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March 16, 2005

British Columbia Utilities Commission
6th floor, 900 Howe Street
Vancouver, B.C.
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Attention: Mr. R.J. Pellatt, Commission Secretary

Dear Sir:

**RE: Commodity Unbundling and Customer Choice Phase 1 Report
Post Implementation Review of the Commercial Unbundling Program**

In its July 18th, 2003 Report on Commodity Unbundling and Customer Choice Phase 1, Terasen Gas recommended that a post implementation review of Commercial Unbundling be undertaken to assess the effectiveness and efficiency of the implemented solution.

This report is part of the process which will also include a stakeholder workshop to be conducted on April 8th, 2005 and is part of the ongoing process undertaken by Terasen Gas, the Commission, Gas Marketers, and other stakeholders to implement Commodity Unbundling for Commercial Customers and a Stable Commodity Rate Residential Service. This report presents a review of the Unbundling process to date with suggestions for improvement, and refinements intended to enhance the attractiveness and effectiveness of the Commercial Unbundling program for all stakeholders

If there are any questions regarding the content of this letter or the enclosed report on Commodity Unbundling Post Implementation Review and Next Steps, please contact James Wong at 604-592-7871.

Yours very truly,

TERASEN GAS INC.

Original signed by Scott Thomson

Scott A. Thomson

/gj
Enclosures



**COMMODITY UNBUNDLING
POST-IMPLEMENTATION REVIEW AND NEXT STEPS**

TERASEN GAS INC.

March 16, 2005

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EXECUTIVE SUMMARY

Terasen Gas Inc. (“Terasen Gas”), in its July 18, 2003 Report on Commodity Unbundling and Customer Choice Phase 1 (“July 18 Report”), outlined an implementation plan for the Commercial Phase of Commodity Unbundling to meet a November 1, 2004 target start-up date. The Essential Services Model and the business rules for Commercial Phase of the Commodity Unbundling were approved by the British Columbia Utilities Commission (“Commission”) as Appendix A to Commission Letter No. L-25-03 dated June 6, 2003.

As part of the implementation plan outlined in the July 18 Report, Terasen Gas recommended a post implementation review of the Commercial Phase of Unbundling be undertaken to assess the effectiveness and efficiency of the implemented solution. This report presents a review of the Unbundling process to date including the Stable Rate program with suggestions for improvement and refinements intended to enhance the attractiveness and effectiveness of the Commercial Unbundling and Stable Rate programs for all stakeholders.

Commercial Phase of Commodity Unbundling

Based on the results to date, Terasen Gas views the implementation of the Commercial Phase of Commodity Unbundling program as a success and is encouraged with the results so far recognizing that the program is still in its early stage. Of Terasen Gas’ 78,000 existing Rate 2, 3 and 23 commercial customers on the Mainland, approximately 11,000 customers as at January 2005 have chosen to participate in the Unbundling program. Five Gas Marketers; Direct Energy Business Services, Energy Savings (B.C.) Limited Partnership, CEG Energy Options Inc., Nexen Marketing and Columbia Energy Inc. are licensed to market gas under the program. Customer complaints have been minimal with only three formal written complaints registered with the Commission that Terasen Gas is aware of. No significant system or process related issues have been encountered to date. An additional entry date of February 1, 2005 and relaxing of the 10,000 customer limit was achieved with little difficulty. Terasen Gas is also encouraged by the positive working relationships between itself, the Gas Marketers and the Commission. Furthermore, the Commercial Phase of the Unbundling program was implemented at an approximate cost of \$6.2 million compared to the approved budget of \$7.1 million.

The implementation of the Essential Services Model and key aspects of business rules, the enrolment process and consumer protection and education efforts have progressed well with no major difficulties encountered. The Essential Services Model which governs the conditions with which gas supply arrangements are contracted and delivered under the program has worked well. Gas Marketers have met their supply requirements with no issues. The generation of the marketer delivery requirement, scheduling of gas, and the payment process have worked with no difficulties. The key aspects of the business rules including delivery requirement calculation, receipt point allocation, fuel requirements, backstopping, marketer failure and bad debt factor are all working or have not been utilized to date (i.e. marketer failure). Terasen Gas recommends no changes to these business rules.

Regarding the enrolment process, Terasen Gas to date has processed approximately 25,000 transaction requests from Gas Marketers, with the majority occurring during the last four months as customer sign-up rates have increased significantly. Customer participation in the program

has grown from 2,000 customers for the November 1, 2004 entry date to 11,000 enrolled customers as of January 2005. Of the approximate 25,000 transactions processed, many of the transactions were necessary to support the addition of the February 1, 2005 entry date, as Gas Marketers decided to de-enrol customers who had signed up for a May 1, 2005 entry date and re-enrol them for a February 1, 2005 entry date.

For the customer enrolment issues identified to date, Terasen Gas believes the issues are relatively minor in nature, given the number of exceptions witnessed to date compared to the overall number of transactions processed. Enrolment issues are broadly classified into four categories; Marketer Training and Adapting to New Processes, Essential Services Model rules, Terasen Gas' Enrolment Processes and System and Marketer Suggestions for Improvement. Marketer Training and Adapting to New Processes cover issues encountered that are typical with the introduction of new systems and processes. Terasen Gas has been working cooperatively with the Gas Marketers to reduce the occurrence of these issues. Terasen Gas expects that these identified issues will diminish over time as Gas Marketers become more familiar with the enrolment process and internal processes are changed and improved upon.

The Essential Services Model contains certain business rules that must be adhered to in order to preserve the intent and integrity of the model. To date, the number of business rule violations including "poaching" (i.e. a Gas Marketer signing a customer who is currently with another Gas Marketer) has been relatively minor in nature but does warrant attention. Terasen Gas will continue to monitor the situation and work with the Gas Marketers and the Commission to minimize the occurrence of these types of transactions. Furthermore, Terasen Gas will be consulting with Gas Marketers during the month of March for possible solution(s) to the identified issues, particularly on the issue of "poaching".

Terasen Gas has also encountered some minor processes and system issues around the enrolment of customers. Terasen Gas is currently working with its billing provider, Accenture Business Services for Utilities ("ABSU") to explore solutions to the above issues. The solution may require process improvements or system enhancements. For example, to streamline the customer enrolment validation process, Terasen Gas is currently investigating the feasibility and costs of utilizing the premise number in the enrolment process. The addition of a premise number as a required field in the customer enrolment process could potentially reduce the number of manual transactions requiring review, leading to reduced enrolment costs and timelier processing of enrolment data.

Marketer Suggestions for Improvement comprise of ideas for improving the Commercial Unbundling program. Suggestions include possibly extending the Unbundling service to Vancouver Island customers and providing the reason when a customer is dropped from the enrolment roster. Terasen Gas intends to review and evaluate the identified opportunities for possible implementation. Enhancements required would be funded from the remaining \$0.9 million available in the approved deferral account.

Consumer protection measures adopted for the Commercial Phase of the Unbundling program to-date include the Commission managed dispute resolution process, licensing of Gas Marketers and the Gas Marketer Code of Conduct. All appear to be working as intended with no changes recommended by Terasen Gas at this time.

Price transparency is very limited at this stage of the Commodity Unbundling program. Pricing information regarding Gas Marketers' offerings is not readily accessible for consumers making it difficult for consumers to make an informed purchase decision. Terasen Gas proposes the establishment of a market pricing depository. The depository would contain the prices and terms of the Gas Marketers' commodity offerings. A third party other than a Gas Marketer or Terasen Gas, such as the Commission would be responsible for managing the content of the depository with funding for the management coming from the Unbundling program operating budget.

The customer education campaign involved the use of direct mail, trade publications, bill inserts and a standard information booklet. The material was delivered throughout 2004 with the objectives being to increase awareness of Commodity Unbundling, generate interest for customers to investigate commodity choice, provide information on how to make an informed choice and describe the process required to switching commodity suppliers.

Significant improvements were noted on some communication measures. Awareness and knowledge of the term Natural Gas Commodity Unbundling was up significantly by the end of year from approximately 20% at the beginning of the customer education efforts to approximately 50% by year end. A significant increase was observed in the ability of customers to make an informed decision as to whether or not to participate in the Unbundling program; from 12% of all customers at the beginning of the year to slightly under 40% by year end.

Opportunities for improvement remain though. These include raising the awareness of the term Midstream, providing more information about Natural Gas Marketers and providing more information to help consumers make informed purchase decisions. Greater understanding of the Midstream charge by customers will lead to more informed purchase decisions as customers will be in a better position to evaluate Gas Marketers commodity offerings compared to that of Terasen Gas' standard bundled rate. Greater awareness and knowledge of Gas Marketers will put potential customers in a better position to make informed purchase decisions. Providing more information about the Unbundling program will also lead to more informed purchase decisions.

Stable Rate Program

Terasen Gas' Stable Rate Commodity offering was launched this past year in the fall of 2004, providing the first 20,000 eligible residential customers on the Mainland with the choice to lock-in the commodity portion of their monthly bill at \$8.39 per gigajoule (excluding delivery charges, taxes and other applicable charges) for a period of 12 months from January 1 to December 31, 2005. Terasen Gas supports the Commission's desire to offer the regulated Stable Rate Option to residential customers as an intermediate step to assess residential customer response to commodity choice. The Stable Rate option was designed to be self-funding with minimal cross-subsidization where possible. As at January 1, 2005, 1,877 eligible residential customers throughout the Province were enrolled in the program.

Terasen Gas strongly believes the development and implementation of the Stable Rate program has been a success, meeting the first year objectives of the program. As outlined in previous filings, the objectives of the Stable Rate program were to educate consumers on commodity choice; stimulate consumer interest in alternative gas commodity offerings; assess residential

consumer response to commodity choice; and aid in facilitating an orderly transition to an unbundled environment when the necessary conditions are present.

With regards to further Unbundling efforts, Terasen Gas is supportive of more choice for its customers where there is value for its customers and where choice can be provided in a cost-effective manner with adequate consumer protection. For Commodity Unbundling, Terasen Gas will facilitate it for residential customers if customers decide that is what they want. Terasen Gas will endeavor to implement Residential Unbundling in a cost-effective manner as it has done with the Commercial Phase of the Unbundling program and with minimal confusion to customers. Terasen Gas proposes to take the lead to further explore the value proposition of Unbundling to residential customers.

Terasen Gas however believes the Commercial Unbundling program should complete a full year cycle before a decision is made to proceed further to the next stage of Unbundling. Terasen Gas believes it's still too early to make a decision to expand the program to residential customers. There is limited information on the value commodity choice has brought to commercial customers. At the end of the first year of the Commercial Unbundling program, Terasen Gas recommends that surveys be conducted to confirm the value proposition of commodity choice to consumers. Commercial customers who have participated in the Unbundling program and residential customers would be surveyed. The results of the surveys would be used to help make the decision whether to proceed with Residential Unbundling.

To implement Residential Unbundling, Terasen Gas believes the estimated costs and time required as outlined in the report titled Commodity Unbundling and Customer Choice Report dated February 28, 2003 are still reasonable. Implementation costs are likely to range in the \$10 to \$20 million with approximately \$2 million for a customer education program. Annual operating costs are estimated to range between \$2 and \$4 million. The time required to implement Residential Unbundling is estimated at 1.5 to 2 years, as originally indicated.

By allowing for a full year cycle of Commercial Unbundling to complete, the earliest date Residential Unbundling could be implemented is November 2007 with November 2008 the optimal date from Terasen Gas' perspective, as it would allow more time for review and implementation of the solution required. November 2005 marks the end of the first year of the Commercial Unbundling program. Assuming confirmation of customer interest in commodity choice and positive results from the first year of the Commercial Unbundling program, Terasen Gas would be in a position to file the required Certificate of Public Necessity and Convenience ("CPCN") application by late spring or early summer 2006. With implementation taking approximately two years, a Residential Unbundling solution would be in place by November 2008. A November 2007 implementation date is more aggressive but could possibly be achieved.

Recommendations

In summary, Terasen Gas believes the Commercial Phase of the Unbundling program has progressed well with little or no difficulties encountered. Opportunities have been identified to improve the Commercial Unbundling program. These include:

- Continuing to look for opportunities to refine enrolment processes. Examples identified to date under review are the addition of the premise number to the enrolment validation

routine and a system enhancement to manage the customer “poaching” issue. The costs of enhancements required will be determined as the enhancements are developed.

- Continuing with a targeted customer education program at an estimated cost of \$300,000, focusing on providing more information about Gas Marketers and the Unbundling program and raising awareness and understanding of the term Midstream. On Commission approval of the recommended education program, Terasen Gas intends to file with the Commission an implementation plan outlining the timeline, proposed budget, and the details prior to proceeding with the second year of the customer education campaign.
- Purchasing a back-up system (i.e. server) to handle unexpected system failure at the primary site. The estimated cost for both hardware and software required is approximately \$100,000.
- Implement a market pricing depository containing the prices and terms of the Gas Marketers’ commodity offerings. A third party other than a Gas Marketer or Terasen Gas, such as the Commission would be responsible for managing the content of the depository with funding for the management coming from the Unbundling program operating budget.
- Extend the Stable Rate program for 2006. Continuation of the Stable Rate Option provides a cost-effective way to promote commodity choice offerings, educate consumers, gather market information and continue to assess residential consumer interest in participating in commodity choice.

With respect to the implementation of Residential Unbundling, Terasen Gas believes the Commercial Unbundling program should complete a full year cycle before a decision is made to proceed further to the next stage of Unbundling. Terasen Gas believes it’s still too early to make a decision to expand the program to residential customers. There is limited information on the value commodity choice has brought to commercial customers. Assuming confirmation of customer interest in commodity choice and positive results from the first year of the Commercial Unbundling program, a Residential Unbundling solution would be in place by November 2008. A November 2007 implementation date is more aggressive but could possibly be achieved.

1 INTRODUCTION

Commercial Commodity Unbundling

In its July 18 Report, Terasen Gas recommended that a post implementation review of Commercial Unbundling be undertaken to assess the effectiveness and efficiency of the implemented solution. This report is part of the process which will also include a stakeholder workshop to be conducted at the end of the first quarter on April 8, 2005 and is part of the ongoing process undertaken by Terasen Gas, the Commission, Gas Marketers and other stakeholders to implement Commodity Unbundling for Commercial Customers and a Stable Commodity Rate Residential Service. This report presents a review of the Unbundling process to date with suggestions for improvement, and refinements intended to enhance the attractiveness and effectiveness of the Commercial Unbundling program for all stakeholders.

Based on the results to date, Terasen Gas feels that the Commercial Phase of the Commodity Unbundling program has been successful and is encouraged with the results so far recognizing that the program is still in its early stage. With the appropriate approvals in place, Terasen Gas' existing 78,000 commercial customers in Rate Schedules 2, 3 and 23 were able to start enrolling in the Commodity Unbundling program beginning May 1, 2004 for the November 1, 2004 entry date. Within two months of the start of enrolment, three Gas Marketers were licensed by the Commission and customers began to be enrolled. Gas Marketers developed different offerings for customers and by the August 31, 2004 deadline for enrolling in the November 1, 2004 entry date, there were approximately 2,000 customers enrolled. Terasen Gas then determined the daily delivery requirements which were communicated to Gas Marketers by the end of September and gas began to flow November 1, 2004 without incident.

