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September 21, 2009

VIA ELECTRONIC MAIL

British Columbia Utilities Commission
6th Floor, 800 Howe Street
Vancouver, B.C. V6Z 2N3

Attention: Erica M. Hamilton, Commission Secretary

Dear Sirs/Mesdames:

Re: Terasen Gas Inc. ("Terasen") Application for a Certificate of Public Convenience and Necessity for the Customer Care Enhancement Project Insourcing of Customer Care Services and Implementation of a New Customer Information System Project No. 3698561

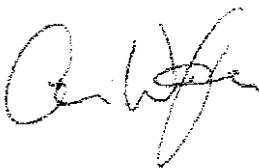
We are counsel for the Commercial Energy Consumers Association of British Columbia ("CEC"). Attached please find the first set of Information Requests of the CEC pertaining to the above-noted matter.

A copy of this letter and attached Information Requests has also been forwarded to Terasen and the intervenors by e-mail.

Should you have any questions regarding the foregoing, please do not hesitate to contact the writer.

Yours truly,

OWEN BIRD LAW CORPORATION



Christopher P. Weafer

CPW/jlb/Enclosure
cc: CEC
cc: Terasen
cc: Registered Intervenors

Commercial Energy Consumers Association of British Columbia

Information Request # 1

Terasen Gas Inc. (“Terasen”) Application for a Certificate of Public Convenience and Necessity for the Customer Care Enhancement Project Insourcing of Customer Care Services and Implementation of a New Customer Information System
Project No. 3698561

1. Reference Exhibit B-4, Page 8, Project Cost and Rate Impact and Exhibit B-4, Page 118 and 119, Options for Moderating Rate Impact

Terasen Gas recognizes that incremental costs result in rate impacts and as a result seeks the most cost-effective solution for customers. In the case of significant Project expenditures, the timing of their recovery in rates, especially as a result of short depreciation periods, can result in higher than normal rate increases over the short-term. The implementation of the new CIS platform for example would generally be treated as software and depreciated over eight years. This treatment causes an increase in rates over the short term that could be smoothed by increasing the depreciation period by two years to ten. Equally, rates could be smoothed by using a deferral mechanism to recover costs from customers over a longer period of time, such as 15 years. These options for moderating rate impacts associated with the Project are examined in greater detail in Section 6 of this Amended Application.

Page 8

Terasen Gas commissioned Gannett Fleming to complete a depreciation review of CIS platforms and the Company’s planned new CIS to determine if a change in the standard eight year depreciation for software is merited. An increase in the depreciation may be merited given that the service life of this type of software is significantly longer than most other types of software. In its review, Gannett Fleming recommended considering increasing the depreciation for the new CIS platform by two years to ten.

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Although Terasen Gas has not assumed a ten year depreciation period for the new CIS platform in its cost of service calculation, this change is an option for the Commission to consider using as a tool for smoothing the impact on customers’ rates that is caused by the implementation of the Project. If this change in depreciation is viewed as beneficial by the Commission, the average annual change at the burner tip for a typical residential customer on the BC Mainland would decrease from 0.23% to approximately 0.03% over the ten year period starting in 2012.

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An alternate method for moderating the impact on customers’ rates is the use of a deferral mechanism. Recovering costs over a 15 year period using deferral treatment for example, would result in a decrease in the average annual change at the burner tip for a typical residential customer on the BC Mainland from approximately (0.6%) to (0.5%) over the 15 year period starting in 2012.

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- 1.1. Is Terasen open to having costs of the CCE project spread out over a longer period than it has proposed in the CPCN application?
- 1.2. Does Terasen see any reason that it would not be in the public interest to spread the costs of the CCE project out over a longer period than it has proposed in the CPCN?
- 1.3. Does Terasen see any reason why the expected useful life cycle of the investment in the CCE project could not be considered as one of the options for spreading costs and reducing rate impacts?
- 1.4. Does Terasen expect that the useful life cycle for the CCE platform investment will be 20 years or greater and is that why this period has been used for financial evaluation of the CCE investment?
- 1.5. Is Terasen prepared to negotiate a longer term period for the amortization and collection of the CCE project costs?

