



June 22, 2006

British Columbia Utilities Commission
6th Floor, 900 Howe Street
Vancouver, B.C. V6Z 2N3

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

Dear Sir:

**Re: Terasen Gas Inc. ("Terasen Gas")
Certificate of Public of Convenience and Necessity ("CPCN")
Application for Commodity Unbundling for Residential Customers
Project # 3698421**

British Columbia Utilities Commission ("BCUC") Order No. G-69-06

As part of Order No. G-69-06 regarding Terasen Gas' Commodity Unbundling CPCN, a revised regulatory timetable was published setting out a series of actions required in the upcoming weeks. Terasen Gas has been requested to update its CPCN Application by June 22, 2006, addressing the outstanding issues for the proposed Residential Unbundling Application.

At the Commission sponsored workshop on June 15, 2006 regarding Terasen Gas' Application to implement a Residential Unbundling Program, Commission staff circulated for discussion a list of outstanding issues regarding the Application. Stakeholders present during the discussion included representatives from the Retailer Group - Direct Energy Business Services and Energy Savings B.C. ("RG"), CEG Energy Options Inc. ("CEG"), Ministry of Energy, Mines and Petroleum Resources ("MEM"), BC Old Age Pensioners Organization ("BCOAPO"), RT O'Callaghan and Associates Inc. ("RT"), and Commission staff.

As a result of the discussions at the workshop, Terasen Gas is submitting the following revisions to its Application.

UPDATES TO THE APPLICATION

a) Customer Education Plan – Marketer's input

Terasen Gas agrees to solicit input and comment from the Retailer Group, CEG Energy Options, BCOAPO and Commission staff in developing the messaging and delivery of the customer education.

A similar process to that used for the development of Commercial Unbundling education efforts will be utilized. For the Commercial Unbundling education, Terasen Gas developed draft key messages and material and circulated to stakeholders for comment. Revisions were made as appropriate and re-circulated to stakeholders for further

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comment and finalization. Terasen Gas proposes to follow a similar process. As outlined during the workshop, Terasen Gas intends to consult with stakeholders in the Fall of 2006 – October and November.

Gas Marketers expressed a desire to have input into the development and delivery of the messaging for the proposed Customer Education Plan, ensuring that the messages were balanced. Gas Marketers also expressed concern about the program being branded as a utility program, creating confusion in consumers' eyes. BCOAPO also expressed an interest in providing input into the development and delivery of the messages for the planned customer education efforts.

b) Confirmation Letter – 10 day cooling off period

Terasen Gas agrees to a service level standard to generate the confirmation letter. Terasen Gas proposes a two business day standard to produce and mail out through Canada Post the confirmation letter.

At the June 15 workshop, Gas Marketers supported having the 10 day cooling off period commence as of the date the enrolment (switch) transaction is sent by a Gas Marketer to Terasen Gas. Terasen Gas' proposal as set out in the Application is to have the 10 day cooling off period start when Terasen Gas produces the confirmation letter. Gas Marketers commented that they are concerned that any significant delay by Terasen Gas in sending out the confirmation letter would increase the risk of their gas supply. After further discussion, Gas Marketers commented that they would be satisfied if Terasen Gas was able to commit to a service level standard to send out a confirmation letter within a certain elapsed time period after receiving the enrolment request from the Gas Marketer. Gas Marketers suggested a 48 hour response time.

c) Contract Portability – Customer information collected

To support contract portability, Terasen Gas agrees to provide a customer's forwarding address and contact number as long as the customer has provided written consent. To facilitate this, Terasen Gas proposes that appropriate language be added to "Section 3 Authorization" of the existing Notice of Appointment of Marketer (refer to Appendix 9 of the Application) to provide customer written consent to release the referred to contact information. In addition, Schedule 36 will also be amended to include language specifying the requirement for Terasen Gas to forward appropriate customer contact information in the event of the contract being ported to another premise within Terasen Gas' eligible service area.

