



**IN THE MATTER OF**

**TERASEN GAS INC.**

**AND**

**CUSTOMER CARE ENHANCEMENT PROJECT  
INSOURCING OF CUSTOMER CARE SERVICES AND IMPLEMENTATION OF  
A NEW CUSTOMER INFORMATION SYSTEM**

**REASONS FOR DECISION  
to Order G-23-10  
and  
Order C-1-10**

**July 14, 2010**

**Before:**

**A.A. Rhodes, Panel Chair/Commissioner**

**D.A. Cote, Commissioner**

**R.J. Milbourne, Commissioner**

## TABLE OF CONTENTS

	<u>Page No.</u>
<b>1.0 INTRODUCTION</b>	<b>1</b>
1.1 The Application	1
1.2 Orders Sought	2
1.3 Regulatory Process	3
1.4 Overview of Decision	3
<b>2.0 PRINCIPAL ISSUES</b>	<b>5</b>
<b>3.0 BACKGROUND</b>	<b>16</b>
3.1 History of Outsourcing	16
3.2 Return on Equity Decision	19
3.3 Government's Energy Objectives	21
<b>4.0 PROJECT DESCRIPTION</b>	<b>23</b>
4.1 Overview	23
4.2 Customer Information Service Software	24
4.3 Implementation and Maintenance	25
4.4 Billing and Back Office Functions	26
4.5 Call Centres	27
<b>5.0 JUSTIFICATION</b>	<b>27</b>
5.1 Stakeholder and Customer Consultation	28
5.2 Business Process Outsourcing Issues	31
5.3 Changing Competitive and Evolving Policy Environment	35
5.5 Other Project Benefits	39
<b>6.0 PROJECT ALTERNATIVES</b>	<b>42</b>
6.1 CIS Software	43
6.2 CIS Implementation and Maintenance	46
6.3 Call Centres	47
6.4 Billing and Back Office Operations	49

## TABLE OF CONTENTS

	<u>Page No.</u>
<b>7.0 COST-EFFECTIVENESS</b>	<b>50</b>
7.1 Project Costs	51
7.1.1 Capital Costs	53
7.1.2 Deferred Operating and Maintenance Costs	53
7.1.3 Facilities	54
7.2 Future Ongoing Operating and Maintenance Costs	55
7.3 Cost of Service and Rate Impact	56
7.3.1 Levelized Cost per Customer	57
7.3.2 Revenue Requirements and Rate Impact Analysis	58
<b>8.0 SUMMARY OF COMMISSION CONSIDERATIONS AND CONCLUSIONS</b>	<b>62</b>

**COMMISSION ORDER G-23-10**

**CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY C-1-10**

## **APPENDICES**

<b>APPENDIX A</b>	Utilities Commission Act Excerpts
<b>APPENDIX B</b>	The Regulatory Process
<b>APPENDIX C</b>	List of Interveners
<b>APPENDIX D</b>	List of Exhibits
<b>APPENDIX E</b>	Agenda for Oral Argument Exhibits A-19 and A-20
<b>APPENDIX F</b>	CPCN Application Guidelines Letter L-18-04
<b>APPENDIX G</b>	Letter of Acceptance from Terasen and Terasen Board Approval

## **1.0 INTRODUCTION**

By Order G-23-10 dated February 16, 2010, the Commission denied, with Reasons for Decision to follow, the application of Terasen Gas Inc. for a Certificate of Public Convenience and Necessity for its Customer Care Enhancement Project (Project) unless the utility agreed to certain conditions, one of which required Terasen Gas Inc. to file a statement confirming its acceptance of that condition within 10 days of the Order. Following the filing of the statement from Terasen Gas Inc. within the 10-day period, the Commission granted a Certificate of Public Convenience and Necessity for the Project by Order C-1-10 with Reasons for Decision to follow. These are the Reasons associated with both Orders.

### **1.1 The Application**

Terasen Gas Inc. (Terasen) and its affiliated companies sell and deliver natural gas to residential, commercial, and industrial customers throughout British Columbia. They provide service to over 95% of the natural gas customers in the Province. Their operations are subject to regulation by the British Columbia Utilities Commission (Commission, BCUC).

On June 2, 2009, Terasen applied to the Commission for a Certificate of Public Convenience and Necessity (CPCN) for its Customer Care Enhancement Project. The Application (Exhibit B-1) was filed pursuant to section 45 of the Utilities Commission Act (the Act). For convenience, the relevant sections of the Act are reproduced at Appendix A to these Reasons.

Terasen describes the Project as having four component parts:

- Customer Information Service (CIS) Software
- CIS Implementation and Maintenance
- Establishment of Two Call Centres
- In-house Delivery of Billing and Back Office (BBO) Functions

In the aggregate, the Project involves the implementation of a new Customer Information System as well as in sourcing of what Terasen considers to be “core elements” of its customer care services, essentially all of which are currently out-sourced. Terasen initially provided a total Project implementation cost estimate of some \$155 million, including an allowance for funds used during construction (AFUDC).

As a result of inquiries and comments from the Commission and Interveners, and further regulatory process, Terasen filed an amended Application (Exhibit B-4) (hereinafter, the Application) on August 28, 2009 which, while retaining the full scope of the initial application, among other things included additional financial information, refinement in certain aspects of cost certainty, and other agreements. The revised projected cost of the Project was \$122 million including AFUDC, based on an implementation date of January 1, 2012.

Further developments during the review of the Application have resulted in a final estimate to that implementation date of \$115.5 million including AFUDC.

## **1.2 Orders Sought**

Terasen seeks:

1. A CPCN for: (1) the implementation of a new [CIS]; and (2) in-sourcing key elements of the Company’s customer care services, as detailed in the Application, pursuant to section 45 of the Act;
2. Approval of corresponding amendments to the scope of services under its existing Client Services Agreement with CustomerWorks Limited Partnership to facilitate the Project pursuant to BCUC Order G-29-02;
3. Approval to create a non-rate base deferral account attracting AFUDC, and approval to record incremental operating and maintenance (O&M) costs associated with the Project that are incurred prior to the project implementation date of January 1, 2012 for the purposes of permitting cost recovery; and

4. Approval to create a rate base deferral account to take the accumulated amount from the non-rate base deferral account, effective January 1, 2012, for the purpose of recovering costs through customer rates pursuant to sections 59-61 of the Act.

(Exhibit B-4, p. 1)

### **1.3 Regulatory Process**

The Regulatory Process is described in Appendix B to these Reasons. A list of Interveners is provided in Appendix C.

### **1.4 Overview of Decision**

Order G-23-10 dated February 16, 2010 denied Terasen the CPCN it sought for the Project, unless Terasen and its Board of Directors agreed to the inclusion of a term relating to the final cost of the Project in the CPCN.

By letter dated February 26, 2010 Terasen filed its acceptance of the term as proposed by the Commission, and, by Order C-1-10 dated February 26, 2010, a CPCN was granted. On March 4, 2010, Terasen filed the Resolution of its directors dated February 24, 2010 agreeing to the acceptance of the term.

Section 2 of these Reasons outlines the principal issues that arose in the review of the Application.

- In the determination of whether a project is in the public interest what is the appropriate relationship between project costs and benefits?
- Does the Commission have the jurisdiction to impose a cost collar or risk sharing mechanism on a Project to ensure that it remains in the public interest, following implementation?

Section 3 provides background to the Project and summarizes certain earlier decisions of the Commission in respect of Terasen's prior practice of outsourcing its Customer Care functions. As well, it describes the intersection of the Government's energy policies with Terasen's customer growth projections and reviews the "government's energy objectives" as they relate to the Project. The Panel finds that the government's energy objectives are not materially relevant to its determinations.

In Section 4, the principal elements of the Project are more fully described, along with Terasen's reasons for their inclusion. The Panel accepts Terasen's description of the Project as adequate for the purpose of the review of the Application.

In Section 5, Terasen's justification for the principal elements of the Project is considered. The public and stakeholder consultation, and market research Terasen engaged in as a material aspect of that justification is summarized, as are Terasen's representations as to the benefits of the Project. The Panel accepts in principle, that, if successfully implemented, the Project will benefit some, if not all of Terasen's customers and provides potentially significant, but to some degree unquantified, socio-economic benefits to BC.

Section 6 deals with the conformity of the Application with the Commission's CPCN Guidelines. The Application does not provide alternatives to the Project *per se*, but rather, alternatives to the individual elements of the Project. With certain reservations, the Panel accepts the processes that Terasen followed to select amongst the alternatives it considered.

Section 7 deals with the costs and cost-effectiveness of Terasen's selected approach to execution and implementation of the Project, as well as its implications for on-going Operations and Maintenance (O&M) and other costs and rate impacts. The Panel accepts Terasen's estimates for:

- the costs of the Project to its go-live date;
- the future ongoing O&M and other costs of the Project; and,

- the impact of these costs on its customers' rates.

In accepting those estimates and the assumptions used by Terasen in their development, the Panel gives considerable weight to the support, albeit qualified, of the Intervener groups representing Terasen's ratepayers

In Section 8, the Panel considers the risks and benefits associated with the Project and their impacts on rates, and provides a summary of the Commission's determinations to that point and concludes with the Commission's decision on the Application.

## **2.0 PRINCIPAL ISSUES**

Terasen's application for a CPCN is made pursuant to section 45 of the Act. It is generally accepted that the Commission must consider the public interest in determining whether to grant the certificate. As stated by the Federal Court of Appeal in *Nakina (Township) v. Canadian National Railway Co.* (1986), 69 N.R. 124 (F.C.A.), and cited in *Sumas Energy 2 Inc. v. Canada (National Energy Board)* 2005 FCA 377:

“[t]he determination of what is in the public interest involves the weighing and balancing of competing considerations”.

The test of what constitutes the public convenience and necessity has been held to be a flexible one, without a precise definition of general application. For example, in *Memorial Gardens Association (Canada) Limited v. Colwood Cemetery Company et al.* [1958] S.C.R. 353 the Court considered the meaning of the term “public convenience and necessity” in the context of an application for a CPCN for a new cemetery, stating that it “would...be both impracticable and undesirable to attempt a precise definition of general application of what constitutes public interest and necessity. As has been frequently pointed out in the American decisions, the meaning in a given case should be ascertained by reference to the context and to the objects and purposes of the statute in which it is found.” (p. 357)



The nature of this CPCN application is significantly different from most other CPCN applications which come before the Commission. As noted by counsel for the CEC in oral argument, "...this is a fundamentally different type of asset than a pipeline...". Implicit in many of these types of applications is the customer's need for such infrastructure to ensure that the service will continue to be reliably delivered in the required amount and at the required time. The current Application for the Customer Care Enhancement Project is much more amorphous, in that there is less direct impact on the customer on an ongoing basis. Most customers choose to contact their utility only when they have a query or a problem that requires resolution and may have no requirement to do so for long periods of time.

Following this line of reasoning, there are instances where it might be reasonable for a utility to argue that where there is the potential for a severe negative impact, such as loss of service, the need is key and outweighs the importance of costs, prudence issues aside. The Panel does not believe this rationale applies in this Application. This is because if the status quo were maintained in the current instance, the primary functions of billing, call centre management and the website would still continue to be performed and the customers' basic needs addressed. While it is argued that the provision of customer care is an important service component, we do not equate it to the core service the utility is required to provide. Accordingly, the Panel is of the view that, in the circumstances of this case, there should be a correlation between the value of the benefits associated with this Project and the costs which are to be borne by the ratepayer to provide those benefits.

As a consequence, the determination of whether to grant a CPCN for the Project turns on the two key issues identified in Section 1.4, namely:

1. In the determination of whether a project is in the public interest, what is the appropriate relationship between project costs and benefits?
2. Does the Commission have the jurisdiction to impose a cost collar or risk sharing mechanism on a Project to ensure that it remains in the public interest following implementation?

**1. In the determination of whether a project is in the public interest what is the appropriate relationship between project costs and benefits?**

In the view of the Panel, the answer to this question goes to the heart of the matter. Terasen has, in the Application, presented its arguments as to the need for the Project and the benefits to the customer which will flow from it. In addition, the capital and other costs to fully implement the Project have been laid out as have Terasen's estimates of future ongoing O&M and other costs once the Project is in operation. An examination of these in total provides a significant portion of the foundation for a public interest determination for this Project.

Concerns regarding project costs and their relation to customer benefits were very much at issue for a number of Interveners in this Hearing. In Argument, the Commercial Energy Consumers Association of British Columbia (CEC) recommended the Commission:

“...exercise its jurisdiction to impose conditions on the CPCN granted, by making full recovery of costs in rates dependent upon Terasen demonstrating throughout the life-cycle of the project that it has continued to work diligently in the customer's interests to identify and capture the benefits of the investment in the Customer Care Enhancement Project.”

(CEC Argument, p. 13)

Further, the CEC, while submitting the cost estimates of Terasen for the Project are reasonable and in the public interest, does not submit that the Project should be carried out at any cost. The CEC submits that the cost level provided is critical to its support for a determination of the costs being in the interest of customers, and further submits “...Terasen should expect that it may be at risk for any project costs which may exceed the levels it has proposed.” (CEC Argument, p. 22)

In Oral Argument, the British Columbia Old Age Pensioners' Organization *et al.* (BCOAPO) expressed a similar view, calling for a hard collar or cap and stating; “the budget and the cost/benefit that

happens within the CPCN is key to the determination of whether a project is in the public interest.”  
(T3: 216-217)

The Panel accepts the concept of need is a complex one and may not necessarily be simply a question leading to a yes or no answer. In a case such as the Application, the level of need is very much related to the benefits the customer will derive from the Project. Thus, if it is determined the Project offers benefits of high value, it can be inferred the level of need for the Project is correspondingly high. Accordingly, the Panel views projects of this nature on a scale, ranging from “unnecessary” or of low value to “highly desirable” or of high value.

This leads to a second variable, cost, which the Panel is also required to take into consideration. This consideration of cost encompasses more than just the cost to design and implement a project, but also the estimated ongoing future costs, which together determine the impact on rates paid by the customer. In keeping with the Nakina (Township) Decision cited earlier, which provided direction on the need for weighing and balancing of competing considerations as a means of determining public interest, the impact on customer rates must be considered along with customer benefit in making a determination as to whether the project is in the public interest. Thus, a project with high perceived value might have a significant impact on customer rates but still be determined to be in the public interest. Correspondingly, a project with low perceived value might require that there be minimal impact on customer rates if it were to be in the public interest. It is in this way a project which is determined to be highly desirable in terms of customer benefits would allow for a greater impact on customer rates than one which is marginal or of low value in passing the public interest test. Therefore, in answer to the question, the Panel concludes there is a direct relationship between project costs and benefits which must be balanced in making a public interest determination in this case.

Later, in Section 5, the Commission Panel finds the value of the Customer Care Enhancement Project to ratepayers to be marginal. This finding suggests that the incremental cost impact on the ratepayer should be correspondingly minimal.

**2. Does the Commission have the jurisdiction to impose a cost collar or risk sharing mechanism on a project to ensure that it remains in the public interest, following implementation?**

This issue was one of several which were addressed by the parties during the Oral Argument phase, and remains the most significant.

**Terasen Position**

Terasen submits that “the broadly worded power to impose conditions on a CPCN...cannot be interpreted to as allowing the Commission to impose a hard cost cap.” (T3: 185) It further submits that the majority reasons in the Supreme Court of Canada decision in *ATCO Gas & Pipelines Ltd. v. Alberta (Energy & Utilities Board)*, 2006 SCC 4; [2006] 1 S.C.R. 140 support its view that the Commission’s power to exercise its discretion and determine whether a project meets the test of being in the public convenience and necessity is incidental and ancillary to its primary rate-making function. (T3: 104-105)

Terasen also relies on *ATCO* in support of its contention that the “regulatory compact” allows it the opportunity to earn a fair return for its investors such that “the remedy of a cost cap is not only not required, but it would be contrary to the Commission’s jurisdiction to order one.” It further submits that while the Commission does not need to determine the jurisdictional issue in the context of this hearing, the Commission cannot, as a matter of law, determine now, in advance of any evidence as to any costs beyond the estimate and as to their cause, that those costs should be borne by Terasen’s shareholders, and accordingly, any such imposition of a cost cap would be “an error in law.” (T3: 177-179)

In Terasen’s view, that error in law would result from its shareholders being denied a fair rate of return on each dollar of equity, in excess of the cap, prior to any determination as to the prudence of the expenditures. Terasen argues that all project costs are presumed to be prudent in the first instance, unless it can be demonstrated that such costs were not prudently incurred. It further

argues no determination of prudence can be made until all the costs, and the reasons for them, are available. Hence, it argues that the only appropriate venue for such a determination is a future revenue requirements proceeding where it seeks to recover the costs of the Project. (ibid)

Terasen points to three recent Decisions where the Commission dealt with cost overrun concerns without recourse to its discretion to attach conditions to a CPCN under section 46 (3) of the Act. In particular, it refers to the Commission's Reconsideration Decision dated June 30, 2008, *In the Matter of an Application by Dockside Green Energy LLP (DGE) for Reconsideration of Certain Provisions in Certificate of Public Convenience and Necessity for the District Energy System*, where the Commission removed its previously imposed cost caps and noted its ability to review costs after the fact:

"The Commission is persuaded by the argument that the interests of both the ratepayers and the utility will be properly served by removing the Conditions and instead, as DGE suggests, 'reviewing the relevant circumstances at the time the event occurs before making a judgment about how extraordinary incremental costs should be recovered'...If DGE incurs extraordinary incremental costs, then the Commission has the authority to review the prudence of those costs before DGE may include them in the rates it will charge its customers."

(Terasen Reply, para. 53, p. 23)

Terasen further submits that, notwithstanding the Commission's broadly worded discretion to impose conditions on a CPCN, a cost cap is essentially "a free insurance policy, backed by the shareholder, to protect against risks that customers would otherwise have had to pay third parties to incur through fixed price contracts on the [P]roject" and that as such, it "is fundamentally unfair to the shareholder and is beyond the jurisdiction of the Commission because it contradicts the allocation of costs and risks inherent in the regulatory compact." (T3: 185-188).

## CEC Position

The CEC takes the position that given the 15.6% contingency in the Project estimate, and its concern as to whether Terasen has the “core competency to pursue the [P]roject”, a cost cap should be imposed and that the Commission has the requisite jurisdiction to do so (T3: 211).

CEC describes “a good and healthy history” of the utilization of cost caps by the Commission with reference to:

- the Commission’s Decision of May 21, 1999 dealing with BC Gas’ CPCN application for the Southern Crossing Pipeline (SCP) where it concluded that; “... the SCP could expose ratepayers to an unacceptable risk of cost overruns, unless BC Gas commits to a cap on [the] costs to be included in rate base”; and found that “any CPCN must be conditional upon BC Gas standing behind its evidence, so that cost overruns over 10 percent will not be borne by the ratepayer”<sup>1</sup>; and
- the Commission’s Decision of May 18, 2006 dealing with Terasen’s extension of natural gas service to Whistler, where it stated: “[Terasen] expressed confidence in both its scope of work and the estimated costs of various components for conversion of the system from propane to natural gas. As a result the Commission [P]anel expects that [Terasen] should be able to manage costs and complete this work within the [\$]5.189 million estimate provided, base case 2005 dollars.”<sup>2</sup>

The CEC notes that in both of the cited examples Terasen indicated that it was prepared to enter into an incentive-type risk/reward opportunity where if they came in under budget they would get the benefit, if they were over budget they would not. (T3: 212-213)

---

<sup>1</sup> *In the Matter of BC Gas Utility Ltd. Southern Crossing Pipeline Project, December 11. 1998 Application for a Certificate of Public Convenience and Necessity, May 21, 1999.*

<sup>2</sup> *In the Matter of Terasen Gas (Whistler) Inc., 2005 Resource Plan Update and Certificate of Public convenience and Necessity for the Whistler Natural Gas Project and Terasen Gas (Vancouver Island) Inc. Certificate of Public Convenience and Necessity for the Squamish to Whistler Intermediate Pressure Pipeline, May 18, 2006.*

### **BCOAPO Position**

BCOAPO takes the position that it is open to the Commission to determine that a project is in the public interest only if it costs less than a certain amount, and that by attaching a hard cost collar or cap the Commission puts the utility in an explicit position where it knows it can only spend up to that stated limit. As well, BCOAPO states that the utility has the option of not proceeding with a project if it is not confident in its estimates (T3: 216-217).