2. Reference Exhibit B-4, Page 2, Executive Summary

1.1 Executive Summary

The customer care function of Terasen Gas is a vital part of providing service to our customers, and consequently represents a core element of our business. It is the main point of interaction between customers and the Company in all aspects of our business. Providing customers with sustained service excellence rests on Terasen Gas consistently being able to offer a range of communication options, billing and payment alternatives, and additional product and service options. It also requires the ability to manage communications related to outages and restoration of service, provide accurate and timely monthly bills, promptly address customer concerns, and ensure the Company's representatives have appropriate product and service knowledge and regional understanding.

In order for the Company to continue to serve customers well, it needs to adapt and change as customers require new and different services and seek to interact with Terasen Gas through a broader range of communication channels. Underpinning this ability to provide service excellence is a technology platform, referred to as a Customer Information System, or CIS. This platform is used to enable the business processes needed to deliver customer care services. The ability of Terasen Gas to respond to evolving customer service needs is essential to maintaining service excellence in the future. We have undertaken an extensive review of the

- 2.1. Given the evolution of a range of customer services, customer communication options and communication channels does Terasen believe that it may be useful to differentiate its customer market between those wanting or needing more sophisticated services and those just wanting a basic service?
- 2.2. Are there incremental costs to providing a range of services to customers beyond those required for basic service?
- 2.3. Does Terasen believe that there is a set of services, options and channels beyond the basic service for which some subset of customers may be willing pay?
- 2.4. Would Terasen consider implementing differentiated pricing for those using services beyond those basic customer service requirements for all customers?
- 2.5. Could Terasen support, with the new SAP CIS software, differentiated pricing for specific services beyond the basic services?

- 2.6. Do other industries, such as the ones Terasen compares itself to in regard to customer satisfaction, support differentiated pricing of services so that customers wanting a basic inexpensive service can get the service?

3. Reference Exhibit B-4, Page 3 and 4, Drivers for Change

Appendix J). When service has fallen short of contractual standards, which has happened more frequently of late, CustomerWorks LP has been required to pay contractual penalties to Terasen Gas. The payment of penalties to Terasen Gas accompanied by service shortfalls is not a sustainable model going forward.

- 3.1. Please explain the rationale for contractual standards and penalties in the current agreements with the current service providers.
- 3.2. What is not sustainable going forward, the service shortfalls or the payment of penalties when service falls short?
- 3.3. Did CustomerWorks LP respond when its service levels fell short and it was subject to penalties and were the problems fixed?
- 3.4. Given that the contractual standards and penalties provided a discipline, which Terasen was able to exercise on the service provider, what discipline will prevail over these same services and functions once the CCE project is implemented?
- 3.5. Is Terasen expecting to be subject to the same standards and penalties going forward should its service fall short?

4. Reference Exhibit B-4, Page 5 and 6, Drivers for Change

As a result of these three developments, Terasen Gas is at a decision point similar to where we were in 2001, but facing a different set of circumstances, challenges and needs. Industry practice has evolved, due in part to advances in CIS products. Restructuring the customer care function at Terasen Gas is necessary to successfully meet the needs of our customers and the energy market into the future. This Project is critical to customers and our business. We are well positioned to deliver it.

- 4.1. Please describe the quantitative consequences of not making this CCE investment now and instead continuing with current arrangements and incremental improvements to the current arrangements for an additional 3 or 7 years.
- 4.2. What quantitative critical consequences does Terasen project for customers in the event this CCE investment is not made?
- 4.3. What quantitative critical consequences does Terasen project for its business in the event this CCE investment is not made?

5. Reference Exhibit B-4, Page 7, Alternatives Analysis

- Customers will benefit from the expanded functional capabilities inherent in the SAP Utilities Customer Relationship and Billing module and proposed changes to service metrics in the call centre and billing and back office operations.

5.1. Please define specifically the customer benefits which will be received upon implementation and those which will be developed post implementation.

5.2. What is the quantitative value of the customer benefits being captured upon implementation and what is the potential quantitative value of those customer benefits which may be captured post implementation.

- The integrated CIS solution and direct management of insourced activities that Terasen Gas plans to implement will result in greater control over end-to-end business processes that will be managed internally using the Company's own resources. This will also allow TGI to proactively and cost effectively establish and adjust service quality metrics to meet customer needs and expectations as they change.

