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September 10, 2008

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

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

**Re: Terasen Gas Inc. ("Terasen Gas")
Customer Choice Program Enhancements and Additional Customer Education
Funding Application (the "Application")**

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

On July 18, 2008, Terasen Gas filed the Application as referenced above. In accordance with Commission Order No. G-113-08 setting out the Regulatory Timetable for the Application, Terasen Gas respectfully submits the attached response to BCUC IR No. 1.

If there are any questions regarding the attached, please do not hesitate to contact Hans Mertins at (604) 592-7753.

Yours very truly,

TERASEN GAS INC.

Original signed:

Tom A. Loski

Attachment

cc: Registered Parties (e-mail only)



Terasen Gas Inc ("TGI", "Terasen Gas" or the "Company") Application for Customer Choice Enhancements and Additional Customer Education Funding	Submission Date: September 10, 2008
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1.0 Reference: Executive Summary, Customer Education, pp. 8, 9, 40, 70

1.1 Terasen Gas recognized one of the main failures in the previous advertising campaign and states on page 8 that:

"It was assumed that gas marketers would fully meet the requirements of the Code of Conduct as it related to their business practices."

If the gas marketers are providing awareness of their product through door to door sales, should not the benchmark of the education program be to lessen confusion and provide the customer with the correct information on the Customer Choice program to decrease the number of disputes and complaints?

Response:

Terasen Gas believes that a customer education plan that focuses on raising the awareness of consumers so that they are willing to consider participating in the Customer Choice program and are sufficiently knowledgeable to make an informed decision about a gas marketer's offer, are the appropriate objectives and were successfully met. Terasen Gas does not believe that a customer education campaign can be structured in such a manner where its primary objective is the reduction in the number of disputes and complaints by customers because this would impair the viability of the program itself. From a program design perspective, complaints and disputes arising from the business practices of gas marketers need to be handled separately, something that the Code of Conduct for Gas Marketers is specifically intended to manage and that the Commission is responsible for enforcing.

Issues arising from the marketing and selling practices of gas marketers are the source of almost all disputes and complaints by customers relating to the Customer Choice program. These disputes and complaints are not caused by a deficiency in the Customer Education Plan. The original design of the customer education plan appropriately assumed that such practices would be addressed by the Commission as violations of the Code of Conduct for Gas Marketers. Terasen Gas has refrained from using mass media to address this issue given the potential negative impact to the program as a whole¹. Terasen Gas continues to believe that the Commission's role in enforcing the Code of Conduct for Gas Marketers is the most appropriate means for reducing disputes and complaints arising from the business practices of gas marketers.

The 11 key messages identified in the original CPCN Application from April 2006² and approved in August 2006 are ones that Terasen Gas considered the most important drivers of program understanding. Customers able to recall each key message are likely more prepared to discuss the merits and disadvantages of a fixed rate commodity

¹ Terasen Gas ran a radio commercial in fall 2007 that informed customers that the Company does not, "knock on doors," to solicit sales. The commercial was met with significant resistance from gas marketers.

² Terasen Gas Inc., Commodity Unbundling Project for Residential Customers CPCN Application, April 13, 2006. Section 8.2, pages 57-59.



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contract with a gas marketer's sales representative. The campaign to date has resulted in very high levels of awareness with the Customer Choice program. Among those who are aware of the program (at its peak 86% of gas users in qualifying areas were aware), knowledge of some elements of the program have been extremely high. In particular:

- that gas customers can buy from a range of suppliers (76 per cent);
- that they can choose between different rates in either fixed or variable rates (72 per cent); and
- that gas marketers are independent of Terasen Gas (67 per cent).

"So in addition to high levels of awareness for the program overall, it has achieved very good levels of awareness of specific knowledge elements. Given these successes, the number of disputes cannot be attributed to a lack of knowledge or understanding among the majority of customers."³

1.2 Terasen Gas states on page 8 that:

"It is important to note that the Customer Education was not designed to guide customers through a purchase decision, or manage complaints after contact by gas marketers that arose from inappropriate or questionable sales tactics. The key customer education objectives were to raise awareness of the program and to provide information about where to find more program details."

Nevertheless, as Terasen Gas acknowledges on page 70, it also stated that:

"A sound (education) plan will ensure that inquiries to the Terasen Gas call centre and the Commission are minimized. It will also help the number of disputes between Gas Marketers and residential customers."

As a result of this failure in the program, there were significant complaint levels. However Terasen Gas states on page 9 that:

"Terasen Gas is of the view that customers are more likely to consider participating in the Customer Choice program if there is a clear link to it and to Terasen Gas, which is a company they place considerable trust in".

Terasen Gas on page 40 states that:

"Terasen Gas faces significant reputation risk from the implementation of the Customer Choice program. The marketing strategies of gas

³ Marina Gilson, Research Director, TNS Canadian Facts.



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marketers have the potential to influence customer satisfaction and consumer product preference."

Since complaints and disputes reached very high levels in 2006/07, is Terasen Gas not afraid that there will be an erosion of trust if the advertising program is not structured to improve customer education and reduce the number of complaints and disputes? Should this not be the main priority of the advertising campaign, leaving it to the Gas Marketers to promote awareness of products approved within the Customer Choice program?

Response:

Terasen Gas does not agree with the Commission's assertion that the Customer Education Plan failed because of the level of complaints and disputes that were experienced after the market opened in May 2007. As pointed out in the response to BCUC IR 1.1.1, the Customer Education Plan succeeded in all of the objectives that were approved for it in August 2006. Simply stated, the prevention or reduction in the number of complaints and disputes is not an appropriate goal for the Customer Education Plan. Terasen Gas is of the view that advertising will not change the behaviours of gas marketers, which is the cause for the vast majority of customer complaints. Terasen Gas also believes that a reduction in the number of complaints caused by the inappropriate behaviour of gas marketers is an important objective of the program. The appropriate tool for doing so however, is through the application of the Code of Conduct for Gas Marketers.

Terasen Gas monitors customer satisfaction levels and is ready to respond to any negative media coverage that arises about the Customer Choice program, including those relating to gas marketer sales tactics that appear to be the basis of most complaints and disputes. Considerable effort on the part of the Company has been undertaken since the start of the Customer Choice program to monitor customer feedback and media coverage and to take action to moderate the potentially negative impact on the Company's image as a result of the business practices followed by some gas marketers. This action included writing a number of Letters to the Editor that were published in newspapers in British Columbia, as well as advertising that focused on dispelling incorrect information provided by some gas marketers in their sales and marketing efforts.

Customer Choice communication allows Terasen Gas to reinforce key messages, build awareness and long term understanding of natural gas as an energy choice, and address any program related communication issues that may arise. Terasen Gas is of the view that this approach is the most effective way to address possible confusion by customers participating in the Customer Choice program. Moreover, the way the campaign is evaluated is consistent with contemporary market research strategies that are viewed to be effective.

The \$3 million annual communication expenditure proposed for 2009-2011 is designed to achieve the objectives outlined in the Company's July 18, 2008 Application, as well as



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help to address the issues outlined above. The campaign's success is appropriately evaluated by measuring the ability of customers to recall each key message.

Although gas marketers play a critical role in the marketing process, Terasen Gas does not believe that program awareness will increase based solely on such marketing efforts. Gas marketers own the interpersonal sales touch points, and are free to employ mass media advertising in their efforts. As such, they can make a significant contribution in this market transformation. However, they should not bear all responsibility for communicating the nature of the product to customers. Terasen Gas provides significant value by introducing existing and new customers to the product. The Company's information helps customers to understand both the advantages and disadvantages of the different natural gas commodity supply options available, a communication objective that is not necessarily in the best interests of gas marketers. The Company is able to provide this information because it is viewed by consumers as a trustworthy source for information. Terasen Gas does not stand to gain or lose when a customer decides who to buy the natural gas commodity from. This is unlike gas marketers who clearly have an interest in providing information in such a manner that increases the likelihood that consumers will sign a contract with them.

1.3 Isn't it a fact that the proposed promotion program called "Comfort Expert" (page 9) doesn't address the responsibility of Gas Marketers to provide truthful information through the door to door sales approach but does promote the expansion of the natural gas market in general as a high objective?

Response:

As noted in the response to BCUC IR 1.1.1, Terasen Gas believes that a customer education plan should focus on raising the awareness of consumers of the Customer Choice program so that they are willing to consider participating in it and are sufficiently knowledgeable to make an informed decision about a gas marketer's offer. These are the appropriate objectives and were successfully met. A customer education plan should not address issues arising from the differing business practices used by gas marketers. The existing Commission process is appropriate for addressing violations to the Code of Conduct for Gas Marketers.

In terms of the use of the "Comfort Expert" creative platform, the concept was designed to overcome the shortcomings of last year's advertising campaign that was selected through quantitative, online customer testing. By all accounts, last year's creative platform wore out quickly. This motivated Terasen Gas to investigate and select a new creative foundation that was more versatile and more interesting to customers. The Comfort Expert concept can address a broad range of communication issues in any media, and do so in a way the Company hopes will remain interesting and engaging to most customers. It may also help to promote the expansion of the natural gas market,



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something that is in the interest of all rate payers, the Company, and gas marketers participating in the Customer Choice program.

Three Comfort Expert TV commercials were recorded in late 2007. The three commercials address several communication goals, including the following:

- introduce the Comfort Expert creative concept to customers. At the same time it was designed to remind customers about the Customer Choice program. Awareness of Customer Choice rose to its highest level ever during the first two weeks of broadcast;
- the second commercial was designed to address the fact that fixed-rate commodity contracts aren't a guarantee of saving money – that, in fact, no one can tell for sure whether you'll save money or pay more with a fixed-rate contract; and
- the third commercial that will be launched later this fall is designed to reinforce people's awareness that a lot of information about Customer Choice is available on www.terasengas.com.

Terasen Gas expects that advertising based on the Comfort Expert creative platform will help meet the Customer Choice communications objectives, as well as help position Terasen Gas, the gas marketers, and natural gas favorably in the minds of consumers.