BCOAPO further notes that the granting of a CPCN brings with it a presumption of prudence, and that if Terasen's argument that any condition that violates the shareholder's right to a return on a capital investment were accepted, there would be no point to canvassing any project's cost estimates in the course of a CPCN application review. BCOAPO submits that any "presumption [of prudence] can only come based on the utility's own budget estimates and the confidence in that." (T3: 217-218)

### **Terasen Reply**

In reply, Terasen states that in respect of past acceptance of "cost incentive-sharing costs," that "the law has developed in a way that...does not support the Commission imposing hard cost caps and as a matter of principle the company is not prepared to consent to a hard cost cap." (T3: 220)

### **Discussion**

The Panel appreciates the insightful and helpful submissions from the Parties in respect of its jurisdiction under sections 45 and 46. The Panel agrees with Terasen that there is little if anything to be gained in making a finding as to its jurisdiction to impose a "hard cost cap" as a condition in this proceeding *per se*, as that is not the only course of action open to the Panel in making its determinations. The Panel is equally mindful of the views of BCOAPO that a public interest determination as to the granting of a CPCN cannot be made based on the benefits of a project in isolation of a full understanding of the costs of that project, and the attendant risks to both.

In any event, in the Panel's view, the Commission's mandate is broader than rate-making. Rather, the Commission considers its mandate is to protect the public interest by regulating public utilities, which tend to be natural monopolies, well positioned to otherwise take advantage of their customers. For example, section 23(1) of the Act states that "the commission has general supervision of all public utilities" and contemplates orders relating to equipment, appliances, extensions of works or systems as well as the filing of rate schedules. Section 38 provides that a public utility must provide and maintain its equipment in order to provide a service to the public that the commission considers adequate, efficient, safe, just and reasonable. These sections are examples of ones which indicate a broader role for the commission than the setting of rates.

Terasen suggests that to impose a maximum cost limit on the project during the CPCN process will result in the Commission fettering its discretion to decide just and reasonable rates by pre-determining the issue with the result of potentially disallowing otherwise "prudent" expenditures, which would have the effect of depriving the utility of an opportunity to earn a fair return on its invested capital. In the Panel's view, this argument fails to consider the importance of the CPCN application process. The CPCN process approves the asset, which forms part of the utility rate base. Without approval of the asset, there is no return to be earned by the utility on the asset.

It is through the CPCN process that a project proposed by a utility is initially screened to ensure that it is in the public interest – this, in the Panel's view, is a core mandate of the Commission, not ancillary to the Commission's rate-making function, as suggested by Terasen.

The CPCN process does not purport to, and cannot review the minutiae of expenditures, as a project can only be put forward through estimates at that stage. (The estimates are obviously prepared by the utility and not the ratepayers who are expected to foot the bill at the end of the day.) As noted by the BCOAPO, the estimates are important. The CPCN analysis involves a comparison of the cost or burden of the project as compared to the benefits which will flow from it. The prudence of the expenditures (i.e. making up the project cost) is not an issue at the CPCN stage, but is rather, assumed. To succeed in the CPCN process, the estimated prudently incurred



costs should not exceed the estimated benefits or the project will likely not be in the public interest and a CPCN should not be granted.

To suggest that it is somehow unfair or unreasonable to require a utility to control the costs of a project to ensure that they accord with the estimate supporting the CPCN determination does not follow, in the Panel's view. The CPCN process to protect the ratepayer is otherwise rendered nugatory.

A corollary to this view is that a utility ought not to be entitled as of right, as appears to be suggested by Terasen, to earn a return on expenditures, prudent or otherwise, which are not in the public interest as determined by the CPCN process. To the extent that the CPCN process determines an upper bound for costs, or an allocation of risk as between a utility and its ratepayers, this determination does not necessarily deprive the utility of an opportunity to earn a fair return on its invested capital; the utility has the opportunity to do so by staying within its budget. The budget estimate is determined by the utility, not the ratepayer. The only party as between the utility and the ratepayer with any ability to monitor and control costs and mitigate the risk of an overrun is the utility. It is therefore, in the Panel's view, not unfair to allocate such risk to the utility, as the only party with any ability to control it.

As well, the Panel notes the reliance of certain of the Interveners and the Commission, on the commitment of the Applicant to proceed with the Project based on the cost estimates that form part of the Application for a project by way of CPCN. As well as in the previous Decisions referenced above, this issue arose *In the Matter of British Columbia Hydro and Power Authority and an Application for the Approval of the 2008 Long Term Acquisition Plan Expenditure Request for the Fort Nelson Generating Station Upgrade Project* ”<sup>3</sup>, which involved a project cost of some \$140 million. In that proceeding, an Intervener noted that the Applicant's Board of Directors had not certified the intention of the Applicant to proceed with the project, if approved by the Commission,

---

<sup>3</sup> Order G-75-09, June 15, 2009.

on the terms filed in that Application. The Commission shared that concern, and conditioned its approval of the Application accordingly. (Order G-75-09; Appendix A, p. 3 of 28)

The Panel, in answer to the first question posed in this section, has concluded that a public interest determination is not based simply on weighing the benefits of a particular project but on whether a project achieves appropriate balance between costs and their impact on customer rates and the benefits derived. It therefore follows that in a case where a CPCN is granted on the basis of this balance being achieved, the interest of the public may no longer be served where cost estimates are significantly exceeded with the result that customer rates may be increased beyond the value of the benefits derived. Thus, with particular reference to the Decisions cited by the parties and the need to ensure the public interest is served by a project, the Panel is persuaded that it is within the Commission's jurisdiction to propose terms or conditions designed to mitigate any concerns the Panel might have on how best to achieve an appropriate balancing of the cost and benefit risks implicit in the project as between the public utility applicant for a CPCN and its ratepayers.

### **Commission Determination**

**The Panel, while taking no position on a cost collar per se, determines it has the discretion and jurisdiction to deny a CPCN application in circumstances where it cannot conclude that the public interest will be protected, absent some assurance that an appropriate balance as between ratepayer and other costs and benefits will be achieved. The Panel therefore is of the view that it is appropriate for it to propose a form of risk sharing mechanism in such cases, to promote such a balance. Accordingly, it then becomes a matter for the public utility and its directors to assess the viability of the project within those constraints and, if found appropriate by the public utility and its board of directors, to confirm to the Commission their intention to proceed with the project as amended.**

### 3.0 BACKGROUND

#### 3.1 History of Outsourcing

This matter became an issue in the proceeding primarily due to Interveners' concerns about Terasen's ability to design and implement a new CIS and to in-source various programs for its customer care activities in light of its fairly recent outsourcing of those same functions, as their execution was not seen by Terasen as a "core competency" of Terasen's.

Terasen's customer care function has been outsourced since about 2002, when it transferred its then-existing customer care assets, consisting of mainly of capital expenditures on software, licenses, and hardware from Program Mercury, to a limited partnership that was created between Terasen's parent and Enbridge Inc., the "CustomerWorks Limited Partnership" (CustomerWorks).

Program Mercury was a previous attempt by Terasen to in-source its customer care functions. The CPCN for Program Mercury was granted in 1999. Program Mercury consisted of a customer information system and call handling technologies, together with patriation of Terasen's (Lower Mainland) customers from BC Hydro. The first stage of Program Mercury was structured to convert the 250,000 customers in the Interior to a single customer care environment with a call centre in Kelowna. The second stage involved the transfer of the 530,000 Lower Mainland customers to the new platform and the establishment of a new call centre in the Lower Mainland. Problems arose during the second stage and it became apparent that costs would be significantly higher than originally forecast. Terasen then sought to abandon Program Mercury and outsource its customer care function to CustomerWorks.

At pages 5 and 6 of its Reasons for Decision dated April 17, 2002 *In the matter of an Application by BC Gas Utility Ltd. for the Disposition of Property and Approval of Customer Care Agreements*<sup>4</sup> approving the out-sourcing initiative, the Commission described the proposal then before it as

---

<sup>4</sup> Appendix A to Order G-29-02.

follows:

“In this proposal, CustomerWorks becomes the customer care provider, completes the Program Mercury project and assumes the software licence, converts customer data now on the B.C. Hydro system and assumes control of the Kelowna call centre. BC Gas [Utility Ltd., now Terasen Gas Inc.] transfers its customer care assets and 130 employees to CustomerWorks, out-sources its customer care functions to CustomerWorks, and sets and enforces customer care service levels.

The proposal is designed to mitigate the risks to ratepayers of continuing with an in-house project. The benefits include avoiding potential escalation of implementation costs, no cost for B.C. Hydro conversion, no need for a new call centre, access to Enbridge experience and call centre capacity, a fixed price per customer, continued benefits from the Peace Computer software licence, and cost sharing of any process improvements. The trade-offs include dependence on CustomerWorks with a possible difficulty in separation at the end of the contract period, decreased flexibility in technology and customer processes, lack of opportunity to reduce service costs or obtain a return on CustomerWorks’ possible successes, and the potential cost of renegotiating the contract in 2007.”

In that proceeding the Client Services Agreement (CSA) between BC Gas and CustomerWorks was also reviewed. It was noted that the CSA set out the pricing structure and terms and conditions of service based on a fixed price per customer. The price was capped for 2003 to 2006 at \$54.54 per customer. At the end of 2006, BC Gas was to renegotiate the CSA with CustomerWorks or choose another supplier if that supplier could provide superior services. The Commission stated:

“If BC Gas chooses not to issue a Request for Quotation, the Client Services Agreement stipulates that any increase in the fixed rate per customer in the year following the initial term is capped at 50% of the annual inflation rate. The Client Service [sic] Agreement also requires CustomerWorks to use commercially reasonable efforts to pursue opportunities that will reduce costs to BC Gas, increase system efficiencies, or avail itself of any business synergies.” (p. 6)

Concern was expressed during that proceeding about the “low-bid matching clause” or “right to match” which was granted to CustomerWorks in exchange for a reduction in the contract term from eight years to five years. The Commission noted that:

“BC Gas made unequivocal statements that the intent of the arrangements with CustomerWorks is that BC Gas will be free to choose another supplier, including the statements that ‘BC Gas Utility will be guaranteed... the option to leave CustomerWorks after five years if lower-cost services are available from another service provider’, and that ‘At the end of 2006, BC Gas Utility will be free to choose another supplier or renegotiate with CustomerWorks.’” (p. 13)

The Commission also expressed concern as to whether BC Gas would be “truly free to obtain tenders from, and to choose another supplier after the initial five year term” stating:

“This freedom is of fundamental importance to BC Gas ratepayers so as to maintain competitive services through time. The Commission is prepared to rely on the warranty of BC Gas that their freedom to select another supplier is intended and can be achieved within the CustomerWorks agreements. The Commission will review the process of contract renewal in 2007 and BC Gas will be held accountable to the commitments it has made, even if the foregoing commitments are beyond the contract language as it may be interpreted in 2007. BC Gas must demonstrate that any future contract with CustomerWorks or another service provider is in the best interests of its ratepayers for 2007 and beyond. (p. 13)

In its Reasons for Decision the Commission further commented that the “outsourcing proposal resolves a number of problems in a function which BC Gas no longer considers to be a core competency.” (p. 9) It also noted that:

“Over the last decade the Commission has followed the efforts of BC Gas to achieve an efficient and cost-effective customer care system. BC Gas has found that new systems are required and these are specialized, complex and costly. The reasons for the continuation of specialized systems with high costs appear to be the rapid pace of change in technology, business practices and customer expectations. While it is believed that customer care costs may fall significantly due to technology advancements and competition between service providers, it is not known when this will occur.” (p. 12)

### 3.2 Return on Equity Decision

The Commission's recent decision in respect of Terasen's return on equity (ROE Decision)<sup>5</sup> became an issue in the proceeding in light of Terasen's submissions that a principal driver in its proposal to invest in a "best in class" customer care program was justified by the benefits it would bring in terms of mitigating the risk of losing existing customers and overcoming difficulties in attracting new customers.

In the ROE Decision, the Commission considered Terasen's application for an increase in the common equity component of its capital structure (from 35.01 percent to 40 percent) and an increase in its allowed Return on Equity (ROE) (from 8.47 percent to 11 percent). The Commission approved the 40 percent equity component and also approved an increase in Terasen's allowed ROE to 9.5 percent.

In that proceeding, Terasen argued that its business risk had increased in recent years, in part due to:

1. Provincial climate change and energy policies
2. Aboriginal rights issues and their effect on utilities in the Province
3. The competitive position of natural gas vis-à-vis electricity
4. The presence of alternative energy sources
5. Reduced consumption per customer

(ROE Decision, p. 20)

---

<sup>5</sup> *In the Matter of Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc., Terasen Gas(Whistler) Inc. and Return on Equity and Capital Structure* December 16, 2009

In approving the requested increase to the common equity component, the Commission noted that it

“agree[d] with Terasen that the introduction of climate change legislation by the provincial government has created a level of uncertainty that did not exist in 2005 and that the change in government policy will quite probably cause potential customers not to opt for natural gas and persuade potential retrofitters to opt for electricity.”

(ROE Decision, p. 37)

## **Discussion**

The Panel views the Decisions referred to above as warranting consideration in this review as they provide a context for the Application. In particular, the CustomerWorks agreement appears to have presented the very problems which the Commission noted in 2002 and which BC Gas, as Terasen was then known, warranted would not occur. As well, the reasons cited for outsourcing at that time – rapid pace of change in technology, business practices and customer expectations – are now advanced by Terasen as reasons for its proposed in-sourcing.

The Panel further notes that the effect of government energy policy and policies related to climate change, including the imposition of the carbon tax, on the competitive position of natural gas relative to electricity was put forward in the ROE proceeding and accepted by the Commission Panel as increasing Terasen’s business risk. These government policies are beyond the control of Terasen and, to the extent that they influence consumer preference away from natural gas to electricity, the assumptions in the Application relating to customer growth due to improved customer service may not materialize. The customer growth assumption is critical to the cost benefit analysis as a significant downward change in that assumption would result in a substantial increase to the differential between the cost to ratepayers under the proposed Project and the notional cost of continuing with the existing outsourcing arrangement.

### 3.3 Government's Energy Objectives

Section 46(3.1) as it existed at the time the Commission issued Order C-1-10 required the Commission to consider the "government's energy objectives" which were then defined in section 1 of the Act, in deciding whether to issue a CPCN. It also required the Commission to consider the most recent-long term resource plan filed by the public utility, if any, and whether the application is consistent with the requirements imposed on the public utility under sections 64.01 and 64.02 of the Act, if applicable.

The "government's energy objectives", as they existed at the time of the Application and Order were:

- (a) To encourage public utilities to reduce greenhouse gas emissions;
- (b) To encourage public utilities to take demand side measures;
- (c) To encourage public utilities to produce, generate, and acquire electricity from clean or renewable sources;
- (d) To encourage public utilities to develop adequate energy transmission infrastructure and capacity in the time required to serve persons who receive or may receive service from the public utility;
- (e) To encourage public utilities to use innovative energy technologies
  - (i) That facilitate electricity self-sufficiency or the fulfillment of their long-term transmission requirements, or
  - (ii) That support energy conservation or efficiency or the use of clean or renewable sources of energy
- (f) To encourage public utilities to take prescribed actions in support of any other goals prescribed by regulation.

In the Panel's view, notwithstanding Terasen's submissions that one of the benefits of the Project will be improvement in its ability to directly dialogue with its customers in respect of energy efficiency questions, the "government's energy objectives" are not materially relevant to its determinations. The Project involves, in essence, a new computer system and two call centres.



These facilities, in the Panel's view, are not inconsistent with the government's energy objectives, but do little to further them, *per se*.

As noted above, the Panel is also required to consider the most recent long-term resource plan filed by the public utility under section 44.1 of the Act, if any. Terasen filed its consolidated 2008 Resource Plan on behalf of itself, Terasen Gas (Vancouver Island) Inc. and Terasen Gas (Whistler) Inc. on June 27, 2008. That plan excluded expenditures relating to demand side measures and energy efficiency, which were applied for separately on May 28, 2008 in Terasen's "Energy Efficiency and Conservation Programs Application" (the EEC Application). Once again, section 44.1 required the Commission to consider the government's energy objectives and the requirements of sections 64.01 and 64.02 of the Act. It also required the Commission to consider whether the plan showed the public utility intended to pursue adequate, cost-effective demand-side measures and the interests of persons in British Columbia who receive or may receive service from the public utility.

By Order G-194-08 the Commission accepted Terasen's Resource Plan for filing, other than parts relating to the issues of energy efficiency, conservation, fuel switching and greenhouse gas emissions, which were to be reviewed in connection with Terasen's EEC Application, which was made under section 44.2 of the Act.

The Commission Panel is of the view that Terasen's filing of its consolidated 2008 Resource Plan pursuant to section 44.1 of the Act has little bearing on the Application for the reasons noted above.

The Commission Panel is of the further view that sections 64.01 and 64.02 are not relevant to its consideration of the Application in that section 64.01 relates to the government's goal of electricity self-sufficiency and section 64.02 applied only to BC Hydro at any relevant time.

## **4.0 PROJECT DESCRIPTION**

### **4.1 Overview**

In this Section the elements of the Project are described in greater detail, as are Terasen's reasons for selecting them.

Terasen states the customer care function is a critical element in its business process as it represents the primary means for the company to interact with its customers. The implementation of the Customer Care Enhancement Project, in its view, represents a transition from the current Business Process Outsourcing Model (BPO) to what it describes as a "Strategic Sourcing" model. As described at Section 3.1 above, Terasen has been providing the customer care function through utilization of a BPO model where operating services are provided through the CSA with CustomerWorks since 2002. (Exhibit B-4, pp. 12-15)

The desire to move from the current system is driven by a number of factors. Firstly, Terasen believes the challenges with its evolving business environment in terms of the energy marketplace and a changing competitive environment must be addressed. Secondly, it views customer service as a long term success factor and believes that changing customer expectations with respect to service and its enabling technologies have raised the importance of this function across all industries. Lastly, Terasen cites information provided by its consultant, UtiliPoint, which reflects a current trend away from outsourcing arrangements, which arrangements were common in 2002.

UtiliPoint reports that many early adopters of comprehensive outsourcing have moved to a more hybrid approach as to what is outsourced and what is in-sourced referred to as "Strategic Sourcing." Where utilities continue to outsource, they do so while retaining greater control over critical assets and business processes. UtiliPoint has recommended Terasen move away from the current outsourcing approach and pursue the Strategic Sourcing model. With these factors considered, TGI is of the view that a restructuring of the customer care function is a necessity if the

company is to be successful in meeting future demands of customers and the energy market.  
(Exhibit B-4, pp. 4-6)

The balance of this Section deals with the principal elements of the Project in turn.