5.3. Will this greater control, proactive adjustment of service quality and ability to meet customer needs be more cost effective than the projected cost for managing customer service under the current model?

5.4. What is the expected quantitative improvement from greater control, proactive adjustment and ability to meet customer needs and expectations?

- The direct management of call centre and billing staff will allow for greater flexibility in developing and implementing future service changes and in providing customized staff training and education to allow representatives to better understand and serve our customer needs within British Columbia.

5.5. What are the future service changes, which Terasen expects to meet with direct management of call centre and billing staff?

5.6. What are the quantitative benefits of meeting future service changes with direct management of call centre and billing staff?

- The new CIS platform, the SAP Utilities Customer Relationship and Billing module, identified through our selection process, will integrate with the Company's existing SAP enterprise application architecture and will leverage existing knowledge and experience related to TGI's existing broader suite of SAP applications.

5.7. Please explicitly define the leverage expected from the existing SAP suite.

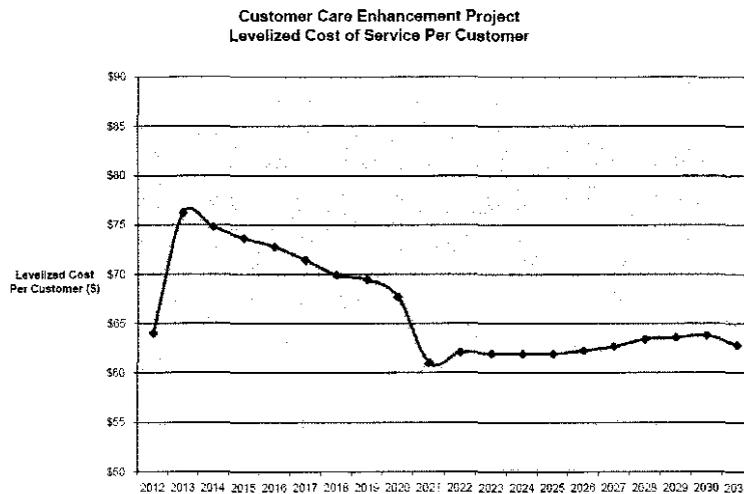
5.8. What are the expected quantitative customer benefits from leveraging the existing SAP suite?

- The implementation of an industry standard contact centre technology suite which supports alternate communication channels including voice, email and online chat will provide options to customers as well as a tool set that supports cost reductions over the long term as a result of increased self-serve.

- 5.9. Please define each of the communications channels Terasen intends to support with its contact centre technology suite.
- 5.10. What is the expected cost structure per customer using each channel that Terasen expects to support for each channel?
- 5.11. Please define each of the support cost reductions which Terasen expects to pursue and capture over the long term as a result of increased self-service?
- 5.12. What are the expected quantitative benefits of each of the support cost reductions which Terasen intends to capture over the long term as a result of increased self service?
- 5.13. When does Terasen intend to schedule capturing these support cost reductions?
- 5.14. How does Terasen intend to capture these support cost reductions?
- 5.15. How much additional investment does Terasen expect will be required to capture these support cost reductions?

6. Reference Exhibit B-4, Page 7 and 8, Rate Impact and Appendix K Financial Schedules

On a levelized basis over a 20 year period starting in 2012, the changes implemented as part of this Project result in an annual cost of \$67.50 per customer for the new customer care delivery model, revised from \$73.00 as reported in the June 2, 2009 Application. This compares to the notional levelized costs of \$71.70 for the current arrangement, a decrease of \$4.20.



- 6.1. Is the graph above the nominal year by year cost of service expected by Terasen as opposed to the levelized cost of service per customer? How should the paragraph explaining the levelized annual cost as \$67.50 per customer be related to this graphical representation?

- 6.2. Please confirm that none of the annual cost/benefit projections for the cost of service per customer contain any of the future benefits which Terasen intends to build on top of this CCE project platform.
- 6.3. Please confirm that Terasen expects the life cycle, for cost of investment in the SAP technology platform and in the transition to insourcing various functions, to be at least 20 years.
- 6.4. Does Terasen expect that it may be possible that the life cycle, for these investments, could be greater than 20 years?
- 6.5. Page 114, Note 35, confirms that the analysis is done using Terasen's existing ROE and Capital Structure. Please provide the Appendix K Financial Schedules and Graph assuming the ROE and Capital Structure for which Terasen is currently applying to the BCUC for approval.

