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April 13, 2006

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; ("Terasen Gas")
Certificate of Public of Convenience and Necessity ("CPCN") Application for Commodity Unbundling for Residential Customers

In Order Number G-66-05 dated July 7, 2005, the British Columbia Utilities Commission ("Commission") directed Terasen Gas to submit a CPCN Application for the Residential Unbundling Program by March 2006. Attached, for Commission review and approval, pursuant to Section 45 of the *Utilities Commission Act* is Terasen Gas' CPCN Application for the Residential Unbundling Program.

If there are any questions regarding the enclosed Application for the Residential Unbundling Program, please contact either Hans Mertins at 604-592-7753, James Wong at 604-592-7871, or Shawn Hill at 604-592-7840.

Yours very truly,

TERASEN GAS INC.

Original signed by: Tom Loski

For: Scott A. Thomson

Attachments

cc: Brian Williston
Bob Brownell
Unbundling Stakeholders

Commodity Unbundling Project for Residential Customers

CPCN Application

Terasen Gas Inc.

April 13, 2006

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IN THE MATTER of the *Utilities Commission Act*, R.S.B.C 1996, Chapter 473 (the "Act")

and

IN THE MATTER of an Application by Terasen Gas Inc. ("Terasen Gas" or "TGI" or the "Company") for a Certificate of Public Convenience and Necessity ("CPCN") pursuant to Section 45 of the Act.

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

1. APPLICATION

In this Application, Terasen Gas requests approval for the following**:**

- Implement Commodity Unbundling for all residential customers in its service territory, excluding Fort Nelson and Revelstoke, effective November 1, 2007.
- Capital Expenditures of $11.1 million to implement the Residential Unbundling program.
- Cost Recovery for implementation and operating costs for the Residential Unbundling program using deferral account treatment.
- Tariff and Agreement changes required to support the Residential Unbundling program.

Please refer to section 1.5 for more details of each item.

1.1 APPLICANT

1.1.1 Name, Address and Nature of Business

Terasen Gas is a company incorporated under the laws of the Province of British Columbia and is a wholly owned subsidiary of Terasen Inc. (“TI"). TI is a wholly owned subsidiary of Kinder Morgan, Inc. Terasen Gas maintains an office and place of business at 16705 Fraser Highway in the City of Surrey in the Province of British Columbia, V3S 2X7.

Terasen Gas is the largest natural gas distribution utility in British Columbia, providing sales and transportation services to residential, commercial and industrial customers in over 100 communities throughout the Province, with approximately 800,000 customers served on the Mainland including the Inland, Columbia and Lower Mainland service areas. Terasen Gas' distribution network delivers gas to over eighty percent of the natural gas customers in British Columbia.

1.1.2 Financial Capability of Applicant

Terasen Gas is regulated by the British Columbia Utilities Commission ("BCUC" or "Commission"). Terasen Gas is capable of financing the Residential Unbundling Program directly.

1.1.3 Technical Capability of Applicant

Terasen Gas has designed, and constructed a system of integrated high, intermediate, and low-pressure pipelines and operates more than 30,000 kilometres of natural gas transmission and natural gas distribution mains and service lines in British Columbia. This transmission and distribution infrastructure serves approximately 800,000 customers on the Mainland.

1.1.4 Name, Title, and Address of Contact

Communications with respect to this Application should be addressed to:

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Vice President, Finance & Regulatory Affairs and Chief Financial Officer
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Facsimile: (604) 592-7620
E-mail: scott.thomson@terasengas.com

1.1.5 Name, Title, and Address of Legal Counsel

Legal counsel for this Application is:

Anna Fung
Senior Counsel
Terasen Gas Inc.
3700 2nd Avenue
Burnaby, B.C. V5C 6S4

Phone: (604) 293-8606
Facsimile: (604) 293-8640
E-mail: anna.fung@terasengas.com

1.2 PROJECT DESCRIPTION

In response to direction provided by the Commission, Terasen Gas proposes to implement a Commodity Unbundling service for residential customers in British Columbia effective November 1, 2007. Residential Rate Schedule 1 customers in the Lower Mainland, Inland, and Columbia service areas will be eligible to participate. The implementation of this service represents Phase 2 of the direction contained in Commission Letter No. L-14-03 from April 12, 2003 to provide a Commodity Unbundling service to Terasen Gas' small volume customers.

The proposed Residential Unbundling model and implementation plan builds on the experience gained during the implementation and operating of Phase 1 of the Commodity Unbundling program for small and large commercial customers. Importantly, the proposed implementation of Residential Unbundling enhances the processes and technology developed for use in the Commercial Unbundling program in order to support a service similar to the existing program. The scope of the proposed project includes required customer education efforts, the overall solution architecture and project management, as well as the development, testing, and deployment of the systems and processes needed to support a Residential Unbundling service offering. Sections 5.1.3 and 5.1.4 provide a description of the design approach and how the proposed Residential Unbundling program will operate.

In preparing for this project, Terasen Gas completed a detailed design review and cost estimate using external consultants as part of the Pre-Scoping[1] and Scoping Phase[2] for Residential Unbundling between July 2005 and March 2006. To complete this work, the Commission approved $1.4 million in funding in 2005 to be recorded in a deferral account. In this Application, Terasen Gas requests additional funding to implement the proposed Residential Unbundling program. This next stage of the project, the "Implementation Phase" is scheduled to start no later than September 2006 and will run throughout 2007, with the first customers receiving gas under the program ("Gas Flow Date") on November 1, 2007. The total implementation and ongoing operating costs for the Implementation Phase of the proposed Residential Unbundling program include:

[1] Refers to work completed based on Commission Order G-66-05 from July 7, 2005.
[2] Refers to work completed based on Commission Order G-110-05 from October 31, 2005.

Implementation Phase Costs 2006 & 2007

Residential Program Process & System Changes	$ 6.1 million
Customer Education	$ 5.0 million
Total:	**$11.1 million**
Funding Approved to Date	$1.4 million
Total Implementation Costs	**$12.5 million**

Ongoing Program Costs After 2007

Estimated Annual Operating Costs	$ 0.6 million
Annual Customer Education Costs	$ 3.0 million
Total Annual Ongoing Costs	**$ 3.6 million**

The total implementation cost estimates provided assumes that Commission approval is granted in time to permit the Implementation Phase to start by no later than September 2006. Additionally, any scope changes for the Implementation Phase arising out of a final decision to proceed with the proposed Residential Unbundling program may result in the need to revise the cost estimates provided. The actual costs will be collected in a deferral account and recovered from residential customers who have access to the program via a rate rider.

A deliverable of the Implementation Phase will be the completion of the required process and systems changes for use by April 2007, allowing Gas Marketers to begin the process of enrolling customers starting May 2007, with gas flowing to enrolled customers starting November 1, 2007. The initial year's customer education efforts are proposed to start in March 2007, and run continuously through a number of phases to the end of 2007. In subsequent years of the Residential Unbundling program, customer education will still be required on an ongoing basis, although on a reduced scale dropping from $5 million in year one to $3 million in subsequent years. Ongoing customer education is required to ensure residential customers are aware and informed about the Residential Unbundling program.

1.3 PROJECT JUSTIFICATION

Terasen Gas remains committed to providing effective customer choice that meets the needs of the marketplace and provides value for customers. However, Terasen Gas is not promoting the Residential Unbundling program but instead reacting to calls from interested parties, the Commission, and BC Energy policy for providing commodity choice. Terasen Gas' role to date has been to facilitate the discovery of a solution for Residential Unbundling that meets the interests of stakeholders, is supportive of the BC Energy Policy, and provides value to customers. Based on investigative and scoping work completed so far to date, Terasen Gas believes that it has developed a cost-effective and workable solution along with supporting processes and systems to implement Residential Unbundling effectively in British Columbia.

With the successful launch of the Commercial Unbundling phase in 2004, Terasen Gas was directed by the Commission in 2005 to investigate and evaluate the requirements to introduce commodity choice to residential natural gas customers in British Columbia. Since then, Terasen Gas, using funding approved by the Commission, has been scoping the requirements of a Residential Unbundling program for a November 1, 2007 Gas Flow Date. A key component of this work included stakeholder consultations in the development of business rules needed by the proposed program.

Terasen Gas believes that it has developed a solution to enable Residential Unbundling in British Columbia that meets the Commission's expectation of cost effectiveness combined with leveraging the strengths of the Commercial Unbundling program. This is achieved through a combination of simpler business processes, expanding the capabilities of existing systems, and greater automation. A significant improvement in the proposed solution is a richer data exchange capability. This improvement enables more extensive automation than is currently possible under the Commercial Unbundling program, and is required in order to support the proposed Independent Dispute Resolution process, as well as more comprehensive reporting. Overall these changes enable a broader range of program features than what is possible under the current Commercial Unbundling program. These improvements will also apply to the Commercial Unbundling program, provided the Residential Unbundling program is approved.