#### **4.2 Customer Information Service Software**

Terasen describes the CIS software as the core information technology platform which is utilized to manage customer account information. Terasen characterizes it as “the data repository for all customer, premise [sic], meter, and equipment-related information, including billing and payment details.” As such, it is a primary information source and enabler of business processes for customer contact and is used by both Customer Service Representatives (CSRs), and billing and back-office support staff. In addition, the CIS system is described by the company as the information conduit to all other systems which operate in support of the end-to-end meter-to-cash process.

In assembling its CIS Vendor Request for Quotation (RFQ), Terasen prepared a detailed list of the system functional requirements, which it had identified. Key among these were the following:

1. Premises, customer and account information;
2. Rates & pricing;
3. Billing;
4. Cash processing;
5. Customer service field work;
6. Revenue accounting;
7. Credit & collections;
8. Meter reading information;
9. Metering & equipment information;
10. Marketing information in support of initiatives and programs;

11. Reporting & analytics;
12. Web access - ability to provide Customers with alternative channels for access to information and services; and
13. Customer Choice – the ability to facilitate deregulation.

(Exhibit B-4, p. 18)

Terasen's proposed CIS involves the acquisition, configuration, and implementation of a combination of software packages. After what it describes as "a thorough analysis of the leading products, taking into consideration an extensive list of functional and technical requirements" (as outlined in Appendix D of the Application), it has chosen to move forward with the implementation of SAP's Customer Relationship and Billing package along with some additional software which is needed to meet certain requirements not met by the SAP package. (Exhibit B-4, p. 19)

#### **4.3 Implementation and Maintenance**

In this Section, the role and responsibilities of the proposed System Integrator (SI) will be outlined, along with the requirements for additional third party, SAP and in-house resources.

The SI specializes in putting together software packages from different vendors to build a complete system. Terasen states that the SI will provide implementation resources for the selected software, project management services, and assistance to Terasen in developing a training and change management plan specific to the Project.

To ramp up the resource levels required for a successful CIS implementation, Terasen intends to use third party resources in addition to the SI to augment its in-house capability in a variety of areas. These include: project and technical management, process design and documentation, change management, training, data conversion, and others, as required. Terasen reports that it has worked with many of these additional resource providers in the past and, where it has not, it has conducted due diligence in checking references, and is therefore confident of the third parties' demonstrated competence in the areas required.

In addition, Terasen has planned for the involvement of SAP, as well as additional in-house resources to implement the Project. Terasen submits that SAP's involvement in solution architecture and knowledge in web process integration and inter-company data integration will be an important factor in creating a superior solution overall and will allow it to benefit from the lessons learned from other SAP CIS implementations. Terasen points to its use and maintenance of SAP software for other purposes for over ten years as a key factor in making its decision to use SAP, and states that SAP will be helpful in the process of integrating the new solution within the existing environment. Terasen proposes to hire ten staff to supplement the Project staffing provided by the SI. (Exhibit B-4, pp. 21 -22)

#### **4.4 Billing and Back Office Functions**

Terasen describes the BBO functions as encompassing billing for all customer groups, exception handling, complex billing, payment processing, meter reading, active credit and collections, and related third party agreements in support.

Terasen identifies this area as the root cause of what it describes as an escalation in its customer complaints. It submits that, under the current CSA with CustomerWorks, a lack of integration between billing and call centre functions has resulted in many related inquiries not being adequately addressed (Exhibit B-4, p. 25).

Terasen proposes to apply Strategic Sourcing to its BBO functions. The more complex activities requiring utility process knowledge or access to the CIS will be conducted in-house. The higher volume, less complex activities with a requirement for specialized equipment will continue to be outsourced. Areas which will continue to be outsourced include: statement print and insert, mailing, remittance and credit card payment processing, debt collections, new customer credit validation, meter reading, and special services such as translation and Braille printing. All of the more complex work with a requirement for company specific or gas industry expertise will be

repatriated and managed by a new in-house group of 90 full time equivalent (FTE) personnel. (Exhibit B-4, pp. 91-93)

#### **4.5 Call Centres**

The proposal to move to in-house call centres is described by Terasen as a critical feature of the Project. Terasen proposes to establish two separate call centre locations, one in the Lower Mainland, and the other in Prince George, thereby providing a redundant failover site in the event of a disaster affecting either location. The call centres will be staffed by Terasen personnel with relevant regional knowledge and training to handle what it describes as the complex customer-facing requirements of an energy utility. Terasen submits its direct control over staff recruitment and training, as well as its control of scripting, together with the business processes enabled by the new CIS, will result in improved service quality for customers. (Exhibit B-4, p. 23)

#### **Commission Determination**

**Subject to its further comments and findings in subsequent Sections of these Reasons, the Panel accepts Terasen's description of the Project as adequate for the purposes of its review of the Application.**

#### **5.0 JUSTIFICATION**

In the Application, Terasen has made submissions with respect to:

- stakeholder and customer consultation
- business process outsourcing issues
- the impact of a changing competitive and policy environment, and
- the benefits which flow from the Project.

The Panel examines each of these in reaching its determination of where this Project sits on a scale or spectrum ranging from “undesirable” or “unnecessary” to “highly desirable” and whether it is in the public interest and necessary for the public convenience under section 45 of the Act.

Terasen accepts that the “public interest under section 45 of the Act reflects the interests of customers, which involves consideration of cost effectiveness, as well as broader socio-economic factors” (Terasen Argument, p. 6). The Panel will now examine whether the need for the Project has been adequately established and whether the combination of ratepayer and broader socio-economic benefits is sufficient to justify a determination regarding the need and desirability of the Project. The relationship between those benefits and the estimated costs which will be required for a determination that the Project is in the public interest is considered in Section 8.0.

### **5.1 Stakeholder and Customer Consultation**

The Panel must determine whether there is sufficient evidence to support Terasen’s proposition that the customer expects a broad range of communication options in dealing with its utility and, if so, whether this is important in terms of the value equation.

Terasen notes that customer service requirements have evolved and customer expectations are influenced by other organizations with which customers interact. Terasen examined other industries to develop an understanding of alternative approaches to competitive challenges, and to develop a model capable of providing comparable service offerings. (Exhibit B-4, p. 42)

To more fully understand its customers’ expectations with respect to communications channels, Terasen undertook substantial research. Some of this research was commissioned directly by Terasen and focused specifically on the BC market. This included surveys and analysis by Ipsos Reid, Angus Reid Strategies, and the Taylor Reach Group. The latter prepared a report outlining best call centre practices for Terasen. The balance of the research was generic, in that it was undertaken and published by outside sources, crossed various industries and was conducted in a

number of different locales. This group included KRC Research, Benchmark Portal and Convergys, all of which provided information that Terasen has referred to in support of the Application.

Ipsos Reid conducted seven focus groups in 2008. This was followed a year later by an Angus Reid Strategies e-mail survey of 800 Terasen customers, the purpose of which was to better understand customer expectations for telephone and online service. (Exhibit B-4, p. 42)

The research by Ipsos Reid highlighted that the telephone is still the primary means of communication with businesses, but email and internet options are becoming increasingly prevalent. (Exhibit B-1, Appendix F, p. 3) The report from Angus Reid included the suggestion that Terasen may wish to focus on factors related to customer service, current billing/consumption, and moving and contact information changes in prioritizing the online and automated telephone services for customers. In addition, the Angus Reid report confirmed that the changes proposed in the Project for contact via Terasen's website and automated phone menu, followed up by speaking with a live agent, are in alignment with customer preferences and recommended that Terasen consider improving access to live communication when using the automated telephone function. (Exhibit B-1, Appendix G, p. 7)

In support of its proposal for continued expansion of communication channels, Terasen also references a study conducted by Convergys in the US, which found that the preference for automated channels has doubled in the last four years, and that over 50 percent of respondents preferred an automated solution vs. waiting for a direct contact. Terasen states that its research shows that 31 percent of its customers prefer a live agent, and 24 percent have indicated their preference is for interaction via the website. Lastly, Terasen notes the maturing to adulthood of the "millennial" generation (currently 20 percent of the population and 8 percent of Terasen's customers) as driving a major shift in expectations, with this group being 43 percent more likely to seek assistance through automated channels. (Exhibit B-4, pp. 42-43)

Terasen cites a utilities industry report published by Benchmark Portal for the proposition that, "the focus has shifted from a singular point of contact via telephone calls to multiple points of



customer access.” (Exhibit B-4, pp. 42-43) Terasen also references the Taylor Reach Group’s identification of seven best practices that best in class organizations provide for their customers with respect to use of electronic media. These include:

- multiple communication channels;
- single point of contact with all being handled through one integrated system, access choices and 7x24 service;
- exceptional service across access channels;
- first contact resolution; and
- Intelligent work station and comprehensive knowledge base.

(Exhibit B-4, pp. 40-41)

Terasen submits that implementation of the proposed Project will allow it to adhere to all of these best practices (Terasen Argument, p. 15).

Terasen submits that in the aggregate, the three commissioned studies and the cited references from the literature make a clear statement that many customers already expect the company to offer email and web-based contact options in addition to telephone contact - which nonetheless remains the preferred method. (Terasen Argument, p. 17) Terasen further states that its current CIS offers no online support for customer moving and payment options (currently just over 50 percent of Terasen’s call centre transactions) and that it has limited capability to support email and online chat communication channels, noting that these features are part of the base functionality of the SAP CIS which it has selected. (Terasen Argument, p. 17; Exhibit B-4, p. 44)

The CEC agrees with Terasen’s assertion that customer service expectations are changing and the utility will have to “evolve its customer service if it is to remain competitive.” The CEC further submits that evolving TGI’s customer service capabilities is in the interest of its customers (CEC Argument, p. 6).

The Canadian Office and Professional Employees - Local 378 (COPE) echoes CEC's views with regard to the public interest and notes the proposed changes to the customer service model will provide Terasen with the flexibility to more effectively deal with future technological, policy and regulatory changes. (COPE Argument, p. 3)

### **Commission Determination**

The Panel acknowledges there has been a change in customer expectations and a broader choice of communication channels is expected. However, given the relationship between Terasen and the customer is not a close one involving considerable communication, the Panel is not convinced that Terasen has established that a broad range of channel choice is a necessity, as opposed to a convenience. In addition, the Panel notes that Terasen presented little evidence to suggest significant dissatisfaction with the current range of options. **Accordingly, while the Panel accepts there has been an evolution in what the customer might expect, this adds little weight to any determination of whether the Project is in the public interest.**

## **5.2 Business Process Outsourcing Issues**

The Panel must consider whether the issues Terasen raises with respect to recent performance under the CustomerWorks CSA provide support for the view that the Project is in the public interest.

In Terasen's view, Business Process Outsourcing (BPO) is exemplified by the current customer care arrangement with CustomerWorks, which has existed since 2002. Terasen states that when the CSA was implemented, what was then a new concept immediately delivered two key benefits: risk transfer and cost certainty, such that its original objectives for that BPO were achieved. Terasen further notes that, through 2005, "there was insufficient basis to conclude that transitioning services provided by CustomerWorks to another outsource provider would provide value to customers", and that during the initial term the service metrics were generally met (Terasen Argument, pp. 19-21).

Terasen submits that customer service is a critical success factor as it competes in what it describes as “an increasingly diverse energy marketplace.” It views the customer service experience as an integral part of the overall value proposition impacting both customer satisfaction and loyalty which, in turn, are important in ensuring Terasen is positioned to attract and retain customers. Terasen further submits that both new and existing customers will benefit from the investment, as a growing customer base will serve to reduce customers’ rates, other things being equal, by distributing its fixed costs over a larger base. (Exhibit B-4, p. 40)

Terasen submits that in the past two years there has been a decline in the performance of the contractual service metrics it has in place through the CSA, which, in its view, represents a long-term risk (Terasen Argument, p. 21). The Application indicates the incidence of service failures was relatively low after the initial stabilization period, which followed implementation of the current system. The service failure rate did not increase significantly until 2008. (Exhibit B-4, p. 54)

The Panel notes that a summary of recent service results indicates that most of the difficulties related to accuracy of billing, which Terasen asserts are largely due to staff turnover, and a need to upgrade the underlying technologies. (Exhibit B-4, p. 54) This matter was further examined in response to BCUC IR 1.8.5 where Terasen stated that of the 14 service exceptions cited, ten were either directly or indirectly related to issues with an upgrade to the current Peace CIS, Peace 8.04, and three were related to system upgrades required to implement a tax change.

As well, in response to BCUC IR 1.8.9, Terasen states that from January 2008 to date it has addressed a total of 26 Better Business Bureau (BBB) complaints and has had two issues that were aired on CTV’s “Olsen on Your Side.” Of the BBB complaints, it notes that 12 were related to late stage billing collection and, given the current economic downturn, might be expected. The remaining 14 were related to billing issues which it states should have been handled and closed by call centre staff to preclude their escalation.

Terasen states that it has escalated its concerns to CustomerWorks and Accenture (the operating contactor for CustomerWorks) and reports that steps have been taken to address the shortfalls by CustomerWorks at its cost. That notwithstanding, Terasen submits that such actions only address the issues going forward, and that it is concerned about the sustainability of such solutions given that these issues continue to occur. (Exhibit B-10, BCUC 1.9.2.1)

BCOAPO does not take direct issue with the information provided by Terasen as to service failures, but notes the apparent conflict with statements made by the company in its recent F2010/F2011 Revenue Requirements Application (F2010/F2011 RRA). It references two submissions by Terasen in that proceeding: firstly, that “customer service levels have increased” and secondly, that “over the [Performance Based Rates (PBR)] period, it has achieved record high levels of customer satisfaction, and has generally met or exceeded the levels set out in the [Service Quality Indicators (SQI)].” (BCOAPO Argument, para. 36)

BCOAPO submits that the truth likely lies somewhere between Terasen’s two inconsistent positions. It further questions why various functions relating to collections and billing are to remain outsourced since that is the area where many of the service problems reside (BCOAPO Argument, paras. 36-37). As well, the BCOAPO notes that Terasen ranks about the same as BC Hydro in terms of service and satisfaction levels as reported in the Angus Reid Survey submitted in the Application. (BCOAPO Argument, para.23).

The CEC does not comment directly on the Terasen evidence but expresses support for Terasen’s intention to build upon its service metrics using those currently in place as a base. The CEC recommends the Commission find that the incorporation of a customer service quality improvement strategy is in the customers’ interest. (CEC Argument, pp. 21-22)

COPE makes no direct comment on the information provided but notes that the turnover rate, a concern of Terasen in its current arrangement, is substantially lower in its experience with in-house call centres when compared with out-sourced entities. COPE reports that turnover at BC Hydro’s Accenture operated call centre has been more than 50 percent since 2005 while the in-house

Insurance Corporation of British Columbia call centre has a turnover below 10 percent (COPE Argument, p. 6).

In Reply, Terasen takes issue with the BCOAPO's argument concerning the consistency of the company's representations with respect to customer service in this proceeding and those it made in the 2010/2011 RRA review. Terasen submits that its representations in the context of the PBR period referenced in that proceeding establish clearly that "service has deteriorated in the past 18 months" but over the six-year period of the PBR "the service has generally met the metrics," indicating varying levels of service over the period in question. Further, Terasen takes the position that the BCOAPO has left a false impression by quoting from the Executive Summary (which is abbreviated) of that F2010/F2011 RRA Application and ignoring the body of the Application, which more clearly explained the deterioration of service quality. (Terasen Reply, p. 13)

## **Discussion**

The Panel acknowledges the importance of providing reasonable or adequate customer service as a consideration in determining whether the Project is in the public interest. From the evidence presented by Terasen, it is clear there has been an increase in the frequency of service failures over the period spanning early 2008 through July of 2009. The Panel accepts Terasen's Reply to the BCOAPO's submission as to the apparent inconsistencies in Terasen's representations of the state of its customer service quality.

Of concern to the Panel, however, is the lack of evidence with regard to the experience of comparable utilities, which would provide some context to Terasen's submissions. Terasen provided no evidence to suggest that CustomerWorks/Accenture's performance is substantially weaker than might be expected in other utilities, particularly given the impact of Terasen's system changes during the period in question. The Panel also notes that the customer satisfaction survey results of Terasen and BC Hydro, which also has outsourced much of its customer care functions to Accenture, are similar. Further, while stating that its concerns had escalated, Terasen did not present any evidence to suggest it had exhausted all avenues to finding a solution to its ongoing

customer service concerns within the framework of the current CSA.

Given Terasen's emphasis on customer service quality as a basis for its on-going sustainability as an organization, the Panel expects that Terasen would have introduced evidence supporting a more comprehensive service improvement response.

### **Commission Determination**

**Notwithstanding the above, based on the evidence and submissions before it, the Panel cannot conclude there is no potential for improvement in Terasen's customer service quality if the Project is approved. Accordingly, the Panel accepts that the potential for improvement and the increased functionality provides some justification for the Project.**

### **5.3 Changing Competitive and Evolving Policy Environment**

The issue for the Panel in this area is whether the changes which Terasen states have occurred in its business environment are relevant to reaching a determination with respect to the Project.

Terasen submits that the public has accepted that Greenhouse Gases (GHGs) are a contributing factor to climate change and this fact cannot be ignored. Terasen states that it supports sustainability initiatives through its Energy Efficiency and Conservation programs and that it is committed to being part of the solution by ensuring customers have access to the energy they need while also promoting energy efficiency and conservation. Since energy efficiency and conservation represent challenges to Terasen's traditional natural gas business, Terasen considers undertaking and exploring new products and initiatives that support government policy important, but expresses concern that the common perception in British Columbia is that natural gas is a fossil fuel and is not "green". Given this, its concern is that some people will make decisions as to the type of energy they use based on an incomplete understanding of the issue (Exhibit B-4, pp. 34-36; Terasen Argument, p. 12).

As well, Terasen states that the erosion of the historic cost advantage of natural gas is impacting the usage levels of its customers. It submits that “...natural gas faces challenges in the B.C. marketplace due to the differing nature of how natural gas and electricity costs are reflected in rates. Increases in natural gas prices incent customers to reduce their energy consumption or look for cheaper alternatives to meet their energy needs. Both cases lead to reduced consumption levels on the natural gas system which negatively impacts existing customer rates, all else being equal.” (Exhibit B-4, p. 36)

Terasen contends that the changes in its business environment have a direct impact on the requirements of its customer care function, necessitating:

- a CIS platform that can efficiently support the incorporation of new products or services;
- representatives in customer facing positions who have an understanding of regional issues and their implications; and
- an increased ability to provide information to customers concerning energy use and possible options to vary energy consumption.

Terasen points out that newer CIS systems, such as that proposed, have a greater level of functionality and use more current technology thereby allowing for enhanced onsite configuration capabilities, an improvement in speed and the ease of system modification. Further, by bringing customer care in-house, Terasen will have control over staff selection and training, which will in turn allow it to engage staff with improved local knowledge and a better understanding of marketplace events and how to relate them to the customer experience. Terasen submits that the Project is key in its response to an evolving competitive and policy environment. (Exhibit B-4, pp. 37-39)

No Intervener directly contested Terasen’s position as to a changing policy environment. However, both the CEC and the BCOAPO disagree with Terasen’s contention that competitive pressures have led to erosion in the favourable pricing of natural gas as compared to electricity. The CEC notes that the relative commodity price of natural gas has improved recently and submits that the price

of electricity will increase significantly in the future due to the added cost of new supply and increased usage. (CEC Argument, pp. 5-6)

BCOAPO views the Residential Inclining Block rate for electricity as an advantage for Terasen, and points to evidence in the recent Terasen ROE proceeding, which suggested that natural gas will have a continuing price advantage over electricity (BCOAPO Argument, paras. 20, 21).

