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November 20, 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 (the "Application")

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

On October 16, 2009, Terasen Gas Inc. ("Terasen Gas") filed the Application as referenced above. In accordance with Commission Order No. G-126-09 setting out the Regulatory Timetable for the Application, Terasen Gas respectfully submits the attached response to BCUC IR No. 1.

If there are any questions regarding the attached, please contact Scott Webb at 604-592-7871.

Yours very truly,

TERASEN GAS INC.

Original signed:

Tom A. Loski

Attachments

cc (email only): Registered Parties

1.0 Reference: Exhibit B-1, p. 6

1.1 TGI states that all remaining Release 3 and 4 enhancements will be complete by the end of the year. Please update the status of completion.

Response:

The work related to Release 3 and 4 enhancements has progressed at a steady pace. The poaching issue, as addressed in the Application, has required significant manual re-work to adjust customer accounts. Despite this, Release 4 changes have proceeded smoothly. The programming development for many of the changes is complete; implementation is pending the completion of dependent systems.

TGI's Gas Supply department is currently upgrading their Nucleus system and servers (Project Entegrate). It has been decided to implement Release 4 GEM changes at the same time because Customer Choice processes are dependent upon the Nucleus system. Release 4 enhancements must be tested on the new .NET framework[1] that Entegrate employs. Scheduling the Release 4 GEM and Entegrate activity at the same time ensures TGI only needs to recompile Customer Choice data and test the GEM changes once. This strategy reduces project costs because the necessary data recompiling and testing activities only need to take place on the updated .NET framework. Any compatibility issues that are found during the testing phase may temporarily delay the implementation of Release 4 changes until early January.

The status for each line item for Release 3 and 4 is as follows:

Reference Number	Item	Description	Status
7.2.7.2	Receiving Response Files	Enhance the system to increase the timeliness of response files	Development has concluded. Further testing still required
7.2.7.21	Time Stamping Transactions	Addition of a time stamp to each enrolment response file.	Development still pending

[1] The Microsoft .NET Framework is a software framework that can be installed on computers running Microsoft Windows operating systems. It includes a large library of coded solutions to common programming problems and a virtual machine that manages the execution of programs written specifically for the framework. The .NET Framework is a Microsoft offering and is intended to be used by most new applications created for the Windows platform.

Reference Number	Item	Description	Status
7.2.5.7	Add Marketer e-mail Address to confirmation letter	Addition of marketer e-mail address to the confirmation letter	Development is complete
7.2.7.18, 7.2.5.8	XML and Different File Formats	Ability to select (Excel, PDF, XML) multiple report formats	Development is complete.
7.2.5.8, 7.2.5.2	90-120 Day Renewal Rule	Additional validation to enforce the five year contracting rule	In-progress with Accenture Business Service.

The planned go-live date for the Gas Supply Entegrate project is December 7, 2009 and as long as project ac hieves their m ilestones, Terasen G as sill ex pects to co mplete t he GEM enhancements by year-end.

2.0 Reference: Exhibit B-1, p. 10, s.2.2

2.1 The current Application requests are very modest. Shouldn't TGI proceed with these four improvements prior to completion of this written proceeding?

<u>Response:</u>

The established protocol around Customer Choice is for TGI to seek Commission approval prior to implementing enhancements. To emphasize this practise, the following Commission Orders are presented as precedents:

- On, September 25, 2008 the Commission issued Order G-140-08, in response to TGI's July 2008 Application for Customer Choice Program Enhancements and Additional Customer Education Funding. That order approved funding for the first two of four GEM system enhancement packages requested in the Application. TGI commenced development and implementation activity for the two approved items following the Order, however it did not undertake such activity on the two remaining enhancement packages until receiving Commission Order G-181-08, dated December 12, 2008.
- On January 31, 2009, Terasen Gas filed its Customer Choice Compliance filing pursuant to Order G-181-09. This filing presented a proposed Communications Plan for the expenditure of $750,000. Terasen Gas waited for explicit Commission approval, obtained in Order G-9-09, before purchasing any media or making any other expenditures necessary to create the proposed campaign.

TGI believes that continuing with this protocol is appropriate in addressing Customer Choice systems maintenance activities as it avoids a potential situation where TGI has undertaken expenditures on enhancements that the Commission ultimately determines are unnecessary.

3.0 Reference: Exhibit B-1, pp. 15-17, s.3.2; Appendix A p. 11

3.1 The number of disputes continues at a very high level. TGI identifies two options to increase marketer accountability. If the dispute fee were to be increased by the Commission, to what level would TGI suggest?

Response:

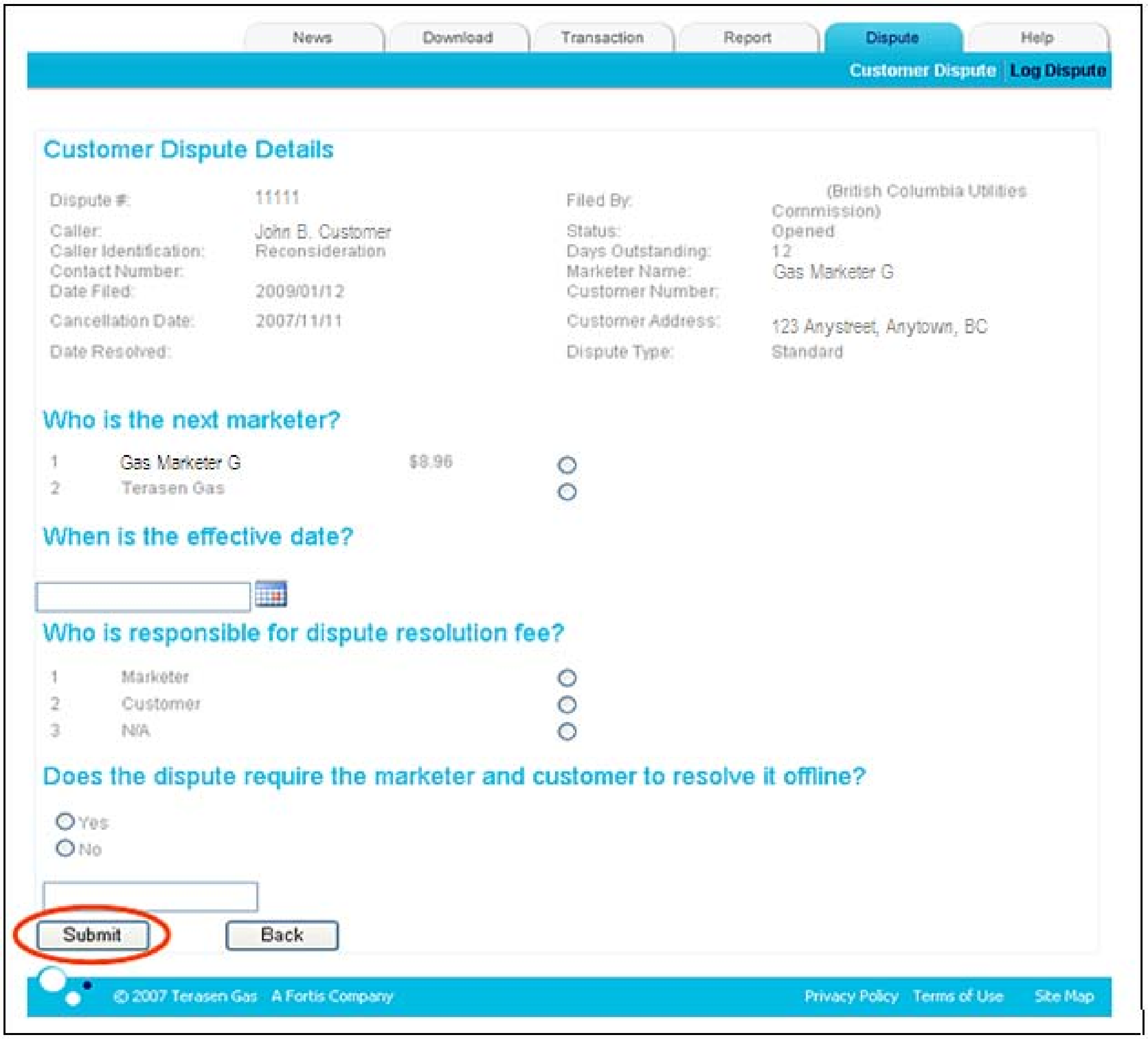
To promote greater adherence to the gas marketer's Code of Conduct Terasen Gas suggests that the dispute fee increase from $50 to $250 when the adjudication process confirms a breach of the Code has taken place. To offset the increase, TGI suggests that Marketers should not be charged the dispute fee in the following circumstances:

