details related specifically the WM TRC. A TRC of 1.2 means the benefits exceed the costs for this WM EEC expenditure

2) WM Project Builds Load and Reduces Greenhouse Gas Emission ("GHG") by Promoting Fuel Switching from a Higher Carbon Fuel (diesel) to a Lower Carbon Fuel (natural gas)

In the EEC Application, TGI had applied for approval of funding to encourage the adoption of natural gas as a fuel instead of both higher carbon fuels and electricity. The Commission accepted the former, and rejected the latter. As per page 18 of the EEC Decision:

> *"The Commission Panel accepts EEC expenditures directed at fuel switching from fossil fuels with a higher carbon content than that of natural gas."*

TGI acknowledges that fuel switching was addressed in the EEC Application in the context of the residential sector. However, the principle of moving customers from higher carbon fuel to natural gas can be done in other sectors, including the transportation sector. TGI believes that the EEC expenditures made to WM that encourages switching from using diesel trucks to the use of natural gas, conforms to the direction of the Commission around fuel switching. As outlined on page 51 of the Application in Section 4.7.3, the GHG benefits as a result of switching from diesel to natural gas for these 20 WM trucks is a reduction of 214 tonnes per year. Thus, the funding of WM vehicles provides a GHG benefit consistent with the Commission approval of fuel switching incentives.

EEC Accountability Mechanisms

As indicated above, there are established accountability mechanisms in place for EEC funding matters, and TGI is not seeking to address them in this Application. The accountability mechanisms include workshops and annual reporting. TGI previously raised with stakeholders in EEC workshops the prospect of funding NGV projects, and intends to report on it in the next annual report as directed.

As stated on page 41 of the EEC Decision, TGI proposed the following accountability mechanisms for the EEC expenditure.

> *"In this Application the Companies have recognized the need for accountability for the funds approved for EEC programs. First, any funds not spent will not be charged to the regulatory asset deferral account. Second, the Companies intend to monitor the portfolio TRC on a monthly basis, and have proposed to file an Annual EEC Report with the Commission by the end of the first quarter every year. The Report will detail program activity, expenditures, and cost-benefit results for the previous year, as well as describe program activity and provide forecasts for the upcoming year. Third, in the event that the relief sought is granted, the Companies would form and engage an EEC stakeholder group with membership representing a broad cross section of stakeholders identified in the Application. Fourth, the Companies have indicated their intention to hold annual EEC workshops with stakeholders, at which the Companies would present updates on program progress and obtain stakeholder input on new programs and refinements to existing programs. Fifth, the Companies are proposing to develop many of the programs for the commercial sector and the DSM for Affordable Housing sector in conjunction with stakeholder advisory groups."* (Terasen Argument, p. 39)

The Commission, on page 42 of the EEC Decision, accepted TGI proposal on the EEC accountability mechanisms. TGI has met the accountability mechanisms established in the EEC Decision related to NGV incentives in two ways:

A) In the 2009 Energy Efficiency and Conservation Report, filed to the Commission on March 31, 2010, TGI and TGVI outlined their plan to expand the program portfolio by an additional Innovative Technology programs in 2010. The portfolio of Innovative Technologies, as outlined in the 2009 EEC Report, included Solar Thermal Hot Water, NGV for Commercial Vehicles, Hydronic and Combination Space Heating Systems, Residential Ground Source Heat Pumps ("GSHP") and Commercial and Industrial GSHP Systems.

B) The EEC Stakeholder working group has been informed on two separate occasions on TGI plans for NGV incentives and no issues from the stakeholder group were raised.

TGI believes that customers and stakeholders should support the use of approved EEC funding for initiatives that have a TRC greater than one, as in the case of the WM funding (TRC of 1.2), because customers are the beneficiaries of these cost-effective investments.

<u>Summary</u>

In summary, TGI has previously obtained EEC expenditure approval, that TGI believes should be used to provide benefits to customers and contribute to a portfolio approach to a TRC of greater than one. As such, TGI is not seeking specific expenditure approvals in this Application. TGI EEC expenditures for NGV incentives for WM are consistent with Order No. G-36-09. TGI intends to continue meeting its reporting commitments by reporting in the next annual EEC report on the WM funding, and any matters relating to TGI's use of EEC funding should be addressed at that time.

4.2 Direction 1(b) of Order G-36-09 and page 18 of the Decision that accompanies it accepts "Expenditures for programs or initiatives directed at fuel switching away from fossil fuels with a higher carbon content than that of natural gas to natural gas." Does not the lack of a specific dollar cap mean that any expenditure in this area needs to receive specific Commission approval? Please explain the reasons for your response.

<u>Response:</u>

Please refer to the response to BCUC Confidential IR 1.4.1 on why TGI believes that it already has the necessary Commission approvals to provide EEC incentives to WM.

4.3 The discussion in the Decision regarding expenditures for low-carbon fuel switching programs appears to relate to residential and commercial appliances. Please explain in detail how TGI interprets the low-carbon fuel switching programs as set out in its EEC Application and the Decision to include NGV incentive grants.

Response:

Please see the response to BCUC Confidential IR 1.4.1.

4.4 Directive 2 of the Order rejects expenditures for Innovative Technologies, Natural Gas Vehicles and Measurement. On the face of it, this directive appears to reject expenditures like the Vehicle Reimbursement. Please explain why TGI interprets the Order differently.

