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October 16, 2009

British Columbia Utilities Commission
6th Floor, 900 Howe Street
Vancouver, BC
V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

Re: Customer Choice – 2009 Program Summary and Recommendations

In its April 13, 2006 application for a Certificate of Convenience and Necessity ("CPCN") for the Residential Unbundling ("Customer Choice") Program (the "Program"), Terasen Gas recommended that a post implementation review be undertaken to assess the effectiveness of the implemented solution. This report is part of that process. Terasen Gas expects annual reviews to continue in the future in order to understand and address interested stakeholders' concerns, and to identify and discuss potential improvements to the Program.

On April 23, 2009 the Customer Choice Annual General Meeting was held to discuss the concerns and suggestions of interested parties, review communication activities for 2009 and 2010 and review the system enhancements that have taken place since fall 2008. Terasen Gas was requested by Commission staff to file this submission in order to summarize these items and recommend any necessary changes to the Program or supporting processes.

A key focus of this report pertains to the Essential Services Model ("ESM") and Gas Marketer concerns about price change mechanisms outside of the Anniversary Date. Terasen Gas believes the ESM is ideally suited to the BC natural gas transportation infrastructure. The model has been shown to be robust, and capable of delivering commercial and residential customers with commodity supply options that include both long term fixed rate contracts, as well as the default regulated variable rate. Terasen Gas maintains that Gas Marketers have the necessary tools to address customer concerns related to perceived disparity between fixed and default rate offerings.

The ESM model is the foundation of the unbundled product in BC and it has repeatedly demonstrated itself as capable and flexible. Replacing it would entail developing a different model that still recognizes the unique realities of the BC natural gas transportation infrastructure, yet accommodates the changing demands of Gas Marketers. Such an undertaking would not be in the best interest of BC gas consumers. A new model offers customers no incremental benefits. Set-up costs would be substantial, and if patterned after the monthly true-up model suggested by Gas Marketers the replacement to the ESM would be ill-suited to the BC natural gas marketplace. Given the potential costs and lack of benefits, TGI has no interest or plans to pursue the development of a new model to support the Customer Choice program.

If there are any questions regarding the content of this letter or the enclosed report on Customer Choice Program Summary and Recommendations, please contact Scott Webb at 604-592-7871.

Yours very truly,

TERASEN GAS INC.

Original signed:

Tom A. Loski

Attachments

cc (email only): Licensed Gas Marketers

Customer Choice

2009 Program Summary and Recommendations

October 16, 2009

Submission pertaining to the Customer Choice Program's Annual General Meeting held on April 23, 2009.

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List of Appendices

Purpose

This Application is part of an ongoing process to monitor and evaluate the Customer Choice program offered by Terasen Gas Inc. ("Terasen Gas", "TGI" or the "Company"). It offers a review of the program to date and makes suggestions designed to address stakeholder concerns and improve the program for the benefit of all customers. Terasen Gas expects to submit similar Applications in the future in order to identify any necessary Customer Choice related program changes or improvements.

This Application contains several sections that summarize our evaluation and recommendations, including the following:

1. **Executive Summary**
2. **Background** – provides a review of recent Regulatory proceedings related to the Customer Choice program; summarizes the items for which TGI requests Commission approval; and proposes a recommended Regulatory process for this Application.
3. **Annual Program Summary** – describes enrolment and dispute activity since the program began in 2007. It also looks at the information systems supporting the program, including a status update related to the system enhancements approved in 2008.
4. **Program Implementation and the Essential Services Model** – reviews the history of the ESM that supports the delivery of the unbundled product in BC. This section also evaluates the performance of the ESM and considers the flexibility of the program to accommodate price changes outside of the Anniversary Date.
5. **Gas Supply and Resource Planning** – discusses the determinants that underscore natural gas delivery in BC. This section provides an in-depth analysis of TGI's Annual Contracting Plan, both pre and post implementation of the Customer Choice program in BC. Lastly, this section contrasts the impact of a revised ESM model that mirrors the recent requests of Gas Marketers for more price flexibility.
6. **2009 Annual General Meeting – Summary of Issue and Recommendations** – summarizes more detailed information available in Appendix A. Stakeholder views regarding the issues discussed at the 2009 Annual General Meeting are summarized, and TGI recommendations are highlighted.
7. **Next Steps** – Summarizes TGI's assertions related to the ESM and outlines the recommended Regulatory process for this Application.
8. **Appendices**

1 Executive Summary

The Terasen Gas Commercial and Residential Unbundling model is based on the business rules contained in the Essential Service Model ("ESM"). This made in BC solution has performed well since the implementation of the Commercial Unbundling Program in April 2004. The Essential Services Model as currently implemented must continue to be the foundation of the commercial and residential unbundling programs in B.C.

In its April 13, 2006 CPCN Application, Terasen Gas recommended that a post implementation review of Residential Unbundling be undertaken to assess the effectiveness of the implemented solution. This Application is part of that process, and incorporates a review of enhancements identified by Gas Marketers, British Columbia Public Interest Advocacy Center, Commission staff, and other stakeholders.

On July 18, 2008, Terasen Gas filed the first Customer Choice Post Implementation Review Report and Application for Program Enhancements and Additional Customer Education Funding for the Commodity Unbundling for Residential Customers program. That report assessed the effectiveness of the implemented program. It recommended refinements and introduced changes that enhanced the overall Commodity Unbundling program for all stakeholders. The BCUC approved system related changes by Order G-140-08, dated September 25, 2008, and Order G-113-08, dated December 12, 2008. All information system changes were approved and most have since been implemented. Outstanding items include:

- the implementation of system changes necessary to enforce the five-year rule;
- adding Gas Marketer email addresses to the confirmation letter;
- reducing time delays associated with the delivery of enrolment response files;
- adding a time stamp field to all enrolment responses; and
- adding different file format functionality for Gas Marketer reports.

In its decision, the BCUC also limited customer education funding to levels much lower than recommended by TGI, the approved restated amounts including $750,000 in 2009; $500,000 in 2010; and $300,000 in 2011.

On April 23, 2009 the Customer Choice Annual General Meeting was held to discuss the concerns and suggestions of interested parties, and to review both the communication activities planned for 2009 and 2010 as well as the system enhancements that have taken place since fall 2008. Terasen Gas was requested by Commission staff to file this submission in order to summarize these items and recommend any necessary changes to the program or supporting processes. To that end, this application includes the following:

- an update regarding outstanding system enhancements which are scheduled for implementation no later than December 2009;

- a summary of the discussions that took place at the Annual General Meeting and Terasen Gas' recommendations, including;
  - a request for $6,000 in funding to implement a new Marketer Performance Report;
  - a request for $11,500 in funding to implement new Gateway to Energy Marketers system ("GEM") and the Nucleus Sub System ("NSS") functionality to allow a single account to manage multiple marketers and to correct related reporting issues;
  - monthly community newspaper advertising that lists the current featured rates of each licensed Gas Marketer. This would entail a $13,000 net increase in the previously approved, $750,000 2009 customer education budget. In 2010, the advertising activity would be funded out of the approved $500,000 customer education budget.

1.1 Customer Choice in BC

Commercial Unbundling rolled out to TGI customers in 2004. The Essential Services Model that underpinned the product's successful introduction remained largely unchanged when the Customer Choice Program was subsequently introduced to residential customers in May 2007. The model is designed to meet the unique demands of the BC marketplace. Moreover, it was understood by all stakeholders, including Gas Marketers, that adherence to the model was necessary to expedite the introduction of the unbundled product to residential customers in 2007. The model mitigates Gas Marketer risk since it absolves Gas Marketers of the commodity variance true-up responsibilities favoured in other jurisdictions. And for this reason, a great number of small and large Gas Marketers were attracted and motivated to participate in the 2007 launch of Customer Choice.

As of September 1, 2009 there were thirteen Gas Marketers licensed to participate in the Customer Choice program. These included Access Gas, Active Energy, Direct Energy Business Services, Direct Energy Marketing Ltd, Just Energy, Firefly Energy, MXEnergy, Nexen Marketing, Premstar Energy, Shell Energy North America (Canada), Smart Energy, Summitt Energy, Superior Energy. Universal Energy was purchased by Just Energy and has ceased sales activity in BC.

As of June 30, 2009 the program had approximately 148,000 customers enrolled. This represented a take-up rate of 17.9% of all eligible program participants compared to 13.6% (113,000) in June 2008, and 8.2% (68,000) in June 2007[1]. Second year sales in the residential market have slowed for a variety of reasons. Terasen Gas surmises that a primary factor is the dramatic change seen in the natural gas commodity marketplace. In July 2009, short term natural gas prices were trading at their lowest level since 2003. Long term futures contracts; however continue to trade at significantly higher levels than the current spot market. Thus, Gas Marketers securing long term gas contracts may be challenged to offer consumers with fixed rates that are competitive with the Terasen Gas regulated rate.

[1] Enrolments for residential customers into the Customer Choice program began in May 2007. Contracts, however, did not begin until November 1, 2007.

For customers currently enrolled in fixed-rate contracts, the disparity between Terasen Gas's rate and their own may be a source of frustration and dissatisfaction. As of June 2009, the average price consumers pay for their fixed-rate product was $9.80. This represents a 64% price premium versus the June 30, Terasen Gas residential regulated variable rate of $5.962/GJ. A further drop in the Terasen Gas commodity rate to $4.95 per gigajoule came into effect on October 1, 2009. The price premium means that a typical residential customer enrolled with a Gas Marketer will now pay about double the Terasen Gas default rate. This disparity leads to discontent or "buyer's remorse," especially for customers who may have inappropriately been promised dollar savings, rather than price protection and stability. Under the circumstances, many individuals look for ways to get out of their Gas Marketer's Consumer Agreement. This has likely caused the number of disputes between customers and Gas Marketers to increase.

To address the situation, Gas Marketers voiced interest at the annual general meeting for the introduction of new program measures that would permit them to re-negotiate signed Consumer Agreements. Specifically, Gas Marketers requested the ability to change or break customer contracts, and reduce commodity charges outside of the Anniversary Date. This suggestion goes against the fundamental business rule of the ESM, which is the 12 month fixed price rule.

Commission staff are concerned with continued high dispute levels and a perceived lack of competition in the marketplace. Gas Marketers have limited price options listed on the terasengas.com Price Depository. For example, most marketers only list four and five year rates while shorter terms are either not publicized or even offered for sale. Commission staff desire greater "price competition" between Gas Marketers, including more rates at different terms as well as lower rates. Commission staff suggests that more competitive rates will help decrease the number of customer disputes.

Terasen Gas believes that many of the complaints and disputes to date are associated with customer dissatisfaction or buyer's remorse. However, the unfortunate downturn in global markets was unforeseen when the program launched in 2007. Had natural gas prices trended up, it is quite likely that customers would have retained positive perceptions regarding their decision to have signed a Consumer's Agreement. Terasen Gas suggests that recent economic events reinforce the need for Gas Marketers to adhere to the spirit of the Code of Conduct; ensuring customers clearly understand the nature of the offer, including its benefits and risks. Furthermore, all existing customer protection activities should be rigorously enforced to ensure consistent adherence to the Code of Conduct. This includes the consistent use of fines that are sufficient in magnitude to stop inappropriate behaviour and stem further infractions.

Encouraging Gas Marketers to offer more competitive rates and different term lengths would be beneficial. Customers would then enjoy access to a greater variety of lower priced, fixed rate commodity contracts. To this end, Terasen Gas recommends the use of monthly newspaper ads to list the current rates of each licensed Gas Marketer. This added step should promote greater consumer awareness of the various rate offerings, and possibly encourage greater competition in the marketplace.

Gas Marketers already have the tools and options available within the ESM to mitigate customer concerns regarding price disparity. These include:

- Adherence to the Code of Conduct. Sales representatives should refrain from positioning fixed rate Consumer Agreements as assured ways of saving money on heating bills. Establishing this expectation in the consumer's mind can lead to consumer discontent and frustration.
- The use of rebate programs to allay customer concerns regarding the price gaps that might exist between their product and Terasen Gas default offering. Marketers may use their own systems and processes to compensate customers for what may be perceived as excessive price variances between fixed and variable rates.
- The use of Anniversary Date drops to migrate customers into new, lower rates.
- Introduce and actively sell shorter one to two year contracts that better address the current market uncertainty and depressed natural gas prices.

The desire by Gas Marketers' to allow customers more pricing options and to cancel contracts outside of the anniversary date influenced Terasen Gas to re-evaluate the possible implementation of an ESM Fee. The ESM Fee in principle is a fee designed to protect the 12 month fixed price rule (See Appendix A, Section 1.15 for more details). As part of the scoping phase, leading up to the submission of Terasen Gas' April 13, 2006 CPCN Application for Commodity Unbundling for Residential Customers, Terasen Gas was requested to review the issue of offering greater pricing flexibility. The goal was to provide Gas Marketers the ability to offer products other than those just with 12 month fixed price intervals. Allowing Gas Marketers the ability to vary their customer's price other than a 12 month fixed price can have a significant negative financial impact on midstream costs that all customers share in. The original ESM Fee design recovered commodity costs stranded when Gas Marketers violated the model's 12-month rule and customers returned to the Terasen Gas default rate. The design did not include a mechanism for Gas Marketers to change rates and enable customers to stay with the existing Gas Marketer at a different price point. Allowing Gas Marketers to simply change a customer's rate outside of the anniversary date was not explored during the scoping phase of Customer Choice.

TGI has investigated Gas Marketers' desire for more price flexibility. Through this process it has been concluded that this dramatic change would be inconsistent with the ESM and would necessitate a complete revamp of the unbundling model. It is Terasen Gas' position that the ESM is working as designed and is best suited to address the unique demands of the gas supply marketplace in BC. TGI contends that Gas Marketers have the tools necessary to provide different, competitive pricing options to customers. Wholesale changes to the business model will neither increase competition nor reduce customer complaint and dispute levels.

The addition of a price change mechanism outside of the Anniversary Date would not improve competition. However, it could help perpetuate the use of inappropriate sales techniques that are sometimes used by Gas Marketer sales representatives. Existing disputes and evidence obtained through customer email to TGI suggests some sales agents assert that they either represent Terasen Gas or that fixed-rate commodity products "guarantee" customers long-term savings. These claims are inconsistent with the Code of Conduct.

Terasen Gas believes providing more pricing flexibility undermines the need for Gas Marketer sales representatives to identify and address customer needs and to accurately describe the benefits and pitfalls associated with fixed-rate commodity products. TGI contends that five-year contracts may not always be the appropriate product to sell customers. Gas Marketers can consider the use of shorter term products and use the Anniversary Drop process to shift customers into lower priced contracts. Such tactics are opportunities to garner customer goodwill. This issue is explored in more detail in Section 4, Program Implementation and the ESM, as well as in Appendix A, Section 1.15, Price Change Mechanism Outside of Anniversary Date.

1.2 Customer Choice Information Systems

Since the start of the program, several IT system enhancements have been implemented. These enhancements were recommended in the Customer Choice Post Implementation Review Report and Application for Program Enhancements and Additional Customer Education Funding, submitted to the BCUC on July 18, 2008. Terasen Gas recommended the implementation of these changes in four staged releases (Release 1-4). Release 1 and 2 changes included a variety of system improvements that were requested by the BCUC. In addition, this phase included work necessary to accommodate the upgrade in our customer information system's operating system in the fall of 2008, and the implementation of a database platform to improve response times. Release 3 and 4 items included a variety of change requests made by Gas Marketers or Terasen Gas.

The funding of Release 1 and Release 2 enhancements was approved by Commission Order G-140-08 dated, September 25, 2008; and funding for Release 3 and 4 enhancements was approved in BCUC Order G-181-08, dated December 8, 2008. Release 1-3 changes were expected to be complete by second quarter 2009, while no completion dates for Release 4 items were identified. All of Release 1, 2 and most of Release 3 are now complete. The remaining enhancements are scheduled for implementation before the end of 2009. Delays were primarily associated with several infrastructure changes that included firewall and Microsoft patches. Inherent bugs in the application code caused other problems and they only appeared given the right combinations of inputs and conditions. These delays were summarized in detail in the Terasen Gas "Review of Actual versus Estimated Costs: Release 1 and Release 2 Customer Choice Program Enhancements," submitted to the BCUC on April 1, 2009.

A contributing factor is a change in our IT vendor's developer staff that took place in summer 2009. This change also expanded timelines as new team members familiarized themselves with the Customer Choice system architecture and software coding.

Total costs for all approved system changes outlined in the 2008 Post Implementation Review (i.e., Release 1 through 4) will be approximately $216,000, or 18% lower than originally forecast. The savings are primarily due to the difference between preliminary Release 4 estimates that were presented in the 2008 Customer Choice Application, and the final estimates that were established just recently. A contributing factor related to voice contracting for new enrolments. Upon further review, TGI determined that no additional infrastructure or system changes are needed to accommodate the larger files for renewals only. If Commission staff subsequently expands the use of voice contracts, this issue will need to be revisited. See Section 3.3, System Performance for more information.

1.3 Conclusion

Having provided stable, reliable performance since the implementation of the unbundled service to Rate Schedule 2 and 3 customers in 2004, and residential customers later in 2007, the Essential Services Model has worked as expected. It is important to note that stakeholders have a choice on whether to participate in the Unbundling Program and therefore accept the business rules contained within the ESM by electing to participate in the program or not.

The ESM is a made in BC solution. It is designed to address the realities of the province's natural gas transport and storage infrastructure. The TGI gas contracting resource base that forms the Annual Contract Plan stems from the operating conditions of the BC marketplace. The flexibility surrounding the provision of gas within the BC marketplace is very restrictive when compared to a marketplace such as Alberta when it comes to accessing or disposing of gas. Terasen Gas believes these factors make a monthly balancing model with a true up mechanism, as used in most other jurisdictions, unsuitable for the BC marketplace. This is why the ESM model was brought forth by TGI as an acceptable solution to mitigate the supply risk and financial impact to all customers of TGI.

The model performed exceptionally when Wholesale Energy Group and CEG Energy ceased operations in summer 2008. Gas continued to flow to customers without interruption, and each marketer's book of customers was successfully ported to other companies. However TGI recognizes that the program is still relatively new. Additional time is needed to properly evaluate its performance in both a rising and falling commodity marketplace.

Terasen Gas strongly believes that the Essential Services Model as currently implemented must continue to be the foundation of the commercial and residential unbundling programs. The model has worked well in the face of the challenges it has experienced and is the best suited model for BC. It is Terasen Gas' proposal that a written regulatory process is appropriate given the minor requests contained within this Application, with a tabletime to reach a conclusion that will be established by the BCUC.

2 Background

This section provides a review of recent Regulatory proceedings related to the Customer Choice program. Section 2.2 summarizes the items for which TGI requests Commission approval. A recommended Regulatory process is proposed in Section 2.3.

2.1 Regulatory History

The implementation of Customer Choice is preceded by considerable effort that laid the foundation for the program. Following the release of the provincial Energy Plan in 2002, the Commission by Letter No. L-49-02 dated December 13, 2002, directed Terasen Gas to update and reassess the Unbundling program that was developed previously and to file a report to the Commission by February 28, 2003 with the intent of making the Commodity Unbundling service option available to small volume residential and commercial customers in time for November 2004. In Commission Letter No. L-14-03, dated April 16, 2003, the Commission directed that Unbundling for small volume customers should be implemented in two phases. Commercial customers were to have an unbundled option effective November 2004 (“Phase 1") with Unbundling to be provided to residential customers in the second phase at some time in the future ("Phase 2"). The Commission directed Terasen Gas to proceed with Commercial Unbundling generally as described in the March 28, 2003 filing. In addition, the Commission directed the provision of a Stable Rate Option ("SRO") for residential customers.

Serving as a pilot program to assist in the implementation of the larger residential program, Terasen Gas implemented the proposed Commodity Unbundling service for small and large commercial customers in 2004. Process changes and system development were completed allowing eligible customers to begin enrolling in the program starting May 2004. Gas flowed to customers who elected a Gas Marketer to provide the commodity on November 1, 2004.

2.1.1 Commercial Unbundling and ESM

Much of the foundation on which the Customer Choice program rests was established as part of the Phase I of the Commodity Unbundling program for commercial customers, which was implemented in 2004. The Essential Services Model and the business rules for Commodity Unbundling were approved by the Commission as Appendix A to Commission Letter No. L-25¬03 dated June 6, 2003. Terasen Gas, in its July 18, 2003 Report, outlined an implementation plan for Commodity Unbundling to meet the November 1, 2004 target start-up date for Phase I.

The first significant step in the implementation plan was the need for Tariffs and Agreements, a Code of Conduct for Gas Marketers, Rules for Marketers and a Customer Education Program that were the subject of the Terasen Gas Application dated October 27, 2003 and in the Terasen Gas Revisions to the October 27, 2003 Application, dated December 4, 2003. These items were approved by the Commission in Order No. G-90-03, dated January 9, 2004. Terasen Gas then filed an Application dated January 16, 2004, for approval of the Midstream and Commodity Cost Recovery methodology and the setting of rates, as well as outlining the process for a post implementation review. This application was approved in Commission Order No. G-25-04.

2.1.2 Customer Choice – Pre launch

In Commission Order No. 6-66-05, dated July 7, 2005, the Commission approved deferral account funding for Terasen Gas to complete the review and validation of the business model rules for the Residential Unbundling program, as well as the timeline leading to a Certificate of Public Convenience and Necessity ("CPCN") application by March 2006.

In Commission Order No. 6-10-05, dated October 31, 2005, additional funding was approved to complete the scoping and business systems analysis required to enable the filing of a CPCN application for the Residential Unbundling Program by March 2006. Work on the Scoping Phase of Residential Unbundling commenced in late November 2005. The primary focus of this work involved a review of existing processes and systems used by the Commercial Unbundling program with the aim of identifying improvements and changes needed to support a Residential Unbundling program, as well as the existing Commercial Unbundling program. This review was completed in early March 2006 and resulted in Terasen Gas filing an Application for the approval of a CPCN for the Commodity Unbundling Project for Residential Customers pursuant to Section 45 of the Utilities Commission Act on April 13, 2006.

On August 14, 2006 the Commission approved the CPCN for the Residential Unbundling program by issuing Order No. C-6-06. Terasen Gas implemented the Residential Unbundling Program as the Customer Choice program through the fall of 2006 and into the spring of 2007. The new commodity unbundling systems were implemented in mid April 2007, a process that included the conversion of all commercial customers enrolled in the previous program to the new systems. On May 1, 2007, Gas Marketers were allowed to begin marketing to residential customers for the first time. The first enrolment requests made by Gas Marketers were successfully processed early on May 1, 2007 and by the end of the month over 50,000 residential customers were enrolled in the program. By November 1, 2007 over 85,000 residential customers were enrolled and the first fixed rate contracts came into effect and customers billed for the first time with the natural gas commodity supplied by an independent Gas Marketer.

2.1.3 Customer Choice – Post Residential Launch

On March 3, 2008 Gas Marketers submitted a report to the commission that identified market design, operational and processing issues within the GEM system. Commission staff held a general meeting on April 8, 2008 to review the submission and other issues. The meeting was open to representatives from Terasen Gas, registered intervenors, and all licensed Gas Marketers operating in British Columbia. On July 18, 2008 Terasen Gas filed with the Commission the Customer Choice Post Implementation Review Report and Application for Program Enhancements and Additional Customer Education Funding. By Order G-113-08 the Commission established a regulatory process to consider the Report and Application.

On April 23, 2009 the Commission staff held the Customer Choice Annual General Meeting pursuant to Commission Order C-6-06 item 13 on the Terasen Gas 2006 CPCN Application for Commodity Unbundling for Residential Customers. The meeting objective was to discuss the concerns and suggestions of interested parties, and review communication activities and system enhancements.

2.2 Current Application Requests

With this Application, Terasen Gas requests approval for the following:

- Incremental 2009 communication funding of $17,000 ($13,000 net increase[2]) to accommodate the placement of marketer pricing information in community newspapers. See Appendix A, Section 1.18 for details.
- An adjustment of the proposed 2010 communication plan[3] to accommodate marketer pricing information in community newspapers. See Appendix A, Section 1.18 for details.
- Expenditure of $6,000 to build and implement a new Marketer Performance Report. Refer to Appendix A, Section 1.5 for further details. See Appendix A, Section 1.9 for details.
- Expenditure of $11,500 to implement new GEM and the NSS functionality to allow a single account to manage multiple marketers and to correct associated reporting issues.

No substantive changes to the Customer Choice program or its systems are recommended at this time.

2.3 Recommended Regulatory Process for this Application

It is Terasen Gas' proposal that a written regulatory process is appropriate given the minor requests contained within this Application, with a tabletime to reach a conclusion that will be established by the BCUC.

[2] Approximately $4,000 in savings for 2009 Terasen Gas labour costs are forecast. Terasen Gas will allocate the labour savings to offset the purchase of additional ad space.

[3] The 2009-2011 Customer Education Plan was submitted to the BCUC on January 31, 2009.

3 Annual Program Summary

This section describes enrolment and dispute activity since the residential program began in 2007. It also looks in detail at the information systems that support the program, including a status update related to system enhancements approved by Commission staff in 2008.

3.1 Customer Enrolment Activity

Following implementation of the proposed commodity unbundling systems and processes, 741,000 eligible Rate Schedule 1 residential customers in BC were able to start enrolling in the Customer Choice program beginning May 1, 2007 for the November 1, 2007 entry date. Thirteen new Gas Marketers were licensed by the Commission to participate in the new program by May 2007 and joined five marketers that had already been licensed and actively marketing fixed price contracts to commercial customers. The first residential customers were successfully enrolled on May 1, 2007 and by the end of the month over 50,000 residential customers were enrolled. These customers resided in all communities served by Terasen Gas in the eligible service territory of the Lower Mainland and Interior of British Columbia. Gas Marketers relied primarily on door-to-door selling as the vehicle for offering fixed price contracts. By the October 1, 2007 deadline for the November 1, 2007 entry date, approximately 85,000 residential customers were enrolled. Terasen Gas determined the daily delivery requirements for each Gas Marketers by mid October and gas began to flow based on these fixed price contracts on November 1, 2007.

As of June 30, 2009, approximately 124,000 residential and 24,000 commercial customers were enrolled in the Customer Choice program with 14 Gas Marketers licensed to participate in the program. Since the start of the program there have been at total of 19 Gas Marketers licensed to participate in the program. Five Gas Marketers have since left the program. Tahoe Energy cancelled their marketing plans in June 2007 and withdrew from the program as a Gas Marketer, Intra Energy also cancelled marketing plans in 2007 and withdrew, while Planet Energy sold its book of customers to another Gas Marketer in April 2008 and then withdrew. In 2008 CEG Energy Options Ltd was purchased by Energy Savings BC while Wholesale Energy was purchased by Universal Energy Corp. Energy Savings has since changed its name to Just Energy and has purchased Universal Energy Corp. Prior to the implementation of the residential Customer Choice program; five Gas Marketers participated in the Commodity Unbundling program for commercial customers that started in 2004. They were CEG Energy Options, Direct Energy Business Services, Energy Savings B.C., Nexen Marketing, and Premstar Energy.

The following chart shows the 14 Gas Marketers who are currently licensed and participating in the Customer Choice program as of June 30, 2009.

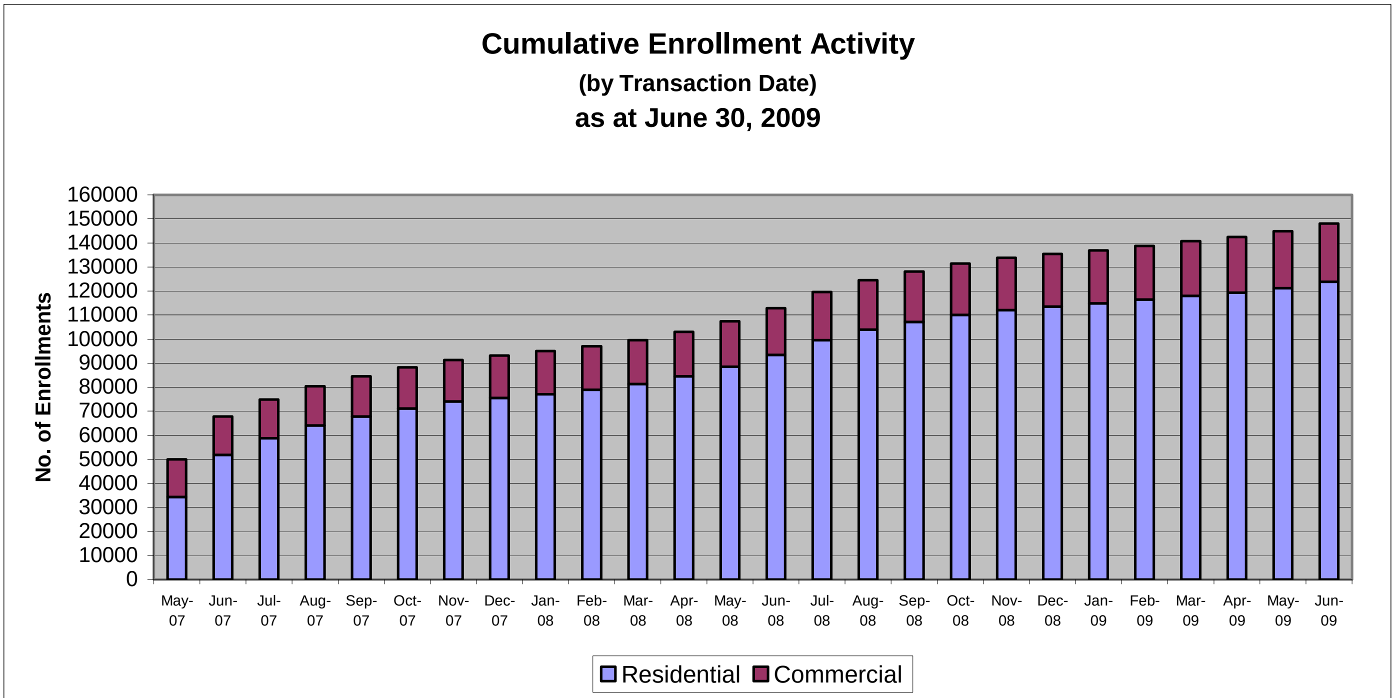
Figure 1: List of Gas Marketers

	Gas Marketer	Marketing Focus	
		Residential	Commercial
1	Access Gas Services Inc	Yes	Yes
2	Active Renewable Marketing Ltd.	Yes	Yes
3	Direct Energy Business Services	No	Yes
4	Direct Energy Marketing Ltd. o/a Direct Energy	Yes	No
5	Just Energy (formerly Energy Savings BC) (CEG Energy Options Inc.)	Yes	Yes
6	Firefly Energy	Yes	Yes
7	MXEnergy (Canada) Ltd	Yes	Yes
8	Nexen Marketing	No	Yes
9	Premstar Energy - ECNG	No	Yes
10	Shell Energy North America (Canada) Inc.	No	Yes
11	Smart Energy (BC) Ltd	Yes	Yes
12	Summitt Energy BC L.P.	Yes	Yes
13	Superior Energy Management Gas L.P.	Yes	Yes
14	Universal Energy Corporation[4] (Wholesale Energy Group Ltd.)	Yes	Yes

The Customer Choice residential program is now in its second year. The level of interest in the program increased in 2008 but has levelled off in 2009. Cumulative enrolments accelerated more quickly than TGI anticipated. In the 2006 TGI Residential Unbundling CPCN, Terasen forecast 39,700 customers would sign up in the first year of the program. However enrolments were almost double that at approximately 74,000 by November 2007. Without historical information to assist in modeling, a linear growth was projected; with cumulative enrolments of 78,100 residential customers in 2008; 115,200 in 2009; and 151,200 in 2010. At current growth rates, it is unlikely that the 2010 forecast will be reached. However, growth rates can change quickly in response to commodity volatility and price uncertainty. Figure 2 below shows how enrolments have slowed after the initial rush of activity in 2007 and a strong 2008.

[4] Universal has been purchased by Just Energy and ceased sales activity in BC. Universal information will continue to appear on customer bills for existing contracts.