1.4 If Gas Marketers are permitted to offer a product into the marketplace and considering the very positive response of Gas Marketers to the British Columbia residential market, should they not be solely responsible for creating awareness in an advertising form they choose at this point in the evolution of the Customer Choice program? If not, at what point should Gas Marketers be responsible for creating awareness for their products whether it is primary/basic or specific advertising?

Response:

Terasen Gas is of the view that the responsibilities for raising customer awareness about the Customer Choice program should be primarily the responsibility of Terasen Gas. The primary concern of gas marketers is marketing and selling activities given the profit motive they have in participating in the Customer Choice program. Raising consumer awareness of the Customer Choice program is critical because consumers need to know that choice involves many factors. Consumers have a choice of product: a fixed price product offered by gas marketers and a variable price by Terasen Gas; and a choice of supplier: either a gas marketer or Terasen Gas. Terasen Gas helps to ensure that this objective is met, something that is not necessarily in the interest of gas marketers to promote, and unlikely to be a focus for gas marketers if they were made exclusively responsible for creating awareness for the Customer Choice program.



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Terasen Gas believes that its continued visible lead in Customer Choice communications is the best way to ensure that consumers are aware of the program and receptive to participating. This belief forms the basis for the Customer Education Plan that was described in the July 18, 2008 Application on pages 40 and 41. The relevant section appears below:

"Although there is some debate about appropriate advertising objectives, it is clear that they must be measurable, and the effects must be largely attributable to the advertising activity itself. "Some maintain that success can only be measured in terms of sales. Others contend that each element in the marketing mix (the "Four Ps") has a more specific role and that a change in sales is the result of each component working together with others."⁴

This latter contention infers two outcomes. First, that the Customer Choice program's marketing mix includes both Terasen Gas and gas marketer aspects. Second, that the campaign objectives are appropriately stated in communication terms, because more than advertising alone influences sales or complaints.

The components of a marketing strategy are often referred to as the "Four Ps":

Product – is any combination of goods and services offered to satisfy the needs and wants of consumers;

Price – is simply the amount of money that consumers are willing to pay for a product or service;

Place – refers to having the right product, in the right location, at the right time to be purchased by consumers; and

Promotion – encompasses a system of communication tools designed to present a company, its products, and its services to consumers.

The objective (of a marketing strategy) is to unite these working tools of the marketing manager into an organized and integrated program of action. Each variable contributes in its own unique fashion to the overall objective of maximizing long-run return on investment."⁵

The Customer Choice program is unique in marketing implications. Terasen Gas was responsible for the launch of a new service on behalf of other organizations. This new service is intrinsically linked to what Terasen Gas offers, and yet the Company has limited influence with respect to the overall marketing strategies employed by gas marketers. The gas marketers determine what price they offer to customers, the locations where they concentrate sales activity, direct product promotion and sales activities, and in many ways the product itself.

⁴ Promotional Strategy. Engel, Warshaw, and Kinnear. Fifth edition, 1983, page 164.

⁵ Ibid, page 9.



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Terasen Gas' customer education plan focuses on communication and seeks to improve customer satisfaction, product preference for natural gas, and long-term program sustainability. The awareness based communication objectives are measurable and appropriate. These objectives are primarily designed to:

- ensure that Terasen Gas has a presence in overall marketing strategy for the program;
- limit customer confusion about the program launch by reinforcing the 11 key messages;
- ensure customer satisfaction and product preference is protected from the undue influence of unprofessional sales tactics used by the sales agents of some gas marketers;
- ensure most customers are aware of the product and that the awareness of it shifts to a more fundamental understanding of the product; and
- help to establish a stable, competitive marketplace attractive for gas marketers to compete in and offer a selection of fixed price contracts for the supply of natural gas.

The marketing strategies employed by gas marketers have the potential to influence customer satisfaction and consumer product preference for natural gas itself, which is of primary significance to Terasen Gas. Gas marketers control the Customer Choice product by offering fixed price contracts of varying terms, locations where they concentrate their marketing efforts, and the price offered to customers. The only meaningful influence Terasen Gas retains with respect to the overall marketing mix is "promotion". The customer education plan developed by Terasen Gas is designed to help address the issues described above. Importantly, for it to be successful, it must be flexible, properly funded, and delivered over a multi-year period.⁶ Maintaining a program communication budget allows Terasen Gas to concentrate on the stated long-term program goals, and address any gas marketer activities that may damage the reputation of the Company. This is a positive influence on gas marketer promotional activities, and does not negate gas marketers from engaging in their own marketing and promotion activities.

1.5 In your opinion, at what point in the evolution of the Customer Choice program should awareness advertising of the Customer Choice program be the sole responsibility of Gas Marketers?

⁶ CUSTOMER CHOICE Post Implementation Report and Application for Program Enhancements and Additional Customer Education Funding, pages 40 and 41.



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Response:

Terasen Gas believes that it is the participant best able to carry out awareness advertising relating to the Customer Choice Program in the most impartial manner and thus considers that it should continue its involvement in awareness advertising on an ongoing basis. As pointed out in the responses to BCUC IR 1.1.2 and 1.1.4, the Company should continue with this lead role because it is viewed by consumers as a trustworthy source for information and because Terasen Gas does not stand to gain or lose when a customer decides who to buy the natural gas commodity from. This is unlike gas marketers who clearly have an interest in providing information in such a manner that increases the likelihood that consumers will sign a contract with them and not necessarily to provide relevant information that assists consumers to make their best decision for commodity choice.

- 1.6 What other areas in North America (that have commodity unbundling with Gas Marketers offering an alternative to the utility's rate schedule) have an advertising program to create awareness for commodity unbundling funded by customers of the utility? If so, please provide details about the programs including expenditure levels per customer and objectives of the program.

Response:

Residential commodity unbundling is permitted in four Canadian provinces (Ontario, Manitoba, Alberta, and BC), and in all or part of 22 US jurisdictions. The vast majority of these jurisdictions began residential unbundling prior to 2001 and therefore are past the most active phase of educating consumers regarding customer choice. As natural gas commodity unbundling was often part of a wider energy unbundling trend, customer education programs often covered both electric and natural gas communication requirements in many of these jurisdictions.

In most cases, the responsibility for, and the costs associated with the delivery of customer education was divided between the utilities (commonly more than one in each jurisdiction), the regulator, and the state or provincial government. This makes it difficult to determine the exact costs attributable to the customers of natural gas utilities. A breakdown of costs per person⁷ for a number of US areas is provided in Table 4 of the Navigant Report, filed in the Terasen Gas Inc. 2006 Commodity Unbundling Project for Residential Customers CPCN Application, Exhibit C-3-3, the Written Evidence of Direct Energy Marketing Limited and Energy Savings B.C. ("Retailer Group").⁸

⁷ Overall program costs divided by the number of residents of the jurisdiction

⁸ TGI 2006 Commodity Unbundling Project for Residential Customers CPCN Application, Exhibit C3-3, Review of Best Practices In Retail Energy Market Consumer Education Programs And Their Application In Alberta, Navigant Consulting, Page 22



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Table 4: Summary Table of Consumer Education Spending

Jurisdiction	Market	Annual Spending (C\$ million) ²¹	Annual Spending per Person	RED Index Education Score ²²	RED Index N.A. Ranking (score in brackets)
California	Electricity	92.5	\$2.90	-1	23 rd (11)
Ohio	Electricity	20.0	\$1.80	2	12 th (39)
Pennsylvania	NG & Electricity	20.5	\$1.71	2	2 nd (67)
Virginia	NG & Electricity	7.5	\$1.00	2	10 th (42)
Texas	NG & Electricity	15.5	\$0.68	2	1 st (69)
New York	Electricity	8.0	\$0.41	2	9 th (50)
UK	NG & Electricity	28.0	\$0.40	1	1 st in world (88)
Massachusetts	Electricity	2.5	\$0.40	1	10 th (42)
Georgia	NG	2.7	\$0.34	N/A	N/A
Connecticut	Electricity	5.6	\$1.70	2	14 th (36)
Michigan	Electricity	15.5	\$1.59	1	7 th (52)
New Hampshire	Electricity	1.1	\$0.94	2	12 th (39)
New Jersey	Electricity	5.6	\$0.70	2	9 th (50)
Maine	Electricity	1.0	\$0.56	2	3 rd (64)
AVERAGES		16.1	\$1.08	1.4	46

Note: Jurisdictions that were not discussed in greater detail in Chapter 4 are shaded in Table 4.

²¹ Where possible, this information is for the most recent year. For California, Ohio, and Massachusetts, this figure represents the peak spending year (generally straddling the beginning of the competitive market).

²² RED Index information is from 2003. The highest possible score in "Consumer Education" is 2, the lowest possible score is -1.

A more detailed synopsis of select programs is contained in Tables 5 & 6⁹ of the same report. Expenditure per person ranged from a high of \$2.90 in California to \$0.34 in Georgia with an average of \$1.08 for the jurisdictions surveyed. Based on the Customer Education Plan proposed by Terasen Gas in the July 18, 2008 Application for 2009, 2010, and 2011, the expenditure level would result in a cost of approximately \$0.75 per person per year¹⁰.

⁹ Ibid, Pages 23 and 24

¹⁰ Based on the BC Census, 2008 second quarter estimate of the population of British Columbia.