In Reply, Terasen submits that the “BCOAPO cites its *own argument* in the recent Return on Equity and Capital Structure (‘ROE’) proceeding, *not evidence in this proceeding*, as support for its ‘view’ that [Terasen] does not face increased competition.” Terasen takes the position that the ROE Decision accepted that Terasen faces additional business risk, making BCOAPO’s submissions “moot and unpersuasive”. (Terasen Reply, p. 5)

## Discussion

Both Terasen and the Interveners referenced the Terasen ROE proceeding in support of their respective positions. The Panel notes that in the ROE Decision the Commission was specific in its determinations on the subject of risk. At page 36 of that Decision, with respect to Intervener submissions that the competitive position of natural gas compared with electricity was a risk that had diminished since 2005, the Commission said:

“...the Commission Panel considers that natural gas’ competitive edge over electricity is dependent on too many significant variables, such as the level of carbon tax, the volatility of natural gas prices and the impact of government policy on BC Hydro’s rates, to be considered permanent.”

The Panel has no new evidence before it in this proceeding which could result in it forming a different view.



In the ROE Decision the Commission did, however, support Terasen's submissions that the change in government policy could cause potential customers to avoid selecting natural gas over electricity. In that regard, at page 37 of that Decision, the Commission said:

"The Commission Panel agrees with Terasen that the introduction of climate change legislation by the provincial government has created a level of uncertainty that did not exist in 2005 and that the change in government policy will quite probably cause potential customers not to opt for natural gas and persuade potential retrofitters to opt for electricity."

Here again, the Panel has no new evidence before it which could result in it coming to a different view.

Accepting that there has been a change in the business environment, which could impact Terasen's ability to attract and retain customers, two questions arise. First, what impact will the introduction of a new customer care model have and second, is it appropriate that this be a consideration in reaching a determination on this Project?

Terasen's submission that mitigation of the risks and effects of changes in its business environment could be accomplished through the improvements in its customer care functions proposed in the Project, while perhaps intuitively reasonable, was not supported by any projections as to the forecast growth in its customer base with and without the Project. Therefore, it is unnecessary to answer these two questions.

### **Commission Determination**

Having considered the submissions, the Panel does not see the Commission's role in its reviews of CPCN Applications to be that of assisting any particular utility in adapting to the commercial risks and other implications of government policies and societal views that impact all utility service providers in the Province, particularly where there is competition between them for providing service to the same customer group. The Panel views ROE proceedings as the appropriate venue

for such matters. **Accordingly, the Panel gives little weight to Terasen's submissions to justify the Project on that basis of its changing business environment.**

## 5.5 Other Project Benefits

Terasen summarizes its views as to the primary benefits of the Project as follows:

1. Additional functionality will be made available which will provide customers access to additional service channels as well as making more information available regarding their energy use and steps to more effectively manage levels of consumption.
2. The company's ability to deal with change will be enhanced by having control over customer interfaces and supportive technologies. This will allow Terasen to place priority on those changes which offer the greatest value to both the customer and the company. As a result, it will be better able to adapt to changing business environment and customer expectations.
3. Bringing the call centre in-house will facilitate company representatives having a greater understanding of primary issues affecting the company or the region and the implications for the customer base.
4. Customer Service will be enhanced due to the location of the billing and back office function within the call centre.
5. An internally managed customer care organization will facilitate service quality improvements through enhanced metrics. Currently, adjustments to metrics must be negotiated with the service provider which Terasen feels is cumbersome, time consuming and not necessarily cost effective.

(Terasen Argument, pp. 28-30)

In addition to the above, Terasen states that as a direct result of the Project, there will be immediate socio-economic benefits including: the creation of 650 jobs, an approximate increase in Provincial GDP of \$40 million, and a tax revenue increase of \$7 million. Ongoing benefits include the creation and continuation of 400 new jobs by 2012, an increase in Provincial GDP of \$25 million and tax revenue of approximately \$4.5 million. Terasen submits that recognition of these benefits greatly enhances the case for issuing a CPCN for the Project. (Terasen Argument, pp. 31-32)

The CEC states that the Project “is expected to provide a platform for the achievement of both service quality improvements and cost reductions.” It further notes that Terasen has not quantified these opportunities and that, in answer to CEC IR 2.8.1, Terasen, in fact, submitted that the quantification of benefits is most appropriately left to future RRA proceedings. The CEC accepts this as reasonable, but requests the Commission require Terasen to regularly report on the identification of service improvement and cost saving opportunities as part of the approval process. (CEC Argument, pp. 25-26)

COPE, while acknowledging the Project addresses the shortcomings of the present model and provides TGI the flexibility to adapt to future developments, submits that, from its perspective, the broad socio-economic benefits are most significant. (COPE Argument, p. 5)

BCOAPO takes no position in respect of the Project’s benefits to ratepayers, but indicates its support for the socio-economic benefits which could result. The BCOAPO also submits that Terasen itself stands to gain \$10 million (after tax), risk free, and further, if the Project leads to improvements in customer service and related satisfaction levels as postulated, any improvement in goodwill or reputation will also benefit Terasen. BCOAPO further states that, while it accepts that a utility can benefit from prudently incurred capital expenditures, it has difficulty accepting a situation where “ratepayers incur 100% of the risk, with questionable benefits, while shareholders bear zero risk and reap very real benefits...” (BCOAPO Argument, paras. 40-41).

Terasen contests the assertion of BCOAPO that it earns without risk. Terasen submits that, while in law the utility is entitled to an opportunity to earn a regulated return on incurred costs which are prudent, it must bear the risk for incurred costs which are imprudent. Concerning the BCOAPO argument that the benefit of improvements in customer service and satisfaction levels goes to the utility in the form of enhanced goodwill, Terasen submits that the primary beneficiary of any such improvements is the customer who is using the service. Further, Terasen states there is no evidence on the record which indicates the Project will enhance goodwill nor is there any evidence to suggest it is pursuing the Project for that purpose (Terasen Reply, p. 15).

## **Discussion**

The Panel notes the general consensus of the parties with respect to the anticipated benefits of the Project, albeit with a significant emphasis on the estimated socio-economic benefits to the Province. The Panel also notes the support which the Project received by way of letters of comment from representatives of the municipalities to be potentially impacted.

The Panel accepts that the assertion of BCOAPO that the shareholder earns without risk is not necessarily correct. However, the Panel does see some merit in the argument raised by the BCOAPO concerning enhanced goodwill. In the Application Terasen states: “[t]hrough this model, we will be positioned to support our long term success in the B.C. marketplace by differentiating [Terasen] through customer service and transforming the customer service function into a strategic asset, which is best created through Terasen Gas owned and managed capabilities.” (Exhibit B-4, p. 45) In the view of the Panel this statement does provide support for the BCOAPO’s contention that the shareholder will gain as a result of the Project.

## **Commission Determination**

Having considered the submissions, the Panel accepts there will be benefits to customers due to improvements in the areas of functionality, capability to deal with change, representation, access to the billing function and enhanced service metrics resulting from the Project. However, the Panel does not accept that significant improvement could not have been made in these areas through closer management of the outsourced relationship. If, for example, Terasen had developed a complaint resolution process allowing for the transfer of longer duration or more serious complaints to the company, would these complaints have been resolved in a more satisfactory manner? No evidence was submitted to suggest this was considered. Another example lies in the lack of evidence suggesting that Terasen had looked at possible ways to put in place a program to support existing call takers in being able to better handle calls related to some of the primary issues facing the company. While not an exhaustive list, these examples serve to highlight the Panel’s concern in providing unqualified support for the project.

**Subject to a successful implementation of the proposed Project, the Panel finds that there will be benefits to some, if not all of Terasen's customers, and potentially significant, but un-quantified, socio-economic benefits.**

In particular, the added functionality offered by the proposed CIS and the flexibility afforded by in-sourcing the principal customer-facing care functions will result in improvements to Terasen's customer service capability and quality.

**Accordingly, subject to its determinations in other Sections of these Reasons, the Panel finds that achieving the benefits of the proposed Project is in the public interest.**

However, the Panel remains unconvinced that Terasen's management of the existing CSA with CustomerWorks has been effective-particularly given Terasen's (indirect) ownership role in that entity.

**Accordingly, while accepting there is support for a finding of the Project being in the public interest with respect to need and desirability, the Panel finds the benefit to ratepayers to be marginal.**

## **6.0 PROJECT ALTERNATIVES**

In order to comply with the Commission's CPCN Guidelines in effect at the time of this filing, the Application must encompass:

- studies or summary statements identifying ... alternatives considered (if applicable), and
- a study comparing the costs, benefits and associated risks of the project and alternatives which estimates the value of all of the costs and benefits of each option

(Letter L-18-04, 3.(i), (ii))

For convenience, the relevant CPCN Guidelines are provided as Appendix F to these Reasons.

The Panel notes that, notwithstanding the evidence and submissions to the effect that alternative means of achieving the objectives of the Project were possible, the only alternative considered by Terasen with respect to the Project as a whole was to continue with the CustomerWorks CSA, which alternative Terasen stated was unacceptable to it, and which alternative, in its view, would be more costly to its customers than the implementation of the proposed Project. For various reasons, some of which may have been beyond Terasen's control, no reasonable alternatives to the Project or its execution (as a whole) were put before the Panel for review. As a consequence, Terasen's submissions in respect of alternatives were limited.

In this Section, the options considered by Terasen for the selection of:

- CIS Software;
- CIS Implementation and Maintenance;
- Billing and Back Office Operations; and
- Call Centres

are reviewed.

## **6.1 CIS Software**

The scope, purpose, and functional requirements of the CIS element of the Project are described at Section 4.1 of these Reasons.

Terasen proposes to own its own CIS software rather than continue to purchase the service, as it considers the ownership model provides better flexibility to manage all aspects of the CIS life cycle. In support of this decision, it cites a recent article published by UtiliPoint which found that only 7 percent of the over 200 utilities surveyed currently have outsourced CIS. (Exhibit B-4, p. 57)

Terasen's decision to purchase commercial, "off the shelf" packaged software as opposed to custom software was based on its views that custom software is more cumbersome and complex, the system documentation is difficult to maintain, support resources are hard to obtain, and any upgrades would need to be made at the instance of the company. In contrast, vendors of the packaged solution have incentive to innovate. Terasen states that there are now enough different packaged options available to preclude any need for a custom solution. (Exhibit B-4, p. 59)

Having made its decision to purchase commercial, "off the shelf", packaged CIS software for what is in essence the "platform" upon which all of the customer care functions either reside or, such as in the case of the call centre software, interface with, Terasen conducted a Request for Proposal (RFP)/ Request for Quotation (RFQ) process facilitated by an independent third party - Micon Consulting. (Exhibit B-4, p. 61)

Three vendors: Oracle, SAP, and Hansen Technologies (Hansen, owners of the Peace CIS currently in use under the CSA), were contacted. Hansen's response was deemed incomplete by Terasen in that it did not include details regarding the desired requirements, and provided only a high level narrative overview of each functional area and a self-assessment by Hansen as to how well its system could meet Terasen's overall requirements. After consideration of the remaining two alternatives, Terasen assessed the SAP system as being optimal in terms of functionality, ease of implementation, cost effectiveness and its ability to be integrated with other Terasen systems, which are primarily SAP based. (Exhibit B-4, pp. 58-67)

As noted above, Terasen effectively eliminated the Peace system from consideration early in its decision process. As well as the deficiencies Terasen found in Hansen's response, Terasen also had concerns as the ownership of Peace was in question. When Peace was acquired by Hansen in 2008, Terasen states that it did make further inquiries concerning the Peace CIS. Terasen takes the position that Hansen did not provide a sufficiently detailed response to allow it to make a useful comparison with the other two alternatives. Terasen also notes that the Peace system proposed by Hansen is in part a customized system as opposed to a true packaged system, which is the product

Terasen prefers.

Hansen registered as an Intervener in the proceedings, tendered evidence, and submits that Terasen ought to continue to use the Peace system. Hansen states that the existing Peace system has much of the functionality which Terasen says it needs, but which Terasen has not to date elected to implement, and that the existing Peace system can be enhanced to provide the additional functionality required at lower risk and more cost effectively than the introduction of a new CIS system. (Exhibit C6-4)

Hansen further submits that the introduction of a new CIS system along with the other aspects of the Project increases the complexity of the Project and hence the risks of delay and cost overruns. Hansen argues that the risks and costs would be reduced if the current Peace system was brought in-house, as opposed to in-sourcing an entirely new system. (Hansen Argument, pp. 1-2)

Terasen disagrees with the position taken by Hansen. Terasen states that there are a number of functions that are not now supported by, or are inadequately supported by, the current Peace system, and that Hansen has failed to demonstrate that its most current version, Peace X, can meet all of Terasen's stated needs. Terasen also notes that Gartner describes Hansen as a "niche player." (T3: 169-170; Terasen Reply, pp. 54-55)

Terasen further argues that Hansen declined Terasen's invitation to file information with the Commission regarding the capability of Peace X to meet Terasen's requirements (TGI Argument, pp. 9-11).

### **Commission Determination**

The Panel accepts Terasen's submission that Hansen's initial response to Terasen's RFQ was inadequate in that the information provided did not address Terasen's concerns, nor did it address individual requirements or provide adequate supporting detail to allow comparison with other alternatives. The Panel also accepts that Hansen's software is not a true "off the shelf" product



and therefore does not meet Terasen's stated requirements in that regard.

**Accordingly, the Panel finds that Terasen's decision to eliminate the Hansen product as an option for the Project was not unreasonable.**

The Panel remains concerned, however, that the Application is deficient with respect to compliance with the intent of the CPCN Guidelines in that no alternatives to the Project as a whole, or as severable parts, have been presented for review.

**However, the Panel accepts the process undertaken to select the vendor of the CIS platform from the remaining two candidates as having been effectively undertaken in the circumstances. Given that the SAP software can be readily integrated with that already in use at Terasen, its choice of SAP as the CIS software supplier is a reasonable one, in the Panel's opinion. Notwithstanding the concerns raised above, the Panel also accepts the alternative of having the SAP CIS in-house, rather than out-sourced, as it affords Terasen the capability to more closely manage the new SAP CIS operation and its inter-relationship with other systems which are already in-house.**

## **6.2 CIS Implementation and Maintenance**

The scope, purpose and functional requirements for the CIS implementation and maintenance element of the Project are described at Section 4.2 of these Reasons.

Terasen considered two implementation strategies: a phased approach and a one-time full implementation approach. Terasen selected a one-time full implementation approach on the basis that it represented "the only logical implementation strategy for a change of this magnitude." Terasen's decision flowed from its choice of SAP software, with its high degree of integration. Terasen states that "[t]here is no way to implement certain functions in SAP and continue to use the existing Peace system without significant modifications to both systems- even if it could be done at all. Neither system could operate in that manner without significantly increasing cost, risk and complexity." (Exhibit B-4, p. 71)

Terasen chose HCL Axon as its proposed System Integrator for the Project. The selection of HCL Axon was made following a competitive selection process which was facilitated by Micon Consulting, an independent consulting firm with experience in the utilities industry.

With respect to maintenance beyond the CIS implementation phase choosing SAP CIS, Terasen took into consideration its current SAP based applications and the advantages they would bring, including synergies with existing support staff and infrastructure, as well as streamlining of business processes, the reduction in technical complexity, and the elimination of the current need to reconcile common data elements that exist between its in-house SAP systems and its outsourced CIS. Terasen states these factors were major considerations in its decisions pertaining to in-house execution of the ongoing maintenance of the proposed CIS. (Exhibit B-4, pp. 71-75)

No Intervener expressed concern with either Terasen's selection of HCL Axon as its proposed SI, or with Terasen's selection of SAP when viewed in the context of the ongoing maintenance of its proposed CIS.

### **Commission Determination**

**Subject to its concerns with Terasen's arguable failure to comply with the CPCN guidelines in reaching its decision to propose the in-house SAP CIS as recorded at Section 6.1 above, the Panel accepts the process by which Terasen selected HCL Axon as its proposed SI for the proposed Project, and its proposal for in-house maintenance of the CIS post implementation.**

### **6.3 Call Centres**

Terasen proposes to in-source its call handling function with the creation of two in-province call centres, one in Prince George and the other in Surrey, BC. The functionality, purpose and implementation plan for the call centres has been described in Section 4.5.

Terasen dismissed the possibility of continuing to outsource its call handling function, without obtaining quotations from alternative providers of the service, on the basis that such a model does not meet its needs, and it would have no intention of awarding a contract in response to quotes. Terasen also cites the provisions of its existing CSA with CustomerWorks and CustomerWork's right of first refusal as an additional reason it did not attempt to obtain alternative quotes. (Exhibit B-4, p. 79)

Although Terasen investigated the possibility of locating the call centres in various provinces in western Canada, the decision to locate the call centres in BC was in part influenced by Terasen's view that "regional knowledge is a significant factor in ensuring customer service quality." (Exhibit B-4, pp. 81-82)

While providing little quantitative analysis to support its position, Terasen submits that its proposed call centres "are at least as cost competitive as alternatives that may be available in British Columbia" based on its analysis of the component parts. (Exhibit B-19, BCUC 2.13.1)

In summary, Terasen did not explore the option of engaging a third-party provider to provide the call centre function interfacing with its proposed in-house SAP CIS system. Nor did Terasen obtain cost estimates for continued outsourcing of that function to CustomerWorks/Accenture. Finally, Terasen did not seek appropriate amendments to the CSA to recognize and deal with its proposal to bring the CIS interface in house.

With respect to the technology to be employed in its proposed call centres, Terasen states that such technologies have significantly evolved over the past 10 years, and have become what it describes as "integrated interaction product suites" which have the capability "of addressing emerging customer preferences for self serve and electronic communication channels such as e-mail and chat." (Exhibit B-4, p. 85)

Terasen initiated a RFQ process with the leading providers of call centre technologies and submits that it "identified the most suitable call handling technology and conducted a competitive process

to cost that technology.” (Exhibit B-19, BCUC 2.13.1) This process is more fully described in the Application at page 85 et. seq. At the end of the selection process, Terasen identified Aspect Software Inc.’s unified call centre suite as having the best combination of implementation approach, functional fit and cost.

No Intervener took significant issue with Terasen’s selection of Aspect Software as a provider of the systems for its in-sourced call centres or with its proposal to in-source that function.

### **Commission Determination**

The Panel again records its concern with respect to the absence of any meaningful consideration of alternatives to in-sourcing its call centre functions. However, the Panel also notes the strong support for Terasen’s call centre proposal from Interveners representing a preponderance of its ratepayers based on the apparent socio-economic benefits of Terasen’s proposal, as recorded at Section 5.1 above.

**On balance, the Panel accepts the process by which Terasen’s reached its proposal to in-source its call centre functions, and its proposed choice of software provider.**

### **6.4 Billing and Back Office Operations**

The scope, purpose, and functionality requirements of the BBO aspect of Terasen’s proposed Project are described at Section 4.4 above.