Gas Marketers commented that Terasen Gas' original proposal to not forward onto Gas Marketers changing customer information due to the customer moving – forwarding address and contact number, does not support Gas Marketers' needs to administer their contracts with their customers. Terasen Gas stated its concerns about sharing forwarding address and contact information is due to existing consumer privacy legislation.

d) Hard Block – No ESM fee

Terasen Gas agrees to support the adoption of a ‘hard block’ approach to preventing customer poaching (overwriting) for the term of the contract between the customer and the first gas marketer. To support the proposed enrolment process, Terasen Gas will require start and end dates for the agreement between a Gas Marketer and a customer. Terasen Gas will use the information to produce the confirmation letter sent to the customer fully disclosing the price and the contract term including the start and end dates to the customer; and also to detect and prevent customer poaching (overwriting) for the term of the contract between the customer and the first Gas Marketer.

At the June 15th workshop, Gas Marketers supported the use of a ‘hard block’ process instead of the ‘soft block’ proposed by Terasen Gas. Based on their experience, Gas Marketers stated that the majority of poaching incidents are caused in error or the residential consumer signs the second contract in error.

As set out in the Application, Terasen Gas supported the ‘soft block’ approach as it provides consumers greater mobility but yet still holds them accountable for related early termination costs. As stated in its response to question 21.8 of BCUC Information Request No. 1, Terasen Gas stated it was not opposed to adopting a ‘hard block’ approach as it recognizes it will deter poaching of customers and prevent any 12 month fixed price rule violations, eliminating the need for the proposed ESM fee. As stated above, Terasen gas now requests approval for implementation of the ‘hard block’ approach.

e) Independent Dispute Resolution Process – Wording in contract to allow Commission to resolve disputes

With regards to the wording required for a contract, in its response to question 19.8 of BCUC Information Request No.1, Terasen Gas proposed the following wording:

“All disputes arising out of or in connection with this contract shall be referred to and finally resolved by arbitration administered by the British Columbia Utilities Commission (the “BCUC”) [or to another body appointed by the BCUC for the purposes of resolving disputes between customers and gas marketers] and conduct according to the BCUC’s rules for the resolution of such disputes.”

Commission staff clarified that wording in the contract regarding resolution of disputes between a Gas Marketer and a customer is required. Gas Marketers commented that they supported having a robust dispute resolution process which provides for timely address of customer disputes. However, Gas Marketers raised concern over having a third party other than the Commission be responsible for resolving disputes. On this issue, Terasen Gas supports having the Commission responsible for handling customer complaints and disputes regarding Unbundling.

f) Fees

- a. Customer Choice Fee
- b. Dispute Resolution Fee
- c. Confirmation Letter Fee
- d. Bill Messaging Fee

Customer Choice Fee - In this revision to the Application, Terasen Gas supports the MCRA alternative to have stranded gas costs / benefits calculated and transferred over to the MCRA and recovered from all bundled sales customers.

In its original Application, Terasen Gas proposed the Customer Choice Fee to recover commodity costs stranded when customers leave Terasen Gas' default commodity offering. Gas Marketers indicated that the Customer Choice Fee and the proposed ESM Fee as proposed would pose a significant barrier to the development of the market. Gas Marketers and BCOAPO were supportive of the proposed alternative to have stranded gas costs / benefits calculated and transferred over to the MCRA and recovered from all bundled sales customers.

Dispute Resolution – it is Terasen Gas' understanding that general agreement amongst stakeholders was reached during the June 15th workshop to have Gas Marketers pay a dispute resolution fee. In the Application, Terasen Gas states the amount is to be determined with the fee to be comprised of a fixed and variable component.