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Table 5: Survey of Five Markets²⁴

Categories		New York	Massachusetts	California	Ohio	Texas
Education Funding	Amount (per annum) ²³	\$1.25 million per year for the PSC and \$6.25-\$7.5 million per year from the utilities	\$2.5m in 1998 (\$1.25m in 1999, 0 in 2000)	\$26.25m per year (\$105 m over 4 years)	\$20 m in year 1 (\$21.25 m across years 2-5 for a total of \$41.25 m)	\$15.5 million (in 2002)
	Per Person (per annum)	\$0.41 in 2002	\$0.40 in 1998 (\$0.60 in total)	\$0.84 per year	\$1.80 in year 1 (~\$3.60 in total)	\$0.68 (in 2002)
	Duration	Ongoing	Ended in 2000	Ended after 4 years (education about renewables continues)	5 years under the current plan	2001 to September 2003
	Source	State funding (\$1m) and individual utilities (\$5-\$6m) through a Social Benefits Charge (SBC)	Division of Energy Resources dedicated specific fiscal resources for education in 1998 and 1999	Customer Education Plan (CEP) is funded by a charge levied on all customers through the utilities	Legislation requires that each IOU must contribute to a \$40 million education program	System Benefit Fund (SBF), which is a \$0.81/MWh charge that began Jan-02
Education Program	Delivery Agent	PSC and utilities	Division of Energy Resources and Regulated Industries Division of the Attorney General's Office	"Utilities must devise and implement a consumer education plan in conjunction with the CPUC"	PUCO, Ohio Consumers' Counsel (OCC) and the Ohio Electricity Utility Institute (OEUI), all through the "Ohio Electric Choice Campaign" Utilities had territory-specific education campaigns	PURA 39.902 requires the PUCT to develop and implement an education program to inform customers
	Media	Newspapers, TV, radio, and person-to-person efforts with staff appearances at county fairs, community events	Print, TV, radio, call center, website, speaking engagements, newspaper stories, bill inserts	Phased mass media messages, direct mail to each electric customer, multi-ethnic and multi-lingual materials and grass roots organization-sponsored outreach educational activities	Initially included TV/radio/print advertising and website forms of advertising but, due to the slow development of competition, stopped TV advertising.	TV/radio/print advertising, website, phone answer center, newspaper inserts, education literature, and community-based outreach
	Target (blank if none specified)		No extensive television or public service announcements – focus on toll-free hotline, consumer guides, and brochures in various languages		Residential consumers, small- and mid-sized commercial customers, elected officials, community leaders and civic organizations, trade associations and consumer groups – with special emphasis on minorities, rural and low-income customers, and senior citizens	Everyone, with efforts to reach English and Spanish customers, as well as low-income customers
Electricity-Specific Quantitative Measures	RED Index 2003 Education Component	"Understanding" since 2000	"Awareness" since 1999 (first year of RED Index statistics)	"Rejected" in 2003, after four years at the "Awareness" level	"Understanding" since 2001	"Awareness" in 2001, and "Understanding" 2002 and 2003
	RED Index 2003 Total Score	50 (highest rating yet) – Ranked 9 th in North America	42 (highest rating yet) – Ranked 10 th in North America	11 (peak rating of 32 in 2001) – Ranked 23 rd in North America	39 (highest rating yet) – Ranked 12 th in North America	69 (highest rating yet) – Ranked 1 st in North America, 3 rd in World
General Quantitative Measures	Consumer Awareness				Consumer awareness rose from 38.2% to 62.3% between June 2000 and February 2001 (a survey in fall 2001 saw this rise to 75%) and "knowledge of electric choice" increased from 20% to 33.6% 16% in 2003	A survey in August 2001: 11.9% of residential consumers "felt able to make an informal choice among suppliers" – this was up from 7% in February 2001
	Switching Rates	6.2% in 2004 (up from 5.18% in 2003 and 4.77% in 2002)	3.4% in 2003 (up from 0.5% in 2002)	0.7% in 2003 (down from a peak of 13% in 2000)	(up from 5.85% in 2002) (approx. 40% in natural gas, mostly through aggregation)	7.4% in 2003 (up from 2% in 2002)

²³ Some sources listed different amounts, but most were very close to the amounts listed.

²⁴ (all in C\$, calculated at an exchange rate of US\$0.8 = C\$1)



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Table 6: Survey of Four More Markets²⁵

Categories		UK (OFGEM)	Pennsylvania	Pennsylvania - Gas	Virginia
Education Funding	Amount (per annum) ²⁶	~\$28m in 2003	\$20.5m	\$1.5m per year	\$7.5 m (for both gas and electricity - \$37.5m over 5 years)
	Per Person (per annum)	~\$0.46 in 2003	\$1.71	\$0.13	\$1 per year
	Duration		Funding ended in 2004 (but some aspects continued)		5 years (2001-2005)
	Source	Department of Trade and Industry	Funded with part of the revenue from the Competitive Transition Charge (CTC), which is levied on all customers	Each utility can charge a cost recovery mechanism to recover the full cost of an approved consumer education program	Funded through a revenue tax on utilities
Education Program	Delivery Agent	<i>energywatch</i>	Pennsylvania Electric Choice Program	Public relations agency (hired by PUC), PUC, and utilities (under the auspices of the PUC), as well as Utility Choice	State Corporation Commission (SCC), utilities and consumer groups
	Media		TV and radio advertising, website, call centre, brochures, grassroots education	Grassroots educational outreach, community events & sponsorships, news bureau, website, printed materials (in English and Spanish), and kiosks	Standard terminology on all bills
	Target (blank if none specified)		Utility Choice and Electric Choice programs were designed to teach Pennsylvania's phone, natural gas, and electricity consumers about their opportunity to select a utility provider as well as how to shop for a utility provider.		
Electricity-Specific Quantitative Measures	RED Index 2003 Education Component ²⁷	"Awareness" since 2002 (first year of RED Index statistics for UK)	"Understanding" since 1999 (first year of RED Index statistics)	Over 900 community-based groups reached, website has received over 17m hits (1m during the first month), newsletter distributed to over 1000 organizations each month, 11.4 million impressions from media exposure	"Understanding" since 2001 (the VEC program began in 2001)
	RED Index 2003 Total Score	1 st in the World	67 (highest rating yet) – Ranked 2 nd in North America, 4 th in the World	24% have shopped for a different supplier of gas	42 (highest rating yet) – Ranked 10 th in North America
General Quantitative Measures	Consumer Awareness		Pennsylvania customers are nearly 25% more likely to report they are satisfied with their electricity service than the national average	2003: 62% awareness of natural gas choice (87% in Philadelphia and Pittsburgh)	Jun 2001: 28% awareness Mar 2002: 40% awareness
	Switching Rates	38% in 2003 (up from 26% in 2002)	6.34% in 2003 (stagnant since 2000)	2002: over 12% switching 2004: over 7% switching	1% since 2001

²⁵ (all in C\$, calculated at an exchange rate of US\$0.8 = C\$1 and £0.438 = C\$1)

²⁶ Some sources listed different amounts, but most were very close to the amounts listed.

²⁷ There are four levels to the Consumer Education component: "No Action" means that "no action to implement consumer education program, or program not yet begun"; "Awareness" means that there is an "education program providing customer awareness of alternative suppliers"; "Understanding" is for an "education program providing evaluation of customer understanding of how to select alternate suppliers"; and "Rejected" is used for a market that explicitly rejects a consumer education program.



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Manitoba and California are examples of jurisdictions, other than BC, where the utilities were mandated to devise and implement customer education plans in conjunction with their public regulator. In California the emphasis was on electric de-regulation, a program that has since been discontinued. A fuller description of the California customer education program is provided below.¹¹

California – Electricity

High Education Spending, Terminated Market

California's market collapsed because it was poorly designed, and this collapse was hastened (and exacerbated) by external forces. The market was opened to competition in March 1998. In 2000 and 2001, a below-average rainfall in the Northwest and Midwest and a warmer-than-average summer in California meant that supplies were tight. Generation in California was under-built and transmission constraints between northern and southern California meant that wildly fluctuating prices and market gaming were rampant. As prices spiraled out of control, the state government shut the market down.

The legislation that opened the market in 1998 also ordered the utilities and the California Public Utilities Commission (CPUC) to educate consumers about the changes to the industry. CPUC asked the three largest utilities – Pacific Gas and Electric Co., Southern California Edison Co., and San Diego Gas and Electric Co. – to submit a plan for the Consumer Education Program (CEP). These utilities proceeded to form a stakeholder advisory group called the Electric Restructuring Education Group (EREG).

California spent over C\$100m on consumer education, including over C\$2.50 per person in the first year of the program. It was the first state to use a professionally designed, statewide consumer education program, which was label "Plug in, California". Multimedia commercials were a major part of the program, and they were designed to pique the public interest and increase awareness about customer choice. The Commission controlled the design and implementation, but day-to-day activity was under the auspices of a single

¹¹ TGI 2006 Commodity Unbundling Project for Residential Customers CPCN Application, Exhibit C3-3, Review of Best Practices In Retail Energy Market Consumer Education Programs And Their Application In Alberta, Navigant Consulting, pages 10 and 11.



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Commissioner. The Commission relied on a committee of stakeholders and multiple customer surveys to design and refine the campaign.

The education process began in the fall of 1997, with the anticipation of opening the market on January 1, 1998. (The opening was delayed by three months to April 1, 1998.) The first initiative was called the Main CEP and it cost over C\$75m. It was essentially an awareness campaign – much of the advertising directed consumers to a call centre and brochures for more information. Some of the elements of the campaign were specifically targeted at minority and non-English speaking populations. All advertised messages were translated and delivered in 10 languages.

The call centre was a very successful element of the main CEP, and was continued for many months after the program officially ended on May 31, 1998. Call centre activity would increase dramatically after the airing of CEP television and radio spots. At the conclusion of the program, the CPUC commissioned two surveys to see if it met its benchmark of 60% “aided awareness” – i.e., 60% of all consumers having heard of restructuring and being aware that they could choose a supplier. Both surveys indicated that the consumer education program surpassed the goal of 60%. (Neither survey attempted to gauge the effectiveness of the various types of education.)

The CEP initiative was followed by the Electric Education Trust (EET), which ran from mid-2001 and concluded in July 2002. The EET, with a budget of over C\$17m, was given the task of educating the harder-to-reach customers. It focused on community-based organizations (CBOs) as a conduit for disseminating information to those not exposed to the more mainstream advertising efforts of the main CEP. The EET focused largely on areas where switching was low or reports of abuse were high. Unfortunately, the EET’s work coincided with the energy crisis in California, and as a result, the EET’s focus shifted to energy conservation and efficiency.