With respect to its lack of consideration of alternatives for this function, Terasen states that its CSA with CustomerWorks limits its ability to issue an RFQ for discrete services such as the BBO functions as they are included in the current suite. (Exhibit B-4, p. 88)

Terasen submits that the overlap between BBO and call centre operations supports an operating model which addresses the two functions collectively. Terasen proposes moving these functions

in-house, firstly because, due to the complexity of the processes involved, the specialized skills and company and industry knowledge required are not generally available in an outsourced arrangement, and secondly, because there are operational synergies in having BBO functions in the same location as the call centre. (Exhibit B-4, p. 88)

No Intervener took particular issue with Terasen's selection process in respect of its proposed in-sourcing and location of the BBO operations.

### **Commission Determination**

**Again, subject to its concerns with respect to both Terasen's compliance with the CPCN Guidelines and the unresolved dichotomy between Terasen's current position as to the limiting nature of its CSA with CustomerWorks in this proceeding, in contrast with the position taken at the time of outsourcing described at Section 3.1 above, the Panel accepts the process leading to Terasen's proposal to in-source the Billing and Back Office operations element of the Project.**

## **7.0 COST-EFFECTIVENESS**

Given the Panel's finding at Section 5.5 of these Reasons that the Project is of marginal benefit to ratepayers, it is important that the cost of the Project, as measured by its impact on rates and hence the ratepayers who are responsible to pay for it at the end of the day, is reasonable. The impact on ratepayers is determined by not only the Project costs themselves, but also the future ongoing operating and maintenance and other costs which will not be incurred until the Project is implemented.

## **7.1 Project Costs**

Terasen estimates its total costs to implement the Project prior to the “go-live date” of January 01, 2012 will be \$115.5 million including an allowance for funds used during construction (AFUDC) made up of:

- (i) capital costs, including AFUDC, of \$68.4 million
- (ii) deferred O&M costs, including AFUDC, of \$40.4 million
- (iii) capital lease costs of \$6.7 million

(Exhibit B-21, BCUC IR 3, Attachment 9.11 (b))

Terasen proposes to include the costs incurred prior to the go-live date in a non rate base deferral account attracting AFUDC for future transfer to a rate base deferral account for recovery in rates once the Project is complete. (Exhibit B-4, p. 1; BCUC 1.1)

The Project Costs in more detail are provided in the following table:

COST COMPONENTS (\$,000)*								
				Total	PROJECT IMPLEMENTATION			
					2009	2010	2011	2012
Capital – CIS Implementation								
		Consulting		11,730	862	9,638	1,230	
		Internal Labour		5,897		2,453	3,444	
		Expenses		959		1,283		-324
		Software		5,183		4,841	342	
		Hardware		996		731	265	
Subtotal				24,765	862	18,946	5,281	-324
Capital- Services Insourcing								
		Consulting		25,972	770	3,564	18,256	3,382
		Internal Labour		4,209		1,622	2,587	
		Facilities		7,821		1,207	6,614	
		Expenses		163	163			
		Software		997		591	406	
		Hardware		2,265		14	2,251	
Subtotal				41,427	933	6,998	30,114	3,382
Total Plant Additions								
		CIS		24,765	862	18,946	5,281	-324
		Service Insourcing		41,427	933	6,998	30,114	3,382
Subtotal				66,192	1,795	25,944	35,395	3,058
		AFUDC		2,256		835	1,421	
Total Plant Additions				68,448	1,795	26,779	36,816	3,058
Deferred O&M								
		Internal Labour		9,210		77	9,133	
		Expenses		29,983		3,217	21,027	5,739
Subtotal				39,193	0	3,294	30,160	5,739
		AFUDC		1,178		92	1,086	
Total Deferred O&M				40,371	0	3,386	31,246	5,739
Capital Lease				6,677	50	104	6,523	
TOTAL PROJECT COSTS				115,496	1,845	30,269	74,585	8,797

\*Source: BCUC IR 3.9.11 (a) Including Accounting Changes and IFRS Impacts  
(Exhibit B-21, BCUC IR 3, Attachment 9.11 (b))

The requirement for publicly-traded companies to comply with new International Financial Reporting Standards (IFRS) will be in effect by the time the Project is fully implemented in 2012. The above noted balances reflect corrections and updates up to and including the third round of IRs, anticipated impacts of the RRA decisions, accounting changes, and IFRS impacts. The Commission Panel has used figures that are consistent with IFRS in its analysis. The effect of IFRS on the total Project cost of \$115.5 million is negligible; however, IFRS does affect the categorization of those costs as between capital and deferred O&M.)

#### 7.1.1 Capital Costs

As reflected in the above cost component table, the capital costs of the Project or the “total plant additions” are made up largely of consulting fees (approximately \$38 million) and internal labour charges (approximately \$10 million) required to implement the new CIS platform and the new in-house service delivery organization (i.e. in-sourcing of billing and back office operations and call centres). (Exhibit B-4, p. 111) Terasen’s cost to get out of its CSA with CustomerWorks (provided on a confidential basis) is also included in consulting fees. (Exhibit B-4, Appendix X-Confidential)

#### 7.1.2 Deferred Operating and Maintenance Costs

Deferred operating and maintenance costs are largely made up of internal labour costs (approximately \$9 million) and related expenses (approximately \$30 million) associated with implementation of the Project, and incurred prior to the go-live date. They are described as relating to “the labour costs of the new customer service representatives, billing and back office operations personnel and the new operating costs of the two new call centres that need to be ready for use starting July [2011] to train the new employees.” (Exhibit B-4, p. 111)



### 7.1.3 Facilities

As discussed, Terasen proposes to provide the call centre function from two facilities, one in Prince George, which it will build and own, and the other in Surrey, which will be in leased premises. Terasen takes the position that having two call centres as opposed to one is not a more expensive proposition as the work is to be divided between the two. (Exhibit B-10, BCUC 1.75.2)

The cost of the Prince George building (approximately \$7.8 million) is included in the capital costs of the Project, whereas the Surrey lease, which is estimated to cost \$6.7 million, is set out separately.

### **Discussion**

Given the fact that the usual comparison of relevant alternatives to ensure cost effectiveness in support of a CPCN application is lacking in this case, the Panel considers that the cost effectiveness analysis, to the extent that it was done, is largely subjective.

A further concern is that the cost estimates provided in the Application and subsequent IR responses changed a number of times over the course of the hearing process. The Panel acknowledges that some changes in the cost estimates did result from further refinement of the estimates and greater certainty, but other changes were the result of modeling errors and/or input errors. (Exhibit B-21, BCUC 3.7.2) Changes attributable to error reduce the Panel's confidence in the cost estimates.

The cost-effectiveness analyses in support of the Application involve not only the amortization and depreciation of the estimated project costs of \$115.5 million, but also take into consideration other costs, most significantly, the estimated future ongoing operating and maintenance expenses once the Project goes live, as well as the earned return to the shareholder (Exhibit B-21, Attachment 9.11(b), Schedule 5). These costs are not directly the subject of this Application but of future

revenue requirement applications.

The reasonableness of the project costs of \$115.5 million are therefore difficult to assess in isolation from the future ongoing operating and maintenance and other costs.

## **7.2 Future Ongoing Operating and Maintenance Costs**

Future/ongoing operating and maintenance costs are estimated to be \$46.2 million in 2012, increasing annually at approximately the rate of inflation. (Exhibit B-4, p. 112; Exhibit B-2, Attachment 9.11 (b) Schedule 2) These costs are made up of costs relating to: customer advocacy, call centre operations, billing operations, outsourced services, IT support, HR support, facilities support and Management and Administration. As noted, the Application does not seek approval of future O&M costs; however, these costs are an integral part of the cost-effectiveness analysis of the Project on a go-forward basis and therefore are highly relevant to the Panel's consideration of whether or not the Project is in the public interest. It will be critical that these costs be carefully monitored and controlled once the Project is in operation.

In that regard, Terasen calculated its estimated cost per inbound call based on average historical volumes to be \$9.44 per call in 2013. (Exhibit B-10, BCUC 1.64.1) Terasen states that it cannot calculate its current cost per inbound call for comparison, as the costs are bundled on a cost per customer per year basis for all services provided by CustomerWorks. (Exhibit B-10, BCUC 1.64.2) Terasen takes the position that the general benchmarks contained in the 2009 Benchmark Portal LLC "Utilities Industry Benchmark Report" [which noted a 'utilities industry average' cost per inbound call of \$6.38 as compared to a 'best of utilities industry average' cost per inbound call of \$2.61 (Exhibit B-4, Tab N, p. 28)] are not necessarily appropriate comparisons, but, rather may serve as "high level indicators". Terasen's view is that while a "cost per call" analysis may be a useful measure to compare a company's own performance year over year, it is less useful when comparing different call centres, as other factors come into play such as prevailing labour rates, facility costs and corporate policies and processes which may affect typical call duration. (Exhibit B-19, BCUC 2.13.1)

## **Discussion**

The Commission Panel accepts there are factors such as those described by Terasen above that make a direct comparison between utility call centres on a “cost per call” basis more difficult. However, the Panel is concerned that a reliance on “cost per call” statistics solely to compare performance internally on a year over year basis as suggested by Terasen would provide an incomplete picture as it would capture only the company’s performance on an isolated basis. While not being determinative, the value of capturing utility industry averages with respect to “cost per call” performance is that it would provide an indication of Terasen’s performance with respect to its peers and, in some cases, lead to further examination and analysis requirements. Accordingly, the Panel expects Terasen will utilize this metric, both as a means of internal examination and as a means of providing insight on its performance relative to the industry, once the Project is up and running.

### **7.3 Cost of Service and Rate Impact**

As discussed, there are three basic categories of costs associated with the Project that will impact future rates. These are: future operating and maintenance and other costs; recovery of the Project costs of \$115.5 million through depreciation and amortization, and a shareholder return on invested capital (Exhibit B-21, Attachment 9.11 (b), Schedule 5). As noted, only the Project costs are the subject of the Application. The bulk of the Project costs will be amortized/depreciated over an eight-year period, which is representative of the accounting life of the computer software and related assets.

Terasen has provided alternative methods of analysing the impact of the cost of the Project (i.e. \$115.5 million) and its related future ongoing O&M and other costs and shareholder return when the Project commences in 2012. There will be no impact on cost of service or rates until the Project is operational in 2012 as all Project costs are deferred until that time. In order to evaluate the cost-effectiveness of the Project both a “levelized cost per customer” and a “revenue requirements and rate impact analysis” were conducted.

### 7.3.1 Levelized Cost per Customer

The levelized cost of service per customer provides the present value of the estimated future costs on a per customer basis, based on a discount period which reflects the length of time the Project is assumed to continue to provide benefits. (Exhibit B-21, Attachment 9.11 (b), Schedule 7) This number is compared to what Terasen describes as the “notional cost” of continuing with the existing outsourced customer care function, also on a per customer basis. Terasen takes the position that the levelized cost per customer analysis best illustrates this cost difference as it “is a simpler way of demonstrating the expected difference in the cost of the current arrangement with the cost of the Project.” Terasen also prefers this analysis as “it helps to capture the economies of scale benefits customers will realize over time as a growing number of customers use services for which costs are largely fixed” which it suggests the revenue requirements analysis does not. (Exhibit B-19, BCUC 2.25.8) Terasen assumes that its customer base will increase by approximately 20 percent from 959,757 customers in 2012 when the Project will take effect, over the twenty-year period ending in 2031, when it estimates it will have 1,150,075 customers. (Exhibit B-21, BCUC 3.9.11, Attachment 9.11 (b), Schedule 2)

### **Discussion**

Terasen's levelized cost per customer analysis is based on a twenty year evaluation period. Terasen states that this approach is most appropriate as a twenty-year period represents the foreseeable time the new customer care solution will be in use. As well, the depreciation period for the CIS software and installation costs is eight years, which corresponds with the accounting life of the software assets. (Exhibit B-10, BCUC 1.117.1) However, as illustrated in the table below, the evidence indicates that a shorter evaluation period of either eight or ten years does not show a positive financial benefit to customers when compared to the existing outsourced arrangement.

The table below is illustrative:

	8 years	10 years	20 years
<b>Levelized Cost per Customer (notional existing)</b>	\$68.32	\$68.85	\$71.46
<b>Levelized Cost per Customer (proposed)</b>	\$71.07	\$69.78	\$68.14

(Source: Exhibit B-21, BCUC 3.9.8)

### **Determination**

**Subject to the discussion below, the Panel accepts that the differences between the notional existing and proposed levelized costs on a per customer basis, as presented in the table above, are not of sufficient magnitude to cause concern, other things being equal.**

#### 7.3.2 Revenue Requirements and Rate Impact Analysis

The cost of the Project was also reviewed by way of a Revenue Requirements and Rate Impact analysis –which estimates the amount Terasen will seek to recover in rates over the assumed 20-year life of the Project. This cost is, again, compared with the notional cost of continuing with the existing outsourced system, over the same period.

This analysis indicates that the Project begins to provide a financial benefit to ratepayers in 2017, when the costs of operating the new system are expected to be lower than the notional costs of continuing with the existing system. (Exhibit B-21, BCUC 3.9.11, Attachment 9.11(b), Schedule 5)

### **Discussion**

The usefulness of the financial analyses is dependent upon the reasonableness of the assumptions which underlie the calculations.

Terasen submits that its estimate for O&M costs is reasonable, and notes that approximately 90 percent of future O&M costs are made up of internal labour and costs, which will continue to be outsourced, such that these costs are not likely to vary significantly from the estimates.

(Exhibit B-19, BCUC 2.27.3)

Terasen has concluded a collective agreement with the Union of Canadian Office and Professional Employees - Local 378 which will apply to the future employees in the proposed new workplaces. The collective agreement will provide some degree of cost certainty over its term and, according to COPE, “contains sufficient flexibility to allow Terasen to design an operating environment that is responsive and able to adapt to meet the evolving needs of Terasen’s ratepayers and the changes brought about by the current policy and regulatory environment.” (COPE Argument, p. 5)

As noted, Terasen’s submissions indicate the Project begins to provide a financial benefit to ratepayers in 2017. However, a sensitivity analysis indicates that a 5 percent increase in the estimated operating and maintenance costs would delay any cost saving to ratepayers until 2024 and a 10 percent increase would result in an additional delay to 2028. (Exhibit B-21, BCUC 3.9.12) In spite of the position taken by Terasen that the assumptions used in its calculations are “conservative” (Terasen Argument, p. 71), the Panel has reservations concerning some of the assumptions which underlie the future cost estimates.

First, the fact that ongoing operating and maintenance cost are only increasing at the rate of inflation in spite of an assumed increase in customers of approximately 20 percent over the measurement period raises concerns (Exhibit B-4, p. 112). In the view of the Panel, it would be reasonable to conclude that where the number of customers increases by as much as 20 percent, some level of increase in operating expenses beyond inflation would also be expected. Even if this were not the case, it is difficult to accept there is no increase assumed for other future costs over a twenty-year period. An example of this is property lease costs. The future cost projections assume no increase in lease payments over the twenty-year period, even though the lease payment must be renegotiated every five years, following the initial ten year term. (Exhibit B-21, BCUC 3.10.3.1)

Accordingly, the Panel cannot rule out the possibility, if not the likelihood, of higher ongoing future costs delaying the ratepayer cost savings well beyond the year 2017.

Second, the Panel has concerns in respect of the assumption relating to the increase in customers, particularly in light of the evidence and argument presented in Terasen's recent ROE application as discussed previously in Section 3.2 of these Reasons.

In the Panel's view the assumption made regarding the 20 percent increase in Terasen's customer base over the forecast period is a critical component of the cost-effectiveness analysis, without which the future cost per customer estimates used to support the cost-effectiveness of the Project would be very different.

BCOAPO notes Terasen's position that the levelized cost of the customer care arrangement proposed in the application "when compared to a continuation of the current customer care function is comparable and possibly less expensive." However, BCOAPO states that it has "some serious concerns about the reliability of the numbers used to derive this comparison " citing a recent cost overrun experienced on a pipeline and conversion project which was within Terasen's expertise and the costs associated with the (abandoned) Project Mercury, an IT project which was outside Terasen's core competence. (BCOAPO Argument, paras. 12, 52, 53)

In Reply, Terasen notes that the reasons for overruns on its past projects are "fact specific" and cannot be directly linked to this Project. Terasen further takes the position that it will implement measures to minimize the potential for cost overruns and also that it has budgeted appropriate contingency amounts for each of the Project components. (Terasen Reply, p. 21)

The CEC supports Terasen's estimate of its Project costs, but takes the position that the project should not be carried out "at any cost." The CEC suggests that Terasen should expect to be at risk for any project costs above the levels proposed. (CEC Argument, p. 22)

The Commission Panel gives considerable weight to the concerns expressed by the BCOAPO and the CEC.

The Commission Panel considers that there is significant uncertainty surrounding the future costs associated with the Project, particularly on a per customer basis, given the assumption of the increase in the customer base. The Commission Panel also notes the sensitivity analysis discussed above which indicates that even a moderate upward variance in future operating and maintenance costs will have a significant impact on the timing of any financial benefit flowing from the Project to ratepayers.

The Panel also notes that the Project itself is unlike a construction project where there can be considerable uncertainty associated with, for example, subsurface conditions. Here, the Project costs themselves are largely made up of consulting fees that can be more readily managed. Moreover, the cost estimates for consulting services have additional contingency amounts built in. (Exhibit B-4, Confidential Appendix A) In the Panel's view, Terasen should be in a much better position to control those costs than the types of costs incurred in other types of projects.

### **Commission Determination**

The Panel is unable to reach any particular finding in respect of the cost-effectiveness of the Project, given, as discussed at Section 6.0, the absence of the presentation of any alternatives to the Project and its implementation, other than in its entirety, as proposed by Terasen. The Panel's difficulty in this regard is compounded by the marginal benefits to ratepayers claimed by Terasen for the Project as discussed at Section 5.0 of these Reasons.

The Panel does not consider Terasen's analysis of the impact of the Project costs on its customers' rates to be particularly determinative inasmuch as the comparisons are only with the "status quo" (which Terasen has stated to be unacceptable to it) and the fact that the estimated benefit to customers is at best "borderline", as it is only positive on a 20 year Project life basis, and is negative on an accounting life basis of 8 years.



Notwithstanding the above concerns, and subject to its determinations elsewhere in these Reasons, the Panel accepts Terasen's estimates of the costs of the Project to the go-live date, and of the on-going O&M and other future costs of the Project. In addition, the Panel accepts the estimates of the impact of those costs on customer rates, as well as the assumptions used by Terasen in the development of costs (in the absence of any tangible evidence to the contrary). In reaching this conclusion, the Panel has given considerable weight to the support, albeit qualified, for the Project by the Interveners representing a preponderance of Terasen's customers.