7. Reference Exhibit B-4, Page 61 and 62 , Analysis and Alternatives

Having made the decisions to own the CIS software, and to select a commercial off the shelf solution, Terasen Gas conducted an extensive process to determine which commercial off the shelf product will best meet our existing and future CIS needs. Terasen Gas assessed the CIS software offered by Oracle, SAP and Peace. For the reasons outlined in this section, Terasen Gas believes that the SAP system is the most cost-effective.

Page 61

As discussed above, Terasen Gas narrowed the potential new CIS product providers to pursue through an RFP process down to two companies: SAP and Oracle. These two providers are the industry leaders in terms of providing highly configurable CIS solutions with a proven history of ongoing core development and continued investment in their products. Both organizations also have significant installed client bases and have articulated future development plans related to their core products that Terasen Gas believes will meet our evolving business requirements.

Page 62

- 7.1. What certainty does Terasen have that the purchased CIS product will continue to be supported for an extended life cycle and that Terasen will not have to repurchase a future replacement version?
- 7.2. Does Terasen expect that the extensive installed customer base for the CIS product selected will likely require extensive ongoing support of the software purchased?
- 7.3. How far out into the future do the development plans for the SAP product extend?

8. Reference Exhibit B-4, Page 67, Analysis and Alternatives

SAP is a robust, industry recognized leader in the CIS space with over 600 utility installations worldwide representing a 66% market share of the global CIS market and 41 new sales in the last year (according to SAP). The SAP software met Terasen's functional and technical requirements and has the capability to support future functionality identified by Terasen for no additional cost of the software. The SAP environment is well understood at Terasen Gas with ten plus years of experience with the various products, the company, and the support ecosystem. With an SAP solution, fourteen separate interfaces with the existing CIS solution become redundant, significantly simplifying the overall solution while taking advantage of the integrated nature of the SAP solution. This also allows for the elimination of reconciling meter data between SAP and a separate customer system.

8.1. Does Terasen believe that the dominant software solution in the market place brings with it an additional layer of certainty and security that the solution is durable and sustainable?

8.2. What has Terasen calculated as the quantitative value of the matching of the SAP CIS solution with its SAP environment for its other enterprise software?

9. Reference Exhibit B-4, Page 110, Project Implementation Costs

Table 6.1: Project Implementation Costs

1.	Capital					
2.	CIS Software	6,080	430	4,740	910	-
3.	CIS Implementation & Maintenance	58,190	590	21,150	30,340	6,110
4.	Call Centre	33,230	560	3,380	27,230	2,060
5.	Billing & Back Office Operations	10,980	260	130	8,560	2,030
6.	Subtotal Capital	108,490	1,840	29,400	67,040	10,200
7.	AFUDC	3,540	-	900	2,640	-
8.	Total Capital	112,020	1,840	30,300	69,680	10,200
9.	O&M (Deferred)	-	-	-	-	-
10.	CIS Software	-	-	-	-	-
11.	CIS Implementation & Maintenance	-	-	-	-	-

12.	Call Centre	7,150	-	50	7,100	-
13.	Billing & Back Office Operations	2,930	-	20	2,910	-
14.	Total O&M (Deferred)	10,080	-	70	10,010	-
15.	Total Project Costs	122,100	1,840	30,370	79,690	10,200

9.1. Does Terasen believe that there is a risk that the project costs could exceed the estimates it has provided in the CPCN Application?

- 9.2. Does Terasen believe that the proposed CCE project would be cost effective for customers of Terasen at any level of cost (i.e. is there likely some limit of cost at which the project would not be cost effective)?
- 9.3. Does Terasen believe that the customers should bear the risk of some potential variability in the project costs?
- 9.4. Does Terasen believe that the risk the customers should bear should be unlimited?
- 9.5. Is Terasen prepared to negotiate some limit to the cost risk customers might bear?

