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April 6, 2005

British Columbia Utilities Commission
6th Floor, 900 Howe Street
Vancouver, B.C.
V6Z 2N3

Attention: Mr. R.J. Pellatt, Commission Secretary

Dear Sir;

Re: Terasen Gas Inc. ("Terasen Gas, or "the Company") Rate Schedules 7, 10, 14 and 14A – Response to Stakeholder Comments

Introduction

The British Columbia Utilities Commission ("Commission") in Order No. G-77-95, dated September 14, 1995 directed Terasen Gas Inc. ("Terasen Gas" or "the Company") to file market-based commodity prices on an annual basis on or before the 20th day of August in advance of the next gas contract year. In subsequent periods, Terasen Gas has filed these applications annually with the commission as per Commission direction.

On March 17, 2004, Terasen Gas applied for approval of market-based gas commodity rates for the 2004 – 2005 Gas Year for Rate Schedules 7, 10, 14 and 14A. This application was provided to interested parties, who at that time raised concerns about the Application, largely related to Rate Schedules 14 and 14A. The Commission established a Workshop and an extensive written hearing process, including a formal and extensive IR, IR Response and Argument process. At the conclusion of this application, the Commission was satisfied that market-based rate arrangements for Rate Schedules 7, 10, 14 and 14A should be and were approved as per Order G-64-04.

On February 23rd, 2005 Terasen Gas respectfully requested approval of Rate Schedule 7, Rate Schedule 10 and Rate Schedule 14A for the 2005/06 gas year as well as elimination of Rate Schedule 14. On March 21st, the Commission issued Order L-21-05, which invited Gas Marketers to provide comments in respect of its application by March 29th and for Terasen Gas to respond to comments by April 5th, 2005.

As of March 29th, Terasen Gas received comments from three Gas Marketers; Absolute Energy Inc. ("Absolute"), Avista Energy Canada Limited ("Avista"), and Direct Energy Marketing Limited ("Direct Energy"). Terasen Gas submits that the letters from Avista and Direct Energy contained no new evidence. In addition, the comments made by all three marketers are similar to those from previous hearings. Terasen Gas believes that the Rate Schedule 7, 10 and 14A offerings provide a valuable product for the consumer and as such Terasen Gas believes that all three of these Rate Schedules should continue for the 2005/06 gas year. This letter represents Terasen Gas's response to Gas Marketers comments as invited by Commission Order L-15-05.

Competitive Marketplace

Direct Energy has asserted on Page 1 of their letter that since inception in 1996, Rate 14/14A was originally intended to be a short-term solution to transition regulated interruptible customers into the competitive market and that Terasen Gas's offering has become increasingly competitive and has evolved to include all bundled and unbundled large commercial and industrial customers on the system. Terasen Gas refutes this statement on the grounds that the actual number of customers utilizing Rate 14/14A has declined significantly in the 2004/05 Gas Year versus previous years, suggesting that the competitiveness of the Terasen Gas option is in decline. In addition, Terasen Gas' decision to eliminate Rate Schedule 14 (while retaining Rate 14A) is further support of Terasen Gas' willingness to support the efforts of marketers to provide added value to the marketplace, without abandoning our commitment to our customers.

Further, Terasen Gas believes that maintaining Rate Schedule 14 is not detrimental to the evolution of a competitive marketplace. Direct Energy has asserted that the continued offering of Rate 14A by Terasen Gas is detrimental to the evolution of a competitive retail market and that its Rate 14A service distorts the marketplace and further confuses consumers in their understanding of the nascent market. In response to this question, Terasen Gas has found it difficult to follow the logic of Direct Energy's argument. In its comments to Terasen Gas, Direct Energy had initially suggested that Rate 14A targets "sophisticated transportation consumers". Direct Energy then goes on to suggest that the service "confuses consumers" and thereby is detrimental to the evolution of a competitive retail market. Terasen Gas respectfully requests that the Commission consider the validity of this argument. Terasen Gas believes that its customers view availability of any additional public information as constructive, not detrimental to the building of competitive markets. This position is supported by the letters from customers attached to Absolute's submission. Furthermore, in separate conversations, customers who are not currently utilizing the Rate 14A service have in fact expressed an interest in the continuation of the service. All else being equal, where available information and alternatives are reduced, so is competition, with a resulting premium to be paid by the consumer.