Figure 2: Cumulative Enrolment - Customer Choice Program[5]



[5] Figure 2 shows the number of current residential and commercial enrolments in the Customer Choice Program as at June 30, 2009. These figures represent the transaction date of the enrolment minus any termination (drop activity).

Figure 3: Cumulative Enrolment - Table format

Cumulative Enrollments as at June 30, 2009			
Date	Residential	Commercial	Total
May-07	34282	15630	49912
Jun-07	51861	15863	67724
Jul-07	58724	16061	74785
Aug-07	64079	16263	80342
Sep-07	67771	16781	84552
Oct-07	71101	17118	88219
Nov-07	73976	17345	91321
Dec-07	75530	17675	93205
Jan-08	77092	17920	95012
Feb-08	78947	18127	97074
Mar-08	81325	18255	99580
Apr-08	84499	18496	102995
May-08	88554	18787	107341
Jun-08	93441	19375	112816
Jul-08	99470	20157	119627
Aug-08	103856	20628	124484
Sep-08	107120	20957	128077
Oct-08	109987	21439	131426
Nov-08	112060	21827	133887
Dec-08	113492	21928	135420
Jan-09	114838	22050	136888
Feb-09	116443	22316	138759
Mar-09	117964	22763	140727
Apr-09	119297	23180	142477
May-09	121220	23604	144824
Jun-09	123884	24106	147990

Terasen Gas believes a major factor affecting adoption rates is the low commodity price for natural gas. According to the Canadian Natural Gas monthly market update from May 2009, natural gas prices in May fell to a 6-year low for gas delivered under a 30-day contract at the Intra-Alberta market. Prices were 16% lower than April 2009 and 63% lower than in May 2008[6].

Although natural gas prices are trading at their lowest level since 2003, long term natural gas contracts remain high[7]. Gas Marketers employ a variety of purchasing strategies to secure natural gas for their customers; however a large portion of the gas required is typically secured through futures contracts. The current variance between short and long term natural gas prices present Gas Marketers with a dilemma: Gas Marketers are challenged to offer long term fixed price contracts that are competitive with the Terasen Gas current regulated rate. Moreover, some customers may be less keen to choose a fixed price contract because forecasts suggest even lower natural gas prices for at least the next several months.

While enrolment activity has levelled off, the ESM is still best suited to address these issues given BC's unique geography and gas supply system infrastructure.

[6] Canadian Natural Gas, Monthly Market Update May 2009, Natural Resources Canada.
[7] http://www.energyshop.com/es/homes/gas/gaspriceforecast.cfm?r

It is encouraging to note that the total number of disputes logged by customers about Gas Marketers and their sales practices have declined compared to the start of the program. However, since March 2008, the number of disputes logged by week has trended up despite reduced enrolment activity. TGI believes that many disputes relate to contract price dissatisfaction when customers compare the gas prices for fixed contracts and the TGI default offering.

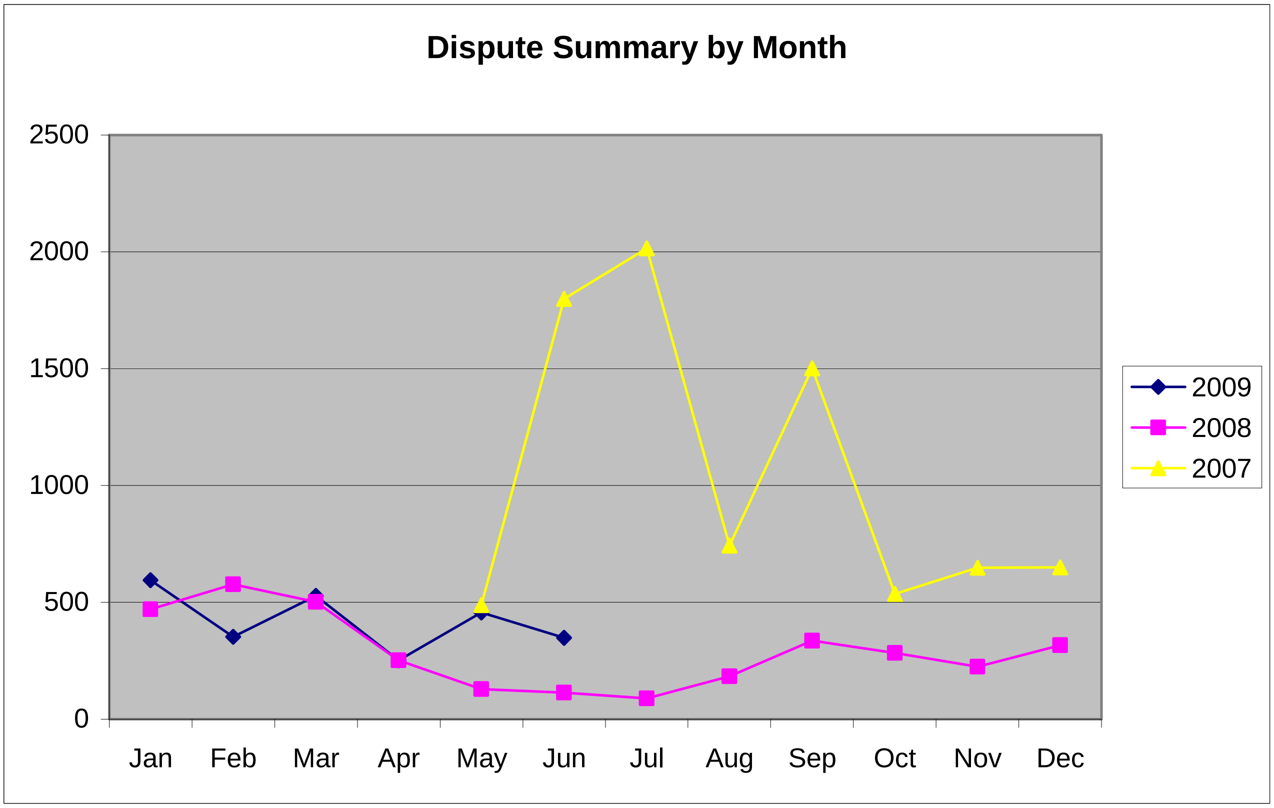
Like the BCUC, Terasen Gas remains concerned with the level of dispute activity. TGI suggests marketers must remain vigilant with respect to their sales approach, ensure adherence to the Code of Conduct and consider the implementation of options like rebate programs to better meet customer needs. Terasen Gas believes the business rules and policies when unbundling was rolled out to commercial customers in 2004, and reaffirmed when the Customer Choice program was launched in 2007, are appropriate and sufficient to help mitigate dispute levels over time. Long term success is dependent upon the consistent enforcement of existing customer protection activities.

3.2 Disputes

There was an initial influx of disputes recorded when the Customer Choice program started in May 2007. It appeared that many customers signed long-term gas contracts with marketers while not fully understanding the commitment. After the initial sales rush from May through July 2007, coupled with media attention, ongoing advertising and word-of-mouth communications, customer knowledge of program steadily improved. Dispute numbers fell quickly from the fall of 2007 through the summer of 2008.

Dispute numbers began rising again in 2009 as the commodity price started dropping with over 750 more disputes filed by the end of June this year than during the same period last year. It is surmised that the primary contributing factor to this increase in disputes is the growing disparity between the fixed options and the Terasen Gas regulated rate. Figure 4 displays the number of disputes recorded per month for the last two and a half years.

Figure 4: Dispute Summary by Month by Year



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2009	595	352	527	252	456	348							2530
2008	470	577	502	252	129	114	89	184	336	284	225	317	3479
2007					488	1798	2015	743	1502	535	648	649	8378

Terasen Gas believes that the most efficient way to decrease the number of disputes is to consistently enforce the Code of Conduct. Gas Marketers should be held accountable for their actions. Consideration should be given to the following:

- Increasing the Dispute Fee to an amount more punitive than the existing $50.
- Ongoing review of the new Marketer Performance Report as discussed in Appendix A, Section 1.5.

Establish a target dispute level threshold. If the dispute level for a Gas Marketer is over the annual threshold, levy an additional penalty. For example, from November 2007 through June 2009 the current average percentage of disputes to gross enrolments for all marketers is 6.9%. Gas Marketers could be penalized for going over the average and the BCUC could set lower target rates in the future to help encourage further improvements.

The existing suite of customer protection protocols are believed to be sufficient to help moderate future dispute levels. However, it may be necessary to increase the magnitude of penalties in order to reach acceptable levels.

3.3 System Performance

In terms of the implementation and daily functioning of the Customer Choice enrolment processing system, the GEM application continues to perform as designed. System and processing errors have been limited.

On two occasions since the July 2008 Post Implementation Report and Application for Program Enhancements and Additional Customer Education Funding report was submitted to the Commission, a system error has resulted in customer "poaches." Occasionally, Gas Marketers will attempt to enrol a customer that is already enrolled with another marketer. Under these circumstances the contract dates over lap. Based on accepted business rules, the system should "block" these attempts; essentially rejecting the requests. Unfortunately, a recurring processing error has resulted in the occasional failure of this block process. In such circumstances, the enrolment request continues to process and the new enrolment request is incorrectly accepted. The customer is essentially "poached" from another marketer.

Approximately 250 poaches took place in November 2008, and more recently, another 353 in August 2009. Two patches have been deployed; however, no permanent solution has been identified to date.

Gas Marketers impacted by this error may temporarily lose these poached contracts until such time that Terasen Gas corrects the underlying records. The occurrence in November 2008 resulted in a protracted reverse and re-bill process for the affected customers and marketers. The adjustments took longer than preferred because breadth of issue was not immediately evident. However, customers affected with the recent August error should not be impacted. Our service partner is blocking automated billing as necessary and creating manual bills for affected customers. Because these customers have signed two concurrent contracts with Gas Marketers, the most recent contract will be deemed invalid. Gas Marketers intending to sign-up a customer at the end of an existing agreement must negotiate a revised contract with an adjusted start date.

Terasen Gas recognizes this issue has posed difficulties for several marketers. TGI is currently working with its service partner to identify and correct this situation permanently. Customer and Gas Marketer billing corrections have been made through Terasen Gas' existing service contract with its billing provider. Costs associated with the necessary fix are not expected to be material; any necessary corrective actions are considered maintenance and do not represent new functionality.

Terasen Gas reminds Gas Marketers to validate the appropriate entry date for future contracts. Marketers should ask customers for the end date of existing contracts so that valid enrolment periods are determined. Many marketers submit multiple enrolment requests for the same customer that simply appear to be guesses. This extra activity places additional stress on GEM and its sub-systems. Gas Marketers should identify the relevant Anniversary Date, submit appropriate enrolment requests, and have the customer's signature on a Consumer's Agreement which accurately identifies the period and duration of the contract.

It is important to note that the systems supporting the TGI unbundled product represent a low-cost business solution. As such, they have performed well; there have been less than 10 days of total system downtime since GEM and its sub-systems went live in 2007. Most of the downtime has been planned to accommodate significant system changes like the Commission requested Release 1 and 2 enhancements.

Given the early stage of development of the Customer Choice product in BC, Terasen Gas recommends no major changes to the underlying computer systems. The Essential Services Model has performed well since 2004. It is only the nearly unprecedented economic downturn that has led to Gas Marketer concerns. Terasen Gas believes these concerns relate more to the competitiveness of their fixed rate product than they do to any systemic problem with the ESM. To reiterate, the program is still new. Adequate time and caution should be taken before any basic business rule changes are considered.

Gas Marketers have largely met their supply requirements, although some instances occurred earlier in 2008 and in July 2009 when Terasen Gas was required to provide backstopping services because of incomplete deliveries made by some Gas Marketers. The generation of the marketer delivery requirement, scheduling of gas, and the payment process have been completed with few difficulties.

Following the 2008 post implementation review filing, several system enhancements have been implemented. These are Release 1, Release 2 and several Release 3 enhancements as approved in Commission Order G-140-08. Release 1 and 2 included Commission requested improvements to the GEM system to improve the display of dispute information. In addition, this phase included work necessary to accommodate the upgrade in our customer information system's operating system in the fall of 2008, and the implementation of a different database platform to improve response times. Release 3 and 4 items included a variety of change requests made by Gas Marketers or Terasen Gas.

Remaining enhancements as identified in the Customer Choice Post Implementation Review Report and Application for Program Enhancements and Additional Customer Education Funding under Release 3 & 4 are scheduled for implementation in 2009.

The table below summarizes Customer Choice system enhancements that were presented in the Customer Choice Post Implementation Review Report filed in July 2008 and approved by Commission Order No. G-140-08 dated September 25, 2008 and Commission Order No. G-181-08 dated December 12, 2008. It indicates the status of items listed under Release 1, 2, 3 and 4. It also indicates the timeline when the enhancement was completed or when it is expected to be completed.

Figure 5: System Enhancements - Timeline

Release No	Description Item as per July 2008 Submission	Status	Timeline
1	2 - Display related disputes before a new dispute is created.	Completed	May 2009
1	3 - Move the "Other" field display associated with question two to the left of the page.	Completed	May 2009
1	5 - Add the full name of the filer logging a dispute for a customer to the "Filed By" field.	Completed	May 2009
1	6 - Display the cooling-off deadline (referred to as the "cancellation deadline") for each disputed enrolment.	Completed	May 2009
2	1- Add ability to classify a new dispute by "Dispute Type".	Completed	May 2009
2	4 - Change the list of questions asked when logging a new dispute.	Completed	May 2009
2	7 - Add a field to the "File Ruling" page to allow the BCUC to enter a record number.	Completed	May 2009
2	8 - Add a "Reconsideration Request" button to the "View Ruling" page that automatically logs a reconsideration request when clicked.	Completed	May 2009
2	9 - Automatically "lock" documents uploaded to a dispute when the dispute is closed. PDF converter.	Completed	May 2009
2	Customer Choice Testing to Support Energy CIS Version Upgrade	Completed	October 2008
2	SQLite Conversion	Completed	May 2009
3	7.2.7.4 – View Details of Dispute Ruling - allow Gas Marketers to view dispute ruling.	Completed	May 2009
3	7.2.7.8 - Multiple Disputes – Display related disputes.	Completed	May 2009
3	7.2.7.5 - Moving Between Disputes Pages – set fields to remain populated with a customer's information when the "Back" button is used.	Completed	May 2009
3	7.2.7.6 - Delayed Viewing of Disputes – Add ability to immediately view uploaded dispute documents.	Completed	May 2009
3	7.2.7.7 - Improve Dispute Searches – Add options to specify and sort by dispute status and dispute type.	Completed	May 2009

Release No	Description Item as per July 2008 Submission	Status	Timeline
3	7.2.5.1 - Voice Contracting – conduct performance tests to determine impact of increased voice files on application performance.	Completed – No changes required to accommodate additional voice files (i.e., contract renewals only)	June 2009
3	7.2.7.18 (.19) - XML and Different File Formats – Add option to download reports as Excel and XML file formats by Gas Marketers.	In progress	December 2009
4	7.2.5.2 - 90-120 Day Rule & 7.2.5.8 - Validity of Contract Start Dates – Add validation to enforce the five year contracting rule.	In progress	November 2009
4	7.2.5.3 - Courtesy ("Operational Correction" Drops) Drops - Add new Operational Correction drop code (Enrolment Database). Create new report to monitor use of the code	Completed	August 2009
4	7.2.5.7 - Confirmation Letters – Add Gas Marketer email address to the confirmation letter.	In progress	November 2009
4	7.2.7.2 - Receiving Files – Improve delivery of enrolment response files.	In progress	December 2009
4	7.2.7.21 - Time Stamping Transactions – Add a time stamp field to all enrolment responses.	In progress	December 2009

System design and vendor contracts necessitate that remaining GEM enhancements be undertaken parallel to system maintenance activities. This timeline is based on the current level of system maintenance workload and is subject to change if a critical system issue arises in either the GEM application or any associated system interface. The poaching errors alluded to earlier in this section could delay the implementation of Release 4 if the required maintenance activity exceeds expectations.

Terasen Gas forecasts a favourable variance related to the development and integration of the Release 1 through 4 enhancements of $216,000. In TGI's Customer Choice Review of Actual versus Estimated Costs of Release 1 and Release 2 Program Enhancements submitted to the Commission on April 1, 2009, Terasen forecast a $5,253 unfavourable variance for the two releases. Savings materialized when fewer days than estimated were necessary to complete the work.

The most significant savings are due to the difference between preliminary Release 4 estimates that were presented in the 2008 Customer Choice Application, and the final estimates that were established just recently. Upon further review of the changes required, it has been determined that fewer days are needed to complete the remaining work than originally anticipated. A contributing factor related to voice contracting for new enrolments. Because voice contracting will only be used for contract renewals and not new contracts, no additional changes are required. If Commission staff subsequently expands the use of voice contracts, this issue will need to be revisited.

Figure 6: System Enhancements - Variance

	Estimate	Actual	Forecast	Variance
Release 1	14,600	6,029		(8,571)
Release 2	859,700	841,176		(18,524)
Release 3	54,300	50,926		(3,374)
Release 4	298,200		112,350	(185,850)
	1,226,800	898,131	112,350	(216,319)

3.3.1 Marketer Performance Report

In Appendix A, Section 1.5, Terasen Gas requests funding for a new report to evaluate the Marketers' sales performance. The report will display the number of contracts that are disputed per every 100 customers and seeking third party resolution from the BCUC. Upon approval, this requirement will be added to the list of outstanding enhancements and maintenance activities. It is expected that the new "Marketer Performance Report," will be available for Commission use in December 2009.

3.3.2 Single Account to Manage Multiple Marketers

Terasen Gas suggests that new functionality is added on GEM and the NSS to allow a single account to manage multiple marketers. For example, "Just Energy" is responsible for ESBC, CEC, Universal, Planet and Wholesale Gas Marketer Groups. The proposed new functionality would allow the parent company administrator from Just Energy to manage their whole portfolio without needing to use different accounts.

Another issue that is materializing relates to reporting accuracy. Ensuring that reports accurately reflect statistical information for both parent and associated companies is problematic based on the current data structure. This investment would deliver more flexibility to accommodate marketer ownership changes and ensure reporting impacts are addressed automatically.

Given the process of consolidation may continue, Terasen Gas requests $11,500 in funding to implement the necessary changes. This change would be enabled before the end of 2009.

4 Program Implementation and the Essential Services Model

This section reviews the history of the ESM that supports the delivery of the unbundled product in BC. It also offers views regarding the perceived performance of the ESM and it looks at the viability of accommodating price changes outside of the Anniversary Date.

4.1 ESM History

The essential elements of the business model supporting Customer Choice were approved by the Commission in the Commission Letter No. L-25-03 and reiterated in Commission Order No. C-6-06. The ESM serves as the foundation for the Commodity Unbundling program that was implemented for commercial customers on November 1, 2004 as well as for residential customers on November 1, 2007. Under the Essential Services Model, a Gas Marketer delivers to Terasen Gas a quantity of the natural gas commodity based on Terasen Gas' normalized forecast of the Gas Marketers' customers annual load requirements.

To assist Gas Marketers in this process, a separate monthly Marketer Supply Requirement ("MSR")[8] is calculated for each Gas Marketer participating in the program that sets out the daily volume of natural gas commodity each Gas Marketer is required to deliver to Terasen Gas in its role as midstream services provider ("Terasen Gas Midstream"). For the purposes of the MSR determination, Terasen Gas, in its role as a commodity provider, is considered a marketer and therefore an MSR is calculated for Terasen Gas as well. Marketers make deliveries to Terasen Gas Midstream at the three different supply hubs including Sumas, Station 2 and AECO. The delivery is at a 100 percent annual load factor and is allocated on the same basis as that approved by the Commission in the Annual Contract Plan for Terasen Gas. This gas is then delivered by Terasen Gas to customers who have contracted with a Gas Marketer for their supply of the natural gas commodity. Note that Gas Marketers are also required to provide fuel gas in-kind equal to Terasen Gas' average off-system fuel requirements.

Under the ESM, Terasen Gas is responsible for contracting and managing the Midstream resources, including transmission pipeline and storage capacity. Terasen Gas is also responsible for providing balancing and peaking gas to the extent required to support annual load shaping. The Midstream resource costs are recorded in a separate gas cost account and are recovered from all customers eligible to participate in the Customer Choice program regardless whether they are supplied by a Gas Marketer or by Terasen Gas default commodity offering.

[8] On December 12, 2008 the Commission issued Order No. G-181-08 (the "Order") and Reasons for Decision (the "Reasons") attached as Appendix A, related to the July 2008 Terasen Gas Application for Customer Choice Program Enhancements and Additional Customer Education Funding. As elaborated in the Reasons for Decision, Section 11, the Commission directed Terasen Gas to provide a written description of the MSR calculation. This was submitted to Commission staff on March 23, 2009. It is attached as Appendix E for reference.

Terasen Gas continues its merchant function role and will continue to supply under the standard system supply rate or default offering to those customers who do not choose to be supplied by a Gas Marketer. Terasen Gas is the Supplier of Last Resort that provides backstopping services in the event a Gas Marketer fails to meet their daily delivery requirement and in the event that a Gas Marketer faces supply failure. Additionally, Terasen Gas is also responsible for longer term infrastructure planning that ensures system reliability and emergency response. In the event a Gas Marketer experiences supply failure, the Commission will determine whether the supply failure is of a longer term nature and whether the customers should be returned to the commodity supply option provided by Terasen Gas. In the event of a long term Gas Marketer failure, customers may be returned to the Terasen Gas standard commodity supply rate; or they may be isolated in a temporary rate classification if gas cost is higher than the current TGI default offering; or the Gas Marketer's book of customers may be purchased by another marketer. The Commission has indicated that any incremental costs may be recovered from customers involved in such an event. In shorter term Gas Marketer supply failure situations, Terasen Gas provides the supply of natural gas and charges Gas Marketers the respective backstopping charges. The provisions that define long and short term supply failure are defined in Rate Schedule 36.

4.2 ESM Performance

Through the introduction of the unbundled product to small volume commercial customers in 2004, to the start-up of Customer Choice for residential customers in November 2007, the Essential Services Model gas supply rules have worked well. Gas Marketers have largely met their supply requirements, although some instances occurred in early 2008 when Terasen Gas was required to provide backstopping services because of incomplete deliveries made by some Gas Marketers. The generation of the marketer delivery requirements, scheduling of gas, and the payment processes are functioning well with few difficulties.

ESM is the foundation of the Unbundling program. Since its inception, the Essential Services Model has performed as expected and has proven itself in the face of several challenges. Most notably, Gas continued to flow to customers without interruption when Wholesale Energy Group and CEG Energy ceased operations in summer 2008. Each marketer's book of customers was successfully ported to other companies.

4.3 Price Changes outside of the Anniversary Date

A criticism of the Essential Services Model raised at the Annual General Meeting held earlier this year related to the 12-month fixed price rule. This rule only allows Gas Marketers to offer their customers a price change on either the anniversary date of the contract or after the expiry of a contract. Gas Marketers argued that that this rule restricts the offering of competitive contracts in the marketplace and results in customer complaints and disputes in situations where the market price of the commodity has substantially declined compared with a contracted price. To address these issues, Gas Marketers advocated the relaxation of the 12-month fixed price rule in favour of an ability to alter prices on a more frequent and discretionary basis. In terms of the functioning of the ESM it important to understand how the fixed price rule works and why it's central to the Customer Choice program in BC. This rule is critical to the proper functioning of the ESM. Consequences resulting from the failure to adhere to the rule are explored in the following two scenarios.

Scenario 1 – Fixed Marketer Price – Approximately 10% or 12,500 residential customers currently enrolled in fixed rate contracts that average $10/GJ have indicated that they are not happy with their current rate. However, under the ESM, Gas Marketers cannot adjust these contracts until the next Anniversary Date. As required, the contracts run from April 1 through March 31.

(000's)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	**Total**
Typical Customer Usage Profile	8%	5%	3%	3%	3%	4%	8%	11%	15%	16%	13%	11%	100%
Forecasted Monthly Customer Consumption	102	64	38	38	38	51	102	140	191	204	166	140	1,275
Marketer Supply Requirement	106	106	106	106	106	106	106	106	106	106	106	106	1,275
Volume Variation (managed by TG MCRA)	(4)	(43)	(68)	(68)	(68)	(55)	(4)	34	85	98	60	34	-
Fixed Price ($ per GJ)	$ 10	$ 10	$ 10	$ 10	$ 10	$ 10	$ 10	$ 10	$ 10	$ 10	$ 10	$ 10	
Customer Revenues	$1,020	$ 638	$ 383	$ 383	$ 383	$ 510	$ 1,020	$ 1,403	$ 1,913	$ 2,040	$ 1,658	$ 1,403	$12,750
Paid to Marketer	$1,063	$1,063	$ 1,063	$ 1,063	$ 1,063	$ 1,063	$ 1,063	$ 1,063	$ 1,063	$ 1,063	$ 1,063	$ 1,063	$12,750
Variation in Proceeds	$ (43)	$ (425)	$ (680)	$ (680)	$ (680)	$ (553)	$ (43)	$ 340	$ 850	$ 978	$ 595	$ 340	$ -
Cumulative Total	$ (43)	$ (468)	$ (1,148)	$ (1,828)	$ (2,508)	$ (3,060)	$ (3,103)	$ (2,763)	$ (1,913)	$ (935)	$ (340)	$ -	

Based on expected customer consumption and normal weather, the results of this scenario are:

- The Gas Marketers' supply deliveries of 1,275,000 GJ match the customer's consumption of 1,275,000 GJ at the end of the contract year;
- Terasen Gas manages the daily/monthly volume variations; and
- Customer Revenues of $12,750,000 matches the Gas Marketers' remittances of $12,750,000 with no net variation at the end of the contract year.

Scenario 2 – Variable Marketer Price – For example purposes only, assume that the Gas Marketer is now allowed to adjust their price to accommodate these customers and their unhappiness with their current rate. In this scenario, marketers choose to lower their fixed price contract prices. The reductions shift the contract rates from an average of $10/GJ to $6/GJ starting on October 1.

(000's)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	**Total**
Typical Customer Usage Profile	8%	5%	3%	3%	3%	4%	8%	11%	15%	16%	13%	11%	100%
Forecasted Monthly Customer Consumption	102	64	38	38	38	51	102	140	191	204	166	140	1,275
Marketer Supply Requirement	106	106	106	106	106	106	106	106	106	106	106	106	1,275
Volume Variation (managed by TG MCRA)	(4)	(43)	(68)	(68)	(68)	(55)	(4)	34	85	98	60	34	-
Fixed Price ($ per GJ)	$ 10	$ 10	$ 10	$ 10	$ 10	$ 10	$ 6	$ 6	$ 6	$ 6	$ 6	$ 6	
Customer Revenues	$1,020	$ 638	$ 383	$ 383	$ 383	$ 510	$ 612	$ 842	$ 1,148	$ 1,224	$ 995	$ 842	$ 8,976
Paid to Marketer	$1,063	$1,063	$ 1,063	$ 1,063	$ 1,063	$ 1,063	$ 638	$ 638	$ 638	$ 638	$ 638	$ 638	$10,200
Variation in Proceeds	$ (43)	$ (425)	$ (680)	$ (680)	$ (680)	$ (553)	$ (26)	$ 204	$ 510	$ 587	$ 357	$ 204	$ (1,224)
Cumulative Total	$ (43)	$ (468)	$ (1,148)	$ (1,828)	$ (2,508)	$ (3,060)	$ (3,086)	$ (2,882)	$ (2,372)	$ (1,785)	$ (1,428)	$ (1,224)	$ (1,224)

Based on expected customer consumption patterns and normal weather, the results of this scenario are:

- The Gas Marketers' supply deliveries of 1,275,000 GJ match customer consumption of 1,275,000 GJ at the end of the contract year; and
- Terasen Gas manages the daily/monthly volume variations.
- However, Customer Revenues of $8,976,000 do not match the $10,200,000 paid to marketers. The variance results in a significant deficit of $1,224,000 that flows through the Midstream Cost Reconciliation Account.

The revenue shortfall would result in an additional layer of costs borne by the Midstream, which is already responsible for volume and cost variances. TGI uses Midstream services to address annual volume variances caused by differences between actual and normal weather conditions. It is also used to deal with the cost variances that exist between the Gas Marketer's price to the customer and the price TGI Midstream actually pays to address these volume variances. Based on these serious impacts, it is clear why the 12 month fixed price rule must remain in place. Failure to adhere to the rule would have negative repercussions for Midstream Cost Reconciliation Account ("MCRA") and seriously undermine the ESM.

4.4 ESM Fee

As part of the Scoping Phase conducted prior to the launch of the Customer Choice program in 2007, Terasen Gas was requested to review the issue of enabling the Program's ability to allow Gas Marketers to offer products other than those just with 12 month fixed price intervals. As illustrated in the previous scenarios, a change in the rule creates a significant issue for the integrity of the Essential Services Model. Allowing Gas Marketers the ability to vary their price to a customer outside the 12 month fixed price rule can have a significant negative financial impact on midstream costs that all customers share in their rates. None of these costs would be borne by Gas Marketers where no fee exists to recover this cost from them.

To mitigate this cost impact and to encourage adherence to the 12 month fixed price rule, in 2006 Terasen Gas proposed an ESM fee. The ESM fee was designed to capture the price differential between the original price and the subsequent price for the remaining forecasted normalized volumes for the 12 month period. Terasen Gas' systems would then detect contracts with terms less than 12 months long by tracking contract start and end dates. The enrolment process was to be configured to flag enrolments with a violation of the 12 month fixed price rule and to indicate to Gas Marketers the cost of the ESM fee that was to be charged if they wanted to continue to proceed with the enrolment. At that point, a Gas Marketer could choose to finalize enrolling the customer and pay the ESM fee or the Gas Marketer could choose to stop the enrolment.

Terasen Gas suggested the ESM fee and the supporting processes to administer the fee, as a cost-effective solution to minimize poaching activities between Gas Marketers and to ensure adequate cost recovery from those who cause these costs to be incurred. However, it was not designed to accommodate Hard Blocking and price changes before the Anniversary Date. To identify the full impact to Terasen Gas Midstream, two stages of processing are required that would entail the following sequence:

- an enquiry from the Gas Marketer;
- an ESM fee calculation by Terasen systems;
- a decision confirmation from the Gas Marketer; and
- a cancellation or levy of the ESM fee by Terasen systems.

To properly calculate the ESM Fee, an analysis of a customer's revenue collected year to date versus gas consumption must be first be completed. This process involves introducing significantly more complexity, primarily in terms of system and data access, to the enrolment process than currently exists. Importantly however, the necessary stages required to accurately calculate the resultant ESM Fee would not be conducive to either the normal sales or the current disputes and complaints process. Gas Marketers could not immediately inform customers what their penalty would be prior to activating the fee. Instead, Gas Marketers would have attempt and get customers to agree to a new rate and promise to investigate the potential penalty associated with the cancellation prior to their Anniversary Date. In their attempt to retain the contract, Gas Marketers would then have to call the customer back with the penalty information. As pointed out earlier, this extra requirement is unfortunately not particularly conducive to a successful sale or contract re-negotiation.

Based on this investigation, the development of an ESM fee designed to ease the Anniversary Date restriction yet keep the midstream account whole has been discounted as impractical, and more importantly, it is inconsistent with the ESM.

4.5 Conclusion

Terasen Gas believes that Gas Marketers must take responsibility for the quality of their product; ensuring that the benefits and pitfalls of a fixed rate product are appropriately described to the customer at time of sale. Long term fixed rate contracts do not guarantee customers savings and they should not be sold as such.

To some extent, TGI contends that the rash of customer disputes and complaints regarding price disparity reflect the marketing strategies employed by Gas Marketers to garner market share and long term customer commitments.

Fixed rate offerings are attractive to many customers. The promotion of short term contracts can be an appropriate response to market conditions. Offering competitive, appropriate contracts helps to establish a positive relationship with customers and position incumbent marketers to offer customer new contracts in the future. A single minded focus on short term profit taking will breed customer mistrust and continued dissatisfaction with Gas Marketer products.

Gas Marketers have a variety of tools and options available within the ESM to mitigate customer concerns regarding price disparity. For example, Gas Marketers may implement rebate programs in order to retain customers and create goodwill. Terasen

Gas can accommodate price changes on contract Anniversary Dates without penalty. Importantly, marketers must be attentive of market conditions and adjust their sales focus accordingly. Longer five-year contracts make sense as periods of inflation set in; shorter one and two-year contracts during recessions and soft natural gas prices.