The successful implementation of a Residential Unbundling program faces a number of risks that deserve noting. First, a number of IT system improvement projects are under consideration by Terasen Gas over the next two to three years. These projects largely use common resources, which require them to be staged in such a manner that permits them to be completed within a tight window and to minimize overlap. If approved, the Implementation Phase for Residential Unbundling will need to begin no later than September 2006, so that the available completion window is used and to avoid any scheduling and resourcing problems. A delay preventing a September 2006 start for the Implementation Phase will result in a change to the November 1, 2007 Gas Flow Date for the program with the revised date dependent not only on availability of third party vendor resources but also on Terasen Gas' other business requirements. This may result in a full year's delay of the program with a revised Gas Flow Date of November 1, 2008, as the events and activities required to support the program such as the customer education and opening up the system for receiving customer enrolments on May 1 will be have to re-sequenced into a workable plan.

A second risk involves project implementation costs. Although Terasen Gas has received fixed price proposals from third party vendors to implement process and system changes, the price proposals are valid only for a short period of time around a September 2006 start date for the Implementation Phase. A delay significantly after September 2006 would result in a 2-9% cost increase for a significant portion of the implementation costs. A delay greater than one year after a September 2006 start for the Implementation Phase would require a new review of all third party pricing proposals.

A third risk involves changes to the proposed business framework and rules. Should the Commission in its review of the Application determine changes to the proposed business framework and model and customer education efforts are warranted, the timing of the proposed Implementation Phase schedule may be affected with potential incremental costs to rework and redesign system and process requirements developed as part of the scoping efforts to date.

1.4 COST OF SERVICE

By Letter No. L-73-05, dated September 7, 2005, the Commission confirmed that Terasen Gas' shareholders are not at risk for the costs to implement a Residential Unbundling program, any of the operating costs incurred in operating such a program, or for any assets stranded by Residential Unbundling.

Terasen Gas proposes that program implementation costs be recovered from all residential customers who are able to participate in the Residential Unbundling program. Ongoing operating costs would be recovered where possible from Gas Marketers. Further, any residual operating costs would be recovered using a rate rider from residential customers who are eligible to participate in the program. The proposed cost treatment approach follows the methodology adopted for use in the Commercial Unbundling program.

In Order No. G-25-04 dated March 12, 2004 regarding Commercial Unbundling, the Commission directed use of deferral account treatment and a cost recovery methodology using a three year amortization period and inclusion of AFUDC of the program development costs incurred in the implementation of the Commodity Unbundling program. Cost recovery of the ongoing operating costs related to providing the Commercial Unbundling program to the extent possible were to be recovered from Gas Marketers. Any operating costs not recovered from Gas Marketers were to be accumulated in a deferral account and expected to be recovered from all commercial customers who are eligible to participate in the program, through the use of a rate rider.

Assuming that the implementation and operating costs remain unchanged from the amount estimated in this Application in sections 10.2.1 and 10.2.2 and based on the cost recovery proposal as outlined in section 10.2.3, eligible customers who have access to the program will be charged approximately $0.10 /GJ per year for the first three years of the program. This cost will result in a typical eligible residential customer paying approximately $0.83 per monthly bill, or $9.90 annually. After the initial three years of the program operating, the cost to residential customers is expected to fall by approximately one half with the full recovery of the initial implementation costs.

1.5 REGULATORY REVIEW OF CPCN APPLICATION

Terasen Gas requests that the Commission complete its process to review this Application and reach a decision by July 31, 2006. Additionally, Terasen Gas wishes to qualify and clarify that this Application is also subject to obtaining approval from its Board of Directors.

A decision by the Commission by July 31, 2006 is critical to ensuring that the Implementation Phase for Residential Unbundling commences no later than September

2006, enabling the flow of gas on November 1, 2007 to residential customers who choose to participate in the Residential Unbundling program.

In this Application, Terasen Gas is requesting the following regulatory approvals, pursuant to Section 45 of the Act,

- **To implement Commodity Unbundling for all residential customers in its service areas, excluding Fort Nelson and Revelstoke, effective November 1, 2007.**

  A Commission Order will be required by July 31, 2006 directing Terasen Gas to proceed with the Implementation Phase for Residential Unbundling enabling the offering of Unbundling service to residential customers in its eligible service areas.

- **To increase the existing Residential Unbundling Deferral Account spending authorization by $11.1 million, from $1.4 million to $12.5 million.**

  In order to proceed with the Implementation Phase of the program, Terasen Gas seeks approval to increase the existing Residential Unbundling Deferral Account spending authorization to fund the required activities. Terasen Gas estimates that the Implementation Phase will cost $11.1 million and seeks approval to charge these costs to the Residential Unbundling Deferral Account.

  Included in the $11.1 million requested as detailed in section 5.5.1 is $0.5 million required to modify existing revenue accounting and financial reporting processes to support the Residential Unbundling program. In order to keep costs to a minimum for the Scoping Phase, a detailed scoping of requirements that is needed to ensure that the revenue accounting and financial reporting processes are able to sustain the requirements of the proposed Residential Unbundling program has been left until after a decision is made to proceed with Residential Unbundling. If Residential Unbundling is approved, using unspent existing approved funding (i.e. authorized spending of $1.4 million to-date), Terasen Gas will proceed in the 4th quarter of 2006 to prepare a detailed delivery plan to address the revenue accounting and financial reporting processes. Should the cost estimate for this delivery plan at that time be higher than the $0.5 million included in this Application, Terasen Gas will advise the Commission and seek approval for additional funding.

  Without enhancements to the existing revenue accounting and financial reporting processes, Terasen Gas believes the integrity of the Residential Unbundling program will be jeopardized.

- **To recover implementation and operating costs for the Residential Unbundling program using deferral account treatment.**

  Terasen Gas seeks approval of the deferral account mechanism and cost recovery rider and the proposed transaction fees that are set out in greater detail in section 10.2.

In addition, Terasen Gas seeks approval of the existing Bad Debt treatment as approved by the Commission in Order No. G-25-04 for the Commercial Unbundling program to be applied to the Residential Unbundling program also. In that decision, the Commission directed Terasen Gas to record in a deferral account the dollar difference between the actual Bad Debt experience for unbundled commercial customers and the forecast Bad Debt experience of the gross revenue received from unbundled commercial customers. The same treatment should be applied to the Residential Unbundling program.

- **To revise and prepare tariffs and agreements required for the Residential Unbundling program.**

  Terasen Gas seeks approval of the use of the existing Notice of Appointment of Marketer developed for the Commercial Unbundling program; the approval of a new Rate Schedule 1U that outlines the Residential Unbundling service; a revised Base Purchase / Sale Agreement between Marketer and Terasen Gas and changes to Terasen Gas' General Terms and Conditions. Refer to section 6.2 for details.

In addition to the regulatory approvals outlined above, Terasen Gas seeks Commission approval of the following items that affect the proposed business framework and model and the customer education efforts required to successfully implement the Residential Unbundling program.

- **Approval of the Residential Unbundling Framework and Final Business Rules.**

  In order to implement the Residential Unbundling program, Terasen Gas seeks approval of the final Residential Unbundling Business Model and Business Rules contained in Appendix 6. This decision is critical to identifying any scope changes to the proposed Residential Unbundling program before the Implementation Phase begins.

- **Approval of Marketer Licensing.**

  In section 6.2.1, Terasen Gas proposes for consideration by the Commission a review and increase of bonding requirements from the existing $250,000 for a Gas Marketer to a structure where the bonding requirement increases with the number of customers a Gas Marketer has signed up in the Unbundling program.

- **Approval of Marketer Code of Conduct.**

  Terasen Gas seeks approval of the proposed revised Marketer Code of Conduct discussed in section 9.2 in support of the Residential Unbundling program.

- **Approval of the Independent Dispute Resolution Process**

  Terasen Gas requests approval of the proposed Independent Dispute Resolution process outlined in section 9.3 and identification of the part(ies) responsible for resolving contract disputes. This is required to ensure that Terasen Gas has sufficient time to assess the impact on the Implementation Phase and potential scope changes. This approval will also include direction on whether the same dispute resolution process applies to both residential and commercial customers, or if separate processes are required for each group of customers.

- **Approval to Proceed with the Customer Education Plan.**

  Terasen Gas seeks approval of the proposed Customer Education Plan outlined in section 8 in order to begin research and television production activities in the fall of 2006. Given the critical nature of the education plan to the success of the Residential Unbundling program, sufficient time in the fall of 2006 is needed to consult with interested stakeholders for input and to complete the work. Terasen Gas will work with Commission staff to outline a schedule to gather input from interested stakeholders.

- **Approval to Proceed with the Stable Rate Offering for 2007.**

  In section 4, Terasen Gas seeks approval from the Commission to extend the Stable Rate Offering after 2006 for the foreseeable future. Terasen Gas believes its Stable Rate Option provides education value to residential customers.

Terasen Gas has based its delivery plan with the estimated capital and operating costs to implement Residential Unbundling on the above noted approved and endorsed business framework and model and the customer education efforts. Terasen Gas believes that the proposed business framework and model and the customer education efforts outlined are appropriate and will allow for a cost-effective commodity choice program for residential customers to be implemented successfully, recognizing that changes and associated incremental implementation costs may be made as the program evolves over time.