Response:

Funding for Innovative Technologies was subsequently approved as part of the 2010-2011 RRA processes for TGI and TGVI. Please refer to the response to BCUC Confidential IR 1.4.1.

4.5 Please explain how TGI proposes to record, amortize and recover payments to WM under Vehicle Reimbursement. Where this accounting treatment has been approved by previous Commission Decisions and Orders, please provide the references.

Response:

TGI will record, amortize and recover payments to WM for Vehicle Reimbursement on a net of tax basis through the TGI EEC rate base deferral account mechanism as approved by BCUC Order No. G-36-09.

The 2010 and 2011 EEC rate base deferral account additions were again approved by BCUC Order No. G-141-09.

In accordance with BCUC Order No. G-36-09, the TGI EEC rate base deferral account has a ten year amortization period. The amortization expense, and other cost of service associated with the EEC rate base deferral account, is recovered from all TGI customers through the TGI delivery rate.

[redacted]

4.7 Please provide the amortization period and amortization rate for the incentive funding for low-carbon fuel switching.

Response:

Please see the response to BCUC Confidential IR 1.4.5.

[redacted]

6.0 WM AGREEMENT – VEHICLE REIMBURSEMENT

Reference: Exhibit B-1, Section 4 pp. 46-53; Appendix D-1

6.1 Rate Schedule 26 states:

"Special Conditions
Terasen Gas may, in its sole discretion, reduce the Delivery Charge per Gigajoule to any Customer where such reduction is necessary to encourage expansion of the NGV market. Any reduction in the Delivery Charge will be specified in the Service Agreement.

Terasen Gas may make a promotional grant towards the cost to purchase a factory-built NGV vehicle, or the cost to convert a vehicle to natural gas to meet requirements as set by the Government of Canada, provided that such vehicles will obtain Gas from refuelling facilities in a Terasen Gas service area. The amount of the grant would not exceed $10 per GJ, based on estimated consumption over a one year period, up to a maximum total grant by vehicle type as listed in the table below:

It is a condition of the grant that the Customer be provided Service under this Rate Schedule.

Factory Built NGV Incentive Grants		
Vehicle Description	GVW (#)	Maximum Grant
Light Duty	< 10,000	$ 2,500
Medium Duty	< 17,000	$ 5,000
Heavy Duty	> 17,000	$ 10,000

The amount of each grant will not exceed the 5-year projected net revenue to Terasen Gas from each corresponding vehicle.

Terasen Gas may also fund Special Demonstration project grants, tied to an individual vehicle purchased by a customer. The amount of the Special Demonstration grant will not exceed the premium cost for the natural gas option for the vehicle. The total funds paid out under the Special Demonstration project grants will not exceed $100,000 in any one year."

Please confirm that the NGV Incentive Grants in Rate Schedule 26 are available only for vehicles that will be consuming natural gas delivered under Rate Schedule 26, and would not be available if the customer is using Rate Schedule 25.

Response:

Confirmed. The grants provided under Rate Schedule 26 are not available for consumers using Rate Schedule 25. In addition the WM agreement prevents stacking of incentive programs (Section 8 c of the agreement).

[redacted]

6.3 If they differ, does TGI intend to amend Rate Schedules 6 and 26 to align them with the WM Agreement?

Response:

As explained in the response to BCUC Confidential IR 1.6.2, TGI does not believe that there is any conflict between the NGV EEC incentive program and the Grant program under Rate Schedule 6 or 26. Further, as specified by the WM agreement, WM cannot stack the incentive programs. TGI may elect to amend the Rate Schedules 6 and 26 Grant program at a later date should this program continue to be ineffective.

6.4 What is the maximum NGV Incentive Grant per vehicle for WM under Rate Schedule 26, assuming that WM takes service under Rate Schedule 26?

Response:

The WM vehicles will consume more than 1,000 GJ per year; therefore, if WM where to take service under Rate Schedule 26, the maximum incentive applies. The maximum incentive is $10,000. However, it is unlikely that WM will undertake service under Rate Schedule 26 for two reasons:

1) The WM Agreement includes a 'no stacking' clause for incentive payments; and,

2) As discussed in responses to BCUC Confidential IR 1.6.1 and 1.6.2, Rate Schedule 26 is not the most economic rate schedule for WM to use.

The WM contract rate achieves full recovery of the forecast cost of service over the term on the ten year contract; however, it does result in minor annual revenue deficiencies and surpluses that will immaterially impact the annual delivery rates for all TGI customers. Please refer to line 9, page 1 of Attachment 7.1.

7.2 In the context of the WM Agreement as proposed, please provide a complete summary of all costs and benefits, both financial and non-financial that will be realized by other customers of TGI.

Response:

The following is a summary of the financial and non-financial benefits and costs that will be realized by all TGI customers in the context of the WM Agreement.

Financial

- Lower delivery rates, all else equal, from the incremental delivery margin from the increased throughput on TGI's natural gas system (estimated at approximately $14 thousand per year). This benefit will grow to the extent that WM volumes exceed minimum contract demand.
- Lower delivery rates, all else equal, from the incremental contract revenue from WM volumes in excess of minimum contract demand.
- Delivery rate impacts of the annual revenue surplus or deficiency from the WM contract rate design. This cost/benefit fluctuates on an annual basis but results in the total revenue surplus being largely offset by the total revenue deficiency over the term of the contract (please refer to Appendix E, Schedule 11, Line 15 for the annual revenue (surplus)/deficiency).
- Delivery rate reductions associated with future load additions from success in market transformation related to the EEC expenditures.
- New facilities costs recovered from WM in a compression rate with little or no exposure to existing customers.
- NGV customers experience operating cost savings and reduced fuel volatility.