As has been stated in prior hearings, Terasen Gas holds no incentive to capture market from marketers through its Rate Schedule 14A offerings. Furthermore, Terasen Gas engages in no meaningful marketing activities related to this service. Direct Energy's continued insistence on this well covered point should be viewed as an attempt to utilize the regulatory environment to unreasonably increase Terasen Gas's costs associated with providing the service, thereby forcing it to exit the market.

Terasen Gas does not believe that it is operating a Non Regulated Business ("NRB") as Rate Schedule 14 is a tariff offering subject to regulatory scrutiny. Offerings made by marketers are not regulated and as such marketers are able to offer a wide range of products without having to undergo the public scrutiny required for a regulated utility offering. The rules for an NRB are intended to ensure against abuses that could occur if a service were set up as an NRB, and was therefore not subject to the same level of public scrutiny as other regulated utility offerings.

Single Billing Option

In response to Commission Order G-64-04, Terasen Gas reviewed options for single billing and submitted a report on January 10, 2005. Terasen Gas would also like to note that in its discussions with marketers and customers Terasen Gas found no evidence that combined billing was or is a factor impacting any customer's decision to purchase its commodity through Rate 14 versus a marketer. To the contrary, Terasen Gas was told more than once, that such factors are not meaningful to the decision process.

With respect to Direct Energy in particular, while its representative expressed initial interest and encouraged Terasen Gas to analyze the potential for joint billing, Direct Energy's comments to the Commission in this letter represents the first time it has expressed a view on the subject since Terasen Gas received its report from Accenture Business Service for Utilities ("ABSU"). This is in spite of the fact that Terasen Gas wrote to Direct Energy (and others) in early November of last year, requesting a written response to the following questions:

- 1) If Terasen Gas were to proceed with a joint billing option for marketers, would your company expect to utilize the option?
- 2) What are the key factors that would affect your participation in a single billing option?
- 3) How do you think initial costs should be allocated between participating marketers, and what steps do you feel would be appropriate to ensure full cost recovery from participating marketers?
- 4) What additional concerns/factors/issues need to be addressed in Terasen Gas' evaluation respecting the establishment of a commercially reasonable basis to enable single invoice functionality for all marketers?

The Commission should conclude, as Terasen Gas has, that the issue of the fairness of joint billing is insignificant and not important enough, even to Direct Energy, to warrant its serious consideration.

Cross Subsidies

Commission Order G-64-04 directed Terasen Gas to "prepare and file a detailed and appropriately supported fully allocated cost of service analysis for the provision of Rate Schedules 14 and 14A.". The Commission further directed "For clarity, the analysis should be an allocation of Terasen Gas costs, rather than an attempt to ascertain the cost for a stand-alone entity to provide an equivalent service.". Terasen Gas provided this report to the Commission in a filing dated December 14, 2004. In response to Avista's comments on cross subsidies, Terasen Gas notes that report included the allocation of Terasen Gas costs including staffing costs as per the Transfer Pricing Policy: base pay, benefits, overhead, supervision, and a facilities charge; as well as all other costs that are incurred by Terasen Gas to provide service to Rate Schedule 14 and 14A customers. However, the report did not illustrate the cost of operating a separate office, or stand alone entity, as Terasen Gas was not directed to produce such a report, nor do we see value in such an exercise.

Swing Premium

As stated in Terasen Gas' response to Commission Order G-64-04 it is Terasen Gas' opinion that the most appropriate methodology for calculating the swing premium for Annual Fixed Rate customers is to use the maximum annual Sumas price volatility. This is appropriate because the premium is charged on an annual basis and thus should reflect the volatility experienced over the entire year rather than just the winter term. Terasen Gas received comments from customers expressing their concern that it was unfair of Terasen Gas to charge the maximum winter volatility on an annual basis. This in part led to no customers participating in the annual fixed rate option for the 2004/2005 Gas year.