The ESM performs well and is ideally suited to the BC natural gas transport infrastructure. The benefits of the ESM Model include the following:

- The model is simple for Gas Marketers as there is No load Balancing Requirements. This has results is lower IT system development and maintenance costs than under a model where monthly or daily true up are needed.
- It provides greater security of supply to end users in the event of marketer failure.
- It is a good solution to handle balance and peaking cost across customer base (Rate Schedule 1 through 7).
- It takes a long term view to resource the gas supply needs of our customers and the region.
- The customer gets one bill.
- It provides customers the choice of either a regulated rate or a one to five year fixed price offering from an independent gas marketer.

It has successfully addressed both marketplace demands and customer desirability for a fixed rate commodity option programs.

5 Gas Supply and Resource Planning

Section 5 discusses the factors involved in the delivery of natural gas in BC, and the influence they have had on the design of the ESM. Section 5.2 provides an in-depth analysis of TGI's Annual Contracting Plan, both pre and post implementation of the Customer Choice program. Lastly, section 5.5 summarizes the affect a revised model that mirrors recent requests from Gas Marketers would have on the unbundled product in BC.

5.1 Gas Supply & Resource Contracting

Outlined below are the objectives and rationale for the contracting of gas supply resources by TGI given the nature of the gas supply business in the Province of BC. This section also provides background on issues and operating conditions that the Company is required to perform on a daily basis when it comes to managing gas supply to meet customer demand. TGI's contracting for gas supply to its customers is dictated by the philosophies and objectives that are stated in its Annual Contracting Plan ("ACP") that it files with the BCUC. *It is important to note that the objectives of the ACP have remained consistent before and after the introduction of the TGI Unbundling Program for Commercial customers in April, 2004 and therefore, the implementation of the Essential Service Model.*

5.2 Objectives of the Annual Contracting Plan

These objectives are as follows:

The primary objectives of the ACP are:

1. **To contract for cost-effective supply resources which ensure safe and reliable natural gas deliveries to meet core customer design peak day and the annual normal load while mitigating against potential upstream and downstream supply disruptions.**
2. **To develop a portfolio resource mix that incorporates price diversity and provides contracting flexibility for both short-term and longer-term planning.**

5.3 ACP (Pre-unbundling)

5.3.1 Functions

The key function of the ACP is to ensure that the daily gas supply for load requirements across the TGI system is adequately available ensuring security and diversity of supply that is also cost effective. The availability of such gas supply should be able to meet the daily normal load in the winter months while possessing additional resources that will enable the Company to meet its design peak day demands. Included in the ACP is a provision of commodity, balancing and peaking gas supply services to all core customers (Rate Schedule 1 through 7). Furthermore, some portion of gas supply resource that are contracted under the ACP are procured for a term that extends out longer than a typical gas year, which commences on November 1st and ends on October 31st of each year, in the interests of security of supply.

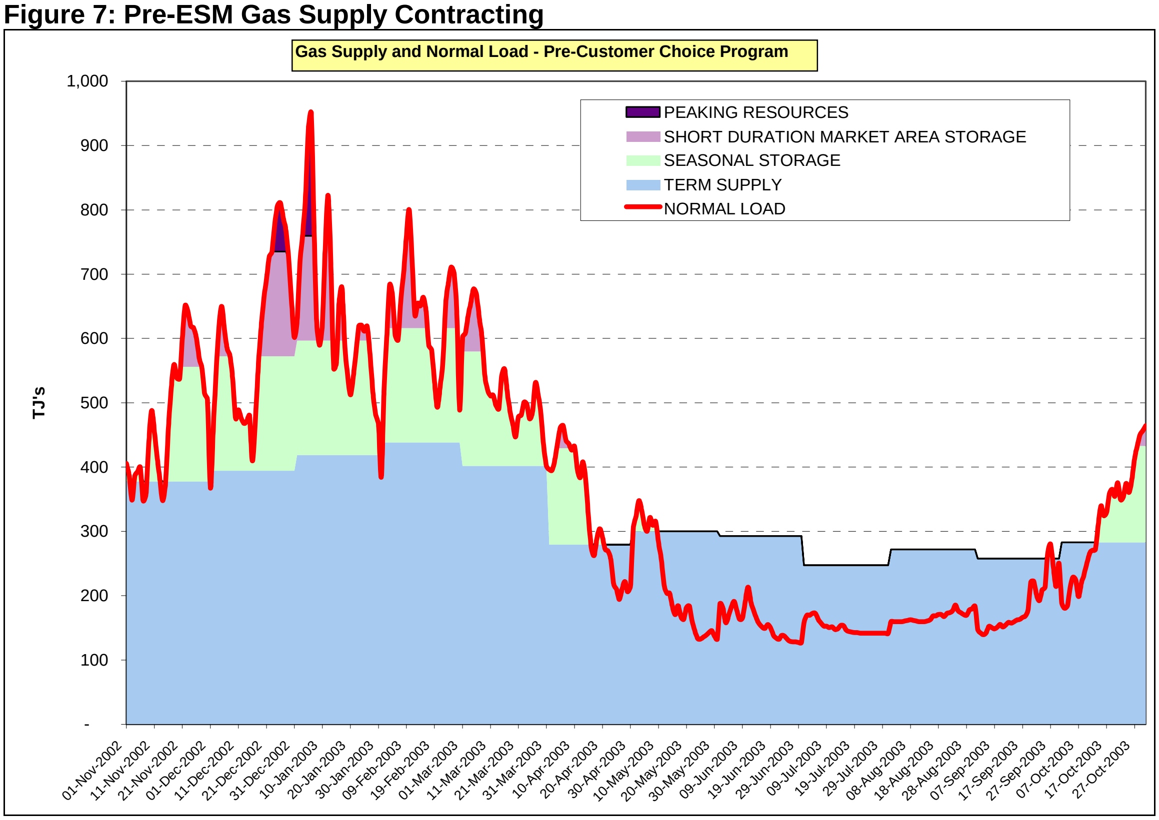
5.3.2 Pre-unbundled Gas Cost Accounting

Prior to the implementation of the ESM, the Gas Cost Reconciliation Account ("GCRA") captured the total bundled cost of gas which included commodity, storage, transportation, and peaking resources. The input costs that were recorded in this account were then recovered through the various customer classes (Rate Schedule 1-7) as a single line item on the customers' bills. Over collection or under recoveries of the costs in the GCRA account was reflected as rate adjustments in the future to the applicable rate classes by way of a rate decrease or increase.

5.3.3 Resources

Figure 7: Pre-ESM Gas Supply Contracting illustrates TGI's resource contracting prior to the introduction of the Customer Choice Program. The contracting of term supply varies somewhat from the current ESM model per the illustration but not significantly as fluctuation in winter demand was still largely managed by utilizing the Company's seasonal storage assets. Large swings in the intraday load during normal conditions were then also managed by seasonal storage injections and withdrawals and cooler weather conditions were handled by activating the shorter duration storage resources in addition to the seasonal resources. Term purchases in the summer months are also much greater than the actual load due to the need to refill storage facilities that were depleted over the previous winter months.

Figure 7: Pre-ESM Gas Supply Contracting



As stated above, security and reliability of gas supply day in and day out is of paramount importance. Contracting for gas particularly in the winter months compels Terasen Gas to evaluate supply options that will provide its customers with secure and reliable supply of gas during cold winter weather and peak day conditions when natural gas demand is higher on the TGI system. Furthermore, risk management against disruptions to gas supply brought forth by natural disasters and manmade events such as plant outages and capacity disruptions must also be mitigated for its customers.

5.3.4 Operating in the BC marketplace

TGI's gas contracting resource base stems from the operating climate of its marketplace in relation to other markets such as the Alberta marketplace and from the shape of the demand curve that is primarily driven by weather conditions. The flexibility surrounding the provision of gas within the BC marketplace is more restrictive when compared to a marketplace such as Alberta when it comes to accessing or disposing of gas particularly in the spot market. The gas trading is typically conducted between the hours of 6 AM to 8 AM each day which is further restricted to business only for the next gas day. In other words, there is no material gas trading for buying and selling in the spot market for the intraday that would enable Local Distribution Companies ("LDCs") like TGI and other market participates to balance their systems or accounts. Therefore once that window of opportunity has expired to balance supply and demand for the next gas day, any intraday fluctuations are managed primarily through the utilization of production based and market base storage resources and TGI's on-system LNG storage facility in extreme weather or emergency situations. Daily load fluctuations, particularly during winter months, dictate that additional gas supply should be available in the pipeline system within a span of a few hours to meet demand or conversely excess supply should be effectively disposed due to a lack of demand during the current day in order for the system to safely operate by staying within prescribed threshold levels. Due to the winter demand oriented nature of the BC marketplace, producers and marketers are more inclined to transacting and shipping their supply to baseload markets such as Alberta thereby inhibiting volume and supplier liquidity in the BC marketplace. It is greatly for the above mentioned reasons that the Sumas and Station 2 market hubs are subject to price disconnects during spells of cooler weather. This issue is further compounded by the lack of available market area storage and pipeline capacity which would provide optionality to producers and shippers on the system.

In contrast, the high volume of liquidity and flexibility of gas supply in the Alberta marketplace allows for gas to be purchased and sold on a day out and intraday basis in order to balance a utility's distribution system. This allows gas utilities to potentially contract for a lower level of storage capacity and deliverability and shape their gas supply purchases based on a load profile that befits their daily and monthly customer loads. The proximity of large amounts of gas supply to the marketplace is also a major benefit that provides Alberta utilities with the ability to match supply and demand on a prompt basis each day. Key issues such as the operation of a pipeline system within finite threshold levels largely depends upon the balancing of linepack within that system on a daily basis. Due to the diversity of the producing region combined with connectivity to eastern markets, supply is transacted at a high level year round in this marketplace providing for a high level of supplier diversity and volume liquidity.

5.4 ACP (Post Unbundling)

5.4.1 Functions

Under the current ESM model, all energy providers including TGI as a commodity provider ("TGI Commodity" or "TGI default offering") supply TGI's Midstream Group with an amount of gas that meets the Company's forecasted normal annual load. This is provided as a baseload amount each day that is flat lined to be the same volume on a daily basis over the course of the gas year. The commodity provided by TGI Commodity is managed and accounted in the Commodity Cost Reconciliation Account ("CCRA"). The balancing of daily gas supply to the daily demand is then handled by TGI's Midstream group and the pool of resources employed by the Company. Variations in the daily load particularly in the winter months can range between 20 TJ/d to 60 TJ/d during normal winter conditions and between 60 TJ/d to 150 TJ/d during extreme winter weather. As a result, the current ESM model provides the system with adequate daily gas supply while leaving the management and balancing of the TGI transmission and distribution system to the utility's Midstream Department and its resources.

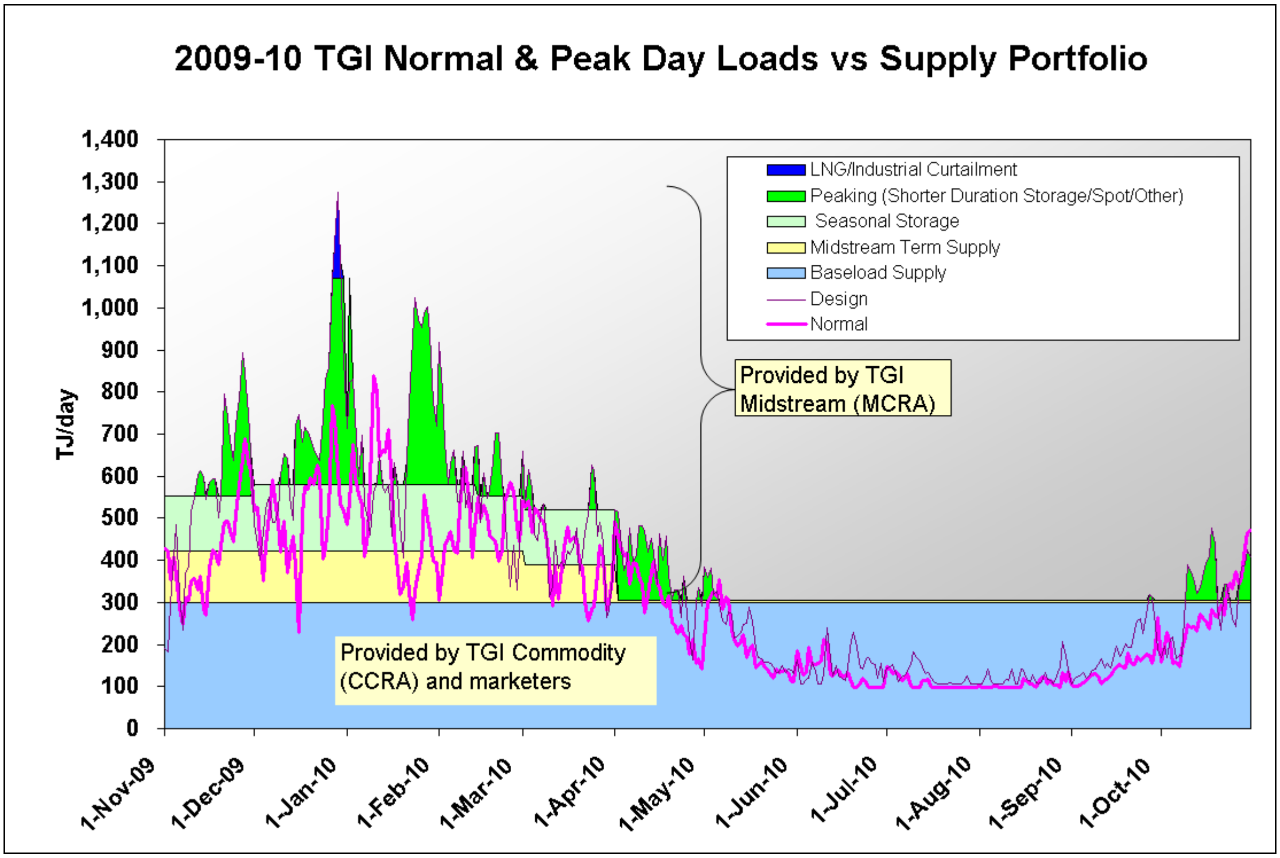
5.4.2 Unbundled Gas Cost Accounting

In order to facilitate the above separation between the commodity business for gas supplied by energy providers including TGI default offering and TGI Midstream's resources provided by the utility, it became necessary to break out the GCRA account in to two distinct accounts in order to properly reflect the correct charges in an individual customer's gas bill. Unlike the GCRA account that reflected a bundled rate for commodity and midstream resources, the current method of accounting reflects a charge for the commodity in the customer's bill that is provided by the energy marketers including TGI and another charge for the midstream resources provided by the utility to all customers. As mentioned above, the baseload commodity provided by TGI to customers who have remained with the utility is accounted for in the CCRA while the midstream services provided by the utility to all customers are accounted in the MCRA. Under the Customer Choice program, the cost for commodity is different for each marketer and their customer groups as a result of signing up customers during different periods at various rates and terms. As a result, this accounting method reflects the applicable individual commodity costs in a customer's bill while separating the midstream costs charged by the utility to all customers.

5.4.3 Resources

As discussed above, energy providers (including the TGI default offering), supply TGI Midstream with an equal volume of daily supply under the current ESM model. The volume provided by TGI Commodity and energy providers totals to the utility's forecasted annual normal load as depicted by the Baseload Supply (shaded in blue) in Figure 8 below. The figure also shows the forecasted daily normal and design day loads for the 2009-10 gas year including the stack of resources that are utilized to meet the fluctuations in those loads including seasonal gas, peaking gas and storage resources which are provided by the utility's midstream portfolio.

Figure 8: Current ESM Gas Supply Model



During normal winter conditions, load fluctuations are managed by utilizing the midstream's large volume seasonal assets which include winter storage facilities and seasonal commodity purchases. In addition to seasonal winter storage, gas supply and demand fluctuations during cooler and peak winter weather conditions are managed via the utilization of the midstream's shorter duration market area storage facilities which also enable the Company to access gas immediately on an overnight or intraday basis. Conversely, when winter demand drops below normal levels and even supply from the baseload and seasonal term gas is greater than this demand, TGI's only recourse is to inject gas back into its various storage facilities or sell the gas in the marketplace in order to balance its operating system. Gas supply that is termed up to meet the forecasted load profile for a given month cannot adeptly handle intraday swings arising from changing weather conditions in the winter months due to the inability to access or dispose of supply from and into the marketplace. As the BC marketplace does not have an intraday gas trading market, these same-day swings can only be managed through the flexibility provided by the Company's seasonal and shorter duration storage resources operated by the utility's Midstream group.

Gas supply from storage also provides TGI's customers with intraday emergency supply resulting from system or plant outages. Such has been the case during outages on the Westcoast Energy Inc's system ("Westcoast") that led to significant volumes of term supply defaults on the intraday of term purchased gas which prompted TGI to activate its key storage accounts and receive large volumes of supply to meet the demand on its system. The Westcoast system is the primary pipeline transmission system that interconnects to the TGI system for the majority of TGI's gas supply. The ability of a pipeline system to manage its system demand by accessing incremental gas when demand increases or dispose excess supply due to a lack of demand at short notice is a fundamental operational requirement which can have detrimental effects including a complete system shutdown if it is not managed in a timely manner. It is largely for this reason that TGI manages its gas supply requirements, particularly in the winter months, by blending purchased term supply and supply from storage in order to meet the daily load on its system.

5.4.4 A Balanced ESM Model for all Stakeholders

For the above reasons, the current ESM model provides a balanced framework for gas supply and system management that allows independent Gas Marketers to provide daily supply, which is based on annual normal consumption into the system while allowing the expertise of the utility to manage the daily variations of supply and demand on its system and provide gas effectively and safely to all customers. The contracting of assets such as storage facilities particularly for load shaping in the winter months has always been an integral part of the ACP pre and post unbundling due to the conditions under which this system resides and operates. This model provides customers with optionality and choice for their commodity purchases while minimizing the security of supply risk and costs for all customers.

It should be noted that the contracting of gas supply and resources in the ACP has not differed significantly prior and post unbundling as this fundamental is largely dictated by the characteristics of the BC marketplace and TGI's seasonal and geographic load requirements. The lack of liquidity combined with the diverse and scattered geographical region of TGI's distribution system primarily dictates the strategy behind its ACP which provides daily supply via termed up gas while balancing the intraday load through its diverse storage contracts.

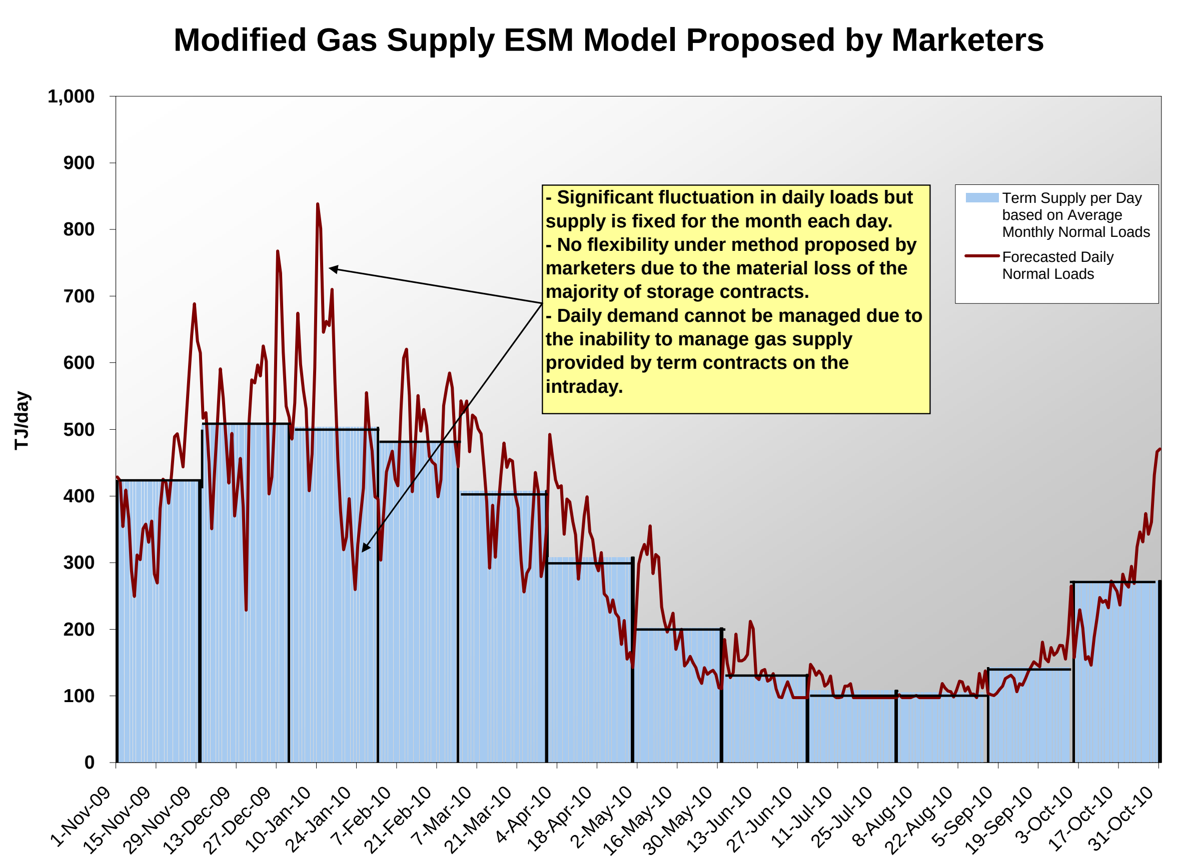
5.5 Revised ESM Model Proposed by Customer Choice Marketers

One of the areas that has been put forth by the Gas Marketers to improve the price competition between Gas Marketer, would be to provide prices to customers that could change monthly and not adhere to the 12 month fixed price rule in which the ESM is based. Given this position, TGI has outlined this model and identifies why this model is inappropriate for the BC marketplace.

5.5.1 Assumptions of the New Proposal

The proposed monthly model requires gas supply to be adjusted on a monthly basis based on normalized loads forecasted by the Company and more specifically based on each customer's forecasted demand. Under this proposal, gas supply required in meeting the daily system normal demand would remain static for a given month but the daily actual demand would be subject to unpredictable variations in weather and temperature. Figure 9 depicts a monthly model that would provide supply onto TGI's system each day on behalf of their customers.

Figure 9: Proposed ESM Model by Gas Marketers



Under this model, TGI as the utility would be required to reshape its resources potentially resulting in a lowering of its contracting of storage assets since the vast majority of daily loads would be deemed to be managed by supply from monthly baseload contracts provided by the Customer Choice Program marketers including Terasen Gas Commodity. As a result, TGI Midstream would not require additional commodity in the summer months that would have otherwise been utilized for storage injections. Currently, Terasen Midstream operates and manages the actual demand and load on the TGI system each day through its portfolio of resources including storage, winter and peaking supply contracts and LNG. Balancing the system on a daily basis that matches gas supply to customer demand by the TGI Midstream Group is a critical function that requires experience within the PNW regional marketplace and specialized knowledge of the complex gas distribution and transmission system.

5.5.2 Risks of the Proposed Model

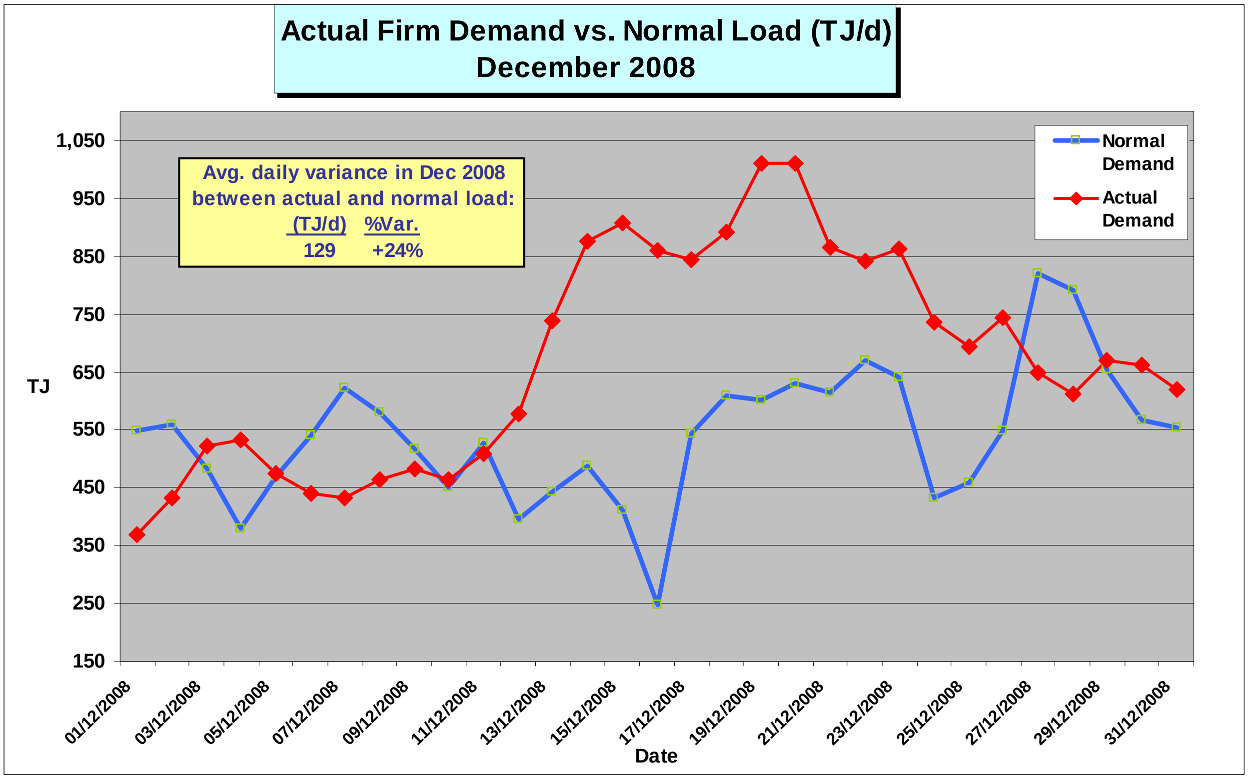
This proposed model does not address the flexibility and security of gas supply that would be required each day in order to match customer demand with actual gas supply.
As previously discussed, management of term gas supply can only be effectively conducted in the early morning of the day prior to the actual gas day by Terasen Gas' Midstream group based on the forecasted demand available at that time for the next day.

All other variations and the actual demand for the day would have to be managed by procuring or injecting significant gas supply in and out of storage facilities contracted by the Company during the winter months. Under the current operating climate in the BC marketplace, gas supply cannot be traded on the intraday that would facilitate the matching of gas supply to demand on a daily basis. Figure 9 above illustrates the significant gap arising from swings in the daily load and the static supply of gas that is provided each day to meet the core demand. The critical intraday swings in demand can only be controlled and managed by intraday gas supply that is only available through large volume storage facilities located in different parts of the operating region.

While Gas Marketers suggest the monthly model would increase price competition, the method does not address the critical issue of managing changes in the intraday load and how supply can be procured or disposed of at short notice in order to balance the supply to demand on the TGI system. The costs and resources associated with a monthly model would be much different than the current state. As such, significant resource changes would be needed so as to limit any increase in risk to TGI customers.

Under pre and post unbundling, excess gas in the system on the intraday is managed via storage injections and shortages are managed by withdrawals of supply from storage including overnight withdrawals used to cover off sudden significant load changes. Figure 10 below clearly demonstrates the variance per day between the actual and normal load in December 2008 which averaged 129 TJ/d. Although a portion of the variance for each day was managed using the weather and load forecast that was available one day prior to the actual gas day, the intraday variances were nevertheless of significant proportions requiring timely attention and coordination between TGI and its numerous counterparties to ensure that the demand and supply were adequately matched on the gas day. Such coordination and management to meet the intraday changes in supply requires prompt action that is conducted within tight timelines for placing nominations on the various pipeline systems. The deadlines are the same for all pipeline systems that have been standardized by the industry which requires multitasking by the shipper in order to ensure that the timelines are met for each of the nominations. The intraday load swings were as high at 100 TJ during some days in the cold snap which required that TGI's Midstream personnel coordinate and place nominations on a few storage contracts simultaneously and within a very short span of time that is usually less than one hour from the time that they receive the load forecast from TGI's Gas Control Department to the time that the nominations are required to be completed on the various pipelines' systems while maintaining complete accuracy.

Figure 10: Variances between Actual and Normal Loads in Dec 2008

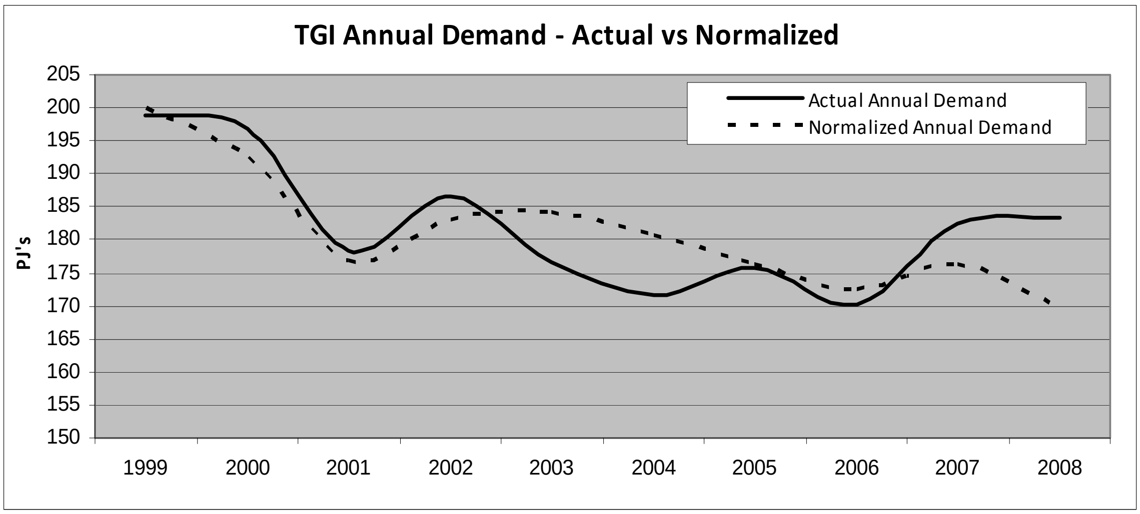


Under a monthly model, load management would have to be addressed on the day prior to the actual gas day in order to mitigate excess gas supply or the need to acquire additional gas supply to meet the forecasted load. When the load again fluctuates on the actual gas day, the intraday balancing would also have to be addressed. One solution would be to have the commodity unbundling Gas Marketers provide the intra day gas as TGI would no longer have the magnitude of assets in its Midstream portfolio to handle such large swings. This type of model and design puts a different risk profile and cost structure on the TGI customer base. Adding further complexities to the process such as the addition of more parties and marketers' intraday supply sources could be detrimental in meeting the tight deadlines of daily load balancing. Also, to avoid supply cut to end use customers, the provision for emergency gas to handle supply disruptions from plant outages and pipeline issues would also have to be provided by the marketers.

Under the monthly model, there is likelihood for potential rate increases to all customers if a significant change is implemented to the current ESM model. The mix of resource contracting would need to be changed substantially. The cost of providing midstream services on behalf of all customers would most likely increase as a result of the additional resources needed to match the change in the monthly profile of gas received from Gas Marketers versus the annual profile that currently exists in the ESM. The current ESM model's resource contracting and processes for managing the daily load is cost effective. Moreover, it ensures a secured commodity supply for all TGI customers within the unique operating conditions of the BC gas supply marketplace. This is evident because the resources held in the ACP pre and post unbundling are essential the same.

Other considerations arise from the management of variable monthly gas supply provided by marketers that attempts to match supply to forecasted customer demand that has significant swings on a daily basis in a given month. Although on an annual basis, the actual load or consumption compared to the normal does not largely deviate on a percentage basis per Figure 11 below, this variance can be very significant on a month to month basis leading to accounting and reconciling complexities to the new proposed ESM model as illustrated in Figure 10 above.