Non-Financial

- Emissions (particularly GHG) reductions.
- The use of natural gas as a substitute for traditional gasoline or diesel fuel supports the promotion of energy objectives and the intangible benefits that result from the promotion of both jobs and increased government revenue in British Columbia.
- Become self-sufficient in producing and consuming an energy form (natural gas) in a transportation application within BC.
- Intangible benefits generated by above-mentioned financial benefits, such as increased sense of security and reliability of energy supply made possible by lower delivery rates.
- Removal of fuelling infrastructure and secure supply barriers currently faced by NGV customers.

7.3 Please repeat the previous question from the point of view of the public and public interest in general and defined broadly.

Response:

Terasen Gas does not believe that it is possible to address this question in the same quantitative detail as it was able to respond to BCUC Confidential IR 1.7.2, but does not want to understate the benefits of this project and potential similar future projects to the public at large.

In Table 3-6 of the Application, TGI discusses how the WM Agreement supports the British Columbia's energy objectives, therefore benefiting the public at large.

Furthermore, increased demand for natural gas in British Columbia means that the province exports less of the raw material from the province and are able to use it to add value here in the province. Displacing imported oil products such as gasoline and diesel with natural gas helps the public at large meet British Columbia's energy objectives to achieve energy self-sufficiency in British Columbia. This displacement also results in less pollution, not only of dangerous GHGs as discussed in the Application, but also other dangerous environmental pollutants[3] that result from the use of gasoline and diesel but not from natural gas

[3] Section 3.3.2, Page 43, Paragraph 2, Bullet Point 1

Finally, British Columbia is a world leader in the production of NGV technology, despite the poor use thereof as compared to other jurisdictions[4]. The proposed project uses made-in-BC compressors from IMW Industries of Chilliwack and future LNG projects will likely use the engine designed by Westport Industries.

The Company believes that, for all of the reasons above, approval of the Application as proposed is in the public interest.

[4] Appendix A-2, Section 2

[redacted]

9.6 Please confirm that other ratepayers are at risk for any over-runs of estimated capital cost or operating and maintenance expenses. If not, please explain why not.

Response:

Confirmed. The overall facilities cost is relatively modest. The risk for any over-runs of estimated capital cost or operating and maintenance expense is minimal as a result of the detailed and comparative quotations TGI has undertaken to ensure a high degree of accuracy, and because TGI has procured the fuelling station costs (the largest project cost component) on fixed price contracts. Ratepayers will also enjoy the benefits of any cost savings that can be achieved as compared to the budgeted dollars included to determine the WM rate, in addition to the delivery rate benefit resulting from the increased throughput on TGI's system.

9.7 Please explain why TGI believes that it is appropriate for other ratepayers, rather than WM or the TGI shareholder, to bear the risk that capital costs and/or operating and maintenance costs will be higher than forecast?

Response:

TGI, in negotiating an agreement with WM, had to recognize WM's desire for certainty on the price paid as a trade off in obtaining a long term "take-or-pay" agreement. TGI expects that this will be a common demand of potential NGV customers, and precluding this type of arrangement would be a barrier to attracting customers. TGI believes that the WM Agreement would not have been possible without this risk allocation.

TGI believes that taking on this risk to customers under the WM Agreement is worthwhile for customers because it was necessary to obtain the benefit of the additional load associated with the WM Agreement. As shown in the financial analysis within Section 4 of Appendix A-1 to the Application, existing Terasen Gas customers stand to benefit from the development of projects such as the one proposed in this Application. The risk being assumed is modest. With respect to the unlikelihood of costs being materially higher than forecast for the WM agreement, please refer to our response to BCUC Confidential IR 1.9.5. In short, the benefit to customers exceeds the cost risk to customers, and thus the WM Agreement is appropriate from the perspective of customers.

9.8 Why was the WM Agreement not structured so that the Base Price is based on the actual cost of the Fueling Station?

Response:

The WM Agreement was structured in the manner it was (i.e. based on forecast costs, rather than actual costs) because the customer desired some security with respect to the price paid for fuelling services. The WM Agreement is a product of negotiation, and this was an important point for WM. Given the protections discussed in the response to BCUC Confidential IR 1.9.1, TGI believes that the risks borne by customers with respect to actual delivered costs are counterbalanced by other aspects of the WM Agreement.

9.9 To limit the risk to other ratepayers, should the rates for WM be based on the P90 estimate? If not, how can this risk that costs may exceed the estimates be dealt with?

Response:

No. The WM Agreement is the product of negotiation between commercial parties, and the individual aspects of the agreement cannot be considered in isolation. The fixed price included in the contract, and the avoidance of any cost uncertainty, was important to WM. TGI has secured other beneficial clauses in the WM Agreement. Risk mitigation measures that are included in the agreement are discussed in the response to BCUC Confidential IR 1.9.1.

In the future, for some customers it may be possible to negotiate provisions for rate adjustments should the capital cost of the project differ from the construction estimates by more than a defined amount. TGI believes that such discussions will be part of the commercial negotiations with each individual customer, and TGI should retain the flexibility to negotiate.

[redacted]

10.6 The foregoing Schedule 2 shows operating costs being reduced by Overhead being capitalized at a rate of 14 percent. Please explain how these amounts are recovered in the rate paid by WM. If not, please explain how TGI recovers these amounts.