Terasen Gas and with the support of the Gas Marketers determined that due to the success of the November 1, 2004 entry date, it was appropriate to reinstate February 1, 2005 as an entry date, as the entry date had been suspended to allow the system and processes to stabilize during the early stages of implementation. With Commission approval by Order G-90-04, February 1, 2005 was added back as an entry date. Marketers enrolled a total of approximately 9,000 customers for this entry date and gas flowed on February 1, 2005 without incident. As at the end of January 2005, approximately 11,000 customers were enrolled in the Commercial Unbundling program with five marketers licensed to operate under the program. The five Gas Marketers included Direct Energy Business Services, Energy Savings (B.C.) Limited Partnership, CEG Energy Options Inc., Nexen Marketing and Columbia Energy Inc.

Terasen Gas feels that the Commercial Phase of the Commodity Unbundling program has been successful and is encouraged by the positive working relationships between itself, the Gas Marketers and the Commission. Terasen Gas has not experienced any significant system or process related issues nor have there been a significant number of complaints from customers.

Stable Rate Option

Terasen Gas' Stable Rate Commodity offering was launched this past year in the fall of 2004, providing eligible residential customers on the Mainland with the choice to lock-in the commodity portion of their monthly bill at \$8.39 per gigajoule (excluding delivery charges, taxes and other applicable charges) for a period of 12 months from January 1 to December 31, 2005.

Terasen Gas supports the Commission's desire to offer a regulated Stable Rate Option to residential customers as an intermediate step to assess customer response to commodity choice, with the intention of proceeding to full Commodity Unbundling at a later date. The Stable Rate Option was offered on a pilot basis with participation in the program limited to the first 20,000 eligible residential (i.e. excluding Fort Nelson, Revelstoke, Vancouver Island) customers who sign up, on a first come first serve basis. Terasen Gas designed the Stable Rate option to be self-funding through a user-pay premium with minimal cross-subsidization where possible. All eligible residential customers pay for or benefit from any financial deficit or surplus resulting from the Stable Rate offering. There is no risk of gain or loss to Terasen Gas shareholders as any financial surplus or deficit is flowed-thru back to core residential customers. As of January 1, 2005, 1,877 eligible residential customers throughout the Province were enrolled in the program.

This report documents the process to date, the successes, and the areas for improvement. Lastly, the report provides recommendations for future unbundling initiatives.

2 BACKGROUND

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 Report, outlined an implementation plan for Commodity Unbundling to meet the November 1, 2004 target start-up date. The first significant step in that implementation plan was the need for Tariffs and Agreements, a Code of Conduct for Gas Marketers, Rules for Marketers and a Customer Education Program which were the subject of the Terasen Gas Application dated October 27, 2003 and in the Terasen Gas Revisions to the October 27 Application, dated December 4, 2003. These items were approved by the Commission in Order 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 G-25-04.

Marketers were able to enrol customers from May 1, 2004 until August 31, 2004 for the first entry date of November 1, 2004. Customers enrolled in the first entry date received commodity under the Unbundling program starting November 1, 2004. Subsequently, Terasen Gas applied to the BCUC for approval to include February 1, 2005 as an entry date. This was approved in Commission order G-90-04.

As of February 28, 2005 there are 11,746 customers enrolled in the Commodity Unbundling service.

3 IMPLEMENTATION PLAN REVIEW

3.1 Essential Services Model

The essential elements of the business model were approved by the Commission in the Commission Letter No. L-25-03. The Essential Services Model serves as the foundation for the Commodity Unbundling service that was implemented effective November 1, 2004. Under the Essential Services Model, a Gas Marketer delivers to Terasen Gas a quantity of gas based on Terasen Gas' normalized forecast of the marketers' customers annual load requirements. The delivery is at a 100 percent annual load factor and is allocated to Receipt Points at the three supply/market hubs; Sumas, Station 2 and AECO, on the same basis as that approved by the Commission in the Annual Contract Plan for Terasen Gas. In addition, Gas Marketers are to provide fuel gas in-kind equal to Terasen Gas' average off-system fuel requirements as approved in the Annual Contract Plan.

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 will be recovered from all customers regardless whether they are supplied by a Gas Marketer or by Terasen Gas (other than those on the existing industrial and large commercial transportation service). The balancing provisions of the existing transportation service remain unchanged.

Terasen Gas continues its merchant function role and will continue to supply under the standard system supply rate those customers who do not choose to be supplied by a Gas Marketer. Terasen Gas is the Supplier of Last Resort and is also responsible for longer term infrastructure planning 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 Utility. In the event of a long term Gas Marketer failure, customers would be returned to the Terasen Gas standard system supply rate. The Commission has indicated that any incremental costs may be recovered from the customers involved. In shorter term Gas Marketer supply failure situations, Terasen Gas will supply the gas and charge Gas Marketers the respective backstopping charges.

Since the start-up of the program in November 2004, the Essential Services Model gas supply rules have worked well. Gas Marketers have met their supply requirements with no issues. The generation of the marketer delivery requirement, scheduling of gas and payment process have worked with no difficulties. To support the separation of the existing Gas Cost Reconciliation Account ("GCRA") into the Commodity Cost Recovery Account ("CCRA") and the Midstream Cost Recovery Account ("MCRA"), increased functionality has been added to the existing deal capture system to record and report the related Gas Marketer transactions under the Commodity Unbundling program.

3.2 Key Business Rules

3.2.1 *Customer Eligibility, Enrolment and Mobility*

As set out by the Commission in Order G-90-03, all bundled commercial sales (Rate Schedules 2 and 3 – about 78,000 customers) in all Terasen Gas' service areas except for Vancouver Island, Whistler, Sunshine Coast, Squamish, Fort Nelson and Revelstoke are eligible for the Commodity Unbundling service. To date, the eligibility rules have been observed by Gas Marketers. Terasen Gas has only received a few enrolment requests for customers in ineligible service areas or rate classes, requests which have been rejected.

By Order G-90-03, the Commission directed Terasen Gas to accommodate quarterly entry dates with a first entry date being November 1, 2004. It was agreed that the second enrolment date of February 1, 2005 would be suspended to allow systems and processes to stabilize. After reviewing the results of the initial entry date November 1, 2004 and discussion with Gas Marketers, Terasen Gas recommended the reinstatement of February 1, 2005 as an entry date. From a business process perspective, Terasen Gas had no concerns even though a full enrolment cycle had not been completed; from processing of customer enrolment details through to generating bills that display the appropriate information for those customers who have signed up with Gas Marketers. From a system perspective, the systems being utilized to support the enrolment process were performing well with the marketer portal, the gas supply tracking system and the forecasting information system all working. Customer education was not a major issue as there had been no reference in literature distributed to date of a possible February 1, 2005 entry date. Terasen Gas believed that reinstating a February 1, 2005 entry date would provide some value to customers and allow Gas Marketers to continue with their marketing and sales efforts.

After consideration of the issues and risks involved, Terasen Gas recommended that a February 1, 2005 entry date be allowed as the performance to date indicated that the possible impacts of the issues identified could be managed with minimal incremental effect. Commission Order G-90-04 approved the establishment of the February 1, 2005 entry date.

To date, Terasen Gas has processed approximately 25,000 transaction requests from Gas Marketers, with the majority occurring during the last four months as customer sign-up rates have increased significantly. Customer participation in the program has grown from 2,000 customers for the November 1, 2004 entry date to 11,000 enrolled customers as of January 2005. Of the approximate 25,000 transactions processed, many of the transactions were necessary to support the addition of the February 1, 2005 entry date, as Gas Marketers decided to de-enrol customers who had signed up for a May 1, 2005 entry date and re-enrol them for a February 1, 2005 entry date.

Each Gas Marketer has been provided training and instructions from Terasen Gas on how to enrol customers. In enrolling customers, Gas Marketers are responsible for submitting customer enrolment data in the appropriate format and in a timely fashion for Terasen Gas to process. Terasen Gas' responsibility is to validate the transactions and provide timely feedback to Gas Marketers as to which customer enrolments have been accepted and which enrolment requests have been rejected along with the reason(s) where possible for the rejection.

For the customer enrolment issues identified to date, Terasen Gas believes the issues are relatively minor in nature, given the number of exceptions witnessed to date compared to the overall number of transactions processed. The following is discussion of the issues that have arisen to date with respect to the customer enrolment processes, along with Terasen Gas' recommendations to address the issues identified. The issues have been grouped into four categories for further discussion.

1. Marketer Training and Adapting to New Processes

With the start-up of a new program, it is expected that there be some initial transition issues as the parties, Terasen Gas and the Gas Marketers learn and develop a better understanding of the business rules and processes. Terasen Gas has observed the following situations during the initial stages of customer enrolment.

- Ineligible customers being submitted for enrolment. For example, enrolment requests have been received for Rate 1 (residential customer) and Rate 4 (seasonal customer) customers.
- Repeated enrolment of customers by the same Gas Marketer in different enrolment entry dates.
- The same customers were enrolled multiple times on the same day.
- The same customers being dropped and enrolled on the same day creating enrolment errors. The enrolment drop request needs to be processed first on one day before the subsequent enrolment request can be processed on the following day.
- Gas Marketers requesting changes after the enrolment cut-off date (i.e. cut-off date of August 31, 2004 for November 1, 2004 entry date) due to data entry errors. For example, a Gas Marketer may have mistakenly placed a customer into the incorrect marketer group.
- Marketer groups with multiple anniversary dates.

Terasen Gas has been working cooperatively with the Gas Marketers to reduce the occurrence of these issues. Terasen Gas expects that the identified issues will diminish over time as Gas Marketers become more familiar with the enrolment process and internal processes are changed and improved upon.

2. Essential Services Model Rules

The Essential Services Model contains certain business rules that must be adhered to in order to preserve the intent and integrity of the model. These business rules are incorporated into the Rules for Gas Marketers, Code of Conduct for Gas Marketers and the Rate Schedule 36 agreement between Terasen Gas and the Gas Marketer. To date, the number of "violations" of the Essential Services Model business rules has been relatively minor in nature but does warrant discussion and attention at this time.

Following are some examples of how specific customer enrolments have not complied with the approved business rules.

- Five customers to date have dropped from the Unbundling program less than one year after enrolment. The established business rule is that the minimum term of an agreement be no less than one year and must be in twelve month intervals.
- Approximately thirty customers have switched to a different marketer group in less than one year. The business rule is that no switching of customers can occur between marketer groups unless the initial or minimum term of the contract (i.e. 1 year) has elapsed.
- Approximately 75 customers have switched to another Gas Marketer less than four months into the program. This suggests “poaching” is occurring, an activity where a second Gas Marketer signs up a customer who is already enrolled in the Unbundling program, before the initial term of the contract with the first Gas Marketer has expired.

Terasen Gas will continue to monitor the situation and work with the Gas Marketers and the Commission to minimize the occurrence of these types of transactions. Terasen Gas will be consulting with Gas Marketers during the month of March for possible solution(s) to the identified issues, particularly on the issue of “poaching”.

The Unbundling systems and process have been designed to be flexible and suitable with an overall objective to minimize implementation costs. The solution utilizes a combination of manual, semi-automated and automated capabilities with reliance on self policing by Gas Marketers in understanding and adhering to the business rules. Overall, this has worked to date with some exceptions.

3. Terasen Gas’ Enrolment Processes and Systems

Terasen Gas has had some process and system issues around the enrolment of customers which are addressed below.

- Customers dropped from program automatically by the system due to consolidation of the customer’s accounts. This has happened only infrequently, occurring less than five times to date.
- Customers dropped from program automatically by the system due to finalization of the customers’ accounts. This has happened only infrequently, occurring less than five times to date.
- Customers’ accounts finalized with incorrect premise information causing another enrolled customer to drop. Again, this has happened only infrequently, occurring less than five times to date.

Terasen Gas is currently working with its billing provider ABSU to explore solutions to the above issues. The solution may require process improvements or system enhancements.

In addition, to provide business continuance and redundancy for the IT systems required for the support of the Unbundling program, Terasen Gas is recommending purchase of a back-up system (i.e. server). The back-up system would be located at an alternate location and would provide back-up in case of unexpected system failure at the primary site. The estimated cost for both hardware and software required is approximately \$100,000.

To streamline the customer enrolment validation process, Terasen Gas is currently reviewing the feasibility and the costs of utilizing the premise number in the enrolment process. As a result of some recent enhancements to the customer bill, the premise number is being printed on the customer's bill. Presently, the premise number is not a required field when enrolling a customer. Adding the premise number to the customer enrolment process as a required field could potentially streamline the enrolment process. The number of manual transaction reviews resulting from rejections from ABSU due to wrong or duplicate addresses in consolidated billing accounts would likely decrease. This reduction in rejections would increase the efficiency, with which customers are enrolled, reduce enrolment costs, and provide for more timely processing of enrolment data submitted by Gas Marketers.

4. Gas Marketers' Suggestions for Improvement

Gas Marketers have provided feedback on some improvements that Terasen Gas could consider implementing to streamline the enrolment process.

- **Unclear Explanation of Customer Drops**

Currently, when a customer is dropped from a Gas Marketer's price group, the Gas Marketer only receives notification of the drop with no explanation for the reason behind the drop. The Gas Marketer subsequently then inquires with Terasen Gas for clarification of the reason behind the customer drop.

As originally designed, reasons for a customer drop are not being provided due primarily to consumer information privacy concerns, specifically in situations where the customer has been dropped (i.e. account locked off) due to credit reasons. Terasen Gas believes current consumer information privacy legislation does not permit release of such information to the Gas Marketers. Other reasons for drops are a customer has moved from the premise, a customer has gone out of business and a customer has switched to another Gas Marketer.

Furthermore, to provide the requested information for Gas Marketers would require enhancements to the existing enrolment system which would increase the cost of the Unbundling program.

- **Customer Eligibility and Bill Presentation**

Some Gas Marketers have indicated that they currently have difficulty determining if a potential customer is eligible for the Commercial Unbundling service based on information presented on a customer's bill. Terasen Gas

believes the information currently provided on a commercial customer's bill does provide sufficient information to determine customer eligibility as the bill currently provides "rate classification" information (i.e. Large Commercial).

- Forecasting Methodology

Gas Marketers have indicated a desire to understand better the process and calculations utilized for determining the marketer delivery requirement. To date, Terasen Gas has provided Gas Marketers a summary description of the process and indicated to Gas Marketers the difficulties in performing the calculations correctly. Given the level of interest expressed by Gas Marketers, Terasen Gas will be discussing further the forecasting algorithm at the upcoming workshop on April 8, 2005.

- Open Commodity Unbundling service to Vancouver Island

Some Gas Marketers have expressed a desire to make the Commodity Unbundling service available to consumers on Vancouver Island. Terasen Gas' position remains the same as that outlined in the letter dated August 22, 2003 to the Commission responding to stakeholder comments on Terasen Gas' July 18 Report. Billing system capabilities and differences in regulatory structure are the significant barriers to introducing Commodity Unbundling to Vancouver Island.

3.2.2 Billing and Collections

Customers who have signed up for the Commodity Unbundling service will have the Gas Marketer's commodity price displayed on the Terasen Gas bill. In addition to showing the contracted commodity price negotiated between the customer and the Gas Marketer, the statement also will include a standard message identifying the Gas Marketer and their phone number.

"Marketer Name
Call 1-XXX-XXX-XXXX for commodity related inquiries"

Commercial customer bills started displaying Gas Marketers' charges in November 2004 for the first 2,000 enrolled customers. An additional 9,000 monthly customer statements displaying Gas Marketer charges commenced in February 2005. To date, Terasen Gas has received very little feedback on the statements as only a relatively small number commercial customers have received the revised monthly statements.

