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

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

Dear Sir:

**RE: Terasen Gas Inc.
Residential Unbundling – Business Model and Key Business Rules (DRAFT)**

In its June 6th Application for Funding Scoping of Solution for Residential Unbundling and approved by the Commission Order G-66-05, Terasen Gas Inc. ("Terasen Gas") presented a plan and timeline to be in a position to file a Certificate of Public Convenience and Necessity ("CPCN") Application by March 2006 outlining a solution for Residential Unbundling for a November 2007 start-up date with a second option identified that allows Residential Unbundling to be implemented earlier in 2007.

As outlined on the timeline on page 9 of the June 6th Application, Terasen Gas is currently leading a process to review and scope out the requirements to deliver Residential Unbundling for a 2007 calendar implementation date. Terasen Gas has been investigating and analyzing the existing business model rules and processes utilized for the Commercial Unbundling program with the objective to identify the necessary changes and significant system enhancements or new system development required to support the Residential Unbundling program. Areas that are being reviewed and investigated include Customer Mobility and Pricing options, Gas Supply issues, Customer Education and Consumer Protection.

After discussion with Commission staff, Terasen Gas has agreed to submit the attached document outlining a DRAFT framework for Residential Unbundling including the key business rules and Terasen Gas' recommendations on the key business rules. Terasen Gas' recommendations are based in part on recent input and feedback obtained from three Gas Marketers licensed to operate in the Commercial Unbundling program, Direct Energy Business Services ("DEML"), Energy Savings (B.C.) Limited Partnership ("ESBC") and CEG Energy Options Inc ("CEG"), discussion with Commission staff and where applicable, practices in other jurisdictions that have retail Commodity Unbundling programs.

In this document, Terasen Gas is outlining to the Commission and stakeholders the recommended business model and rules it is using to obtain a quote from a vendor for the cost of scoping out a solution and developing an implementation plan for Residential Unbundling. The contents of the document serve to provide a baseline reference point for the Scoping Phase but does not preclude changes to the business model and rules later on should the need arise.

The sections of the document provide a summary of the guiding principles and essential elements that Terasen Gas believes are necessary to ensure commodity choice for residential customers is implemented successfully. Furthermore, descriptions of the business model and key business rules that Terasen Gas recommends in support of Residential Unbundling are discussed. The listing of the business model and key business rules follows a similar format to that used in Terasen Gas' May 6, 2003 submission to the Commission outlining the proposed business rules for the Commercial Unbundling program.

Terasen Gas is in the process of completing its pre-scoping activities for implementation of the Residential Unbundling program. As directed by the Commission in Order G-66-05, Terasen Gas will be submitting an Application by September 16, 2005 seeking approval of additional deferral account funding to complete the scoping and business systems analysis so that a CPCN application for the Residential Unbundling program can be filed with the Commission by March 2006.

If there are any questions regarding the content of this letter or the attached document Residential Unbundling – Business Model and Key Business Rules, please contact James Wong at (604) 592-7871 or Shawn Hill at (604) 592-7840.

Yours very truly,

TERASEN GAS INC.

Original signed:

Scott A. Thomson

Encl.

RESIDENTIAL UNBUNDLING BUSINESS MODEL AND KEY BUSINESS RULES

GUIDING PRINCIPLES FOR RESIDENTIAL UNBUNDLING

1. Commodity Unbundling should provide value to customers.
2. Customers should be provided with choice regarding their gas commodity purchase options.
3. The safety and reliability of the Terasen Gas delivery system should not be compromised.
4. Adequate and appropriate consumer protection must be ensured, and customers should be accountable for the results of choices they elect.
5. The Commodity Unbundling program should avoid the stranding of any assets and costs. Should any assets or costs be stranded, Terasen Gas should not be at risk for the economic value of assets that may be stranded by Commodity Unbundling, or by the costs, both capital and operating, related to the implementation and ongoing execution of the Commodity Unbundling program.
6. Sufficient infrastructure should be in place to ensure Commodity Unbundling occurs in an environment that has a well functioning and liquid wholesale market, or the rules should be constructed to compensate for any lack thereof (i.e. Essential Services Model).
7. Commodity Unbundling should be implemented such that it will result in effective competition.
8. Terasen Gas to continue to provide the billing and collections services for both commodity and delivery on a mandatory basis.
9. For the benefit of Terasen Gas customers, the design of Commodity Unbundling should be supportive of growing efficient natural gas load in the face of competing alternative energies.