During these years, the CPUC’s own outreach spent C\$3m on educating government agencies and political leaders. As well, the CPUC’s Office of Ratepayer Advocates created valuable reactive education with its “Shopper’s Guide” and “Guide to Residential Electric Service Options”, which was essentially a price guide. The price guide was produced every six months using retailers’ regulatory filings. It offered an apples-to-apples comparison of retailers prices that used an average load to estimate monthly bills. Like the CEP’s advertising, these guides were translated into 10 different languages, and the price guide in particular was very popular among consumers. When retail competition was suspended, most of this education was terminated.

As the California experience demonstrates, significant spending on consumer education (both in absolute and per capita terms) cannot overcome a fundamentally flawed market design. The spending resulted in an “Awareness” rating from CAEM during those years. This implies that the spending focused on informing consumers that the market was open, but not necessarily what to do about it. Legislators also believed that consumers disliked the incumbent utilities and would go out of their way to learn about and engage in electricity choice themselves. Switching rates peaked at 13% in 2000 before declining to 0.7% in 2003. As California’s market collapsed, its RED Index ranking went from 3rd in North America in 1998 to 23rd in 2003.



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In Manitoba, the customer education program objectives and tactics were laid out by Centra in Manitoba Public Utilities Board Order 19/00.¹²

"Centra has developed a customer education campaign segregated by customer class to assist in the transition to WTS. Centra stated that it had already commenced employee education to deal with customer inquiries.

Centra provided information on the current status of the Customer Education Plan and Consumer Protection proposals. The Customer Education Plan will consist of four components:

- A generic information package to be handed out by ABMs when marketing door-to-door, and to be handed out by Centra at the request of customers.*
- A bill insert, to be developed and mailed by Centra based on the generic information package, with wording to be agreed to by all stakeholders.*
- An information package developed by Centra with input by all stakeholders based on the types of questions and concerns raised by customers.*
- Additional information to be posted on Centra's website."*

The lack of success of what was initially a limited customer education plan can be judged by evidence at a subsequent regulatory hearing in 2007 (Order No. 160/07)¹³ which dealt with concerns regarding the competitiveness of the Manitoba natural gas market. At the hearing Centra stated that:

"customers are not given enough information to make educated choices with respect to their primary gas supplier, and that this is a major problem with the competitive market in Manitoba. Centra pointed to the fact, learned from the customer research survey, that almost half of the retailers' customer base did not know that they were being supplied gas by a retailer. Centra observed that this "confusion" has increased since the 2004 survey, when 40% of retailer customers did not know they had contracted with a retailer."

Centra went on to suggest that:

"educational efforts should take priority, and the delays now experienced with bringing forward educational advances should be addressed."

¹² <http://www.pub.gov.mb.ca/pdf/00centra/019-00.pdf>

¹³ <http://www.pub.gov.mb.ca/pdf/07centra/160-07.pdf>



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A review of Customer Education programs developed in other justifications, like those described above, provided input into the design of the Customer Education Plan implemented by Terasen Gas in 2007. Please also refer to the response to BCUC IR 1.1.4 for more information.

- 1.7 Terasen Gas indicates that explaining the difference between delivery and commodity charges cannot be done in a 30 second commercial but suggests that TV and radio messaging is necessary to communicate this message to 70-75% of gas customers. Would this objective be communicated better through written forms of communication since to date awareness level of 40% proves this strategy has not been successful?

Response:

In BCUC IR 1.1.7 the Commission appears to have misunderstood the issue raised by Terasen Gas in its July 18, 2008 application. To clarify the position of Terasen Gas, it stated on page 86 of the July 18, 2008 Application that:

*"...message complexity and time constraints suggest this issue cannot address **both** Customer Choice and the core message (commodity versus delivery) in a 30 second commercial. It takes 30 seconds just to relate the core message. Moreover, it was difficult to address this issue with customers when they didn't need to understand the difference."*

Print is a passive media. It is superior in terms of providing depth of information, but it is only effective when people actually read the content. Terasen Gas included information about commodity versus delivery in each rate adjustment bill insert and media release since the late 1990s. Despite the coverage, advertising tracking research suggested only 18 per cent of gas users in areas with access to Customer Choice had knowledge of the two cost components before the campaign began.

"The delivery versus commodity element of the Customer Choice campaign has achieved the lowest levels of awareness throughout the campaign (relative to other elements), with around one in three gas users (in qualifying areas) claiming to have knowledge of the two cost components. This is no doubt due to the fact that this element has not featured prominently in the TV and radio ads, to date. As stated by Terasen, the complex nature of this element has been the reason behind this."¹⁴

For the past several years Terasen Gas used a variety of print materials to communicate this issue to customers. Despite significant newspaper advertising, regular bill inserts

¹⁴ Marina Gilson, Research Director, TNS Canadian Facts, 1140 W. Pender Street, Suite 610, Vancouver BC



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and several customer newsletters, knowledge about the two cost components remained low. In fact, in spring 2007, awareness of the two cost components was only at 18%¹⁵. This issue scored more poorly than others did to date, specifically because it is only communicated in print. Written communications cannot build the high levels of awareness that are required to help ensure the long term viability of the Customer Choice program.

Using radio or television advertising is the most cost effective way to reach 70 to 75% of gas customers with any message. However, the message needs to be simple. Typical commercials contain about 65 words, so it is not possible to adequately address the two cost components in the context of Customer Choice within the same commercial. There is simply too much information that needs to be conveyed. However, 30 seconds is sufficient to produce commercials that only describe the distinction between commodity and delivery costs. Addressing this issue in radio or television commercials will eventually achieve the 50% awareness target identified for this key message.

¹⁵ 2008 Ad Tracking, TNS Canadian Facts, Kelvin Chan, Richard Wilcox, page 46.



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2.0 Reference: Executive Summary, Customer Education, pp. 9, 23

2.1 On page 9 of the Report, TGI states: "Terasen Gas is of the view that customers are more likely to consider participating in the Customer Choice program if there is a clear link to it and to Terasen Gas, which is a company they place considerable trust in."

Since a significant number of complaints from customers has been that agents of Gas Marketers have presented themselves as representing Terasen Gas, does closely linking the Customer Choice program with Terasen Gas not contribute to confusion in the minds of customers about the relationship between Terasen Gas and fixed price offerings by Gas Marketers? To reduce confusion, should educational material deliberately distance Terasen Gas from the Customer Choice program?

Response:

In terms of raising the awareness of consumers about the Customer Choice program, there remains an intrinsic link between the Customer Choice product and Terasen Gas because the gas marketer product appears on the Terasen Gas bill. Using the Terasen Gas look and feel to promote the program has many advantages. The approach allows Terasen Gas, a company that people generally trust, to introduce customers to gas marketers. This approach legitimizes gas marketer activity and helps the Company to maximize the impact of the customer education expenditure. The relationship is analogous to having a business associate or acquaintance introduce you to someone, versus having a complete stranger try to do the same thing. When Terasen Gas talks about Customer Choice and the role gas marketers play with respect to the product, some of the trust the utility has established with customers is transferred to marketers. The Company's introduction – using Terasen Gas branded messaging – serves to facilitate a possible relationship between the gas marketer and the customer.

Problems associated with consumers' understanding of the role of gas marketers and Terasen Gas are primarily the result of gas marketers using Terasen Gas' name as a sales tactic to gain entry into a customer's home. This problem points to violations of the Code of Conduct and should be addressed by the Commission on that basis. In contrast, in terms of printed material used by gas marketers, like the Standard Information Booklet, Terasen Gas believes the printed material passed out directly by a gas marketer should be more distanced from Terasen Gas. Updating the booklet for example with a generic appearance will help reduce the opportunity for creating confusion about whom a sales agent represents.

The actual level of complaints, many of which involve feedback from customers who indicate that gas marketers were claiming to be with Terasen Gas, provides assurance that the overall customer education program is working and that customers are correctly identifying inappropriate activity.



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- 2.2 To avoid giving customers the impression that an agent of a Gas Marketer represents Terasen Gas, should the branding of Terasen Gas be removed from the Standard Information Booklet, and perhaps be replaced by the name and logo of the Commission and/or the names and logos of licensed Gas Marketers?

Response:

Terasen Gas agrees with this suggestion. Terasen Gas will design a revised Standard Information Booklet and circulate the proposed document for feedback later this year with the Commission and affected gas marketers.



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3.0 Reference: Chapter 4.8.8, Future Communications 4.8.8.1, Immediate Communication Objectives, p. 85

3.1 Terasen Gas states that: "The objectives of the customer education plan are to sustain awareness and increase the depth of knowledge among natural gas users who are most likely to be interested in Customer Choice."

The specific objectives for period 2009-11 are recommended to be:

1. Maintain customer awareness of the program at a minimum level of 70-75% throughout 2009 and ongoing (natural gas users only); and
2. Increase knowledge of defined program details, specifically delivery vs. commodity, to 50% of natural gas users while the detailed campaign is running.

If the components of the advertising program were limited to word of mouth advertising, Gas Marketer door to door sales, Terasen Gas website, BCUC website and print communication (bill stuffers etc) can the goals identified still be achieved?

Response:

Neither objective 1 nor 2 can be achieved if the advertising program were limited as outlined above.

Creating awareness requires active communication and engagement with consumers. This proposed restriction runs counter to how marketing and sales efforts are generally employed by gas marketers, which tends to be characterized by brief periods of focused activity in a region based on a perception of market opportunity, followed by little or no visible activity. When advertising support is lowered awareness levels drop. This result occurred with the Customer Choice campaign last year where advertising tracking research showed that once the Customer Choice mass media campaign ended in the fall of 2007, awareness dropped off. Awareness picked up again at the start of 2008 once advertising began.