- when the Commission rules in their favour;
- the third party verification call validates that the authorized signatory confirmed their understanding and acceptance of the consumer's agreement; or
- if a TPV is not available or provides inconclusive evidence with respect to a code violation.

The proposed change results in punitive fines versus administrative fees. And it allows the Commission to use its discretion, for example, with respect to price related issues.

No changes to GEM would be required. The Commission would only levy fines when Code of Conduct violations are confirmed. Below is a screenshot of the BCUC's "Log Dispute" page. When no Code violation is confirmed, the Commission would identify "N/A" with respect to, "Who is responsible for dispute resolution fee."

Figure 1: GEM - BCUC Dispute Ruling



It is expected that this change would dramatically influence the dispute rates experienced, as Marketers adjusted sales processes to consistently adhere to the Code of Conduct. Revenues from the new fine structure (estimated 1000 Fines @ $250/ dispute = $250, 000) should be similar to current levels (average 4000 Dispute Fees @ $50/dispute = $200,000).

Background

At the April 23, 2009 Customer Choice Annual General Meeting, Gas Marketers requested that customers pay a $50 refundable fee to initiate price-based disputes. Marketers surmised that this approach would help curb frivolous customer complaints. Terasen Gas countered this argument, suggesting that making the dispute process more cumbersome would incite customers to look for other, less visible ways of breaking their Consumer Agreement. Although no change to the dispute fee was recommended, TGI believes that changes designed to modify Marketer behaviour are appropriate. On page 16 of the 2009 Application, TGI discussed the use of dispute fees to help influence Gas Marketer sales practices.

The revenue stream from a single Consumer Agreement is worth several hundred dollars for each Gas Marketer. TGI believes that the current $50 dispute fee is too low to dissuade gas marketers from employing inappropriate sales techniques. The level of disputes experienced since the program launched supports this position.

At the June 15, 2006 Customer Choice workshop, general agreement among stakeholders was reached that gas marketers should pay a dispute resolution fee. In the subsequent 2006 Customer Choice CPCN application, Terasen Gas suggested the amount comprise both a fixed and variable component. Terasen Gas proposed the following fee structure for stakeholder consideration. Assumptions included the following:

- that approximately 800 disputes per year would arise
- six licensed gas marketers would be operating
- annual operating costs for the dispute resolution process were expected to be approximately $100,000 (primarily for staff); and
- the fee structure should aim to cover 50% share of costs from gas marketers

For the fixed portion of the fee, Terasen Gas proposed to charge $1000 per gas marketer, similar to the $1000 application fee that is required from a gas marketer when applying for a new license or renewal of an existing license. Based on the above assumptions, a $50 dispute fee was selected for the variable component. These fees were estimated to recover approximately $50,000 in costs from gas marketers annually.

Actual dispute activity is much higher than anticipated. As noted on page 9 of the 2009 Customer Choice Program Summary and Recommendations, 2530 disputes were reported in the first six months of 2009. In 2008, 3479 disputes were recorded and when the program was rolled out in 2007, 8378 disputes were entered into the GEM system. These dispute levels are dramatically higher than the estimated 800 annual disputes originally forecast. Although the dispute fee is intended to ensure compliance with existing code of conduct rules, based on the number of disputes that have been raised it can be concluded that the $50 dispute fee is inadequate to influence sales behaviour. It is perceived by Gas Marketers as an administration fee, rather than a penalty that is designed to modify undesirable behaviour.

Summary

Increase the dispute fee from $50 to $250 when the adjudication process confirms a breach of the Code has taken place. Marketers should not be charged the dispute fee when the

Commission rules in their favour; the third party verification call validates that the authorized signatory confirmed their understanding and acceptance of the consumer's agreement; or if a TPV call is not available or it offers inconclusive evidence with respect to a code violation.

The proposed change should be phased in to start on April 1, 2010. This time would allow Gas Marketers to train sales staff accordingly. It would also ensure that most disputes would be associated with a sale that can be verified through the proposed, enhanced TPV.

Gas marketers must remain diligent in their efforts to accurately describe the benefits and potential risks associated with fixed rate commodity contracts to customers. Likewise, customers must understand the Consumer's Agreement they sign if they are to remain satisfied with their contract in the long-term. Increasing the Dispute Resolution Fee as described will encourage Gas Marketers to adhere to the Code of Conduct. They will avoid additional costs when they adhere to the Code, but will be penalized for Code contraventions.

3.2 Should the Commission consider cancelling Gas Marketer licenses if the number of disputes per 100 enrolments becomes too high?

Response:

TGI believes that Gas Marketers should be held accountable for their business activity. However, establishing a specific dispute level that triggers the cancellation of a license is not recommended. The cancellation of a Gas Marketer's license should be employed as the final step in a progressive disciplinary process. As illustrated over the last several months, market factors like the disparity between the regulated variable rate and Gas Marketer fixed rates can dramatically influence dispute activity.

Dispute levels will change over time in relation to sales and price fluctuations. A prescribed performance threshold would neglect this important information. Terasen Gas believes the Commission should use its discretion to discipline marketers as needed to ensure that the Code of Conduct is adhered to and that adequate levels of customer service are maintained. Reports such as the new Marketer Performance Report should be considered, but not used in isolation of other, important information.

Before finally cancelling a Gas Marketer's license, the Commission should consider all relevant customer feedback as well as the remedial steps undertaken by any Gas Marketer facing disciplinary action.