Terasen Gas proposes the following fee structure, given the stated assumptions, for stakeholder consideration. The assumptions are:

- Approximately 800 disputes per year
- 6 licensed gas marketers in the program
- Annual operating costs for the dispute resolution process of \$100,000, primarily for staff
- Aim to recover 50% share of costs from Gas Marketers

For the fixed portion of the fee, Terasen Gas proposes a charge of \$1,000 per Gas Marketer per year, similar to the \$1,000 application fee that is required from a Gas Marketer when applying for a new license or renewal of an existing license. For the variable portion of the fee, based on the above assumptions, the fee per dispute processed will be \$50. The proposed dispute resolution fee is estimated to recover approximately \$50,000 in costs from Gas Marketers annually; lowering the overall \$600,000 estimated annual operating costs net of marketer fees for the program to approximately \$550,000 per year.

With regards to the **confirmation letter fee**, no change is proposed to the \$0.60 per confirmation letter fee sent out on behalf of Gas Marketers. Concerning the **bill messaging fee**, given Gas Marketers decision to revisit this issue at a future date, no issue remains with regards to the Bill Messaging Fee.

g) In addition to the updates listed above, Terasen Gas also wishes to update the Application with regards to the following matters:

- Section 6.2.6 Commodity Unbundling Rate Schedule

In addition to the proposed Rate Schedule 1U required to support Residential Unbundling service for residential customers, Terasen Gas has identified a new Rate Schedule "1X" will be required in the event of a long term Gas Marketer failure, where residential customers are brought back to the utility's default rate. Should there be costs that have to be passed onto the customers returning back to the utility default rate, these customers will be assigned to the Rate Schedule 1X, enabling the recovery of the additional costs through a surcharge to these customers.

- Revision to page 35 of Application

Terasen Gas wishes to note a correction starting with the last sentence of the fourth paragraph. Currently, the sentence states,

"The total delivery requirement and the individual marketer group delivery requirements will be communicated to marketers at least 30 days in advance of the entry date."

The reference to 30 days should be changed 15 days instead.

OUTSTANDING ISSUES

The following issues remain outstanding as no agreement was reached on these issues at the workshop.

a) Performance Bond – Increased with delivery volumes

Terasen Gas has proposed a performance bonding requirement for Gas Marketers that increases with the number of customers or delivery volumes that Gas Marketers sign-up in the Unbundling program. Terasen Gas believes the proposed bonding requirement is an important element of consumer protection as it will provide consumers some assurance that a Gas Marketer will be around to fulfill its fixed price obligation for the term of the contract with its customer. A long term fixed price gas supply agreement is a promise to deliver in the future and is different than the average day-to-day retail transactions consumers engage in where products are delivered immediately. The proposed performance bonding requirement is in some ways similar to the regulated capital requirements found in the insurance industry.

Gas Marketers indicated that they are of the view that performance bonding is not intended to provide remedy to customers but instead believe its purpose is to provide recourse to the BCUC if needed in the event of a compliance matter arising from a licensing condition.

b) Electronic signature – Voice signature

Gas Marketers are seeking approval to use voice signatures as an acceptable authorization method when enrolling customers over the phone, indicating that it is a practice used in many other jurisdictions. As an alternative to introducing use of voice signatures in year 1 of the Residential Unbundling program, Gas Marketers suggested that voice signatures instead be approved as part of the Application for use in renewal of existing contracts.

Based on its understanding of existing legislation in B.C. governing this issue, Terasen Gas believes that subject to telemarketer licensing conditions, legislation provides for use of voice signatures in place of wet signatures. However, given concerns about consumer protection and potential 'slamming' experienced in some other jurisdictions, Terasen Gas' view is that voice signatures for new contracts or renewal of existing contracts not be used during the initial year(s) of Residential Unbundling, where natural gas commodity choice is an unfamiliar concept to most residential customers as it has the potential to create a significant number of customer complaints.

Terasen Gas endorses the use of electronic signatures as an acceptable means to enrol customers online.

c) Stable Rate Option

Gas Marketers reiterated their opposition to the continuation of Terasen Gas' Stable Rate Option and recommended the termination of the Stable Rate Option at the end of 2007. Gas Marketers believed that the Stable Rate Option offered by Terasen Gas enjoys an inappropriate competitive advantage, including no risk on commodity supply and brand recognition. Gas Marketers also believed that the Stable Rate Option is in direct competition with products Gas Marketers are planning to offer and therefore will interfere with the development of a competitive marketplace for Residential Unbundling.