In earlier discussions, some Gas Marketers indicated a desire to have their logos displayed on customers' statements in addition to the contact details currently supported. As indicated previously, Terasen Gas is concerned that, depending on its prominence, introducing a Gas Marketer's logo on the traditional Utility bill may unnecessarily cause confusion for some customers about who to call depending on the nature of their inquiry. As all emergency, billing, payment, collections and meter reading calls can only be handled through Terasen Gas, it is important that customers are not confused about who to call.

However, there are three possible approaches that could be considered to support the request for Gas Marketer logos. The first method would be both lower cost and lower impact. The process would be to imbed logos into the variable text that is printed along with the Gas Marketer's commodity charge and contact details. Because of the significantly higher cost associated with colour printing, logos applied in this manner would appear in black and white. The intent would be to not increase the space required to present the information as this could result in additional costs in cases where the increase would result in two page statements.

The second method is much more costly and will have a much higher impact. It would involve either colour printing for all Gas Marketer statements or an extensive redesign of the current Terasen Gas customer statement. Currently, Terasen Gas prints all statements in black and white. The coloured portions of the statement are part of the form design. This approach is not only more cost effective than printing in colour; it also results in the ability of our statement print provider to print statements on very high speed equipment. Given the large daily volumes and the importance of billing promptly, it is critical that the process be efficient. Printing in colour requires different printers which generally operate at slower speeds. As well, colour printing normally includes an additional charge per print impression for each additional colour.

The most complex and costly approach would be to redesign the Terasen Gas statements to include Gas Marketer logos. This would involve maintaining multiple versions of the statement form to support each participating Gas Marketer. The capital costs associated with printing and maintaining multiple versions of statement stock can be significant. Assuming Terasen Gas was to take this approach, any statements containing Gas Marketer charges would have to be processed in separate print files resulting in a delay in printing and mailing. Because of the segmentation of the statements into multiple files, Terasen Gas would likely lose the bulk mailing postal incentive rate in most cases. In order to qualify for postal incentives, the Utility must maintain a certain density of mailing. Terasen Gas batches and pre-sort statements into postal areas in specific "walk" order to reduce the effort required by Canada Post to deliver the statements. As a result of this, Terasen Gas qualifies to receive a reduced mailing rate.

Of the three options discussed above, only the first option seems viable given the current participation levels for the Commercial Commodity Unbundling service. As stated in previous filings, Terasen Gas expects that Gas Marketers pay for all the incremental costs associated with providing the capability to display a Gas Marketer's logo on Terasen Gas' bill. In the future as the program expands, it may be feasible to review these options again. At the present time, however, Terasen Gas does not recommend making any changes.

3.2.3 Consumer Protection and Customer Education

Consumer Protection

Consumer protection was identified as being important to promoting and achieving a functional and competitive business environment for Unbundling. Consumer protection measures adopted for the Commercial Phase of the Unbundling program to-date include the Commission managed dispute resolution process, licensing of Gas Marketers and Gas Marketer Code of Conduct. Following is a recap of issues and observations noted this past year during the implementation of the Commercial Unbundling program concerning the "suitability" and "workability" of the consumer protection mechanisms in place.

Customer Complaint/Dispute Resolution Process

The customer complaint/dispute resolution process originally conceived as an independent dispute resolution process was set aside for Commodity Unbundling.¹ The Commission in its decision outlined in Letter L-25-03 dated June 6, 2003 determined that where there is a dispute between a Gas Marketer and a commercial customer that is likely of a contractual nature where the Gas Marketer acts as an agent on behalf of the commercial customer, it is the responsibility of the two parties to resolve their differences or to refer the dispute to the courts. If a dispute relates to the business practices of a Gas Marketer relative to the general form of the marketer/customer commodity or agency agreement, which relies on the Gas Marketer Code of Conduct or license conditions, the Commission may initiate review.

The Commission's decision was consistent with the views of most stakeholders consulted on the issue. Stakeholders had commented that an independent dispute resolution mechanism may not be necessary as the existing transport service only model was working without a need for a formal dispute resolution mechanism. Concerns were expressed about implementing a mechanism which would be biased against Gas Marketers and costly to administer. Some stakeholders suggested that current available means to resolve disputes such as the small claims court were adequate to resolve such issues.

To date, Terasen Gas is only aware of three formal written complaints lodged by customers with the Commission regarding the Unbundling program. One complaint was concerning the validity of a contract and the other two were concerning sales tactics utilized.

Terasen Gas has also received comments from its customers and anecdotal evidence of customer concerns regarding Gas Marketers' behaviour. Terasen Gas' policy and practice as indicated in its July 18 Report is to direct any such concerns to the Commission for consideration and resolution. Further, Terasen Gas' practice for customer complaints concerning the validity of a contract between a customer and a Gas Marketer is to refer the customer first back to the Gas Marketer for resolution and then to the Commission if the validity of the contract is being challenged because of concerns regarding a Gas Marketer's conduct.

Based on the observations and formal written customer complaints noted to date, Terasen Gas believes the current dispute resolution process is working adequately and should continue to be utilized. However, Terasen Gas believes continued efforts to educate customers on the Commodity Unbundling program is necessary to help keep the number customer disputes and complaints to acceptable levels. Details of the customer education efforts are provided in an upcoming section of this report.

¹ The original proposed dispute resolution process is outlined in the proposed Code of Conduct included in the Terasen Gas August 2001 report on Commodity Unbundling.

Licensing of Gas Marketers

In its decision outlined in Letter L-25-03 dated June 6, 2003, the Commission determined that it will be responsible for licensing Gas Marketers and that Gas Marketers must hold a license from the Commission and post a performance bond before they are allowed to participate in the Unbundling program. In its decision, the Commission also determined that a Gas Marketer's license may be suspended or revoked for non-compliance with the Code of Conduct and other licensing criteria.

As previously stated, Terasen Gas supports the need to license Gas Marketers participating in the Commodity Unbundling program as it is a necessary component to ensuring adequate consumer protection.

Gas Marketer's Code of Conduct

During the year, the applicability of the 10 day cooling off period contained in the Consumer Protection Act to the Commercial Phase of the Unbundling program was questioned by a Gas Marketer. Terasen Gas reviewed the issue further and acknowledges that the wording contained in the Act, Section 5 Goods for Resale indicates that the Act does not apply to transactions for the purpose of use in a business. In its initial interpretation, Terasen Gas wished to remain conservative in its interpretation of the Act, erring on the side which provided the most protection to consumers participating in the Commodity Unbundling program.

Terasen Gas is still of the position that a 10 day cooling off period is appropriate for the Commercial Unbundling phase of the Commodity Unbundling program regardless of whether the Consumer Protection Act requires it. Given the "limited" education program that has been undertaken for the first year and the infancy stage the Unbundling program is at, Terasen Gas believes it is prudent to provide commercial customers with the right to cancel any gas purchase contracts within a 10 day period, as an effective way to mitigate the risk and the number of complaints that could arise.

Terasen Gas recommends that the 10 day cooling off period requirement be left in the Code of Conduct for Gas Marketers with no other changes to the Code of Conduct.

Price Transparency in the Marketplace

Of the many factors commercial customers consider in making the decision whether to participate in the Commercial Unbundling program (i.e. commodity price, Gas Marketer information, supplier reliability, customer service, etc.), based on customer research, commodity price is of the most interest. Given the marketplace is in its infancy stage, information such as pricing information is not yet readily available to consumers. It is then difficult for consumers to make informed purchase decisions.

To remedy the problem, Terasen Gas proposes the establishment of a market pricing depository. The depository would contain the various prices and terms of the commodity offerings being marketed by the Gas Marketers. A third party other than a Gas Marketer or Terasen Gas such as the Commission would be responsible for managing the content of the

depository, with funding for the management coming from the Unbundling program operating budget. By providing a central depository for commodity pricing information, customers can have easy access to pricing information, an important factor in making an informed purchase decision.

Customer Education

Background

To support the rollout of Commercial Unbundling, an education campaign involving use of direct mail, trade publications and bill inserts was developed and implemented at an estimated cost of \$150,000, a savings of \$150,000 from the original estimate of \$300,000, due primarily to keeping the design work of the materials in-house at Terasen Gas.

The education campaign was different than that envisioned to support full scale Unbundling, both in scale and chosen advertising medium. The commercial customer audience was much smaller in terms of numbers and could be reached on a more cost effective basis through bill inserts, direct mail and trade publications than through the use of the more expensive television and radio mass media communication channels.

The education plan developed was targeted at increasing awareness of Commodity Unbundling, generating interest for customers to investigate commodity choice, providing information on how to make an informed choice and describing the process required to switching commodity suppliers.

Key messages presented were:

- gas service has three components – gas commodity, midstream delivery and distribution delivery;
- choice of supplier is only available on the commodity component;
- how to make an informed decision when choosing a commodity supplier;
- gas delivery will continue to be provided by Terasen Gas and safety will not be compromised by Commodity Unbundling.

In response to stakeholder demand to commence the education campaign sooner than later allowing enrolment to begin as early as possible, the customer education campaign began in February 2004, two months earlier than the initial proposed date of April 2004. Between February and October 2004, Terasen Gas launched a series of communications targeted at commercial customers (i.e. Rate 2, Rate 3). The communications material included advertisements in trade publications, bill inserts, direct mail, the Terasen Gas website and a standard information booklet – a guide to help the commercial customer decide.

Education Campaign

Phase	What	When	How
Phase 1	Unbundling is coming	February 2004	Bill Insert Trade Publications
Phase 2	Your bill is changing next month	March 2004	Bill Insert
Phase 3	Midstream charges appear on your bill	April 2004	Bill Insert First month that bill displays "Midstream" charges
Phase 4	How to make an informed decision when choosing a commodity	May 2004	Standard Information Booklet – A guide to help the commercial customer decide. Direct Mail Kit
***** Extra	Before you sign on the dotted line, take it slow	August 2004	Bill Insert - A Special supplement
Phase 5	Start-up of Commercial Unbundling	October 2004	Bill Insert

Covers of the bill inserts, direct mail kit and standard information booklet are included in Appendix B for reference. Complete copies of the bill inserts, direct mail kit and standard information booklet can be found at the Terasen Gas website at www.terasengas.com under the section Commercial customers.

The standard information booklet was developed in support of the Commission's Rules for Gas Marketers approved in Order G-90-03. Rule number 6 of the Rules for Gas Marketers require that "each public utility that has an approved gas unbundled commodity service tariff must, in co-operation with Gas Marketers, develop a standard information booklet for its service area which outlines the procedures for commodity purchase and discloses potential benefits and risks."

In February 2004 to draw attention to Commercial Unbundling, advertisements were placed in the trade publications Canadian Property Management, School Plant Officials Association, Inn Focus, BC Restaurant News, BC Business, Business in Vancouver, Building Magazine and Okanogan Life.

In addition to the above communications, Terasen Gas publicized the Commercial Unbundling initiative in its quarterly publication Solutions – Energy Services for Commercial Customers,

through the news dissemination service News Canada and a corporate news release on April 28, 2004. A copy of news release is provided in Appendix B for reference

Evaluating the Effectiveness of the Education Campaign

To monitor the effectiveness of the customer education program in getting out the key messages and to plan subsequent years' education efforts, Terasen Gas commissioned Western Opinion Research to carry out a tracking survey to conduct a post-evaluation of the effectiveness of the education material in informing commercial customers of the Natural Gas Commodity Unbundling Program. Carried out at a cost of \$30,000, the primary objectives of the tracking survey were to:

- Test customer understanding of key concepts and messages related to the Commodity Unbundling Program;
- Determine what information commercial customers feel they need, in order to make an informed decision whether to participate in the Commodity Unbundling Program;
- Determine the communications channels that commercial customers have used to find information on the Commodity Unbundling program;
- Yield findings that can be applied to designing any subsequent communications plan (e.g., for 2005).

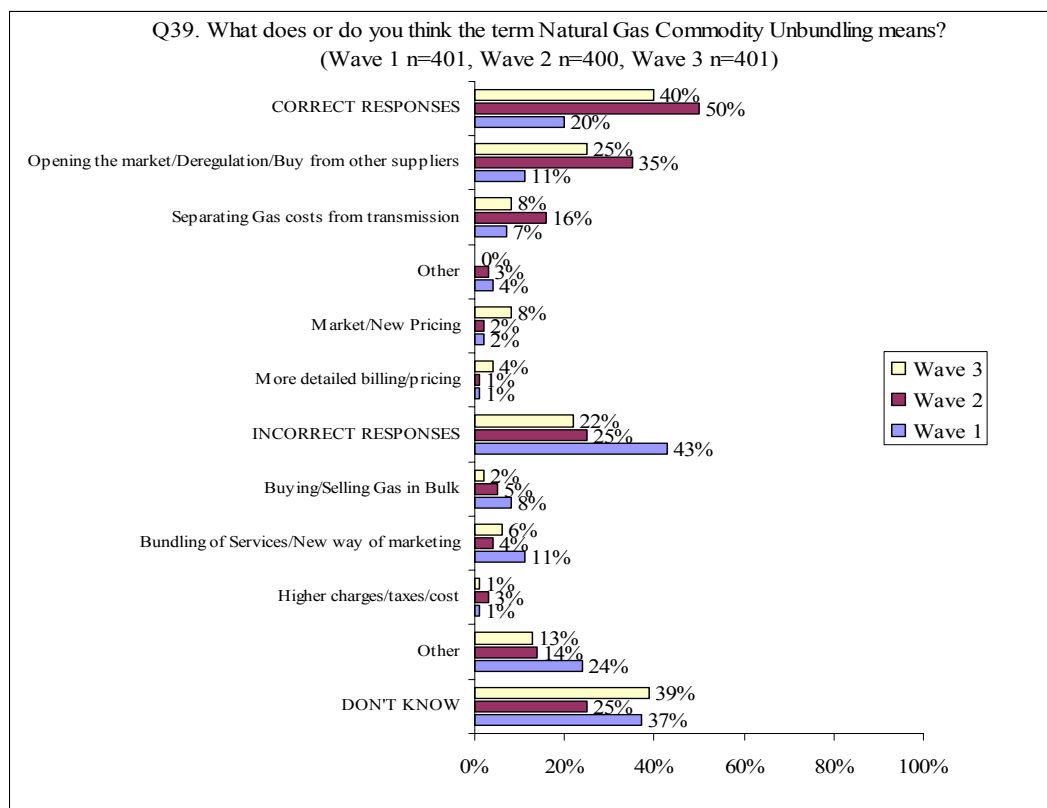
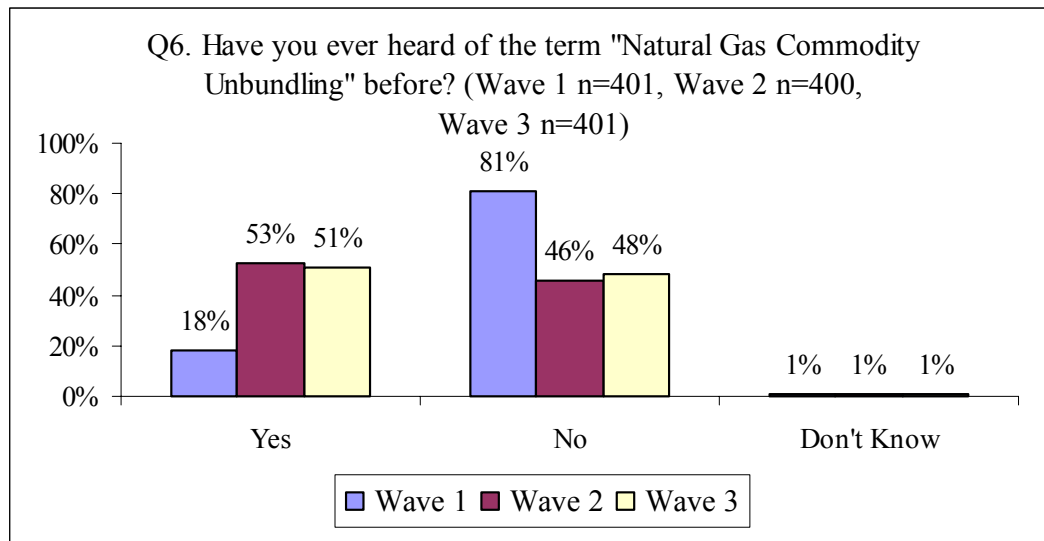
To gather this information, a telephone tracking survey of Terasen Gas commercial customers was conducted. Surveying occurred over three waves of 400 completed interviews at key points during the rollout of the Terasen Gas Commodity Unbundling communications campaign.