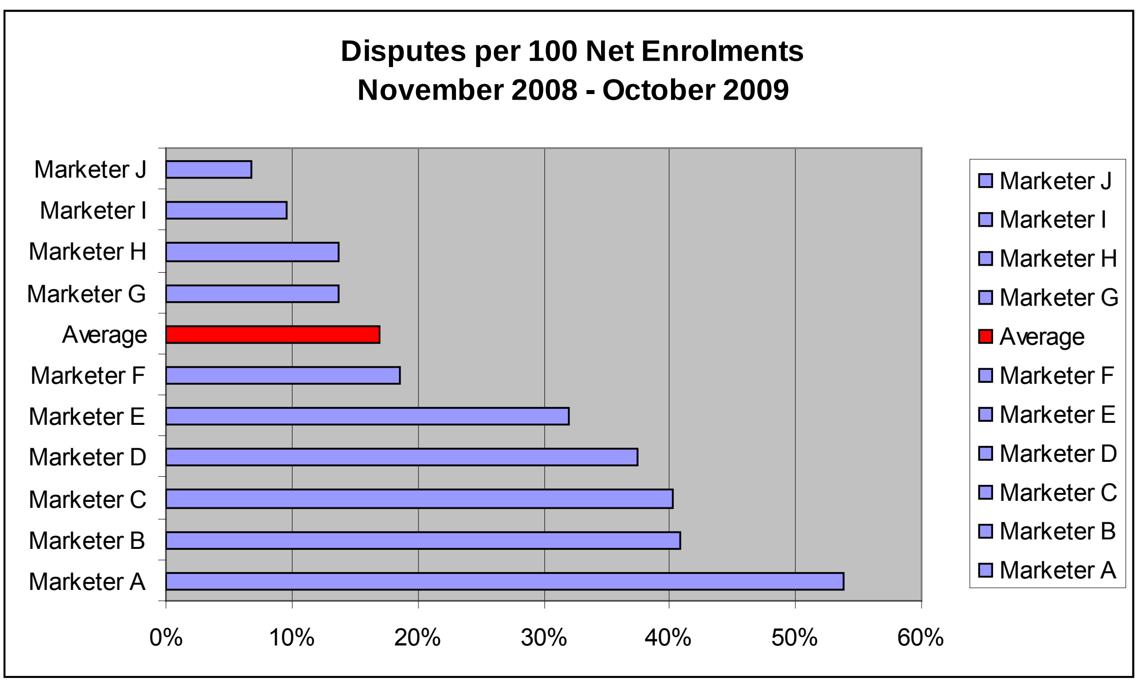
3.3 Figures 4 and 5 on page 11 of Appendix A shows two Gas Marketers with more than half their June 2009 enrolments in dispute. Should the Commission set a threshold level at perhaps 40 or 50 percent?

<u>Response:</u>

Figures 4 and 5 on page 11 of Appendix A are from a mock-up of the new Marketer Performance Report. These figures are fictitious and are only used to show how the new report will present dispute information.

Dispute ratios currently range from a low of about 7% to a high of 54%. The tables below reflect actual results. Results do not exactly replicate the results that will be produced in the pending Marketer Performance Report because it will match specific disputes with corresponding enrolments. This matching process is not possible to replicate outside of the Customer Choice systems. The information below was calculated using the Reason Code Analysis report. Cumulative disputes and cancellations were divided by cumulative net enrolment activity over the same 12 month period. Despite this difference, the results are constructive in pointing out the pitfalls of putting too much weight on one metric.

Figure 2: Dispute Ratios

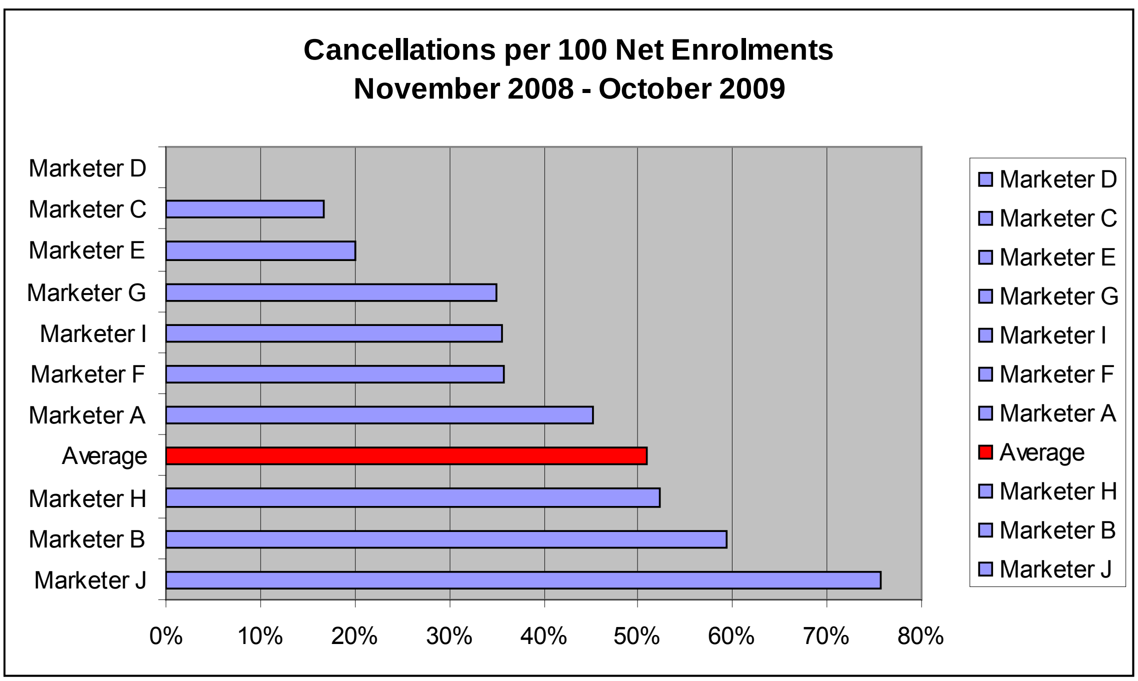


Evaluating Figure 1 in isolation of other information may lead to inappropriate decisions. For example, many marketers that exhibit low dispute ratios have bad cancellation ratios, as shown in Figure 2. Marketer J has a significant share of the BC fixed-rate contracts. The company has the lowest dispute levels, but their use of cancellations is extensive. As a percentage of net enrolments, Marketer J experiences a cancellation ratio of about 75%. Alternatively, when expressed in terms of gross enrolments almost one of every two customers that signs a contract later contacts Marketer J to cancel.

Although it can be argued that cancellations are preferable to disputes, TGI believes that high cancellation rates suggest possible Code of Conduct violations, or at least undesirable selling practices. Under the Basic Principles of the current Code of Conduct, it is expected that:

> Gas Marketers shall voluntarily assume responsibility towards the Consumer with respect to fair sales methods, accurate and truthful dissemination of information, and product value, and shall make every reasonable effort to ensure Consumer satisfaction.[2]

Figure 3: Cancellation Ratios



[2] Code of Conduct for Gas Marketers engaged in the Commodity Unbundling Service in the Province of British Columbia, December 12, 2008. Basic Principles, page 2.

The relative use of Disputes, Cancellations and Operational Correction Drops is described in the Reason Code Analysis report sent to the Commission each week. The report has not been reproduced here because it contains sensitive market share information. The report represents one tool Commission staff should use to help shape their decisions regarding disciplinary steps. The new Marketer Performance Report will act as another input. However, because Marketers have a variety of techniques they can employ to help "shape" dispute statistics, reports should not be relied upon in isolation.

The evaluation of Marketers should consider disputes, cancellations, customer feedback, and Commission staff's success in motivating Marketer change outside of a formal disciplinary process. No threshold level for Dispute Ratios is recommended at this time.