In response to Direct Energy's statement that "the reduction in the swing premium may be an attempt to increase its commercial competitiveness relative to competitive offerings and reacquire customers who were lost to competitive marketers in 2004/05", there were only three Rate 14A customers that were on the Annual Fixed Rate option that chose to purchase their commodity from a marketer. All other 2003/04 Rate 14A customers simply chose a different Rate 14A pricing option or to return to a bundled sales rate. The re-examination of the swing premium was done as a result of Annual Fixed Rate Customers expressing their concern over the methodology Terasen Gas used in the 2004/2005 Rate 14/14A application, and was a matter of fairness, and not competitively motivated.

In averaging the swing premium over the entire year Terasen Gas has calculated the volatility of Winter and Summer to be 2.29 and 1.08 respectively. At the time of the application Terasen Gas calculated the swing premium using forecasted winter 05/06 prices to be \$1.05. Separate seasonal volatility indexes can not be used for the Annual Fixed Rate option because it requires a set price for the entire term of the contract.

In response to Avista's question of why weekends and holidays are exempt, Terasen Gas is following common statistical practices when calculating volatility indexes. Weekends and holidays are not included to remove a downward bias on the volatility index. Terasen Gas feels it would be irresponsible to include weekends and holidays in such a calculation.

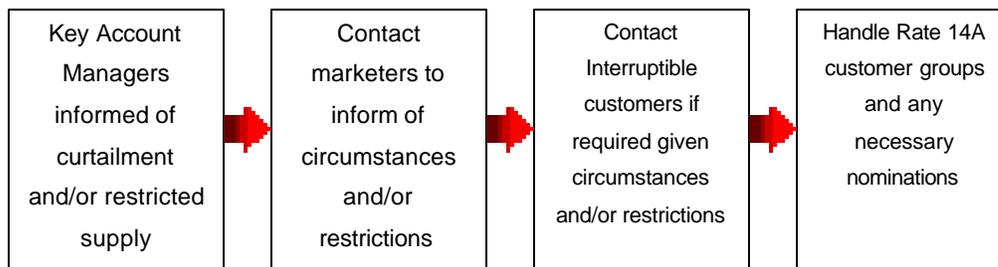
With respect to concerns regarding whether the swing premium is sufficient to cover costs associated with sourcing incremental supply or Unauthorized Overrun charges, Terasen Gas believes that the swing premium covers the above mentioned costs. Under the Annual Fixed Rate option Terasen Gas purchases 100% of the customers expected load for each season therefore significantly reducing the amount of balancing gas required to meet the group's demands. Account Managers providing Rate 14A nominations nominate as accurately as possible to minimize the amount of balancing gas taken thus minimizing any impacts on the core market. As mentioned in Terasen Gas' response to Commission Order G-64-04, Annual Fixed Rate Customers have less dramatic daily swings than marketer managed monthly balanced groups.

Sales Summary, Hedging, Nominations, Curtailment, and Balancing Provisions

With respect to Avista's questions pertaining to the Monthly Gas Purchase and Sales summary reports, supply exclusivity and hedging, Terasen Gas has several comments. The Monthly Purchase and Sales summary reports are not available for review due to some of the confidential information contained within. Terasen Gas does not attach all of the available monthly reports from the WINS system to the Commission, but has the information available for review if requested by the Commission. In regards to supply exclusivity, Terasen Gas notes that Section 4.2 of the Rate Schedule 14A tariff, states that "gas sold to the customer under this Rate Schedule will constitute the Customer's sole gas supply at the point of sale". Thus customers can not purchase Rate Schedule 14A gas in addition to direct supplies from another party. Terasen Gas does not send a Rate Schedule 14A hedging agreement to a customer until such time as a full credit review has been completed, the customer meets Terasen Gas' credit requirements and Terasen Gas has received an executed Rate Schedule 14A agreement from the customer.