Response:

The capitalized overhead identified on Line 17 of Schedule 2 is accounted for as a capital addition in the same year and is shown on Line 16 of Schedule 7 (Gross Plant in Service & Contributions in Aid of Construction).

The average TGI rate for depreciation expense is applied to the sum of the opening gross plant in service balance and one half of the current year additions of capitalized overhead to determine the annual depreciation expense embedded in the contract rate paid by WM. The earned return and income tax implications of the annual capitalized overhead additions and net plant in service balance are also included in the contract rate paid by WM.

As a result of a depreciation period for capitalized overhead that is greater than the contract term, the capitalized overhead net plant in service balance will not be fully recovered through the contract rate and any remaining balance will be recovered from WM through a contract extension or by TGI customers through the TGI delivery rate.

[redacted]

11.0 WM AGREEMENT – COST AND EXPENSES FOR OLD BC TRANSIT FACILITY

Reference: Exhibit B-1, Section 4 pp. 46-53; Appendix D-1

BC Gas' letter dated August 10, 1999 submitted a report on its Incentive Grant Agreement with BC Transit.

11.1 Please confirm that BC Gas (now TGI) once owned and operated a NGV compression and dispensing facility for BC Transit.

Response:

Confirmed.

11.2 Please compare the facility for BC Transit to the one proposed for WM.

Response:

The BC Transit facility was built approximately 20 years ago. The two facilities are similar in that they are both constructed for a return to base fleet for heavy-duty vehicles backed by a take or pay contract. Equipment similarity and differences are discussed below:

- BC Transit was constructed to serve a transit bus fleet that had a narrow refuelling window, therefore equipment was designed to allow for fast-fill of a large bus fleet. Originally, it was constructed with one refuelling dispenser and an additional fast fill dispenser added at a later date.
- WM, however, has a different refuelling requirement and can be served by a more economical time-fill refuelling set up with 22 individual hoses. As discussed, WM will have 20 CNG refuse trucks initially, therefore, there is refuelling redundancy with 2 extra hoses. This alleviates some of the O&M burdens that are experienced with fast fill setup where it is critical to respond within a certain time frame to repair in order for a fleet to complete their refuelling schedule.
- Both facilities are utilizing IMW compressors.
- BC Transit was built using early technology CNG equipment consisting of mostly prototype equipment packaged by IMW and BC Gas (TGI).
- WM is being constructed utilizing state of the art refuelling IMW compressors that now have over 25 years of service experience and incremental upgrades and are considered off the shelf proven technology.
- The BC Transit facility was not initially built with a gas dehydrator as they did not feel there was need for this piece of equipment at the time, while the WM facility will include

one in the initial design to remove any impurities that the natural gas source may have on that could affect NGV equipment when the gas is compressed at a high pressure.

In summary, the main difference between the two facilities is that the BC Transit facility was a fast- fill design utilizing early CNG equipment technology, whereas the WM facility is time-fill facility utilizing off the shelf proven CNG refuelling equipment.

11.3 What were the estimated and actual completed capital costs for the facility for BC Transit?

Response:

TGI is unable to respond to this question at this time. TGI will continue to investigate accounting records and previous submissions to provide a response as soon as possible.

11.4 For the length of time that the utility operated the facility for BC Transit, please provide a breakout for each year of the operating, maintenance, administration, overhead and all other expenses and charges recorded for this facility.

Response:

TGI is unable to respond to this question at this time. TGI will continue to investigate accounting records and previous submissions to provide a response as soon as possible.

12.3 The Application at p. 47 states that the terms of the WM Agreement were the product of negotiation and are thus fair to both parties. Please confirm that the parties being referred to are WM and TGI.

Response:

Confirmed. The WM Agreement is the product of negotiation and is thus fair to WM and Terasen Gas. The WM Agreement was, from the Company's perspective, negotiated to protect the best interests of TGI's existing customers.

12.4 Please discuss whether the WM Agreement is fair to other ratepayers of TGI, and if so explain why.

Response:

As detailed in our response to BCUC Confidential IR 1.2.1 and 1.9.7, the Company believes that the agreement is fair to all interested parties, including WM, our existing natural gas customers and TGI.

[redacted]

13.0 WM AGREEMENT – USE OF FUELING STATION BY OTHERS

Reference: Exhibit B-1, Appendix D-1, pp. 5, 6

13.1 Please confirm that the arrangement to permit use of the Fueling Station by others will be set out in a filed utility Rate Schedule or Tariff Supplement.

Response:

Terasen Gas and WM have not fully assessed whether to allow for the use of the Fuelling Station by others, and a business model for the use of the Fuelling Station by others has not yet been developed. Once developed, Terasen Gas will file the appropriate documents for Commission approval.

For instance, in the event that a business model for the public access is developed and an agreement can be reached to implement it and where Terasen Gas is the provider of the service, the Company will apply to the Commission for any and all necessary approvals, that would likely take the form of an application for a Rate Schedule and Tariff Supplement.

Should WM be the provider of the service, it is possible that only a Tariff Supplement for an existing Rate Schedule, e.g., Rate Schedule 6, would be filed.

In sum, a business model for the use of the Fuelling Station by others under the WM agreement has not yet been developed. Terasen Gas will file the appropriate documents for Commission approval if and when a business model has been agreed between both parties.