4.0 Reference: Exhibit B-1, pp. 17-18

4.1 TGI discusses the issue of customer "poaches" and the two patches that have been employed to fix the problem at minimal cost. Since there are no reasonably priced enhancements which will correct the problem permanently would you recommend applying additional penalties on the Gas Marketers to affect behavioral changes?

Response:

In general, the Commission should monitor the behaviour of Gas Marketers and discipline them through fines for inappropriate business practices. A progressive disciplinary process administered by the Commission has distinct advantages, including:

- Fines can be adjusted so that they are commensurate with the scope and nature of the violation(s);
- Repeated failure to comply with any one or more of existing Code of Conduct measures can result in the loss of the Marketer's license; and
- Substantive changes to GEM are averted.

Specifically, dealing with the implementation of penalties calculated and processed through GEM for customer "poaches", TGI believes that it is premature at this time; the breadth of the problem cannot be fully assessed without the necessary reporting in place. TGI suggests the implementation of a new report that summarizes multiple enrolment requests by marketer. This information could be considered in light of other performance statistics like disputes, cancellations, Operational Correction Drop code use, and customer feedback. As such, it could play a role in possible disciplinary action.

Contrary to the Commission's statement above, Terasen Gas continues to work with our service provider to correct the system logic in order to block future poach requests. As stated in the 2009 Application on page 17, "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."

TGI surmises that the root cause of multiple enrolment requests stems from the relative unavailability of contract date information. If a customer loses their Consumer's Agreement, the TGI contract with our call centre service provider does not cover the release of the information to the customer. Instead, the customer must call their current Gas Marketer to obtain the corresponding end date. Marketer sales representatives, pressed to secure the contract in a timely fashion, are unlikely to suggest that the customer call the existing Marketer. Instead, TGI surmises, sales representatives may choose to guess the end date of the existing term. This results in a flurry of enrolment requests for the same account/premise.

Of concern to TGI, this situation suggests that some Gas Marketers are neglecting to identify the start and end of the agreement that is signed by the consumer. This means that these contracts are either being signed with the wrong time span identified, or the customer's signature is secured on an Agreement without any dates specified. Both activities are inconsistent with appropriate sales behaviour. TGI reminds Gas Marketers that Article 2 of the Code of Conduct, Price and Other Terms, specifies that, "All Offers shall contain clear statements as to the quantities of Gas to be purchased, intended start-up and delivery dates, and the term of the agreement."

TGI agrees with the Commission that repeated enrolment requests for the same customer should be investigated, and potentially result in disciplinary action. To best address this issue moving forward, TGI suggests the following:

1. Implementation of a new report to capture multiple enrolment requests by Marketer. Costs to implement are expected to be approximately $6k. This funding request is incremental to the amounts outlined in the Application. Thus, if the BCUC believes this report has merit then this should be included in the Decision Order from the Commission related to this Application.

2. Continue our efforts to correct the processing issues associated with poached accounts.

3. Investigate the costs and impacts associated with adjusting the current TGI bill to include the end date of the existing contract(s). Incorporating the end date of the existing contract on the consumer's bill will provide useful information for customers, and provide Gas Marketer sales representatives with the information they need to complete contracts quickly and accurately. This entails investigation that has not taken place to date. TGI suggests it investigate the feasibility and costs of this change so that the issue can be re-visited at the 2010 Annual General Meeting.

4. Gas Marketers should enhance their enrollment database to flag duplicate contracts and extract them before each is uploaded to GEM. This will prevent Marketers from poaching their existing contracts.

5.0 Reference: Exhibit B-1, pp. 23-26, s.4.3 & 4.4

5.1 TGI provides an example of the added cost to accommodate price changes outside of the anniversary date and discusses an ESM fee concept to charge for the cost of accommodating price changes outside the anniversary period. TGI concludes the calculations are unworkable and "inconsistent with the ESM." Could the Commission implement a flat fee which approximates the cost impact of marketers adjusting their rates midyear to make the process workable?

Response:

It is TGI's 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 does not support the implementation of a flat fee for Gas Marketer price adjustments.

As stated on page 25 and 26 of the Application, TGI did recommend an ESM fee as part of the business rule changes in implementing Customer Choice for residential customers in 2006 to resolve "poaching" activities between Gas Marketers, but this functionality was not approved in favor of the Hard Blocking Rule.

As stated in the CPCN for Residential Unbundling Program on page 43, Transcript Volume 2 (Proceedings at Hearing, dated June 27, 2006), TGI's position on the ESM is clearly stated:

> "The Company feels very strongly that if commodity unbundling for residential customers is approved by the Commission, that the essential service 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."

One of the fundamental business rules of the ESM is the 12-month fixed price rule which 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. As stated on page 25 of the Application, allowing Gas Marketers the ability to make frequent price changes to a customer outside of the 12-month fixed price rule can have a significant negative financial impact on Midstream costs that all customers share. Thus, accommodating price changes outside of the 12-month Anniversary date is inconsistent with the ESM and any possible change to this business rule is a cause for concern.

A flat fee concept would be impractical as well. In order to determine a reasonable flat fee rate, TGI would need to put in place proper IT infrastructure and systems to determine and monitor the actual costs versus the flat fee being collected. This added IT functionality would be an added cost to customers. Further, a flat fee does not necessarily guarantee a full recovery of all the costs borne in the midstream as these costs would reflect the actual difference between a customer's current price and their new rate, along with the volume variance based on normal consumption. Therefore, a flat fee rate would continually need to be monitored and adjusted to reflect the actual cost borne by the midstream.

Given these reasons TGI does not support the implementation of a flat fee because it is not consistent with the 12 month fixed price rule, which is fundamental to the ESM, and therefore it would be impractical to determine and implement.

5.2 Why is the concept of more frequent price changes "inconsistent with the ESM?"

Response:

The fixed price offering and the 12 month rule have been central to the Customer Choice Program in BC since the start of the Unbundling Program dating back to 2003. A fixed price offering by Gas Marketers allows customers access to a different product than what is offered by the TGI default offering. TGI's default offering has the potential to change every three months; therefore, it may be seen by customers as being a variable rate. Under the ESM model, fixed priced contracts allow customers to have a "choice" as compared to the TGI default offering.

The ESM and its annual baseload delivery requirements are predicated on the requirement for a fixed price in 12 month time intervals which is necessary to ensure that no financial exposure arises in the Midstream Cost Reconciliation Account ("MCRA"). As the marketer delivery requirement is determined based on a 365 day period, it is then necessary to ensure that the supply agreement with the marketer coincides in length of term (i.e. 12 month time intervals) in order to ensure complete flow-through of a marketer's gas costs to its customers through the MCRA without impacting other customers of the MCRA.

It should be noted that the MCRA also manages any volume and price variance caused by the difference between normal annual demand and actual annual demand caused by variations in weather.

As demonstrated on page 24 and 25 of the Application, 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 ex pected cu stomer co nsumption pa tterns and no rmal w eather, the results of this scenario are:

- The Gas Marketers' su pply del iveries of 1 ,275,000 G J m atch customer consumption of 1,275,000 GJ at the end of the contract year; and
- Terasen Gas manages the daily/monthly volume variations.
- However, C ustomer R evenues of $8, 976,000 d o not match the $10 ,200,000 pai d 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 volume v ariances (monthly and daily) ca used by di fferences between act ual and no rmal 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 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 MCRA and seriously undermine the ESM.