With respect to the questions posed by Avista regarding nominations processes and staffing responsibilities during times of curtailment and /or restricted supply, Terasen Gas would like to make clear that the required nomination processes are no different than any shipper agent on the Terasen system. In fact, we are required to place our daily Rate Schedule 14A nominations before 3pm, two days prior to gas flow rather than 7:30 am the day before gas flow.

When the Key Account Managers are informed of curtailment and/or times of restricted gas supply, the basic process map requested is as follows:



In response to Avista's statements and questions surrounding balancing provisions, high end charges, and curtailment with focus on the annual fixed price rate option, Terasen Gas would like to reiterate that all Rate Schedule 14A customers, with the exception of those that elect to participate in the Annual Fixed Rate option, are subject to all high end charges, balancing provisions, and any restrictions on imbalance return.

Annual Fixed Rate Customer's receive an annual rate for 100% of the Customer's consumption throughout the November 1st to October 31st period. Terasen Gas converts the Customer's historical consumption to a fixed price and then adds the Swing Premium to calculate the Customer's Annual Fixed Rate. The approved swing premium allows customers that elect this option to not be subject to high end charges and

balancing provisions as they have no inventory account. In order to decrease the balancing risk, the annual fixed rate is subject to minimum monthly take or pay volumes.

If an annual fixed rate customer is on an interruptible transportation rate, that customer during times of curtailment must stop burning natural gas or they will be subject to unauthorized overrun charges as per the tariff. During times of curtailment, the customer forgoes their gas supply and they receive no compensation and the core receives all the benefits in times of curtailment.

Gas Supply Options

Avista raises a question about the difference between unbundled industrial customers and unbundled commercial customers, and their desire and ability to access commodity supplies directly through the utility. The structure of the commercial unbundling model effectively reduces the transactional costs and impacts on other utility customers of switching between the utility and marketers for the provision of the commodity. Conversely, an industrial customer who opts for unbundled service has an impact on the midstream asset requirements of the utility that is not easily reversed. Switching from a marketer to Terasen Gas for commodity supply would therefore more greatly impact Terasen Gas' supply and midstream portfolio. Therefore, while smaller commercial customers have expressed no desire thus far to have a regulated commodity rate alternative to complement the unbundled service, industrial customers do continue see value in such an alternative.

Proposed Removal of Rate Schedule 14

Absolute's submission is focussed on concern over Terasen Gas' proposed elimination of Rate Schedule 14. While Terasen Gas continues to hold the view that Rate Schedule 14 holds some value for the marketplace, that value is diminishing, especially in the face of some marketers' opposition and the growing costs and uncertainty that have resulted. Terasen Gas concluded that the majority of the customer and market benefits (highlighted once again in Absolute's submission) could be addressed through maintaining Rate 14A, and that the additional benefits to be retained through the continuation of Rate 14 were marginal. Terasen Gas therefore determined that energy and resources currently used in the provision of the Rate 14 service would be best redirected.

Rate Schedule 7 and Rate Schedule 10

In its letter to Terasen Gas, Avista supported the continuation of Rate Schedule 7 and Rate Schedule 10. Direct and Absolute did not comment on either Rate Schedule 7, or Rate Schedule 10.

Terasen Gas has noted that none of the points raised by Absolute, Avista or Direct in their letters can be considered as "new" and that each significant point raised has been addressed either via IRs issued to Terasen Gas in prior proceedings or through the various reports filed over the last year following-up from the Commission's approval of Terasen Gas' Rate 7, 10, 14, & 14A Application for the 2004 – 2005 Gas Year (G-64-04). However, Terasen Gas has respectfully responded to the comments via this letter.

Terasen Gas respectfully requests that the Commission therefore accept and approve the subject application as filed.

Any queries related to this filing should be directed to Rick Parnell, Director, Large Commercial and Industrial Markets at (604) 592-7855 or Tom Loski, Director, Regulatory Affairs at (604) 592-7464.

Yours truly,

TERASEN GAS INC.

Original signed by Scott Thomson

Scott A. Thomson