To achieve the first objective of 70-75% awareness cost-effectively, continued mass media advertising is required. The other media listed above including websites, bill stuffers and door-to-door sales all have an important support role to provide more information, or to close a sale, but need to be supported by an overall awareness campaign to engage people to seek or to be receptive to further information.

Word of mouth, while potentially very valuable, is a wild card that hinges on a positive customer experience and can be wiped away by a negative one. Word of mouth also assumes a high degree of interest and active consumer engagement. As discussed in the Company's July 18, 2008 Application, natural gas is a low interest category meaning that there is no reliable expectation that word of mouth will be sufficient.



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Door to door sales are a personal, face to face approach that can be a good tool to close sales, but represent a very expensive and inefficient way to achieve widespread awareness and understanding. On an individual basis, it is too infrequent to achieve any traction in terms of awareness.¹⁶ Both door to door sales and word of mouth also rely on the knowledge of the person giving the information. It is difficult to measure if this information is consistent and accurate. By having a customer education program to support word-of-mouth and door-to-door sales, the consumer is provided with the opportunity to hear accurate and complete information, something they need to make an informed decision.

Unless there is active engagement that will drive consumers to visit the Terasen Gas and the BCUC websites and learn more, consumers are unlikely to visit unless they have a problem. Research indicates that the contribution of online information to purchase intent is about 7% (Ipsos ASI). This indicates that online advertising has a role to play, but requires support to build awareness. The mass media campaign for 2009-2011 as set out in the Company's July 18, 2008 Application is important to continue to drive natural gas customers to these websites to learn about Customer Choice.

Bill stuffers also represent another support tool that can be utilized to provide additional information. However, bill inserts are very passive and are not intrusive enough to break through consumer consciousness to build awareness. They are more effective as a support mechanism to provide additional information once people are engaged and interested. As mentioned in the July 18, 2008 Application, past research by Terasen Gas has indicated that bill insert readership levels are as low as 11 per cent which is not significant enough to maintain awareness objectives in isolation.

¹⁶ Ipsos ASI is the advertising research arm of Ipsos. Ipsos ASI provides a full range of advertising research services in North America, Europe, Latin America and Asia.



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4.0 Reference: Chapter 4.8.8, Future Communications, pp. 85-93

4.1 What is the cost benefit analysis (business case) for the customer advertising program that justifies expenditures for the next three years at \$3,000,000 per year correlated to expected market share for Gas Marketers?

Response:

Terasen Gas' education plan objectives currently relate to increasing and maintaining awareness of the Customer Choice program and are not designed to affect the market share of gas marketers. As set out in section 4.8.8.1 of the July 18, 2008 Application:

"The objectives of the customer education plan are to sustain awareness and increase the depth of knowledge among natural gas users who are most likely to be interested in Customer Choice. The specific objectives for 2009-11 are recommended to be:

- *maintain customer awareness of program at a minimum level of 70-75 per cent throughout 2009 and ongoing (natural gas users only); and*
- *increase knowledge of defined program details, specifically delivery vs. commodity, to 50% of natural gas users while the detailed campaign is running.¹⁷"*

The \$3 million communication expenditure is intended to help achieve these goals. The campaign's effectiveness is evaluated by measuring key message recall that is exhibited by customers. Reaching the stated goals helps to ensure most customers understand the nature of the gas marketers' fixed rate commodity contracts, and are in a position to make an informed choice. With continued communications effort, the customer education campaign will shift people from short-term awareness to knowledge of the product. This change will help to encourage consumers to consider participating in the program, which is an important foundation for its long-term success.

Importantly, Terasen Gas did not design, nor can it justify, an education campaign based on a specific impact on gas marketer market share. An informed consumer will be in a position to evaluate the value of an offer made by a gas marketer and may decide to sign a contract at one point, then not to renew when the initial contract expires, and then decide to sign another agreement at some other point in time. This process means that the customer participated in the program each time, but this degree of participation is not something that is captured in the market share statistic. The customer education campaign is designed to help establish an appropriate foundation that supports ongoing marketing and sales activity. Market share is dependent upon the individual marketing plans of the gas marketing companies involved, including aspects like their pricing policies, terms, promotions and the quality of their sales staff. Other influencing factors relate to the marketplace. Volatile energy prices caused by extreme weather events,

¹⁷ Customer Choice Post Implementation Report and Application for Program Enhancements and Additional Customer Education Funding, July 2008, page 85.



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natural disasters or even political uncertainty here or abroad, may have a dramatic impact on the market share that gas marketers eventually achieve. Further, it would be anticipated that some fully informed customers would never chose to enter into an agreement with a gas marketer simply as a consequence of their awareness.

4.2 Terasen Gas states that: "With a drop in awareness, marketing efforts by gas marketers may be more difficult as they will now be required to reeducate consumers about the Customer Choice program in addition to their gas marketing programs".

Isn't the most cost effective method to educate customers through direct door to door sales contact and if further advertising is required should the Gas Marketer not provide it?

Response:

Terasen Gas does not agree that door-to-door sales contact is the most cost effective method to educate customers about the Customer Choice program. As mentioned in the response to BCUC IR 1.3.1 for instance, creating awareness is a very active process that requires a mass advertising campaign, combined with a sustained effort by gas marketers to continue to work at communicating with and actively engaging consumers. This requirement however runs counter to how marketing and sales effort is generally employed by gas marketers, which tends to be characterized by brief periods of focused activity in a region based on a perception of market opportunity, followed by little or no visible activity. When advertising support is lowered awareness levels drop, which undermines the viability of the Customer Choice program.

Gas marketer sales' agents are not necessarily interested in reducing consumer confusion or ensuring that customers are well informed before they make a purchase decision. Based on the actual number of complaints alleging unprofessional conduct received to date, there appears to be a risk that leaving the customer education effort to the gas marketers could result in increased complaints and decreased levels of program understanding. If renewed problems draw further media attention, the viability of the program could be compromised. Less scrupulous gas marketer sales representatives might have little interest in limiting customer confusion; indeed they could potentially maximize their sales effectiveness by taking advantage of ill-informed customers.

Terasen Gas is of the view it is in the best position to build overall consumer awareness about the Customer Choice program, shift program awareness to knowledge, and help to prepare customers to make informed purchase decisions. This view is based on the belief that unlike gas marketers, Terasen Gas is indifferent as to who provides customers with the natural gas commodity, provided that customers are satisfied that they have given an opportunity to make an informed choice. To reiterate the primary



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objectives of the customer education campaign proposed by Terasen Gas for 2009-2011, they include:

- ensuring that Terasen Gas has a presence in overall marketing strategy for the program;
- limiting customer confusion about the program launch by reinforcing the 11 key messages;
- ensuring customer satisfaction and product preference is protected from the undue influence of unprofessional sales tactics used by the sales agents of some gas marketers;
- ensuring most customers are aware of the product and that the awareness of it shifts to a more fundamental understanding of the product; and
- helping to establish a stable, competitive marketplace attractive for gas marketers to compete in and offer a selection of fixed price contracts for the supply of natural gas.

Please also refer to the responses to BCUC IR 1.1.4, 1.1.5, and 1.3.1 for more information about the issue raised in this question.



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**5.0 Reference: Chapter 4.8.8, Future Communications, 4.8.8.3 Key Messages
Delivery versus Commodity, p. 86**

5.1 Terasen Gas states that:

"Establishing greater clarity on the issue of delivery and commodity costs is important in order to build a better understanding of Customer Choice. This should facilitate better consumer understanding of the difference between Terasen Gas and gas marketers, and help clarify the commodity product being sold. Unfortunately, message complexity and time constraints suggest this issue can not address both Customer Choice and the core message in a 30 second commercial."

Since one of the basic issues of the Customer Choice program (the differentiation of delivery and commodity) is not easily explained through television or radio advertising, in your view what would be the effect on the target market if only newspaper (\$516,000), on-line media bill inserts (\$120,000), trade shows (\$70,000) and information booklets were used to compliment door to door marketing carried on by the Gas Marketer?

Response:

The reach effectiveness of television is far greater than the reach of print. For instance, 78% of British Columbia adults watched television the previous day while only 41% read or looked into yesterday's daily newspaper (PMB 2008). Ipsos ASI¹⁸ reach norms also indicate that print achieves less than half that of television. Reach for on-line media, bill inserts and trade shows are even less. As a result, television and radio are an important element of the communications mix that is needed in order to achieve an efficient and cost effective mass awareness for Customer Choice.

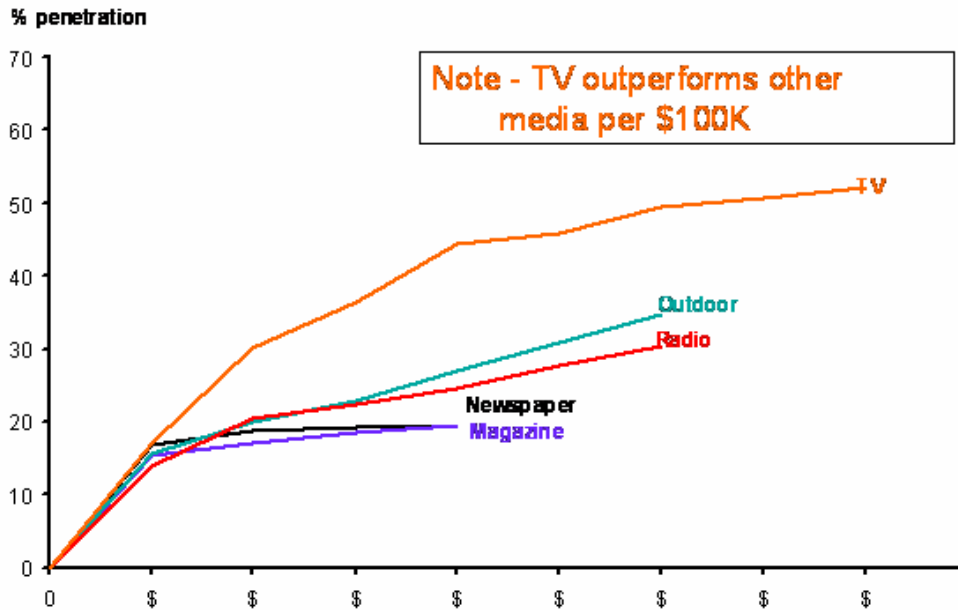
If television and radio were removed from the mix, the remaining media – an \$840,000 campaign comprising newspaper, online media, bill inserts, and trade shows could not achieve the same levels of product awareness. As the chart below shows (Ipsos ASI), media other than television have significantly lower impact on awareness. *"A budget of less than half the proposed budget spent on media other than television would lead to awareness levels much lower than half of those projected in the submission."*¹⁹

¹⁸ Ipsos ASI is the advertising research arm of Ipsos. Ipsos ASI provides a full range of advertising research services in North America, Europe, Latin America and Asia.