Consequently, m ore frequent pr ice ch anges contradicts the esse nce o f E SM, which is giving customers the choice for long term fixed rates versus the default offering from TGI which has the potential to change every three months. TGI does not support any changes to the12 month fixed price rule or other business rules that are critical components of the ESM.

6.0 Reference: Exhibit B-1, pp. 28-38, s.5

6.1 TGI provides a comprehensive and detailed analysis of the workings of the ESM in the British Columbia marketplace; including an analysis of the impacts of adopting a monthly fixed rate/ 100% load factor option. TGI concludes that "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." Would Gas Marketers reasonably be capable of providing the intraday gas and emergency gas to allow the monthly model to work?

Response:

TGI does not believe that the Gas Marketers would be able to provide intraday gas and emergency gas and allow TGI to reasonably maintain supply reliability without adding significant complexity, operational risk and added costs for all customers.

As stated in the CPCN for Residential Unbundling Program on page 43, Transcript Volume 2 (Proceedings at Hearing, dated June 27, 2006), TGI's position on the ESM is clearly stated:

> "The Company feels very strongly that if commodity unbundling for residential customers is approved by the Commission, that the essential service 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 TGI."

By allowing the Gas Marketers to provide intraday gas to support the monthly model, in TGI's view represents a significant departure from the ESM and its business rules, which cannot be supported by TGI.

This monthly model concept was reviewed as part of the unbundling work that took place to establish the Commercial Unbundling Program. In Section 6.2 of the Commodity Unbundling and Customer Choice Report that was filed on February 28, 2003 by TGI (then known as BC Gas) with the Commission that compared the differences between the two models that were under consideration, namely the Marketer Unbundling Group ("MUG") model and the ESM model. . For complete reference, see Section 6.2 of this report that is attached at the end of this question.

The report stated some major issues with the MUG model which are hereby quoted as follows:

> *"Some of the significant difficulties with this model are that marketers would be required to contract for supply without any adjustment for load factor, this creates a difficult proposition administratively, operationally and physically, especially if the supply delivery requirement was changing on a nomination cycle basis. In addition, the requirement for marketers to contract for the midstream resources created potential risk for customers if*

there was a marketer failure, which required BC Gas to re-contract for those midstream resources in order to fulfill its supplier of last resort duty. Furthermore, due to the increasing credit requirements, it would be more difficult for marketers, especially smaller players to enter the marketplace. Feedback from stakeholders was that the requirement for marketers to contract for midstream resources and to deliver supply to meet (intra)-daily demand forecasts was not workable, especially with their desire to offer longer term fixed price contracts to customers. ”

The existence of a Customer Choice Program for the BC marketplace was primarily made possible due to the concept and structure of the current ESM model. This model allows Gas Marketers to provide gas supply into the TGI system while providing flexibility to the utility to efficiently balance the intraday supply to the demand and adeptly manage its transmission and distribution system.

The intraday market in BC is extremely limited therefore current intraday business is primarily conducted via access to and from storage facilities. Therefore, Gas Marketers would need firm contracts with storage facilities and or pipeline companies for the supply to enter the TGI system at prescribed points. TGI believes that the timing and coordination which would be required to manage the system between TGI and the various gas marketer groups and external pipeline and storage facilities up to two times per day in order to obtain or dispose of supply is not a viable or practical option that can be successfully implemented and conducted on a daily basis. This revision to the current ESM business rules could lead to significant supply shortfalls and increased costs for customers. Furthermore, this revised business model would seriously impact TGI’s capability to perform its duty as The Supplier of Last Resort for the entire customer base. Currently, the process of matching the load forecast or demand against the availability or disposition of excess gas supply on an intraday is a very time sensitive process which requires precise coordination by the TGI Midstream group and a number of external third parties (storage operators and pipeline companies) up to two times each day during the specified Intraday 1 and Intraday 2 cycles. From the time that TGI’s Gas Control group provides the Midstream group with its latest and last intraday forecasted variance between gas supply and demand, the Midstream group often has less than 40 minutes to contact the various storage facilities and place the required nominations in order for the gas to flow as intended. This tight schedule provides the appropriate balance between intraday load forecast accuracy and operational pipeline and storage requirements. The placing of various nominations on different 3rd party pipeline systems and storage facilities requires experience and expertise that is conducted within a very short turnaround time.

The frequent and significant changes in intraday core load requirements, particularly during the winter months, are the primary deterring factors which would prohibit the monthly model to work effectively. TGI believes that the current process of meeting intraday gas supply and demand is complicated enough without the involvement of a multitude of new parties such as the Gas Marketers in this daily activity. The complexity of the process increases greatly during the winter months especially during periods of cool and peak day conditions, when load requirements can change rapidly, as more co ordination and ad ditional st orage facilities are i nvolved. T he introduction of a new facet in this delicate process such as the provision of intraday gas by the various marketer companies, through their respective on-call person on a given day, increases the r isk o f TGI no t m eeting i ts obligations to fulfill t he co re market de mand and i ts system balance on a daily basis.

In su mmary, TGI bel ieves such a ch ange t o the cu rrent E SM m odel leads to i ncreases in operational and performance risks for all customers. The monthly model is more complicated and not practical for the BC marketplace, and w ould increases costs and administration for all parties including customers.

Excerpt from Commodity Unbundling and Customer Choice Report filed on February 28, 2003:

6.2 Supply Balancing Model

The key aspects of supply balancing, with respect to commodity unbundling are:

- who will be responsible for balancing differences between actual demand and forecast demand
- how frequently will changes in customer demand dictate the amount of supply that needs to be delivered into the system for the specified time period
- who will be responsible for transporting gas from the market hubs to the utility's distribution system.

MUG Model

Under the MUG model, marketers were responsible for contracting for commodity supply and delivery to BC Gas at the interconnect point between the distribution system and the upstream pipeline. This pushed the obligation for the contract responsibility of midstream resources onto the marketer. This was to be done through a combination of mandatory assignments of pipeline capacity and possibly some upstream storage capacity. In addition, BC Gas was expected to de-contract some upstream and market area storage capacity, which the marketer could contract for directly with the storage operators. Also, in this model, BC Gas was to forecast demand for each group of customers belonging to marketers for each nomination cycle in a day, with the marketers responsible for delivering that supply.

In this model, the marketers were given the tools (midstream resources) to meet the daily demand for its group, with demand determined on a daily basis. Any balancing requirement for variances between forecast demand and actual consumption occurring after the last nomination cycle was to be met by the utility, utilizing midstream resources it held for that purpose.

Some of the significant difficulties with this model are that marketers would be required to contract for supply without any adjustment for load factor, this creates a difficult proposition administratively, operationally and physically, especially if the supply delivery requirement was changing on a nomination cycle basis. In addition, the requirement for marketers to contract for the midstream resources created potential risk for customers if there was a marketer failure, which required BC Gas to re-contract for those midstream resources in order to fulfill its supplier of last resort duty. Furthermore, due to the increasing credit requirements, it would be more difficult for marketers, especially smaller players to enter the marketplace. Feedback from stakeholders was that the requirement for marketers to contract for midstream resources and to deliver supply to meet (intra)-daily demand forecasts was not workable, especially with their desire to offer longer term fixed price contracts to customers.