Figure 11: Actual vs. Normal Annual Demand



A monthly balance model would also introduce price variability that the utility would have to adjust and collect for each customer or marketer on a monthly basis. Furthermore, management and balancing marketer supply overages and shortfalls during a current month at the same intra month price would also need to be addressed and resolved if such as a fundamental change is to be adopted by all parties. The current ESM model has a preset price that is set for a longer duration for each marketer's various customer groups which is collected by the utility and disbursed back to the marketer each month. A change to a monthly balanced model would be a fundamental revision of the entire ESM model resulting in increased administration and costs for customers.

A monthly balanced model to provide greater price flexibility significantly increases security of supply risks and total midstream costs that would be borne by customers.

5.6 Conclusion

TGI's resource stack of assets has substantially remained unchanged pre and post unbundling of the residential and commercial marketplace under the ACP. The operating environment of the natural gas business in BC including factors such as the lack of significant marketplace liquidity, limited intraday access to gas supply and producer diversity are the fundamental drivers behind TGI's resource contracting strategy in meeting the needs of its customers and managing its business and system on a daily basis. As a result, TGI has historically provided gas supply to its customers that incorporates flexibility and diversity in its portfolio by balancing purchased gas supply at different locations combined with the effective utilization of various transportation and storage resources.

TGI's resource contracting must weigh the implications of retaining the flexibility to balance its daily supply and demand effectively and be able to handle emergency conditions through the strength and diversity inherent in its resource portfolio that befits its operating environment. As the single provider of commodity supply prior to the Customer Choice Program, it has continued to operate and manage its system by utilizing a combination of term gas supply and storage assets. Choosing to manage its system based on the proposed method of commodity marketers is neither practical nor prudent based on the reasons stated throughout this document. TGI, the utility, must provide its customers with natural gas safely and reliably on a daily basis while prudently managing its own operating infrastructure through the incorporation of a diverse portfolio that adheres to the fundamentals of its ACP.

The current ESM program and model provides a practical method for Gas Marketers to supply gas into the TGI system on a cost effective and administratively efficient basis. This method imparts an appropriate solution that permits independent commodity supply into the system by marketers and effective management of the system by the utility. This model and program was designed and received support from the Gas Marketers and TGI. It is therefore TGI's recommendation to continue with the current ESM model which is operating in a cost effective and efficient manner as intended while providing choice for the customer.

6 2009 Annual General Meeting – Summary of Issues and Recommendations

On April 23, 2009 the Commission staff held the Customer Choice Annual General Meeting pursuant to Commission Order C-6-06 item 13 on the Terasen Gas 2006 CPCN Application for Commodity Unbundling for Residential Customers. The meeting objective was to discuss the concerns and suggestions of interested parties, and review communication activities and potential system enhancements. The following table summarizes each issue and Terasen Gas' subsequent recommendation. Please see Appendix A for a detailed summary of each issue, including the positions of Gas Marketers, the BC Public Interest Advisory Council (BCPIAC), Commission staff, and Terasen Gas.

Issue Description	***TGI Recommendation***
1.1 Cancellation Requests / 'Courtesy Drops' in GEM Gas Marketers are subject to a Cancellation Request fee for cancellation of customer enrolments, for which the 10-day Cancellation period has ended and the Marketer Supply Requirement is already determined. Gas Marketers request the elimination of the dispute resolution fee for Cancellation Requests outside the 10-day cancellation period.	Terasen Gas does not agree with eliminating the courtesy drop fee. The fee is an important element that protects the integrity of the ESM. A review of the appropriateness of the drop fee amount is recommended at next Annual General Meeting. No immediate action is required.
1.2 Operational Correction Drops The Operational Correction Drop ("OCD") code is available to Gas Marketers to terminate enrolments in unusual circumstances where the contract cancellation deadline has passed but before the contract volume is included in the final MSR calculation. Gas Marketers requested an update with respect to when the OCD would be implemented. BCPIAC urges the Commission to monitor use of the Operational Drop Code versus the Cancellations so that the code is not used to mask code violations.	The OCD was implemented in August 2009. Terasen Gas concurs with BCPIAC; it is recommended that the use of this code by marketers is closely monitored by Commission staff. Terasen Gas also requests Commission staff to clarify appropriate reasons for a Gas Marketer to employ the OCD code.
1.3 Alternate Framework to Process Cancellations Gas Marketers expressed concern with their limited ability to resolve a complaint or to drop customers after the 10-day Cancellation period. They suggest there should be another option that allows for cancellations outside of the Cancellation period without entering an uncontested dispute, previously referred to as a "Courtesy Drop," now considered a "Cancellation Request."	Terasen Gas does not agree with the view or recommendations presented by the Gas Marketers. The OCD code was implemented in August 2009, providing Gas Marketers more flexibility to process cancellations following the 10-day Cancellation Period. Terasen Gas recommends no changes to the cancellation process at this time.

Issue Description	***TGI Recommendation***
1.4 Dispute Resolution Fees A fixed per dispute fee is charged to Gas Marketers to share the costs of maintaining the Independent Dispute Resolution Mechanism. Marketers are responsible for the fee if the Commission finds them accountable for the dispute. Gas Marketers suggest that the dispute resolution fee should be bilateral.	Terasen Gas does not agree with the view or recommendations presented by the Gas Marketers. Customers should not be charged a fee to lodge a dispute. Terasen Gas recommends no changes with respect to Dispute Resolution Fees.
1.5 Program Statistics Gas Marketer Disputed and Cancelled contract information is published as the Customer Choice Customer Count report on the BCUC website. Gas Marketers voiced concern with respect to the current format of dispute reporting on the BCUC website. Gas Marketers suggested that the current Customer Count report is misleading and should be changed to present dispute activity more clearly. A working group made up of Commission staff, a Terasen Gas representative, and a Gas Marketer representative was formed to identify and finalize a revised methodology and presentation format for the public-facing program statistics.	A mock-up of the proposed report is presented in Appendix B. Terasen Gas recommends the new report is approved and implemented.
1.6 10-day Cancellation Period Residential customers receive a Confirmation Letter from Terasen Gas that provides a summary of the agreement entered into with the Gas Marketer. The letter establishes a 10-day "Cancellation Period," providing a deadline date by which time consumers must call the Gas Marketer if they want to cancel the agreement. The 10-day cancellation period starts when GEM accepts the enrolment. The Commission proposes that the 10-day cancellation period should begin on the date that the customer executes the contract. Gas Marketers suggest that the current process works well and recommend no changes.	Terasen Gas recommends no changes to the start of the 10-day cancellation period, the current process and the confirmation letter.
1.7 Third Party Verification Call Third party verification ("TPV") is a digitally recorded telephone call between the Gas Marketer and the residential consumer to confirm with the consumer an understanding of the Offer, consumer's Agreement, Confirmation Letter and Cancellation Rights. The Commission proposes changes to the current TPV call process as follows: (1) Use of a standardized script provided by the Commission to all Gas Marketers. (2) Calls must take place not less than 24 hours, and no more than 72 hours after the customer executes the contract. Gas Marketers support the current TPV process.	Terasen supports the Commission Staff's position, and the recommended changes to the TPV call. Terasen Gas recommends that TPV calls must take place not less than 24 hours, and no more than 72 hours after the customer executes the contract. No Terasen Gas related system changes are required to implement this change.

Issue Description	*TGI Recommendation*
1.8 Voice Contracting/Signature The Commission approved voice contracting for contract renewals in Order Number G-181-08, December 12, 2008. Gas Marketers maintain that the commodity unbundling market is sufficiently mature to allow for the introduction of voice contracting for sales contracts.	Terasen Gas supports the Commission's position that the use of a voice signature to authorize Consumer Agreements was insufficient to verify a sales contract. A signed contract should continue to be required. Sales contracts should continue to require a physical signature. No further action by Terasen Gas is needed.
1.9 Communication Plan/Customer Education Plan Terasen Gas has designed and placed all Customer Choice related customer education materials since the program launched in 2007. In 2009, communication materials were developed using a formal review process, including meetings with Commission staff. See Appendix C for samples of 2009 Customer education material.	Terasen Gas submitted the requested Customer Education Plan in January 2009. Commission staff subsequently approved the plan in BCUC Order G-9-09, in February 2009. Terasen Gas will work with Gas Marketers and Commission staff to modify 2009 advertising materials for use in 2010.
1.10 Additional Line on the Terasen Gas Bill Terasen Gas is responsible for billing all customers for the consumption of natural gas per Gigajoule according to their contracted fixed price. Gas Marketers request an additional line on the TGI bill to allow Gas Marketers to invoice for other product offerings including non-energy items.	Terasen Gas strongly opposes the Gas Marketer proposal. Under Section 27.1© of Terasen Gas' General Terms and Conditions, Terasen Gas cannot charge a customer for amounts payable by the customer to the Gas Marketer for services other than the Gas commodity cost. Terasen Gas will continue to accommodate products that can be expressed as single fixed price per GJ as indicated by the Gas Marketer. No further action is recommended.
1.11 Open Access to Customers Gas Marketers request greater access to the Terasen Gas bill to assist in their delivery of sales messages to Terasen Gas customers. Additional access might include bill inserts, and bill or envelope messaging. The Commission staff reminded the forum that there has been a concerted effort to separate Terasen Gas and Gas Marketers in the consumers' minds.	Considerable steps have been taken by the Commission and Terasen Gas to distance marketers from the utility.
1.12 Duplicate GEM Disputes GEM allows disputes for the same customer and issue to be raised by both the Gas Marketer and Accenture. This has led to duplicate dispute fees levied against the marketer, and an overstatement of dispute activity on public facing performance reports. Gas Marketers made several suggestions pertaining to GEM and the occurrence of duplicate disputes.	Changes to limit the occurrence of duplicate disputes were made to the Log Disputes section of GEM application in May 2009 and have resolved this issue. No further action required.

Issue Description	*TGI Recommendation*
1.13 Rate 36 Backstopping Supply Terasen Gas received a letter from the Natural Gas Marketers of British Columbia in April 2009 regarding their concern on the "trigger events" leading to the determination of backstopping gas charges that are currently set out in Rate Schedule 36.	Terasen Gas responded in a letter to the NGMBC and it was agreed at that time that interested parties should respond to this Application should there be further concerns or issues related to this topic.
1.14 Marketer Supply Requirement Calculation/ Annual Contracting Plan On December 12, 2008 the Commission issued Order No. G-181-08 and Reasons for Decision, related to the Terasen Gas Application for Customer Choice Program Enhancements and Additional Customer Education Funding. As elaborated in the Reasons for Decision, Section 11, the Commission directed Terasen Gas to provide a written description of the MSR calculation method prior to the annual meeting date. Terasen Gas submitted a written description of the MSR calculation to the Commission on March 26, 2009. Gas Marketers voiced concern with Terasen's forecasted drop in residential and commercial natural gas consumption. Questions surrounding this topic primarily related to Terasen Gas' forecasting methodology.	Terasen Gas submitted a summary review of the MSR calculation to the BCUC on March 26 2009. Terasen Gas projects future consumption rates based on the analysis of historical use rates and a variety of external factors. No further action required.
1.15 Price Change Mechanism Outside of Anniversary Date A key business rule of the Essential Services Model is that a customer must remain enrolled in the program for at least 12 months and in 12-month increments to a maximum of five years at any one time, for the same fixed price. Gas Marketers contend that the ability to change prices more readily would provide more flexibility to meet customer demand and result in a better product for consumers.	Terasen Gas does not agree with the Gas Marketer position. Terasen Gas believes that the Essential Services Model remains the best alternative to support the unbundled commodity product in BC. Accommodating price changes outside of the 12-month Anniversary date is inconsistent with the ESM.
1.16 Terasen Gas Hedging Policy The Terasen Gas hedging program is designed to moderate the volatility of market prices and the resultant effect on rates, improve the likelihood that natural gas remains competitive with electricity, and reduce the risk of regional price disconnects. Gas Marketers requested more information about Terasen Gas' hedging strategy. The Commission view is that Terasen Gas presents a confidential Price Risk Management Plan to the Commission.	Terasen Gas agrees with the Commission's position, no changes regarding the release of detailed hedging program information is appropriate. Terasen Gas does not support disclosure of its hedging program and Price Risk Management Plan. No further action required on this issue.

Issue Description	*TGI Recommendation*
1.17 License Renewal Application Commission staff reminded Gas Marketers are reminded that the deadline for submission of the License Renewal Application is 60 days prior to the expiration date of their current license.	Informational, no response required.
1.18 Price and Gas Marketer Information Available to Customer Gas Marketers' natural gas prices and company contact information is currently published on the Terasen Gas website. Access to this information could be enhanced with the introduction of expanded communications, including newspaper advertisements. The commission staff is concerned about customers who do not have access to the TGI website. Gas Marketers support newspaper publishing of prices as well as continued availability of the information on the website. However they do not support sales representatives handing out price depository information at the door during a sales call.	Terasen Gas recommends the design of new rate comparison ads for placement in community newspapers through the remainder of 2009 through 2011.

6.1 Summary

The 2009 Annual General Meeting was held to discuss a variety of concerns and suggestions that were raised by Terasen Gas, the BCUC, BCPIAC, or one of the many Gas Marketers participating in the Customer Choice program. This section of the Application provides a brief summary of a more in-depth review presented in Appendix A. Notable recommendations pertain to:

- Issue 1.5, Program Statistics – in which TGI request $6,000 to fund the implementation of a new Marketer Performance Report.
- Issue 1.18, Price and Gas Marketer Information Available to Customer – suggests the placement of monthly community newspaper advertising that lists the current featured rates of each licensed Gas Marketer. This would entail a $13,000 net increase in the previously approved, $750,000 2009 customer education budget. In 2010, the advertising activity would be funded out of the approved $500,000 customer education budget.

Despite Gas Marketer concerns that the ESM is inflexible and insufficient to permit real price competition, TGI believes that the model performed admirably when Commercial Unbundling was rolled out in 2004, and later when residential customers were offered choice in 2007. The model has proven robust enough to address the unforeseen departure of two Gas Marketers in 2008. Although enrolments are lower in 2009, TGI maintains this is likely associated with current commodity rates and the general state of the economy.

Gas Marketers remain concerned that they have limited ability to address customer dissatisfaction with rate disparity that may exist between their fixed-rate contract and the Terasen Gas default rate. However TGI suggests that opportunities exist within the existing model for Gas Marketers to overcome customer concerns and build goodwill.
TGI maintains that the rules and processes currently in place, including those that pertain to disputes and cancellations, access to customers, backstopping triggers and charges, hedging policy and the ESM model itself are essential aspects of the unbundled product in BC. To improve customer satisfaction with the program and reduce disputes and complaints, efforts should be made to encourage Gas Marketer adherence to the Code of Conduct. For example, consideration should be given to more rigorous application of customer protection activities, including the use of increased dispute fees and penalties for serious or consistent infractions.

TGI maintains that the Essential Services Model is ideally suited to support the unbundled commodity product in BC. Based on experience to date, TGI recommends no major changes to the model or program.

7 Next Steps

Terasen Gas has outlined several minor recommendations in this Application that are designed to help further stabilize the Customer Choice program. However the Application's primary objective has been to clarify the role of the Essential Services Model. The model has worked well since the Commercial Unbundling program was launched in 2004. Gas Marketers further acknowledged their acceptance of the model when the residential product launched shortly after in 2007.

The ESM represents the foundation of the unbundled product in BC. As such, it is counterproductive to suggest it should be subject to annual validation. It has demonstrated itself as capable and flexible. Replacing it would necessitate starting from scratch. That would entail developing a different model that recognizes the realities of the BC natural gas transportation infrastructure; yet accommodate the changing demands of Gas Marketers. This, of course, would require a sizeable capital commitment from TGI customers to fund the evaluation, design and porting of customers to a new model.

It is Terasen Gas' proposal that a written regulatory process is appropriate given the minor requests contained within this Application, with a tabletime to reach a conclusion that will be established by the BCUC.

Appendix A

ANNUAL GENERAL MEETING

Customer Choice

2009 Annual General Meeting

Issues and Recommendations

Table of Contents

Introduction

Commission Order No. G-181-08 decision on the Application for additional Customer Education Funding, dated December 12, 2008 required that TGI hold an Annual Technical Review Workshop and provide participants with a written description of the calculation of Marketer Supply Requirements methods one month in advance of the meeting. TGI submitted the Marketer Supply Requirement ("MSR") Calculation to the BCUC on March 26, 2009. It is included in Appendix D for reference purposes.

The Commission set April 23, 2009 for a General Meeting with Natural Gas Marketers. The purpose of this meeting was to complete the Annual Review of the Program, and to discuss potential modifications to the Customer Choice program including the Gas Marketer Code of Conduct as provided for in Article 33. The BCUC requested Gas Marketers forward their suggested agenda items to Commission Staff by early April, 2009. A detailed Agenda was distributed by April 15, 2009 by the BCUC staff. Based on the meeting, TGI was to summarize the meeting and to prepare an application on items for Commission consideration.

The following Gas Marketers and interested stakeholders attended the April 23, 2009 meeting, including the following:

1. Energy Savings B.C (ESBC)
2. Active Renewable Marketing Ltd
3. Access Gas Services Inc
4. Superior Energy Management Gas L.P
5. Universal Energy Corporation
6. British Columbia Public Interest Advocacy Centre (BCPIAC)
7. Terasen Gas Inc.
8. BCUC Staff

1 2009 Annual General Meeting Items

Sections 1.1 through 1.18 outline the positions of Gas Marketers, Commission staff and BCPIAC on each issue, as well as the position of TGI and its ensuing recommendation.

1.1 Cancellation Requests / 'Courtesy Drops' in Gateway for Energy Marketers ("GEM")

Gas Marketers are subject to a Cancellation Request fee for cancellation of customer enrolments, for which the 10-day Cancellation period has ended and the Marketer Supply Requirement ("MSR") is already determined.

Commission Staff Views
Commission staff does not oppose the elimination of Cancellation Request[1] fees ($50.00 per occurrence) as they pertain to dispute resolution. Commission staff encourages opportunities for Gas Marketers and customers to resolve issues on their own. Ideally, Gas Marketers are self-regulating and accountable for their service and actions. Gas Marketers may be subject to random audits and information requests with respect to the frequency of their cancellation requests.

Gas Marketers' Position
Access Gas requests the elimination of the dispute resolution fee for Cancellation Requests outside the 10-day cancellation period. They suggest that this may encourage marketers to resolve customer complaints and dissatisfaction directly with the customer before involving the Commission. Moreover, this would reduce the Commission's involvement in the oversight of associated, day-to-day transactions.

British Columbia Public Interest Advocacy Centre (BCPIAC) Position
BCPIAC oppose the elimination of Cancellation Request fees if the cost of returning customers from the Gas Marketer to Terasen Gas default offering is passed on to non-Customer Choice customers. To make sure marketers adhere to the Code of Conduct, BCPIAC indicated that they would like to see the fee increased for late cancellations and other disputes. The focus should be on ensuring Gas Marketers have good selling practices and emphasize that any costs incurred has an impact on all customers.

Terasen Gas Response
Terasen Gas does not agree with eliminating the courtesy drop fee.

Drops before the anniversary date contravene elements of the Essential Services Model ("ESM"). Permitting Gas Marketers to drop customer contracts without penalty creates an opportunity for abusive behaviour by Gas Marketers. The additional dropped contracts would have a negative financial impact on the Midstream Gas Cost Reconcile Account ("MCRA" or "midstream costs") that all customers share in.

Terasen Gas contends the existing financial penalty encourages good selling practices and helps to protect the Terasen Gas MCRA from absorbing costs as customers return

[1] "Cancellation Requests" outside of the 10-day Cancellation period are essentially uncontested disputes. Cancellation Request fees are essentially Dispute Resolution fees.

to the regulated variable rate. The financial impact is designed to reinforce diligent and straightforward sales practices geared towards eliminating product confusion and buyer's remorse. The 10-day rule coincides with BC regulations pertaining to door to door sales contracts under the Business Practices and Consumer Protection Act. The legislation provides consumers with a 10-day cooling off period during which individuals are able to change their mind and cancel the contract. With diligent application of approved sales techniques as identified in the Gas Marketer Code of Conduct and the introduction of the Operational Drop Code in August, 2009, TGI suggests no changes are necessary. Continued application of the $50 penalty and the 10-day rule underscore each Gas Marketer's responsibility to sell the product properly.

Terasen Gas recommends another year of activity take place before contemplating an adjustment to the associated fee. This will provide more clarity with respect to the effect of Gas Marketer sales approaches, the Operational Drop Code, and changes to communication materials have had on customer cancellation rates.

TGI Recommendation
No immediate action required. Review appropriateness of drop fee amount at next Annual General Meeting.

1.2 Operational Correction Drops

The Operational Correction Drop ("OCD") code is available to Gas Marketers to terminate enrolments in unusual circumstances where the contract cancellation deadline has passed but before the contract volume is included in the final MSR calculation. This new reason code provides a restricted ability to drop customers outside of the dispute process. It allows Gas Marketers the opportunity to drop customers when the cancellation period has passed, but before the final MSR is calculated. Marketers can therefore avoid the fee associated with a non-contested cancellation request (Cancellation Request Fee).

Gas Marketers' Position
Marketers requested an update with respect to when the OCD would be implemented.

BCPIAC Position
BCPIAC urges the Commission to monitor use of the Operational Drop Code versus the Cancellations so that the code is not used to mask code violations. The Commission should continue to track marketers' use of the code through the BCUC reporting and should do regular audits of the use of Courtesy Drops.

Commission Staff Views
Commission staff will monitor the use of the Operational Drop Code versus the Cancellations and conduct Gas Marketer audits as deemed appropriate.

Terasen Gas Response

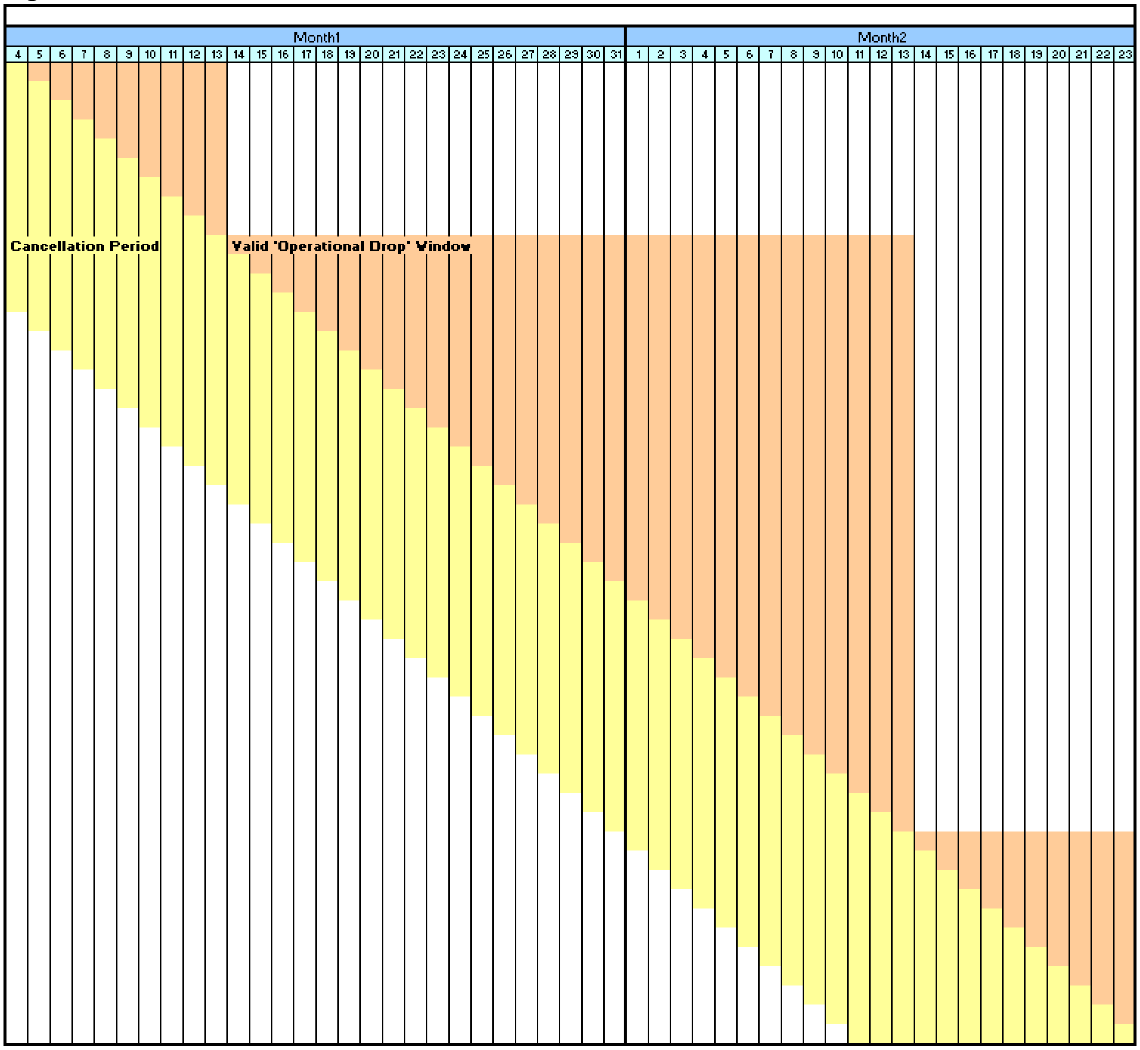
Terasen recognizes the challenge that Gas Marketers face in processing requests and drops on a timely basis. In this regard, Terasen recommended the implementation of an Operation Correction Drop reason code. This would terminate enrolments where customers face unusual circumstances. The Operational Correction Drop Code was implemented on August 24, 2009 and is currently only available to drop residential customers. The Operational Correction Drop Code is currently derived from the Marketer Cancellation Period Drop code and requires adjustment to incorporate commercial customers who do not have a 10 day cancellation period. Further fine tuning of the code is underway to expand the ability to drop commercial customers as well. This change is expected to be complete by late October, 2009. Operational Drop Code (2410 or "ODC") is used to terminate enrolments where the cancellation deadline is passed, but before the final MSR is calculated.

For clarity, the code is used by Gas Marketers to terminate enrolments where customers face unusual circumstances. The code can be used to terminate an enrolment whose contract cancellation deadline has passed and before it is included in any final MSR[2]. Any valid new enrolment is scheduled to be included in the next final MSR once its 10-day contract cancellation deadline passes. Typically the final marketer supply requirement is processed using the enrolments valid on the 13th of each calendar month. As shown in Figure 1 below, the valid OCD window varies based on enrolment date. For enrolments occurring just after a finalized MSR, marketers have up to 30 days to use the new OCD code. Alternatively, enrolments encroaching on the 14th of each month are left with a shorter available window of use. If a Gas Marketer wishes to cancel the contract for any enrolment that is included in a final marketer supply requirement, a dispute needs to be logged by that Gas Marketer and a request explaining the circumstance made to the Commission.

The valid window of use for both the Cancellation Period and the Operational Drop Code is shown below in Figure 1:

2 Marketer supply requirements are finalized on the 13th day of the month preceding gas flow. See Figure 3 for an example.

Figure 1: Cancellation and OCD Windows



The Reason Code Validation table has been updated in the Marketer Flat file Interface Specifications as well as the GEM User Guide for Gas Marketers to include the Operational Correction Drop code as shown in Figure 2 below.

Figure 2: Reason Code Validation Table

Reason Code Validation			Code Users			
			Marketers	Terasen Gas	BCUC	System
Interface File(s)	**Code**	**Long Description**				
INT_GEM_NSS_ER_a & INT_ED_NSS_ER_c1 & INT_NSS_ED_ER_b						
	1110	Standard Enrollment	x			
	1130	Standard Enrollment with Evergreen	x			
	1210	Batch Enrollment	x			
	1230	Batch Enrollment with Evergreen	x			
	1310	Portability Enrollment				x
	1320	Evergreen Enrollment (new 1 year enrollment as result of evergreen extension)				x
	1510	Billing Consolidation Enrollment (customer enrollment transferred to new debtor number)				x
	1800	Dispute Resolution Enrollment			x	x
	1900	Conversion Enrollment			x	x
	1970	Terasen Manual Enrollment Data Correction		x		
	2110	Marketer Cancellation Period Drop	x			
	2310	Account Finalization Drop				x
	2130	Marketer 12 Month Anniversary Drop	x			
	2320	Enrollment (End of contract) Expire Drop				x
	2340	Terasen Reject of Rate 23 Enrollment (Terasen rejected request to move customer from rate 23)				x
	2350	Multiple Premise in Multiple Rate Classes (Single premise assigned services with multi rate class)				x
	2360	Invalid Region Rate class Drop (Customer rate class moved from 1,2, or 3)				x
	2410	Operational Correction Drop	x			
	2810	Dispute Resolution Drop			x	
	2820	Marketer Failure Drop				x
	2970	Terasen Manual Drop Data Correction		x		
	3320	Marketer Non-Renewal (Evergreen) Cancellation	x			
	9999	Phantom Enrollments (customers scheduled to be Evergreened but not yet confirmed)				x

The operational correction code allows marketers to drop an enrolment when the contract cancellation date has passed but before it is included in any final marketer supply requirement on the 13th of each month. This reason code should only be used under extenuating circumstances (e.g., illness, out-of-town for the whole cancellation period) or to correct data processing errors. Enrolments should not be terminated after the 10 day contract cancellation period simply for missing the deadline, to mask violations of the code of conduct or as a means of avoiding legitimate dispute resolution fees. The Commission will monitor the activity levels of the 2410 reason code to identify misuse.

If the enrolment has been included in the supply requirement, then a dispute will need to be logged by selecting “Cancellation” as the dispute type.

TGI Recommendation

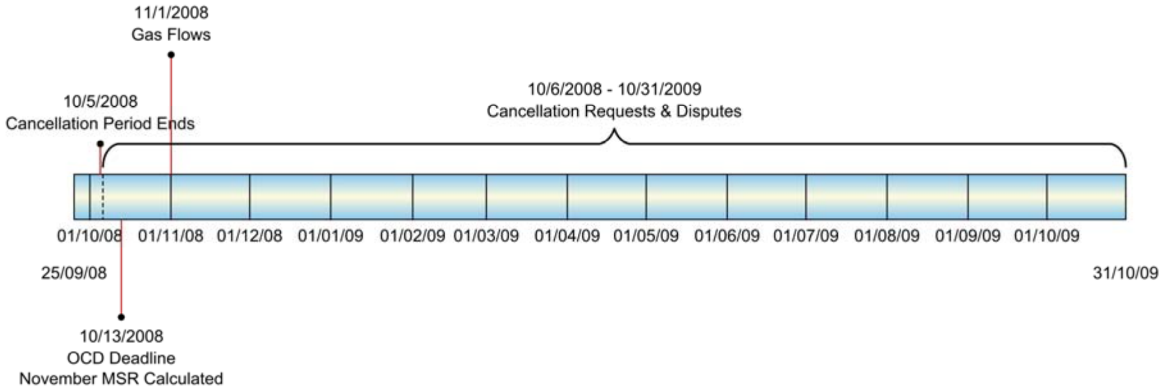
Terasen Gas concurs with BCPIAC; it is recommended that the use of this code by marketers is closely monitored by Commission staff. Terasen Gas also requests Commission staff to clarify appropriate reasons for a Gas Marketer to employ the OCD code.

1.3 Alternate Framework to Process Cancellations

A key business rule of the Essential Services Model is that a customer must remain enrolled in the program at the same fixed price for at least 12-months. No enrolment should be terminated after the 10-day cancellation period and/or the Operation Correction Drop period. Requests after the enrolment is included in the monthly MSR calculation are submitted through GEM (“Gateway Energy Marketers’) as a cancellation request or a dispute. This process will continue except in extenuating circumstances, for example, when a customer is enrolled in the incorrect Marketer Group. Then Gas Marketers may use the Operational Correction Drop code as outlined in Section 1.2.
The duration of the OCD window varies based on whether the customer is in a commercial or residential rate. The key date is the 14^{th} of each month, when the customer’s volume is included in the monthly MSR. After the MSR is finalized, Gas Marketers must still raise a dispute, or request a non-contested cancellation.