¹⁹ Pauline Hadley-Beauregard. Partner. Wasserman + Partners Advertising, 1020 Mainland Street, Vancouver BC



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Even with greater levels of investment than the \$3,000,000 proposed, these other media could not achieve the same reach levels as television. They neither reach enough people often enough, nor are they intrusive enough to achieve comparable awareness levels. Terasen Gas remains of view that its proposed Customer Education plan for 2009, 2010, and 2011 is best suited to help ensure that the Customer Choice program is viewed with interest by consumers and that they will consider participating in it.

Please also refer to the response to BCUC IR 1.1.7 for a discussion about the challenges in communicating the difference between delivery and commodity.

5.2 Terasen Gas suggests (on page 86) that it is important to establish greater clarity in understanding the difference between delivery and commodity. Should Terasen Gas not bear some of that cost to explain its bill to customers in general (as there will be a spill over effect from any method of advancing customer education through the Customer Choice Program)?

Response:

Terasen Gas does bear some of the cost to explain the difference between delivery and commodity charges to customers. The Company includes this information in rate communications including radio commercials, bill inserts, and media releases on a regular basis, as well as providing permanent information on www.terasengas.com.



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It is important to note that the necessity in effectively addressing the issue of the difference between delivery and commodity charges only arose with the introduction of Customer Choice. Customers typically review the amount due on a bill and pay little attention to the miscellaneous line items. While it's beneficial that customers understand Terasen Gas does not mark up the cost of natural gas, it is essential that they understand the specifics of a gas marketer's contract. For this reason, Terasen Gas believes that it is appropriate to fund the cost of this communication through the Customer Choice program.



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6.0 Reference: Chapter 4.8.8.6, Complimentary Media Channels, pp. 88-89

6.1 Page 88 of the Report states that bill inserts provide the greatest opportunity to sustain awareness, and on page 91 Terasen Gas proposes to use two bill inserts per year at a cost of \$70,000. Please discuss whether bill inserts may in fact be the most effective and efficient way to communicate the message about "delivery versus commodity", considering the somewhat complex and detailed nature of the message.

Response:

While a bill insert does provide the greatest opportunity to sustain awareness within the context of a 'Complementary Connection Channel', it also requires additional 'Intrusive Connection Channels' to support it for it to be effective. A 'Complementary Connection Channel' was described in the July 18, 2008 Application as follows:

"Complementary Connections Channels are those where the messaging is placed in an environment that is highly applicable to the consumer's mindset at the time of the exposure. A bill insert is an example of a Complementary Connection Channel – the consumer is reviewing their bill and is in a more open frame of mind for Customer Choice messaging."²⁰

Intrusive Connection Channels are required to create awareness of Customer Choice so that the consumer will be more receptive to in-depth educational opportunities like bill inserts. Without awareness of Customer Choice, consumers are even less likely to read about it in their bill insert.

However, past research suggests that bill insert readership levels may be as low as 11%²¹ (as mentioned on page 89). So, even though the consumer is in the frame of mind to be exposed to the message, only about one or two customers in ten take the time to read the message. Bill insert effectiveness is limited by low readership. Another limitation arises when the individual reading the bill insert is not the household's decision maker. It is for these reasons that Intrusive Connection Channels are required in order for bill inserts to be effective. Bill inserts are relatively inexpensive. However, their robust (detailed information) and contextually relevant message unfortunately reaches a very limited percentage of customers. They do not replace the Intrusive Communication Channel coverage requested in the July 18, 2008 Application.

The most effective way to reach the Company's broad customer base, with sufficient frequency to build awareness and eventually have the awareness shift to knowledge is through a communications strategy that includes both Complimentary (bill inserts) and Intrusive Communication Channels, especially television or radio.

²⁰ CUSTOMER CHOICE Post Implementation Report and Application for Program Enhancements and Additional Customer Education Funding, page 88.

²¹ CUSTOMER CHOICE Post Implementation Report and Application for Program Enhancements and Additional Customer Education Funding, page 89.



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6.2 What would be the costs and benefits of using four bill inserts per year?

Response:

The cost to produce 2 bill inserts: \$70,000.

The cost to produce 4 bill inserts: \$140,000.

In terms of the value of using bill inserts along, Terasen Gas indicated in the July 18, 2008 Application that:

"The opportunity to maintain ongoing awareness through bill inserts alone is limited due to its limited frequency and monthly readership. Given the recent frequency of rate communications using bill inserts..."²²

The ideal insertion months to deliver dedicated Customer Choice bill inserts are limited to November and February.

Terasen Gas already includes some information about Customer Choice in all rate communications. Extensive content will increase production costs by approximately \$10,000 per bill insert panel (3.5" x 8.5"). Delivering more significant Customer Choice messaging on rate adjustment bill inserts may degrade the communication of primary rate adjustment information. Given the limited months available for bill inserts and the low readership of bill inserts, Terasen Gas does not see significant benefit in producing four bill inserts per year. The two bill inserts combined with the Intrusive Communication Channels (direct mail, television and radio) suggested in the Application provide a more robust and effective media strategy.

Please also see the response to BCUC IR 1.6.1 for an explanation of why bill inserts are a complementary, and not a primary, means of an effective awareness campaign.

6.3 As a means to maintain awareness of the Customer Choice program, could a message such as the following be printed on each residential customer monthly gas bill when space permits, and what would be the annual cost of doing so?

²² CUSTOMER CHOICE Post Implementation Report and Application for Program Enhancements and Additional Customer Education Funding, page 89.



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"Customers may purchase gas at a contracted long-term fixed price from a variety of Gas Marketers, as an alternative to buying at a variable regulated rate from Terasen Gas. To learn more visit www.terasengas.com."

If this message is too long, please suggest an acceptable version.

Response:

Yes, the proposed message could be included as space permits for no significant additional cost. Based on previous experience, however, Terasen Gas is of the view that readership of bill messages is limited and does not result in significant value. The frequency and reach of bill inserts are insufficient to materially impact the awareness levels needed to help ensure the long term viability of the Customer Choice program.

Please also see the response to BCUC IR 1.6.1 for an explanation of why bill inserts are a complementary, and not a primary, means of an effective awareness campaign.

- 6.4 As a means to maintain awareness of the Customer Choice program, could a message such as the following be included in each Terasen Gas bill insert and Press Release related to gas commodity rates?

"CUSTOMER CHOICE

Customers may purchase natural gas from a variety of independent Gas Marketers under the CUSTOMER CHOICE program, as an alternative to buying gas from Terasen Gas at a variable regulated rate. Customers participating in CUSTOMER CHOICE pay a contracted long-term, fixed commodity price for their natural gas. Under both purchase options, Terasen Gas provides delivery of the gas to customers.

No one knows for certain whether natural gas costs will rise or fall in the coming years. But a fixed price commodity contract will protect you from possible future cost increases.

To learn more visit www.terasengas.com."

Response:

Terasen Gas agrees that there may be some value in preparing communications of the type proposed by the Commission. Terasen Gas commits to working with the Commission this autumn to develop an acceptable standardized copy and to identify an appropriate means for delivering this information.



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Please note that the statement *"But a fixed price commodity contract will protect you from possible future cost increases,"* is misleading. Terasen Gas has consistently indicated that the program is not a guarantee of savings, but rather of price certainty. As such, it would be more accurate to say, for instance: *"But a fixed price commodity contract will give you greater (or more) price certainty over the term of the contract."*

Please also see the response to BCUC IR 1.6.1 for an explanation of why bill inserts are a complementary, and not a primary, means of an effective awareness campaign.

6.5 Please discuss the role that periodic releases by Terasen Gas of information to print and other media about the benefits of using natural gas, including the Customer Choice program as one purchase option, could result in articles on the subject and provide an effective and low cost means of maintaining awareness of the program.

Response:

Terasen Gas incorporates periodic releases of information to the media in support of the Customer Choice education campaign. Unlike paid advertising that guarantees publication of content in its entirety on a set date, the release of information to the media provides no guarantee of publication and the content may only be partially covered or subject to interpretation. As well, media will only cover content that is news (event-driven) and generally only cover ongoing public awareness activities when the information supports a news event.

Terasen Gas issued two news releases in 2007 targeted to Customer Choice program milestones that were considered news events (announcement of the program -- March 5, and start of Marketer sign up -- May 1.) Media were also contacted during the first week of November 2007 to remind customers that had signed contracts that the marketer price would come into affect (this supplemented Education Campaign bill inserts sent to customers.) In June 2007, a letter to the editor was sent to every newspaper in the service area where Customer Choice was available. The letter provided advice as to what a customer should know when approached by a gas marketer at the door. As the subject was 'newsworthy and topical' at the time, approximately two dozen papers covered the content.

In 2008, there were no Customer Choice program milestones that could be used in a news release or letter to the editor. However, at each quarterly natural gas commodity review, Terasen Gas issued news releases to communicate the rates the Company was applying for and the set rates approved by the Commission. In each of those releases the program was referenced. The program is also referenced in each media call and may or may not be included in media coverage depending on the angle of the reporter's story.