Regarding principle number nine, a principle that was discussed recently with Commission staff, Terasen Gas seeks input from all stakeholders on ideas to encourage achieving the desire objective. Possible ideas mentioned to date include educational efforts jointly funded by Gas Marketers and Terasen Gas to promote efficient use of natural gas in new construction.

In addition to the above noted guiding principles, Terasen Gas wishes to re-emphasize some key principles inherent in its Price Risk Management Plan that is fundamental to a Residential Unbundling environment in ensuring that natural gas is positioned effectively and remains a competitive energy choice into the future. The key principles and the associated actions are that they be focused on ensuring that natural gas remains competitive with other energy sources, specifically electricity rates and that commodity price volatility is managed for all natural gas customers, particularly customers who choose to stay with Terasen Gas' regulated standard rate.

RESIDENTIAL UNBUNDLING FRAMEWORK

1.0 Essential Services Model

For Commercial Unbundling, the Essential Services Model (“ESM”) provided the foundation for the introduction of commodity choice for small volume commercial customers. In the ESM, Terasen Gas continues to be responsible for contracting of all midstream resources needed to move gas from market hubs to the distribution system and to provide balancing and peaking requirements. Gas Marketers are required to deliver commodity to Terasen Gas at the market hubs in proportions similar to the overall portfolio requirement of Terasen Gas. Terasen Gas controls all the midstream resources in the ESM, facilitating the move to a longer term annual load balancing model. The ESM provides consumers the ability to exercise choice while still reflecting the delivery capacity constraints inherent in the regional marketplace.

Gas Marketers consulted indicated continued support for use of the ESM for Residential Unbundling.

Terasen Gas strongly believes that the Essential Services Model implemented for the Commercial Phase of Commodity Unbundling must continue to be used for the Residential Phase of Unbundling. Terasen Gas performs an essential service by utilizing its distribution system assets and the midstream resources to move commodity from market hubs to customers’ premises.

2.0 Consumer Protection, Marketer Eligibility and Licensing Criteria

For Commercial Unbundling, Gas Marketers must obtain a license from the Commission in order to participate in the program. Gas Marketers must hold a license and are required to post a performance bond of \$250,000. A Gas Marketer’s license may be suspended or revoked for non-compliance with the Code of Conduct and other licensing criteria as issued or amended by the Commission.

Terasen Gas recommends the continuation of licensing requirements for Gas Marketers participating in Residential Unbundling with the Commission responsible for licensing. Furthermore, Terasen Gas recommends a review of existing licensing requirements to ensure workability for Residential Unbundling, finding a balance between ensuring effective competition and protecting the interests of the average residential customer.

3.0 Independent Dispute Resolution Mechanism

For Commercial Unbundling, if a dispute relates to the business practices of a Gas Marketer relative to the general form of the Gas Marketer / Customer commodity or agency agreement which relies on the Code of Conduct or license conditions, the Commission may initiate a review. Otherwise, when a dispute is between a Gas Marketer and a commercial customer that is of a contractual

nature, it is the responsibility of the two parties to resolve their differences or to refer the dispute to the court.

Gas Marketers consulted had varying opinions on this issue. ESBC indicated that the current process as outlined above is adequate and should be utilized for Residential Unbundling. CEG and DEML supported introducing a more robust dispute resolution mechanism to handle the likely increase in the number of customer disputes with Residential Unbundling, providing an effective and timely process for handling customer disputes.