25.0 WM AGREEMENT – PERMITS AND APPROVALS

Reference: Exhibit B-1-1 Confidential Appendices, Appendix D, Section 3(b) Permits and Approvals, p. 3

"**3(b) Permits and Approvals**. Except as otherwise specified herein, all construction-related permits and other Approvals, if any, relating to the Fuelling Station shall be applied for and obtained by Terasen, at Terasen's sole expense."

25.1 Has Terasen obtained all of the "construction-related permits and other Approvals, if any, relating to the Fueling Station"?

Response:

Yes. TGI has obtained and is working under a BC Safety Authority permit. TGI has a construction license and is properly permitted to provide operations and maintenance support to the facility. TGI has internal staff with the Special Permit licensing required for project management operation and maintenance support for this facility.

No building permit was required as the station is being constructed on slab foundations with the compression equipment mounted on these slabs. No buildings are being erected – hence no building permit was required. Consultation with the City of Coquitlam has occurred to ensure that no building permit is required.

TGI also required approval from BC Hydro for placement of the filling posts on a part of the site that is on a BC Hydro Right of Way. Approvals were initially granted; however, BC Hydro has since expressed reservations regarding placement of filling posts along the east property line of the site. This Right of Way issue is in the process of being resolved. In light of the uncertainty regarding final approval of the Right of Way, TGI has decided to add an equivalent number of filling posts on a section of the lot that was being reserved for future expansion where the placement of the filling posts has been approved by BC Hydro.

25.1.1 Please name the Terasen cost centres responsible for obtaining the "construction- related permits and other Approvals, if any, relating to the Fueling Station". Also provide the cost incurred by each cost centre.

Response:

Permits and approvals are covered in the construction cost estimate as specific line items. Please see the response to BCUC Confidential IR 1.9.4. The costs are being managed as part of the project construction budget which is being managed by Terasen Gas' Project Management Office.

25.2 Please provide the fees related to obtaining the "construction- related permits and other Approvals, if any, relating to the Fueling Station".

Response:

The BC Safety Authority permit has been budgeted at $400.

In addition, a general approvals budget line item has been established at $480. For example, this line item is available to cover project coordination costs incurred to confirm with the City of Coquitlam that a building permit is not required.

In addition, there is a requirement for an electrical permit. Terasen Gas has subcontracted this to Morrison Electric and it is incorporated in their fixed price sub-project cost.

Diane Roy
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~~CONFIDENTIAL~~

December 20, 2010

British Columbia Utilities Commission
Sixth Floor
900 Howe Street
Vancouver, B.C.
V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

Re: Terasen Gas Inc. ("Terasen Gas")
Application for Approval of a Service Agreement for Compressed Natural Gas ("CNG") Service and for Approval of General Terms and Conditions ("GT&Cs") for CNG and Liquified Natural Gas ("LNG") Service (the "Application")

Response to the B.C. Sustainable Energy Association ("BCSEA") Information Request ("IR") No. 1

On December 1, 2010, Terasen Gas filed the Application as referenced above. In accordance with Commission Order No. G-181-10 setting out the Regulatory Timetable for the review of the Application, Terasen Gas respectfully submits the attached response to BCSEA IR No. 1 on a Confidential basis due to the commercial sensitivity of information contained in many of the responses.

If you have any questions or require further information related to this Application, please do not hesitate to contact Shawn Hill at (604) 592-7840.

Yours very truly,

TERASEN GAS INC.

Original signed by: Shawn Hill

For: Diane Roy

Attachment

cc (e-mail only): Erica Hamilton, Commission Secretary, BCUC
Registered Parties who have executed the Undertaking of Confidentiality

[redacted]

1.5 Will the 20 CNG vehicles bear signage indicating they are fueled by natural gas?

Response:

Yes, the vehicles will bear signage indicating they are fuelled by natural gas, subject to approval by WM.

In addition, the vehicles will bear a compliance label indicating they are fuelled by CNG, as regulated by Transport Canada.[2]

[2] Transport Canada, Motor Vehicle Safety Regulations. http://www.tc.gc.ca/eng/acts-regulations/regulations-crc-c1038-sch-iv-301.2.htm

[redacted]

4.2 Does WM have a contractual commitment to provide service using CNGVs as of a certain date? If so, please explain.

Response:

TGI is not aware of any commitment by WM to its customers to use NGVs on its service routes.

WM will however be differentiating its service offering from operators of conventional diesel trucks. It is anticipated that the competitive advantage of operating NGVs will be exploited by WM in its future contract negotiations with its customers. WM's environmental focus and experience with NGVs was a major factor in TGI's selecting WM as a lead customer for the NGV program.

[redacted]

4.4 Given Terasen's contact with WM leading to the WM Agreement began in May 2010, and commencement of fueling station construction in November 2010, why did Terasen wait until December 7, 2010 to file the application for Commission approval?

Response:

As explained in the Application, the WM Agreement is an illustration of TGI's proposed rate structures and demonstrates that the proposed rate structures can be considered by a potential NGV customer as fair and reasonable. TGI considered it important to have that illustrative agreement ready before filing an NGV Application. The negotiation of a commercial agreement like the WM Agreement is a lengthy process as all the terms and conditions proposed in the agreement individually and as a whole must be acceptable to both parties. In order to propose the rate structures in the WM Agreement, Terasen Gas had to initiate engineering design and costing work regarding the station so as to have appropriate inputs into the commercial negotiations. TGI had to wait until the terms of the WM Agreement were settled before filing the WM Agreement. The WM Agreement was not finalized and executed until December 3, 2010, which was one day after the NGV Application was filed. TGI thus believes that it filed the NGV Application, and in particular sought approval of the WM Agreement, at the earliest possible date.