Should the Commission in its review of the Application determine changes to the proposed business framework and model and customer education efforts are warranted, the timing of the proposed Implementation Phase schedule may be affected with potential incremental costs to rework and redesign system and process requirements developed as part of the scoping efforts to date.

2. PROJECT INTRODUCTION & BACKGROUND

2.1 INTRODUCTION

The purpose of this Application is to respond to direction from the Commission in 2005 to investigate and evaluate the requirements to introduce commodity choice to residential natural gas customers in British Columbia.

Terasen Gas delivers natural gas to over 800,000 customers on the Mainland representing over 80% of mainland natural gas customers in British Columbia. The mainland service area of Terasen Gas includes Vancouver to Hope (Lower Mainland Service Area); the Interior as far as the East Kootenays (Columbia Service Area); and the area stretching from the Okanagan in the south to as far north as Prince George and Chetwynd (Inland Service Area).

Residential customers in the Lower Mainland, Inland, and Columbia service areas will be eligible for participation in the Residential Unbundling Program. Customers serviced by other Terasen gas utilities; Terasen Gas (Vancouver Island) Inc. on Vancouver Island and the Sunshine Coast, Terasen Gas (Squamish) Inc. in Squamish, and Terasen Gas (Whistler) Inc. in Whistler will not be eligible under this program due to differing regulatory agreements in these areas. Within the eligible service areas, there are approximately 724,000 residential customers (Rate Schedule 1) that will be eligible to participate in the Unbundling program. Of this total, the majority are located in the Lower Mainland service area. The table below sets out the forecast total average number of residential customers by eligible service area for 2006.

Table 1 - Residential Customers		
Lower Mainland	507,000	70%
Columbia	19,300	3%
Inland	197,200	27%
Total	**723,500**	**100%**

Source: Terasen Gas 2006-2010 Forecast for 2006

Terasen Gas delivers total annual sales and transportation volumes of approximately 180,000 terajoules ("TJs") to customers on the Mainland. Approximately 73,000 TJs are used by residential customers. Of this amount, the majority is used in the Lower Mainland service area. The table below sets out total residential volumes in TJs by eligible service area.

Table 2 - Residential Annual Consumption - TJs		
Lower Mainland	54,600	75%
Columbia	1,700	2%
Inland	16,600	23%
Total	**72,900**	**100%**

Source: Terasen Gas 2006-2010 Forecast for 2006

2.2 BACKGROUND

With the release of the British Columbia Energy Policy, “Energy for Our Future: A Plan for BC”, on November 25, 2002, Commercial and Residential Commodity Unbundling gained momentum. Policy Action #19 of the provincial energy policy indicates that natural Gas Marketers will be allowed to sell directly to low-volume customers, and will be licensed to provide consumer protection. Following this policy decision the Commission in its Letter No. L-49-02 dated December 13, 2002 directed Terasen Gas to update and reassess the Unbundling program that was developed previously and to file a report to the Commission by February 28, 2003 with the intent of making the Commodity Unbundling service option available for November 2004.

In Commission Letter No. L-14-03, dated April 16, 2003, the Commission directed that Unbundling for small volume customers should be implemented in two phases. Commercial customers were to have an unbundled option effective November 2004 ("Phase 1") with Unbundling to be provided to residential customers in the second phase at some time in the future ("Phase 2"). The Commission directed Terasen Gas to proceed with Commercial Unbundling generally as described in the March 28, 2003 filing. In addition, the Commission directed that the provision of a stable rate option for residential customers was to be implemented effective November 2004.

Terasen Gas, in its report on Commodity Unbundling and Customer Choice Phase 1 dated July 18, 2003, outlined an implementation plan for Commodity Unbundling to meet the November 1, 2004 target date. This report was accepted by the Commission and Terasen Gas implemented the proposed Commodity Unbundling service for small and large commercial customers. Process changes and system development was completed allowing eligible customers to begin enrolling in the program starting May 2004. Gas flowed to customers who elected a Gas Marketer to provide the commodity on November 1, 2004.

In Commission Order No. G-66-05, dated July 7, 2005, funding was approved to complete market research and the review and validation of the business rules for the Residential Unbundling Program, as well at the timeline leading to a CPCN application by March 2006.

In Commission Order No. G110-05, dated October 31, 2005, additional funding was approved to complete the scoping and business systems analysis required to enable the filing of a CPCN application for the Residential Unbundling Program by March 2006. Work on the Scoping Phase of Residential Unbundling commenced in late November 2005. The primary focus of this work involved a review of existing processes and systems used by the Commercial Unbundling program with the aim of identifying improvements and changes needed to support a Residential Unbundling program, as well as the existing Commercial Unbundling program. This review was completed in early March 2006 and resulted in the proposed design of the Residential Unbundling program outlined that is described in section 5 of this Application.

2.3 RESIDENTIAL UNBUNDLING – BUILDING ON THE COMMERCIAL UNBUNDLING PROGRAM

The proposed Residential Unbundling program is a continuation of the Commodity Unbundling program introduced in November 2004 for commercial customers. Starting May 2004, Gas Marketers were able to begin enrolling commercial customers in the Commercial Unbundling program with a Gas Flow Date of November 1, 2004. Total enrolled commercial customers have reached approximately 16,000, representing approximately 20% of total eligible commercial customers. Stakeholders have been generally very pleased with the results of the Commercial Unbundling program to-date as noted in their comments during a Commission sponsored workshop on April 8th 2005 where stakeholders were invited to comment on the performance of the Commercial Unbundling program. A key feature of the Commercial Unbundling program that helps to explain the program's success is the relatively simple process and systems design that enables the automation of a significant portion of day to day operations. Once a customer is enrolled by a Gas Marketer, the systems automatically process the majority of back-office requirements with minimal manual intervention.

In reviewing requirements for a Residential Unbundling program, a key objective was to build on the success of the Commercial Unbundling program, continuing to use as much of the existing business processes, rules, and systems as possible. A residential program, however, requires an enhanced level of data detail in order to ensure that the degree of automation is sufficient given the number of potential customers who may elect to participate. An additional objective was to explore design options that could enable greater program flexibility and thus expand the choice available to customers who elect to participate. Program considerations in this respect included a review of the frequency of entry dates (monthly), portability of agreements between Gas Marketers and enrolled customers when customers move to a new premise, minimum and maximum terms for supply agreements, the frequency of changes to the pricing of Gas Marketer offerings, the load shaping model and calculation of Gas Marketer supply requirements, a customer enrollment confirmation process, the scope and responsibility for managing an Independent Dispute Resolution process, and any limitations to the program.

The design approach described earlier was instrumental to helping to ensure that implementation costs are minimized. A key cost savings from what was initially expected during the Scoping Phase involved the enrollment interface with the Energy CIS[3]. The proposed design loosely couples the enrollment database with the Energy CIS so that the core enrollment process is handled outside of the CIS application while making use of existing Energy CIS functionality. This approach minimizes the impact on daily processing requirements. Additionally, this design helps to keep the proposed Residential Unbundling program relatively independent from the CIS application version being used.

The proposed Residential Unbundling design differs from the existing Commercial Unbundling program primarily by a greater degree of automation in the processing of enrollments, and by the increased amount of data per enrollment that will be tracked. This increased amount of data is required to support the degree of automation planned, as well as to support enhanced reporting and the requirements of the Independent Dispute Resolution Mechanism. Existing systems and processes continue to be used, which forms

[3] The Energy CIS is the customer information system used by Terasen Gas.

the foundation of the proposed Residential Unbundling program. Existing interfaces also continue to be used for the most part. The proposed process and system changes needed to support a Residential Unbundling program were also designed with the intent to incorporate the existing Commercial Unbundling program requirements.

Overall these changes enable a broader range of program features than what is possible under the current Commercial Unbundling program. If the Residential Unbundling plan is approved, the Commercial Unbundling program will benefit from the proposed process and system improvements. From an operational perspective, both programs would use common processes and systems and would not differ from each other, except for some business rule exceptions. Unlike for the proposed Residential Unbundling program, the Commercial Program would not have Confirmation Letters sent, contracts would not be ported to a new premise, and the Independent Dispute Resolution process may differ.

3. CUSTOMER RESEARCH

3.1 OVERVIEW OF UNBUNDLING SOLUTIONS IN OTHER JURISDICTIONS

Understanding Commodity Unbundling developments in other jurisdictions, particularly in other provinces in Canada, is important as it provides guidance and direction as to how Residential Unbundling could be structured in British Columbia. Following are highlights of recent secondary market research intended to provide context and direction for the successful development of Residential Unbundling in British Columbia.

Currently, in Canada, Commodity Unbundling for small volume customers is established in the provinces of Ontario, Alberta, Manitoba, and recently in British Columbia with the start-up of the Commodity Unbundling program for commercial customers. Appendix 1 summarizes the key elements of the Residential Unbundling programs in Canada, and provides an assessment and update on residential natural gas Unbundling developments.