- First wave – conducted between March 26 and April 14, 2004 after the initial wave of communication material - trade publication ads, Terasen Gas website, and bill inserts in February and March.
- Second wave – conducted between May 17 and June 2, 2004 shortly after the send out of the Direct Mail Kit and the April bill insert.
- Third wave – completed between November 15 and November 24, 2004 after the August and October bill inserts.

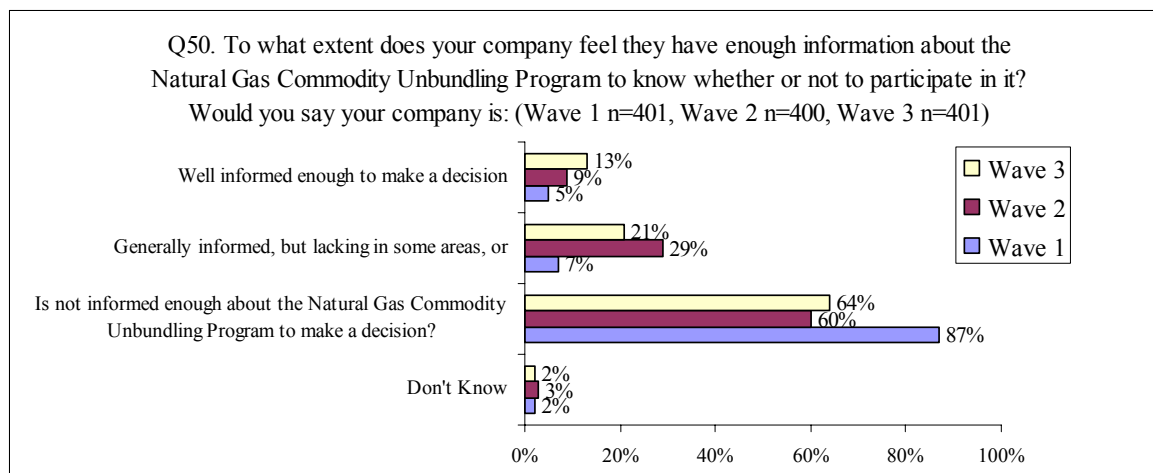
Following are some of the highlights of the tracking survey results. Significant improvements were noted on some communication measures.

- Increased awareness of the term Natural Gas Commodity Unbundling (“NGCU”) (to a high of 53% in Wave 2 and 51% in Wave 3 which are both up significantly from 18% in Wave 1);
- Increased knowledge of what the term Natural Gas Commodity Unbundling means (with 50% of all respondents providing correct answers in Wave 2, and 40% correct in Wave 3, both up significantly from 20% in Wave 1);

Commodity Unbundling Post-Implementation Review and Next Steps



- Increased ability to make a decision about whether or not to participate in the NGCU Program (38% in Wave 2 and 34% in Wave 3 said they were well or generally informed enough about the NGCU Program to make a decision whether or not to participate in it, both significantly up from 12% in Wave 1); and a significant decrease in the percentage of respondents who said they were not informed enough to make a decision (from 87% in Wave 1 to 60% in Wave 2 and 64% in Wave 3).

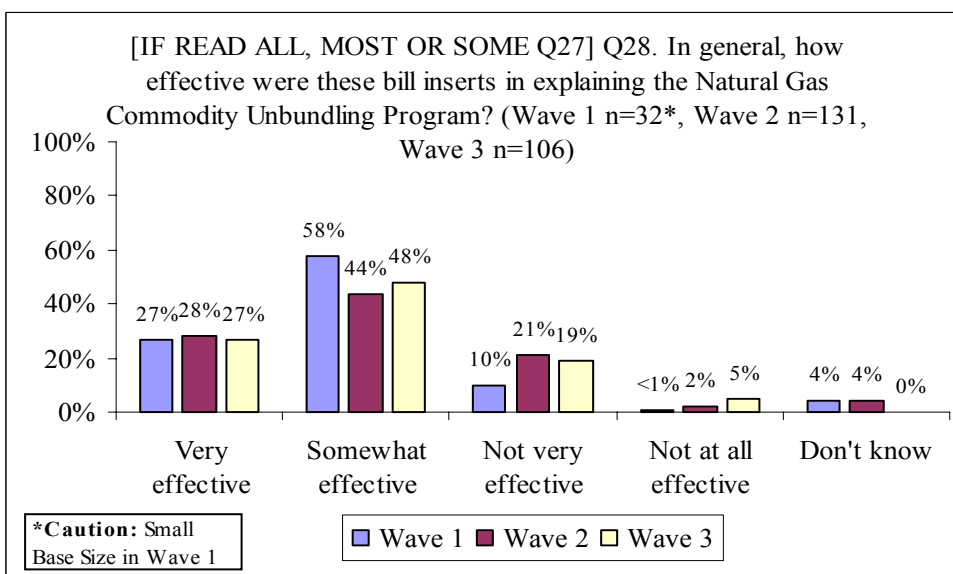
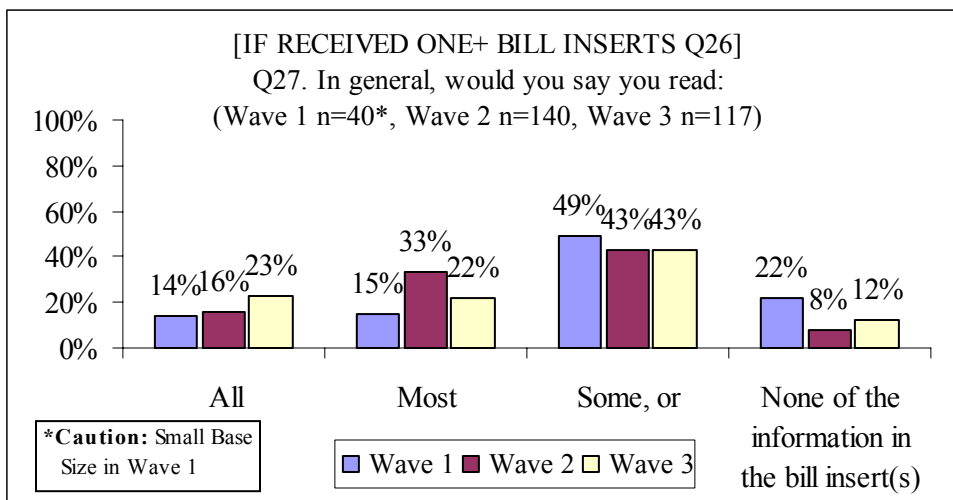


In retrospect, Terasen Gas' decision to use bill inserts and direct mail as a cost effective medium for distributing unbundling information is justified given the findings noted below.

- Increased ability to make an informed decision about NGCU among those receiving NGCU communications. Noteworthy is that among those exposed to one NGCU communication in Wave 3, 45% said they are “well or generally informed” about NGCU, which is significantly higher than among those who said they were not exposed to any NGCU communications (22% well or generally informed).
- Even greater ability to make an informed decision about NGCU when exposed to multiple NGCU communications. Respondents exposed to multiple NGCU communications were even more likely to say they were well or generally informed enough to make a decision. For example in Wave 3, 65% of respondents exposed to two or more NGCU communications said they were “well” or “generally” informed which is significantly higher than the comparable number for those exposed to only one NGCU communication (45%). Similar patterns were observed in Wave 2.

Survey results indicate that the use of the bill insert medium has been successful in:

- Reaching a sizeable proportion of Rate Class 2 and 3 customers (42% in both Wave 2 and 3);
- Encouraging those who receive it to read “all or most” (45%) of the material (up significantly from 29% in Wave 1) while 43% read “some”;
- Conveying more “general” information about the NGCU Program;
- Conveying this information in an “effective” manner” (75% of customers receiving the insert rated it “very or somewhat” effective); and
- Positive responses about the Bill Inserts were that the material was “easy to understand and explained well”, that it “explained how the Program works”, that it “provided the information they needed” and that the inserts told them that they would have the “choice of buying natural gas from a variety of suppliers”.



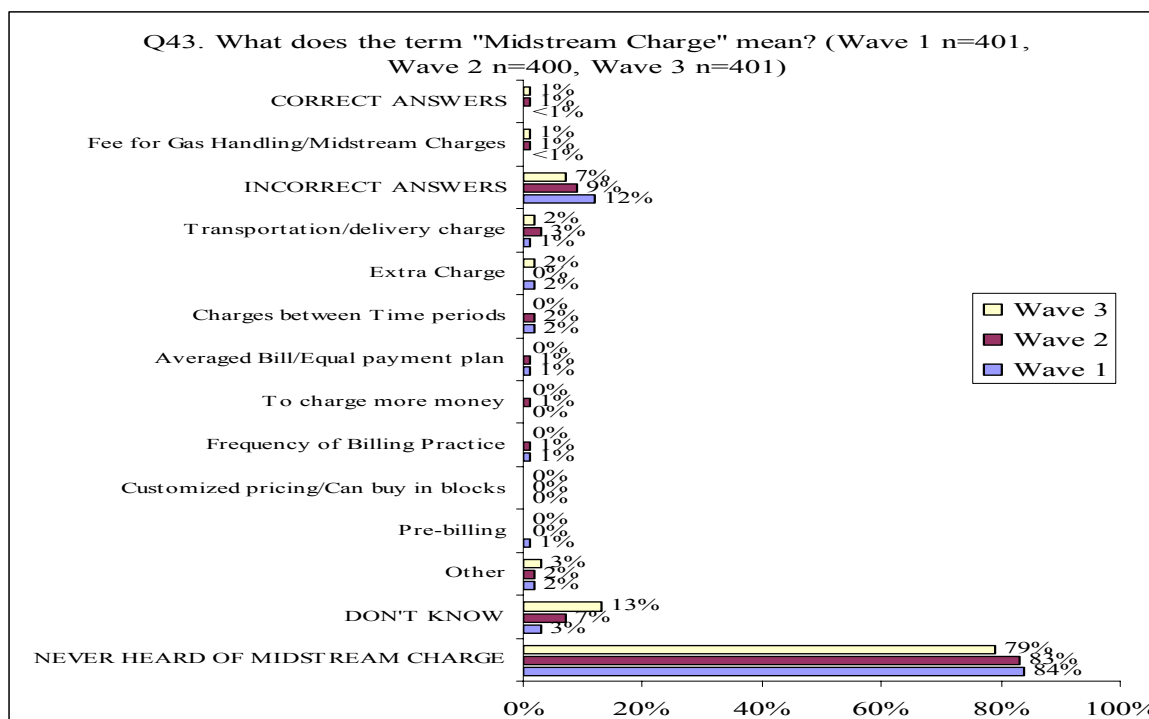
The Direct Mail kit has been successful in:

- Reaching a sizeable proportion of Rate Class 2 and 3 customers (28% in Wave 2 and 20% in Wave 3);
- Encouraging those who receive it to read “all or most” (Wave 2 55%) or “some” (Wave 2 29%);
- Conveying “general” information about the NGCU Program;
- Conveying this information in an “effective” manner” (75% of customers receiving the insert rated it “very or somewhat” effective in Wave 2); and
- Positive comments were that the Mail Kit was easy to understand; provided information on how the Program works; and explained customers would be able to buy natural gas from a variety of suppliers.

Opportunities for Future Communication

While significant progress has been made in increasing awareness of Commodity Unbundling and ensuring commercial customers have enough information to make an informed purchase decision, opportunities exist for improvement. These opportunities are outlined below.

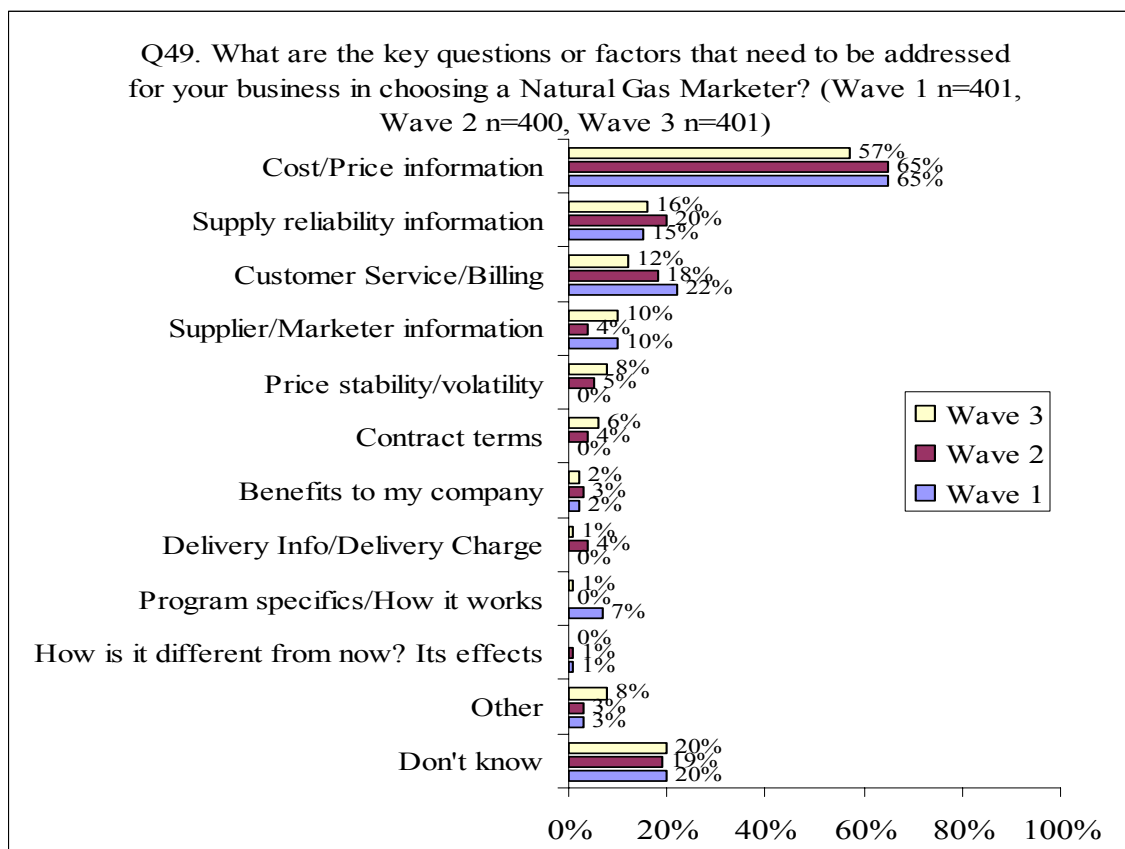
- Awareness of the term “Midstream Charge” remains low.** Only 20% in Wave 3 had heard of the term “Midstream charge” before which is unchanged significantly from 16% in Wave 1; and only 1% of the total sample in Waves 2 and 3 was able to correctly identify what it means, which is unchanged significantly from 0.5% in Wave 1. Only a small minority of decision makers were able to answer correctly that the Midstream Charge is “not a new additional charge, but will appear on the bill separately from the Commodity Charge” (18% in Wave 2 and 9% in Wave 3 both unchanged significantly from 14% in Wave 1).