Figure 3 shows an example of how the OCD extends the period that Gas Marketers can cancel a contract before the MSR is finalized. In this example, a Gas Marketer sends TGI a valid enrolment request on September 25, 2008. The Cancellation Period ends 10 days later on October 5. For extenuating circumstances, the new OCD extends the drop period provides an additional eight days until October 13 to drop the customer. On October 14, the MSR is finalized and the OCD may no longer be used because the customer’s volume is set. For a commercial account, the OCD may be used from the date Terasen Gas receives the enrolment request on September 25, through the OCD Deadline of October 13. Alternatively, Gas Marketers should continue to use GEM to process residential disputes and/or non-contested cancellations as appropriate. As in the past, either may be entered into GEM after the 10-day Cancellation Period ends. Disputes related to commercial accounts must be submitted in writing to the BCUC.

Figure 3: Event Timeline – Customer Enrols on 25/09/08



Gas Marketers' Position

Gas Marketers expressed concern with their limited ability to resolve a complaint or to drop customers after the 10-day Cancellation period. They suggest there should be another option that allows for cancellations outside of the Cancellation period without entering an uncontested dispute, previously referred to as a "Courtesy Drop," now considered a "Cancellation Request." This change would allow for negotiated cancellations outside of the anniversary dates, eliminate the need to raise a dispute and would address the issue of "real competition" in the marketplace.

Ideally, this alternate framework to process customer cancellation requests would exist outside the GEM system and be primarily managed between the Gas Marketer and the customer. This would provide more flexibility for the Gas Marketer to accommodate a customer's request to cancel a contract.

BCPIAC Position

No position stated on this issue.

Commission Staff Views

The recently introduced Operational Correction Drop code is used at the discretion of the Gas Marketers, and if used appropriately and according to the guidelines identified in Order G-181-08, will allow the Gas Marketers more flexibility in processing certain cancellations after the 10-day period expires.

Other cancellation requests that cannot be processed by the Operation Correction Drop should be submitted through the GEM system as a Cancellation Request or Dispute.

Terasen Gas Position

Terasen Gas does not agree with the view or recommendations presented by the Gas Marketers that there should be further allowance for cancellations after the 10-day Cancellation period ends. The Operational Correction Drop code was implemented in August 2009, providing Gas Marketers more flexibility to process cancellations following the 10-day Cancellation Period.

As stated previously stated, drops outside the anniversary dates and/or Cancellation period and Operational Drop code period contravene the principles of the Essential Services Model. These drops would have a negative impact on Terasen Gas midstream costs, a financial burden that all customers would eventually assume.

This position is consistent with our views as outlined in Customer Choice Post Implementation Report and Application for Program Enhancements and Additional Customer Education Funding, July 2008:

> The Customer Choice program was designed so that non-standard drop requests are processed as disputes in order to provide an incentive to help ensure that Gas Marketers develop and maintain effective sales processes as well as efficient enrolment handling processes. Terasen Gas believes that once the program stabilizes very few non-standard drops should be required and that by processing them as a dispute, they would continue to be visible and thereby provide an appropriate incentive to Gas Marketers to improve their interaction with customers and the enrolment handling processes.

Enabling a processing alternative that operates largely outside of the GEM system is impossible to accommodate. Any contract changes must be reflected in the GEM system to ensure gas supply and financial transactions are appropriately completed. Moreover, the change reduces oversight into the customer/marketer relationship and may deter Gas Marketers from addressing substandard sales practices.

TGI Recommendation
Terasen Gas recommends no changes to the cancellation process at this time.

1.4 Dispute Resolution Fees

A fixed per dispute fee is charged to Gas Marketers to share the costs of maintaining the Independent Dispute Resolution Mechanism. This Mechanism is administered by BCUC staff and supported by TGI systems, primarily GEM. Marketers are responsible for the fee if the Commission finds them accountable for the dispute.

Gas Marketers' Position
Gas Marketers suggest that the dispute resolution fee should be bilateral. To date, most disputes are concerned with the disparity between fixed and variable rate contracts. Marketers argue that introducing a refundable $50 fee, payable by customers to initiate a price-based dispute, would help curb frivolous disputes. If the customers know they will be charged a fee that they may well lose through an arbitration process, it will prevent many unnecessary disputes arising because of price differences.

In addition, Gas Marketers propose that the Commission impose a limit in the number of complaints around the same issue from customers.

BCPIAC Position
BCPIAC is not in favour of this proposal by the Gas Marketers.

Commission Staff Views
Charging customers the dispute resolution fee is problematic for the Commission given its consumer protection responsibilities under the Unbundling Program. The Commission agrees there is some merit in an arbitration fee in extreme circumstances in which the customer appears to be abusing the dispute resolution process through repeated dispute filings. However, the Commission staff point out that this issue would

be resolved if there was more focus by Gas Marketers on the stated main objectives, including the following: equipping customers to make an informed choice, and establishing a marketplace with real price competition.

Terasen Position
Terasen Gas does not agree with the view or recommendations presented by the Gas Marketers. Customers should not be charged a fee to lodge a dispute.

Terasen Gas remains unconvinced that levying customers with a dispute fee would reduce fixed-rate product abandonment rates. Making the dispute process more onerous would likely elicit consumers to search for other, less visible ways to break their marketer contract. Ultimately, whether it's through a dispute process or otherwise, any broken contract that contravenes the ESM has a negative impact on Terasen Gas midstream costs.

Terasen Gas agrees with the Commission that the best way to limit disputes and buyer's remorse is to ensure that customers fully understand and knowingly consent with their original purchase decision. However, it is unreasonable to expect disputes and complaints to be eliminated. Disagreements are inevitable, but marketers should be encouraged to improve their policies and business practices. Gas Marketer performance should be monitored and evaluated. Section 1.5 outlines a new Marketer Performance report designed to assist in this ongoing evaluation.

TGI Recommendation
Terasen Gas recommends no changes with respect to Dispute Resolution Fees.

1.5 Program Statistics

Gas Marketer disputed and cancelled contract information is published as the "Customer Choice Customer Count Report" on the BCUC website[3].

Gas Marketers' Position
Gas Marketers voiced concern with respect to the current format of dispute reporting on the BCUC website. Marketers suggested that the current Customer Count report is misleading and should be changed to present dispute activity more clearly. They agreed to the formation of a working group to establish a revised program statistics report (i.e., previously the Customer Count Report), and agreed to nominate a single marketer representative to act on their behalf.

BCPIAC Position
No position stated on this issue.

Commission Staff Views
The Commission staff agreed that a review of the program statistics was appropriate and proposed that a working group made up of Commission staff, a Terasen Gas representative, and a Gas Marketer representative would identify and finalize a revised methodology and presentation format for the public-facing program statistics.

[3] Customer Count Reports are available at http://www.bcuc.com/NaturalGasMarketers-Archives.aspx

Terasen Gas Position

Terasen Gas agreed with Commission staff that the Customer Count report should be changed to reflect dispute information more clearly to customers. The current report's use of disputes per 100 contracts is not intuitive. Terasen Gas recommended the use of percentages to simplify presentation.

Working Group Recommendation

The website statistics as presented on www.bcuc.com are intended to provide meaningful and easily understandable information to the customer and to promote marketplace transparency. To help design these statistics a working group was formed which included Bob Brownell (BCUC), Vivian Lee (BCUC), Barb Baker (Energy Savings/Just Energy), and Scott Webb (Terasen Gas).

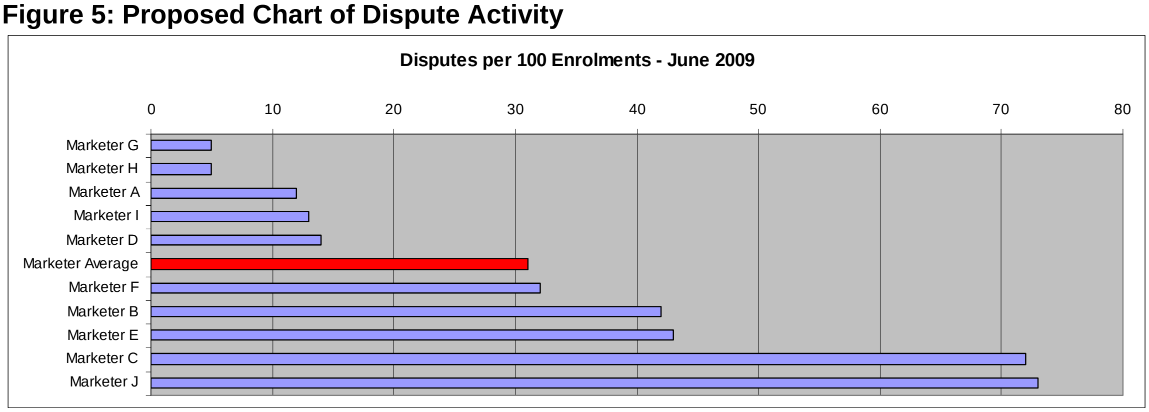
Agreement was reached that_the new public facing report should present activity over the preceding 12-months, with a future goal of 36 months; in alignment with the practice of the Better Business Bureau. This format will show a trend/pattern which will be informative and useful to the customer. It should also encourage 'self-policing' / accountability on the part of the Gas Marketers. The information should be updated on a monthly basis to include the most recent 12-months, or as noted, in the future, the most recent 36 months.

Figure 4: Proposed Table of Dispute Activity

Marketer Name	Disputes per 100 enrolments											
	Jun-09	May-09	Apr-09	Mar-09	Feb-09	Jan-09	Dec-08	Nov-08	Oct-08	Sep-08	Aug-08	Jul-08
Marketer G	5	26	14	67	29	31	6	80	20	17	2	28
Marketer H	5	27	32	21	0	5	4	3	16	3	7	27
Marketer A	12	36	13	7	6	9	22	26	17	13	33	13
Marketer I	13	36	8	1	44	43	32	8	13	44	61	27
Marketer D	14	15	30	39	20	45	5	21	56	40	15	3
Marketer F	32	20	0	33	28	16	80	16	10	16	18	70
Marketer B	42	13	8	63	30	11	33	44	26	123	24	38
Marketer E	43	17	7	96	7	18	60	16	15	35	43	28
Marketer C	72	13	37	50	39	26	42	4	9	89	8	60
Marketer J	73	44	22	21	20	10	18	22	14	34	18	19
Marketer Average	31	25	17	40	22	21	30	24	20	41	23	31

Supplementing the table is a chart that displays the most recent month's dispute activity by marketer.

Figure 5: Proposed Chart of Dispute Activity



New GEM enhancements introduced in May 2009 allow disputes to be logged by three dispute types:

- o Reconsideration disputes, which are only available to the BCUC, allow Commission staff to amend the decision associated with a previously closed dispute.
- o Cancellation requests (formally called 'courtesy drops' - not contested and no evidence provided by the marketer because they are agreeing to cancel/terminate the contract.
- o Disputes – regular disputes where evidence is provided and the merits of the disputes are adjudicated by the Commission; the decision can be either in favour of or not in favour of the marketer.

With this in mind, the disputes for the website statistics will include <u>all</u> standard disputes submitted through GEM for adjudication by the Commission, regardless of the nature of the dispute or the dispute outcome. In other words, it will not include reconsideration disputes or cancellation requests.

As noted, the website statistics are intended to provide meaningful and easily understandable information to the customer and to promote marketplace transparency. The removal of both the cancellation request from the dispute figure and the removal of 10 day cancellation figures from the website statistics were both driven by these goals. However, this does not negate the importance of these figures for the Commission's own internal review purposes. All transaction activities of the Gas Marketers are important to the Commission and the usage of cancellation requests submitted through GEM (formerly known as 'courtesy drops'), usage of operational correction drop codes, and the usage of 10-day cancellation drop codes will all be monitored. Commission staff will monitor these transaction activities by requesting additional information or conducting random audits. For instance, the Commission may request from a Gas Marketer, the reasons for the all of the cancellation requests logged into GEM in a given time period and/or may request random TPV/inbound/outbound telephone calls for any given cancellation request logged in GEM.

Furthermore, if the Commission is of the view that that the Gas Marketers are abusing the above noted drop requests, using them to mask Code of Conduct violations, or the usage is unreasonably escalating, etc., the Commission may consider amending the program website statistics to post the same information on the Commission website.
This new report, called "Marketer Performance – Disputes per 100 Enrolments," will present the following information:

- Marketer disputes versus enrolments for the rolling year.
- Rate 1 Residential customers only are counted; enrolments and drops are counted in the month in which the activity was recorded in GEM.
- Batched enrolments are treated as one contract in order to avoid any double counting of enrolment activity.
- The report matches dispute with enrolment, and verifies that it is associated with an enrolment that took place within the last 90 days. Verified disputes are included in the monthly total. Disputes associated with enrolments that took place more than 90 days from the Dispute Date are excluded.
- The net enrolments are calculated by adding activity from standard enrolments (1110), standard enrolments with evergreen (1130), batch enrolments (1210, 1230) and then subtracting cancellation drops (2110) and operational correction drops (2410).

- The data table will display the ratio of verified disputes by net enrolments for the preceding 12-months (rolling year) for each marketer. The Excel calculation would be as follows:
  - Round((Total verified disputes / Net enrolments) * 100,0)
- The bar chart will display the data from the table's most recent month, with marketers listed in ascending order of dispute activity.
- The bar chart will show the marketer average for the most recent month as a distinct red bar.

A mock-up of the proposed report is presented in Appendix A. This new report will require 45.5 man-hours to build and the costs associated are estimated to be $5,460. The report will be implemented within two months of Commission approval to proceed with the work. The implementation schedule is contingent on the maintenance requirements to the GEM application and associated interfaces remaining at their current levels.

TGI Recommendation
Terasen Gas recommends the new report is approved and implemented.

1.6 10-day Cancellation Period

Residential customers receive a Confirmation Letter from Terasen Gas that provides a summary of the agreement entered into with the Gas Marketer. The letter establishes a 10-day "Cancellation Period," providing a deadline date by which time consumers must call the Gas Marketer if they want to cancel the agreement. The 10-day cancellation period starts when GEM accepts the enrolment, simultaneously sending the record to the print provider to produce the Confirmation Letter.

Commission Staff Views
The Commission proposes that the 10-day cancellation period should begin on the date that the customer executes the contract. The sales process is the best opportunity to explain to customers when the 10-day period ends.

Marketers' Positions
Gas Marketers suggest that the current process works well and recommend no changes. The existing letter is neutral, concise, outlines the customer's obligations to the marketer and provides the customer confirmation of what they have signed.

If the cancellation period started upon execution of the contract, the customer's 10-day cancellation period may be over even before the customer receives the letter because marketers may batch enrolments at the end of the week.

BCPIAC Position
BCPIAC believes that the 10-day cancellation period is a minimum requirement and there is opportunity to increase the cancellation period if necessary.

Terasen Gas Position
Terasen Gas recommends no changes to the start of the 10-day cancellation period. The 10-day cancellation period should remain effective from the date printed on the confirmation letter. Confirming the date of contract signature in GEM is problematic.

Although an additional field could be added to capture this information, any delay in receiving or processing enrolments in GEM is likely to cause additional customer confusion and grounds for dispute. In many instances, the cancellation letter would be received well into or even after the cancellation period ends. This issue was previously identified by TGI and acknowledged by program stakeholders during the Scoping Phase before the program was launched in 2007. This led to the current use of the Confirmation Letter as the trigger for the start of the Cancellation Period.

The Confirmation Letter is currently generated on the day that a valid enrolment request is received by Terasen Gas and generally mailed the following business day. Although on occasion customers have used non-receipt of the confirmation letter as grounds for contract cancellation, Terasen Gas believes the process is sound. It provides additional time for customers to inform themselves about the contract, and it provides the customer with final confirmation that they are opting to purchase their gas from an organization other than Terasen Gas.

TGI Recommendation

Terasen Gas recommends no changes to the current process and confirmation letter.

1.7 Third Party Verification Call

Third party verification ("TPV") is a digitally recorded telephone call between the Gas Marketer and the residential consumer to confirm with the consumer an understanding of the Offer, consumer's Agreement, Confirmation Letter and Cancellation Rights. TPVs were not originally required when the Customer Choice program was introduced in 2007. Due to an excessive number of disputes, the additional consumer protection activity was subsequently added to the Gas Marketer Code of Conduct by Commission Order G-73-07, dated June 27, 2007.

Commission Staff Views

The Commission proposes the following changes to the current TPV call process outlined in Article 32 of the Code of Conduct (updated December 12, 2008):

- Use of a standardized script provided by the Commission to all Gas Marketers
- Calls must take place not less than 24 hours, and no more than 72 hours after the customer executes the contract

TPV calls should not occur with the sales person at the door, because customers may feel coerced or intimidated. Commission staff suggests there is need to separate the sales representative/customer interaction from the contract signing process. The customer must have the full opportunity to review and process the contract before the TPV. The Commission staff is of the view that there is merit in the TPV call becoming a 'confirmation' call; confirming that the customer understands and accepts the key stipulations of the Gas Marketer contract. This change will reduce the number of complaints where customers indicate they felt coerced or pressured into signing the contract. It is important to communicate the importance of the TPV call to customers.

The Commission posed the question, "If the call is not completed within 72 hours, should the contract be voided or should the 10-day cancellation commence when the TPV call is completed?"

Gas Marketers' Position
Gas Marketers support the current TPV process. They compared the number of complaints with Ontario, which has a different TPV process but no significant difference in the number of complaints.

Marketers reiterate the objectives of the TPV are to clarify the contract terms to the customer, to verify that the product has been sold correctly, and to address any issues arising out of the sales process. The issue of customer intimidation will not arise because the customers are already aware of the terms of the contract. Furthermore, the customer receives supplementary information that details how to opt out of the contract after the sales representative leaves.

There were no general concerns pertaining to the use of a standardized script prepared by the Commission.

Gas Marketers commented that conducting the TPV between one and three days following the execution of the sales contract would inconvenience the customer if they do not have the document readily available. Moreover, the customer will now have to interact with the marketer several times, and it may prove difficult to contact the person who signed the contract.

BCPIAC Position
BCPIAC suggests provision for multiple language TPV call capability.

Terasen Gas Position
Terasen supports the Commission Staff's position, and the recommended changes to the TPV call. Recommended changes include the following:

- Use of a standardized script provided by the Commission to all Gas Marketers
- Calls must take place not less than 24 hours, and no more than 72 hours after the customer executes the contract
- The contract should be voided if the TPV call has not been completed within 72 hours of signing.
- Enrolment requests should be loaded into GEM and the 10-day Cancellation Period should begin upon successful completion of the TPV call.

The TPV call should occur after the sales representative has left the consumer's home. This will provide customers with an opportunity to review their marketer contract in detail, read the Standard Information Booklet, and avoid any undue influence that may lead them to sign a contract they do not understand.

Irrespective of any comparison with Ontario or other jurisdictions, by setting the sales process apart from the sales confirmation (TPV), consumers now get an opportunity for second thought. The proposed revised TPV process will provide an extra measure of consumer protection: Giving customers the opportunity to investigate and consider the offer more thoroughly. Some individuals may reconsider the purchase decision, change their mind and cancel the contract during the TPV. Although this step will likely lower Gas Marketer sales completion rates, this revised process should reduce price related courtesy drops and disputes and improve customer satisfaction with the program.

Terasen Gas recommends the continuation of both the revised TPV as well as the Confirmation Letter as described in Section 1.6 of this report. The two customer protection activities are appropriate given the previous rates of customer complaints and disputes. The effectiveness of the Confirmation Letter can continue to be monitored and evaluated during future program reviews.

Due to the additional costs associated with the introduction of second language support, its introduction into the Third Party Verification process is not recommended at this time. However, it is incumbent upon Gas Marketers to adhere to the Code of Conduct. Article 16 states, "Where a language or comprehension issue is likely to impede the Consumer's ability to fully understand the offer and the transactions, the Salesperson shall not execute the Consumer Agreement(s) and/or the Third Party Verification." This practice should continue to ensure that when possible comprehension issues exist, Gas Marketers refrain from executing a Consumer's Agreement.

TGI Recommendation

Terasen Gas recommends that TPV calls must take place not less than 24 hours, and no more than 72 hours after the customer executes the contract. No Terasen Gas related system changes are required to implement this change.

1.8 Voice Contracting/Signature

Voice contracting is a marketing channel that allows telephone sales on new contracts and renewals using "voice signatures."

The Commission approved Voice contracting for contract renewals in Order Number G-181-08, December 12, 2008[4]. This was subject to Gas Marketers presenting a script to the Commission for acceptance at least 30 days before they wish to start using Voice Contracting. The script should include all matters that are required in the Third Party Verification call ("TPV"). Providing all the requirements of the TPV are met, there is no need for a second TPV. The Customer must receive comprehensive and complete contract renewal information in the form of a renewal package before a telephone solicitation call is made. Before the renewal may proceed, the customer must confirm that the renewal information has been received.

Voice contracting changes in Release 3 were originally approved for implementation by Commission Order Number G-181-08 dated December 12, 2009. However, because voice contracts will only be used for renewals, it has since been determined that no changes to the supporting Customer Choice systems are necessary.

GEM can accept voice files that confirm customer renewals effective immediately.

[4] IN THE MATTER OF the Utilities Commission Act, R.S.B.C. 1996, Chapter 473 and Terasen Gas Inc. Customer Choice Program Enhancements and Additional Customer Education Funding Application, BC Utilities Commission, December 12, 2008, Appendix A, page 20.

Commission Staff Views
The Commission staff stated that the use of a voice signature to authorize Consumer Agreements was insufficient. In order to protect consumers, Gas Marketers must forward the contract and Standard Information Booklet to the customer and obtain a signed contract from the customer that confirms their intention.

Employing telephone marketing for lead generation is permissible. Currently, voice contracting may only be used to renew expiring contracts.

Gas Marketers' Position
Gas Marketers maintain that the commodity unbundling market is sufficiently mature to allow for the introduction of voice contracting. The process of voice contracting promises to reduce many of the ambiguities created by door-to-door sales. It is also a less costly sales method and more efficient means of reaching remote communities on a more frequent basis.

Universal Energy Corporation requested Commission staff to clarify their position on follow up calls. *Specifically, should there be a second call to the consumer that confirms their receipt of the new contract?*

BCPIAC Position
British Columbia Public Interest Advocacy Centre supports the Commission staff's position that the use of a voice signature to authorize Consumer Agreements was insufficient to verify a sales contract. A signed contract should continue to be required.

Terasen Gas Response
Terasen Gas supports the Commission's position that the use of a voice signature to authorize Consumer Agreements was insufficient to verify a sales contract. A signed contract should continue to be required.

TGI Recommendation
Sales contracts should continue to require a physical signature. No further action by TGI is needed.

1.9 Communication Plan/Customer Education Plan

Terasen Gas has designed and placed all Customer Choice related customer education materials since the program launched in 2007. In 2009, communication materials were developed using a formal review process that included meetings with Commission staff.

In BCUC Order G-181-08, dated December 12, 2008, Commission staff limited Customer Education Plan expenditures to the following amounts; 2009 - $750,000, 2010 - $500,000 and 2011 -$300,000. Commission staff also clarified education objectives to include the following:

- Inform gas customers that there is a value distinction between a variable rate and a fixed rate for the gas commodity and provide them with information concerning the issues they could consider to determine which rate plan represents best value in their circumstances.

- Identify the gas commodity marketplace as a competitive market and provide information on where and how the various product offerings may be compared.

In Order G-181-08, Commission staff also requested Terasen Gas prepare and submit a Customer Education Plan for review and approval by January 31, 2009. This plan was completed, submitted as requested and subsequently approved by Commission Order G-9-09, dated February 19, 2009. Primary changes to Terasen Gas produced communications included modifications to the Standard Information Booklet and the look and feel of program advertising. These modifications included the elimination of the Terasen Gas logo, references to the utility, and the creation of a unique look and feel so that the document would no longer be construed as a Terasen publication. Additional bill messaging was requested as were changes to the Price Depository located on terasengas.com.

Due to the significant detail that needed to be communicated to address Commission objectives, the campaign used a combination of print and online media. The objectives have shifted from communicating a simple program availability message, as was the case in 2007 and 2008, to the communication of complex comparative value information. The 2009 Communication Strategy summarizes many distinct messages with the use of Various print media including newspaper advertising, bill inserts, bill messages and the revised Standard Information Booklet. Online media has included Canwest newspaper websites and the Terasen Gas website.

The table below summarizes the previously approved and forecast 2009 Customer Education plan expenditures.

2009

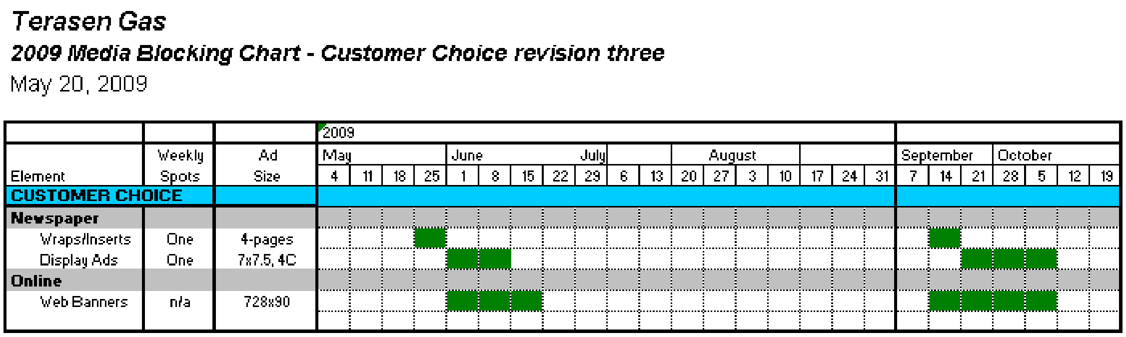
			Original Plan	Forecast
Media	Newspaper package		$607,000	$607,000
Production	Newspaper package		50,000	50,000
	Bill inserts (2 @ $35,000 each)		70,000	70,000
	Terasen Gas labour charges		23,000	20,000
	Sub-total		143,000	140,000
		Media Sub-total	750,000	747,000
Price Depository	Website Changes*		42,000	41,000
	Sub-total		42000	41000
Total			$ 792,000	$ 788,000
Proposed Monthly Rate Comparison Ads**				$ 17,000
Total				$ 805,000

** $1,000 drop reflects elimination of Annual license fee for charting application. No longer required.
* $17,000 subject to Commission Approval

Terasen Gas forecasts a $4,000 favourable budget, which it proposes to allocate to a $17,000 purchase of Monthly Rate Comparison Ads, for a net variance of $13,000. See Appendix A, Section 1.18 for further discussion of this proposed investment.

Advertising is scheduled through early October 2009 in community newspapers throughout the Customer Choice service area. The timing of associated advertising is shown below.

Figure 6: 2009 Media Blocking Chart



Customer education activities in 2010 would mirror the timing shown in Figure 6. There would be one less newspaper wrap (no fall 2010), and Gas Marketer rate advertising would appear monthly in community newspapers if approved by the BCUC. Examples of the 2010 advertising, including a listing of community newspapers used, are reproduced in Appendix B.

Commission Position

The Commission approved Terasen Gas' recommended Education Plan and is satisfied with the resulting communications.

Gas Marketers' Position

Marketers raised no issues associated with the 2009 customer education activities undertaken by Terasen Gas on behalf of the BCUC.

BCPIAC Position

BCPIAC is supportive of the Commission's recommended education plan. Communications should continue for a limited term. Cost is an important consideration and BCPIAC recommends a timeline similar to that of other jurisdictions. They agreed it was a good option to allow marketers the option to have their own ads run at the same time as those placed by Terasen Gas.

Terasen Gas Position

Terasen Gas submitted the requested Customer Education Plan on January 31, 2009. Commission staff subsequently approved the plan in BCUC Order G-9-09, on February 19, 2009. The approved expenditure of $750,000 for 2009 communication activities was allocated as recommended to include community newspaper wraps and inserts, bill inserts and messaging, and web advertising. Communication material was designed with input from both marketers and Commission staff.

The communication review process established by Commission Order G-9-09, in the matter of Customer Choice Program Compliance Filing Pursuant to Order G181-08 and Decision dated December 12, 2008, was found to be unproductive. The process was time consuming and consistently resulted in advertising proofs that failed to align with Commission expectations.

Terasen Gas proposes to use the existing 2009 Communication material, including the newspaper wrap and display ad, the fall bill insert, and web ads as a foundation for 2010. Although the media weights will change to reflect the reduced budget, the material produced should closely mirror 2009 advertising.

Marketers may submit their input regarding the advertising material to Terasen Gas by October 16, 2009. It is reproduced in Appendix B. Terasen Gas will summarize the feedback and submit it to the BCUC on October 30, 2009 for consideration. Terasen Gas representatives will then meet with Commission staff in November to discuss each communication piece to identify opportunities for improvement. Terasen will adjust advertising material as requested by Commission staff and submit proofs to the BCUC for final approval.

The following table summarizes the proposed changes to the 2010 Customer Education plan.

2010

		Original Plan	Proposed
Media	Newspaper package	$393,000	$385,000
	Wraps (1) or Inserts (1) per paper		
	10 x ¼ page, spot colour display ads*		
	Online advertisements		
	Monthly Rate Comparison Ads	0	50,000
	Sub-total	393,000	435,000
Production	Newspaper package	25,000	25,000
	Bill inserts (2 @ $35,000 each)	70,000	35,000
	Terasen Gas labour charges	12,000	5,000
	Sub-total	107,000	65,000
Price Depository	Annual license fee for chart application	1,000	0
	Sub-total	1000	0
Total		$ 501,000	$ 500,000

* 10 ads drop to 9 or 8 in 2010 based on negotiation with media vendors.

TGI Recommendation

Terasen Gas recommends Gas Marketers respond to this Application with comments and suggestions regarding 2009 customer education material. Commission staff will take Gas Marketer input into consideration and work with Terasen Gas to modify 2009 advertising materials for use in 2010.

1.10 Additional Line on the Terasen Gas Bill

Terasen Gas is responsible for billing all customers for the consumption of natural gas per Gigajoule according to their contracted fixed price.

An ESM keystone has been Terasen Gas' ongoing responsibility to provide billing services for all customers whether they chose a fixed rate product from a Gas Marketer or remained on the Terasen Gas regulated variable rate. This business requirement was affirmed by Gas Marketers when the Commercial Unbundling Program was introduced in 2004, and again when Customer Choice was rolled out to residential customers in 2007.

Gas Marketers' Position

ESBC, Summitt, and Superior request an additional line on the TGI bill to allow Gas Marketers to invoice for other product offerings including non-energy items. The current billing process does not allow these offerings to be included on the Cost of Gas per GJ line of the Terasen Gas bill.

ESBC believes that billing enhancements for consumers are necessary to benefit and promote a fully functional market. The current structure allows for only fixed price contracts and does not allow for any additional billing. Real competition is compromised if Gas Marketers cannot bill other types of contracts. There are other offerings that cannot be bundled such as carbon offsets. Additional lines in the bill are allowed in other markets and this allows for different pricing of gas contracts and offers of other product options. In addition, customers do not want to be receiving many bills related to their gas consumption. ESBC would like the expanded functionality available to all marketers to offer several products and rates.

ESBC argues that other markets are structured differently. For example, in the US the arrangement allows separated billing. Perhaps it is time to reconsider the current pricing model. If the Gas Marketers want to provide real competition they cannot do it in BC.

BCPIAC Position
BCPIAC voiced no opinions on this issue.

Commission Staff Views
The Commission staff is of the view that it is inappropriate for Terasen Gas to collect payment from customers on behalf of Gas Marketers for non-gas offerings. The Gas Marketers may consider billing the customer separately for other product offerings. The Terasen Gas bill should not be used to market non-gas-commodity products.

At this time, the Commission staff would like Customer Choice participants to focus on operational efficiency and reducing the number of complaints. The Commission staff may reconsider its position regarding use of the TGI bill by marketers in the future.