Essential Services Model

As described above, today BC Gas performs an essential service by utilizing its distribution system assets and the midstream resources to move commodity from market hubs to customers' premises. In consideration of this, BC Gas has developed the "Essential Services Model" for commodity unbundling. In this model, BC Gas will continue to be responsible for contracting of all midstream resources needed to move gas from market hubs to the distribution system and to provide balancing and peaking requirements. This remains unchanged from today's requirement. Under the Essential Services Model, marketers will be required to deliver commodity to BC Gas at the market hubs in proportions similar to the overall portfolio requirement of BC Gas.

By virtue of the fact that BC Gas controls all the midstream resources in this model, it facilitates the move to a longer term balancing model. The daily balancing requirement for marketers is not required, and a seasonal or annual balancing model is workable. BC Gas considered a monthly balancing model but it likely still presented operational difficulties. Furthermore, BC Gas believes that either a seasonal or annual balancing model can be accommodated without significant changes to the existing portfolio of midstream resources required. Some stakeholders suggested seasonal balancing was workable and while others stated a preference for annual balancing. From an operational and administrative perspective, BC Gas favours the annual balancing model. The initial analysis suggests there is not a significant cost difference between seasonal and annual balancing. This issue should be reviewed and analyzed in more detail in the next phase of the project, in order to determine the most appropriate rule to adopt.

Under the Essential Services Model, the midstream costs will continue to be regulated in a manner consistent with current practice. All resources contracted for would be subject to the review by the Commission. All resulting costs would be tracked in a separate deferral account and flowed through to customers, without mark-up. The midstream costs would be paid for by all customers and not by the marketers. An explanation of the cost recovery and deferral account mechanism is described later in this section. BC

Gas proposes that it will continue with its mitigation efforts related to all of the midstream resources.

The Essential Services Model gives consumers the ability to exercise choice while still reflecting the delivery capacity constraints inherent in the regional marketplace. BC Gas, as well as some stakeholders believe that the Essential Services Model is likely to attract more and smaller marketers into the region, and may facilitate marketers serving smaller communities, thereby promoting more effective competition.
In the following sub-sections, BC Gas proposes further business rules that need to be dealt with in the next phase of the project.

6.2 If the implementation of a monthly model resulted in added utility gas contracting costs, should those costs be passed on to all customers or should they be paid by Gas Marketers?

Response:

As clearly stated in Question 6.1, TGI will not support any business rule changes pertaining to the current ESM model. TGI believes that if a monthly model could be implemented, it would result in added utility gas contracting costs and that these incremental costs should be paid by Gas Marketers. It is TGI's expectation that Gas Marketers would then recover these costs from their respective customers. Furthermore, TGI is extremely uncertain that a monthly model could be implemented and successfully put into operation in the BC marketplace.

Under a monthly model, it is assumed that the marketers would also be contracting for some portion of midstream resources that are currently contracted in their entirety by TGI. Under such a model, there is a significant existence of inherent complexities such as the appropriate level of contracting of midstream resources by each individual Gas Marketer, the correct recovery of these costs from the Gas Marketer's respective customers, the mechanics surrounding the redistribution of these assets on a monthly basis to account for the proportional changes to each Gas Marketer's share of customers in relation to the entire customer base. Furthermore, TGI does not believe that such a model, if implemented, is operationally prudent and workable on a day to day basis as there is a strong likelihood of non-performance on any given day that jeopardizes gas deliveries to the core market. This revised model would also seriously impede TGI's responsibility to be The Supplier of Last Resort for the entire customer base. To reduce this risk, TGI would then need to contract for an adequate amount or maintain its current level of Midstream resources to gain certainty that it could perform such an obligation.

The current ESM model is reflective of TGI's resource contracting strategy prior to the implementation of the Customer Choice program. This strategy is driven by the objectives in the company's Annual Contracting Plan that is filed each year with the BCUC. These objectives ensure that its customers' needs are met each day given the operating environment of the natural gas business in BC including factors such as the lack of significant marketplace liquidity and limited intraday access to gas supply. The monthly model fundamentally changes the method of procuring gas supply including the daily management of load balancing, increases operational risks and is not cost effective in nature. TGI firmly believes that the current ESM model protects all customers as it minimizes failure of non-performance by all parties for supply risk and daily balancing and is a cost effective model for all customers. It is primarily the framework specified in this ESM model that provided the underpinning for commodity unbundling in the BC marketplace.

For the reasons stated in Question 6.1 and above, TGI is not advocating any changes to the current ESM model. The move to a monthly model or any other variation of the current ESM model is not operationally and financially prudent and therefore not in the best interest of gas customers in BC.

7.0 Reference: Exhibit B-1, pp. 39-44, s.6; Appendix A

7.1 Reference: Issue 1. 2 discusses Operational Correction Drops ("OCD") and requests that Commission staff clarify the appropriate reasons for a Gas Marketer to employ the OCD code. From TGI's viewpoint, what OCD code uses would be appropriate and what uses would be inappropriate?

Response:

Terasen Gas' view is that the Operational Correction Drop (OCD) code may be used to drop any contract where legitimate changes to the contract are required before flow date.

Appropriate uses for this code include:

- to drop contracts where the customer and Marketer have agreed to a price change before the MSR that immediately precedes flow date is finalized;
- customer requests a change to the term of the contract;
- the Marketer enrolls the customer in the wrong marketer group;
- customer moves and signs with a second marketer before the original contract ports to the new premise;
- data entry errors; or
- when a customer was unavailable to cancel the contract during the Cancellation period due to verifiable sickness or absence during the 10 day cancellation period.

In some cases, when a customer moves, they sign up with a second Gas Marketer before their contract ports to the new premise. The original Gas Marketer then tracks the customer at their new premise and reminds the consumer of their contractual obligations and the resulting penalties if the contract is voided. The customer then asks the new Gas Marketer to let them out of the contract they just signed. These situations are essentially poaching issues. TGI is evaluating this type of circumstance as it works to resolve the poaching glitch in its data processing systems.

Customers may also receive competitive offers and may ask their existing marketer to match rates. Since customers often sign up for contracts that start months in the future, Terasen Gas believes this would be an appropriate use of the code and would allow the Gas Marketer to remain competitive in the marketplace. Once the contract is finalized in an MSR, then a dispute should be logged or an anniversary drop uploaded.

TGI suggests the OCD code should also be used to correct data entry errors, such as the contract term or the marketer group code.

Terasen Gas believes inappropriate uses for this code include the following:

- to drop Consumer Agreements for the sole benefit the Marketer; and
- to extend the cancellation window except in instances where the customer verifies sickness or absence during the 10 day cancellation period.

Some situations may occur where the Gas Marketer stands to benefit by cancelling a Consumer Agreement. For example, if a Gas Marketer signed a consumer to a low rate in the past, but the price of natural gas has risen dramatically. Under these circumstances, it may be advantageous for the Gas Marketer to drop the consumer using an OCD.

There has been limited use of the OCD code since it was implemented in August 2009. Terasen Gas reports 12 OCD's from August 1 through October 15, 2009. The majority of requests were submitted by a single Marketer.