With regards to the question of the value Unbundling has brought to residential customers in the three Canadian jurisdictions researched, Alberta, Manitoba and Ontario, none of the utilities or regulators' representatives interviewed indicated they had in the past undertaken research to measure the success of their retail commodity choice programs from the customer's perspective. However, the utilities and regulators' representatives interviewed believed that customers perceived the primary benefit of Unbundling as providing price stability with the possibility of cost savings. From Terasen Gas' perspective, this is an important point to emphasize in customer education efforts. See section 8 for more details of the proposed customer education plan.

3.1.1 Ontario

Commodity Unbundling for residential customers is particularly well established in Ontario with participation at approximately 40% of all eligible residential customers. Currently over 40 Gas Marketers are licensed to market natural gas with about ten of them actively offering primarily fixed prices for terms of three, four and five years.

In Ontario, entry dates occur on the first of each month, allowing customers to enroll on a monthly basis. With regards to enrollment rules and processing, a key business rule in existence is that the first Gas Marketer who enrolls the customer "keeps" the customer. Poaching, an activity where a second Gas Marketer signs up a customer who is already enrolled before the initial term of the contract with the first Gas Marketer has expired is viewed to be non-existent. However, if the first Gas Marketer is slow to release a customer, the second Gas Marketer is unable to enroll the same customer. This is in contrast to the situation for the Commercial Phase of Commodity Unbundling in British Columbia currently where the second Gas Marketer who enrolls the customer "keeps" the customer.

Reflective of the storage infrastructure situation in Ontario, the gas supply requirements are determined by forecasting the annual daily consumption for a Gas Marketer's customers at a 100% load factor delivery requirement, with Gas Marketers assigned the customers' share of the upstream transportation. Even though there is some small amount of hedging in the utilities' regulated rate options, there are no exit fees with the rates adjusted quarterly.

Billing service for Gas Marketers is currently provided by the local distribution companies with fees charged to Gas Marketers to recover the operational costs.

In Ontario, when Residential Unbundling was introduced, consumer protection measures were initially lax or non-existent, often placing the gas utility in the middle of disputes between a Gas Marketer and a customer. Over time, a series of consumer protection measures was introduced including Gas Marketer licensing, a Code of Conduct for Gas Marketers and authority for the Ontario Energy Board (“OEB”) to suspend or revoke a Gas Marketer’s license and levy fines for inappropriate practices. These measures have all helped to strengthen consumer protection.

To protect the customer, Gas Marketers are required to notify customers of renewal terms prior to the expiration of contracts. In addition, Gas Marketers must receive written confirmation from customers that have expressed a desire to renew their contracts. Further enhanced consumer protection includes a requirement for Gas Marketers to reaffirm customer contracts within 14 days of the customer initially signing the contract. A Gas Marketer must seek confirmation from a customer in writing or through a recorded telephone call. Something recent is that customer complaints are now handled by the OEB staff, a change from recent past when the function was outsourced to a third party to manage.

The Ontario marketplace appears to be headed for some significant changes with the pending implementation of the Gas Distribution Access Rule (“GDAR”). The GDAR was originally introduced by the OEB in an effort to align the natural gas retail direct sales market with the developing electricity direct sales market. Finalized in December 2002, the GDAR set out rules relating to the handling of consumer information and Gas Marketer data, the processing of service transaction requests and the billing options available to Gas Marketers. Adoption of the GDAR will potentially have significant impact on both the business rules, particularly customer mobility, and the electronic business transaction standards used for exchanging transactional data between Gas Marketers and the local distribution companies. OEB staff is currently drafting the necessary service agreements to be released shortly but until that time, it is not clear what the impacts of the rules will be.

3.1.2 Alberta

Although the marketplace has been opened since 1995 when the Gas Utilities Core Market Regulation was enacted, residential customer participation levels are currently less than 10% of all eligible customers. Similar to the other provinces, the majority of pricing offers in Alberta are fixed prices for terms of three, four or five years.

Reflective of storage infrastructure in Alberta, gas delivery requirements are determined based on forecasted monthly load at a 100% load factor with imbalances settled the following month. The regulated commodity portfolio contains no hedging with rates adjusted on a monthly basis. In Alberta, the provincial government provides residents a refund if the price of natural gas is greater than a defined cost $Cdn/GJ ceiling. This approach provides a cap price for customers in Alberta. Exit fees are not used.

The Alberta marketplace has undergone significant structural changes in the past two years as the result of legislative changes. Most significant is that the distribution service has been separated from the regulated system supply service with Direct Energy Marketing Limited ("Direct Energy" or "DEML") assuming responsibility for the regulated system supply offering from Atco, the local distribution company. Direct Energy also competes as a Gas Marketer with a non-regulated affiliate offering non-regulated supply contracts to residential customers. Gas Marketers are currently responsible for their own billing of commodity charges.

Consumer protection and education is the responsibility of the Utilities Consumer Advocate Office with the licensing of Gas Marketers managed through the Alberta Government Services, Consumer Services Branch.

3.1.3 Manitoba

Residential customer participation in Manitoba's commodity choice program currently is about 18% or about 45,000 customers. Ten Gas Marketers are currently licensed with only two active in the marketplace selling price offerings similar to those found in Alberta and Ontario, fixed prices for terms of three, four, or five years.

Customers can enroll in the service on a quarterly basis, similar to that for the Commercial Phase of the Commodity Unbundling program in British Columbia. Manitoba has a business rule where the first Gas Marketer who enrolls the customer "keeps" the customer, similar to the business rule used in Ontario.

Reflective of the infrastructure conditions in Manitoba, an annual 100% load factor model is used to determine Gas Marketers delivery requirements with the local distribution company responsible for load balancing and upstream transportation. Gas supply requirements consist of Primary Gas which customers can choose to buy from a Gas Marketer or from the regulated Utility and Supplemental Gas which continues to be provided by the regulated Utility. Exit fees are not used in Manitoba.

In Manitoba, Gas Marketers have the option of performing their own billing but to-date have elected not to with the local distribution company continuing to provide the billing services.

Licensing of Gas Marketers is the responsibility of the Manitoba Public Utilities Board ("MPUB").

3.1.4 United States

Interest in residential customer choice program for gas customers in the United States continues to grow. The report from the American Gas Association ("AGA") prepared September 2003 titled "Summary of Residential Choice Pilot Programs and Initiatives 2003 Update" reports the growing interest[4]. As shown on the following chart provided by the

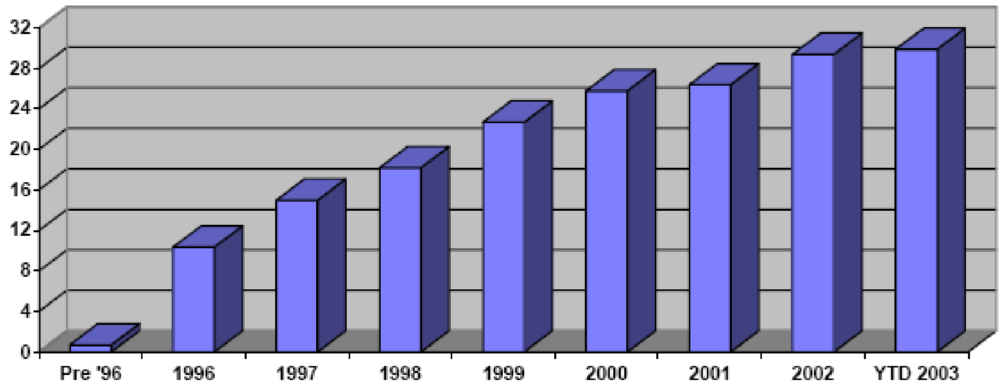
[4] Refer to Appendix 2 for a copy of the AGA report "Summary of Residential Choice Pilot Programs and Initiatives 2003 Update".

AGA, the total number of residential homes eligible for a gas supplier choice program has grown from approximately 10 million homes in 1996 to about 30 million homes by 2003.

Chart 1

Residential Customer Choice Program Announcements

(Cumulative Number of Homes Eligible-Millions)



Reported overall level of participation in customer choice programs is about 18% with results varying state by state, from negligible participation for Pacific Gas and Electric's 4 million customers to 100% for Atlanta Gas Light's 1 million customers, who were assigned to Gas Marketers by September 1999. Participation rates vary depending upon the regulatory and competitive framework in place to encourage Gas Marketer interest and the extent and effectiveness of customer education efforts.

3.2 SURVEY OF COMMERCIAL CUSTOMERS PARTICIPATING IN THE UNBUNDLING PROGRAM

As part of the approved enhancements identified for the Commercial Phase of the Commodity Unbundling program, Terasen Gas conducted a survey in 2005 to measure the satisfaction levels of those commercial customers that are participating in the program to date, seek suggestions for improving the program and understanding better customers' decision making process regarding commodity supplier choice.

For smaller volume commercial customers (Rate Schedule 2), within a year of launching the program, 16% of customers claimed to have signed on with a Gas Marketer. Among this group, 83% are satisfied with the service they receive from the other company and 77% are satisfied with the other aspects (educational materials, billing, etc.) of the program.