4.5 Has Terasen given WM any assurances regarding the timing of the Commission's decision regarding approval of the WM Agreement?

Response:

TGI has advised WM that it will provide best efforts to secure required regulatory approvals for the Agreement by January 24th, 2011, and WM is aware of the regulatory process. However, WM is aware that the Commission retains full control over its own process and that TGI is not in a position to guarantee the timing of the decision on the WM contract.

[redacted]

[redacted]

5.5 Is TGI considering further ITEEC incentive funding for WM? If so, please provide whatever information is available.

Response:

To qualify for further EEC incentive funding, WM will have to submit a further application. To date no such application has been received.

5.6 What other funding or subsidies is TGI aware of that WM has or will receive regarding this NGV project?

Response:

TGI is not aware of any further funding or subsidies being made available to WM for purchasing the NGVs. In addition, TGI has included a provision in the agreement that restricts WM from stacking funding towards the purchase of the twenty vehicles (See Section 8c of the Agreement in Appendix D).

5.7 Will WM's initial 20 CNG vehicles be used to supply service that is contractually required to be provided by CNG or other alternative fuel vehicles? If so, please provide the details.

Response:

To the extent of TGI's knowledge, WM is under no contractual obligation with customers for waste collection services to use CNG or alternative fuel vehicles. Such obligations are not presently part of general practice in the commercial waste collection business because NGV based service has not been implemented by customers in the past for various reasons.

5.8 Does the size of the TGI incentive to WM for the purchase of the 20 CNG vehicles reflect the expected fuel cost savings as well as the difference between the price of diesel and CNG vehicles? If not, why not?

Response:

The size of the incentive is strictly related to the capital cost of natural gas trucks versus the capital cost for diesel trucks. The incentive is designed to remove the initial capital cost barrier associated with purchasing NGVs and to initiate market transformation. Without incentives the NGV market is not progressing in BC. To initiate the market transformation the incentive makes the initial purchase of the natural gas vehicle comparable to the cost of the diesel vehicle. The customer benefits from the fuel cost reductions and is thereby motivated to purchase the NGV. An incentive equivalent to 100% of the differential is required at this stage of market development to overcome perceived operating risks associated with NGVs. As natural gas trucks become more accepted in this market Terasen Gas will gradually reduce the percentage funding in recognition that the fuel cost reductions provide a business case for the customer.

While the size of the incentive is related to the capital cost differential of natural gas trucks versus diesel trucks, the incentives are provided based on evaluations of projects that will help achieve the Commission's approved portfolio TRC test. The TRC test factors in the expected fuel cost savings between diesel and natural gas and ensures that qualifying projects yield benefits to customers.

5.9 Is TGI's incentive funding to WM for the purchase of the 20 CNG vehicles at risk of being a stranded asset if the Commission does not approve the WM Agreement?

Response:

Terasen Gas believes it has sufficient protection built into the agreement to ensure that the vehicles continue to operate in BC generating Total Resource Cost benefits. If the WM agreement is not approved, however, there may be a possibility of this investment being stranded. The resolution would depend on whether WM could obtain compression service from another provider (the EEC funding is not tied to obtaining compression service from TGI), and failing that, negotiations with WM to determine how to unwind the agreement.

6.0 Reference: Exhibit B-1, Chapter 4 The Waste Management Agreement

"The agreement contemplates completion of the installation of fueling station by January 24, 2011." [p.47]

6.1 When is the installation of the fueling station expected to reach completion?

Response:

At this time, the construction of the fuelling station is on track to meet its anticipated completion date of January 24, 2010.

6.2 If the fueling station is not completed by January 24, 2011, how much, if any, cost would accrue to the account of TGI's ratepayers?

Response:

Terasen Gas is uncertain as to the intention of the question but will seek to answer the question on the understanding that it generally relates to what risk exists to Terasen Gas ratepayers in the event the station is not completed by January 24, 2011.

The confidential WM Agreement does not contain specific financial penalties for non-performance in the unlikely event that Terasen Gas is unable to provide the fuelling station TGI has committed to providing by January 24^{th}, 2011. WM is however relying on the completion of the station and BCUC approved contract in order to use its NGV trucks in its commercial operation. Terasen Gas understands that the current diesel trucks are to be re-deployed to other locations and would thus be unavailable to perform the work intended for the NGV trucks.

7.0 Reference: Exhibit B-1, Chapter 4 The Waste Management Agreement

"4.3.4 OTHER

There is also a provision in the WM Agreement to allow for public access to the fueling station, pending a separate, negotiated agreement between WM and TGI, and subject to any necessary future Commission approvals. The intention of this provision is to preserve the potential to allow public access to the fueling station as a secondary market. This approach would encourage increased utilization of the fueling station facilities." [p.49]

"TGI has previously offered a regulated NGV service. The Company's past NGV initiatives, which ultimately failed to gain lasting traction, included NGV fueling stations and targeted light-duty NGV vehicles served by a public refueling network. By contrast, TGI is now targeting return to base fleets of buses, heavy-duty and vocational trucks." [p.2]

7.1 What future Commission approvals would be necessary regarding the possible separate agreement between TGI and WM concerning public access to the fueling station?