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The media will not provide ongoing coverage that would educate or even remind customers about Customer Choice as it would be considered advertising. As such, the release of information to the media should be considered supplemental to paid activities. It cannot be relied upon to deliver continuous and consistent program information to British Columbians.



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7.0 Reference: Chapter 4.10, Customer Choice Operating and Maintenance Costs, pp. 91, 92

7.1 Further to page 92, please provide a month-by-month report since the commencement of the residential unbundling program, showing the operating and maintenance costs in support of the Customer Choice program, the costs recovered from marketers via the transaction fees and the net amounts accumulated in the deferral account.

Response:

The table below sets out the monthly operating and maintenance costs incurred by the Customer Choice program for residential customers since it began operating on May 1, 2007 to the end of July 2008. The table also sets out the recoveries collected from gas marketers via the four transaction fees that are used to offset the costs to operate the program. All costs and recoveries accumulate in the deferral account for the Customer Choice program.

Customer Choice Program Costs May 2007 - July 2008			
Residential Customers Only			
	O&M Costs	Recoveries from Marketers	Net Program Costs
May-07	21,812	(11,020)	10,792
Jun-07	3,107	(11,977)	(8,870)
Jul-07	127,646	(11,885)	115,761
Aug-07	1,488	(84,641)	(83,154)
Sep-07	6,784	(34,383)	(27,599)
Oct-07	174,815	(14,074)	160,741
Nov-07	40,790	(12,520)	28,270
Dec-07	89,627	(131,822)	(42,195)
Jan-08	426,132	(87,978)	338,155
Feb-08	363,401	(81,055)	282,346
Mar-08	56,628	(93,582)	(36,954)
Apr-08	875,681	(89,829)	785,852
May-08	254,599	(73,612)	180,987
Jun-08	270,191	(72,113)	198,078
Jul-08	227,134	(81,821)	145,313



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7.2 Further to page 91 and the statement that operating costs are to be recovered from Gas Marketers, please discuss whether it would be appropriate to recover the proposed \$3.25 million of Education expenses via transaction fees to Gas Marketers?

Response:

Terasen Gas is of the view that Customer Education expenses incurred in support of the Customer Choice program are more appropriately recovered only from customers eligible to participate in the program and not from gas marketers. The purpose of customer education is to inform eligible customers about the program so that there is a general awareness of it in the marketplace. Ongoing customer education is needed to ensure that this awareness level is increased and maintained as new customers enter into the marketplace and as contracts for customers participating in the program are due to expire and renewal options are considered. This objective does not extend to include selling a specific product, or guiding customers through a purchase decision, which is the responsibility of gas marketers. The costs incurred in such marketing and sales efforts should continue to be borne exclusively by gas marketers.

Terasen Gas believes that the current process whereby program costs are recovered from eligible customers using a rate rider continues to be the most appropriate method and does not recommend any changes to this approach at this stage.

7.3 In the event that Education expenses are recovered in transaction fees, would it be appropriate to recover this cost via a charge on each new enrollment? What would be the fee in (dollars per forecast new enrollment) required to recover \$3.25 million per year?

Response:

Terasen Gas does not believe that Customer Education expenses should be recovered from gas marketers in the form of a transaction fee. Reasons for this view are set out in the response to BCUC IR 1.7.2. If a transaction fee were to be implemented Terasen Gas is of the view that it would be wholly inappropriate to only recover those costs based on new enrollments. This suggestion fails to recognize all customers may derive a benefit from the education program, not only those that enroll with a marketer. As an example, a customer who has been made fully aware of the implications of the Customer Choice program which may lead to that customer determining that entering into a fixed price contract with a marketer at a given point in time may not be in his or her best interests.



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8.0 Reference: Chapter 7.2.1, Terasen Gas Requested Enhancements, p. 97

8.1 The Report at page 97 states that a full version upgrade of the Energy CIS system is in progress, and that an expenditure of \$781,000 is needed to completely test all interface files, database tables and reports related to Customer Choice. Please describe how costs related to the Energy CIS upgrades are being handled, identifying all costs that will flow directly to Terasen Gas and its ratepayers as explicit and incremental costs.

Response:

Costs related to upgrades to the base CIS application are included within the scope of the Client Services Agreement and are part of the base fees that were negotiated when the agreement was signed effective January 1, 2002. There will be no additional incremental costs related to the base CIS application upgrade that will flow directly to Terasen Gas or its ratepayers.

The system enhancements, interfaces and processes to support Customer Choice were implemented subsequent to January 1, 2002, the effective date of the negotiated Client Services Agreement and therefore any costs related to these changes were not included in the scope of services or base fees associated with that agreement. Customer Choice was implemented in 2006 – 2007 through a separate funding and approval process that did not include funding for future required technical upgrades.

The \$781,000 cost to test the interface files, database tables and reports related to Customer Choice, as well as any ongoing support and maintenance of these interfaces and services will be charged to the deferral account for Customer Choice. All costs associated with this upgrade will be recovered from eligible customers via a rate rider, as approved in August 2006.

8.2 Please discuss how other Terasen Gas interfaces to the Energy CIS system will be tested as part of the upgrade program, and explain how related costs will be accounted for and recovered.

Response:

In support of the Energy CIS upgrade Terasen Gas will provide resources to test the existing interfaces between the CIS system and operational interfaces. The Terasen Gas costs associated with this testing will be covered through the Company's approved capital and O & M budgets as part of ongoing business. There will be no additional funding requested by Terasen Gas to support the upgrade program.



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As pointed out in the response to BCUC IR 1.8.1, the Energy CIS upgrade costs attributable to the Customer Choice program will be charged to the deferral account for Customer Choice and recovered from eligible customers using a rate rider.

8.3 If testing costs related to the Customer Choice program are not handled the same way as other Terasen Gas interface testing costs related to the Energy CIS system upgrade, please justify the treatment of the Customer Choice costs.

Response:

The system enhancements, interfaces and processes to support Customer Choice were implemented subsequent to January 1, 2002, the effective date of the negotiated Client Services Agreement and therefore any costs related to these changes were not included in the scope of services or base fees associated with that agreement. Customer Choice was implemented in 2006 – 2007 through a separate funding and approval process which did not include funding for future required technical upgrades.



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9.0 Reference: Chapter 7.2.5.2, Clarification of the 90-120 day Renewal Rule, pp. 114-115

9.1 In your opinion, does a natural gas contract with a ten day cancellation period and a start date more than one year or longer in the future comply with requirements of the "Business Practices and Consumer Protection Act"? If not, what provisions for cancellation have to be incorporated into the contract?

Response:

Terasen Gas is not in a position to provide an opinion on this matter. It is not a party to the contract in question. Terasen Gas suggests the referral of this question to Gas Marketers or their respective legal advisors.

9.2 The discussion regarding clarification of the 90-120 day renewal rule indicates that clarification or revision of Article 27 of the Code of Conduct may be needed. Please provide Terasen Gas' recommendation on how Article 27 should be worded going forward, and also provide any other related revisions to the Code of Conduct that Terasen Gas believes would be appropriate.

Response:

Terasen Gas recommends changes to Article 26 that would clarify the maximum period of time a customer may be contracted for at any time, as well as Article 27 that would eliminate the 120 day constraint on when renewal offers may be presented to customers.

The specific changes are as follows (additions in underlined italic font and deletions in strikeout):

Article 26

The Customer's form for signature, in accompaniment with the Notice of Appointment of Marketer, will be clearly designated as an "Agreement" or a "Contract". The terms "Application" or "Enrollment" do not accurately reflect the agreement made between the Marketer and the Consumer. There should be no confusion in the mind of the customer that this is a binding contract and not an application or enrollment.

The Consumer's right to cancel without penalty must be referred to as the "Ten Day Cancellation" provision and must be clearly stated in the Agreement or Contract, prominently situated above the Consumer's signature line. Instructions must be included on how the Consumer can exercise this option.



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The first page of the agreement between the Gas Marketer and a Consumer must accurately summarize and clearly state the essential elements of the Offer including:

1. Price (Canadian \$ per gigajoule)
2. Term (length in years, start and end dates)
3. Renewal provisions (type, frequency, dates)
4. Cancellation provision
5. Penalties and terms for early termination of the contract, including minimum contract term
6. Conditions which may affect the price or term of the Offer
7. The minimum contract term is one year with a maximum contract term of no more than five years and the dates for commencement of service and termination of service must coincide with program entry dates.
8. A customer may be contracted for by any Gas Marketer, or combination of Gas Marketers, for a period of up to five years at any time. No customer may be contracted for a period in excess of five years at any time.

Article 27

The agreement should clearly set out the contract renewal provisions including those for default rollover.

The renewal date shall be such that it coincides with a LDC program entry date. Notice periods for contract renewal should require the Gas Marketer to give notice to the Consumer ~~no more than 120 days and~~ no less than 90 days prior to the applicable renewal date.

The Consumer shall have 30 days after receipt of written notice from the Gas Marketer to select renewal terms or cancel the contract.

Where no instructions are received by Terasen Gas from the current Gas Marketer of record prior to the cut-off date for the applicable renewal date, and where a valid enrolment for the same Consumer is not received by Terasen Gas from another Marketer, the Consumer's Agreement will be evergreened, with the same fixed price for a 12 month period.



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The timing of notices need to align with notice periods on entry dates to permit a Consumer to change Gas Marketers upon expiry or cancellation of an existing agreement.

If the Consumer has cancelled its agreement and wishes to return to Utility supply, the Gas Marketer must notify the LDC within two business days of receiving notice from the Consumer.



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10.0 Reference: Chapter 7.2.5.3, Operational Correction Drops, p. 116

"Typically, the final marketer supply requirement is processed using the enrollments valid on the 13th of each calendar month. If a gas marketer wishes to cancel the contract for any enrollment that is included in a final marketer supply requirement, a dispute needs to be logged by that gas marketer and a request explaining the circumstances made to the Commission."

10.1 If supply requirement is finalized for a customer, will there be a system block that will prevent the use of the operational correction drop code when a "contract cancellation request" dispute should be logged? Or will it be up to the gas marketers to monitor customer's enrollment dates to determine which process to follow?