Terasen Gas Position
Terasen Gas strongly opposes the Gas Marketer proposal. Under Section 27.1(c) of Terasen Gas' General Terms and Conditions[5], Terasen Gas may currently bill the

[5] Terasen Gas General Terms and Conditions, BCUC Order G-90-03, January 1, 2004, page 27-1.

customer for the single fixed price per Gigajoule as indicated by the Gas Marketer, but cannot charge a customer for amounts payable by the customer to the Gas Marketer for services other than the Gas commodity cost. This condition appropriately fulfills the objective originally defined in the 2002 Government of British Columbia energy policy. In the "Energy Plan for your future: A Plan for BC," Policy Action no. 19 stated, "Natural Gas Marketers will be allowed to sell directly to small volume customers, and will be licensed to provide consumer protection."[6] Providing Gas Marketers increased access to the Terasen Gas bill to invoice for other product offerings including non-energy items is seemingly inconsistent with the original energy policy objective. Moreover it would result in additional and significant incremental costs to the program.

Incorporating an additional line on the Terasen Gas bill would necessitate several costly changes, including the following:

- New database fields to accommodate additional billing by marketer would require changes to our Customer Information System;
- Acceptance testing to verify the coded changes work correctly;
- An increased occurrence of two page bills; and
- Additional Terasen Gas overhead to accommodate and maintain the marketer messaging.

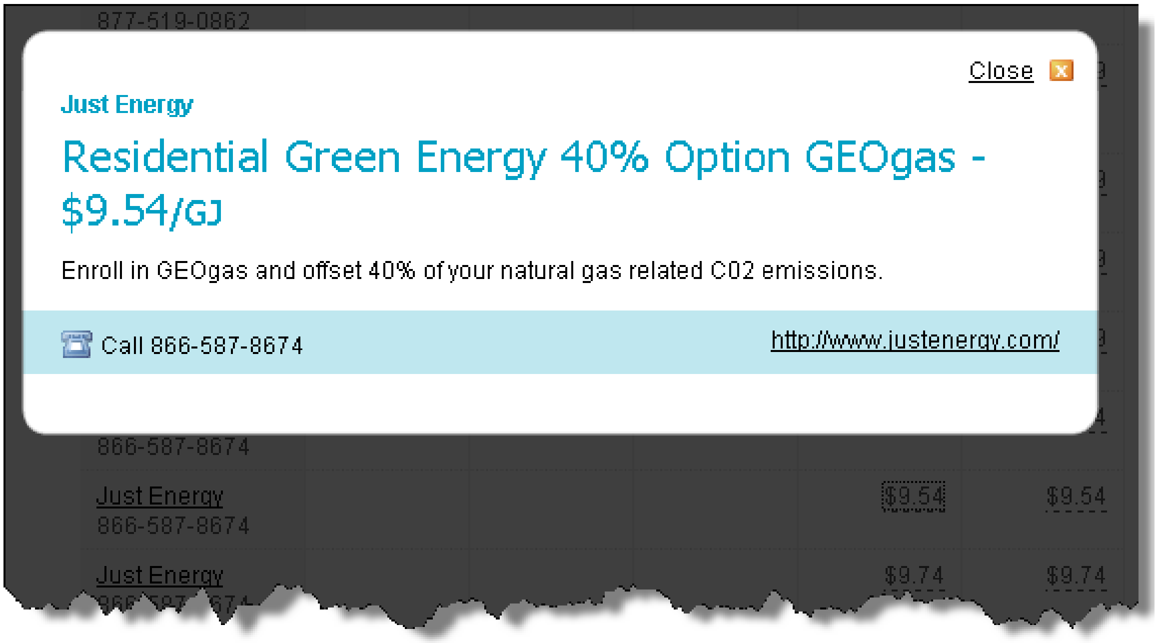
The fixed price offering, a fundamental aspect of the ESM, has proven flexible enough to accommodate alternative commodity prices, including options like carbon offsets. For example, Just Energy is currently offering a variety of carbon offset rates. Terasen Gas worked with Just Energy to find an appropriate solution. The screenshot in Figure 7 shows Just Energy's GEOgas 40% carbon offset rate as it appears on the Price Depository screen located on terasengas.com

Figure 7: terasengas.com – Price Depository – Rollover

By selecting the GEOgas 40% rate, visitors to the Price Depository can view more detailed information about the marketer offer. An example of this is shown in Figure 8, below.

6 "Energy for our future: A plan for BC," BC Energy Plan, Government of BC, page 9.

Figure 8: terasengas.com – Price Depository – Modal Window on Selection



Although other jurisdictions may provide the option to accept additional billing items, Terasen Gas agrees with the commission that collecting payment from customers on behalf of Gas Marketers for non-gas offerings is inappropriate. Moreover, the additional costs to implement the necessary changes would be cost prohibitive, and provide little additional benefit to customers.

Terasen Gas will work with marketers to address their need to differentiate their rates, so long as these variations are consistent with existing Terms and Conditions and ESM rules. Product offerings outside of these parameters like rebate offers, bonus points or other affinity programs like Air Miles, should be addressed by marketers using their own systems and processes. Marketers may consider billing their customers separately if they choose.

In summary, changing the billing infrastructure at Terasen Gas is inconsistent with original program objectives and it would be prohibitively costly to implement. The current billing structure presents no obstacles to real commodity rate competition, and this is exemplified everyday at the terasengas.com Price Depository which lists a variety of marketer commodity rates everyday.

TGI Recommendation

Terasen Gas will continue accommodate products that can be expressed as single fixed price per Gigajoule as indicated by the Gas Marketer. No further action is recommended.

1.11 Open Access to Customers

Gas Marketers request greater access to the Terasen Gas bill to assist in their delivery of sales messages to Terasen Gas customers. Additional access might include bill inserts, and bill or envelope messaging.

Gas Marketers' Position

ESBC and Summitt would like to provide Terasen Gas with branded bill inserts to include in the utility's monthly statement envelope. This would allow Gas Marketers to promote additional products and services to their contracted customers. Lastly, they request use of the billing envelope as print medium to reach potential customers.

BCPIAC Position

BCPIAC expressed no opinion on this issue.

Commission Staff Views

Using the Terasen Gas bill envelope for inserts or messaging may become unduly cumbersome and there are other normal channels of marketing available to Gas Marketers (e.g. flyers, radio, newspaper, etc.).

The Commission staff reminded the forum that there has been a concerted effort to separate Terasen Gas and Gas Marketers in the consumers' minds. If the envelop is used to deliver advertising from Gas Marketers then that line of separation becomes blurred to the customer.

Terasen Gas Position

Considerable steps have been taken by the Commission and Terasen Gas to distance marketers from the utility. These steps have influenced all program communications to reinforce the understanding that marketers are distinct, independent operations. By accepting bill inserts or messages on the outside of the utility billing envelope customers may mistakenly believe that Terasen Gas is promoting or has approved the services of a particular Gas Marketer. This will lead to additional calls to the Terasen Gas Customer Care Centre and increased costs. Ultimately it may injure Terasen Gas' reputation and result in additional layers of dispute activity for the Commission to adjudicate.

Logistically, including Gas Marketer inserts in billing envelopes pose several problems. Most significantly, Terasen Gas uses every effort to keep the weight of bills low in order to save on postage costs. One extra page in a bill can result in dramatically increased postage costs. Current monthly mailings typically include the bill, as well as one of the following:

- a rate adjustment insert that is typically distributed four times per year[7];
- safety communications once to twice per year;
- a utility newsletter twice per year; and
- a variety of energy efficiency and conservation inserts.

Only in exceptional circumstances is more than one insert permitted per month. With 13 Gas Marketers currently offering residential rates, the ability to meet the resulting demand for system wide mail outs is limited. Furthermore, focused mailings directed to the each marketer's existing customers cannot be accommodated either because of the

7 Rate adjustment bill inserts are distributed as deemed appropriate by TGI or at the request of the BCUC.

limitations of the mailing house's sorting equipment. Our current mailing house cannot physically support the distribution of inserts from 13 different organizations.

TGI Recommendation
No further action is recommended on this issue.

1.12 Duplicate GEM Disputes

GEM allows disputes for the same customer and issue to be raised by both the Gas Marketer and Accenture. This has led to duplicate dispute fees levied against the marketer, and an overstatement of dispute activity on public facing performance reports.

Gas Marketers' Position
Gas Marketers made several suggestions pertaining to GEM and the occurrence of duplicate disputes. These suggestions included the following three items:

- Complaints from the same customer should be linked so that the Gas Marketer is not charged for multiple disputes.
- The GEM system should separate courtesy and dispute drops.
- To facilitate timely and informed adjudication, Summitt requests the incorporation of an additional text field on the disputes page so that each occurrence can be explained better.

Gas Marketers emphasize that customers should be asked to contact the marketer first before submitting a dispute.

Commission Staff Views
The current GEM enhancements should eliminate these issues.

Terasen Gas Position
Changes to limit the occurrence of duplicate disputes were made to the Log Disputes section of the Gateway for Energy Marketers application on May 22, 2009. The specific change was part of a broader change requested by the Commission that improved the Log Dispute Wizard. These changes are summarized below.

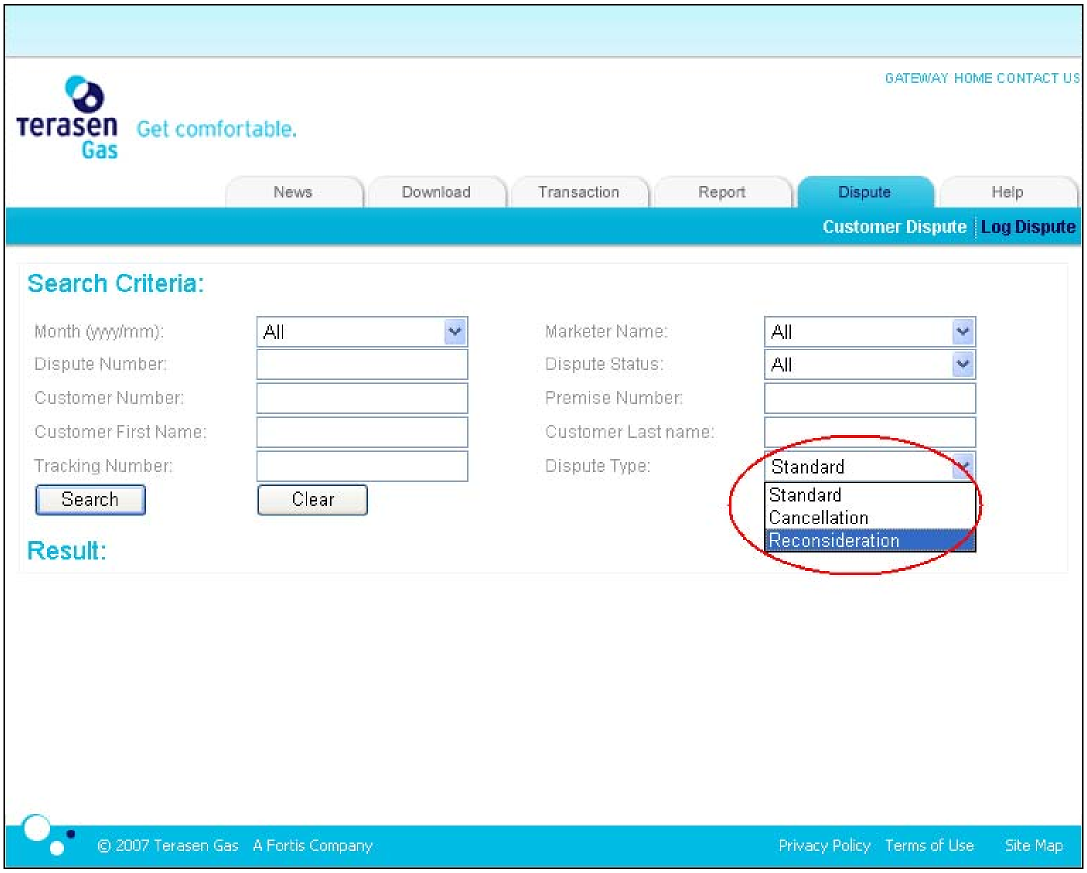
On page one of the Log Dispute Wizard, there is now a drop down list to identify the specific dispute type. Three options are available based on login id, including the following:

1. "Standard". A standard dispute is when evidence is provided and the merits of the dispute are adjudicated by the Commission. The decision can be either in favour of or not in favour of the marketer.
    - This is used by Terasen Gas and the Marketer only.

2. "Cancellation". Cancellations were formally called "courtesy drops" and are entered by Gas Marketers. These disputes are not contested and no evidence is provided by the marketer as they are agreeing to cancel/terminate the contract.
    - This is used by the Marketer only.

3. The Reconsideration Dispute Type is not for Marketer or Terasen Gas use. Reconsideration requests must be submitted to the Commission in writing and they will determine if the reconsideration criteria has been met and log a reconsideration request. The Commission will contact the customer in writing with their decision within three to four weeks.

Figure 9: Log Dispute Wizard – Page 1



A warning message is now displayed after customer information is entered on the Log Dispute Wizard page one if there is already an existing dispute.

Figure 10: Warning Message – Appears if Prior Dispute Exists

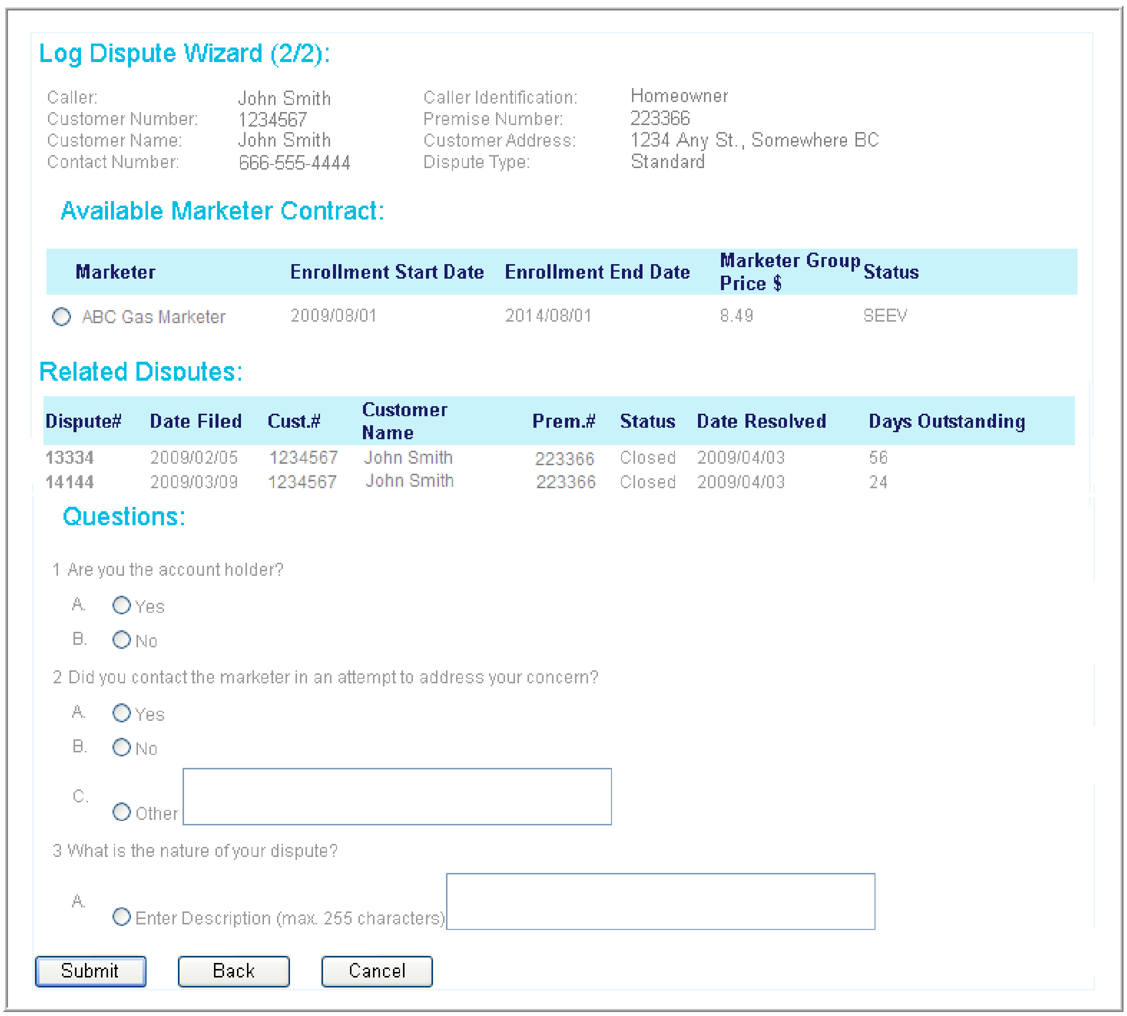
Selecting "**No**" when the warning is displayed will prevent a duplicate dispute being raised against the marketer. Almost all existing duplicate disputes have occurred because the customer has called both the marketer and Terasen Gas, or called multiple times regarding the same issue. The Warning Message is designed to limit the occurrences of duplicate disputes – disputes that capture exactly the same information and penalize the marketer inappropriately.

Selecting "**No**" will return you to page one of the Log Dispute Wizard. Selecting "**Yes**" will cancel the Warning Message and permit continued processing of the Log Dispute Wizard.

Terasen Gas Care Centre representatives select "**Yes**" only in extenuating circumstances. The new dispute must be a separate complaint. This option creates a second dispute against the same enrolment (account and premise). For example, an additional dispute might be used to capture information about a Code of Conduct infraction that the customer refused to share with the marketer.

Upon selecting "**Yes**," the user proceeds to page two of the Log Dispute Wizard. Related disputes are now listed for reference.

Figure 11: Log Dispute Wizard – Page 2



Log Dispute Wizard (2/2):

Caller:	John Smith	Caller Identification:	Homeowner
Customer Number:	1234567	Premise Number:	223366
Customer Name:	John Smith	Customer Address:	1234 Any St., Somewhere BC
Contact Number:	666-555-4444	Dispute Type:	Standard

Available Marketer Contract:

Marketer	Enrollment Start Date	Enrollment End Date	Marketer Group Price $	Status
ABC Gas Marketer	2009/08/01	2014/08/01	8.49	SEEV

Related Disputes:

Dispute#	Date Filed	Cust.#	Customer Name	Prem.#	Status	Date Resolved	Days Outstanding
13334	2009/02/05	1234567	John Smith	223366	Closed	2009/04/03	56
14144	2009/03/09	1234567	John Smith	223366	Closed	2009/04/03	24

Questions:

1 Are you the account holder?
A. Yes
B. No

2 Did you contact the marketer in an attempt to address your concern?
A. Yes
B. No
C. Other

3 What is the nature of your dispute?
A. Enter Description (max. 255 characters)

Submit Back Cancel

Proceeding to enter the dispute information, the list of questions required to ask has been reduced from seven to three.

To answer question two, select the "**Yes**" or "**No**" radio button for most situations. If further comments are required, select the "**Other**" radio button and type in the comments (e.g. A message was left with the marketer, but the marketer did not call back). A text box is also available on question three to provide details of the conversation. There is a 255 character maximum for each text box.

TGI Recommendation
No further action required. Changes implemented in May 2009 have resolved this issue.

1.13 Rate 36 Backstopping Supply

Terasen Gas received a letter from the Natural Gas Marketers of British Columbia ("NGMBC") on April 24, 2009. The NGMBC includes Access Gas Services Inc., Active Renewable Marketing Inc., Direct Energy Marketing Limited, Energy Savings B.C., Firefly Energy and Summitt Energy BC LP. The letter describes a concern the NGMBC has regarding the "trigger events" leading to the determination of backstopping gas charges that are currently set out in Rate Schedule 36.[8]

Terasen Gas responded in a letter to the NGMBC on April 24, 2009, the day following the Customer Choice Annual General Meeting held on April 23, 2009. It was agreed at that time that interested parties should respond to this Application should there be further concerns or issues related to this topic. Copies of the two letters are included for reference in Appendix E.

1.14 Marketer Supply Requirement Calculation/ Annual Contracting Plan

On December 12, 2008 the Commission issued Order No. G-181-08 (the "Order") and Reasons for Decision (the "Reasons"), related to the Terasen Gas Application for Customer Choice Program Enhancements and Additional Customer Education Funding. As elaborated in the Reasons for Decision, Section 11, the Commission directed Terasen Gas to provide a written description of the MSR calculation method prior to the annual meeting date.

Terasen Gas submitted a written description of the MSR calculation to the Commission on March 26, 2009. This previous submission is reproduced in Appendix D. The MSR calculation is a fundamental aspect of the Essential Services Model that underpins the Terasen Gas Customer Choice program. It is Terasen Gas' position that the MSR calculation is working as designed.

It was generally accepted that the March 26 submission to the BCUC pertaining to the MSR calculation was satisfactory. Questions surrounding this topic primarily related to Terasen Gas' forecasting methodology.

8 NGMBC includes Access Gas Services Inc., Active Renewable Marketing Ltd., Direct Energy Marketing Inc., Energy Savings B.C., Firefly Energy, and Summitt Energy BC LP

Gas Marketers' Position

Gas Marketers voiced concern with Terasen's forecasted drop in residential and commercial natural gas consumption. This drop reduces Annual Contracting Plan requirements and adversely affects overall Gas Marketer supply requirements.

Specifically, Gas Marketers asked for clarification of the following:

1. How was the drop in consumption forecast?
2. What influenced the big drop?
3. How many historical years are used for forecasting the information?
4. Describe the factors that have precipitated the forecast drop?
5. What happens in cases when there is an over or under forecast? Specifically, who picks up the volume and cost?

Commission Staff Views

The Commission indicated they were satisfied with the MSR number calculation. Gas Marketers should use the customer consumption history provided by Terasen Gas along with general trend information to establish their own forecasts.

Terasen Gas Position

Terasen Gas projects future consumption rates based on the analysis of historical use rates and a variety of external factors. The following table illustrates the actual and normalized annual demand over the period.

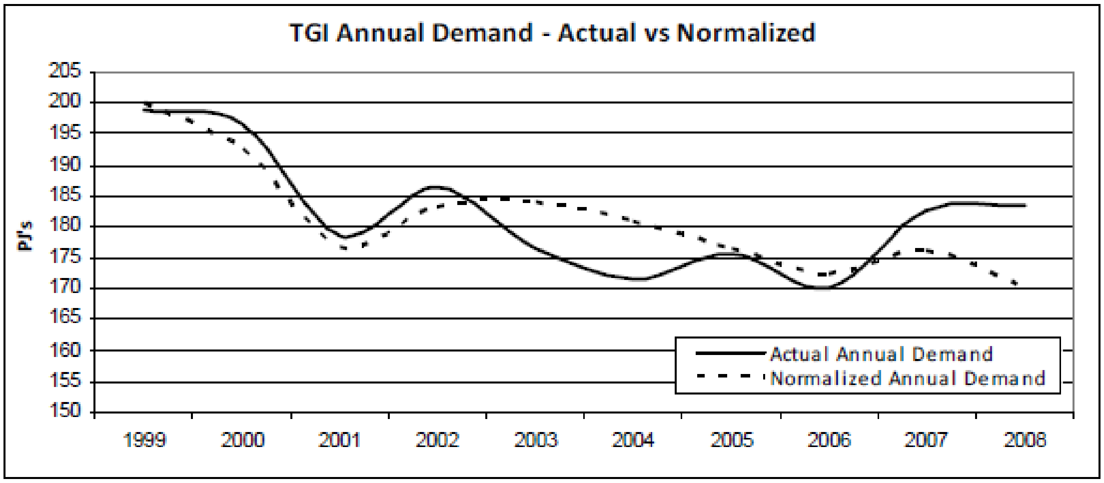
Figure 12: Normalized Annual Demand - 1999-2008

	1999	2000	2001	2002	2003
Actual Annual Demand (PJ)	198.9	196.7	178.5	186.5	176.6
Normalized Annual Demand (PJ)	200.1	192.5	176.8	183.2	184.1

	2004	2005	2006	2007	2008
Actual Annual Demand (PJ)	171.6	175.7	170.1	182.6	183.4
Normalized Annual Demand (PJ)	180.8	176.4	172.4	176.2	170.0

The following chart provides a graphical representation that compares the actual annual demand to normalized annual demand over the period 1999 to 2008.

Figure 13: TGI Annual Demand



Over the period 1999 through 2008, both normalized, and actual annual demand for natural gas have declined. Normalized demand has declined by approximately 15% or 1.8% annually (compound average growth rate). Actual demand has declined by approximately 8% or 0.9% annually (compound average growth rate). On average over this period, normalized annual demand has been 0.4% lower than actual demand, but ranging from being 5% greater than actual demand (in 2004) to being 7% lower than annual demand (in 2008). These variances are attributed to weather patterns that become warmer or colder than normal.

By normalizing demand, TGI removes the impacts weather fluctuations have on annual demand, which when compared to other years then allows for the identification and analysis of trends resulting from other factors, such as efficiency improvement and changes in the housing mix. It is for these reasons that TGI uses normalized annual demand to forecast the future demand for natural gas.

Terasen Gas attributes the declining use rates to lower economic growth, higher unemployment rates, and declining housing starts; trends that adversely affect some individual's ability to pay for energy, lower customer additions and reduce overall customer demand for energy.

The methods used to determine the impact each of the external factors have on the demand for natural gas vary. These methods include incorporating external influences as a proxy for growth in TGI's customer base or overall demand, as a validation tool on other analyses, and are also incorporated as part of detailed analyses so as to estimate the direct impact on average use per customer rates.

For example, the housing market, more specifically the expected growth in the housing market, is considered a proxy for future customer additions. It is also analyzed in greater detail with regards to the housing mix, to estimate the impact more multi-family dwellings in the housing mix have on average use per customer rates.

Energy efficiency, or customer behaviour towards such, is considered to be the primary driver behind declining residential average use per customer rates. There are many aspects of energy efficiency, such as building shells, insulation levels, the level of technology employed, and overall comfort levels with respect to heating levels and hot water consumption. But the most significant aspect is with regards to the retrofit of low efficiency furnaces to higher efficiency units. TGI estimates that retrofit activity is causing an approximate 0.9 GJ per year reduction in residential average use per customer. This rate of decline is expected to continue well beyond the 2010-2011 Forecast Period.

Year over year consumption will change and the Marketer Supply Requirement will be adjusted each year to compensate. Fluctuations due to volume variances are borne by MCRA. Marketers are encouraged to use the 24-month customer consumption history to develop their own forecast. In addition, marketers should also review the Terasen Gas Revenue Application for detailed information regarding consumption levels by region and rate class.

By incorporating external factors that influence the demand for natural gas into the forecast, using a number of methodologies, TGI adds a level of rigor and reasonableness to the demand forecast. TGI continues to monitor external factors that influence the demand for natural gas, and anticipates tools such as the Residential End Use Study becoming even more important in expanding on those factors in the future.

TGI Recommendation

Reduced marketer supply requirements reflect the declining natural gas use rates of Terasen Gas customers. No further action required.

1.15 Price Change Mechanism Outside of Anniversary Date

A key business rule of the Essential Services Model (ESM) is that a customer must remain enrolled in the program for at least 12-months and in 12-month increments to a maximum of five years at any one time, for the same fixed price.

Marketers Position

Gas Marketers contend that the ability to change prices more readily would provide more flexibility to meet customer demand and result in a better product for consumers. Currently the only way to process a price change is to drop customers on their anniversary date and then re-enrol them at an adjusted rate. Permitting price changes outside of the anniversary date would likely result in higher customer satisfaction and fewer disputes.

Gas Marketers asked for clarification why Terasen Gas' ESM model was selected instead of a true-up model favoured in other jurisdictions. A true-up model corrects any over-or-under recovery of gas purchasing costs and would accommodate marketers' preference for a monthly balanced MSR. Terasen has a real variable rate through its hedging program, and marketers should be provided with a better method of accommodating customer expectations.

Commission Staff Views

The Commission staff contends that Terasen Gas does not have a fixed rate either. It is a variable rate packaged as a quarterly rate. Variations on the price offer are carried by all customers based on the current model. Considering the discussion at the Annual General Meeting, Commission staff agrees that changing prices outside of the Anniversary Date would not be compatible with the Essential Services Model.

Terasen Gas Position

Terasen Gas does not agree with the Gas Marketer position. The rules pertaining to price change mechanisms were agreed to by Gas Marketers prior to the implementation of the residential Customer Choice program in 2007. Terasen Gas has since investigated and re-evaluated the possibility of introducing an ESM Fee to allow marketers to break the customer contract outside of the anniversary date. It was determined that to accommodate the change now would be cost prohibitive, and consistent with Commission staff views, incompatible with the underlying Essential Services Model. A monthly true-up model remains problematic in light of BC's geography and its natural gas transport infrastructure, which is vastly different than markets like Alberta.

A key business rule required to support the ESM is that customers must stay with Gas Marketers for at least one year at the same price and must be renewed in 12-month increments. For example, if a customer is enrolled for November 1, 2009 entry date, the customer must stay with that Gas Marketer until October 31, 2010 at the same fixed price. A customer cannot leave their Gas Marketer before this date. As the midstream account will handle any volume variances arising between forecasted annual demand versus actual annual demand, the 12-month fixed price business rule is required to ensure the midstream account is not burdened with the effect of price changes arising from customers moving from one rate to another. A change in the 12-month fixed price rule creates a significant issue for Terasen Gas customers and undermines the integrity of the Essential Services Model. This issue is explored more thoroughly in the Program Summary and Recommendations, Section 6, Gas Supply and Resource Planning.

TGI Recommendation

Terasen Gas believes that the Essential Services Model remains the best alternative to support the unbundled commodity product in BC. Accommodating price changes outside of the 12-month Anniversary date is inconsistent with the ESM. Gas Marketers may use their own systems to offer customers with rebate offers, offer more competitive one and two year rates, and they can use the existing Anniversary Date to re-enrol customers at lower rates. No further action on this item is recommended.

1.16 Terasen Gas Hedging Policy

A hedge is a position established in one market (e.g., a futures contract, or purchase of natural gas for storage) in an attempt to offset exposure to future price fluctuations with the goal of minimizing one's exposure to unwanted risk. The Terasen Gas hedging program is designed to moderate the volatility of market prices and the resultant effect on rates, improve the likelihood that natural gas remains competitive with electricity, and reduce the risk of regional price disconnects.

Gas Marketers' Position

Gas Marketers requested more information about Terasen Gas' hedging strategy. Specifically, what information is made available to the public and why do details of the plan remain confidential. Superior Energy Management, in particular, voiced concern that keeping this plan confidential may be detrimental to customers. The process should be transparent to promote competition in the marketplace.

BCPIAC Position
No position stated.

Commission Staff Views
Terasen Gas presents a confidential Price Risk Management Plan to the Commission. An executive summary of this plan is available to the public, and is published on the BCUC website for review. Under the ESM neither Gas Marketers nor Terasen Gas have truly fixed or a variable rate. The TGI gas contracting process has consistently delivered long term customer benefits including cost savings and moderated rate fluctuations. Commission staff do not support disclosure of details about Terasen Gas' Price Risk Management Plan.

Terasen Gas Position
Terasen Gas agrees with the Commission's position, no changes regarding the release of detailed hedging program information is appropriate. The current process benefits all customers by keeping the regulated commodity rate as low as possible.

The Terasen Gas hedging program is developed each spring via the Price Risk Management Plan (PRMP) and submitted to the Commission for approval in May. The main document is confidential and only the executive summary is not confidential. The reason for the confidentiality is because the hedging program includes a pre-determined implementation schedule, which defines the quantities and timing of the hedging transactions. The hedging program also includes target hedging prices which trigger implementation volumes. Terasen Gas believes that the detailed hedging strategy and this implementation schedule and target prices should remain confidential so that Terasen Gas may obtain the best available hedge prices at the time of implementation in the interests of customers. The specific language in the PRMP cover letter regarding confidentiality is as follows:

> *Consistent with past practice and previous discussions and positions on the confidentiality of selected filings (and further emphasized in Terasen Gas' January 31, 1994 submission to the Commission), Terasen Gas is requesting that this information be filed on a confidential basis pursuant to Section 71(5) of the Utilities Commission Act and Section 6.0 of the Commission Rules for Natural Gas Energy Supply Contracts, and requests that the Commission exercise its discretion and allow these documents to remain confidential. Terasen Gas believes this will ensure that market sensitive information is protected, and Terasen Gas' ability to obtain favourable commercial terms for future natural gas contracting is not impaired.*
>
> *In this regard, Terasen Gas further believes that the Core Market could be disadvantaged and may well shoulder incremental costs if utility gas supply procurement strategies as well as contracts are treated in a different manner than those of other gas purchasers, and believes that since it continues to operate within a competitive environment, there is no necessity for public*

disclosure and risk prejudice or influence in the negotiations or renegotiation of subsequent contracts.