10. Reference Exhibit B-4, Page 21, Project Description and Schedule

from other SAP CIS implementations from the viewpoint of SAP global support. By having global support assist in identifying key decisions in the design, build and test phases of the Project that could have an impact post go-live, will significantly mitigate the risk of post-implementation issues that other utilities have encountered in their implementations and allows for a smoother transition to support. SAP will also provide additional expertise in how to optimize the SAP solution during various phases of the Project.

- 10.1. Please identify the post implementation issues that other utilities have encountered in their implementations.
- 10.2. Please quantify the magnitude of the cost implications of the issues other utilities have encountered.

11. Reference Exhibit B-4, Page 112, Project Ongoing Annual O&M Costs

Table 6.2: Projected Ongoing Annual O&M Costs for 2012

Cost Component		5000s Total
1.	Customer Advocacy	250
2.	Call Centre	12,350
3.	Billing Operations	5,910
4.	Outsourced Services	20,310
5.	IT Support	2,660
6.	HR Support	700
7.	Facilities Support	3,330
8.	Management and Administration	750
9.	Total	46,260

- 11.1. Does Terasen expect there is a risk that ongoing annual operating and maintenance costs will exceed its estimates?
- 11.2. Does Terasen believe that the CCE project would be cost effective for customers at any level of ongoing annual O&M costs?

- 11.3. Does Terasen expect that customers should bear the risk of any cost variability with respect to the cost estimates provided for the CCE project approval?
- 11.4. Would Terasen be prepared to negotiate some form of limits to the ongoing annual O&M costs to limit the cost risk customers might bear?

12. Reference Exhibit B-4, Page 42 and 44 and 45, Project Justification and Page 81, Analysis and Alternatives

With today's continuing expansion of communication channels, customer preferences for interacting with service providers are shifting. A study conducted by Convergys in the U.S. found customers "preferring automated channels have doubled in the last four years, with 55% of the population preferring automated resolution to waiting to speak with someone on the phone."⁸ While our customers' preferred method for interacting with the Company today continues to be reaching a live agent (first choice for 31%), this is followed by 24% of customers whose first preference is to interact with Terasen Gas via the Company's website.

Page 42

- 12.1. Please confirm that Terasen has modelled and costed its call centre operations based on handling all customer service through call centre personnel.
- 12.2. Has Terasen analyzed how much of its call volume may be amenable to being handled through automated service and automated channel delivery?
- 12.3. Would a move by the Terasen customers to using automated channels for finding resolutions to their customer service issues potentially reduce the requirement for call centre staffing?

It was reported in 2000 that two thirds of all utility customer call centre transactions fall into the following categories: transfer service or turn service on/off, check account balances, and to make special arrangements to pay account balances¹². Just over 50% of Terasen Gas call centre transactions fall into these categories today, which represents a material shift.

Page 44

- 12.4. Does Terasen believe that this 50% of transactions is amenable to automated customer service solutions?
- 12.5. How much of this potential transition to automated service does Terasen plan to capture and when does Terasen plan to capture the benefits?
- 12.6. What does Terasen expect will be required in addition to its CCE project proposal to capture the benefits of automated customer service and automated channel service delivery?

standards for customer service. By doing so contact centres can also use the opportunity to increase their efficiency, lower the costs while improving customer satisfaction. In addition by offering more and more self serve options (building on customers' preference for self serve) contact centres can dedicate additional resources to focus on customer relationship management."¹³

Page 45

12.7. Does Terasen have any information with respect to the degree to which other utilities have been able to achieve cost savings through introducing automated customer service and automated channels for service delivery?

Table 4.1: Forecasted Impact of a Shift of 100,000 Inbound Calls

	Impact (FTEs)	Annual Impact on Labour Cost
Migrate to self serve IVR or Web	↓ 18 FTEs	↓ \$ 900,000
Migrate to Email channel	↓ 12 FTEs	↓ \$ 600,000
Migrate to Chat channel	↓ 9 FTEs	↓ \$ 450,000
Increase in Service Level to 80% of calls answered in 20 seconds	↑ 5 FTE's	↑ \$ 250,000

The potential benefits associated with the migration of customers to self serve and electronic communication channels are material. By including these skills in the hiring and training of new contact centre staff, the Company will ensure that these options are available to customers as soon after go-live as possible. Self-serve will also be actively promoted at go-live to facilitate the transition to the new system and operating environment.