Response:

Terasen Gas and WM have not fully assessed whether to allow for the use of the Fuelling Station by others, and a business model for the use of the Fuelling Station by others has not yet been developed. Once developed, Terasen Gas will file the appropriate documents for Commission approval.

For instance, in the event that a business model for the public access is developed and an agreement can be reached to implement it and where Terasen Gas is the provider of the service, the Company will apply to the Commission for any and all necessary approvals, that would likely take the form of an application for a Rate Schedule and Tariff Supplement.

Should WM be the provider of the service, it is possible that only a Tariff Supplement for an existing Rate Schedule, e.g., Rate Schedule 6, would be filed.

In sum, a business model for the use of the Fuelling Station by others under the WM agreement has not yet been developed. Terasen Gas will file the appropriate documents for Commission approval if and when a business model has been agreed between both parties.

7.2 What types of NGVs would be able to use the proposed fueling station at WM's Coquitlam yard on a public access basis? How many NGVs vehicles currently exist that would be able to use the WM Coquitlam refueling station?

Response:

In the event that Terasen Gas and WM were to reach an agreement to allow other vehicles access to refuelling services, various vehicle types could potentially be refuelled at the facility with sufficient adaptation of the assets presently being installed. The proposed station is structured in a manner that would physically allow for other similar vehicles to refuel on the WM site without any adaptation were that agreed to by all parties. However, the station would require adaptation in order to allow access by other types of vehicles such as smaller passenger NGVs. The Company believes, however, that it is premature to speculate on what types of vehicles, and how many vehicles, might be agreed to.

Please also see the response to BCSEA IR 1.8.1 and 1.8.2.

7.3 Please confirm that TGI is not now targeting light-duty NGV vehicles; otherwise please explain.

Response:

While TGI is now primarily targeting return to base fleets of buses, heavy-duty and vocational trucks, the Company believes that the same business model and similar rate structure could also be used for natural gas fuelling services to larger fleets of light duty vehicles where the fuelling can be served from central fuelling locations (e.g. return to base fleets such as Terasen Gas operates). However, TGI confirms that at this time, it is not targeting light-duty NGV vehicles.

As stated in Section 2.1.1 of the Application, TGI is not proposing to provide fuelling services to public LDV markets through public fuelling network as provided under the previous business model operated by BC Gas (now Terasen Gas).

9.0 Reference: Exhibit B-1, 1. Introduction

"TGI's provision of regulated CNG and LNG Services as proposed represents an opportunity to promote the NGV market to the benefit of the Company's customers where the market has, thus far, failed to gain traction. TGI's provision of these regulated services is complementary to, and does not preclude, the involvement of other market participants." [p.3

9.1 What other market participants is TGI referring to here?

Response:

In the referenced text Terasen Gas was not referring to any specific "market participants" but instead referring generically to any other companies that may seek to provide NGV refuelling services. The intention of the referenced text was to make clear that approval of the Application as filed would not preclude other companies from potentially offering similar services.

11.0 Reference: Exhibit B-1,

"Incentive funding34 will continue to be a driver to reduce the initial incremental capital cost across the entire target market segments excluding passenger cars;" [p.25]

"34 From Terasen Gas EEC Innovative Technologies and potential government sources." [FN 34, p.25]

11.1 Does TGI anticipate that all of the anticipated incremental future transportation natural gas load that it serves, excluding passenger cars, will serve vehicles purchased with incentive funding from TGI? If not, please describe when and under what conditions TGI intends to phase out incentive funding for NGVs?

Response:

TGI anticipates incentive funding will be required to stimulate NGV market adoption over the near-term. TGI does not believe incentive funding for heavy duty, return-to-base fleet operators will be required over the long-term.

The purpose of the EEC program funding as approved in TGI and TGVI recent Revenue Requirements is to transform the market and advance new low-carbon technologies such as NGVs. TGI believes that the need for EEC funding incentives will decline as NGVs gain greater share of the market and the capital cost premium[9] for NGVs decline due to larger sales volumes. The price premium barrier which fleet operators are faced with today are not anticipated to be as challenging in the future.

Depending upon market conditions, TGI may consider reducing vehicle reimbursement from its present level of 100% in years beyond 2011. However, due to the variability of adoption of new technologies, TGI cannot specifically determine when market transformation will occur and, hence when incentive funding should be phased out for NGVs.

[9] On page 28 the Application, Terasen Gas has provided a table which summarizes the typical price premiums for NGVs.

11.2 What are the "potential government sources" of incentive funding for NGVs that TGI refers to here?

Response:

"Potential government sources" refer to potential funding from the BC Provincial Government. NGV adoption makes sense for the Province as it contributes to the achievement of GHG emissions reduction targets, while making a strong revenue contribution to the Provincial economy through NG production royalties.

TGI, along with a group of NGV advocates including IMW, Cummins-Wesport, Westport innovations and Encana, requests BC Provincial Government support for NGV incentive programs. The joint submission was favourably received from representatives of various provincial government ministries; however, action has been delayed as a result of recent changes in the BC Government. The group plans to resubmit a support application in the new budget year (post March 2011).