As the PRMP is reviewed by the Commission each year and all hedging transactions are reported to the Commission on a monthly basis, Terasen Gas believes that there is sufficient overview by the Commission to ensure that the hedging program and transactions are in the best interests of customers. Therefore, Terasen Gas believes that the details of the hedging program, other than the PRMP executive summary, should continue to remain confidential.

TGI Recommendation

Terasen Gas does not support disclosure of its hedging program and Price Risk Management Plan. No further action required on this issue.

1.17 License Renewal Application

Informational, no response required.

Commission staff reminded Gas Marketers that the deadline for submission of the Licence Renewal Application is 60 days prior to the expiration date of their current licence.

A Licence Renewal Application that is not received in time may not be processed prior to the expiration of the Gas Marketer's current licence. A Licence Renewal Application that is incomplete will not be accepted and will be returned to the Gas Marketer. The Gas Marketer must re-submit the Licence Application as a complete package.

1.18 Price and Gas Marketer Information Available to Customer

Gas Marketers' natural gas prices and company contact information is currently published on the Terasen Gas website. Access to this information could be enhanced with the introduction of expanded communications, including newspaper advertisements.

Commission Staff Views

To achieve informed choice and real competition customers need to be aware of their natural gas commodity options. To that end, the Commission raised several items for discussion, including the following:

- Should marketer sales representatives hand out price depository information at the door?
- Should the Commission or Terasen Gas regularly publish rate comparison information in the newspaper?

A specific concern of Commission staff pertains to customers who do not have access to the TGI website. The Commission staff wants customers to recognise and understand the rate options available and the intrinsic differences that exist between the fixed price contracts offered by marketers and the Terasen Gas regulated rate. These additional channels would ensure access to rate comparison information even for seniors or others that do not regularly access the Internet.

Gas Marketers' Position

ESBC supports newspaper publishing of prices as well as continued availability of the information on the website. However, the focus of any brochures handed out to customers during a sales call should be to direct customers on where to find this information. ESBC suggests that the communication objective should be to make sure customers know where the information is available and how to make an informed decision.

Access Gas voiced concern that marketers with active sales forces should not be forced to advertise competitive offers. In particular, companies that only sell Consumer Agreements via the web have lower overhead and can often pass these savings on to consumers with lower rates. It is inappropriate to ask marketers to promote competitive offers during a sales call.

BCPIAC Position

No position stated.

Terasen Gas Position

Terasen agrees with the Commission that customers need to be aware of their natural gas commodity options. Terasen recommends the placement of monthly display ads in community newspapers that serve locations with access to the Customer Choice program. The ads would list a single line for each active marketer, and provide each with an opportunity to promote the rate per GJ for a one, two, three, four or five year contract. Rate information would be gathered through the existing process used to populate the Price Depository information published on terasengas.com. The current Terasen Gas regulated rate would also be included for reference and comparison.

Terasen does not agree that Gas Marketers should pass price depository information at the door. This step would undermine marketer sales, and it would be difficult to monitor compliance. Moreover, it is inappropriate to request active marketers to essentially subsidize lower-cost, web-only providers. Printing and distributing 3000 4" x 9" price comparison sheets to the marketers would cost about $1000 per month.

The costs for alternative display advertisement schedules follow:

Figure 14: Alternative Display Ad Costs

Newspaper	Schedule	Colour	Dimension	Insertions	Total Cost
Community	Bi-weekly	BW	5" w x 8" h	32	$134,391
Community	Bi-weekly	FC	5" w x 8" h	32	$256,195
Community	Monthly	BW	5" w x 8" h	16	$67,195
Community	Monthly	FC	5" w x 8" h	16	$129,465
Daily	Bi-weekly	BW	5" w x 8" h	32	$111,399
Daily	Bi-weekly	FC	5" w x 8" h	32	$231,464
Daily	Monthly	BW	5" w x 8" h	16	$55,699
Daily	Monthly	FC	5" w x 8" h	16	$115,732

Legend:

- Daily Newspaper – Uses dailies in service locations that feature a daily newspaper, and community papers in those that do not.
- BW – Indicates black and white only advertisements
- FC – Indicates colour advertisements

Terasen Gas recommends using monthly ads in community papers for a total investment of $67,195. Display ad placement would begin upon Commission approval and run through the end of 2011. Costs for 2009 ad placement, approximately $17,000 will be incremental to the existing customer education budget. Subsequent costs will be allocated to the approved communication budget in 2010. Terasen Gas will evaluate and make a recommendation for continued publication past December 2011 in a subsequent filing.

TGI Recommendation

Terasen Gas recommends the design of new rate comparison ads for placement in community newspapers through the remainder of 2009 through 2011.

Appendix B
MARKETER PERFORMANCE REPORT

CUSTOMER CHOICE PROGRAM

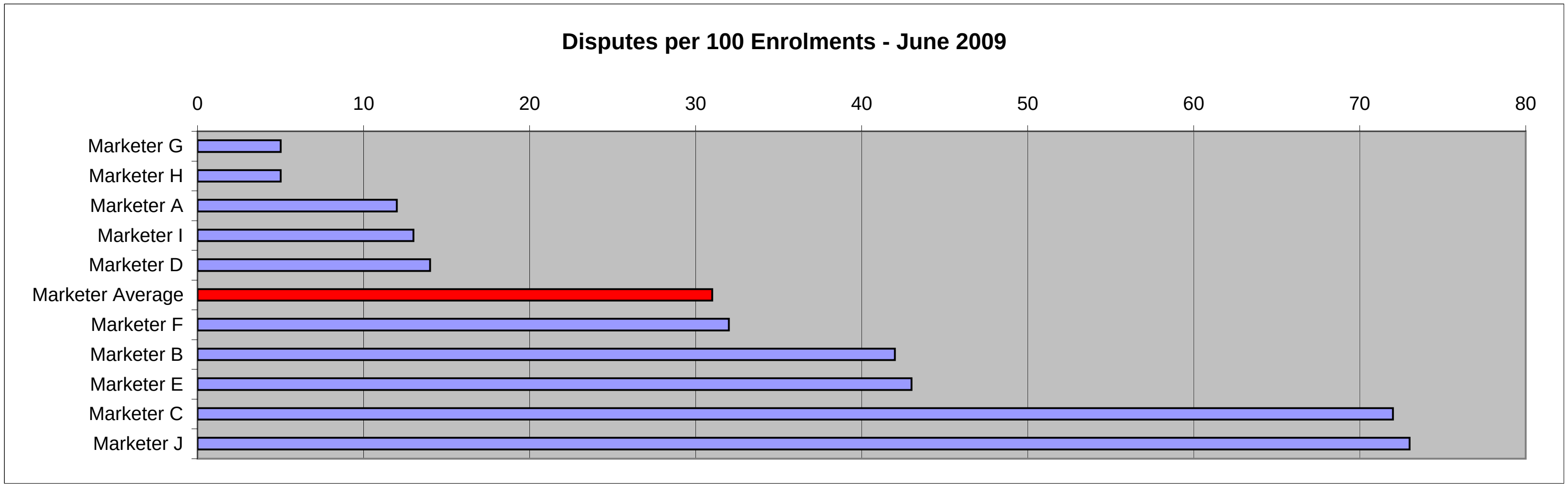
Marketer Performance -- Percentage of Contracts Disputed

Reporting Period: June 2008 - May 2009
Rate Class: Residential Only

These figures represent the number of contracts that are disputed per every 100 customers and seeking third party resolution from the BCUC. Contracts may be disputed for a variety of reasons including contract terms, contract price, validity of contract, and gas marketer Code of Conduct issues. Contract disputes that are successfully resolved between the customer and the gas marketer without third party resolution are not included in this figure; contracts that are cancelled within the cancellation period are not included in this figure; and nor are disputes that occur 90 or more days following the original enrolment date. These figures represent disputes that are logged and does not denote the adjudication outcome.

Marketer Name	Disputes per 100 enrolments											
	Jun-09	May-09	Apr-09	Mar-09	Feb-09	Jan-09	Dec-08	Nov-08	Oct-08	Sep-08	Aug-08	Jul-08
Marketer G	5	26	14	67	29	31	6	80	20	17	2	28
Marketer H	5	27	32	21	0	5	4	3	16	3	7	27
Marketer A	12	36	13	7	6	9	22	26	17	13	33	13
Marketer I	13	36	8	1	44	43	32	8	13	44	61	27
Marketer D	14	15	30	39	20	45	5	21	56	40	15	3
Marketer F	32	20	0	33	28	16	80	16	10	16	18	70
Marketer B	42	13	8	63	30	11	33	44	26	123	24	38
Marketer E	43	17	7	96	7	18	60	16	15	35	43	28
Marketer C	72	13	37	50	39	26	42	4	9	89	8	60
Marketer J	73	44	22	21	20	10	18	22	14	34	18	19
Marketer Average	31	25	17	40	22	21	30	24	20	41	23	31

The following chart is sorted by contracts disputed for most recent month. Marketers above the red bar had fewer disputes per 100 enrollments than average. Marketers below the red bar had more disputes than average.



Print Date: 18/09/2009

Appendix C

CUSTOMER EDUCATION CONTENT

Customer Choice Newspaper Wrap
Weekly on May 25, June 1, June 8, June 15, September 14, September 21, September 28 and October 5.

Find the natural gas plan that's right for you.

CUSTOMER CHOICE

Find the natural gas plan that's right for you.

CUSTOMER CHOICE

Customer Choice: Find the natural gas plan that's right for you

You can choose who you buy natural gas from.
A natural gas marketer or Terasen Gas. It's your choice.

Customer Choice* is a program that offers consumers the option to purchase natural gas from either Terasen Gas at a regulated variable rate, or a gas marketer at a fixed rate.

Gas marketers sell fixed rate agreements that vary in length from one to five years. The agreements are available to both residential and business customers. With a fixed rate, your cost of gas per gigajoule (GJ) will remain the same for the duration of the agreement. The amount you pay will only vary according to how much natural gas you consume.

Terasen Gas offers a rate that can change as often as four times per year. The rate is reviewed quarterly by the BC Utilities Commission and adjusted to reflect current changes in market conditions. The commodity cost is passed on to you as a flow-through rate without markup.

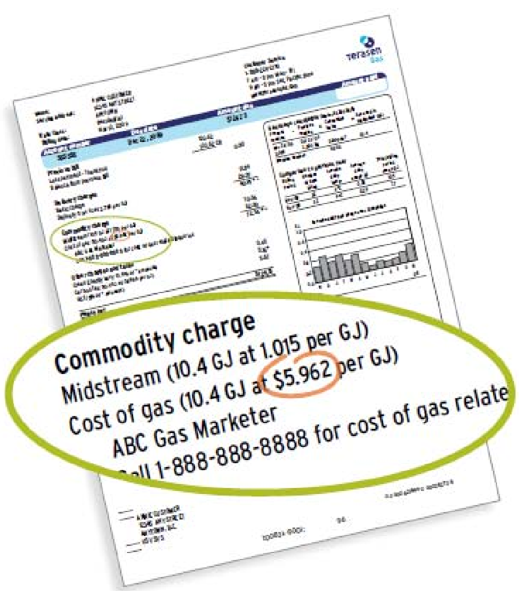
Looking for certainty?

Regardless of your choice, Terasen Gas will continue to deliver the natural gas safely and reliably, providing you the same range of services and bill payment options we always have. The BC Utilities Commission is responsible for regulating gas marketers and their compliance to the Code of Conduct. And although Terasen Gas is completely independent of gas marketers, in the event a gas marketer surrenders or loses its licence your account will be returned to Terasen Gas with no interruption in gas supply.

Spot the difference

Natural gas is a commodity. Its price can go up and down depending on market conditions. Signing an agreement with a gas marketer is like signing an agreement for a fixed-rate mortgage. It sets the price you'll pay for the natural gas commodity for a specific number of years. And although it is not guaranteed to save you money, it does offer price security if you're concerned about variable prices.

Before you sign an agreement with a gas marketer, compare the fixed rates available from all gas marketers to the current Terasen Gas regulated variable rate at terasengas.com/choice



A close look at your gas bill

When it comes to comparing a gas marketer's fixed rate and Terasen Gas' variable rate, the number you need to compare is the cost of gas per GJ. If you choose to purchase your natural gas from a gas marketer, Terasen Gas will continue to send you a monthly gas bill—for your total monthly cost. The bill will list Terasen Gas' delivery and midstream charges, and the gas marketer's cost of gas. You will continue to pay your bill to Terasen Gas, who will then pay the gas marketer on your behalf.

Similar to a fixed or variable mortgage, you need to decide whether the natural gas marketer's fixed rate is a better "Customer Choice" than Terasen Gas' variable rate.

Before you sign—explore all your options

By signing a Consumer Agreement with a gas marketer, you are committing to buying natural gas at a fixed price for one to five years. It's important to be sure that you are making a decision that's right for you. And if you do sign with a gas marketer, you will have 10 days during which you can cancel your contract without penalty.

When a gas marketer comes to your door, you can ask for the *Customer Choice Standard Information Booklet* for more information. Find gas marketer's competing rates at terasengas.com/choice

There are many different natural gas marketers, each with a different agreement to offer. Here is a list of questions you may want to ask gas marketers. Keep it handy—it will help you gather the information you need to make an informed decision. If you have questions about the Customer Choice program, visit terasengas.com/choice or call 1-888-224-2710.

Questions to ask a gas marketer

1. What is your price per gigajoule of gas?
2. How long is the term of this agreement?
3. Is the price per gigajoule of gas fixed over the entire term of the agreement? Or can it vary?
4. How does your gas price compare to other gas marketers' fixed prices and to Terasen Gas' variable prices?
5. What are the benefits and risks involved in a fixed term agreement?
6. What commitments will be made on my behalf?
7. What are the renewal provisions of the agreement?
8. What are the financial obligations and potential additional charges?
9. What is your company's track record in supplying natural gas?
10. Who is authorized to sign an agreement with a gas marketer?
11. If I am not satisfied with the agreement and want to cancel within the 10-day cancellation period, what is the best way to contact you?
12. Will you provide me with a confirmation number telling me the cancellation process is complete?
13. After my 10-day cancellation period has ended, what are the rights and penalties for early termination of the agreement? Is there a minimum agreement term?
14. How many days does it generally take for my agreement to be sent and enrolled with Terasen Gas? How would I know when my 10-day cancellation period ends?
15. If I move to a new home, what information do I need to provide your company and Terasen Gas? Does the agreement follow me to my new home?

** Customer Choice is not available in the following areas: Whistler, the Sunshine Coast, Revelstoke, Fort Nelson, Powell River and Vancouver Island.*

Terasen Gas is the common name of Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc., and Terasen Gas (Whistler) Inc. The companies are indirect, wholly owned subsidiaries of Fortis Inc. Terasen Gas uses the Terasen Gas name and logo under license from Terasen Inc.

CUSTOMER CHOICE

Customer Choice Newspaper Wrap (continued)

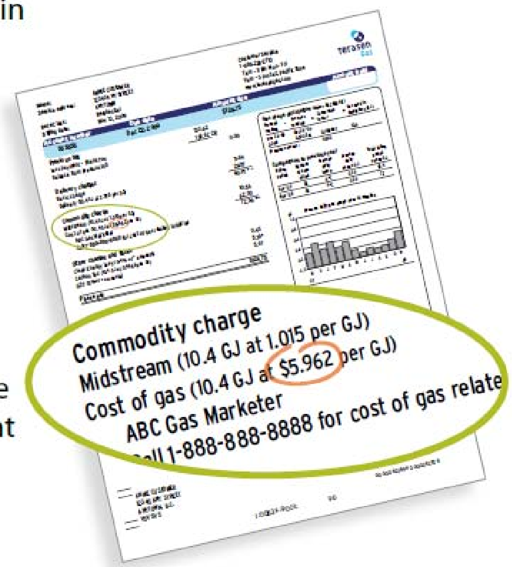
Find the natural gas plan that is right for you

Customer Choice is a program that offers consumers the option to purchase natural gas from a gas marketer at a fixed rate or remain on the Terasen Gas variable rate.

Similar to a fixed or variable mortgage, you need to decide whether the natural gas marketer's fixed rate is a better "Customer Choice" than Terasen Gas' variable rate.

To determine which plan is right for you, you will want to evaluate terms and conditions, as well as rates. And to compare rates, the number to look at on your current Terasen Gas bill is the cost of gas per gigajoule (GJ).

Each gas marketer offers a different plan. To compare rates and conditions, visit terasengas.com/choice



Terasen Gas is the common name of Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc., and Terasen Gas (Whistler) Inc. The companies are indirect, wholly owned subsidiaries of Fortis Inc. Terasen Gas uses the Terasen Gas name and logo, and the Customer Choice name and logo under license from Terasen Inc.

CUSTOMER CHOICE

Customer Choice Online Display Advertisement
Weekly on June 1, June 8, June 15, September 14, September 21, September 28 and October 5.

Customer Choice Bill Insert

September 2009 Billing Cycle

it's your choice

UNDERSTAND YOUR OPTIONS BEFORE YOU SIGN A CONSUMER AGREEMENT.

CUSTOMER CHOICE

THERE IS NO OBLIGATION TO SIGN A CONSUMER AGREEMENT.

Before you sign an agreement, visit terasengas.com/choice to view what each of the gas marketers have to offer.

What is Customer Choice?

Customer Choice offers you the freedom to choose who you buy natural gas from, and how.

Independent gas marketers offer natural gas at long-term fixed prices. Customers can purchase natural gas from a gas marketer or from Terasen Gas–it's the customer's choice.*

Gas marketers sell fixed-rate agreements that vary in length from one to five years. The agreements are available to both residential and business customers. With a fixed rate, the price you pay for your natural gas will remain the same for the duration of the contract. It will not fluctuate with the daily changes of energy prices.

Terasen Gas offers a rate that can change as often as four times per year. The rate is reviewed quarterly by the BC Utilities Commission and adjusted to reflect current changes in market conditions. It is based on what the utility forecasts it will have to pay in the future to provide gas to its customers, plus any adjustments for the cost of past gas purchases. The cost for the natural gas passes directly to customers, along with gas supply related charges from Terasen.

A gas marketer or Terasen Gas. It's your choice.

Certainty behind your choice

Regardless of your choice, Terasen Gas will continue to deliver the natural gas safely and reliably, and provide you with the same range of services and bill payment options.

Please note, gas marketers are independent businesses and have no connection to Terasen Gas. The BC Utilities Commission is responsible for regulating gas marketers and their compliance to the Code of Conduct.

** Customer Choice is not available in the following areas: Whistler, the Sunshine Coast, Revelstoke, Fort Nelson, Powell River and Vancouver Island.*

Customer Choice Bill Insert (continued)

Assess your options

Natural gas is a commodity that is traded on the open market. Its price can go up and down depending on market conditions.

Signing an agreement with a gas marketer is like signing a contract for a fixed-rate mortgage. It sets the price you'll pay for the natural gas commodity for a specific number of years. And though it is not guaranteed to save you money, it does offer price security to consumers concerned about variable costs. The amount you pay will only vary according to how much natural gas you consume.

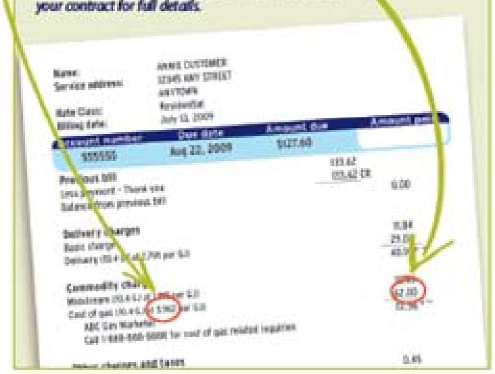
To compare the current Terasen Gas regulated variable rate to the fixed rates available from gas marketers visit **terasengas.com/choice**

Cost of gas

When you sign a fixed-price agreement with a natural gas marketer, the cost per gigajoule stays exactly the same every month over the life of the agreement,* regardless of market price fluctuations.

The amount you pay monthly will vary depending on how much gas is consumed.

**Gas marketer agreements will differ. Please refer to your contract for full details.*



Know what you're paying for

If you choose to purchase your natural gas from a gas marketer, Terasen Gas will still send you a monthly gas bill. Your bill will itemize Terasen Gas' delivery and midstream charges, and the gas marketer's cost of gas.

a) **Delivery charges** are for delivering gas through the Terasen Gas pipeline system to your home or business.

- **Basic charge** is a fixed flat monthly fee that partially recovers the fixed costs of the Terasen Gas system and service, regardless of whether any gas has been used or not.
- **Delivery per GJ** is the charge for delivering the gas you've used, per gigajoule.

b) **Midstream charges** include the cost paid by Terasen Gas to other companies that store, transport and help manage the natural gas delivered to customers.

The bill will list the marketer's name, phone number and the gas price you have agreed to pay. In order to keep the payment process as simple and as straightforward as possible, you'll continue to pay your bill to Terasen Gas. Terasen Gas will then pay the gas marketer on your behalf.

Customer Choice Bill Insert (continued)

Do your homework–compare all your options

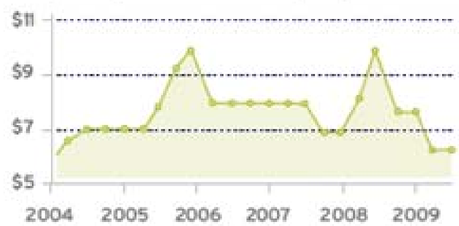
By signing an agreement with a gas marketer, you are committing to buying natural gas at a fixed price for one to five years. It's important to be sure that you are making a decision that's right for you.

There are many different gas marketers, each with a different agreement to offer. The following list of questions to ask marketers may help you get the information you need to make an informed decision.

- What is their price per gigajoule of gas?
- How long is the term of the agreement?
- What are the renewal provisions of the agreement?
- What are the rights and penalties for early termination of the agreement?
- What commitments will be made on your behalf?
- What are the financial obligations and potential additional charges?
- If you move to a new home, what information do you need to provide your gas marketer and the natural gas utility?

Terasen Gas variable rate

$5.96 per GJ effective April 1, 2009



For more information

If you have any questions, please contact us.
We're here to help make your choice an easy one.

Call 1-888-224-2710 or visit **terasengas.com**

Before you sign

Entering into a Consumer Agreement is a serious undertaking and before you do so, please take the time to inform yourself about your choices. For complete program information and a list of qualified gas marketers, visit **terasengas.com/choice**

This publication is produced on behalf of the BC Utilities Commission. The Customer Choice name and logo is used under license from Terasen Inc.

Customer Choice Bill Insert 07/09 09-005.9

CUSTOMER CHOICE

Appendix D

MARKETER SUPPLY REQUIREMENT CALCULATION

Terasen Gas

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Cell: (604) 250-2722
Fax: (604) 576-7074
Email: tom.loski@terasengas.com
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Regulatory Affairs Correspondence
Email: regulatory.affairs@terasengas.com

March 26, 2009

British Columbia Utilities Commission
6th Floor, 900 Howe Street
Vancouver, BC
V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

Re: Terasen Gas Inc. ("Terasen Gas") Customer Choice Program Compliance Filing pursuant to British Columbia Utilities Commission (the "Commission") Order No. G-181-08 and Decision dated December 12, 2008

Terasen Gas Customer Choice Program – Marketer Supply Requirement ("MSR") Calculation

On December 12, 2008 the Commission issued Order No. G-181-08 (the "Order") and Reasons for Decision (the "Reasons") attached as Appendix A, related to the Terasen Gas Application for Customer Choice Program Enhancements and Additional Customer Education Funding. As elaborated in the Reasons for Decision, Section 11, the Commission directed Terasen Gas to provide a written description of the MSR calculation method prior to the annual meeting date.

Terasen Gas respectfully submits the attached description of the MSR calculation. The MSR calculation is a fundamental aspect of the Essential Services Model that underpins the Terasen Gas Customer Choice program. It is Terasen Gas' position that the MSR calculation is working as designed. It is hoped that with the documentation provided all parties involved in the Customer Choice program will have a better understanding of how the MSR is calculated.

If you have any questions related to this information, please do not hesitate to contact Scott Webb at 604-592-7649.

Yours very truly,

TERASEN GAS INC.

Original signed:

Tom A. Loski

Attachment

cc (e-mail only): Customer Choice Program Enhancements & Additional Education Funding Application Participants and Licensed Gas Marketers

Customer Choice

Marketer Supply Requirement (“MSR”) Calculation Method

March 26, 2009

Customer Choice Program submission pursuant to BC Utilities Commission Order G-181-08

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1 Introduction

1.1 Purpose

This document provides a description of the calculation method for the Marketer Supply Requirement ("MSR") that is used in the Customer Choice Program offered by Terasen Gas Inc. ("Terasen Gas"). A separate monthly MSR is calculated for each gas marketer participating in the program that sets out the daily volume of natural gas commodity each gas marketer is required to deliver to Terasen Gas in its role as midstream services provider ("Terasen Gas Midstream"). For the purposes of the MSR determination, Terasen Gas, in its role as a commodity provider, is considered a marketer and therefore an MSR is calculated for Terasen Gas as well. Marketers make deliveries to Terasen Gas Midstream at three different supply hubs on a 100% load factor basis. This gas is then delivered by Terasen Gas to customers who have contracted with a gas marketer for their supply of the natural gas commodity.

Customer groups that are eligible to participate in the Customer Choice program include residential (Rate Schedule 1), small commercial (Rate Schedule 2), and large commercial (Rate Schedule 3) located on the BC Mainland.

The MSR is a fundamental component of the Essential Services Model ("ESM") that underpins the Terasen Gas Customer Choice program. It is the view of Terasen Gas that the MSR calculation is working as designed and should not be changed at this time.

1.2 Overview

The Customer Choice Program allows customers to arrange natural gas commodity supply agreements with independent gas marketers instead of using the default supply from Terasen Gas. Each month, gas marketers provide Terasen Gas Midstream with enrollment details that specify which customers have agreed to contract with them for the supply of the natural gas commodity. These details include the date on which the gas marketer will begin to be responsible for that supply and when this responsibility is scheduled to end. Terasen Gas Midstream reports back to gas marketers the amount of supply that gas marketers are responsible for providing to meet the supply requirements associated with the customers they have enrolled in the program. This supply information is provided on the preliminary daily MSR report and on the monthly Final Marketer Supply Requirement report.

To determine a supply requirement, or MSR, for a gas marketer, a supply requirement for a customer at a premise is required. A gas marketer's supply requirement is the sum of the annual supply requirements for all customers enrolled by that gas marketer for a particular entry date.[1] The process for determining the MSR involves the following components:

- Make use of the Company's annual demand forecast approved by the British Columbia Utilities Commission (the "Commission") to calculate the Contract Year Supply[2].

[1] The Customer Choice program has monthly entry dates that start and end on the first calendar day of the month.

[2] The Contract Year Supply is equal to the consumption volume forecast for the November 1 to October 31 gas year.

- Calculate a factor by premise ("Premise Factor") that is used to allocate a portion of the overall annual supply requirement for each premise. This factor represents the portion of the overall annual supply that a premise consumed based on a 12 month period. This factor is recalculated once a year for each active premise.
- The Contract Year Supply is allocated for all premises on the system by region and rate class.
- Premises that are created after the beginning of the gas year are assigned a volume based on the average annual use rate for their specific region and rate class.
- The total Marketer Supply Requirement remains unchanged for the duration of the Contract Year Supply.
- The MSR is reallocated each month between the gas marketers and Terasen Gas depending on customer enrollments.

2 Calculate Contract Year Supply

2.1 Annual Demand Forecast

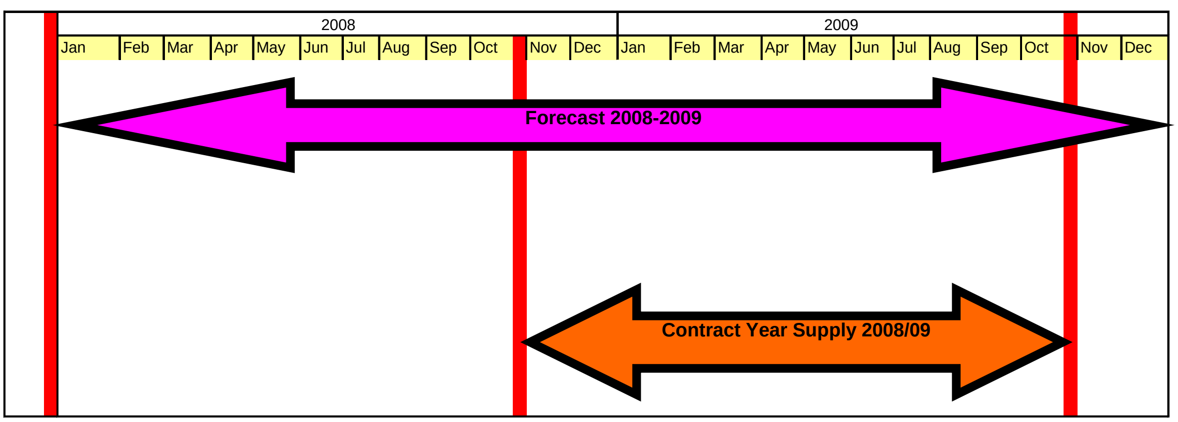
The Company's annual demand forecast is the forecast that is produced to set the delivery rates requested by Terasen Gas. This forecast is reviewed and approved by the BC Utilities Commission each year. After this forecast is approved, Terasen Gas uses it in a number of internal processes, like determining the Annual Contracting Plan and in the calculation of MSR's for the Customer Choice program.

The annual demand forecast is produced by multiplying the forecast average use per customer by the total number of forecast customers within each service region and rate class. The annual demand forecast is the sum of the annual demand for all customers served by Terasen Gas, broken out on a monthly basis. The forecast number of customers includes those who are existing customers as well as new customers forecast to be added to the system in the future.

2.2 Calculate Contract Year Supply

In determining the amount of commodity that gas marketers need to deliver, Terasen Gas Midstream must first determine the forecast demand on a gas year basis, which is the volume required by customers from November 1 of each year to the end of October of the following year. This volume represents the Contract Year Supply. Gas marketers are responsible for delivering a portion of this total amount based on the number of customers they have enrolled in the Customer Choice program. The balance is provided by Terasen Gas as part of its default supply obligation.

The following illustration shows the portion of the demand forecast that is included in the Contract Year Supply.



2.3 Annual Supply Growth

The demand forecast includes volume for new customers that are forecasted to be added to the system in the future. Accordingly, the total MSR volume includes the demand associated with new customer growth. This is important because the total MSR volume, which equals the Contract Year Supply requirement, needs to remain unchanged throughout the year.

By default, this growth related volume requirement remains the responsibility of Terasen Gas to provide until such time that a new premise is added to the system and enrolled with a gas marketer. (The determination of the volume requirement for new premises is discussed in Section 4.1.) When this occurs, the volume requirement is subtracted from the Terasen Gas MSR and added to the individual gas marketer's MSR. In other words, when a new premise is added to the system and is not enrolled with a gas marketer the volume remains the responsibility of Terasen Gas to provide and is part of the Terasen Gas MSR.

2.4 Distribution Supply

The Distribution Supply is the Contract Year Supply less annual supply growth. This is the volume allocated to existing premises at the start of the gas year.

The following example shows how this process works. In the examples provided in this document, 1800 is Contract Year Supply and this is the total volume that would be allocated each month between gas marketers and Terasen Gas.

Contract Year 2008/2009				
Region	**Rate Class**	**Contract Year Supply**	**Growth**	**Distribution Supply**
LML	2	**1800**	500	**1300**

100% of the *Distribution Supply* is distributed to Active Premises in the Region Rate Class.