Page 81

12.8. Does Terasen expect additional cost reductions will accompany labour cost reductions?

12.9. What would be the impact on the cost per customer of incorporating 10%, 20%, 30%, 40% and 50% of call volumes being handled through automated service and through automated channel delivery?

13. Reference Exhibit B-4, Page 89 and 91, Analysis and Alternatives

Terasen will continue to outsource those billing and back office functions that had historically been outsourced and which continue to provide financial benefit to customers. Terasen Gas will repatriate the more complex work that requires specific Company or gas industry expertise. The analysis employed in reaching this conclusion is summarized below.

Page 91

13.1. What is the specific benefit in repatriating the more complex work?

13.2. Has Terasen made a quantitative assessment of the benefits of repatriating the more complex work?

Second, there are significant operational synergies in having the billing and back office staff in the same location as the primary call centre. The ability to easily escalate complex issues from the call centre to the billing area generates knowledge transfer between these two groups and provides a higher quality of service to customers. This environment will also enable work force retention by providing opportunities for staff to migrate between these two areas depending on their work preference. In this way, the decision to insource the call centre also informs the decision to insource the billing and back office functions.

Page 89

13.3. What specifically are the operational synergies expected to be achieved?

13.4. Has Terasen made a quantitative assessment of what the operational synergies will be related to bringing the complex portion of the billing and back office functions in house?

14. Reference Exhibit B-4, Page 3, Drivers for Change

The arrangement with CustomerWorks LP succeeded in meeting the original outsourcing objectives by providing customers and Terasen Gas with cost certainty and risk transfer, as well as delivering generally satisfactory customer service over much of the time since 2002. Service

14.1. Given that Terasen was successful creating cost certainty and transferring risk out in its arrangements with CustomerWorks LP, does it follow that with this current project proposal that Terasen will be increasing cost uncertainty and transferring risk back onto customers?

14.2. Are there cost savings associated with removing cost certainty and taking on risk and, if so, can they be identified, quantified and captured?

14.3. Is Terasen willing to provide cost certainty and risk insulation for its customers at some level?

14.4. Does Terasen believe that, at some level of cost above the costs that Terasen is proposing for this CCE project, the project would no longer be cost effective for customers?

14.5. Does Terasen believe that there are some levels of risks, which it would find prudent to shed?

14.6. At what point or level of cost and risk would the proposed CCE project become an cost ineffective solution for customers?

14.7. Terasen saw merit in negotiating cost certainty and risk allocation into contracts with service providers for its previous arrangements and believes this succeeded, would it therefore appear to be logical for customers to want to negotiate cost certainty and risk allocation with Terasen as the proposed new provider of the services?

14.8. Does Terasen see the prudence test of its actions and costs before the BCUC as providing cost certainty and risk allocation for its customers?

14.9. At what level of costs and risk would Terasen suggest that its prudence in managing the CCE project may come into question?

15. Reference Exhibit B-4, Page 4, Drivers of Change

The energy environment: The ability of Terasen Gas to retain and add customers is increasingly challenged by volatile commodity prices, housing trends towards smaller multi-unit dwellings, customer perceptions of natural gas, and the growing availability and customer awareness of alternative energy solutions. Policy-driven factors, such as the Carbon Tax, greatly expanded energy efficiency and conservation initiatives as well as a broader range of energy options available require a more skilled, knowledgeable, and flexible customer care staff attuned to the local energy marketplace and responsive to such changes, which is not possible with the current outsourcing arrangement. The energy marketplace and the Company's business

- 15.1. Exactly how will Terasen's ability to retain and add customers change with the end of the current outsourcing arrangement?
- 15.2. Has Terasen determined how it will increase the addition of customers once it has insourced the current arrangements?
- 15.3. Has Terasen determined how it will increase the retention of customers once it has insourced the current arrangements?
- 15.4. Has Terasen projected how much it expects to increase customer additions from the current market share proportions?
- 15.5. Has Terasen projected how much it expects to reduce the customer turnover from the current market proportions?
- 15.6. What certainty does Terasen have that it is the outsourcing arrangements that are at the root of these issues?
- 15.7. What certainty does Terasen have that it will solve these problems and make quantitative gains through bringing the outsourced services inhouse?