## **8.0 SUMMARY OF COMMISSION CONSIDERATIONS AND CONCLUSIONS**

In prior Sections of these Reasons the Panel has accepted:

- Terasen's scoping of the Project and its implementation methodology (Section 4.0);
- Terasen's projected benefits of the Project to its customers— noting that they are in large part intangible and unquantified (Section 5.0);
- the processes by which Terasen selected the providers of the purchased elements of its Project, and its proposed methodology for the implementation and on-going sustainment of the Project - but noting its concerns as to the lack of compliance with the Commissions Guidelines for CPCN Applications (Section 6.0); and
- Terasen's estimate of the costs of the Project pre- and post- the projected go-live date of January 2012, as well as its estimates of the impact of those costs on its customers' rates (Section 7.0)

In making its findings in some of those Sections, the Panel has referenced the considerable weight it has accorded the support for the overall purpose of the Project that has been forthcoming from the CEC and the BCOAPO, the Interveners representing two major classes of Terasen's ratepayers. Given that reliance, the Panel believes it must consider and, if appropriate, address in its determinations the concerns those Interveners have recorded in their submissions as to the

potential risks that the estimated costs and/or schedule Terasen proposes for the Project will not be met, and/or the projected benefits projected by Terasen will not be realized.

With reference to Section 2.0 of these Reasons, where the Panel considered its jurisdiction and discretion to attach conditions, including hard cost caps to a CPCN determination, and the parties' submissions in the Oral Phase of Argument of the proceeding, as well as to Section 3.1, where the history of Terasen's customer care services is recited, the Panel notes those concerns, including in particular:

(a) On the part of the CEC:

- that the operation and sustainment of CIS systems, and call centres and BBO operations, was acknowledged by Terasen as not being a core competency, and was cited by it as a justification in support of its 2002 CPCN Application to outsource its customer care functions to CustomerWorks.
- that the credibility of Project cost estimates was a consideration in Terasen's acceptance of two prior Decisions of the Commission that encompassed sharing the risks of Project cost uncertainties with its ratepayers.
- that the projected improvements in customer service quality and potential improvements in customer service cost effectiveness were both un-quantified and not committed to by Terasen in its Application or in the course of the review.

(b) On the part of BCOAPO:

- that the test of a project's cost-effectiveness, no matter how liberally interpreted, could not consider only the benefits of a project and could not be satisfied without consideration of the cost of the Project and the credibility of that estimated cost.
- that the granting of CPCN for a project essentially deemed the costs incurred in the implementation and operation of that project to be prudently incurred by the utility; and, that the benefits to the utility are much more certain, in terms of the likelihood of its recovery of its incurred costs, than those projected to accrue to its customers through beneficial impacts on their rates.

With respect to the concern as to the credibility of Terasen's cost projections, the Panel notes that Terasen made no submissions as to what, if any, steps it had taken to have the implementation and sustainment of an in-house CIS operation including the call centre and BBO operations become a core competency since its acknowledgement of the contrary position it took in its 2002 CPCN Application to outsource its customer care functions. The only evidence Terasen presented was that it had experience with SAP software in some of its other enterprise management systems.

Given that reality, in its consideration of the Interveners' concerns in respect of the uncertainties beyond the projected go-live date of January 2012, and Terasen's submissions related to them, the Panel is persuaded that those matters respecting the cost-effectiveness of the in-house delivery of the customer care functions, and of the quantification and delivery of the projected benefits to rate payers, can be appropriately dealt with in future RRA proceedings.

However, given the uncertainty of future ongoing operating and other costs, and the marginal nature of the benefits which the Project is expected to provide to ratepayers, the Commission Panel believes that it is essential that the Project costs (which in fact represent a significant portion of the future customer care costs, particularly in the earlier years as they are recovered in rates) be known with a high degree of certainty. The Commission Panel is not prepared to issue a CPCN in the absence of such certainty.

Rather than suggest that Terasen re-submit its Application, the Panel proposes that if Terasen wishes to proceed with the Project, its directors must agree to the inclusion of the following term, which is intended to provide some flexibility and incentive to Terasen, while at the same time providing a range, outside of which the Project fails to be in the public interest, if funded solely by ratepayers:

"If the final cost of the Project is more than 10% greater or more than 10% less than \$115.5 million including AFUDC, the additional costs or savings outside that +/- band will be shared equally as between Terasen Gas and its ratepayers."

Accordingly, the Panel determines that:

1. Subject to paragraphs 2. and 3. below, the Application for a CPCN for the Project is denied.
2. Provided that Terasen files within 10 days of this Decision, a statement confirming its acceptance of the following as a term of the CPCN for the Project:

If the final cost of the Project is more than 10 percent greater or more than 10 percent less than \$115.5 million including AFUDC, the additional costs or savings outside that +/- 10 percent band will be shared equally as between Terasen Gas and its ratepayers,

a CPCN for the Project is granted as of the date that statement of acceptance is received by the Commission.

3. In the event that a CPCN is granted, Terasen is directed to:
  - (i) file Quarterly Progress Reports on the Project with the Commission including planned versus actual schedule, planned versus actual costs, and identification of any variances or difficulties the Project may be encountering and any other items as determined necessary by Commission staff. The Quarterly Progress Reports are to be filed within 30 days of the end of each reporting period. A Final Report is to be filed within six months of completion of the Project; and
  - (ii) file with the Commission a copy of the resolution of the Board of Directors of Terasen Gas approving the Project prior to the commencement of work on the Project.
4. In the event that a CPCN is granted, the amendments necessary to the scope of services in the existing Client Services Agreement with CustomerWorks LP to facilitate the Project are approved;
5. In the event that a CPCN is granted, the creation of a non-rate base deferral account attracting AFUDC, and the ability to record incremental operating and maintenance (O&M) costs associated with the Project incurred prior to the project implementation date of January 1, 2012 for the purpose of permitting cost recovery are approved;

In the event that a CPCN is granted, the creation of a rate base deferral account into which to transfer the accumulated amount in the non rate base deferral account, effective January 1, 2012 is approved.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 14<sup>th</sup> day of July 2010.

*Original signed by:*

---

ALISON A. RHODES  
PANEL CHAIR/COMMISSIONER

*Original signed by:*

---

DENNIS A. COTE  
COMMISSIONER

*Original signed by:*

---

ROBERT J. MILBOURNE  
COMMISSIONER

**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER G-23-10**

TELEPHONE: (604) 660-4700  
BC TOLL FREE: 1-800-663-1385  
FACSIMILE: (604) 660-1102

SIXTH FLOOR, 900 HOWE STREET, BOX 250  
VANCOUVER, B.C. V6Z 2N3 CANADA  
web site: <http://www.bcuc.com>



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

and

An Application by Terasen Gas Inc.  
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

**BEFORE:** A.A. Rhodes, Panel Chair/Commissioner  
D.A. Cote, Commissioner February 16, 2010  
R.J. Milbourne, Commissioner

**O R D E R**

**WHEREAS:**

- A. On June 2, 2009, Terasen Gas Inc. (Terasen Gas) filed an application for a Certificate of Public Convenience and Necessity pursuant to section 45 of the *Utilities Commission Act* (the Act), for its Customer Care Enhancement Project (Project) (the original Application); and
- B. The Project involves insourcing of key components of customer care services and the implementation of a new customer information system (CIS) under the control of Terasen Gas; and
- C. In the original Application Terasen Gas estimated the total Project implementation costs to be \$155 million including an allowance for funds used during construction (AFUDC); and
- D. The original Application also sought approval for the creation of a non-rate base deferral account attracting AFUDC and approval to record incremental operating and maintenance (O&M) costs associated with the Project and incurred prior to the Project implementation date of January 1, 2012 for the purposes of permitting cost recovery ; and
- E. Approval for the creation of a rate base deferral account into which the accumulated amount in the non-rate base deferral account will be transferred, effective the Project implementation date, for the purpose of recovering costs through customer rates pursuant to sections 59-61 of the Act was also sought; and
- F. On June 4, 2009, the British Columbia Utilities Commission (the Commission) issued Order G-68-09, which provided for, among other things, a Procedural Conference to be held on June 23, 2009; and
- G. On June 10, 2009, the Commission issued Letter L-38-09 advising of its concerns relating to the completeness of the original Application, and stating that the parties should be prepared to discuss this issue at the June 23, 2009 Procedural Conference; and

**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER            G-23-10**

2

- H. By letter dated June 15, 2009 Terasen Gas acknowledged the deficiency in its original Application and filed an addendum containing a number of financial schedules; and
- I. Following the Procedural Conference on June 23, 2009, the Commission issued Order G-79-09 wherein it provided a Regulatory Timetable that included a second Procedural Conference following the filing of the Evidentiary Update/Amended Application on August 28, 2009 and a further Workshop; and
- J. On August 28, 2009, Terasen Gas amended the original Application to provide additional information. The total Project implementation costs were revised to \$122 million including AFUDC; and
- K. On September 9, 2009, Terasen Gas held a Workshop with respect to the amended Application (hereinafter the Application); and
- L. A second Procedural Conference was held on September 11, 2009, following which the Commission issued Order G-107-09; and
- M. Two rounds of Information Requests directed to Terasen Gas and one round of Information Requests relating to Intervenor evidence proceeded as set out in Order G-107-09; and
- N. On November 13, 2009, the Commission received submissions from Terasen Gas and Intervenor on the appropriate regulatory review process to be followed for the further review of the Application; and
- O. On November 16, 2009, the Commission issued Order G-134-09 establishing a Written Hearing process and a Revised Regulatory Timetable which provided for a third round of Information Requests; and
- P. In its responses to the third round of Information Requests filed on November 27, 2009, Terasen Gas updated the total Project implementation costs including AFUDC to \$115.5 million; and
- Q. The Final Submissions of Terasen Gas and the Intervenor and the Reply Submission of Terasen Gas were filed in accordance with Commission Order G-134-09; and
- R. On January 18, 2010 the Commission issued Letter L-6-10 requiring an Oral Phase of Argument; and
- S. The Oral Phase of Argument took place on February 1, 2010; and
- T. The Commission Panel has considered the Application, the evidence and the submissions and has determined that the implementation of the Project is not in the public interest unless certain measures are agreed to by Terasen Gas to allocate the risk of material variances from the estimated Project cost to completion of \$115.5 million including AFUDC, as between Terasen Gas and its ratepayers.

**NOW THEREFORE** pursuant to sections 45 and 46 of the Act, the Commission determines, with Reasons for Decision to follow, that it is not in the public interest for Terasen Gas to implement the Project at a total cost of \$115.5 million including AFUDC and orders that:

1. Subject to paragraphs 2 and 3 of this Order, the Application for a Certificate of Public Convenience and Necessity for the Project is denied.

**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER        G-23-10**

3

2. Provided Terasen Gas files, within 10 days of this Order, a statement confirming its acceptance of the following as a term of the Certificate of Public Convenience and Necessity for the Project:

if the final cost of the Project is more than 10% greater or more than 10% less than \$115.5 million including AFUDC, the additional costs or savings outside that +/- 10% band will be shared equally as between Terasen Gas and its ratepayers,

a Certificate of Public Convenience and Necessity for the Project is granted as of the date that statement of acceptance is received by the Commission.

3. In the event that a Certificate of Public Convenience and Necessity is granted, Terasen Gas is directed to:
- (i) file Quarterly Progress Reports on the Project with the Commission including planned versus actual schedule, planned versus actual costs, and identification of any variances or difficulties the Project may be encountering and any other items as determined necessary by Commission staff. The Quarterly Progress Reports are to be filed within 30 days of the end of each reporting period. A Final Report is to be filed within six months of completion of the Project; and
  - (ii) file with the Commission a copy of the resolution of the Board of Directors of Terasen Gas approving the Project prior to the commencement of work on the Project.

**DATED** at the City of Vancouver, In the Province of British Columbia, this        16<sup>th</sup>        day of February, 2010.

BY ORDER

*Original signed by:*

A.A. Rhodes  
Panel Chair/Commissioner



**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER C-1-10**

SIXTH FLOOR, 900 HOWE STREET, BOX 250  
VANCOUVER, B.C. V6Z 2N3 CANADA  
web site: <http://www.bcuc.com>

TELEPHONE: (604) 660-4700  
BC TOLL FREE: 1-800-663-1385  
FACSIMILE: (604) 660-1102



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

and

An Application by Terasen Gas Inc.  
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

**BEFORE:** A.A. Rhodes, Panel Chair/Commissioner  
D.A. Cote, Commissioner February 26, 2010  
R.J. Milbourne, Commissioner

**CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY**

**WHEREAS:**

- A. On June 2, 2009, Terasen Gas Inc. (Terasen Gas) filed an application for a Certificate of Public Convenience and Necessity pursuant to section 45 of the *Utilities Commission Act* (the Act), for its Customer Care Enhancement Project (Project) (the original Application); and
- B. The Project involves insourcing of key components of customer care services and the implementation of a new customer information system (CIS) under the control of Terasen Gas; and
- C. In the original Application Terasen Gas estimated the total Project implementation costs to be \$155 million including an allowance for funds used during construction (AFUDC); and
- D. The original Application also sought approval for the creation of a non-rate base deferral account attracting AFUDC and approval to record incremental operating and maintenance (O&M) costs associated with the Project and incurred prior to the Project implementation date of January 1, 2012 for the purposes of permitting cost recovery; and
- E. Approval for the creation of a rate base deferral account into which the accumulated amount in the non-rate base deferral account will be transferred, effective the Project implementation date, for the purpose of recovering costs through customer rates pursuant to sections 59-61 of the Act was also sought; and
- F. On June 4, 2009, the British Columbia Utilities Commission (the Commission) issued Order G-68-09, which provided for, among other things, a Procedural Conference to be held on June 23, 2009; and
- G. On June 10, 2009, the Commission issued Letter L-38-09 advising of its concerns relating to the completeness of the original Application, and stating that the parties should be prepared to discuss this issue at the June 23, 2009 Procedural Conference; and

**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER C-1-10**

2

- H. By letter dated June 15, 2009 Terasen Gas acknowledged the deficiency in its original Application and filed an addendum containing a number of financial schedules; and
- I. Following the Procedural Conference on June 23, 2009, the Commission issued Order G-79-09 wherein it provided a Regulatory Timetable that included a second Procedural Conference following the filing of the Evidentiary Update/Amended Application on August 28, 2009 and a further Workshop; and
- J. On August 28, 2009, Terasen Gas amended the original Application to provide additional information. The total Project implementation costs were revised to \$122 million including AFUDC; and
- K. On September 9, 2009, Terasen Gas held a Workshop with respect to the amended Application (hereinafter the Application); and
- L. A second Procedural Conference was held on September 11, 2009, following which the Commission issued Order G-107-09; and
- M. Two rounds of Information Requests directed to Terasen Gas and one round of Information Requests relating to Intervener evidence proceeded as set out in Order G-107-09; and
- N. On November 13, 2009, the Commission received submissions from Terasen Gas and Interveners on the appropriate regulatory review process to be followed for the further review of the Application; and
- O. On November 16, 2009, the Commission issued Order G-134-09 establishing a Written Hearing process and a Revised Regulatory Timetable which provided for a third round of Information Requests; and
- P. In its responses to the third round of Information Requests filed on November 27, 2009, Terasen Gas updated the total Project implementation costs including AFUDC to \$115.5 million; and
- Q. The Final Submissions of Terasen Gas and the Interveners and the Reply Submission of Terasen Gas were filed in accordance with Commission Order G-134-09; and
- R. On January 18, 2010, the Commission issued Letter L-6-10 requiring an Oral Phase of Argument; and
- S. The Oral Phase of Argument took place on February 1, 2010; and
- T. The Commission Panel considered the Application, the evidence and the submissions of the parties and issued Order G-23-10 on February 16, 2010 with Reasons to follow. The Commission Panel determined that the implementation of the Project was not in the public interest unless Terasen Gas agreed, as required by paragraph 2 of Order G-23-10, to file a statement confirming its acceptance of the following as a term of the Certificate of Public Convenience and Necessity for the Project:

if the final cost of the Project is more than 10% greater or more than 10% less than \$115.5 million including AFUDC, the additional costs or savings outside that +/- 10% band will be shared equally as between Terasen Gas and its ratepayers,

within 10 days of the date of the Order; and

**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER C-1-10**

3

- U. Pursuant to paragraph 3 of Order G-23-10 the Commission directed Terasen Gas to file Quarterly Progress Reports and a Final Report on the Project and a copy of the resolution of the Board of Directors of Terasen Gas approving the Project in the event that a Certificate of Public Convenience and Necessity is granted; and
- V. On February 26, 2010, Terasen Gas filed a statement confirming its acceptance of the term required by paragraph 2 of Order G-23-10 as set out above; and
- W. Based on the letter of acceptance received from Terasen Gas the Commission Panel has determined that the Project is in the public interest and that a CPCN should be issued.

**NOW THEREFORE** pursuant to sections 45 and 46 of the Act, the Commission determines, with Reasons for Decision to follow:

- 1. The Application for a Certificate of Public Convenience and Necessity for the Project is granted with the term required by paragraph 2 of Commission Order G-23-10 and accepted by Terasen Gas.
- 2. Terasen Gas is directed to:
  - (i) file Quarterly Progress Reports on the Project with the Commission including planned versus actual schedule, planned versus actual costs, and identification of any variances or difficulties the Project may be encountering and any other items as determined necessary by Commission staff. The Quarterly Progress Reports are to be filed within 30 days of the end of each reporting period. A Final Report is to be filed within six months of completion of the Project; and
  - (ii) file with the Commission a copy of the resolution of the Board of Directors of Terasen Gas approving the Project prior to the commencement of work on the Project.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 26<sup>th</sup> day of February, 2010.

BY ORDER

*Original signed by:*

A.A. Rhodes  
Panel Chair/Commissioner

**UTILITIES COMMISSION ACT EXCERPTS**

**Certificate of public convenience and necessity**

- 45** (1) Except as otherwise provided, after September 11, 1980, a person must not begin the construction or operation of a public utility plant or system, or an extension of either, without first obtaining from the commission a certificate that public convenience and necessity require or will require the construction or operation.
- (2) For the purposes of subsection (1), a public utility that is operating a public utility plant or system on September 11, 1980 is deemed to have received a certificate of public convenience and necessity, authorizing it
- (a) to operate the plant or system, and
  - (b) subject to subsection (5), to construct and operate extensions to the plant or system.
- (3) Nothing in subsection (2) authorizes the construction or operation of an extension that is a reviewable project under the *Environmental Assessment Act*.
- (4) The commission may, by regulation, exclude utility plant or categories of utility plant from the operation of subsection (1).
- (5) If it appears to the commission that a public utility should, before constructing or operating an extension to a utility plant or system, apply for a separate certificate of public convenience and necessity, the commission may, not later than 30 days after construction of the extension is begun, order that subsection (2) does not apply in respect of the construction or operation of the extension.
- (6) A public utility must file with the commission at least once each year a statement in a form prescribed by the commission of the extensions to its facilities that it plans to construct.
- (6.1) and (6.2) [Repealed 2008-13-8.]
- (7) Except as otherwise provided, a privilege, concession or franchise granted to a public utility by a municipality or other public authority after September 11, 1980 is not valid unless approved by the commission.
- (8) The commission must not give its approval unless it determines that the privilege, concession or franchise proposed is necessary for the public convenience and properly conserves the public interest.
- (9) In giving its approval, the commission
- (a) must grant a certificate of public convenience and necessity, and
  - (b) may impose conditions about

(i) the duration and termination of the privilege, concession or franchise, or

(ii) construction, equipment, maintenance, rates or service,

as the public convenience and interest reasonably require.

**Procedure on application**

**46** (1) An applicant for a certificate of public convenience and necessity must file with the commission information, material, evidence and documents that the commission prescribes.

(2) The commission has a discretion whether or not to hold any hearing on the application.