The total forecasted supply for the Contract Year, from the published forecast, for the region rate class.
*** This is the total on the MSR.*
*** This number does not change throughout the Contract Year.*

The Annual Supply Growth for the region rate class. Will be used to supply premises which become active throughout the Contract Year.

3 Calculate Premise Factors

3.1 Premise Factor Calculation

A Premise Factor represents the portion of the overall annual supply (by region and rate class) that a premise consumed in the most recent year. The Premise Factor calculation includes 12 months of billed consumption history[3] from those premises occupied by customers. The history used includes the most recent 12 months of billed consumption history that is available at the time that the calculation is made. This process is generally completed each summer using billed consumption data ending either in June or in July if it is available for that month. Where billed consumption is not available for any or part of this period, the forecast average annual use rate for the region and rate class where the premise is located is used instead

The calculation of the Premise Factor is straightforward once the consumption history has been assembled. It is = Total Premise Consumption / Total Consumption for the region and rate class. The following two tables provide an illustration of this process.

1. Example of the billed consumption history for premises in the same region and rate class*:*

Premise #	Region	Rate Class	May 08	Apr 08	Mar 08	Feb 08	Jan 08	Dec 07	Nov 07	Oct 07	Sept 07	Aug 07	July 07	Jun 07	Total Premise Consumption
Premise1	LML	2	10	28	30	35	25	30	28	29	20	5	5	5	250
Premise2	LML	2	12	23	25	33	25	25	28	29	15	5	5	5	230
Premise3	LML	2	10	23	25	30	25	25	28	29	15	5	5	5	225
Premise4	LML	2	15	28	30	35	30	35	28	29	25	8	5	7	275
Premise5	LML	2	15	28	28	32	30	35	28	29	25	8	5	7	270
Total Consumption for the Region/Rate Class															**1250**

2. Example of the Premise Factor calculation:

Premise#	Region	Rate	Total Billed Consumption	Premise Factor
Premise1	LML	2	250.0	0.200
Premise2	LML	2	230.0	0.184
Premise3	LML	2	225.0	0.180
Premise4	LML	2	275.0	0.220
Premise5	LML	2	270.0	0.216
		Totals	**1250.0**	**1.000**

Premise Factor = Premise Consumption/ Total Consumption for the Region Rate Class

Premise Factor Total must = 1.0 to ensure 100% Distribution of the Contract Year Supply

[3] The billed consumption used in this process is not weather normalized.

Premise Factors are calculated once per year when the Contract Year Supply is calculated. Premise Factors are not recalculated until the following year's Contract Year Supply is created. This process ensures that once the daily volume for a customer at a premise is calculated, it remains unchanged for an entire year.

4 Distribute Contract Year Supply

4.1 Distribute Contract Year Supply

This process distributes the Distribution Supply that was described in Section 2.4 to active premises by region and rate class. The supply requirement is calculated for each premise by multiplying the Premise Factor by the volume to distribute for a region and rate class. Once the Distribution Supply has been allocated across all active premises an Average Supply Distribution volume is calculated for each region and rate class. This represents the average supply for each premise within the region and rate class ("Premise Average Supply"). This Premise Average Supply is the annual volume that is attributed to new premises that become active during the gas year.

The follow example illustrates this process.

Region	Rate	Premise#	Premise Factor	Contract Year Distribution Supply
LML	2	Premise1	0.200	260.0
LML	2	Premise2	0.184	239.2
LML	2	Premise3	0.180	234.0
LML	2	Premise4	0.220	286.0
LML	2	Premise5	0.216	280.8
		Subtotals	**1.0**	**1300.0**
		Growth	n/a	500.0
		Totals	**1.0**	**1800.0**
		Average Supply Distribution		**250.0**

Premise Supply = Premise Factor * Contract Year Distribution Supply Total.

Balances to the Distribution Supply.

Average Supply Distribution = Total Distributed Volume/Total # of Premises. Volume assigned to any premise which becomes active throughout the Contract Year.

The Contract Year Supply = the MSR Total. Does not change for the entire Contract Year.

5 Calculate Marketer Supply Requirements

5.1 MSR Calculation Details

The Marketer Supply Requirement provides the daily supply requirement for all premises by entry date for all gas marketers including Terasen Gas. The MSR is available daily on a preliminary basis before it is finalized around the 15^{th} of each month. Highlights of the Marketer Supply Requirement include the following:

- The sum of all volumes for each entry date will always balance to the daily supply requirement for the gas year. This means that the MSR Total daily volume balances to the Contract Year Supply Total daily volume.
- The MSR daily supply requirement total will not change during the gas year.
- Forecast volumes by premise are calculated once per year and remain unchanged for the entire gas year.
- The MSR assigns the forecast volume to gas marketers with an active enrollment for the entry date.
- When a gas marketer enrolls a customer, the forecast volume for that premise is assigned to the gas marketer, otherwise the volume defaults to Terasen Gas.
- Terasen Gas' supply requirements include the volume for all active premises not enrolled with a gas marketer as well as the forecast volume from new customers that are expected to be added to the system. This account growth volume is used to supply new premises that become active throughout the gas year.
- New premises that become active throughout the gas year are assigned the average distribution volume for the region and rate class in which they belong. If the new premise is enrolled with a gas marketer, that volume will be assigned to the gas marketer, otherwise the new premise will default to Terasen Gas.
- Enrollments are processed daily and the MSR is updated daily and reflects any change in the customers enrolled in the Customer Choice program.
- A Final MSR is prepared each month, after the cooling-off period has ended, and the latest enrollments file has been processed.

5.2 MSR Scenarios for existing Premises

The two examples that follow build on the earlier illustrations. They use the same Total Contract Year Supply, Growth Volume, premise volumes and Average Supply Distribution numbers.

Example of an MSR where Gas Marketer A has Premise1 enrolled, Gas Marketer B has Premise 2 enrolled, and all other active premises default to Terasen Gas (Note: the Growth Volume, which is part of the Terasen Gas MSR, starts at 500 in these examples).

MSR Details				Contract Year: 2008/2009		
				Friday, May 01, 2009		
				Supply Requirement Total	Enrollment Total	Supply Status
Gas Marketer A	Group1	LML	RATE2	260.0	1	P
Gas Marketer B	Group1	LML	RATE2	239.2	1	P
Terasen Gas	GROWTH	LML	RATE2	500.0	0	P
	TGI	LML	RATE2	800.8	3	P
Total				**1,800.0**	5	P

Premise1

Premise2

Premise3, Premise4, Premise5

In the next example, Gas Marketer A has now enrolled Premise 5. Premise 5's supply is subtracted from the Terasen Gas MSR and included in Gas Marketer A's MSR. The total MSR (Terasen Gas plus all gas marketers) remains unchanged at 1,800, as does the MSR for Gas Marketer B at 239.2, however, the supply requirements of Terasen Gas and Gas Marketer A have changed.

MSR Details				Contract Year: 2008/2009		
				Friday, May 01, 2009		
				Supply Requirement Total	Enrollment Total	Supply Status
Gas Marketer A	Group1	LML	RATE2	540.8	2	P
Gas Marketer B	Group1	LML	RATE2	239.2	1	P
Terasen Gas	GROWTH	LML	RATE2	500.0	0	P
	TGI	LML	RATE2	520.0	2	P
Total				**1,800.0**	5	P

Premise1, Premise5

Premise2

Premise3, Premise4

5.3 MSR Scenario for New Premises

Premises that did not exist at the time of the Contract Year Distribution and become active during the gas year must have supply allocated to them, as described in Section 2.3. These premises are assigned the Premise Average Supply that was calculated during the *Distribute Contract Year Supply* process, described in Section 4.1.

When a new premise is enrolled with a gas marketer, the volume is subtracted from the default supply requirement Terasen Gas is responsible for (the Terasen Gas MSR) and added to the gas marketer MSR. When a new premise is not enrolled with a gas marketer, then the volume defaults to Terasen Gas and is added to the Terasen Gas MSR. The MSR total (Terasen Gas plus all gas marketers) always remains unchanged throughout the gas year.

This process is illustrated in the following example.

In this example, Gas Marketer B has enrolled a new premise that did not exist at the start of the gas year. The new premise supply is allocated from the growth portion of the Terasen Gas MSR. The new premise is assigned the 250.0 *Premise Average Supply* (for the region and rate class) and the MSR for Gas Marketer B increases by 250.0 and the Terasen Gas MSR decreases by the same 250.0. The MSR total (Terasen Gas plus all gas marketers) does not change (continues to be 1,800).

MSR Details				Contract Year: 2008/2009		
				Friday, May 01, 2009		
				Supply Requirement Total	Enrollment Total	Supply Status
Gas Marketer A	Group1	LML	RATE2	540.8	2	P
Gas Marketer B	Group1	LML	RATE2	489.2	2	P
Terasen Gas	GROWTH	LML	RATE2	250.0	0	P
	TGI	LML	RATE2	520.0	2	P
Total				**1,800.0**	6	P

Premise1, Premise5

Premise2, Premise6

Premise3, Premise4

TGI Growth is less 250.0 and Marketer B is +250.0.

6 Conclusion

Each month, gas marketers provide Terasen Gas Midstream with enrollment details that specify which customers have agreed to contract with them for the supply of the natural gas commodity. Terasen Gas Midstream reports back to gas marketers the amount of supply that gas marketers are responsible for providing to meet the supply requirements associated with the customers they have enrolled in the program.

The MSR sets out the daily volume of natural gas commodity each gas marketer is required to deliver to Terasen Gas Midstream. This volume is then delivered by Terasen Gas to customers who have contracted with a gas marketer for their supply of the natural gas commodity.

The MSR calculation includes four steps, as follows:

1. **Calculate Contract Year Supply** – Terasen Gas Midstream forecasts average use per customer by month for each region and rate class. From the company's Demand Forecast, Terasen Gas Midstream develops the Contract Year Supply, or the Annual Contracting Plan. It runs on a gas year basis from November through October.
2. **Calculate Premise Factors** – Premise Factor represent the portion of the overall annual supply (by region and rate class) that a premise consumed in the past year. Premise Factors are calculated once per year when the Contract Year Supply is calculated and are not recalculated until the following year.
3. **Distribute Contract Year Supply** – At this stage, the Contract Year Volume (less Contract Year Growth) is distributed to all active premises by region and rate class.
4. **Calculate Marketer Supply Requirements** – The Marketer Supply Requirement provides the daily supply requirement for all premises by entry date for all gas marketers including Terasen Gas.

The Marketer Supply Requirement is fundamental to the Essential Services Model that is the foundation of the Customer Choice program. It is the view of Terasen Gas that the MSR calculation process is working as designed and that there is no need to consider changes it at this time.

Appendix E

BACKSTOPPING CHARGES

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April 24, 2009

Via E-mail

On behalf of Natural Gas Marketers of BC
c/o Chad Painchaud
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Re: Natural Gas Marketers of BC ("NGMBC") letter dated April 2, 2008 dealing with Terasen Gas Inc. ("Terasen Gas" or "Company") Rate Schedule 36 Commodity Unbundling Service, Article XIII: Performance Obligation and Marketer Failure, Section 13.01 - Backstopping Gas

We acknowledge receipt of and attach for reference the letter dated April 2, 2009. The NGMBC represent 6 of the 12 gas marketers registered to participate in the Customer Choice program. The letter describes a concern the NGMBC has regarding the "trigger events" leading to the determination of backstopping gas charges that are currently set out in Rate Schedule 36.[1] Terasen Gas is not aware of any concerns about the backstopping provisions that other non-NGMBC gas marketers may have. The obligations that a gas marketer has to Terasen Gas for participating in the Customer Choice program are set out in Rate Schedule 36, which must be signed by a gas marketer in order to participate in the program. Terasen Gas believes that the "trigger events" leading to the determination of backstopping charges that are contained in Rate Schedule 36 in Article 13.01 are prudent and necessary to preserve the integrity of the Essential Services Model ("ESM") business rules and are in the best interests of customers. Furthermore, Terasen Gas is extremely concerned with this and other proposals made by marketers, which if approved, would seriously compromise the integrity of the ESM and lead to untenable results for customers and Terasen Gas.

With this letter we first provide some background on the ESM, and then we review NGMBC's position and then discuss the justification for the Terasen Gas conclusion that no modifications to Rate Schedule 36 are warranted.

Background on the ESM

During the British Columbia Utilities Commission's (the "Commission") proceeding for the review of the Company's Certificate of Public Convenience and Necessity for the Residential

[1] NGMBC includes Access Gas Services Inc., Active Renewable Marketing Ltd., Direct Energy Marketing Inc., Energy Savings B.C., Firefly Energy, and Summitt Energy BC LP

Unbundling Program, Terasen Gas in its submission dated July 6, 2006 made the following statements:

> *"The proposed residential commodity unbundling model and implementation plan builds on the experience and success gained during the implementation and operating of Phase 1 of the commodity unbundling program for small and large commercial customers. The underlying business model, the essential services model, remains the foundation for the commodity unbundling program, and for the most part the business framework and rules are similar to those approved for commercial unbundling. The recommended implementation timeline follows a deliberate process similar to that utilized successfully for commercial unbundling. Terasen Gas believes that the continued use of the essential services model is crucial for residential unbundling. Under the essential services model, Terasen Gas continues to be responsible for managing all midstream resources in addition to fulfilling the role of supplier of last resort, as well as providing its regulated standard commodity rate offering to residential and commercial customers. A made in B.C. solution that addresses the B.C. supply infrastructure and market requirements is required for the effective implementation of commodity unbundling, giving consumers the ability to exercise choice while still reflecting the capacity constraints in British Columbia.*
>
> *The company feels very strongly that if commodity unbundling for residential customers is approved by the Commission, that the essential services model must be the basis for the program, and that any changes to business rules that undermine the integrity of the essential services model should not be considered, nor will they be supported by Terasen Gas."*[2]

Terasen Gas continues to support the above statements. Terasen Gas is of the opinion that the business rules contained in the ESM must be considered as whole and any changes to these underlying business rules could cause other business rules changes or reduce the effectiveness of the ESM as whole.

> *"Under the ESM, Terasen Gas takes title to the gas from the gas marketers at each of the three market hubs under an agreement (Rate Schedule 36) similar to the standard GasEDI base purchase/sale agreement rather than the tariff that is used in the existing the Terasen Gas industrial transportation ("T-service) model. Delivery requirements will be based on historical consumption information and other forecasting parameters and will be normalized to be delivered at an annual 100% load factor. The forecast is completed on an annual basis to be effective each November 1 in order to align with the Annual Contracting Plan process undertaken by Terasen Gas. Terasen Gas retains the right to review and revise the forecast if a material change in customer consumption behavior is identified. Delivery requirements will be adjusted to account for customer migration effective each entry date. Any variances in consumption due to customer migration between entry dates*

[2] Terasen Gas Inc., Submission for Certification of Public Convenience and Necessity for the Residential Unbundling Program, July 6, 2006, page 6

and weather related consumption differences will be absorbed in the midstream charge."[3]

Under the ESM, Terasen Gas is responsible for midstream resources including contracting and managing transportation and storage requirements and providing. balancing and peaking services. Gas Marketers, under the ESM are not required to provide any balancing services, as their delivery requirements are determined on a 100% load factor basis, without any true-up at period-end. All midstream costs are managed through a separate gas cost account (the "Midstream Cost Reconciliation Account" or "MCRA") and recovered from customers, with the exception of T-Service customers, as set out in Rate Schedules 1 through 7.

Terasen Gas is the supplier of last resort under the ESM, along with performing customer billing and customer care related activities. As supplier of last resort, Terasen Gas is obligated to make up any difference between the authorized quantity and the delivery requirement at each receipt point on a mandatory basis through a sale of backstopping gas to the gas marketer at the receipt point. The backstopping gas sale will be triggered in the event there is shortfall between the authorized quantity and the delivery requirement at a receipt point at the completion of the Evening Nomination Cycle.

NGMBC Position

In its letter, NGMBC states that, *"backstopping gas sale price should be punitive in order to encourage gas delivery compliance".*[4] NGMBC goes on to identify a concern with how the backstopping gas provisions set out in Rate Schedule 36 are calculated. NGMBC's position is that the trigger event leading to a backstopping penalty is unreasonable, and that the calculation method results in a charge that is too onerous.

1. NGMBC believes that any backstopping penalty should only be based on an actual shortfall at the end of the 24-hour gas day and not on delivery by the Evening Nomination Cycle.
2. NGMBC asserts that gas marketers are forced to pay twice for the natural gas that is delivered in instances where backstopping charges have been assessed because of shortfalls on the Evening Nomination Cycle, but the deliveries were authorized on the final nomination cycle.
3. NGMBC believes that the backstopping charges are too onerous.
4. NGMBC states that the backstopping provisions under the Customer Choice program are different than those relating to the T-service customers of Terasen Gas who receive service under Rate Schedules 22, 23, 25 and 27.
5. NGMBC state that the Company's backstopping provisions in general are different from industry practice in other jurisdictions; making mention of ATCO's backstopping charges.

[3] TGI Application for Commodity Unbundling Project for Residential Customers, dated April 13, 2006, page 34

[4] Natural Gas Marketers of BC letter dated April 2, 2009, page 1

6. NGMBC is also concerned about the possibility of members being penalized in the event that backstopping penalties are assessed but that the cause of the shortfall is the responsibility of Terasen Gas.

Terasen Gas Response

Terasen Gas agrees with NGMBC about the importance of meeting delivery obligations by program participants. As discussed above, the ESM is the cornerstone of the Customer Choice commodity unbundling program, with Terasen Gas fulfilling the critical role as supplier of last resort. This made in BC unbundling solution has different underlying business rules than T-service or other unbundling models. Terasen Gas believes that the backstopping methodology as set out in Article 13.01 of Rate Schedule 36 is prudent and necessary in order to preserve the integrity of the ESM. The backstopping methodology is also in the best interests of customers because it clearly demonstrates which steps will be taken to help ensure that a gas marketer delivers natural gas to a customer with whom it has contracted.

1. The residential and commercial customers eligible to participate in the Customer Choice program must be served by Terasen Gas on an uninterruptible basis. This means that the Company does not have the option to cut-back the delivery of natural gas to these customers in the event of a supply shortfall, such as one that could be caused by a gas marketer failing to deliver its obligated supply by the end of the gas day. The purpose of the backstopping charge, in part, is to provide a sufficient incentive to gas marketers so that they will meet their delivery obligation. To avoid triggering backstopping charges under Rate Schedule 36, gas marketers must deliver their entire natural gas commodity obligation to Terasen Gas by no later than the Evening Nomination Cycle on each day. This is required so that Terasen Gas, as supplier of last resort, can backfill any marketer supply shortfall on the remaining nomination cycles.

   If the trigger for backstopping gas was tied to the deliveries received by the end of the actual gas day, Terasen Gas could not access gas supplies in the event of a shortfall discovered at that time, from any of the two supply hubs (Station #2, Sumas) in time to meet the non-interruptible delivery obligation it has to residential and commercial customers. If Terasen Gas was to wait until after the final nomination cycle has been authorized before taking steps to back fill the supply cuts from a marketer as suggested, the only resources that can be accessed by Terasen Gas to keep gas flowing to customers would be downstream storage or the Tilbury LNG facility, assuming they were available at that time, which is not always the case. These resources are very valuable and already may be in use due to the fact that their primary use is intended for meeting peaking requirements and to manage changes in demand caused by weather. Resources such as these are not meant to be used to back fill annual baseload supply from marketers. Thus, significant risks and costs are borne by midstream customers because of the marketer shortfall and the mis-use of resources in the MCRA supply stack.

This trigger event rule does not apply to the NIT receipt point. For the NIT receipt point, the backstopping gas quantity shall be equal to the shortfall based on the final scheduled quantity for the day of gas flow. The reason for this is that the nomination rules are different on Spectra's Westcoast Energy Inc. system as compared to the TransCanada Nova system.

In order for Terasen Gas to perform its duties as supplier of last resort, it must have access to firm transportation to be able to back-fill any supply shortfall from any gas marketer to match the firm transportation business rules on the Westcoast Energy Inc. system. That is why the trigger for backstopping charges is tied to the Evening Nomination Cycle. The tie to this cycle allows Terasen Gas to make supply arrangements if it is discovered that a gas marketer failed to make its full delivery. Terasen Gas does not believe that it is reasonable for customers to bear the risk of a "promise" to deliver by the end of the gas day as inferred by NGMBC in its letter, nor should all core customers bear the inevitable costs associated with marketers failing to deliver.

2. The backstopping charge is calculated according to the terms and conditions of Rate Schedule 36 and is separate from the delivery requirement itself. Although the penalty is assessed by Terasen Gas, the Company does not benefit from this in any way. All backstopping charges are recorded in the MCRA and help to offset the cost to contract for any incremental supply required to keep gas marketer volumes whole. The backstopping charge is the only charge that gas marketers must pay when they fail to meet their delivery requirements. While gas marketers must pay for their own purchase price of the natural gas commodity if they ultimately deliver their full requirement by the end of the gas day, gas marketers are paid for the total deliveries they make to Terasen Gas after the 24 hour gas day is complete. The marketers receive a revenue stream of dollars from Terasen Gas to offset their purchase costs for the delivery amounts they actual make to Terasen Gas. Thus, Terasen Gas does not believe that the marketers pay twice for the gas they deliver to Terasen Gas. Also, Terasen Gas would expect that the marketer (who failed to deliver to Terasen Gas) would recover some or all of the backstopping charges that they incur from the producer who failed to make deliveries to the marketer.

3. While Terasen Gas and NGMBC agree on the importance and need for sufficient penalties to encourage natural gas delivery compliance, Terasen Gas does not agree that the backstopping charges are too onerous. Given that the marketers are paid for the amount of gas they ultimately deliver, Terasen Gas views the backstopping charges, as set out in Rate Schedule 36, as a necessary element to ensure that gas marketers do not view backstopping gas as a viable alternative supply option.

4. Terasen agrees with NGMBC that backstopping charges are calculated differently under the T-service model or across other jurisdictions. However, it is Terasen Gas' position that these differences are necessary because of the requirements to serve two very different types of customers in a region with significant infrastructure constraints.

   The T-service model provides other means for managing these kinds of marketer delivery shortfalls. The title transfer of the gas deliveries in the T-service model occurs at the interconnecting point between the Transporter (i.e. Westcoast Energy Inc.) and the Terasen Gas transmission system and not at the supply hubs as it does under the ESM. This difference is important because industrial customers or gas marketers managing the upstream supply resources under the T-service model have access to the firm transportation rights to make corrections in all nomination cycles. To help manage any supply shortfall related to the T-service customers, Terasen Gas has the right to reduce the customer's burn to match their authorized supply received by Terasen Gas from Transporter.[5] Terasen Gas does not have the same right to reduce residential or commercial customers demand under the ESM. This point is further supported by the fact that customers served under Rate Schedules 22, 23, 25, and 27 can be either monthly or daily balanced depending on the Rate Schedule, as compared to the ESM models that is balanced on an annual basis, without true-up. As a result, under the tariff, Terasen Gas has the ability to manage the T-service customers in a fundamentally different manner than customers who purchase gas under the ESM.

5. Terasen gas is of the view that the comparison made by NGMBC to the ATCO Gas penalty charges, and industry practices elsewhere, is not relevant to the marketplace in British Columbia. The Company's position is based on two significant points. First, the upstream nomination business rules on the Wescoast Energy Inc. system and the Northwest Pipeline system, are different than in Alberta. As an example, Westcoast Energy Inc. nomination system matches supply and demand at a particular supply hub, and then matches these nominations against transportation nominations as part of an overall single nomination process. In Alberta, there is no link between the supply hubs and the transportation nominations. These two nomination processes are done in isolation of each other. Secondly, and most importantly, the key aspects of the ESM, including balancing requirements are significantly different than rules of other unbundling business models. In most jurisdictions, gas marketers are required to provide some form of balancing with period end true-ups.

6. With respect to the issue of potential assessment of penalties in the event that backstopping penalties are assessed but that the cause of the shortfall is the responsibility of Terasen Gas, the Company takes issues with this point for two reasons. One, within the Terasen Gas supply nominations set up on the upstream pipelines, marketer suppliers are given a higher receipt priority than Terasen Gas' supply transactions. What this means is that it is highly unlikely for a marketer supply shortfall to be caused by Terasen Gas. Second, under Rate Schedule 36, Appendix B states, "In the event the Backstopping Gas sale arose due to a delivery shortfall caused by the actions of Terasen Gas, the Backstopping Gas price shall be zero". Therefore, the marketer would have no backstopping charges in the event that the cause of the supply shortfall was caused by Terasen Gas.

[5] Terasen Gas Inc. Tariff, Rate Schedule 22 (Large Volume Transportation), Section 8.6. Other Transportation Service rate schedules 23, 25 and 27; Section 7.6. "Failure to Deliver to Interconnection Point".

In summary, Terasen Gas believes that the "trigger events" leading to the determination of backstopping charges, as well as the level of backstopping charges, set out in Rate Schedule 36 in Article 13.01 are prudent and necessary to preserve the integrity of the Essential Services Model ("ESM") business rules and are in the best interests of customers. We are of the view that changing the backstopping trigger event and changing the backstopping fee will undermine the integrity of the ESM and will lead to increased risk and costs to be borne by core customers. Therefore, Terasen Gas believes that no modifications to Rate Schedule 36 are warranted.

If you have any questions related to this information, please do not hesitate to contact Scott Webb at 604-592-7649.

Yours very truly,

TERASEN GAS INC.

Original signed by Shawn Hill:

For: Tom A. Loski

Attachment

cc: Erica Hamilton, Commission Secretary, BCUC
Eugene Kung, BCOAPO (e-mail only)
Licensed Marketers (e-mail only)

NGMBC
Natural Gas Marketers of BC

April 2, 2009

VIA EMAIL

Terasen Gas Inc.
16705 Fraser Highway
Surrey, BC V3S 2X7

Attention: Scott Webb
Manager, Customer Programs & Research

Dear Sir:

RE: Terasen Gas Inc. Rate Schedule 36 Commodity Unbundling Service, Article XIII: Performance Obligation and Marketer Failure, Section 13.01 -Backstopping Gas

The Natural Gas Marketers of British Columbia ("NGMBC") appreciate the opportunity to communicate our concerns to Terasen Gas Inc. ("TGI") and the British Columbia Utilities Commission ("Commission") regarding TGI's current Rate Schedule 36 Backstopping Gas provisions. The NGMBC includes Access Gas Services Inc., Active Renewable Marketing Inc., Direct Energy Marketing Limited, Energy Savings B.C., Firefly Energy and Summitt Energy BC LP.

TGI's current Rate Schedule 36 tariff often results in a case where a marketer fulfills their full supply requirement over a 24-hour gas Day, but is forced to pay a substantial penalty to TGI. In such cases, the marketer is paying for gas supply twice: once at their own purchase price and once at the punitive Backstopping Gas sale price. It must be stated that the NGMBC agrees that the backstopping gas sale price should be punitive in order to encourage Gas delivery compliance. However, if a marketer fully delivers their Obligated Quantity of Gas over a 24-hour Gas Day, then that marketer has not necessitated a requirement to buy Backstopping Gas. Penalizing Marketers for actually meeting delivery requirements is an inefficient outcome that ultimately imposes costs on customers.

The NGMBC contends that the current triggering events of TGI's Rate Schedule 36 Backstopping Gas charges are excessively onerous and not in line with standard industry practice or even across rate categories within TGI. The NGMBC respectfully requests that amendments be made to Section 13.01 of the Rate Schedule 36 tariff. TGI is undoubtedly aware that it is not uncommon for producers, marketers and/or pipelines to show Gas supply cuts in the Timely or Evening Nomination Cycles for a multitude of reasons. More often than not, Marketers will correct data entry errors or find replacement Gas supply for nomination shortfalls in the Intraday Nomination Cycles (ID1/ID2). Under the current Rate Schedule 36 tariff, marketers are penalized, despite meeting full delivery requirements, if the Evening Nomination Cycle is showing only the "possibility" of a supply shortfall.

The NGMBC agrees that the Backstopping Gas sale price should be punitive in order to encourage Gas delivery compliance; however, the requirement that the Scheduled Quantity in the Evening Nomination Cycle exactly match the Obligated Quantity is unwarranted given that supply may show up in the Intraday Nomination Cycles keeping TGI whole. The NGMBC agrees that if there is a delivery shortfall on any given Gas Day that Backstopping Gas charges should apply and be onerous on the failing marketer; however, Backstopping Gas charges should apply only to actual supply shortfalls and not to "possible" supply shortfalls. In turn, actual supply shortfalls are more useful in determining Marketer Failure.

Also, Marketers have no control over TGI's Gas scheduling department and should not be penalized in the event that Backstopping Gas charges are caused by the actions of TGI. Aside from Force Majeure, there is no reason for TGI to cut to a Marketer.

By way of comparison to TGI's deregulated transportation market segment (Schedules 22, 23, 25 & 27), TGI also penalizes for supply shortfalls via Backstopping Gas and/or Unauthorized Overrun Gas.

However, only actual supply shortfalls and not “possible” supply shortfalls are penalized. Gas deliveries in this deregulated market segment are measured over the full 24-hour Gas Day regardless of what the Evening Nomination Cycle indicates. NGMBC respectfully requests similar treatment by TGI for Rate Schedule 36.

Additionally, ATCO Gas, the largest natural gas utility in Alberta, also charges a punitive price for settling imbalances caused by gas marketers not meeting their delivery requirements. However, they penalize actual supply shortfalls and do not penalize “possible” supply shortfalls. NGMBC respectfully requests similar treatment by TGI for Rate Schedule 36.

The NGMBC offers the following suggested amendments to the Rate Schedule 36 tariff. More specifically, amending Section 13.01 and including an additional definition in Section 2.01.

Section 2.01 Definitions
2.01(m) “Delivered Quantity” shall mean the quantity of Gas delivered by Marketer to Terasen Gas on the Day of Gas flow.

Section 13.01 – Backstopping Gas
Except for cases of Force Majeure, a mandatory sale of backstopping Gas (“Backstopping Gas”) from Terasen Gas to Marketer in a quantity equal to the amount of the shortfall will be deemed to have occurred in the event there is a shortfall between the Delivered Quantity at the Receipt Point and the Obligated Quantity at the Receipt Point for any Day. The Fuel Gas Delivery Requirement shall be determined to have been fulfilled in priority to the Receipt Point Delivery Requirement at each Receipt Point in quantifying the amount of the shortfall to be made up by Backstopping Gas.

In the event the shortfall was due to actions of Marketer, the Backstopping Gas sale quantity for any Day shall be: Obligated Quantity at the Receipt Point less Delivered Quantity at the Receipt Point.

A deemed sale of Backstopping Gas will be triggered by all delivery shortfalls caused by actions of Marketer with the exception of events of Force Majeure. A separate Transaction Notification will be sent by Terasen Gas to the Marketer for each Day that a Backstopping Gas sale occurs.

NGMBC looks forward to discussing this matter further with TGI and the Commission. Should you have any immediate questions or comments, please do not hesitate to contact the undersigned at (403) 290-6944.

Yours truly,

(Originally signed by)

Chad Painchaud
Manager, Compliance
Direct Energy
On behalf of NGMBC

c.c. Erica Hamilton, BCUC Commission Secretary

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Log No. 29266

VIA E-MAIL

April 29, 2009

To: All Gas Marketers
Terasen Gas Inc.
BC Old Age Pensioners Organization *et al*

Re: Terasen Gas Customer Choice Program
Rate Schedule 36: Backstopping Gas

The Commission acknowledges receipt of a copy of Terasen Gas' response dated April 24, 2009 to the Natural Gas Marketers of BC regarding backstopping gas charges in Rate Schedule 36. This matter was discussed at the natural gas marketing annual general meeting held on April 23, 2009. It was agreed that Terasen Gas would address this issue in its Application to the Commission, following the annual general meeting, and the gas marketers would be given an opportunity to respond to Terasen Gas' filing before consideration by the Commission.

Yours truly,

Erica Hamilton

BG/vl

CustomerChoice/09 GenCor/Backstopping Gas_Resp to TGI Ltr.doc