In Alberta and Ontario, the adopted customer disputes process varies also. In Alberta, a process similar to that for British Columbia is used. The customer is first asked to resolve any complaints with the Gas Marketer. Failing that, the customer is then asked to file a written complaint with the Ministry of Government Services. In Ontario, customer complaints are handled by the Ontario Energy Board Compliance Office. Customers are also asked to resolve their issue(s) with the Gas Marketer first. Failing that, a formal written complaint is submitted by the customer to the Compliance Office for further processing.

Terasen Gas recommends a more robust dispute resolution process similar to that used in Ontario to handle the likely increase in number of complaints and to provide a timely and effective mechanism to resolve customer complaints.

Consistent with the Commercial Unbundling program, a Gas Marketer will also be required to enter into a transport agreement (i.e. Rate Schedule 36) directly with Terasen Gas. Disputes between these parties will be the responsibility of the parties to resolve or to refer the disputes to the courts.

4.0 Customer Education

For Commercial Unbundling, customer education efforts included a new bill format separating the midstream charge from the commodity charge and key messages and information concerning the program delivered through a mix of communication medium including bill inserts, direct mail, trade magazine advertisements and information at Terasen Gas' call centre and on its website.

At the recent April 8, 2005 Workshop reviewing the Post Implementation Report on Commodity Unbundling, stakeholders commented on the need for customer education efforts and viewed it as an important and ongoing requirement in support of unbundling efforts in British Columbia.

Terasen Gas wishes to reiterate the importance of ensuring that residential customers are able to make an informed decision prior to the start-up of the marketing efforts by Gas Marketers. Depending upon the chosen start-up date for the program, communications and education efforts could begin as early as March 1, 2006 to enable Gas Marketers to enrol customers starting possibly July 2006 for a January 1, 2007 launch date. Integral to the customer education efforts will be the availability of a central depository or website containing information regarding the Residential Unbundling program and gas pricing.

Currently, efforts are being made to introduce and develop a similar concept in support of the Commercial Unbundling phase.

Terasen Gas is currently in the process of developing a preliminary education plan for Residential Unbundling and believes that sufficient dollars must be spent (i.e. \$2M to \$4M) to support the implementation of Residential Unbundling with minimal confusion to customers and enabling customers to make informed purchase choices. Television will likely be the lead medium for the adopted media strategy as it allows the opportunity to build mass awareness quickly and cost efficiently.

5.0 Customer Eligibility and Mobility

5.1 Commercial Unbundling

With the Commercial Unbundling program, all commercial bundled sales customers (Rate Schedules 2 and 3) in all Terasen Gas service areas, except Fort Nelson and Revelstoke are eligible. Customers serviced by Terasen Gas Vancouver Island Inc. on Vancouver Island and the Sunshine Coast are currently ineligible due to differences in the regulatory framework.

Customers must be Terasen Gas customers before they can be enrolled in the program. Contract terms of a minimum 1 year and a maximum of 5 years in 12 month intervals at a fixed price. Variable pricing options are not supported under the ESM.

Gas Marketers are responsible for enrolling and de-enrolling customers and for communicating the information to Terasen Gas. Once enrolled in a marketer's group, the customer remains with that Gas Marketer until the customer chooses another Gas Marketer or elects to return to Terasen Gas' standard regulated rate. A notice period of 60 days prior to the entry date is required to ensure Gas Marketers have sufficient notice of delivery requirements for their customers.

Enrolment transactions submitted by Gas Marketers are validated by checking for a valid customer account number and premise address. Confirmation letters are not sent to the customer by Terasen Gas confirming acceptance into the Unbundling program.

In processing enrolments, Terasen Gas accepts the most recent enrolment transaction submitted from a Gas Marketer as being effective (i.e. second Gas Marketer gets the customer). Terasen Gas currently informs a Gas Marketer of any changes to a Gas Marketer's customer status caused by a customer switching to another Gas Marketer or the customer's account being finalized. When a customer's account is finalized (i.e. terminated), the customer's account is removed from the marketer group effective the account termination date. The existing supply contract between the customer and a Gas Marketer is not portable (i.e. an existing agreement is considered portable if it can be transferred

with a customer to new physical premise) requiring a Gas Marketer to re-enrol the customer at the new premise in order to continue the customer's participation in the Unbundling program.