The OCD code was not initially setup to drop Commercial accounts but new logic was implemented on October 22, 2009. The added functionality was communicated to the Gas Marketers so there may be an increase in OCD activity next reporting period. Terasen Gas has since requested other processing changes to enhance functionality. Initially, the code was setup to accept drops after the enrollment date, but only through to the next scheduled Marketer Supply Requirement ("MSR"). Depending on when the enrollment is uploaded into GEM, this period may present Marketers with a very short window of time to use the OCD. For example, a commercial contract is enrolled on October 9. The OCD window is only valid for five days until the next MSR is finalized in mid October even if the contract start date is December 1. The requested change in programming logic will allow the drop window to extend through to mid November when the contract's gas requirements are actually finalized in the December MSR.

Upon approval of this recommendation, Terasen Gas will communicate the appropriate and inappropriate uses of the OCD to Gas Marketers. Expanding and defining the appropriate uses of the Operational Correction Drop code gives Gas Marketers greater flexibility to make adjustments to future dated contracts, satisfy customer requests, and remain competitive in the gas market. Proper use of the code is fully supported within the ESM model.

Terasen Gas expects to see higher activity levels and recommends that Commission staff monitor OCD activity closely starting in 2010. The Reason Code Analysis Report can be referred to help evaluate Marketer use of the Operational Correction Drop code. Anomalies should be investigated further to determine appropriateness of use. Infractions should be considered by Commission staff and weighed appropriately should disciplinary actions be required.

7.2 Reference: Issue 1.10. Please provide the text of s.27.1 of the General Terms and Conditions. Please indicate the approximate cost to provide an additional line on the TGI bill.

Response:

There are considerable costs associated with an additional billing line and Terasen Gas customers should not have to pay the additional costs to support non-gas products offered by Gas Marketers. As such, Terasen Gas does not support an additional line on the Terasen Gas bill for Gas Marketers to invoice for other product offerings including non-energy items.

The cost of including an additional billing line for gas marketers on the Terasen Gas bill would require a detailed scoping of requirements and a definition of the parameters. The quotation would need to take into account the impact of the additional billing item on current Terasen Gas systems. A number of complex issues that impact a price quotation would need to be defined and include the following:

- Type and source of data for the bill item;
- Type of interface to be used;
- Whether it is a fixed or variable charge;
- The type of tariff to be used;
- Impact on the current collections process – this includes separating gas commodity debt and Gas Marketer offerings;
- The issue of bad debt; and
- The process for handling inquiries – who would be responsible.

Defining and understanding each of these issues would be necessary before providing costing.

In addition, the Commission and Terasen Gas have made considerable effort to distance marketers from the utility. Providing services, such as invoicing for non-energy products for Gas Marketers, will send the wrong message to customers as Terasen Gas will be perceived by many to be promoting Gas Marketers. Gas Marketers should consider billing customers separately for products that cannot be accommodated in the current billing item.

Terasen Gas works cooperatively with Gas Marketers to accommodate their gas product offerings in a way that is consistent with Terasen Gas Terms and Conditions. The Terasen Gas General Terms and Conditions, Section 27.1 follows:

> 27.1 In the event a Customer enters into a Gas supply contract with a Marketer for Commodity Unbundling Service under Rate Schedule 1U, 2U or 3U, the following terms and conditions will apply:
>
> (a) The Customer must sign a Notice of Appointment of Marketer as notification to Terasen Gas that the Marketer has the authority to do what is required with respect to the Customer's enrolment in Commodity Unbundling Service, including entering into the necessary Commodity Unbundling Service agreements and related Rate Schedules. Such Notice of Appointment of Marketer shall also authorize Terasen Gas to share with the Marketer certain historical and ongoing consumption information and to verify the Commodity Cost Recovery Charge used to bill the Customer as directed by the Marketer.
>
> (b) Terasen Gas shall be entitled to rely solely on communications from the Marketer with respect to the enrolment of the Customer in Commodity Unbundling Service and with respect to the termination or expiry of any contract between the Customer and Marketer.
>
> (c) Terasen Gas will bill the Customer a Commodity Cost Recovery Charge according to the price indicated by the Marketer. Such price must be expressed as a single fixed price per Gigajoule in Canadian dollars. Such price shall not include amounts payable by the Customer to the Marketer for services other than the Gas commodity cost. The price may only be changed by Marketer no more than once per year on the anniversary of the Customers' enrolment in Commodity Unbundling Service with such Marketer. Terasen Gas shall have no obligation to verify that the price communicated by the Marketer is the price agreed to between the Customer and the Marketer.
>
> (d) Terasen Gas will continue to bill the Customer as per the billing, payment, credit and collections policies set out in these General Terms and Conditions.
>
> (e) The Customer shall make payment to Terasen Gas based on the total charges on the bill and under no circumstances will payments be prorated between the various charges on the bill. Payments made by Customers to Terasen Gas pursuant to the bills rendered by Terasen Gas shall be made

without any right of deduction or set-off and regardless of any rights or claims the Customers may have against the Marketer.

(f) Non-payment of any amounts designated as Commodity Cost Recovery Charge charged on the bill shall entitle Terasen Gas to the same recourse as non-payment of any other Terasen Gas service charges and may result in termination of service by Terasen Gas in accordance with these General Terms and Conditions and any applicable Rate Schedules. In the event Terasen Gas terminates the Customer's service, the subject Customer will be removed from the Commodity Unbundling Service. Should the Customer wish to re-enrol in Commodity Unbundling Service, the Customer will be required to re-apply for service with Terasen Gas as per the then existing General Terms and Conditions and then be required to enrol as a new participant in order to be eligible for Commodity Unbundling Service.

(g) Terasen Gas is not responsible for the terms of any of the Customer's contract(s) with the Marketer. Provision of Commodity Unbundling Service in no way makes Terasen Gas liable for any obligation incurred by a Marketer vis-à-vis the Customer or third parties.

(h) In the event the British Columbia Utilities Commission issues an order to Terasen Gas to return Customers to Terasen Gas as supplier of last resort, the Customer will be returned with no notice to the Terasen Gas standard system supply rate with no interruption of service upon the then applicable terms and conditions of Terasen Gas system supply service. In the event there are incremental costs associated with returning the Customer to the standard system supply rate, these costs may be recovered by Terasen Gas directly from the Customer.

(i) The Customer's enrolment in Commodity Unbundling Service shall be on a Premises specific basis.

As outlined in the Application, Terasen Gas strongly contends that the current bill structure sufficiently allows gas marketers the flexibility to offer alternative commodity offerings, which continues to be the objective of the unbundled product offering. TGI does not support an additional line on the Terasen Gas bill to facilitate Gas Marketer requests to invoice for other product offerings including non-energy items.

7.3 Reference: Issue 1.11. If Gas Marketers cannot use the TGI bill envelope to advertise additional products and services, would it be reasonable to restrict TGI and its affiliates from advertising products in competition with Gas Marketers?

Response:

TGI should retain the authority to use its bill and envelope to inform customers of adjustments or issues pertaining to the regulated variable rate, delivery charges, and fees and taxes. As a regulated company, TGI contends it is already restricted from offering non-regulated products and services that directly compete with Gas Marketers.

The use of the TGI bill and envelope to communicate rate changes represents a low cost, efficient delivery mechanism. As has been established practice since the unbundled product was introduced to British Columbians in 2004, TGI will refrain from employing competitive language to influence a consumer's selection of a fixed rate product. Fixed and variable rates will continue to be presented in an informational, unbiased way.