16. Reference Exhibit B-4, Page 4, Drivers for Change

The competitive environment: TGI's competitive environment has changed significantly over the past ten years. The Company's competitive position has been impacted by factors such as volatility in the natural gas commodity price, a growing use of alternative energy sources and customer perceptions of natural gas. The use of natural gas must overcome two elements of the purchase decision before a buyer makes the commitment to investing in natural gas equipment. One is the economic element, comparing anticipated operating costs to the competitive alternative. The second is the environmental element and how the product increases or reduces greenhouse gas emissions versus the alternative. Different buyers will place different priorities on each element, however, both present challenges that Terasen Gas must address.

- 16.1. Please explain in what way the Customer Care services are connected to customer decision making about natural gas commodity, alternative energy options and environmental perceptions of natural gas.

- 16.2. Does Terasen expect its CCE project to significantly affect customer decision making with respect to these energy use choices?
- 16.3. If Terasen does expect the CCE project to significantly affect customer decision making how does Terasen expect this affect will be achieved and how much effect does Terasen expect to have on customer choices caused by the CCE?
- 16.4. Has Terasen made any market projections with respect to how its market share would be expected to evolve with its current customer care arrangements and then with its proposed CCE project in place?
- 16.5. Does Terasen have any evidence that customer care systems, processes and interactions with respect to natural gas service will intersect with customer choice and decision making with respect to selecting alternatives energy options?

17. Reference Exhibit B-4, Page 5, Drivers for Change

Terasen Gas must ensure that it maintains the loyalty of existing customers and is positioned to attract new customers.

Customer service evolution: In order to differentiate from their competition, respond to changing customer needs, and to sustain the delivery of best practices as supporting technologies have advanced, organizations have changed their customer service structures over time. Terasen Gas is faced with competition as the B.C. energy marketplace changes. Maintaining customer satisfaction and loyalty are important factors to ensure that TGI is positioned for long-term success to the benefit of all customers.

Customer requirements for interaction with Terasen Gas: Research regarding consumer perceptions, as well as customer feedback, suggests that customers now expect public utilities to provide a greater range of communication channels than Terasen Gas is generally able to provide today. This includes more flexibility in moving from traditional voice response centres and hardcopy bill presentment to stronger web support, including online transactional tools and enhanced electronic bill presentment and payment options. In the future, the Company will be able to meet these requirements through the direct control of core customer care services and the implementation of a new CIS platform and contact centre technology suite.

- 17.1. How will this CCE project change to the customer service structure change the Terasen customer experience?
- 17.2. Does the competition in the BC energy market place have superior customer service based on their customer care systems?
- 17.3. What are the differences between Terasen's competitor customer care systems and Terasen's proposed system in terms of the customer care experience?
- 17.4. What are the loyalty traits Terasen is expecting to generate in customers from investment in the CCE systems?
- 17.5. What does Terasen believe are the antecedents to the loyalty traits Terasen is trying to generate?
- 17.6. How will Terasen connect its investment in the CCE system to the antecedents to loyalty and to customer loyalty itself?

- 17.7. How does Terasen measure customer loyalty now and how will Terasen measure customer loyalty in the future?
- 17.8. Does Terasen believe that more communications channels, more flexible voice response, more flexible bill presentment, and more flexible online transaction capability are the key CCE features, which are going to lead to customer loyalty?
- 17.9. Does Terasen have evidence that it is losing customers to its competitors in the energy market place because of limitations with regard to communications channels, voice response flexibility, bill presentment flexibility and online transaction capability of its competitors?

18. Reference Exhibit B-4, Page 29, Project Description and Schedule

Terasen Gas has reviewed the scope of changes that need to be made in support of this initiative and has developed a plan appropriate for implementing the Customer Care Enhancement Project. For each project component, Terasen Gas has identified the key areas of focus to ensure appropriate risk mitigation efforts are in place for the overall Project implementation. A risk and mitigation summary follows for each component. As part of

- 18.1. Terasen appears to have been able to obtain fixed price arrangements covering a number of cost elements for the project. Please provide a percentage of the total project costs which are controlled under fixed cost arrangements and a percentage exposed to variable cost arrangements.
- 18.2. Does Terasen believe that it has reasonable cost certainty at this time?
- 18.3. Does Terasen intend to take further steps to obtain greater cost certainty?