Quarterly entry dates of November 1, February 1, May 1 and August 1 are currently supported.

5.2 Stakeholder Comments

Gas Marketers consulted on the above business rules and issues had varying opinions. All expressed support for adopting a monthly enrolment process, replacing the existing quarterly enrolment process. All the Gas Marketers indicated a desire to shorten the existing 60 day notice period prior to the entry date. The Gas Marketers consulted agreed with enhancing the existing enrolment validation process by requiring both a customer's account and premise number to be submitted. Currently, only the customer's account number is used as part of the enrolment validation process.

In the case where a customer is being poached, (i.e. an activity where a second Gas Marketer signs up a customer who is already enrolled in the Commodity Unbundling program, before the initial term of the contract with the first Gas Marketer has expired), all the Gas Marketers expressed a preference for Terasen Gas' systems and processes to "block" the poaching transactions, with possibly the first Gas Marketer provided notification of the second enrolment request. In addition, the Gas Marketers agreed for consumer protection reasons, there is value in having the Utility send out a confirmation letter to the customer notifying of their successful enrolment.

On the issue of the portability of an existing supply agreement between a customer and a Gas Marketer, two of Gas Marketers expressed an interest in making contracts portable, given the likely higher number of customers involved in Residential Unbundling. In particular, one Gas Marketer offered the idea that an existing supply agreement be automatically ported (i.e. transferred) to a customer's new address subject to the Gas Marketer's approval.

Gas Marketers also expressed interest in having greater flexibility in pricing options including having the ability to change the price of a marketer group within a 12 month period.

5.3 Other Jurisdictions

In its research of other Canadian jurisdictions, Terasen Gas has found that the majority of pricing plans offered by Gas Marketers are fixed price offerings for terms of 3, 4 and 5 years. Frequency of entry dates vary from quarterly (i.e. Manitoba) to monthly (i.e. Ontario and Alberta). For

processing enrolments, practices also vary in the Canadian jurisdictions. In Ontario and Manitoba, the practice is for the first Gas Marketer enrolling the customer to keep the customer until the first Gas Marketer agrees to release the customer. In contrast in Alberta, the business rule is similar to Terasen Gas' business rule for Commercial Unbundling where the last Gas Marketer submitting an enrolment request gets the customer. In Ontario, Terasen Gas' research indicates that supply contracts between a Gas Marketer and a customer are currently "portable", subject to the customer notifying the Gas Marketer of the change in address within the Utility's service area.

For confirmation of transactions, Gas Marketers in Ontario are required to reaffirm in writing or via a recorded telephone conversation with the customer once the customer receives a copy of the written contract. In Manitoba, the Utility sends out a confirmation request to the customer. The customer has a 10 day cooling offer period from the time they sign the contract to cancel the contract.

5.4 Terasen Gas Recommendations

With respect to the various issues affecting customer eligibility and mobility, Terasen Gas recommends the following:

- Residential bundled sales customers (Rate Schedule 1) in all Terasen Gas service areas on the Mainland except Fort Nelson and Revelstoke will be eligible. Due to differences in the regulatory framework, customers serviced by Terasen Gas Vancouver Island Inc. on Vancouver Island and the Sunshine Coast will be ineligible.
- Customers must be Terasen Gas customers before they can be enrolled in the program. Contract terms of a minimum 1 year and a maximum of 5 years in 12 month intervals at a fixed price will be allowed. A fixed price over a 12 month consecutive period is critical in ensuring appropriate reconciliation of charges collected from a Gas Marketer's customers to funds paid by Terasen Gas for gas supplied by a Gas Marketer. Variable pricing or the ability for a Gas Marketer to change a marketer group's price monthly cannot be implemented without a 'true-up' process for reconciling differences between the billed consumption and forecasted consumption for a month at the monthly price. Terasen Gas intends to investigate the Flexible Pricing option further in the Scoping Phase to determine the business process and system impacts.