3.3 PRIMARY CUSTOMER MARKET RESEARCH

As part of the investigation and evaluation efforts to-date to implement a Residential Unbundling solution, Terasen Gas conducted primary market research to determine residential customers' awareness of Unbundling, the value proposition for customers in having supply choice, customers' level of interest in Unbundling, and understanding how residential customers prefer to be informed about Unbundling to assist with developing an effective customer education program. Through a third party research firm, NRG Research Group, Terasen Gas conducted focus groups to explore Residential Unbundling in greater depth and to assist with the questionnaire design. A quantitative survey was also completed with a minimum sample size to provide statistically significant results. A full copy of these survey reports is included in Appendices 3 and 4.

3.3.1 Objectives of Study

In June 2005, Terasen Gas employed NRG Research Group to conduct a primary research study with residential customers of Terasen Gas. The purpose of the research was to gauge the level of interest by residential customers in natural gas Unbundling and to reveal potential challenges such a program may face.

The objectives of the study were as follows:

- determine residential customers' awareness of Unbundling;
- determine the value proposition for customers in having supplier choice;
- assess customers' potential level of interest in Unbundling;
- understand how customers would prefer to be informed about Unbundling, to assist with developing an effective education program;
- understand what information customers would like to receive regarding Unbundling; and
- assess the level of interest in Terasen Gas providing competitive pricing information on its website.

This study employed both qualitative and quantitative research methods. In the qualitative phase, four focus groups were held with customers in order to identify the range of opinions on the subject and aid in the development of a questionnaire. In the quantitative phase conducted between July 27 and August 7, 2005, a time when the market for natural gas was experiencing price volatility, 801 residential customers were surveyed by telephone to quantify the findings from the qualitative phase, and to examine important differences in sub-groups. In developing the survey questions, Terasen Gas consulted with stakeholders asking for comments from interested Unbundling stakeholders. See section 7 Stakeholder Consultation for more details about stakeholder comments received.

3.3.2 Findings of Study

Following are the highlights of the quantitative survey.

Residential Customers' Awareness of Unbundling

Awareness was very low with only 13% of customers surveyed indicating they had ever heard of Unbundling before. Most frequently cited sources where survey respondents said they had first heard of Unbundling included the newspaper (31%), bill inserts (11%), and television (9%). When asked what they thought the term "natural gas commodity

Unbundling" meant, most respondents said they didn't know (65%), while few of the balance could accurately describe what it meant.

Value Proposition for Customers in Unbundling

Approximately 30% of respondents indicated that having either more purchase options available to them or being given a choice of natural gas suppliers would provide a "lot of value" to them, while about another 30% indicated that having choice in suppliers or more purchase options would provide "some value". In total, approximately 60% of respondents indicated that having more purchase options, or being given a choice of natural gas suppliers, would provide a "lot of value" or "some value". Those responding that a given value proposition provides "some" value can be characterized as people who are directionally positive to the idea, but would not necessarily commit to switching natural gas suppliers. In contrast, those who say that either proposition provides "a lot" of value to them are much more open to consider switching natural gas suppliers.

Customers' Potential Level of Interest in Unbundling

Of the customers surveyed 67% said that they would be interested in buying natural gas from a supplier other than Terasen Gas, with 24% of this amount indicating that they were very interested and 43% somewhat interested.

For those who said they were very interested in Unbundling, 38% indicated their interest in buying natural gas from a supplier other than Terasen Gas largely stemmed from having more choice and competition. Interestingly, 31% qualified their "very interested" interest as being dependent on price. Furthermore, 22% indicated their interest in Unbundling was because of the belief that it would lead to lower prices and savings. Reasons offered by respondents for not being interested in Unbundling related to currently being satisfied with Terasen Gas (31%) and that there was no benefit or interest in Unbundling (17%).

When respondents were informed that there would be a charge of about $1 per month for three years included in their gas bill to pay for implementing the Unbundling program, the level of "very interested" interest in buying natural gas from a supplier other than Terasen Gas dropped roughly in half from 24% to 14%.

In reviewing the survey results, analysis suggests that the total number of respondents very interested in participating in the Unbundling program primarily because of the value of having more choice and competition, even with a $1 monthly service charge, is estimated to range from 5% to 10% or between 40,000 to 80,000 customers during the initial years of the program. The 5% to 10% estimate is derived by taking the number of respondents who responded "very interested" even with a $1 monthly service charge (i.e. 14%), and of those respondents, excluding those who qualified their interest as being dependent on either the price of natural gas or on the belief that it would lead to lower prices and savings (i.e. 53%).

Communicating Unbundling to Customers

When asked what information was needed by customers to help make a decision about purchasing their natural gas from a supplier other than Terasen Gas, by far the leading type of information desired was prices/rates (47%). This was followed by information about suppliers' reputation (12%) and reliability (10%).

Respondents expressed a strong preference for obtaining information regarding Unbundling through a website (37%), with the use of newspaper (16%) and bill inserts (10%) being second and third choice, respectively.

The idea of Terasen Gas providing on-line information about natural gas rates for competitive suppliers was well received by survey respondents. When asked if it would be useful to them if Terasen Gas provided information about natural gas rates for competitive suppliers on its website, most respondents said it would be useful (72%), 39% very useful, and 33% somewhat useful.

4. STABLE RATE OFFERING

The purpose of the following section is to present the highlights of the 2006 Stable Rate Option offering, the second year of the program's existence. This section includes a discussion of customer participation to-date, customer education efforts, operating costs, an assessment of the program results and a recommendation provided on extension of the program.

4.1 CUSTOMER ENROLLMENT

As of January 1, 2006, 8,000 eligible residential customers throughout the Province were enrolled in the Stable Rate program, up from the 2,000 customers who signed up in year one. Very few customers from year one elected not to renew their participation in the program. Participation was highest in the municipalities of Vancouver, Surrey, Burnaby, Richmond and Kelowna.

Customers were able to enroll in the program for a period of two months, beginning on October 1 and ending on November 30, 2005, with participation limited to the first 20,000 eligible residential customers on a first come, first served basis. Customers were able to enroll by submitting an enrollment form found on the back of a bill insert or online at Terasen Gas' website.

4.2 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 has kept educational and marketing costs to a minimum by utilizing communication channels such as a corporate news release, Terasen Gas' Get Comfortable newsletter, Terasen Gas' corporate website and call centre, a Stable Rate hotline, and a bill insert. Television, in the form of ten second messages about the Stable Rate program was employed in 2005 for the first time to promote the program. Terasen Gas believes the use of television is the most efficient & high-impact medium for raising consumer awareness.

Terasen Gas' education efforts were complemented by the local media's interest in this program. The Vancouver Sun published two articles about the program. One was published on October 21, 2005 titled "Fixed-rate gas contracts gain popularity"; the second article was on published on November 19, 2005 titled "Terasen renews offer to set stable rate for 20,000 gas customers".

4.3 OPERATING COSTS

Annual operating costs include marketing expenditures to promote the offering, back-office expenditures for processing of customer enrollments, and management reporting and call centre related expenditures for handling customer inquiries. Examples of customer enrollment related activities include processing customer enrollment applications, and sending out confirmation and rejection letters.

For the 2006 program offering, marketing costs are estimated to be $175,000. Charges incurred for back-office support including call inquiry and reporting requirements will be $900 per month, with an additional $9.00 per Stable Rate application processed.

4.4 RESULTS TO DATE

Terasen Gas believes the development and implementation of the Stable Rate program has been a success during its first two years, meeting the objectives of the program. As outlined in previous filings, Terasen Gas identified that 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.

Terasen Gas believes the marketing material and communication efforts undertaken in 2004 and 2005 have contributed to making progress in the objectives outlined. By offering the Stable Rate Option, Terasen Gas believes residential consumers, over time, will 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 for the 2006 offering was still lower than expected likely because of the significance of the financial premium associated with participating in the offering (i.e. ~$1.36 per gigajoule or 13%; $11.28 per gigajoule for Stable Rate Option compared to standard regulated rate of $9.92 per gigajoule) and the still 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 three to five year term time frame for a typical 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 input from Commission Staff and a BC Public Interest Advocacy Centre ("BCPIAC") representative, emphasized in its marketing materials that the Stable Rate Option was not necessarily about saving money but more about paying for natural gas price stability. Based on these two key differences, Terasen Gas believes 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 Gas 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 that this is 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.

Table 3 - Stakeholder Interests in Commodity Choice

Customer Increased choice Benefits of price certainty and potential cost savings Adequate information to make an informed decision Simplicity of offer Flexibility to exit arrangement	**British Columbia Utilities Commission** 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
Terasen Gas 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	**Gas Marketer** Competitive environment for commodity choice (i.e. alternative commodity offerings do not act as a barrier to entry) Transparency in treatment of costs

Requesting Approval

In this Application, Terasen Gas requests approval for extension of the Stable Rate Option offering for the foreseeable future, subject to Commission review. Continuation of the Stable Rate Option provides a cost-effective way to promote commodity choice offerings, educate consumers and gather market information. Development and implementation costs are projected to remain in the $0.3 million range per year or less, primarily to pay for production and communication of marketing materials related to the Stable Rate Option.