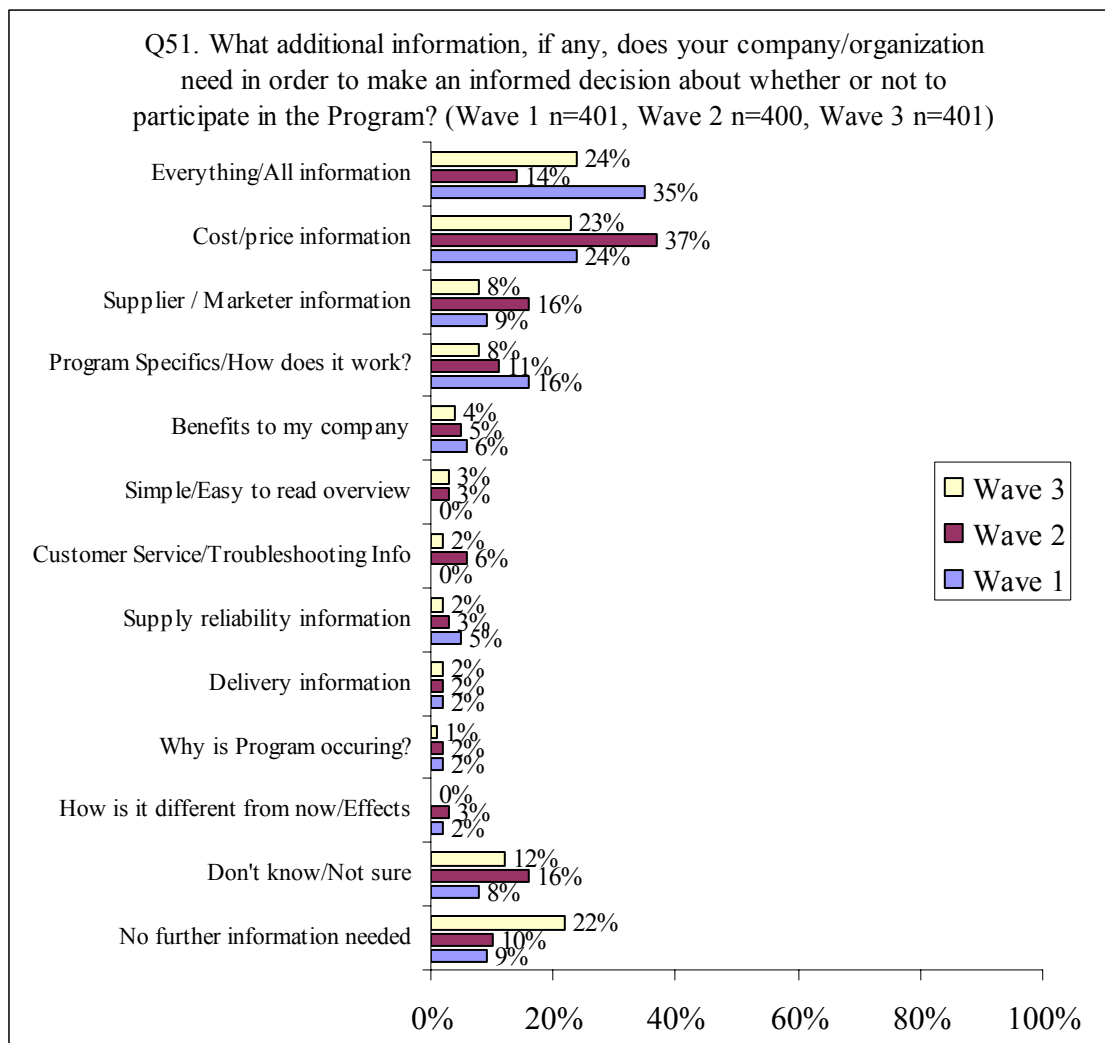
An opportunity exists to raise awareness and knowledge of the Midstream charge through future communications focused on the specific topic. Greater understanding of the Midstream charge by customers will lead to more informed purchase decisions as customers will be in a better position to evaluate Gas Marketers commodity offerings compared to that of Terasen Gas’ standard bundled rate. Commercial customers accustomed to the Terasen Gas standard bundled rate typically think of their commodity charge as including Midstream. To be in a position to evaluate Gas Marketers’ commodity offerings, customers must now understand that if they switch to a Gas Marketer, they will still be responsible for paying the Terasen Gas Midstream charge in addition to the Gas Marketer’s commodity charge.

- No change in the proportion who have heard of the term “Natural Gas Marketer”.** A sizeable minority of decision makers say they have heard of the term “Natural Gas Marketer” before (Wave 3 33%), however, this proportion is unchanged significantly from 38% in Wave 1 or 31% in Wave 2). Respondents say they want more detailed information about Natural Gas Marketers themselves.

An opportunity exists to raise awareness and knowledge of natural Gas Marketers by explaining the role of natural Gas Marketers and directing potential customers to information source(s) where they can find out more about Gas Marketers operating in the market; their history, contact details, customer service, billing and pricing. This will allow potential customers to be in a better position to make informed purchase decisions.



- Customers still cited the need for more information to make an informed purchase decision.** Among those citing more specific informational needs, “cost/pricing information” continues to be a more frequently cited request (23% down significantly from 37% in Wave 2) followed by “supplier/marketer information” (8% down significantly from 16% in Wave 2) and “Program specifics/How does it work” (8%). Cost/pricing and supplier/marketer information can be addressed by providing more information about natural Gas Marketers (see previous recommendation).



An opportunity exists for future communication to address customers' need for more information regarding program specifics/how does it work, what are the benefits to customers; all presented in a simple and easy to read manner.

On Commission approval of the recommended education opportunities outlined, Terasen Gas intends to file with the Commission an implementation plan outlining the timeline, proposed budget, and the details prior to proceeding with the second year of the customer education campaign.

3.3 Key Aspects of the Business Model

3.3.1 Delivery Requirements

In the Terasen Gas July 18 Report, Terasen Gas outlined the delivery requirements. The delivery requirements were to be determined on a group basis based on historical consumption data and other forecast parameters and that the delivery requirements would be at an annual 100 percent load factor.

Key points in the calculation of the delivery requirements

- Delivery requirements will be determined at a Marketer Group level. The delivery requirement will be a daily baseload volume based on the forecast annual normalized load for each marketer group divided by 365 days.
- The forecast annual normalized load for each marketer group will be determined based on the annual forecast and will be effective November 1st each year. It will be calculated at the premise level allowing marketer group delivery requirements to be re-determined taking into account customer migration without re-forecasting the overall load.
- A total delivery requirement will be calculated for each marketer which will be a sum of the delivery requirements for each of that marketer's groups.
- Delivery requirements will be adjusted as required on each entry date.
- Monthly variance reviews will be undertaken to analyze the difference between actual and forecast load.

It is Terasen Gas' view that no changes are required to the delivery requirement determination process. However, Terasen Gas recognizes there is a need to provide a better understanding to Gas Marketers on how the delivery requirement calculation works.

3.3.2 Receipt Point Allocation

In the Terasen Gas July 18 Report, Terasen Gas outlined the receipt point allocation methodology.

Key aspects of the receipt point allocation business rule

- In fulfilling the delivery requirements, Gas Marketers are to deliver gas to Terasen Gas at the three supply hubs; Sumas, Station 2 and AECO in the same proportions as the overall Terasen Gas supply portfolio.
- Percentages by supply hub are determined annually and are effective November 1st of each year.
- The total delivery requirement is expressed as a gigajoule per day for each receipt point.

For the gas year November 1, 2004 to October 31, 2005, the receipt point allocations as approved in the Annual Contracting Plan were 70% Station 2, 15% Sumas, 15% AECO (NIT).

Terasen Gas expects these allocations to hold for the upcoming gas year November 1, 2005 to October 31, 2006. Terasen Gas' recommendation is to make no change to this business rule.

3.3.3 Fuel Requirements

As outlined in the Terasen Gas July 18 Report, Gas Marketers are to deliver fuel-in-kind equal to Terasen Gas' average off-system fuel requirements. These fuel percentages are to be communicated to the Gas Marketers via a notice at least 30 days in advance of each November 1st. As with the receipt point allocation percentages, Terasen Gas will provide estimated fuel percentages once the Annual Contract Plan is approved.

3.3.4 Backstopping

The business rule is that any shortfall for short-term marketer failure will be supplied by Terasen Gas and that the Gas Marketer will be charged for backstopping service. To date, Terasen Gas has not levied backstopping charges to any Gas Marketer. Terasen Gas will continue to monitor this area but at present, recommends no change to this business rule.

3.3.5 Marketer Failure

As outlined in Appendix A to Commission Letter No. L-25-03, the Commission will determine whether a Gas Marketer supply failure has occurred, and in the event of longer term Gas Marketer failure, the customers impacted would return to Terasen Gas at the standard system supply rate.

To date, there have been no Gas Marketer failures under the program.

3.3.6 Bad Debt Factor

In its decision outlined in Commission Order G-25-04 dated March 12, 2004, the Commission determined that there would be no incremental bad debt factor allocated to Gas Marketers until it can be demonstrated that there is higher (lower) payment risk. The Commission directed that for the period November 1, 2004 to October 31, 2005, Terasen Gas record in a deferral account the dollar difference between the actual bad debt of Rate Schedules 2U and 3U customers and 0.30 percent of the gross revenue received from Rate Schedules 2U and 3U customers. The disposition of the amounts in the account and establishment of an appropriate bad debt factor is subject to future determination by the Commission.

Terasen Gas had originally proposed that Gas Marketers be charged a percentage bad debt factor on gross sales to unbundled customers; Rates 2U and 3U. The bad debt factor would be based on the overall bad debt recovery forecast used for the purposes of the Terasen Gas annual budget for the calendar year. For calendar year 2004, the bad debt factor was 0.30 percent.

As only a few months have elapsed, there is only limited data to detect a trend developing. Terasen Gas will continue to monitor the situation.

3.4 Review of Program Limitations

3.4.1 Number of Customers

As part of the implementation plan, Terasen Gas proposed that it was necessary initially to limit the number of customers enrolling in the November 1, 2004 entry date to the first 10,000 customers. Terasen Gas felt this was necessary to allow time for system stabilization and to confirm that the systems and processes could support higher enrolment numbers. The limit of 10,000 customer enrolments however was not tested for first entry date of November 1, 2004 as approximately only 2,000 customers were enrolled in the Unbundling program at that point. Terasen Gas reviewed its systems and processes after the first entry and determined that there would likely be no system related issues if customer enrolments increased. The 10,000 enrolment cap was subsequently relaxed for future entry dates. As of January 2005, approximately 11,000 customers have been enrolled in the program with no system related issues caused by a higher number of customer enrolments.

3.4.2 Number of Groups

Terasen Gas proposed that it was not necessary to limit the number of marketer groups in order to contain system design and development costs. It was anticipated that all customers with a particular Gas Marketer with the same price will be included in the same marketer group regardless of the customer's size or location. It was anticipated that Gas Marketers would have only one or perhaps two price offerings for each entry date.

To date, Gas Marketers have setup between one and five groups per Gas Marketer and one or two price offerings per entry date. There have been no problems accommodating the number of groups to date and Terasen Gas does not anticipate future issues to arise resulting from the number of marketer groups.

3.4.3 Entry Dates

Terasen Gas originally contemplated that it might be necessary to limit the frequency of entry dates in order to support the Commodity Unbundling process. It was proposed that the second entry date of February 1, 2005 be suspended in order to ensure that the systems and processes were stable. Following this entry dates would occur quarterly on May 1, August 1, November 1 and February 1.

As discussed earlier in Section 3.2.1 Customer Eligibility, Enrolment and Mobility, Terasen Gas in consultation with the Gas Marketers determined that there should be a February 1, 2005 entry date and as such applied to the Commission for this change. The Commission approved the entry date by Order G-90-04.

Moving to monthly entry dates still remains an issue. Terasen Gas' view is that accommodating monthly entry dates cannot be done without significant modifications to existing systems and process.

3.4.4 Customer Eligibility (i.e. Rate 23)

Rate Schedule 23 customers are eligible to participate in the Commodity Unbundling service. Processing a Rate Schedule 23 customer enrolment however requires manually removing the customer from the industrial billing system, converting the account balance into the Energy CIS and manually updating the meter reading configuration to convert from calendar billing to cycle billing. The costs of this highly manual enrolment and switching process for a Rate Schedule 23 customer will be rolled into the overall customer enrolment costs. It was not anticipated that the number of Rate Schedule 23 customers who wish to enroll in the Commodity Unbundling service was going to be significant.

To date, no Rate Schedule 23 customers have switched and signed up for the Commodity Unbundling service.

3.5 Commercial Unbundling Implementation Costs

In Commission Letter No. L-25-03, direction was provided on the allocation of costs to the Utility's commercial customers who have the opportunity to participate in the Commodity Unbundling service. Specifically, the implementation costs are to be recovered from the commercial customers and annual operating costs should to the extent possible be recovered from the Gas Marketers.

In its July 18 Report, Terasen Gas expected implementation costs to be \$7.1 million on a pre-tax basis. Commission Order G-57-03 approved an increase of \$6.1 million to the implementation cost deferral account resulting in a total approved deferral account of \$7.1 million. In the report, Terasen Gas proposed that recovery be by way of a \$.050/GJ rider for all commercial customers. In its January 16, 2004 Application, Terasen Gas proposed that recovery of the implementation costs occur over a three year period. Terasen Gas estimated that recovery costs per GJ would be approximately \$0.065. Commission Order G-25-04 approved amortization and recovery of the deferral account over a three year period.

On December 7, 2004, Terasen Gas filed for approval for approval of the recovery costs associated with Commercial Unbundling. As of December 31, 2004, the projected deferral account balance was \$6.2 million including AFUDC. Commission Order G-110-04 approved the recovery of costs by way of a rate rider for the Commercial Commodity Unbundling Program deferral account. Rate Rider 8, as a Midstream Cost Recovery Charge for Rate Schedules 2, 2U, 3, and 3U customers excluding Revelstoke and Fort Nelson, is set at \$0.056/GJ effective January 1, 2005.

3.6 Commercial Unbundling Implementation Timelines

In the July 18 Report, Terasen Gas outlined the following timeline designed to flow gas to customers November 1, 2004.

September 2003	Terasen Gas to develop tariffs, code of conduct, licensing and customer education plans.
February 2004	Tariffs and agreements in place, customer education begins.
April 2004	Commercial customers receive bills with midstream and commodity charges split out.
May – August 2004	Marketers begin signing contracts with customers. Terasen Gas to accept enrolments until August 31, 2004.
September 2004	Marketers notified of delivery requirements.
November 1, 2004	Gas from Marketers will start to flow and customers will begin to receive bills based upon their contracts with Marketers.