19. Reference Exhibit B-4, Page 79, Analysis and Alternatives

outsource these services. Terasen Gas does not feel it appropriate to ask third party outsource service providers to go to significant time and expense to prepare a quotation in a context where Terasen Gas does not believe there is a reasonable chance that we would award the contract. As well, pursuing an RFQ in order to simply obtain benchmark costing in a context where Terasen Gas has decided to bring most of the services in house, raises potential impediments under the Client Services Agreement. Under the CSA, CustomerWorks LP enjoys a right of first refusal to match any quotation that Terasen Gas may choose for the provision of all of the services.

- 19.1. Would Terasen agree that with a right of first refusal in the hands of one potential proponent there is little chance of getting a useful bid or quotation process from other potential vendors?
- 19.2. Would Terasen agree that the Strategic Sourcing decision which shapes this CCE Application is a qualitative decision but that it is bounded by quantitative individual component competitive costing tests and bounded by quantitative total cost per customer tests?

- 19.3. Would Terasen agree that a key part of the qualitative Strategic Sourcing direction and the selection of SAP could lead to avoided costs of having to make these decisions in the future when other options with greater risks might in fact fail to be able to make | sufficient investments to provide competitive functionality and service?

20. Reference Exhibit B-4, Page 115, Project Costs Financial Analysis

as they relate to the Project. As noted earlier, the cost of service analysis for the Customer Care Enhancement Project assumes the existing approved return on equity and equity thickness for the 20 year analysis period, existing depreciation rates, CCA and capitalized overhead rates, forecast federal and provincial tax rates, forecast debt rates, forecast average customers until 2015 and forecast growth of 0.74% per year for TGI, 2.5% per year for TGVI and 1.3% per year for TGW thereafter.

- 20.1. Please provide the current expected growth rates included in the forecasted average number of customers until 2015.
- 20.2. Please provide the support for the expectation that the customer growth rates will be as forecasted.

21. Reference Exhibit B-4, Page 120, Project Costs Financial Analysis

For the purposes of updating the financial analysis we assumed that current approved accounting practices remain unchanged. We have however reviewed the impact of the proposed changes resulting from International Financial Reporting Standards ("IFRS"). The changes contemplated by IFRS, as well as changes to the overhead capitalized rate and depreciation rate, would result in a levelized cost per customer of \$70.19. Compared with the levelized cost of \$67.50, these changes would increase the cost per customer by \$2.69.

- 21.1. Would this change related to IFRS be required if the IFRS recognizes regulatory accounting?
- 21.2. Does Terasen agree that the current view is that the IFRS is leaning toward recognizing regulatory accounting?

22. Reference Exhibit B-4, Page 37, Project Justification

An additional challenge Terasen Gas anticipates in the future occurs as a result of Provincial government policy regarding advanced metering, discussed earlier. BC Hydro is expected to move toward a fully functional smart metering solution by the end of 2012, which at this point does not accommodate support for a parallel gas read through the same infrastructure. Terasen Gas expects to be faced with the challenge of a stand-alone manual natural gas read as BC Hydro moves away from the joint manual read that is in place today.

- 22.1. What is the impediment to developing a common infrastructure for automated meter reading with the BC Hydro implementation of Smart Meters?

- 22.2. Does Terasen believe that there would be a cost-effective solution in developing a common infrastructure for automated meter reading with BC Hydro?
- 22.3. As the Provincial Government has mandated Smart Meters for BC Hydro and retains the ability to specify technology by regulation has Terasen been working with the government to determine if there is a solution to developing a common infrastructure with BC Hydro?
- 22.4. What does Terasen expect will be the additional customer cost for a stand alone manual natural gas meter read versus a potential common infrastructure supporting automated meter reading?
- 22.5. Will Terasen's proposed CCE solution support automated meter reading and a possible integration with a common infrastructure supporting the automated meter reading in the future?