(3) Subject to subsections (3.1) and (3.2), the commission may issue or refuse to issue the certificate, or may issue a certificate of public convenience and necessity for the construction or operation of a part only of the proposed facility, line, plant, system or extension, or for the partial exercise only of a right or privilege, and may attach to the exercise of the right or privilege granted by the certificate, terms, including conditions about the duration of the right or privilege under this Act as, in its judgment, the public convenience or necessity may require.

(3.1) In deciding whether to issue a certificate under subsection (3), the commission must consider

(a) the government's energy objectives,

(b) the most recent long-term resource plan filed by the public utility under section 44.1, if any, and

(c) whether the application for the certificate is consistent with the requirements imposed on the public utility under sections 64.01 and 64.02, if applicable.

(3.2) Section (3.1) does not apply if the commission considers that the matters addressed in the application for the certificate were determined to be in the public interest in the course of considering a long-term resource plan under section 44.1.

(4) If a public utility desires to exercise a right or privilege under a consent, franchise, licence, permit, vote or other authority that it proposes to obtain but that has not, at the date of the application, been granted to it, the public utility may apply to the commission for an order preliminary to the issue of the certificate.

(5) On application under subsection (4), the commission may make an order declaring that it will, on application, under rules it specifies, issue the desired certificate, on the terms it designates in the order, after the public utility has obtained the proposed consent, franchise, licence, permit, vote or other authority.

(6) On evidence satisfactory to the commission that the consent, franchise, licence, permit, vote or other authority has been secured, the commission must issue a certificate under section 45.

(7) The commission may amend a certificate previously issued, or issue a new certificate, for the purpose of renewing, extending or consolidating a certificate previously issued.

(8) A public utility to which a certificate is, or has been, issued, or to which an exemption is, or has been, granted under section 45 (4), is authorized, subject to this Act, to construct, maintain and operate the plant, system or extension authorized in the certificate or exemption.

## **THE REGULATORY PROCESS**

Terasen Gas Inc. (Terasen) submitted an Application for a Certificate of Public Convenience and Necessity (CPCN) pursuant to section 45 of the *Utilities Commission Act*, RSBC 1996 c. 473, as amended (the Act) for its proposed “Customer Care Enhancement Project” to the British Columbia Utilities Commission (Commission) on June 2, 2009. The Project involves the in-sourcing of key components of Terasen’s customer care services and the implementation of a new customer information system, under Terasen’s control. Terasen also sought approval to create certain deferral accounts to record costs incurred prior to the implementation of the Project, and to facilitate their recovery in rates.

On June 4, 2009, the Commission issued Order G-68-09 which provided for a Workshop to be held on June 16, 2009 and a Procedural Conference to be held on June 23, 2009 to consider, *inter alia*, the regulatory process.

On June 10, 2009, the Commission issued Letter L-38-09 advising of concerns relating to the completeness of the Application, as filed.

By letter dated June 15, 2009, Terasen acknowledged the deficiency in its Application and filed an addendum containing a number of financial schedules.

Following the Procedural Conference on June 23, 2009, the Commission issued Order G-79-09, which provided for, *inter alia*, an Evidentiary Update/Amended Application, to be filed on August 28, 2009, a second Procedural Conference, and a second Workshop.

Terasen filed an Amended Application on August 28, 2009.

On September 9, 2009, Terasen held a Workshop dealing with the Amended Application.

A second Procedural Conference was held on September 11, 2009.

On September 14, 2009, the Commission issued Order G-107-09 dated September 11, 2009 which provided a revised Regulatory Timetable which included, *inter alia*, dates for Information Requests, the filing of Intervener Evidence and submissions on the regulatory review process.

Two rounds of Information Requests directed to Terasen and one round of Information Requests on Intervener Evidence were held.

## **APPENDIX B**

to Order G-23-10

Page 2 of 2

On November 13, 2009, the Commission received submissions from Terasen and Interveners on further regulatory process. Following its review of the submissions, the Commission issued Order G-134-09 dated November 16, 2009, with Reasons, which provided for, *inter alia*, a third round of Information Requests to Terasen and a written hearing process.

Terasen filed its written argument on December 9, 2009. Arguments were received from Interveners on December 23, 2009. Terasen filed its Reply on January 8, 2010.

By Letter L-6-10 dated January 18, 2010, the Commission advised that the Panel had determined that an Oral Phase of Argument was needed. The Commission issued a list of matters on which the Panel invited submissions at the Oral Argument by letter dated January 22, 2010. The list of matters was amended by letter dated January 26, 2010.

The Oral Argument proceeded on February 1, 2010.

By Order G-23-10 dated February 16, 2010, the Commission denied Terasen's Application for a CPCN, subject to further provisions contained in the Order relating to Terasen's acceptance of a term relating to the final cost of the Project, if any CPCN to be issued, with Reasons to follow.

On February 26, 2010, Terasen filed a statement with the Commission confirming its acceptance of the term.

On February 26, 2010, by Order C-1-10 a CPCN was granted. The CPCN included the term accepted by Terasen and certain directions relating to reporting and the provision of the resolution of Terasen's directors approving the Project.



**LIST OF INTERVENERS**

C1-1	COMMERCIAL ENERGY CONSUMERS ASSOCIATION OF BC
C2-1	BRITISH COLUMBIA OLD AGE PENSIONERS' ORGANIZATION
C3-1	CUSTOMER WORKS LIMITED PARTNERSHIP
C4-1	ACCENTURE BUSINESS SERVICES FOR UTILITIES
C5-1	MINISTRY OF ENERGY, MINES AND PETROLEUM RESOURCES
C6-1	HANSEN TECHNOLOGIES – PEACE SOFTWARE CANADA
C7-1	CANADIAN OFFICE & PROFESSIONAL EMPLOYEES UNION LOCAL 378

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

and

Terasen Gas Inc.  
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

**EXHIBIT LIST**

<b>Exhibit No.</b>	<b>Description</b>
<i>COMMISSION DOCUMENTS</i>	
A-1	Letter dated June 4, 2009 appointing the Commission Panel for the review of the Terasen Gas Inc. Certificate of Public Convenience and Necessity Application for the Customer Care Enhancement Project
A-2	Letter dated June 4, 2009 and Order G-68-09 establishing the Regulatory Timetable and Notice of Workshop and Procedural Conference
A-3	Letter dated June 10, 2009 (L-38-09) – Direction to discuss issues at the Workshop
A-4	Letter dated June 25, 2009 with Commission Order G-79-09 establishing a Second Procedural Conference and Regulatory Timetable
A-5	Letter dated September 3, 2009 Planned Evidentiary Update/Amended Application Workshop reminder
A-6	Letter dated September 14, 2009 Revised Regulatory Timetable
A-7	Letter dated September 17, 2009 and Commission Information Request No. 1
A-8	Letter No. L-83-09 dated September 23, 2009 approving Terasen Gas' proposal that confidential material be made available to intervenor ratepayer groups regarding transition costs subject to parties executing the standard undertakings of confidentiality
A-9	Letter dated October 1, 2009 regarding Hansen Technologies – Peace Software Canada request to keep Information Request Responses Confidential (Exhibit C6-3)

<b>Exhibit No.</b>	<b>Description</b>
A-10	Letter dated October 16, 2009 regarding Terasen's review of Confidential Information Request Responses and any reference to Hansen Technologies – Peace Software Canada (Exhibit C6-3)
A-11	Letter dated October 19, 2009 Commission Information Request No. 1
A-12	Letter dated October 22, 2009 issuing Commission Information Request No. 1 to Hansen Technologies
A-13	Letter dated October 29, 2009 issuing Commission Panel Information Request No. 1 to Terasen Gas
A-14	Letter dated November 16, 2009 - Commission Order G-134-09 establishing the Regulatory Timetable for a Written Hearing
A-15	Letter dated November 19, 2009 and Commission Order G-134-09 issuing the Commission Panel's Reasons for Decision on review process
A-16	Letter dated November 23, 2009 - and Commission Information Request No. 3
A-17	Letter dated December 18, 2009 - Revised Regulatory Timetable
A-18	Letter L-6-10 dated January 18, 2010 – Revised date of Oral Argument
A-19	Letter dated January 22, 2010 - Oral Argument Agenda
A-20	Letter dated January 26, 2009 - Oral Argument Agenda Amendment
A-21	Letter dated January 27, 2009 – Date, Time Location of Oral Argument

***APPLICANT DOCUMENTS***

B-1	<b>TERASEN GAS INC.</b> - Application dated June 2, 2009 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
B-1-1	Letter dated June 15, 2009 TGI addendum to filing L38-09
B-2	Dated June 16, 2009 TGI Customer Care CPCN Workshop Presentation
B-3	Letter dated June 24, 2009 CONFIDENTIAL Filing
B-4	Letter dated August 28, 2009 TGI Amended application

<b>Exhibit No.</b>	<b>Description</b>
B-4-1	Letter dated August 28, 2009 CONFIDENTIAL Amended application Appendix V
B-4-2	Letter dated August 28, 2009 CONFIDENTIAL Amended application Appendix U- X
B-4-3	Letter dated September 4, 2009 Amended application Appendix W and Y
B-4-4	Letter dated October 2, 2009 Revision to the Amended Application
B-4-5	Letter dated October 2, 2009 CONFIDENTIAL Revision to the Amended Application
B-5	Letter dated September 9, 2009 CPCN Application Workshop
B-6	Letter dated September 28, 2009 TGI Response to Hansen Request for Confidential Information
B-7	Letter dated October 2, 2009 Response to the CustomerWorks Information Request No. 1
B-8	Letter dated October 2, 2009 Response to CEC Information Request No. 1
B-9	Letter dated October 2, 2009 Response to BCOAPO Information Request No. 1
B-9-1	<b>CONFIDENTIAL</b> Letter dated October 2, 2009 Confidential Response to BCOAPO Information Request No. 1
B-10	Letter dated October 2, 2009 Response to BCUC IR No. 1
B-10-1	<b>CONFIDENTIAL</b> Letter dated October 2, 2009 Confidential Response to BCUC IR No. 1
B-11	Letter dated October 5, 2009 Responses to IR No. 1 Related to Hansen's Confidentiality Request
B-12	Letter dated October 23, 2009 issuing Information Request No. 1 to Hansen Technologies
B-13	Letter dated November 10, 2009 issuing response to BCOAPO Information Request No. 2
B-14	Letter dated November 10, 2009 issuing response to CEC Information Request No. 2
B-15	Letter dated November 10, 2009 issuing response to the Commission Panel Information Request No. 1

<b>Exhibit No.</b>	<b>Description</b>
B-16	<b>CONFIDENTIAL</b> - Letter dated November 10, 2009 issuing response to the Commission Information Request No. 2
B-17	<b>CONFIDENTIAL</b> - Letter dated November 10, 2009 issuing response to the CEC Information Request No. 2.12.1
B-18	Letter dated November 10, 2009 issuing response to Hansen Technologies (Exhibit C6-4)
B-19	Letter dated November 10, 2009 issuing response to Commission Information Request No. 2
B-19-1	Letter dated November 18, 2009 – Erratum to B-19 Response to BCUC IR 2.13.2
B-20	Letter dated November 13, 2009 – issuing comment on process
B-21	Letter dated November 27, 2009 – TGI response to BCUC IR No. 3
B-21-1	<b>CONFIDENTIAL</b> - Letter dated November 27, 2009 - TGI Confidential Response to BCUC IR No. 3
B-21-2	<b>CONFIDENTIAL</b> - Letter dated December 18, 2009 - TGI Confidential Response to BCUC IR No. 3.11.3
B-22	Letter dated November 27, 2009 – TGI response to BCOAPO IR No. 3
B-23	Letter dated December 14, 2009 – TGI request to change oral argument date on regulatory timetable
B-24	Letter dated January 28, 2010 Via Email – TGI Response to Exhibit A-19 Oral Argument Agenda

***INTERVENOR DOCUMENTS***

C1-1	<b>COMMERCIAL ENERGY CONSUMERS ASSOCIATION OF BC (CEC) VIA EMAIL</b> - Letter dated June 11, 2009 filing by Christopher Weafer to register as Intervenor
C1-2	Letter received September 21, 2009 CEC Information Request No. 1
C1-3	Letter received October 20, 2009 CEC Information Request No. 2
C1-4	Letter dated November 13, 2009 filing support for Negotiated Settlement Process

<b>Exhibit No.</b>	<b>Description</b>
C1-5	Letter dated January 28, 2010 Via Email – CEC’s response to A-19 Oral Argument Agenda
C1-5-1	Letter dated January 29, 2010 Via Email – Mr. Weafer commenting on further submissions on behalf of the CEC on issue 5 identified in Exhibit A-19
C2-1	<b>BRITISH COLUMBIA OLD AGE PENSIONERS’ ORGANIZATION (BCOAPO) VIA EMAIL</b> Letter Dated June 12, 2009 filing by Leigha Worth to register as Intervenor
C2-2	Letter received September 21, 2009 BCOAPO et al. Information Request No. 1
C2-3	Letter received October 20, 2009 BCOAPO et al. Information Request No. 2
C2-4	Letter received October 27, 2009 request Mr. Jim Quail as co-counsel
C2-5	Letter dated November 13, 2009 - Filing submission on process
C2-6	Dated November 23, 2009 - BCOAPO et al. Information Request No. 3
C2-7	Letter dated January 28, 2010 Via Email - BCOAPO response to A-19 Oral Argument Agenda
C3-1	<b>CUSTOMER WORKS LIMITED PARTNERSHIP (CW) VIA EMAIL</b> Letter Dated June 15, 2009 filing by Travis Braithwaite to register as Intervenor
C3-2	Letter Dated September 14, 2009 Update of contact information from CW council
C3-3	Letter Dated September 21, 2009 Via Email - CustomerWorks Information Request No. 1
C3-4	Letter dated December 21, 2009 – CustomerWorks Withdrawal of Application Objection
C4-1	<b>ACCENTURE BUSINESS SERVICES FOR UTILITIES (ABSU) - ONLINE REGISTRATION</b> Dated June 15, 2009 filing by Janet Clark to register as Intervenor
C4-2	Letter Dated September 8, 2009 Update of contact information for ABSU
C5-1	<b>MINISTRY OF ENERGY, MINES AND PETROLEUM RESOURCES (MEMPR) – VIA EMAIL</b> Letter Dated June 15, 2009 filing by Cory Waters to register as Intervenor
C6-1	<b>HANSEN TECHNOLOGIES – PEACE SOFTWARE CANADA (HTPSC) - ONLINE REGISTRATION</b> Dated June 19, 2009 filing by Julia Chand to register as Intervenor

<b>Exhibit No.</b>	<b>Description</b>
C6-2	Letter Dated July 01, 2009 Hansen submission regarding CIS system
C6-3	Letter Dated September 25, 2009 Hansen requests that any responses that Terasen files in confidence also be copied to Hansen on a confidential basis
C6-4	Letter Dated October 13, 2009 Submission of Additional Evidence
C6-5	Letter dated November 6, 2009 filing responses to Commission Information Request No. 1 (Exhibit A-12)
C6-6	Letter dated November 6, 2009 filing responses to Terasen Gas Inc. Information Request No. 1 (Exhibit B-12)
C6-7	Letter dated November 13, 2009 filing response to Mr. Ghikas's November 10, 2009 letter
C6-8	<b>CONFIDENTIAL</b> Letter dated November 13, 2009 filing extract from December 2008 submission
C7-1	<b>CANADIAN OFFICE &amp; PROFESSIONAL EMPLOYEES UNION LOCAL 378 (COPE)</b> Letter Dated June 23, 2009 filing by Lori Winstanley to register as Intervenor
C7-2	Letter Dated September 11, 2009 Via Email – Update to contacts for distribution list
C7-3	Letter Dated September 21, 2009 Request to put name back on the Distribution list as an Intervenor
C7-4	Letter dated November 13, 2009 filing response on written process
C7-5	Letter dated December 17, 2009 - COPE Letter of Support
C7-6	Letter dated January 28, 2010 – COPE's response to A-19 Oral Argument Agenda
C8-1	<b>TECK COAL LTD (TC) – VIA EMAIL</b> Letter Dated July 06, 2009 filing by J. David Newlands to register as Intervenor

<b>Exhibit No.</b>	<b>Description</b>
--------------------	--------------------

*INTERESTED PARTY DOCUMENTS*

- |     |   |
|-----|---|
| D-1 | <b>FUJITSU BUSINESS SOLUTIONS (FBS) VIA EMAIL</b> Letter Dated June 15, 2009 filing by Ash Abhyankar to register as an Interested Party |
| D-2 | <b>ACCESS GAS SERVICES INC. – ONLINE REGISTRATION</b> dated July 20, 2009 filing request by Tom Dixon for Interested party status       |

*LETTERS OF COMMENT*

- |      |   |
|------|---|
| E-1  | <b>GORDON SUTHERLAND VIA EMAIL</b> Letter Dated June 15, 2009 comments on Terasen Customer Service                            |
| E-2  | <b>CONNOR WHELAN VIA EMAIL</b> Letter received June 17, 2009 comments on self directed online services                        |
| E-3  | <b>ALLAN WHITE VIA EMAIL</b> Letter received June 22, 2009 comments on Terasen Service  |
| E-4  | <b>V.F. BURSTALL VIA EMAIL</b> Dated July 7, 2009 comments on proposed rates and customer service changes                     |
| E-5  | <b>MAYOR OF PRINCE GEORGE</b> Letter dated December 16, 2009 – Supporting application   |
| E-6  | <b>CITY OF SURREY MAYOR</b> Letter dated December 18, 2009 – Supporting application   |
| E-7  | <b>INITIATIVES PRINCE GEORGE</b> Letter dated December 18, 2009 – Supporting application                                      |
| E-8  | <b>BC CHAMBER OF COMMERCE</b> Letter dated December 18, 2009 – Supporting application   |
| E-9  | <b>SURREY BOARD OF TRADE</b> Letter dated December 18, 2009 – Supporting application  |
| E-10 | <b>FOCIS CONSULTING INC.</b> Letter dated December 20, 2009 – Supporting application  |
| E-11 | <b>PRINCE GEORGE CHAMBER OF COMMERCE</b> Letter dated December 18, 2009 - Supporting application                              |
| E-12 | <b>ECONOMIC DEVELOPMENT ASSOCIATION OF BRITISH COLUMBIA AND LINX BC</b> Letter dated January 4, 2010 - Supporting application |



Oral Phase of Argument Agenda  
Exhibits A-19 and A-20



ERICA M. HAMILTON  
COMMISSION SECRETARY  
Commission.Secretary@bcuc.com  
web site: <http://www.bcuc.com>

SIXTH FLOOR, 900 HOWE STREET, BOX 250  
VANCOUVER, B.C. CANADA V6Z 2N3  
TELEPHONE: (604) 660-4700  
BC TOLL FREE: 1-800-663-1385  
FACSIMILE: (604) 660-1102

Log No. 29664

VIA EMAIL

January 22, 2010

**TERASEN GAS - CPCN**  
**CUSTOMER CARE ENHANCEMENTS EXHIBIT A-19**

TO: Terasen Gas Inc.  
Registered Intervenor  
(TGI-CPCN-CCP-RI)

Re: Terasen Gas Inc.  
Project No. 3698561/Order G-68-09  
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

Oral Argument Agenda

Further to Exhibit A-18, the Commission Panel invites Oral Submissions from the parties directed towards its achieving a better understanding of the parties' positions in respect of the matters listed below. The parties are cautioned that the manner in which the matters are framed is not to be taken as any indication of the direction as to the determinations, if any, that the Commission Panel may make in respect of any of these matters.