Terasen Gas managed to adhere to this timeline with gas being delivered to customers on November 1, 2004.

3.7 Commercial Unbundling Operating and Maintenance Costs

The Commercial Commodity Unbundling program has ongoing operating and maintenance costs. Due to the short period of time that this program has been operational, estimates of these costs are still subject to a fairly significant degree of variability. As more experience is obtained, the estimates for these costs are expected to become more accurate.

The operating and maintenance costs for the Commercial Commodity Unbundling program have been estimated by looking at each of the cost drivers. A number of the costs, such as the manual processing of enrolment rejections, are expected to vary directly with activity levels. Other costs are directly related to the number of marketer groups being set up in the Energy system. Enrolment related costs were found to vary in a more limited fashion based on the number of enrolments or customer drops for example. In general, however, the Customer Care costs vary more on the basis of activity levels than the Forecasting and Gas Supply related costs. The result is that the costs can vary significantly based on the actual customer participation levels.

The operating costs, to the extent possible, are to be recovered from the Gas Marketers. Terasen Gas currently charges Gas Marketers two different transaction fees in order to recover certain operating costs directly from Gas Marketers. The transaction fees are charged to the Gas Marketers on a monthly basis and are netted against the remittances made to the Gas Marketers for gas deliveries.

The first transaction fee is called the Customer Administration Fee and is based on the total number of bills sent on behalf of Gas Marketers to customers who have elected to participate in the Unbundling program. Terasen Gas currently charges a Customer Administration Fee of \$0.40 per month for each bill sent to customers within the Gas Marketers' groups.

The second transaction fee is called the Marketer Group Administration Fee and is based on the number of marketer groups in effect for the Gas Marketer as of the first of that particular month. Terasen Gas currently charges a Marketer Group Administration Fee of \$150.00 per month for each active marketer group

Further, the maintenance costs of the Commercial Commodity Unbundling program are anticipated to be approximately \$24,000 per year and are not expected to vary by the number customers enrolled or the number of groups.

Operating and maintenance costs, net of those costs recovered from Gas Marketers via the transaction fees are accumulated in a deferral account and will be recovered through the use of a rate rider from all commercial customers who are eligible to participate in the program.

4 STABLE RATE OPTION PROGRAM

4.1 Introduction

The purpose of the following sections of the report is to outline the highlights of the program including customer participation to-date, customer education efforts, customer and media awareness and implementation and operating costs. Opportunities for improvement and extension of the offering for 2006 and onwards will also be discussed.

4.2 Customer Participation

As of January 1, 2005, 1,877 eligible residential customers throughout the Province were enrolled in the Stable Rate program. Participation was highest in the municipalities of Surrey, Vancouver, Kelowna, Richmond and Kamloops accounting in total for more than one third of total subscribers to the program.

Customers were able to enrol in the program for a period of 2 months, lasting from October 1 to November 30, 2004 with participation limited to the first 20,000 eligible residential customers on a first come, first serve basis.

4.3 Customer Education

Terasen Gas believes an alternative rate offering within the Utility such as the Stable Rate Option is complementary to Commodity Unbundling as it aids in facilitating an orderly transition to an unbundled environment. By enabling choice, the Stable Rate Option stimulates consumers' interest and provides educational benefits leading to increased consumer awareness and level of understanding of alternative gas commodity offerings.

Due to the pilot nature of the program and concerns primarily over the level of residential customer interest in commodity choice, Terasen Gas kept educational and marketing costs to a minimum by utilizing low cost communication channels such as a corporate news release, the Terasen Gas corporate website and a bill insert. Customer education efforts for the Stable Rate Option in 2004 comprised of the following activities.

1. **Natural Gas Pricing and Terasen Gas rates.** Key messages promoted in Terasen Gas' Spring 2004 Connections newsletter included:

- **We're a gas company.** Not – as some believe – a gas exploration or gas production company. Maintaining our huge pipeline network allows us to deliver gas to your home or business. This is the service we charge our customers for, and how we make money.
- **We don't mark up the price of natural gas.** We don't make a profit on the price of the natural gas commodity. We purchase gas on the open market and pass the cost through to you without mark up. That means you pay what we pay.

- **We purchase gas on behalf of our customers.** We work hard to provide you with affordable natural gas. We are the single largest purchaser of natural gas in B.C. and we use our considerable buying power to negotiate the lowest possible price for natural gas.
- **Customers pay separate rates for delivery and commodity.** Natural gas consumers pay separate charges for the natural gas commodity and for delivery of the commodity. That's why you see separate charges on your bill:
 - i. Delivery charges are what you pay us to bring the gas to your home or business.
 - ii. The commodity charge is what you pay for the natural gas itself.
- **Our rates and activities are regulated.** We are regulated by the British Columbia Utilities Commission (BCUC) – a provincial government agency. Our commodity charges for natural gas are reviewed by the BCUC on a regular basis to ensure fair and reasonable rate for customers. Any change in rates – increase or decrease – must be approved by the BCUC.

2. Natural Gas Pricing and Understanding a Natural Gas Bill. Starting September 1, 2004, radio ads were utilized to help educate customers and raise awareness about the cost of gas and safety, specifically:

- Natural gas pricing
- Understanding a natural gas bill
- Natural gas appliance safety
- Call before you dig
- What to do if you smell gas

30-second ads aired over a four to five month period primarily on mainstream radio stations in: the Lower Mainland, Victoria, Kelowna, Kamloops, Vernon, Penticton, Prince George, Nanaimo and Cranbrook. For the Stable Rate program, the key messages emphasized were:

- Like understanding why Terasen Gas does not charge a mark-up on the price you pay for your natural gas
- Like understanding how Terasen Gas competes on world markets to get its customers the best possible price for their natural gas

Listeners were then asked to Visit “Understanding Your Natural Gas Bill” at terasengas.com or call 1-888-GAS-BILL for more information.

3. Terasen Gas News Release. To promote the Stable Rate program, Terasen Gas produced and issued a news release on September 2, 2004, prior to the distribution of the Stable Rate bill insert. The news release is provided in Appendix A for reference.

4. **Corporate Website (www.terasengas.com) and Pipeline (Terasen Gas Intranet).** Information about gas pricing, Terasen Gas rates and the Stable Rate Option were made readily available on the internet and intranet.

- www.terasengas.com/Residential/SpecialOffers/StableRateOption

5. **Terasen Gas Call Centre and Stable Rate Information Hotline.** Scripting material regarding the Stable Rate Option was prepared and distributed to Call Centre staff prior to the communication of the program details in September to potential customers. Scripting material developed included answers to the following questions:

- What is Stable Rate Option?
- How does the Stable Rate Option work?
- Why would I sign up for it?
- Does Stable Rate Option mean I pay exactly the same amount of dollars each month on my gas bill?
- How much control over my gas bill does Stable Rate Option give me?
- Why is Stable Rate Option being offered?
- What if I don't want to change over to the Stable Rate Option?
- Does the Stable Rate Option cost anything?
- Is Stable Rate Option the same as Equal Payment Plan?
- What are the deadlines for enrolment in Stable Rate Option?
- How do I get set-up with Stable Rate Option?
- What if I want to cancel?
- Can I transfer my Stable Rate Option to my new address if I move?
- At the end of the initial 12 month term, do I have the choice of switching back to the Terasen Gas standard rate? What are the renewal terms?

An information hotline was created to provide an easy way for potential customers to find out more regarding the Stable Rate Option. Three message options were provide on the hotline.

- To find out more about the Stable Rate Option, press 1
- To find out how the Stable Rate Option is different from what you have today, press 2
- To find out how you can sign-up for Stable Rate Option, press 3

- 6. Terasen Gas Stable Rate Option Bill Insert.** Details of the program offering were outlined in the Stable Rate Option brochure sent out to all eligible residential customers during the month of September 2004. The details of the brochure were developed in consultation with Commission staff and the B.C. Public Interest Advocacy Centre (“BCPIAC”). The highlights of the brochure included outlining how the program works, the benefits of the Stable Rate Option, the differences between the Stable Rate Option and the Equal Payment Plan and how to apply for the Stable Rate Option. An enrolment form containing the terms and conditions of the Stable Rate Option was included at the back of the brochure. The cover page of the brochure is provided in Appendix A for reference.
- 7. Terasen Gas Community Newspaper promotion.** To increase awareness and participation in the program, Terasen Gas placed an advertisement in late November 2004 in the following select community newspapers.
- Burnaby New Westminster News Leader
 - Burnaby Now
 - Kamloops This Week
 - Kelowna Capital News
 - Langley Advance News
 - Langley Times
 - North Shore News
 - Prince George Free Press
 - Richmond News
 - Richmond Review
 - Surrey Now
 - Vancouver Courier – Downtown
 - Vancouver Courier
 - Vancouver Westender

The advertisement is provided in Appendix A for reference.

4.4 Customer and Media Awareness

During the marketing campaign for the Stable Rate Option, different media outlets in the Province provided additional press coverage at no additional cost to Terasen Gas. These media outlets included:

Newspaper/Magazine

- Castlegar News
- Westside Weekly (Penticton)
- Penticton Herald
- Kelowna Courier
- Williams Lake Tribune
- Kamloops This Week
- Prince George Free Press
- Quesnel Cariboo Observer
- Business in Vancouver
- The Province
- Vancouver Sun

Radio

- CBU-AM Vancouver (interview with Mark Jaccard)
- CBTK-FM Kelowna Station
- CKWX-AM Vancouver
- CHNL Kamloops
- Shell Busey Show

Television

- Olsen on Your Side (CTV News)

4.5 Implementation and Operating Costs

Implementation

Costs incurred for the Stable Rate Option included capital implementation and annual operating costs. Capital implementation costs consisted of one-time capital costs required to cover the technical and process enhancements necessary to implement the program. One-time capital costs incurred totalled to \$150,000 compared to an estimated cost of approximately \$160,000.²

Operating

Annual operating costs included marketing expenditures to promote the offering, back-office expenditures for processing of customer enrolments and providing management reporting and call centre related expenditures for the handling of customer inquiries. Examples of customer enrolment related activities were processing customer enrolment applications and sending out confirmation and rejection letters. A portion of the operating costs were “fixed” in nature (i.e. will be required to operate the program regardless of the number of customers participating) and the remaining portion were “variable” and dependent on the number of customers enrolling (i.e. enrolment requests received). Fixed operating costs are estimated to reach a total of \$290,000 by December 31, 2005 compared to the original estimate of \$390,000. Lower than anticipated customer queries and support requirements, along with savings on marketing expenditures contributed to the reduction in spending required.

Based on 2,031 Stable Rate applications received and processed, the “variable” operating costs at \$26 per application totalled to approximately \$52,000. These costs are being recovered from the premium built into the fixed commodity charge of \$8.39 per gigajoule. The determination of the premium was outlined in Terasen Gas’ filings titled “Terasen Gas Stable Commodity Rate Residential Service Application – Commodity Rate Confirmation” dated August 5 and August 11, 2004. Commission approval for the application was granted in Commission Order G-80-04.

4.6 Assessment of Stable Rate Option – 1st Year Results

Terasen Gas strongly believes the development and implementation of the Stable Rate program has been a success, meeting the first year objectives of the program. As outlined in previous filings, Terasen Gas identified the objectives of the Stable Rate program were to:

- educate consumers on commodity choice;
- stimulate consumer interest in alternative gas commodity offerings;
- assess residential consumer response to commodity choice;
- aid in facilitating an orderly transition to an unbundled environment when the necessary conditions are present.

² As outlined in the Terasen Gas Inc. Commodity Unbundling and Customer Choice Phase 1 Cost Allocation Application filed January 16, 2004.

Terasen Gas believes the marketing material and communication efforts undertaken in 2004 as outlined earlier have contributed to making progress in the objectives outlined. By offering the Stable Rate Option, Terasen Gas believes residential consumers will over time be generally more informed and educated on commodity choice. In addition, the terms and conditions of the Stable Rate Option were structured so that they mirror as closely as possible what consumers would be offered in an unbundled environment. Significant work remains though to continue to educate residential consumers on commodity choice.

Customer participation was lower than anticipated likely because of the significance of the financial premium associated with participating in the offering (i.e. ~\$0.70 per gigajoule or 10%; \$8.39 per gigajoule for Stable Rate Option compared to standard regulated rate of \$7.63 per gigajoule) and the relative “infancy” of the offering.

Concerns expressed by stakeholders, particularly Gas Marketers, about alternative rate offerings in the Utility such as the Stable Rate Option acting as a deterrent to Residential Unbundling remain unfounded. Terasen Gas instead believes alternative rate offerings within the Utility are complementary and support the evolution towards more choice offered by Residential Unbundling.

Terasen Gas does not believe that the creation of a competitive environment for commodity choice is hampered by the presence of alternative rate offerings by the Utility in the marketplace. There are two distinct differences between Terasen Gas’ Stable Rate offering and the product a Gas Marketer would likely offer consumers in an unbundled environment. First, the term of the Stable Rate offering is limited to a one-year time frame compared to a minimum three to five year term time frame for a Gas Marketer’s offering. Second, the tactics utilized by Terasen Gas to market the Stable Rate Option is more informational and educational than the promotional tactics likely to be utilized by Gas Marketers. Terasen Gas with the input from Commission staff and a BCPIAC representative heavily emphasized in its marketing materials that the Stable Rate Option was not necessarily about saving money but more about paying for stability of a natural gas prices. Based on these two key differences, Terasen Gas argues that the Stable Rate Option is not a competitive threat to Gas Marketers’ long term fixed price offerings marketed using more traditional retail marketing approaches.

Having an alternative commodity offering within the Utility not only provides residential consumers with more choice but also provides consumers with a benchmark against which they can compare marketers’ offerings against. It is worth repeating here that the majority of stakeholders consulted during the development of the Unbundling solution in 2003 believed that Terasen Gas should be offering alternative rate offerings such as the Stable Rate Option, as it provides consumers with alternatives to choose from. Most stakeholders though, did not support the one-year pilot program as its “pre-emptive” nature was felt to be providing an unfair competitive advantage to Terasen Gas. As discussed earlier, Terasen Gas does not believe this to be the case.

Following is a matrix outlining interests of various stakeholders including customers, Commission, Gas Marketers and Terasen Gas. Terasen Gas believes its alternative commodity offering; the Stable Rate Option is in the best interest of its customers and meets the needs of key stakeholders.

Stakeholder Interests in Commodity Choice

<p style="text-align: center;">Customer</p> <ul style="list-style-type: none"> • Increased choice • Benefits of price certainty and potential cost savings • Adequate information to make an informed decision • Simplicity of offer • Flexibility to exit arrangement 	<p style="text-align: center;">British Columbia Utilities Commission</p> <ul style="list-style-type: none"> • Ensure consumers are in a position to make an informed purchase decision (i.e. minimize customer complaints) • No discrimination • Promotion of competition in commodity choice • Minimal cross subsidization
<p style="text-align: center;">Terasen Gas</p> <ul style="list-style-type: none"> • Increased customer satisfaction • Contribute to competitiveness of natural gas as an energy choice • No risk of non-recovery of costs related to alternative commodity offerings 	<p style="text-align: center;">Gas Marketer</p> <ul style="list-style-type: none"> • Competitive environment for commodity choice (i.e. alternative commodity offerings do not act as a barrier to entry) • Minimal cross subsidization • Transparency in treatment of costs

4.7 Recommendation

Terasen Gas believes extension of the Stable Rate Option offering for the foreseeable future, subject to Commission review is warranted. Continuation of the Stable Rate Option provides a cost-effective way to promote commodity choice offerings, educate consumers, gather market information and continue to assess residential consumer interest in participating in commodity choice. Development and implementation costs are projected to remain in the \$0.5 million range per year or less, to pay primarily for production and communication of marketing materials related to the Stable Rate Option. In addition, extension of the Stable Rate Option allows the leveraging of the one-time capital implementation costs discussed earlier. Barring further significant system enhancements, there will not be a requirement to spend additional funds on technical and process enhancements necessary to support the Stable Rate Option in its present state. Additional market intelligence about consumer interest can continue to be gathered prior to making a decision on proceeding with Residential Unbundling.

