



LETTER NO. L-30-06

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June 26, 2006

Mr. Scott Thomson
Vice President, Finance and Regulatory Affairs
& Chief Financial Officer
Terasen Gas Inc.
16705 Fraser Highway
Surrey, BC V3S 2X7

Dear Mr. Thomson:

Re: Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc.,
Terasen Gas (Squamish) Inc. and Terasen Gas (Whistler) Inc.
(collectively, the "Terasen Utilities")
Clarification of Commission Order No. G-116-05 and
Kinder Morgan, Inc. Decision, Dated November 10, 2005 ("KMI Decision")

By letter dated April 20, 2006, Terasen Gas Inc. ("TGI") wrote to the Commission seeking clarification on behalf of itself and its utility affiliates (Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc., Terasen Gas (Whistler) Inc., Terasen Gas (Squamish) Inc., and Terasen Multi-Utility Services Inc., collectively the "Terasen Utilities") on certain conditions issued by the Commission in Order No. G-116-05 and the accompanying Decision dated November 10, 2005 (the "Decision") approving the application by Kinder Morgan Companies ("KMI"). In particular, the conditions for which clarification is sought are found in Section 7.2.3 of the Decision which provides as follows:

"In order to address privacy concerns and other concerns, the Commission Panel determines that it would be appropriate to attach a condition to approval of the Transaction that requires KMI not to change the geographic location of any existing functions or data currently in Terasen Gas' service area without prior approval of the Commission".

In order to ensure compliance with the Decision, the Terasen Utilities seek the Commission's concurrence to a proposal which adopts a materiality threshold of 10 Full Time Equivalent (FTE) positions for the determination of whether or not a geographic relocation of a particular function outside the service area would occur. The proposal contemplates that Commission approval would only be required if more than 10 FTEs within a particular functional area are proposed to be transferred outside the service areas of the Terasen Utilities.

In addition, the Terasen Utilities seek clarification of the Commission's intent regarding the condition concerning changes in the geographic location of any existing data. Terasen Utilities seeks confirmation that having servers physically located outside of British Columbia would not constitute a breach of the condition of the Decision and would not require prior approval so long as the Terasen Utilities retain the ability to access from within the service area, at any time, the data and records stored on those servers; that only authorized persons could access such data and records; and that appropriate data security measures are maintained. In addition, confirmation is sought that the duplication of data for storage on back-up services located outside of the service area is not precluded by the Decision and does not require prior approval.

Functions

The Decision requires "KMI not to change the geographic location of any existing functions . . . currently in TGI's service area, without prior approval of the Commission".

By 'functions', the Commission intended to include not only those functions performed by TGI on behalf of the Terasen Utilities but also those functions performed by Terasen Inc. for the Terasen Utilities. By 'currently', the Commission meant as of November 10, 2005, the date of the Decision. The Commission identifies the following functions that are presently in TGI's service area.

i) Performed by TGI on behalf of the Terasen Utilities

Human Resources

- HR Advisory Services
- Labour Relations
- Compensation & Benefits
- Environmental, Health & Safety
- Engineering Governance
- Training

Distribution

- Operations Centre
- Asset management
- Capital installations
- Regional operations

Business Services & IT

- Infrastructure management
- IT applications management
- Fleet management
- Facilities
- Engineering
- Shops (manufacturing)
- Materials management

Gas Supply

- Energy management
- Mid-stream services

Source: BCUC IR-1, 7.2

Measurement

- Meter Shop
- ISC Data Acquisition
- Measurement services

Transmission

- Gas Control & SCADA
- LNG Plant operations
- Pipeline Operations
- Compression Management

Marketing

- Mass Market Customer Care & Services
- Commercial/Industrial Customer Management
- Forecasting/Market Planning
- Community, Aboriginal and Government Relations
- Business/Infrastructure Development

Finance/Regulatory

- Financial/Regulatory Reporting
- Financial Planning and Control
- Regulatory Affairs
- Accounts Payable

ii) Provided to Terasen Utilities by Terasen Inc.

Corporate Services

- Risk Management and Insurance Services
- Treasury and Cash Management
- Internal Audit
- Taxation Services
- Corporate Secretary's Office
- Government Relations and Public Affairs
- Legal Department
- Investor Relations
- External Reporting
- HR Compensation and Planning
- Corporate Financial Analysis and Capital Management
- Strategic Planning and Development

Source: October 31, 2003 Report on Separation of Terasen Inc. and creation of the Corporate Centre, pp. 6-13

In the Commission's view, the geographic relocation of any of the above listed functions will require Commission approval. The Commission is not prepared to agree to the proposed materiality guidelines.

Data

As for the location of data, the Commission finds its Decision to be unambiguous. The condition requires KMI "... not to change the geographic location of any existing . . . data currently in TGI's service area without prior approval of the Commission". Should Terasen Utilities wish to change the geographic location of any data that was located in the service area on November 10, 2005, they must seek the Commission's approval. The location of the data is determined, in the Commission's view, by the location of the server. Whether Terasen Utilities staff can access the data on a continuous basis is irrelevant to the Commission.

In Letter No. L-96-05, the Commission accepted that TGI employees have access to the TGI customer records and accordingly, no additional conditions were required at that time on the Accenture relocation of the Kelowna call centre to Fredericton, New Brunswick. The Commission considers that in accordance with the ring-fencing provisions of the KMI Decision that it is necessary to revise the conditions with respect to the location of data and servers, which provide service to the Terasen Utilities. Accordingly, the Commission has issued Order No. G-75-06 that requires the location of data and servers providing service to Terasen Utilities is to be restricted to Canada.

Similarly, the nature of back-up data remains that of data. Any proposal to duplicate data and store it outside its present geographic location will require Commission approval.

Governance

Finally, the Commission draws Terasen Utilities attention to Section 7.2.2 of the Decision:

"The Commission Panel finds that the Terasen Utilities should be required to maintain existing governance policies and that any changes in these policies should be approved by the Commission. In particular, the Commission concludes that the continued independence of Directors, as required in existing governance policies, will provide a further assurance that the Terasen Utilities will comply with the ring-fencing conditions."

By requiring Terasen Utilities to maintain “existing governance policies” the Commission intended that an independent Board of Directors would be maintained, to whom a President would report. In turn, the Vice Presidents would report to the President and manage their departments, which would continue to be arranged along functional lines and perform the functions referred to above.

The Commission considers that any attempt to change such a structure would constitute a change in governance policies and that such a change would require Commission approval. The intent of the Decision is clear: existing functions and data must remain in their geographic location and existing governance policies must be maintained. Any change requires Commission approval. The Decision does not tell the Boards of Directors of the Terasen Utilities how to conduct their governance and it does not tell KMI how to exercise its rights of oversight that flow from its ownership of Terasen Utilities.

Yours truly,

Original signed by

Robert J. Pellatt

TP/cms