Submissions are to be confined to the evidentiary record.

Parties are requested to advise the Commission, in writing with reference by item number, by Thursday, January 28, 2010 if they wish to make submissions on an item. Unless the parties otherwise agree, it is the intention of the Panel that Terasen Gas Inc. will make its submissions first, followed by Intervenor, with a right of reply by Terasen Gas Inc. If any party intends to rely upon an authority during the oral phase not previously referred to in Argument, a copy of the authority is to be provided with its letter to the Commission along with reference by item number(s) to the matter(s) to which it applies. The Commission Panel will allow Terasen Gas Inc. during reply, or any other party that it may allow to reply to the submissions of another party on an item during the oral phase, to refer to authorities not identified by that party in its letter to the Commission, provided the authorities are in response to authorities referred to in the other party's letter to the Commission.

The matters are as follows:

**1. What are the relevant criteria for determining a "public convenience and necessity" in this case?**

In granting a Certificate of Public Convenience and Necessity ("CPCN") the Panel must determine whether public convenience and necessity requires or will require the construction or operation of a public utility plant or system or of an extension of either. Based on case law "the determination of what constitutes public convenience and necessity in a given case should be ascertained by reference to the context and to the objects and purposes of

.../2

the statute in which it is found.”<sup>1</sup>

With particular reference to the caselaw referred to in section 2.1 of the Commission’s VITR Decision, July 7, 2006 and the discussion on public convenience and necessity at paragraphs 25-29 of *Tswawwassen Residents Against Higher Voltage Overhead Lines Society v. B.C. Utilities Commission*, 2006 BCCA 537, the Commission Panel invites further submissions on whether public convenience and necessity requires or will require the approval of the Application given that the Application proposes to “transform the customer service function into a strategic asset”<sup>2</sup> in order to “position the Company to retain and attract customers”<sup>3</sup> by providing “service excellence.”<sup>4</sup>

## 2. Load Retention/Building

In the VITR Decision, the Commission refers to the following statement of Mr. Justice Goldie’s on behalf of the Court of Appeal in *British Columbia Hydro and Power Authority v. British Columbia (Utilities Commission)*, [1996] B.C.J. No. 379: “It has become evident for some years now that the environmental considerations are important in the formulation of the opinion represented by the phrase “public convenience and necessity.”<sup>5</sup> Section 46(3.1) (a) of the *Utilities Commission Act* (“UCA”) requires the government’s energy objectives to be considered when issuing or refusing to issue a CPCN.

Given its purpose as described at Item 1. above, the Commission Panel invites submissions on the implications and impacts on the Application, if any, of British Columbia’s Climate Action Plan, and Ottawa’s Greenhouse Gas Policy and ensuing legislation, with particular emphasis on the January 1, 2008 *BC Greenhouse Gas Reduction Targets Act* and BC Regulation M271 in determining the public convenience and necessity as it relates to the Application before the Panel.

## 3. Return on Equity (“ROE”) and risk mitigation aspects of the Application

In Final Submissions and Reply, parties have made reference to the Commission’s December 16, 2009 Decision on Return on Equity and Capital Structure for Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc. and Terasen Gas (Whistler) Inc. (“ROE Decision”) BCOAPO submits that :“TGI asserts that it faces increased competition with BC Hydro in the face of eroded cost advantage of natural gas relative to electricity, and a common perception among British Columbians that natural gas is less environmentally responsible than hydro electricity.”<sup>6</sup>

In Reply, Terasen Gas Inc. submits: “In the recent ROE decision, the Commission accepted that policy changes in British Columbia have increased TGI’s business risk.”<sup>7</sup> Terasen Gas Inc. further submits: “The fact that equity investors in TGI are subject to business risk any time they invest capital in the business is recognized in the fact that the Commission has established a regulated rate of return on equity for TGI above the risk free rate.”<sup>8</sup>

In justifying the project, Terasen Gas states that “Terasen Gas competes for customers in an increasingly diverse energy market. Customer satisfaction and loyalty are important factors to ensure that the Company is positioned

<sup>1</sup> Memorial Gardens Assn. (Can.) Ltd. v. Colwood Cemetery Co., [1958] S.C.R. 353 para. 8, as cited in the Commission’s VITR Decision, July 7, 2006, p. 11

<sup>2</sup> Exhibit B-4, Chapter 3 Project Justification: Drivers for Change, Sec 3.2.4.2 Customer Care Delivery Model, p. 45

<sup>3</sup> Exhibit B-4, Chapter 3 Project Justification: Drivers for Change, Sec 3.2.2 Evolution of Customer Service, p. 40

<sup>4</sup> Exhibit B-4, Chapter 3 Project Justification: Drivers for Change, Sec 3.2.2 Evolution of Customer Service, p. 40

<sup>5</sup> VITR Decision, p. 13

<sup>6</sup> BCOAPO Final Submission, para. 20

<sup>7</sup> Terasen Reply Submission, para. 12 (also ROE Decision, December 16, 2009, p. 37)

<sup>8</sup> Terasen Reply Submission, para. 32

to retain and attract customers. The customer service experience is a critical factor in the overall value proposition.”<sup>9</sup> “This Project, including the CIS component, addresses present and future needs and will help manage the competitive challenge.”<sup>10</sup>

The Panel invites submissions regarding whether ratepayers should be required to pay for a Customer Care Enhancement, a principal purpose of which is to mitigate a business risk, that Terasen Gas Inc. is already compensated for by those same ratepayers through its increased ROE?

**4. Approval in whole or in part?**

Certain parties have taken the position that the CIS and the in sourcing arrangements are not inextricably linked. Section 46(3) of the UCA provides that the Commission “*may issue a [CPCN] for the construction or operation of a part only of the proposed facility, line, plant, system or extension, ...*”.

The Commission Panel invites submissions as to whether it should consider exercising its discretion in this regard.

**5. Cost Collar/Hard Cap**

Certain parties have requested the Commission impose a “hard cost collar” with any overruns being borne by Terasen Gas Inc. shareholders<sup>11</sup> and the Applicant should expect it may be at risk for any project cost which exceeds the amount approved.<sup>12</sup> Section 46(3) of the UCA states the Commission may, in certain circumstances, impose conditions when granting a CPCN. However, Terasen Gas Inc. submits the CPCN should be issued as sought in the Amended Application, without conditions<sup>13</sup> as the proposed “cost collar” is contrary to sections 59 and 60 of the UCA and would deny the utility shareholder “a reasonable opportunity to earn a fair return on its invested capital if the prudently incurred expenditures on the project ultimately exceed the cost cap.”<sup>14</sup>

The Panel invites submissions on the Commission’s jurisdiction to impose a cost collar as a condition to a CPCN under section 46(3) of the UCA.

Yours truly,

*Original signed by:*

Erica M. Hamilton

CMcM/dg

---

<sup>9</sup> Exhibit B-4, Chapter 3 Project Justification: Drivers for Change, Sec 3.2.1 Customer Service is a Critical Success Factor, p. 40

<sup>10</sup> Terasen Reply Submission, para. 16

<sup>11</sup> BCOAPO Final Submission, para. 14

<sup>12</sup> CEC Final Submission, sec. 7.1

<sup>13</sup> Terasen Reply Submission, para. 51

<sup>14</sup> Terasen Reply Submission, para. 54



ERICA M. HAMILTON  
COMMISSION SECRETARY  
Commission.Secretary@bcuc.com  
web site: <http://www.bcuc.com>

SIXTH FLOOR, 900 HOWE STREET, BOX 250  
VANCOUVER, B.C. CANADA V6Z 2N3  
TELEPHONE: (604) 660-4700  
BC TOLL FREE: 1-800-663-1385  
FACSIMILE: (604) 660-1102

Log No. 29664

VIA EMAIL

January 26, 2010

**TERASEN GAS - CPCN**  
**CUSTOMER CARE ENHANCEMENTS EXHIBIT A-20**

TO: Terasen Gas Inc.  
Registered Intervenor  
(TGI-CPCN-CCP-RI)

Re: Terasen Gas Inc.  
Project No. 3698561/Order G-68-09  
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

Oral Argument Agenda Amendment

Further the Commission's January 22, 2010 letter (Exhibit A-19) with respect to items 4 and 5 of the agenda, in their submissions Parties may wish to consider the implications, if any, of the Commission's determination in respect of BC Hydro's Purchasing Enhancement Insourcing Initiative "PEI" as is recorded at pages 176 to 182 of the Commission's "Decision In the Matter of BC Hydro and F2009 and F2010 Revenue Requirements" dated March 13, 2009.

Yours truly,

A handwritten signature in black ink, appearing to read "Constance M. Smith".

for: Constance M. Smith  
Erica M. Hamilton

cms  
Attachments

**Certificate of Public Convenience and Necessity  
dated March 31, 2004 appended to Letter L-18-04**



ROBERT J. PELLATT  
COMMISSION SECRETARY  
Commission.Secretary@bcuc.com  
web site: <http://www.bcuc.com>

**LETTER No. L-18-04**

SIXTH FLOOR, 900 HOWE STREET, BOX 250  
VANCOUVER, B.C. CANADA V6Z 2N3  
TELEPHONE: (604) 660-4700  
BC TOLL FREE 1-800-663-1385  
FACSIMILE: (604) 660-1102

**VIA FACSIMILE / E-MAIL**

«Email\_Fax»

March 31, 2004

«Gender» «FirstName» «LastName»  
«Title»  
«Company»  
«Company2»  
«Address1»  
«Address2»  
«City», «Province» «PostalCode»

Dear «Name2»:

Re: British Columbia Utilities Commission  
Certificate of Public Convenience and Necessity ("CPCN") Application Guidelines

Please find enclosed the British Columbia Utilities Commission's CPCN Application Guidelines, and Order No. G-28-04 which cancels Commission Order No. G-133-99 and the CPCN Application Requirements that previously were in effect.

Draft CPCN Application Guidelines were distributed to public utilities and other interested parties for comment by Letter No. L-4-04 dated January 28, 2004. The Commission appreciates the helpful comments that were provided by a number of parties, and has revised the CPCN Application Guidelines in response to these comments.

The purpose of the CPCN Application Guidelines is to assist public utilities and other parties wishing to construct utility facilities in their preparation of CPCN applications so that the review of the applications can proceed as efficiently as possible. Future CPCN applications should be prepared in accordance with the Guidelines.

Yours truly,

*Original signed by:*

Robert J. Pellatt

JBW/cms  
Enclosure



***British Columbia Utilities Commission***

***Certificates of Public Convenience and Necessity***  
***CPCN Application Guidelines***

## **TABLE OF CONTENTS**

<b>PURPOSE AND SCOPE OF CPCN APPLICATION GUIDELINES .....</b>	<b>1</b>
<b>DEEMED CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY .....</b>	<b>2</b>
<b>CPCN APPLICATION PROCEDURES.....</b>	<b>3</b>
<b>CPCN APPLICATION GUIDELINES .....</b>	<b>5</b>
1. Applicant.....	5
2. Project Description .....	5
3. Project Justification.....	6
4. Public Consultation.....	7
5. New Service Areas.....	7
6. Other Applications and Approvals .....	7

## **PURPOSE AND SCOPE OF CPCN APPLICATION GUIDELINES**

Section 45 (1) of the Utilities Commission Act (“UCA”) states:

Except as otherwise provided, after September 11, 1980, a person must not begin the construction or operation of a public utility plant or system, or an extension of either, without first obtaining from the commission a certificate that public convenience and necessity require or will require the construction or operation.

Section 46 (1) of the UCA states:

An applicant for a certificate of public convenience and necessity must file with the commission information, material, evidence and documents that the commission prescribes.

The purpose of the CPCN Application Guidelines is to assist public utilities and other parties wishing to construct or operate utility facilities in their preparation of CPCN applications for such facilities so that the review of the applications can proceed as efficiently as possible. The Commission expects that CPCN applications will be prepared in accordance with the CPCN Application Guidelines.

The scope of the information requirement for a specific application will depend on the nature of the project and the issues that it raises. Project proponents are encouraged to initiate discussions with appropriate government agencies and the public very early in the project planning stage in order to obtain an appreciation of the issues to be addressed prior to the filing of the application.

CPCN Applications may be supported by resource plans and/or action plans prepared pursuant to the Resource Planning Guidelines issued in December 2003. The resource plan and/or action plans may deal with significant aspects of project justification, particularly the need for the project and the assessment of the costs and benefits of the project and alternatives.

The CPCN Applications Guidelines do not alter the fundamental regulatory relationship between utilities and the Commission. They provide general guidance regarding Commission expectations of the information that should be included in CPCN applications, while providing the flexibility for an application to reflect the specific circumstances of the utility and the size and nature of the project. The Commission may make further directions regarding information to be included in specific CPCN



LETTER NO. L-18-04  
Page 2 of 7

applications, and will generally require utilities to provide further information to supplement the material in filed applications.

#### **DEEMED CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY**

Sections 45 (2), 45 (5) and 45 (6) of the UCA state:

(2) For the purposes of subsection (1), a public utility that is operating a public utility plant or system on September 11, 1980 is deemed to have received a certificate of public convenience and necessity, authorizing it

- (a) to operate the plant or system, and
- (b) subject to subsection (5), to construct and operate extensions to the plant or system.

(5) If it appears to the commission that a public utility should, before constructing or operating an extension to a utility plant or system, apply for a separate certificate of public convenience and necessity, the commission may, not later than 30 days after construction of the extension is begun, order that subsection (2) does not apply in respect of the construction or operation of the extension.

(6) A public utility must file with the commission at least once each year a statement in a form prescribed by the commission of the extensions to its facilities that it plans to construct.

In order that it can evaluate whether a public utility should apply for a CPCN for a specific extension to utility plant or systems, the Commission needs to be aware of planned extensions that are significant. This information is provided in the statement of planned extensions that a utility is required to file at least once a year.

The statement should be filed in a timely fashion and should identify each discrete extension to utility plant or systems that may have a material impact on customer rates or that may raise some other significant issue. The statement should include all significant expansions or modifications to facilities or other assets that the utility is likely to initiate over the period until the filing of the next statement on extensions. A utility should inform the Commission in the event that it plans to initiate a significant new project that was not identified in its most recent statement on extensions.

The Commission may provide specific directions to a utility regarding its statement on extensions. In some cases, with the approval of the Commission, a resource plan and related capital expenditures action plan filed pursuant to Subsection 45(6.1)(a) of the UCA may meet the requirements of Section 45(6) providing it is filed prior to the start of construction of the extensions or modifications. Also, the Commission may establish criteria for projects that a utility needs to identify in its statement of extensions, including factors such as the amount of capital expenditure and the potential impact on the public. The Commission may also establish project thresholds that may relate to size, production capacity or type that will determine CPCN application requirements for each utility. Projects that fall outside the scope of the specified criteria would generally not require a CPCN application, although the expenditure may require Commission approval pursuant to Subsection 45(6.2)(b) or in a revenue requirements decision or settlement.

#### **CPCN APPLICATION PROCEDURES**

An application for a CPCN, pursuant to Sections 45 and 46 of the Utilities Commission Act, will be made to the Secretary, British Columbia Utilities Commission.

Applications are to be filed in accordance with the Commission's Document Filing Protocols. An electronic copy and 20 hard copies of the completed signed application should be submitted. Applications are normally considered public documents and will be made public, except where special circumstances require confidentiality.

The filed application is initially reviewed by the Commission for possible deficiencies, and this will normally generate an Information Request for response by the Applicant. Once the additional information is received, the application is reviewed by the Commission in the context of project justification, issues and concerns raised, as well as general project suitability. When necessary, the Commission may establish a Regulatory Agenda if further review of the application is required. The Commission will make a determination on disposition that will generally be one of the following options.

- (a) Grant a CPCN without further input from the Applicant or other interested parties.

**LETTER NO. L-18-04**  
Page 4 of 7

- (b) Require further information from the Applicant.
- (c) Set down an oral or written public hearing.
- (d) Deny the application.

Approval of a CPCN application will result in a Commission Order to the Applicant embodying the Certificate of Public Convenience and Necessity. This Order may contain terms and conditions which the Commission believes are necessary to protect the public interest.

For further information, contact:

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

Telephone: (604) 660-4700  
Toll Free: 1-800-663-1385  
Facsimile: (604) 660-1102  
[Commission.Secretary@bcuc.com](mailto:Commission.Secretary@bcuc.com)  
web site: <http://www.bcuc.com>

## **CPCN APPLICATION GUIDELINES**

A CPCN application under Sections 45 and 46 of the UCA should contain the following information:

1. Applicant
  - (i) the name, address and nature of business of the Applicant and all other persons having a direct interest in the ownership or management of the project;
  - (ii) evidence of the financial and technical capacity of the Applicant and other persons involved, if any, to undertake and operate the project;
  - (iii) the name, title and address of the person with whom communication should be made respecting the Application; and
  - (iv) the name and address of legal counsel for the Applicant, if any.
2. Project Description
  - (i) a description of the project, its purpose and cost, including engineering design, capacity, location options and preference, as well as all ancillary or related facilities that are proposed to be constructed, owned or operated by the Applicant;
  - (ii) an outline of the anticipated timetable for construction and operation, together with dates by which critical events, including approvals required from other agencies, must take place to ensure continued economic viability;
  - (iii) a description of any new or expanded public works, undertakings or infrastructure that will be entailed by the project, together with an estimate of the costs and necessary completion dates;

LETTER NO. L-18-04  
Page 6 of 7

- (iv) identification and preliminary assessment of any impacts by the project on the physical, biological and social environments or on the public, including First Nations; proposals for reducing negative impacts and obtaining the maximum benefits from positive impacts; and the cost to the project of implementing the proposals; and
- (v) identification of the customers to be served by the project; and, where the project would expand the area served by the Applicant, a geographical description of the expanded service area.

3. Project Justification

- (i) studies or summary statements identifying the need for the project and confirming the technical, economic and financial feasibility of the project, identifying assumptions, sources of data, and alternatives considered (if applicable);
- (ii) a study comparing the costs, benefits and associated risks of the project and alternatives, which estimates the value of all of the costs and benefits of each option or, where not quantifiable, identifies the cost or benefit and states that it cannot be quantified;
- (iii) a statement identifying any significant risks to successful completion of the project; and
- (iv) a statement of the revenue requirement impact of the project and the resulting effect on the rates of customers; and
- (v) information relating the project to the Applicant's approved resource plan and action plan filed pursuant to Section 45(6.1) of the UCA, which may address some or all of the Project Justification requirements.

4. Public Consultation

- (i) a description of the Applicant's public information and consultation program, including the names of groups, agencies or individuals consulted, as well as a summary of the issues and concerns discussed, mitigation proposals explored, decisions taken, and items to be resolved.

5. Additional Requirements for New Service Areas

- (i) the telephone number or other means by which customers will be able to contact the utility, particularly regarding an emergency;
- (ii) the facilities and trained personnel that will provide emergency response;
- (iii) the tariff including terms and conditions of service, rate schedules and initial rates that the Applicant proposes for customers in the new service area; and
- (iv) information confirming that the proposed rates will be competitive with other service options that are available to customers in the new service area.

6. Other Applications and Approvals

- (i) a list of all approvals, permits, licences or authorizations required under federal, provincial and municipal law; and
- (ii) a summary of the material conditions that are anticipated in the approvals and confirmation that the costs of complying with these conditions are included in the cost estimate in the Application.