Evidence to date suggests residential consumer knowledge and interest in natural gas commodity choice offerings are limited at this point in time. The decision to invest the significant additional funds (i.e. \$10 - \$20 million) to pay for system and process enhancements required to support Residential Unbundling is difficult to make, given the limited consumer interest to having commodity choice.

4.8 Opportunities for Improvement and Next Steps

Subject to Commission approval of an extension of the alternative commodity offering, the Stable Rate Option, Terasen Gas intends to investigate different ways for improving the Stable Rate Option, with the goal to increase consumer awareness of commodity choice. Ideas under consideration are:

- Changing the terms of the offering to possibly a capped pricing scheme where consumers are guaranteed a maximum price with the potential to pay less should the standard regulated rate turn out to be lower. Terasen Gas believes a capped price offering with the ability to pay less may stimulate more consumer interest in the offering.
- Changing advertising media to employ use of television. Terasen Gas believes the use of television is the most efficient & high-impact medium for raising consumer awareness.

Terasen Gas intends to file with the Commission an implementation plan outlining the timeline, proposed budget, terms and conditions and the details of the offering prior to proceeding with the second year of the Stable Rate Option.

The tepid first year customer participation rate suggests further education efforts are required before residential consumers are in a position to make informed decisions on commodity choice. Terasen Gas believes heightened consumer awareness of commodity choice by making alternative commodity offerings available through the Utility will lead to not only a more informed consumer but also to a more receptive consumer for Residential Unbundling.

5 COST RECOVERY

5.1 Commodity Cost Reconciliation Account ("CCRA") and Midstream Cost Reconciliation Account ("MCRA")

Terasen Gas purchases gas on behalf of its sales customers and passes these costs through to sales customers without mark-up. Costs are recovered from customers through gas cost recovery rates. As the gas cost recovery rates are based on forecast costs and actual costs invariably differ from forecast costs, deferral accounts are used to accumulate the difference between the cost incurred by Terasen Gas to purchase the gas commodity and the revenue collected by Terasen Gas through the gas cost recovery component of rates. Prior to April 1, 2004, these costs were collected in the Gas Cost Reconciliation Account ("GCRA"). Effective April 1, 2004, all gas supply costs were assigned to either the CCRA or the MCRA deferral accounts based upon whether the cost related to the Commodity or the Midstream functions.

The CCRA captures the costs incurred by Terasen Gas to purchase its portion of the baseload gas requirements and the revenue collected by Terasen Gas through gas commodity rates. Terasen Gas, in its role as commodity provider, supplies baseload gas, on a 100% load factor basis, as per the forecast annual supply requirements. Terasen Gas' cost for this baseload gas is charged to the CCRA, and the revenue collected by Terasen Gas for the commodity portion of the applicable customer sales is credited to the CCRA. On an annual basis, there will be a difference between the baseload supply requirement and the actual consumed quantity. This volume-related variance is the responsibility of Terasen Gas in its role as Midstream services provider and as such will be transferred to the MCRA. Commodity price-related variances will be collected in the CCRA and will be taken into account when determining commodity rate changes.

The MCRA is designed to capture all the costs associated with the Midstream function and the revenue collected by Terasen Gas through Midstream rates. The commodity providers, both Terasen Gas Commodity and Gas Marketers, deliver baseload volumes, including any fuel in-kind, at the three receipt points. Terasen Gas will then deliver gas to gate stations to meet daily firm customer demands. Terasen Gas, in its role as Midstream service provider, will use the pipeline, storage resources, spot and peaking purchases, and sale activities as approved in the Annual Contracting Plan to manage load variability. The MCRA will collect any resultant cost variances, including any volume-related variances due to differences between the forecast and actual consumption.

Terasen Gas has continued to utilize a gas cost recovery review mechanism and process consistent with the process that was followed under the GCRA. Both the CCRA and MCRA deferral accounts are reviewed and reports filed with the Commission on a quarterly basis. The commodity cost recovery rates, which are subject to variations in the forward price of natural gas, continue to be reviewed and adjusted on a quarterly basis. Midstream cost recovery rates are reviewed quarterly but an annual adjustment mechanism for rate setting appears to be the most appropriate. An annual adjustment process for the MCRA provides stability to the Midstream component of gas costs for customers. In addition, it synchronizes rate changes to the Midstream cost recovery charge with the annual delivery margin adjustment process on January 1st of each year, helping to streamline communications with customers regarding rate adjustments.

5.2 Rate Impacts of Implementation Operating and Maintenance Costs

Commission Order G-25-04, dated March 12, 2004, afforded Terasen Gas deferral account treatment and cost recovery of the implementation, operating and maintenance costs associated with the Commercial Commodity Unbundling program and the implementation and operating costs associated with the Stable Commodity Rate Residential Service program.

Terasen Gas submitted an application to the Commission on December 7, 2004 for the Commercial Commodity Unbundling Deferral Cost Recovery Rider and the Stable Commodity Rate Residential Service Deferral Cost Recovery Rider effective January 1, 2005. Pursuant to Commission Order G-110-04, the two new rate riders became effective January 1, 2005.

The Commercial Commodity Unbundling Deferral Cost Recovery Rider, rate Rider 8, was set at \$0.056/GJ and is applicable to all commercial customers eligible to participate in the Commercial Commodity Unbundling program (Rate Schedules 2, 2U, 3, and 3U customers within the Lower Mainland, Inland and Columbia service areas excluding Revelstoke and Fort Nelson).

The Stable Commodity Rate Residential Service Deferral Cost Recovery Rider, rate Rider 9, was set at \$0.006/GJ and is applicable to all residential customers eligible to participate in the Stable Commodity Rate Residential program (Rate Schedules 1 and 1S customers within the Lower Mainland, Inland and Columbia service areas excluding Revelstoke and Fort Nelson).

5.3 Recovery of Implementation, Operating and Maintenance Costs

Commission Order G-25-04 dated March 12, 2004 directs Terasen Gas with respect to recovery of the implementation costs and the operating and maintenance costs associated with the Commercial Unbundling and the Stable Rate Option programs.

5.3.1 Commercial Unbundling

The implementation costs associated with the Commercial Commodity Unbundling Program were afforded deferral account treatment, including three year amortization and inclusion of AFUDC, pursuant to Commission Order G-25-04.

Terasen Gas had forecast the total costs required to implement the Commercial Commodity Unbundling Program to be \$7.15 Million, before AFUDC, and Commission Letter L-14-03 and Commission Order G-57-03 approved deferral account treatment for that amount. Successful implementation of the Commercial Commodity Unbundling Program was achieved with actual expenditures coming in under budget. The actual December 31, 2004 deferral account balance was \$6,225,414, and includes \$377,739 AFUDC.

Effective January 1, 2005, and pursuant to Commission Order G110-04, dated December 10, 2004, Terasen Gas established rate Rider 8 as a Midstream cost recovery related rider and set the rider rate at \$0.056/GJ. This commodity unbundling deferral cost recovery rider is applicable to all commercial customers eligible to participate in the Commercial Commodity Unbundling program (Rate Schedules 2, 2U, 3, and 3U customers within the Lower Mainland, Inland and Columbia service areas excluding Revelstoke and Fort Nelson).

In addition to the capital costs incurred to implement the Commercial Commodity Unbundling program, ongoing operating and maintenance costs associated with provision of the program will be incurred. As outlined in the Company's January 16, 2004 Commodity Unbundling and Customer Choice Phase 1 Cost Allocation Application, any operating costs not recovered from marketers will be accumulated in a deferral account to be recovered, via a rate rider, from commercial customers eligible to participate in the program. Commission Order G-25-04 approved the cost recovery methodology proposed by Terasen Gas.

Commercial commodity unbundling operating and maintenance costs collected in the deferral account to December 31, 2004 total approximately \$37,700 (after tax).

5.3.2 Stable Commodity Rate Residential Service

In the January 16, 2004 application, Terasen Gas requested approval for deferral account treatment for the capital implementation costs and annual operating costs for implementation of the Stable Rate Residential Service. Terasen Gas also proposed recovering these costs, of approximately \$550,000, via a rate rider applied to all residential customers. Commission Order G-25-04 approved these changes.

Terasen Gas applied to for a rate rider of \$0.006/GJ effective January 1, 2005 for recovery of the deferral account. Commission Order G-110-04 approved the Rate Rider 9, as a Commodity Related Rider for recovery of Stable Commodity Rate Residential Service Program costs for Rate Schedules 1 and 1S customers excluding Revelstoke and Fort Nelson, is set at \$0.006/GJ effective January 1, 2005.

6 RESIDENTIAL UNBUNDLING

6.1 Scalability of Commercial Unbundling Systems and Processes

In Commission Letter L-14-03, the Commission concluded that Commodity Unbundling for small volume customers should be phased-in with commercial customers having a Commodity Unbundling service option effective November 1, 2004 and residential customers being provided with commodity unbundling service in a second phase, at some future date.

In Commission Letter L-14-03, the Commission noted that it expected that Terasen Gas will implement the first phase in a cost-effective manner. Terasen Gas is “expected to deliver on its commitment to minimize expenditures on manual solutions that are not scalable and to maximize the development of processes that are scalable to all small volume customers, in order to keep phase two (residential) costs manageable”. Terasen Gas believes that it has been successful in meeting both these expectations.

By refining and simplifying business rules and processes, the flexibility and scalability of the program has been enhanced beyond what was originally contemplated as necessary to contain costs. The level of automation of high volume customer related enrolment and billing processes supported relaxing limitations on the total number of customers that can be accommodated in the Commercial Unbundling program. As well, the separation of load forecasting and allocation of customers to marketer groups and the aggregation of marketer group delivery requirements to the marketer level for nomination purposes have reduced the need to limit the number of marketer groups. In addition, the implementation strategies have facilitated the ability to relax the limitation on the February 1, 2005 entry date.

In addition to relaxing restrictions for the Commercial Phase of the Commodity Unbundling, the implementation strategies have served to enhance the scalability of the program to the residential customer base. It is anticipated that the implementation strategies can be leveraged in developing and implementing a Residential Unbundling phase.

Given the significantly larger residential customer base, it is expected that the number of customers, Gas Marketers and marketer groups (i.e. price offerings) participating in the program will increase substantially. As a result, additional automation will be required; for example, processing of enrolment rejections, set up of marketer rate groups and enhanced financial reporting interfaces, particularly if monthly entry dates are supported. In addition, the higher volume of transactions would also require more sophisticated data exchange mechanisms in the interfaces both internally and between Gas Marketers and Terasen Gas. It is also anticipated that processes and timelines would need to be re-evaluated including tightening of timelines requiring automation in areas of enrolment, variance analysis and marketer group allocation. The Residential Unbundling phase will likely require some additional processes related to consumer protection. Specifically, additional process and system capability will be required to support confirmation letters and the processing of customer rescissions as well as tracking and reporting of customer complaints related to marketer business practices.

Expanding the program to residential customers will benefit significantly from the flexibility and scalability of the commercial implementation phase. However, it should be noted that expanding the program to the residential customer base will present more significant challenges than the commercial phase in the areas of customer education and consumer protection due to the significantly larger customer base and the lesser degree of customer knowledge and sophistication.

6.2 Terasen Gas' View on Residential Unbundling

Terasen Gas is supportive of more choice for its customers where there is value for its customers and where choice can be provided in a cost-effective manner with adequate consumer protection. For Commodity Unbundling, Terasen Gas will facilitate it for residential customers if customers decide that is what they want. Terasen Gas will endeavour to implement Residential Unbundling in a cost-effective manner as it has done with the Commercial Phase of the Unbundling program and with minimal confusion to customers. Terasen Gas proposes to take the lead to further explore the value proposition of Unbundling to customers. Terasen Gas commits to doing this in a participative and transparent way, very similar to the successful approach that was adopted in facilitating the Commercial Unbundling Phase.

However, Terasen Gas believes the Commercial Unbundling program should complete a full year cycle before a decision is made to proceed further to the next stage of Unbundling. The Commercial Unbundling program has existed (i.e. from November 1, 2004) for only four months. While all indicators are that the program has been a success, Terasen Gas believes it's still too early to make a decision to expand the program to residential customers. There is limited information on the value commodity choice has brought to commercial customers. The number of formal written customer complaints to the Commission that Terasen Gas is aware of is low (i.e. three) but may not be indicative of the underlying feelings of the majority of customers. As mentioned earlier, Terasen Gas has received anecdotal evidence of customers expressing concerns about aggressive and misleading Gas Marketer's sales practices.

At the end of the first year of the Commercial Unbundling program, Terasen Gas recommends that surveys be conducted to confirm the value proposition of commodity choice to consumers. Commercial customers who have participated in the Unbundling program and residential customers would be surveyed. The results of the surveys would be used to help make the decision whether to proceed with Residential Unbundling.

6.3 Key Elements Required for Residential Unbundling

Should a decision be made to proceed with Residential Unbundling, Terasen Gas believes the following key elements are mandatory for a successful implementation.

- Essential Services Model as the business model where Terasen Gas is the system planner and operator. The Essential Service Model has worked well for the Commercial Phase of Unbundling in providing commercial customers the ability to exercise choice while still reflecting the delivery capacity constraints inherent in the regional marketplace.

- Terasen Gas to continue to perform billing for both commodity and delivery services. Terasen Gas believes it provides the optimal billing solution to consumers (i.e. one bill at lowest cost). Also, by Terasen Gas maintaining the billing responsibilities, it can help preserve the integrity of the Essential Services Model (i.e. monitor to ensure no other services included in the gas commodity price charged by a Gas Marketer) and manage effectively its obligation to provide customer care services to its customers.
- Consumer protection and education needs to be enhanced. Residential customers are likely less informed about the benefits and risks of commodity choice than commercial customers. More customer education is definitely required for residential customers. In addition, the establishment of an independent dispute resolution mechanism for handling customer complaints is mandatory for Residential Unbundling where the potential higher number of complaints definitely cannot be handled by the current Commission managed dispute resolution process for commercial customers.
- A review of the existing Phase A gas cost allocation methodology is likely required before Residential Unbundling can occur. From Terasen Gas' perspective, the optimal time for such a review is in 2007 in conjunction with the re-negotiation of the existing performance based rate-making agreement.

6.4 Estimated Costs and Time to Implement Residential Unbundling

To implement Residential Unbundling, Terasen Gas believes the estimated costs and time required as outlined in the report titled Commodity Unbundling and Customer Choice Report dated February 28, 2003 are still reasonable. However, further work is recommended to review and refine the original estimates. Implementation costs are likely to range in the \$10 to \$20 million mostly for required Gas Supply, Forecasting and Customer Information and Billing System enhancements with approximately \$2 million for a customer education program. Annual operating costs are estimated to range between \$2 and \$4 million. The implementation costs will enable Terasen Gas to provide the necessary business processes and system enhancements required to support Commodity Unbundling. Within daily operations at Terasen Gas, system enhancements are needed in the gas supply and customer care areas in order to fully support Unbundling specific business processes and marketer interfaces. The cost estimates however do not include funds for operation of an independent dispute resolution mechanism.