Terasen Gas

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~~**CONFIDENTIAL**~~

December 29, 2010

British Columbia Utilities Commission
Sixth Floor
900 Howe Street
Vancouver, B.C.
V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

Re: Terasen Gas Inc. ("Terasen Gas" or "TGI")
Application for Approval of a Service Agreement for Compressed Natural Gas ("CNG") Service and for Approval of General Terms and Conditions ("GT&Cs") for CNG and Liquified Natural Gas ("LNG") Service (the "Application")

Response to the British Columbia Utilities Commission ("BCUC" or the "Commission") Confidential Information Request ("IR") No. 1 (Exhibit B-3)

Errata to Question 7.1 and 7.2 and Response to Questions 11.3 and 11.4

On December 1, 2010, Terasen Gas filed the Application as referenced above. In accordance with Commission Order No. G-181-10 setting out the Regulatory Timetable for the review of the Application, on December 20, 2010, Terasen Gas submitted its response to BCUC Confidential IR No. 1 (Exhibit B-3).

Subsequent to filing the response to the BCUC Confidential IR No. 1, TGI discovered an error in the response to BCUC Confidential IR 1.7.1 necessitating an errata filing to correct the error. The correction pertains to the expected demand charge and basic charge revenue from the WM Agreement. In the original response, TGI applied a generic formula to determine the annual demand volume rather than the actual expected annual demand volume based on the WM Agreement. TGI has revised the demand revenue calculation to be based on the actual expected annual demand volume as shown on page 2, Line 24 of the Revised Attachment 7.1. Furthermore, TGI inadvertently excluded the annual revenue from the monthly basic charge and administration fee from the original analysis and has revised the calculation to include this revenue as shown on page 2, Line 22 of the Revised Attachment 7.1. The impact of the two changes is an increase to the forecast annual delivery rate benefit to existing customers of approximately $24 thousand per year.

The table below summarizes the impact of the two changes to the annual delivery rate benefit to existing customers:

Terasen Gas

[redacted]

As a result, it is necessary also to correct the response to BCUC Confidential IR 1.7.2.

The corrections noted above to the responses to BCUC Confidential IRs 1.7.1 and 1.7.2,are contained in the attached revised pages 24 and 25, and Attachment 7.1 of Exhibit B-3.

At the time of filing its response to BCUC Confidential IR No. 1, Terasen Gas also noted that it was unable to respond to BCUC Confidential IRs 1.11.3 and 1.11.4. After further investigation of accounting records and previous submissions, the responses to BCUC Confidential IRs 1.11.3 and 1.11.4 have now been completed and are also attached.

If you have any questions or require further information related to this Application, please do not hesitate to contact Shawn Hill at (604) 592-7840.

Yours very truly,

TERASEN GAS INC.

Original signed:

Diane Roy

Attachment

cc (e-mail only): Registered Parties who have executed the Undertaking of Confidentiality

[redacted]

7.2 In the context of the WM Agreement as proposed, please provide a complete summary of all costs and benefits, both financial and non-financial that will be realized by other customers of TGI.

Response:

The following is a summary of the financial and non-financial benefits and costs that will be realized by all TGI customers in the context of the WM Agreement.

Financial

- Lower delivery rates, all else equal, from the incremental delivery margin from the increased throughput on TGI's natural gas system (estimated at approximately $40 thousand per year). This benefit will grow to the extent that WM volumes exceed minimum contract demand.
- Lower delivery rates, all else equal, from the incremental contract revenue from WM volumes in excess of minimum contract demand.
- Delivery rate impacts of the annual revenue surplus or deficiency from the WM contract rate design. This cost/benefit fluctuates on an annual basis but results in the total revenue surplus being largely offset by the total revenue deficiency over the term of the contract (please refer to Appendix E, Schedule 11, Line 15 for the annual revenue (surplus)/deficiency).
- Delivery rate reductions associated with future load additions from success in market transformation related to the EEC expenditures.
- New facilities costs recovered from WM in a compression rate with little or no exposure to existing customers.
- NGV customers experience operating cost savings and reduced fuel volatility.

11.3 What were the estimated and actual completed capital costs for the facility for BC Transit?

Response:

The BC Transit Demonstration Project consisted of two phases.

Phase 1:

In 1991 the Commission authorized BC Gas to invest in a refueling station at Port Coquitlam, plus a contribution towards BC Transit's cost of 5 natural gas bus conversions.

The estimated and actual capital costs for Phase 1 were as follows:

	Estimated	Actual
Direct Costs	449	787
Overhead Capitalized	24	39
Total Direct Cost	473	826
Less Contributions	(158)	(291)
Net Capital Expenditure	315	535

These capital costs were recorded in asset class 467 and depreciated over 20 years.

Phase 2:

In 1994, the Commission authorized BC Gas to provide an incentive grant of $1.25 million to B.C. Transit for purchasing 25 new, factory-built, full sized, natural gas buses ($50,000 per bus). These grants were recorded in a deferral account and amortized over a 10 year period.

TGI notes that 18 years have passed since the installation of the BC Transit Facility, and the two facilities are different in several aspects as discussed in the response to BCUC IR 1.11.2.

11.4 For the length of time that the utility operated the facility for BC Transit, please provide a breakout for each year of the operating, maintenance, administration, overhead and all other expenses and charges recorded for this facility.

Response:

Although TGI reported on the total costs for the NGV program in its annual reports, it did not capture the information by individual facility. However, TGI can confirm that the depreciation expense for the BC Transit compression facility would have been approximately $25,000 per year and the amortization expense for the BC Transit grants deferral on a net-of-tax basis would have been approximately $68,000 per year. In addition, the 1994 Phase 2 application shows that administrative costs were projected at approximately $10,000 per year. As approved by BCUC Order No. G-143-99, the BC Transit assets were disposed of effective January 1, 2000.