5. PROJECT IMPLEMENTATION

On June 6, 2005, Terasen Gas filed an Application titled “Commodity Unbundling Scoping of Solution for Residential Unbundling” that requested approval for funding to investigate, evaluate, and identify options for implementing a Residential Unbundling solution with a 2007 calendar year timeframe. In Order No. G-66-05 dated July 7, 2005, the Commission approved funding in the amount of $300,000[5] to be recorded in a deferral account to complete a review and validation of the business rules for a Residential Unbundling Program and a timeline leading to a CPCN application by March 2006. Further, the Commission requested that Terasen Gas submit an application by September 16, 2005 that was to include research to gauge the level of potential interest in Residential Unbundling, as well as to seek approval of additional funding to complete a scoping and business systems analysis phase so that a CPCN application for the Residential Unbundling program could be filed with the Commission by March 2006.

From June to August 2005, Terasen Gas completed the business model and rules validation work and market research as part of the Pre-Scoping Phase. On September 19, 2005, Terasen Gas filed an Application titled “Commodity Unbundling Deferral Account Funding for Scoping of Residential Unbundling” (“September 19”) requesting additional funding of $1,053,800 to complete the scoping and business systems analysis work to enable the filing of a CPCN application by March 2006.

In Order No. G-110-05 dated October 27, 2005, the Commission approved the $1,053,800[6] request to complete the scoping and business systems analysis work. Deliverables as part of a March 2006 CPCN application developed during the Scoping Phase were to include a comprehensive plan to deliver a Residential Unbundling program to eligible residential customers in British Columbia. A copy of the final proposal prepared by Accenture and Knowledge Tech Consulting is attached in Appendix 5.

This section follows with a summary of the scoping and business systems analysis work completed for the implementation plan developed by Terasen Gas. Terasen Gas notes that the approved funding to date of approximately $1.4 million is on track but slightly under spent as a result of activities either completed using Terasen Gas’ in-house resources or where estimated costs were less than anticipated. A further discussion of these expenditures is found in section 11 of this Application.

5.1 IMPLEMENTATION PLAN APPROACH

In order to develop an implementation plan, Terasen Gas engaged Accenture Inc. (”Accenture”) and KnowledgeTech Consulting Inc. (“KnowledgeTech”) to provide external consulting services to help develop a comprehensive delivery plan including design, development and implementation, and estimated capital and operating costs. Accenture and KnowledgeTech are the same firms that helped to successfully implement the Commercial Unbundling program. The prior knowledge and experience that Accenture and KnowledgeTech gained working implementing the Commercial Unbundling program and the

[5] Referred to in this Application as the “Pre-Scoping Phase”.
[6] Referred to in this Application as the “Scoping Phase”.

key business processes ensure that the proposed solution and plan for Residential Unbundling leverages the strength of existing systems while minimizing modifications, leading to a more cost-effective, simple, integrated solution incorporating all systems.

5.1.1 Guiding Principles for Residential Unbundling

In developing the proposed Residential Unbundling framework and business rules, Terasen Gas utilized the nine Guiding Principles endorsed by the Commission in Letter No. L-73-05 dated September 7, 2005. The Guiding Principles, as outlined below, provided the basis to shape the development of the proposed framework:

- Commodity Unbundling should provide value to customers;
- customers should be provided with choice regarding their gas commodity purchase options;
- the safety and reliability of the Terasen Gas delivery system should not be compromised;
- adequate and appropriate consumer protection must be ensured, and customers should be accountable for the results of choices they elect;
- 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;
- 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);
- Commodity Unbundling should be implemented such that it will result in effective competition;
- Terasen Gas to continue to provide the billing and collections services for both commodity and delivery on a mandatory basis; and
- 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, Terasen Gas believes that an appropriate Residential Unbundling framework requires a solid foundation, one in which the primary participants, the gas customers, Terasen Gas, and Gas Marketers, have a common interest in ensuring that demand for natural gas from end use customers remains an affordable energy choice.

In addition to the above noted guiding principles, Terasen Gas wishes to re-emphasize that key principles inherent in its Price Risk Management Plan, and that will continue in a Residential Unbundling environment, are fundamental in ensuring that natural gas is positioned effectively and remains a competitive energy choice in the future. The key principles, and associated actions, are that they should 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.

In determining the proposed framework and business rules, Terasen Gas was also mindful of systems and processes required to support the administration of the framework. Key system and process considerations include automating processes where possible, supporting customer mobility in exercising commodity choice, supporting flexibility in pricing options offered to customers, providing an overall cost effective solution, and ensuring cost-causality in attributing and recovering costs associated with the Unbundling program.

Automation of processes will be critical to delivering a solution that can effectively support the higher volume of customers and transactions along with the added features (i.e. portability, prevention of poaching) required for Residential Unbundling. Customer mobility in exercising commodity choice is desired as it is an integral part of consumer protection. Terasen Gas believes facilitating as much customer mobility as possible is integral to fostering an informed and effective marketplace. Providing customers the ability to choose is subject to being accountable for the choices they elect. Flexibility in pricing options is a desire expressed by some Gas Marketers to date, as it provides greater flexibility to allow a Gas Marketer to negotiate and structure a suitable gas arrangement for a specific customer.

In developing the proposed framework and business rules, Terasen Gas was particularly mindful of the desire to provide a cost effective solution, given the Commission's concern about the significance of the costs for implementing Residential Unbundling that was outlined in the letter dated October 31, 2005 approving Terasen Gas' request for additional deferral funding. In that letter, the Commission commented that "However if the projected target market for the Residential Unbundling Program is only a very small portion of the potential market, and the cost analysis indicates a significant expenditure is necessary to modify the Terasen Gas customer information system, then justification of this Program must be reassessed." To help address concerns about the potential of significant program costs, Terasen Gas believes following a cost-causality principle (i.e. user pay system), where program costs are recovered from parties who cause program costs, is warranted. These costs should be recovered where possible from both the Gas Marketer enrolling a customer and the enrolled customer.

Terasen Gas believes following such a cost-causality guideline is important in delivering a cost-effective solution where the incremental costs beyond that required for the core system requirements is borne by the parties benefiting from exercising commodity choice. By paying for program costs directly caused by them, Gas Marketers will be in a better position to make proper economic decisions in support of ensuring a sustainable Residential Unbundling program. For customers electing to exercise commodity choice, they will be able to make more informed commodity purchase decisions, as they weigh the benefits of commodity choice to its "true" costs (i.e. including incremental costs). Furthermore, those customers electing not to exercise commodity choice will not be unfairly burdened with the costs of a program from which they receive no benefit. Please refer to section 10 for a detailed review of estimated program costs and cost recovery mechanisms.

In scoping the solution for Residential Unbundling, Terasen Gas specified system and process requirements to support the adoption of the cost-causality principle for program cost recovery. By having the necessary systems and processes in place, the solution for Residential Unbundling will support the Commission's decision on appropriate cost recovery. However, the Commission will need to determine which costs ought to be covered and how recovered costs are to be treated in the initial roll-out of the Residential Unbundling program. Terasen Gas recognizes the difficulty in determining an appropriate level of program implementation and operating costs and looks forward to the upcoming review process and feedback from the Commission and other stakeholders regarding the justification of the level of costs given the degree of interest by potential customers.

5.1.2 Solution Design Principles

The following set of design principles was developed to steer the development of the proposed implementation solution:

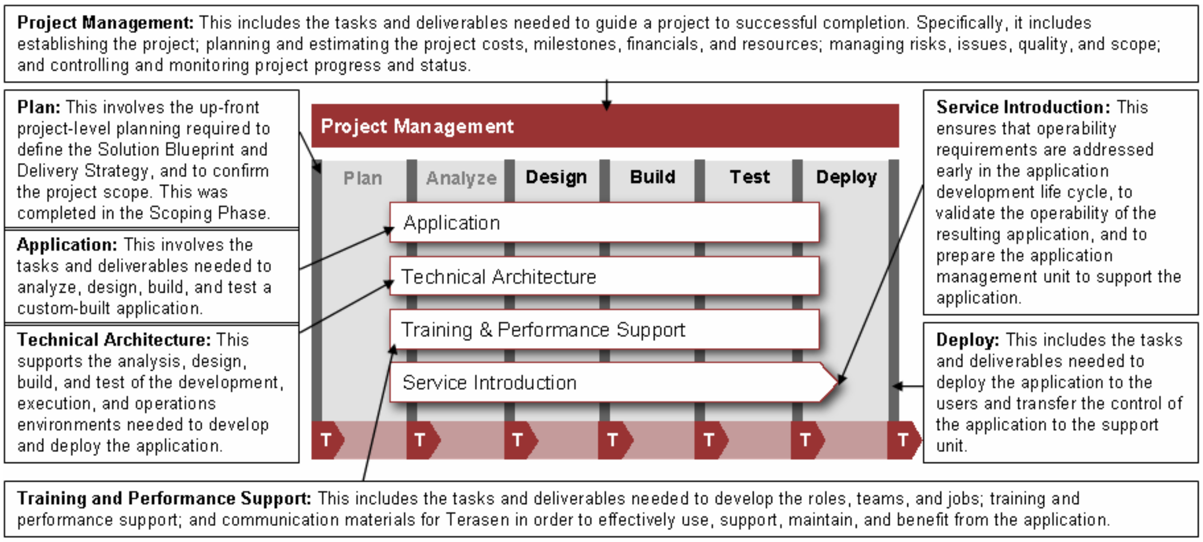
- build on Commercial Unbundling experiences;
- develop one set of rules for residential and commercial customers where possible;
- simple, integrated solution incorporating all systems;
- leverage strengths of existing systems;
- minimize modifications to existing systems;
- minimize number of system interfaces by providing single rich interfaces versus multiple application-specific interfaces;
- reuse and enhance existing interfaces where possible;
- automate transactions and processes where cost/benefit is justified;
- single source of record for unique data;
- low maintenance cost; and
- flexible / granular data structures.