The time require to implement Residential Unbundling is estimated at 1.5 to 2 years, as originally indicated.

6.5 Date for Residential Unbundling

By allowing for a full year cycle of Commercial Unbundling to complete, the earliest date Residential Unbundling could be implemented is November 2007 with November 2008 the optimal date from Terasen Gas' perspective, as it would allow more time for review and implementation of the solution required.

November 2005 marks the end of the first year of the Commercial Unbundling program. In the few months afterwards, the proposed customer surveys to confirm the value proposition to commercial and residential customers of commodity choice would be conducted. Assuming confirmation of customer interest in commodity choice and positive results from the first year of the Commercial Unbundling program, Terasen Gas would be in a position to file the required CPCN application by late spring or early summer 2006. With implementation taking approximately two years, a Residential Unbundling solution would be in place by November 2008. A November 2007 implementation date is more aggressive but could possibly be achieved.

7 STAKEHOLDER CONSULTATION

As of the time of the submission of this report, Terasen Gas was in the process of consulting with key stakeholders on the results of the Commercial Unbundling efforts to date and what the next steps should be. Key stakeholders consulted to date included representatives of customers groups represented by BCPIAC and Hollyburn Properties and representatives from Gas Marketers represented by Direct Energy Business Services, Energy Savings (B.C.) Limited Partnership, CEG Energy Options Inc., Nexen Marketing and Columbia Energy Inc.

Most stakeholders consulted were pleased with how the Commercial Phase of the Commodity Unbundling program has progressed to-date. Few concerns were raised regarding how the systems and processes were operating. Stakeholders continued to be supportive of the Essential Services Model.

On the issue of customer “poaching”, some Gas Marketers indicated the primary reason for it occurring was not necessarily because of intentional actions by the Gas Marketer but more because of the customer’s failure to inform the Gas Marketer. Some customers may not know or may have forgotten that they have already signed up in the Unbundling program with another Gas Marketer. Gas Marketers generally agreed that a possible solution to this issue would be for Terasen Gas to enhance its enrolment system whereby a customer enrolment request is rejected if the system detects that a customer is already currently enrolled in the Unbundling program. A stakeholder commented that a similar self-compliance system where Gas Marketers are responsible for working out the “poaching” issue is also being utilized in Alberta as “poaching” has been a relatively minor issue in that jurisdiction. Another idea offered was to place something on the customer’s bill showing the customer that they have already signed up for an unbundled rate, even though the effective entry date may be later on in the year.

A stakeholder expressed concern over Gas Marketers not being given the reason for a customer being dropped. From a Gas Marketer’s perspective, the reason for a customer drop should be provided to them on a timely basis as it enables them to follow-up immediately.

Most stakeholders agreed that continuing with a customer education program would be beneficial. Some stakeholders felt that customers needed to be educated on how to properly assess different offerings from Gas Marketers relative to Terasen Gas’ standard rate.

Concerning consumer protection, stakeholders generally agreed the 10 day cooling off period and the current dispute resolution process managed by the Commission should remain. An idea suggested was that it should be made easier for customers to change their minds within the allowed 10 day cooling off period. The suggestion is for customers to be able to just email or fax in their cancellation to the Gas Marketer.

A stakeholder expressed concern over the enforcement of Article 2 of the Gas Marketer’s Code of Conduct which states:

Article 2

Whether an Offer is on cash or any other basis, the Offer and Consumer's Agreements shall clearly state the price and payment terms and any other financial provisions, including any deposit requirement, allocation of cost savings and/or services, and the nature and amount of any additional charges.

The stakeholder felt that it was important that potential customers be clearly stated a fixed price as part of the Agreement between a Gas Marketer and the customer as set out in the Code of Conduct. Any ambiguity over what the actual price being offered was would create confusion in the customer's eyes. For the stakeholder, enforcement of Article 2 was important to ensure customers are adequately informed and protected.

Stakeholders had varying opinions on the concept of the market pricing depository as a way to promote price transparency for consumers in the marketplace. Some stakeholders supported the idea and suggested possibly making available forward natural gas market prices while another stakeholder suggested a more effective way is instead to educate customers on the components of their Utility bill. With a greater understanding of their Utility bill, it is expected then that customers will be in a better position to evaluate Gas Marketers' price offerings.

Stakeholders were generally supportive of extending the existing Stable Rate program as it provided educational value. BCPIAC offered to provide input into the design of the program for the coming year. A stakeholder disagreed with introducing a "capped" price for the program as it undermined the value of a fixed rate offering.

With regards to Residential Unbundling, stakeholders' opinions and thoughts varied considerably on this. Consumer group representatives agreed that the Commercial Unbundling program should complete a full year cycle before the decision is made whether to proceed further. On the other hand, Gas Marketers indicated that Residential Unbundling should be introduced as soon as possible. They stated competition is good for consumers.

8 NEXT STEPS

In this report, Terasen Gas has outlined a number of recommendations to improve the existing Commercial Commodity Unbundling and Stable Rate programs and has also indicated its position on when Residential Unbundling could be accommodated, should a decision be made to proceed. Terasen Gas will be presenting the highlights of this report for further discussion at the upcoming Commission workshop on April 8, 2005 to be held at the Commission's office.

Terasen Gas is expecting the Commission to provide direction on the appropriateness of the recommendations provided and the next steps with regards to future Unbundling efforts.

APPENDIX A

Stable Rate Option

Stable Rate - Terasen Gas News Release

Terasen Gas
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News Release

FOR IMMEDIATE RELEASE

September 2, 2004

New Terasen Gas pricing option provides consumers with fixed commodity pricing

Terasen Gas is introducing a new pricing option that allows residential customers to lock in the commodity price of natural gas for one year.

Known as the Stable Rate Option, the plan provides consumers with a fixed, flat rate for natural gas on a per gigajoule basis. (Natural gas is measured in gigajoules and a homeowner's gas bill is based on the number of gigajoules of gas used).

"The stable rate option will appeal to people who are looking for price certainty and some insulation from volatile energy prices," said Jan Marston, Terasen Gas marketing vice president. "This plan doesn't guarantee a lower price; instead it provides a fixed price much like a fixed rate mortgage compared to a variable rate mortgage."

Natural gas is a commodity traded on the open market like oil, coffee and lumber. As a result, the price can fluctuate up and down depending on market forces.

Terasen Gas reviews natural gas commodity prices with the BC Utilities Commission every three months. Since Terasen Gas buys natural gas on behalf of its customers and passes that cost through without any mark up, when the cost of purchasing the gas changes – up or down – the rate Terasen Gas charges for the commodity can also change. But under the Stable Rate Option, the rate the customer pays for the commodity remains the same.

Since July 1, 2000, the rates Terasen Gas charges for the natural gas commodity have increased four times and decreased twice, ranging from a low of about \$6.48 per gigajoule (Lower Mainland) to a high of \$8.82 per gigajoule (Lower Mainland).

The Stable Rate Option fixes the natural gas commodity price at \$8.39 per gigajoule for one year, from January 1, 2005 to December 31, 2005. The current Terasen Gas regulated commodity price ranges from \$7.55 to \$7.68 depending on the service territory. Basic and delivery charges still apply under the Stable Rate Option and a customer's monthly bill will vary depending on consumption.

"The Stable Rate price is initially higher than our regulated price since it includes the cost of administering the plan as well as the cost of securing gas supply at a fixed price on a 12-month forward basis," Marston said.

"The Stable Rate Option provides customers with additional choice and gives them another tool for managing their energy costs."

The offer is only available to Terasen Gas customers in the Lower Mainland, Fraser Valley, Interior, and Kootenays (excluding Fort Nelson and Revelstoke). Enrolment in the program is available between October 1, 2004 and November 30, 2004 and is limited to the first 20,000 customers.

More information on the Stable Rate Option and natural gas pricing can be found on the Terasen Gas web site at www.terasengas.com or by calling 1-888-224-2710.

Terasen Gas delivers natural gas and piped propane to homes and businesses. The Terasen Gas group of companies includes Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc., Terasen Gas (Squamish) Inc. and Terasen Gas (Whistler) Inc.

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Stable Rate Brochure



Imagine the
same gas price
every month

Introducing our new
Stable Rate Option.



Stable Rate Newspaper Advertisement

The same price. Every month.

It makes sense.

Our Stable Rate Option gives you peace of mind by locking in the price you pay for natural gas commodity for a full 12 months.

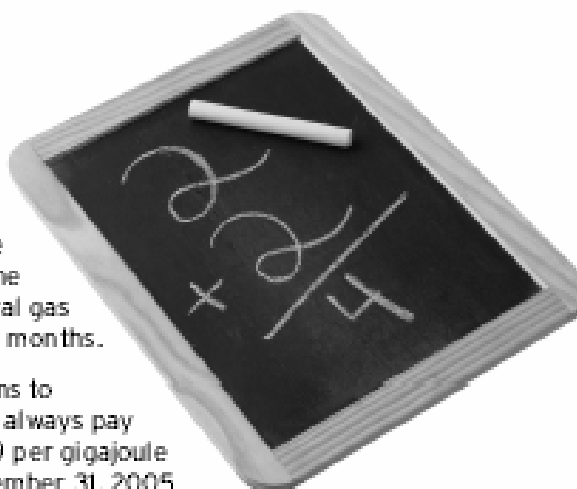
No matter what happens to natural gas prices, you always pay the same price – \$8.39 per gigajoule from January 1 to December 31, 2005.

Now that's reliability you can count on.

Enrolment closes November 30, 2004. Participation is limited to the first 20,000 customers who apply on a first-come, first-serve basis.

It's easy. Download the application form available at www.terasengas.com or call Terasen Gas customer service at 1-888-224-2710 and we'll mail it to you.

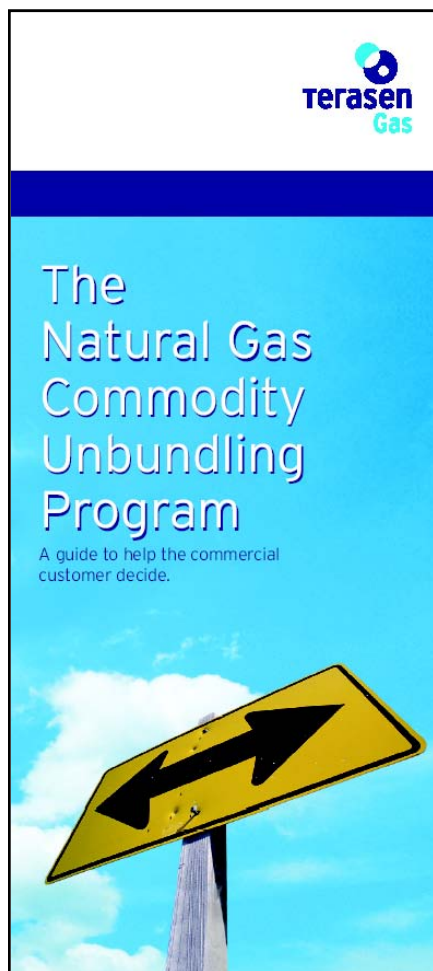
The Terasen Gas name and logo are trademarks of Terasen Inc.



APPENDIX B

Commercial Unbundling Education Material

Standard Information Booklet and Direct Mail Kit



April 2004



April 2004

Commodity Unbundling Bill Inserts

 <p>Natural Gas Commodity Unbundling First in a series of four bill inserts.</p> <p>If your business is going places...</p> 	 <p>Natural Gas Commodity Unbundling Second in a series of four bill inserts.</p> <p>A change is on the way.</p> <p>Next month, Midstream charges will appear on your gas bill, making it easier to understand gas commodity costs.</p> 	 <p>Natural Gas Commodity Unbundling Third in a series of four bill inserts.</p> <p>Introducing a new way to keep track.</p> 	 <p>Natural Gas Commodity Unbundling Special supplement</p> <p>Dotted line ahead.</p> 	 <p>Natural Gas Commodity Unbundling Fourth in a series of four bill inserts.</p> <p>Whatever you decide we'll always deliver.</p> <p>Make way for unbundling. November 1, 2004.</p> 
<p>February 2004</p>	<p>March 2004</p>	<p>April 2004</p>	<p>August 2004</p>	<p>October 2004</p>

Terasen Gas News Release**SMALL BUSINESS TO GET CHOICE OF NATURAL GAS SUPPLY**

April 28, 2004

FOR IMMEDIATE RELEASE

Small businesses and other commercial operations in British Columbia will soon have more choice when it comes to buying natural gas: Terasen Gas or an independent, licensed gas marketing company.

The concept is known as “unbundling,” a term referring to the separation of the cost of the natural gas commodity from the cost of delivery. Starting in May, independent gas marketers will begin offering contracts for the natural gas commodity at a fixed price for a fixed period of time ranging from one year to five years. Terasen Gas will continue to deliver the gas and look after all billing and service functions.

“Similar choices for natural gas supply are already available in Ontario and Alberta and for large volume gas users in British Columbia,” said Jan Marston, Terasen Gas vice-president of marketing.

The provincial government’s energy policy, released in 2002, laid the groundwork for unbundling when it referenced providing more choice for small volume natural gas consumers. Early this year, the B.C. Utilities Commission (BCUC), the provincial government regulatory agency for utilities, approved rules for the program. The commission is responsible for licensing the marketers selling gas contracts and ensuring they follow a Code of Conduct.

Due to the different regulatory agreements covering B.C., the choice of natural gas suppliers will only be available to commercial customers in the Lower Mainland, Fraser Valley, Interior and the Kootenays (excluding Fort Nelson and Revelstoke).

Natural gas is a commodity traded on the open market like oil, lumber and coffee. Consequently, a number of factors can affect its price.

Gas marketers are independent companies that sell natural gas directly to other businesses. They make money by selling natural gas under different pricing terms and conditions related to pricing. They use a variety of buying strategies to source their gas at the most advantageous price then sell the gas using different pricing arrangements that allow them to earn a profit. For example, they might arrange for a supply of fixed-price gas that they can sell at a premium over their initial cost of sourcing the gas.

Gas marketers are also able to offer different prices for natural gas over different time periods that take into consideration the customer’s unique gas consumption needs. Depending on those needs and the gas purchase strategies involved, a marketer may be able to offer a price that is lower than Terasen Gas’ regulated rate.

“We are a natural gas delivery company. We buy the natural gas commodity at the best possible price to ensure all our customers benefit and we pass that price on directly to our customers without a mark up,” Marston said.

Marketers offer a fixed price on the natural gas commodity only. Delivery charges are set separately by Terasen Gas and approved by the BCUC. Under the program, customers will still be billed by Terasen Gas. The bill format will change slightly to include additional information including a listing of all charges, the name of the marketer the customer signed with, and the contract rate for the natural gas commodity.

More information on unbundling can be found on the Terasen Gas web site at <http://www.terasengas.com/> or on the web site of the B.C. Utilities Commission at <http://www.bcuc.com/>

Terasen Gas Inc. - a subsidiary of Terasen Inc. – delivers natural gas and propane to homes and businesses. Terasen Inc. shares are traded on the Toronto Stock Exchange under the symbol “TER.”

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