Terasen Gas proposes to extend the Stable Rate Option after 2006 for the foreseeable future. Terasen Gas believes the Stable Rate Option is complementary to Commodity Unbundling, providing educational value by making available a 'benchmark' product which will aid residential consumers in their purchase decision in an unbundled environment. Further, Terasen Gas believes the Stable Rate Option is not in direct competition with the products offered by Gas Marketers. The Stable Rate will be offered only once a year unlike the products of Gas Marketers that allow customers to sign-up monthly. Further, enrolment in the program will continue to be capped at 20,000 customers, on a first-come, first-serve basis, unlike Gas Marketers' products that have no enrolment cap. The 20,000 customer enrolment cap will limit the potential impact on the ability of Gas Marketers to sign-up customers as 20,000 customers represents approximately only 2.5% of the total eligible residential customer base for Unbundling.

Other issues were discussed at the June 15th workshop and were resolved with no update required to the Application. A summary of these issues and the discussion is provided here for reference.

I. Terasen Gas – right to have an enrolment cap

Terasen Gas clarified that the statement included in the Application “Terasen Gas reserves the right to introduce a customer limitation cap, subject to Commission approval should there be unanticipated significant migration impacting Terasen Gas’ Annual Contracting Plan and Price Risk Management Plan” was also intended to help manage any unforeseen significant system and processing problems that would be encountered. Based on the experience for Commercial Unbundling, Terasen Gas commented that it does not expect significant problems to occur for Residential Unbundling but wishes to reserve the right to introduce a customer enrolment cap should it be required.

Stakeholders provided no comment and agreed this was not an issue.

II. Variable Pricing

Some Gas Marketers requested that the Unbundling program support not only 12 month or greater fixed price options but variable pricing options less than 12 months (i.e. monthly). Terasen Gas replied that in order to provide annual load balancing services, which is an integral component of the overall Essential Services model, that all stakeholders have agreed to would be appropriate for Residential Unbundling, the 12 month fixed price rule must be adhered to. Please refer to Terasen Gas’ June 15 workshop presentation for an illustrative example of the requirement for the 12 month fixed price rule.

Terasen Gas stated that the Essential Services model is integral to the proposed solution to implement Residential Unbundling as it provides a “made-in-B.C.” solution that addresses British Columbia’s supply infrastructure and market requirements, giving consumers the ability to exercise choice while still reflecting the capacity constraints in B.C. Further, the Essential Services model is supportive of growing efficient gas load, as it enables customers not only to exercise choice but ensuring the responsibility of infrastructure planning is optimized through a regulated infrastructure planner.

Gas Marketers withdrew this issue.

III. Bad Debt – Incremental deferral account treatment

Commission staff commented Terasen Gas’ proposed bad debt treatment for Residential Unbundling is the same as that approved for the Commercial Phase of Commodity Unbundling. In that phase, the Commission by Order No. G-25-04 directed Terasen Gas to record in a deferral account the dollar difference between the actual bad debt for unbundled customers and 0.30% based on historical experience, which is the overall bad debt recovery forecast used for the purpose of the Terasen Gas annual budget.

Stakeholders provided no comment and agreed this was not an issue.



IV. Marketer Access to Bill Messaging Service – Bill Stuffers

Gas Marketers expressed an interest in sending their bill inserts through Terasen Gas' bill. Terasen Gas replied that existing privacy legislation requires customer consent before marketers can send customers product information or offerings. BCAOPO commented that based on their previous experience and understanding of this issue, there are concerns about a Gas Marketer sending inserts through the utility's bill.

Gas Marketers agreed to revisit the issue in the future.

If there are any questions regarding this submission or the Application, please contact Mr. Tom Loski, Director, Regulatory Affairs at (604) 592-7464.

Yours very truly,

TERASEN GAS INC.

Original signed by: Tom Loski

For: Scott A. Thomson

Attachment