Foremost, it was recognized that a solution should leverage the strengths of the systems and capabilities used for Commercial Unbundling, thereby minimizing the need to build new functionality. In addition, the solution for Residential Unbundling needs to process the expected increase in the number of transactions by automating where possible and where it is cost effective.

5.1.3 Solution Approach

As illustrated in the diagram below, the implementation of Residential Unbundling consists of the following phases:

Diagram 1 – Residential Unbundling Implementation Approach



A set out earlier in this Application, the Scoping Phase that was completed between November 2005 and March 2006 focused on determining how processes and systems need to be modified in order to support a Residential Unbundling program, as well as developing a project plan. As a result of this work the majority of the Plan and Analyze phases were completed during the Scoping Phase.

During the Scoping Phase, business requirements were documented in process maps with accompanying business process impact documents. The process and technical elements required to support the new and enhanced requirements were documented in “Design Approach” documents, which are a part of the overall implementation proposal provided by Accenture. An overall implementation approach and workday estimate was developed jointly by Accenture, KnowledgeTech, and Terasen Gas, which was used to define the project schedule contained in the final proposal which is included in Appendix 5 for reference.

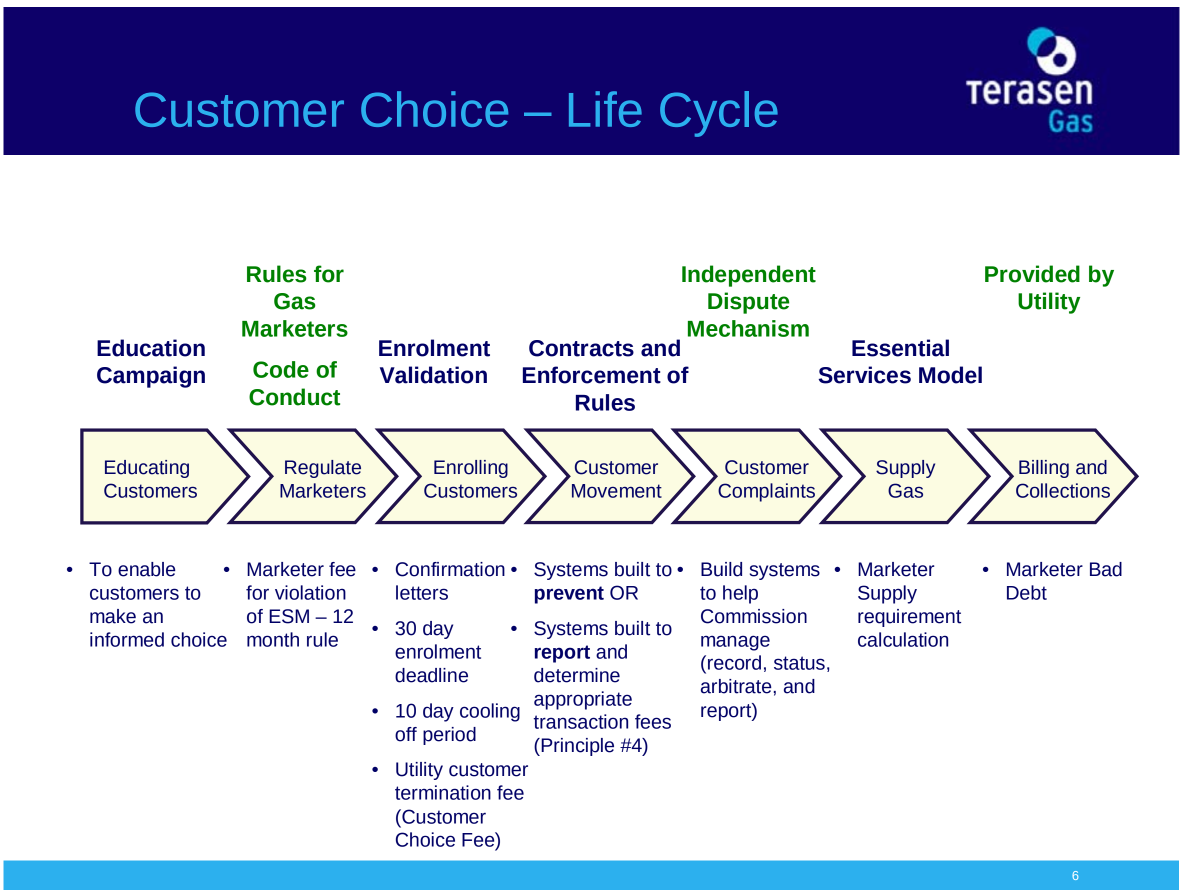
Sourcing assumptions, including confirmation of critical third party development resources and release windows will be determined closer to the actual start date of the project.

The design, build, test, and deploy phases set out in diagram 1 will be completed as part of the Implementation Phase on approval of the proposed Residential Unbundling program.

5.1.4 Solution Overview

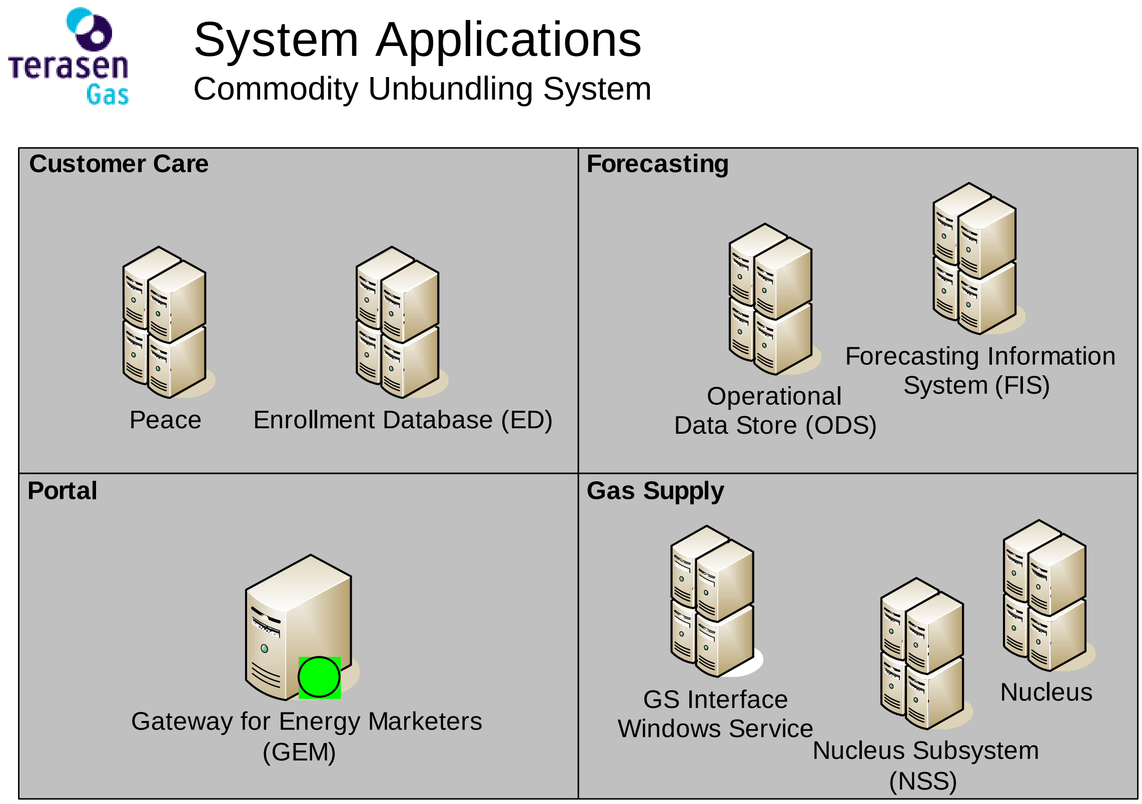
The following diagram depicts the life cycle of customer choice that the proposed Residential Unbundling program is designed to support. From a process and systems design perspective, Gas Marketers and Terasen Gas need to be able to identify and track customers who have entered into alternate commodity supply contracts. The key terms of these contracts need to be tracked so that customers can be properly billed, Gas Marketers can be accurately remitted, transaction fees can be calculated, and sufficient information can be collected so any disputes can be resolved efficiently. These processes also need to be largely automated and require minimal manual processing to function. Over the longer term, this design approach should help to lower the costs to operate and maintain the program.