- Gas Marketers are responsible for enrolling and de-enrolling customers and for communicating the information to Terasen Gas. Once enrolled in a marketer's group, the customer will remain with that Gas Marketer until the customer chooses another Gas Marketer or elects to return to Terasen Gas' standard regulated rate.
- A notice period of 60 days or less prior to the entry date will be required to ensure Gas Marketers have sufficient notice of delivery requirements for their customers. As part of the Scoping Phase, Terasen Gas will be reviewing the current 60 day enrolment period to determine if the length of the notice period can be reduced.
- Enrolment transactions submitted by Gas Marketers will be validated by checking for a valid customer account number and a premise number. By utilizing a combination of the account number and premise number, Terasen Gas believes the number of potential errors in enrolment transactions will be reduced significantly. Furthermore, Terasen Gas will be investigating further the options and costs associated with supporting a "blocking" approach to prevent poaching transactions. Terasen Gas' interest is in ensuring a cost effective solution which encourages customer mobility, protects consumer interests and is supportable with automated processes.
- Monthly entry dates for accepting enrolment transactions. This is consistent with practice in Ontario and Alberta and is intuitively more appealing to consumers in general.
- Issuance of confirmation letters from Terasen Gas to the residential customers on receipt of enrolment requests for the Unbundling program. Terasen Gas strongly believes this is a necessary component to ensuring adequate consumer protection.
- Terasen Gas will be investigating the portability issue further and will be requesting a cost estimate to support making contracts portable for residential customers. A decision can be made at a later time on whether to support portability of contracts in the initial stages of Residential Unbundling. Terasen Gas recognizes Gas Marketers' desire to ensure portability of contracts however based on an initial assessment; it likely will involve a fair degree of complexity in changes required to processes and systems to support contract portability. In addition to investigating ways to automate processes to support contract portability, Terasen Gas will be reviewing other alternatives including placing a message on the customer's bill reminding the customer to re-enrol at their new premise.

6.0 Marketer Delivery Requirements

For Commercial Unbundling, Terasen Gas is responsible for contracting and managing midstream resources and providing balancing services to support annual load shaping. Terasen Gas determines the marketer delivery requirements for Gas Marketers using historical consumption information and other forecasting parameters. Gas Marketers are required to deliver commodity to Terasen Gas at the regional supply/market hubs in proportions similar to the overall portfolio requirement of Terasen Gas as determined in Terasen Gas' Annual Midstream Contracting Plan. Gas Marketers are also required to deliver fuel-in-kind equivalent to Terasen Gas' average off-system fuel requirements.

Terasen Gas recommends continuing with the above marketer delivery requirement process for Residential Unbundling. As part of the Scoping Phase and given the higher number of transactions involved, Terasen Gas will evaluate the current method for calculating the daily marketer delivery requirement in order to assess the ability of processes and systems to support it. A change in the methodology for calculating the daily marketer delivery requirement may be necessary in order to meet enrolment deadlines.

7.0 Terasen Gas System Supply and Supplier of Last Resort

Under the Commercial Unbundling program, Terasen Gas continues its merchant function role providing service for commercial customers who choose to continue to be supplied by the Utility under the standard system rate. Terasen Gas is the Supplier of Last Resort and is responsible for longer term infrastructure planning and emergency response.

Terasen Gas recommends no changes to the above.

8.0 Marketer Failure

For Commercial Unbundling, the Commission is responsible for determining whether a Gas Marketer supply failure has occurred. In the event of a longer term Gas Marketer failure, the customers are returned to Terasen Gas as Supplier of Last Resort if the customers are not supplied by another Gas Marketer. Customers returning to the Terasen Gas standard system supply rate may be responsible for any incremental costs Terasen Gas incurs. Short-term Gas Marketer supply failure is supplied by Terasen Gas with the Gas Marketer charged for the backstopping service.

Terasen Gas recommends no changes to the above conditions.