With respect to offering non-regulated products and services, affiliate access to Terasen Gas bill inserts and envelope are addressed in our corporate operating standard, CORP 01-02 NRB Code of Conduct. Pertinent clauses of the standard follow:

CORP 01-02 NRB Code of Conduct

- Section 4 – "Terasen Gas will not provide to an NRB any information that would inhibit a competitive energy services market from functioning.[3]"
- Section 6 – "Except as required to meet acceptable quality and performance standards, and except for some specific assets or services which require special consideration as approved by the Commission, Terasen Gas will not preferentially direct customers seeking competitively offered services to an NRB or a specific retailer.[4]"
- Section 10 – "Terasen Gas will treat all requests for distribution system access for the purpose of direct commodity marketing equitably and in accordance with the requirements approved for direct commodity marketing in British Columbia.[5]"

Terasen Gas formally advises its employees of expected conduct related to its Code of Conduct, and periodic audits are conducted to ensure compliance. Audits are performed no less than once a calendar year and filed with the Commission.

[3] Terasen Gas Inc., Code of Conduct for Provision of Utility Resources and Services, August 1997. Page 3.
[4] Terasen Gas Inc., Code of Conduct for Provision of Utility Resources and Services, August 1997. Page 4.
[5] Terasen Gas Inc., Code of Conduct for Provision of Utility Resources and Services, August 1997. Page 5.

TGI should continue to use its bill and envelope as appropriate to inform customers of rates related changes. In addition, the TGI Code of Conduct precludes the company or its affiliates from using the utility's regulated infrastructure and systems to unfairly support the sale of non-regulated products and services to consumers. Terasen Gas suggests no further action or change is required to ensure continued alignment with this expectation.

7.4 Reference: Issue 1.13. Has TGI received any further feedback from its letter of April 24, 2009? If so, please provide it.

Response:

Terasen Gas has received no further feedback from its letter regarding backstopping charges dated April 24, 2009. This issue was addressed at April 23, 2009 Customer Choice Annual General Meeting, at which time it was agreed that marketer concerns and feedback would be heard through this Application process.

7.5 Reference: Issue 1.18. Has the publishing of price information on the TGI website and in community papers proved effective in educating the public of the alternative marketers and their price offerings? Please provide any feedback TGI has received.

Response:

Terasen Gas only has anecdotal evidence regarding the impact of the 2009 web and newspaper advertising. The Communication Plan submitted under the Customer Choice Program Compliance Filing by Terasen Gas on January 31, 2009 and approved by Commission Order G-9-09 on February 19, 2009, did not include a research budget to measure the effectiveness of the media campaign. Terasen Gas believes the media expenditure was too limited to gain significant traction in the marketplace and therefore market research would provide minimal value.

Terasen Gas has published rate comparison information on its website since the residential Customer Choice program launched in 2007. With the exception of the TGI variable rate, Gas Marketer rate information was never published in community newspapers or their websites. This omission was consistent with stated communication objectives. As outlined in the Application, the Customer Choice Education plan included a communication strategy and media strategy expenditure of $750,000 in 2009; $500,000 in 2010; and $300,000 in 2011. The strategy focused on providing customers with information related to the education objectives defined by Commission staff in their December 12, 2008 decision, G-181-08. The defined communication objectives included:

- 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; and

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

The desire to broaden the media channels used to communicate rates was first raised at the 2009 Annual General Meeting held in April. TGI's recommendation to include it in the media mix represents an acknowledgement that the additional information would be a useful addition in the remainder of 2009 and into 2010.

Since no research was conducted to measure advertising effectiveness, Terasen Gas can only evaluate the impact of the campaign based on anecdotal evidence from customer letters. Most letters reflect ongoing confusion regarding the product and service offered by Gas Marketers, as well as Terasen's ongoing role in facilitating the program. Two representative examples of emails received follow below. Terasen Gas can also comment on terasengas.com website traffic to the Customer Choice page. This information follows at the end of this document.

To understand the impact of the media campaign, advertising budgets must be significant enough to reach the intended audience frequently enough to influence people's understanding. Using quantitative research needs to be conducted immediately after the advertising activity. Lastly, ongoing tracking research would typically be conducted to help evaluate how quickly customers forget the message they received. Current budget levels are insufficient to realistically reach and affect consumers' understanding of the current communication objectives stated above.

Customer Letter Examples

The following are a couple of customer letter examples:

Customer Letter 1

There are many things Terasen *can* do with regards to this issue.

A word about this program. The "gas marketers" referred to are not really "gas marketers" they are "contract acquirers" They acquire contracts that generate a stream of income and are considered assets. These contracts are bought and sold in something like a "free market." The Terasen customer can never win in this market. That's because the most successful acquirers, the ones who extract the most money from Terasen customers will dominate. This program has created a shark tank where the largest, most predatory sharks win, and Terasen customers are always shark bait.

1. Terasen *can* improve the information provided to customers about this program.
   - Most of the information about the "Customer Choice" program is provided by door–to–door marketers. Terasen can provide surveys to its customers to find out what information has been provided to them by these salespeople. That way Terasen can show that it has made sure door–to–door salespeople are explaining the risks of the program.
   - Terasen can improve the information provided on its website, including:
     - Details about gas price history.
     - Estimated dollar amounts of how much a fixed price contract will cost the customer, and statistics on how much these contracts are currently costing Terasen customers.
     - Inform the customer that if they sign a contract, this contract, apparently, can be sold to another gas marketer without the customer's consent. (This part of the program needs to be tested. It defies the basis of a contract in our country.)
     - Inform the customer what the program is NOT, e.g. a "price protection plan."
     - Be specific about the risks of the program.
     - Ask customers to fill in a questionnaire about their sensitivity to risk, as in the investment industry. (A fixed priced gas contract needs to be considered as a risky investment.)
   - Terasen can improve information provided on its invoices, including the current variable price and the fixed price charged by the "contract acquirer."

2. Terasen *can* lobby the BCUC on its customers' behalf. Terasen customers have no opportunity to bring their case before the BCUC, which is quite unbelievable in our country. Even for a parking ticket, a citizen has the right to go before an adjudicator and argue their case. They apparently do not have that opportunity here. Terasen does have that opportunity. Looking at the BCUC's website it is clear Terasen frequently makes representations to the BCUC.
3. Terasen *can* compensate customers who are facing financial hardship because of the program. The costs of this program are hitting Terasen customers who can afford it least. Terasen *can* provide a program to help these people.
4. Terasen *can* lobby or change the "Customer Choice" program so the program benefits its customers. If that cannot be done Terasen can lobby or work toward canceling the program.

Customer Letter 2:

Good evening

I am not sure who to send this email to so if this could be directed to the department or individual responsible for looking after such inquiries that would be appreciated.

Tonight around 7pm we had two people from *Gas Marketer* come to our door stating that they were acting on behalf of Terasen Gas. They wanted us to check our bill from Terasen to confirm there was a 1-800 number on the bill.

Hmm, now I do not understand why *Gas Marketer* is coming to our door to find this out. Could they not phone Terasen to find this out?

What I would like to know is if Terasen Gas instructed *Gas Marketer* to do this and if so why? What would be the point?

Website Traffic

Recent page views for 2009 is shown below in figure 1:

	Feb	March	April	May	June	July	August	Sept	Oct
Customer Choice Page views*	13,123	13,864	10,782	11,917	9,990	8,324	8,324	12,824	8,162
Rate Guide page views	6,808	7,055	5,303	4,397	2,842	2,364	2,437	3,997	2,603