Response:

In order to monitor the validity of the use of the proposed operational correction drop, the GEM system will complete a check to ensure that the enrollment has not already been included in the next final marketer supply requirement. If the enrollment has been included in the next final marketer supply requirement the drop request will be considered invalid and rejected. Once an enrollment is included in a final marketer supply requirement, a gas marketer can only request a contract termination by logging a dispute as a Contract Cancellation Request and requesting the Commission to rule on the request.



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**11.0 Reference: Chapter 7.2.6, Enhancements Review – Operational Issues, 7.2.6.1
Validation of DCQ, p. 124**

11.1 What is the formula for the determination of forecast accuracy of the Marketer Supply Requirement that in other discussions has been estimated to be between 5% and 15%? In the response, please clarify what the Marketer Supply requirement amount is compared to in order to calculate the accuracy of the calculation.

Response:

The 15% range of forecast accuracy is simply a comparison of volume changes from one Marketer Supply Requirement ("MSR") to the next after adjusting for any changes in the total number of customers. Specifically, the formula is: the recalculated MSR less the original MSR divided by the original MSR. Importantly, this calculation is not a comparison of normalized actual results compared with the MSR for the same period, as it would be in a pure statistical sense.

For the purposes of the determination of the monthly Marketer Supply Requirement ("MSR"), forecast accuracy includes the cause for any variance between a current MSR compared with the prior MSR after accounting for changes in the number of customers included in each. This variance can be caused by such effects as annual updates to the underlying forecast, and inaccuracies caused by missing consumption or customer data or the incorrect processing of consumption or customer data. While forecast accuracy is expected to improve over time, a greater range of forecast accuracy is expected during the initial stages of the implementation of the Customer Choice program as new processes are implemented and verified.

11.2 Does Terasen Gas plan to increase the forecast accuracy of the algorithm so that forecast accuracy is 5% or less? If not, please explain why the forecast accuracy should not be +/- 5% given that the Marketer Supply Requirement calculation is a normalized number (weather is not a factor)?

Response:

Terasen Gas is of the view that the current +/-15% range of forecast accuracy that the Company targets to achieve when calculating the Marketer Supply Requirement ("MSR") is reasonable and should not be changed. As pointed out in the response to BCUC IR 1.11.1, forecast accuracy for the purposes of the determination of a MSR is simply a measure of the difference between two MSRs, not against an actual normalized result. Terasen Gas, however, continues to work to improve processes as part of its normal course of business so that MSR calculations will be completed with greater accuracy and reliability over time.



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It is important to note that a greater range of forecast accuracy should be expected during the initial stages of the implementation of any new process and application such as those required by the Customer Choice program. In any implementation of a new application, especially one as complex as that needed to support Customer Choice that was made in April 2007, a period of time is needed to review the performance of the application to ensure that it is performing according to expectations. Such stabilization periods are needed to address any issues that are found. It is not reasonable to expect perfect performance from a new application or process, especially during its stabilization period. A sufficient period of time is needed to cycle through the MSR determination process to be able to properly assess system performance and have reasonable assurances there are no significant issues with how it performs. Sufficient time is also needed to assess the degree to which consumption changes like those affecting commercial and residential customers affect forecast error, so that the forecast can be refined.

The 15% range of forecast accuracy was first raised with gas marketers in the Commodity Unbundling Workshop held on April 8, 2005. The 15% range of forecast accuracy was intended to provide gas marketers with a sense of what they need to be ready for in terms of changes to delivery requirements as application and process improvements are made as part of the regular course of business and as forecasts are updated each year. Some of the unknowns that were considered at the time that the 15% range of forecast accuracy was settled upon were how the new application was going to perform, and the degree to which customer consumption could change, especially for commercial customers as their process load requirements change through an economic cycle. Such changes could not necessarily be anticipated with real accuracy given that commercial unbundled customers are a smaller subset of total customers enrolled in the program. Additionally, it was not known how residential customers were going to respond to a price difference between a contracted rate and the default rate, especially if there was a significant gap between the two. Until recently, it appeared that residential customers participating in the Customer Choice program were going to pay a 40-50% premium over the default commodity rate, which caused concern that they may reduce consumption considerably below forecast.

Given the potential for changes from MSR calculations over time, gas marketers requested that Terasen Gas provide additional information to help them manage this risk. Gas marketers wanted a way of seeing what the supply requirements might look like in advance. Terasen Gas went a step further by providing a daily update well before the MSR is finalized. This updating process was reviewed with gas marketers in the Customer Choice workshop held on March 15, 2007, when the purpose and timing of the daily preliminary MSR was reviewed. From an accountability perspective, interested gas marketers need to do their part and examine these preliminary supply calculations and provided feedback if they identify any issues. Terasen Gas is of the view that this approach continues to be reasonable and should not be changed.



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11.3 Does Terasen Gas plan to incorporate the level of forecast accuracy into the terms of Rate Schedule 36?

Response:

Terasen Gas is of the view that Article VII of Rate Schedule 36 adequately describes the process for determining the Marketer Supply Requirement and that it is inappropriate to incorporate a specific level of forecast accuracy into this schedule. Given the purpose of Rate Schedule 36, and that a separate process is already available for gas marketers to review the calculation of the Marketer Supply Requirement, Terasen Gas does not believe additional value would be gained by incorporating such a requirement into this agreement. Issues regarding the level of forecast accuracy, or accuracy in the calculation of the Marketer Supply Requirement, are best addressed separately in such forums as the annual meeting with gas marketers hosted by the Commission each spring.

11.4 Does Terasen Gas plan to identify the responsibility of the Gas Marketer to review the Marketer Supply Requirement calculation in Rate Schedule 36?

Response:

Terasen Gas is of the view that the responsibility gas marketers have in reviewing the Marketer Supply Requirement is adequately understood by gas marketers and that as a result there is no requirement to make this responsibility more explicit in Rate Schedule 36. Terasen Gas, however, has no way to ensure that gas marketers comply with that responsibility.

Please also refer to the response to BCUC IR 1.11.2 for a detailed review of process established that provides gas marketers with a reasonable opportunity to complete a review of the Marketer Supply Requirement.

11.5 On page 124, Terasen Gas stated that:

“Terasen Gas agrees that additional information could be provided and a workshop held to help gas marketers understand the process for determining the monthly delivery requirement.”

When does Terasen Gas propose to hold this workshop?



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Response:

Terasen Gas is of the view that such a workshop should be included as part of the annual meeting with gas marketers hosted by the Commission each Spring and recommends that an agenda item be included in the next meeting addressing this issue.



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**12.0 Reference: Chapter 7.2.6, Enhancements Review – Operational Issues, 7.2.6.3
Price Depository p. 125**

12.1 What would be required for Terasen to implement weekly price updates into the pricing depository website?

Response:

In order to accommodate a process that would allow weekly price updates to the pricing depository website, Terasen Gas would have to redesign the presentation and archiving approach in such a way that it would remain reasonably consumer friendly and easily understood. Terasen Gas would also have to devote additional resources to the tracking and coordination of such weekly changes, an additional cost that would be borne by eligible program participants.

However, as Terasen Gas noted in its July 18, 2008 Application, a move away from a monthly update risks creating a less easily understood overview of gas marketer pricing and is not recommended for that reason. The purpose of the pricing depository is to provide customers with a relatively easy to understand overview of pricing offered by gas marketers, something that is best achieved by a monthly update. The current approach is also supported by the fact that many gas marketers keep the pricing offered to customers unchanged of many months at a time and would not receive any benefit from the option of a weekly pricing update. The current process and method of presenting pricing information also provide a link to each gas marketer's own website that should include a full list of all offers available to customers. A gas marketer's own website is a more appropriate location for updates of the type requested by gas marketers to be made than the pricing depository hosted by Terasen Gas.



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13.0 Reference: Chapter 4.2.3, Customer Protection, p. 23

13.1 On page 23 of the Report, Terasen Gas states that recent changes to the Code of Conduct provides more effective consumer protection, and that it is encouraged that the Commission has taken action regarding specific breaches of the Code of Conduct. Does Terasen Gas believe significant benefits would result if Gas Marketers that are active in British Columbia formed a more formal industry association?

Response:

Since the inception of the residential unbundling regulatory process which began in 2006, gas marketers have participated in the unbundling regulatory process as a group. Terasen Gas believes this joint effort on behalf of the marketers has added value to this process. The marketer group has worked together to put forth common positions and ideas on the particular issue at hand during the regulatory review process. It is the view of Terasen Gas that this has been productive for all parties involved in the unbundling regulatory process. At times, an individual gas marketer has put forth its own position, or evidence, if that gas marketer has a position different from the common gas marketer group position. This is only natural as the gas marketers are after all competitors amongst themselves. Terasen Gas is of the view that gas marketers should continue with this means of presenting themselves during the unbundling regulatory process in the future and does not see how a formal industry association would add significant value above what the current group has been able to achieve.

13.2 In the foreseeable future, would it be reasonable to expect that such an association could become largely self-regulating, and responsible for monitoring and enforcing compliance with the Code of Conduct?

Response:

Terasen Gas is of the view that it is inappropriate for gas marketers to be given the responsibility for enforcing compliance with the Code of Conduct for Gas Marketers. Gas marketers are not impartial participants in the Customer Choice program and have considerable incentive to engage in business practices that maximize their returns at the expense of the requirements of the Code of Conduct. The behaviour of a number gas marketers since market open in May 2007 confirms that this concern is a significant issue. Given the problem with such practices and the possible risks created by any gas marketer self-regulation, monitoring and enforcement for the Essential Services Model, and the Company as a whole, Terasen Gas does not believe that it can ever support such a change in roles and responsibilities.



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13.3 Is there an example of a self-regulating industry association that may provide a model for Gas Marketers? If so, please identify it.

Response:

Terasen Gas is not aware of a self-regulating industry association of the type suggested by the Commission.