9.0 Customer Billing and Collections

For Commercial Unbundling, Terasen Gas provides the agency billing and collections service to Gas Marketers on a mandatory basis. Customers who are supplied by a Gas Marketer continue to have all of the billing options that are available to customers who remain on Terasen Gas' standard supply rate. Terasen Gas is responsible for credit and collections and retains the sole right to lock-off customers for non-payment.

All Gas Marketers consulted were supportive of maintaining the existing billing and collection arrangement for the introduction of Residential Unbundling. A Gas Marketer expressed interest in Terasen Gas providing a bill messaging service for Gas Marketers. Another Gas Marketer indicated that the existing \$150 per month charge per marketer group is cost prohibitive.

Terasen Gas recommends no change to the existing billing and collection arrangement. Terasen Gas as part of the Scoping activities will be assessing its ability to provide a bill messaging service for Gas Marketers and reviewing the issue regarding the Gas Marketer's concern about the existing \$150 per month charge per marketer group being cost prohibitive.

10.0 Marketer Remittances and Billing

For the Commercial Unbundling program, remittances to Gas Marketers are based on monthly quantities of gas delivered to Terasen Gas. There is no holdback on Gas Marketer remittances to cover the cost of bad debt and collection costs.

Terasen recommends no change to the remittance process. However, Terasen Gas believes it is prudent to review the issue of charging Gas Marketers a bad debt deduction on their sales to customers. The issue was originally proposed in Terasen Gas' Commodity Unbundling and Customer Choice Phase 1 Cost Allocation Application dated January 16, 2004. Terasen Gas believes by charging Gas Marketers a bad debt factor, the interests of stakeholders are better aligned with Gas Marketers sharing in the business risk associated with managing bad debts.

11.0 Program Cost Recovery

For Commercial Unbundling, the implementation and maintenance costs are recovered from customers in those rate classes that are eligible for the service. Annual operating costs (transactional related costs) are recovered, to the extent possible, from Gas Marketers. In addition, Terasen Gas shareholders are not at risk for the costs of implementing and maintaining the service or for any assets stranded by Unbundling.

For Residential Unbundling, the recovery of implementation and maintenance costs will be addressed in the proposed CPCN Application scheduled for March 2006. Terasen Gas supports continuing to recover annual operating costs from Gas Marketers where possible. In addition, Terasen Gas seeks confirmation its shareholders are not at risk for the costs of implementing and maintaining Residential Unbundling or for any assets stranded by Unbundling.

12.0 Midstream Cost Recovery and Gas Cost Recovery

As a result of the Commercial Unbundling program, the previous Gas Cost Reconciliation Account ("GCRA") was split into two accounts, one for the standard system commodity offering and one for midstream resources. All customers paying the existing commodity charge pays for the midstream resources while only sales customers pay for the commodity costs. Commodity and midstream costs are allocated to various rate classes using the existing Phase A methodology.

There is no exit fee structure to allocate under/over-collection of historical gas costs or gains/losses on hedge positions back to customers who have selected alternative suppliers.

Two of the three Gas Marketers consulted on the exit fee issue reserved opinion and provided no comments on the issue. The third Gas Marketer objected to the concept of an exit fee, stating it would be an impediment to creating effective competition.

Terasen Gas is in the process of completing its assessment on the exit fee issue including investigating exit fee practices in other natural gas utilities in Canada. Terasen Gas intends to continue to evaluate the issue and the impacts on business systems and processes of introducing exit fees for Unbundling as part of the upcoming Scoping Phase. A decision on the exit fee issue can be made at a later point.

Terasen Gas believes that with the introduction of customer mobility for Residential Unbundling, a re-evaluation of existing cost recovery mechanisms is required. The establishment of a competitive environment should not impede full cost recovery for Terasen Gas nor should it disadvantage any natural gas customer based on the actions of another. The determination of an effective cost recovery mechanism is complicated by the need to facilitate competition yet protecting those customers who choose to remain with the utility while ensuring a utility rate that remains competitive with alternative energy sources.

13.0 Balancing Provisions

With Commercial Unbundling, the balancing provisions of the existing transportation service for industrial and large commercial customers remain unchanged.

Terasen Gas recommends no change to the above condition.