Diagram 2 – Customer Choice Life Cycle



The following schematic illustrates the systems that will be used in the proposed solution. As noted earlier, a key design consideration was to reuse as much of the existing systems and interfaces as possible. Each of the systems illustrated below is in use by the Commercial Unbundling program today. Many of the core processes in use today continue to be used by the proposed Residential Unbundling program.

Diagram 3 – Commodity Unbundling System Applications



Once Gas Marketers are licensed and they have been set up under the Residential Unbundling program, they may begin to establish Gas Marketer groups and prices for entry dates which then enable the enrollment of customers. Enrollments are initiated by a Gas Marketer by uploading a data file using the Gateway for Energy Marketers ("GEM"), a web based interface. Once the enrollment is received by GEM, it is validated and processed in the enrollment database, which sends instructions to the Energy CIS to set up the enrolled customer in the Unbundling program. The details of this enrollment are then sent to Terasen Gas' Forecasting group who forecasts the annual consumption for that enrollment. The annual consumption for enrolled customers is then aggregated by marketer group and sent to Terasen Gas' Gas Supply group for calculating the final supply requirement. Gas Marketers deliver gas to Terasen Gas per instruction in the final supply requirement. Terasen Gas continues to bill and collect monthly payments by enrolled customers on behalf of Gas Marketers. Terasen Gas also continues to provide Marketers with monthly remittances for their gas sales, less any transaction fees.

5.1.5 Design Summary

The design for the proposed Residential Unbundling program is founded on the principles and business rules reviewed above. Terasen Gas believes that the proposed processes and systems provide the basis for an effective solution to implement a Residential Unbundling program. The following table provides a summary of key benefits of the proposed Residential Unbundling program.

Table 4 – Design Benefits Summary

Benefit	**Description**
Customer Choice	Move from Terasen Gas to a Gas Marketer at any time provided stranded gas cost is recovered. Monthly entry dates reduce the time between contract date and gas flow. Evergreen messages on customer's bill remind customer of renewal options[7].
Consumer Protection	Confirmation letters provide customers visibility of pending change[8]. Ten day cool-off period permits customers to cancel a pending contract. Independent Dispute Resolution process enables a rapid dispute resolution.[9]
Relocation (Portability)	Customers moving to a new premise will be able to automatically port a contract to the new location.[10]
Efficiency	Automated enrollment processing will speed up the enrollments process. Automated contract portability and contract evergreening reduces sales costs. Reporting of daily supply requirement will enable Gas Marketers to make the best purchase decisions. Enhanced reporting allows more accurate and consistent information to be available to Gas Marketers, the Commission, and Terasen Gas. ESM fees provide incentives to adhere to business rules.
Flexibility	Marketer behaviour can be controlled by configurable blocking.[11] Monthly enrollments reduce the time between sign up dates and gas flow.

[7] "Evergreen" refers to the automatic renewal of existing contracts at end of their term where no renewal or termination instructions are received from a Gas Marketer prior to the cut-off date.

[8] Not proposed for Commercial Unbundling program.

[9] Applicability to the Commercial Unbundling program to be determined.

[10] Not proposed for Commercial Unbundling program.

[11] Configurable blocking refers to the ability to set flags in the system that can be used to enforce business rules, such as the hard block of a poach attempt of a customer by a Gas Marketer from another Gas Marketer.

5.2 APPROVED BUSINESS RULES SUMMARY

The essential elements of the business model and key business rules for Residential Unbundling were submitted in summary form on January 11, 2006 for review and approval or endorsement by the Commission. Commission approval was requested where the business rule / issue in question was supported by the majority of stakeholders. Commission endorsement was requested where the Commission agrees that Terasen Gas' recommendation(s) are appropriate for the purpose of the Scoping Phase but will be reviewed further for final approval as part of the upcoming CPCN application.

In Letter No. L-5-06 dated January 24, 2006 the Commission approved and endorsed the majority of recommendations put forth by Terasen Gas. The Commission noted however that no approval of the existing balancing provisions is required as no changes are proposed. Further, the Commission commented that it is of the view that while it may be reasonable to review Gas Marketer licensing, code of conduct and performance bonding as suggested by Terasen Gas, such review is not part of the scoping of the business rules.

For a more in-depth discussion of Terasen Gas' recommendations on the proposed business rules and framework for Residential Unbundling, refer to Appendix 6 for a copy of Terasen Gas' December 9, 2005 filing titled "Terasen Gas Inc. Residential Unbundling – Business Model and Key Business Rules (FINAL)", outlining a proposed framework for Residential Unbundling, as well as a matrix of the approved and endorsed business rules that was filed with the Commission on January 11, 2006. Included also in Appendix 7 is a copy of Terasen Gas' filing dated January 5 titled "Stakeholders' Submissions, Residential Unbundling – Business Model and Key Business Rules (FINAL)", containing Terasen Gas' responses to stakeholder comments received.

5.3 BUSINESS MODEL REVIEW

In sections 5.3.1 to 5.3.8 are descriptions of gas supply related business framework and rules proposed for Residential Unbundling. There are no changes from the gas supply rules currently utilized for Commercial Unbundling. The rules have been provided for reference for interested stakeholders who may be unfamiliar with the rules in use today.

5.3.1 Terasen Gas Standard System Supply

Terasen Gas will continue to offer its customers a default supply option with rate stabilization and continue to employ the existing quarterly gas cost review mechanism. Further, subject to regulatory review and approval, Terasen Gas will continue to hedge gas costs for up to 36 months to dampen price volatility.

It should be noted that the primary objectives of the Terasen Gas Price Risk Management Plan will continue in the Residential Unbundling environment, as the objectives provide the ability to smooth prices and position natural gas as a competitive energy source in the future. Terasen Gas at this time does not plan to alter its Price Risk Management Plan objectives and therefore its default commodity offering to existing customers as a result of Residential Unbundling. These are objectives Terasen Gas believes have benefited customers who have found value by trading off the prospects of potentially obtaining the lowest possible price against the desire to have increased stability.

5.3.2 Nature of the Commodity Unbundling Service

Residential Commodity Unbundling will be provided as set out by the Commission Letter No. L-25-03 which provided direction for Commercial Unbundling.

Terasen Gas will determine the marketer delivery requirements and will take delivery of gas from Gas Marketers at the market hubs. Delivery requirements will be based on historical consumption information and other forecasting parameters and will be delivered at an annual 100% load factor. Terasen Gas will be responsible for midstream resources including contracting and managing transportation and storage requirements and providing balancing and peaking services. All midstream costs will be managed through a separate gas cost account and charged to customers rather than Gas Marketers.

Under the Essential Services Model ("ESM"), Terasen Gas takes title to the gas from the Gas Marketer at each of the three market hubs under an agreement similar to the standard GasEDI base purchase / sale agreement rather than one similar to the existing industrial transportation tariff and transportation agreement. Delivery requirements are based on a normalized forecast of a Gas Marketer's customers' annual load requirements. The forecast is completed on an annual basis to be effective each November 1st in order to align it with the Annual Contracting Plan. Terasen Gas retains the right to review and revise the forecast effective May 1st if a material change in customer consumption behaviour is identified. Delivery requirements will be adjusted to account for customer migration effective each entry date. Any variances in consumption due to customer migration between entry dates and weather related consumption differences will be absorbed in the midstream charge.

5.3.3 Delivery Requirements

In Appendix A of Letter No. L-25-03, the Commission set out that the marketer's delivery requirements would be determined by Terasen Gas on a group basis based on historical consumption data and other forecast parameters and that the delivery requirements would be at an annual 100% load factor. This section describes the details of how Terasen Gas intends to determine the delivery requirements and adjust 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 will be based on the consumption forecast that is used to construct the Annual Contract Plan for the next gas year that runs from November 1 to October 31.

The forecast annual normalized load for each marketer group will be determined based on this 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. This separation of the forecast and the allocation of customers to groups will allow new delivery requirements to be determined for entry dates other than November 1st without undertaking a re-forecast.

As discussed earlier, Terasen Gas reserves the right to undertake an unscheduled re-forecast of annual normalized load requirements. Furthermore, if variances caused by customer attrition within a group are significant, Terasen Gas reserves the right to complete an un-scheduled forecast reallocation and re-determine a Gas Marketer's delivery requirement.

A scheduled mid-year re-forecast of normalized load may be undertaken each spring to determine whether customer consumption behaviour has changed materially from the previous official forecast. Behaviour changes will be determined to be material if the re-forecast amount significantly impacts midstream cost. If it is determined that the differences are material enough to trigger the need to use the re-forecast annual normalized load, new delivery requirements will be recalculated for all marketer groups effective May 1.

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. A weighted average blended price will be determined for the marketer's total delivery requirement and marketer remittances will be based on this blended price.

Delivery requirements will be adjusted as required each monthly entry date. The delivery requirement will be based on the total consumption for customers the Gas Marketer has enrolled in each marketer group for the particular entry date, taking into account any customer attrition that has occurred since the last entry date. The adjusted delivery requirement will also reflect the impact of the annual weather normalized forecast for Terasen Gas, including any scheduled or unscheduled mid-year re-forecasts that have triggered revisions to the delivery requirements. 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.

Baseload delivery requirements for Terasen Gas will be determined on the same basis as the marketer groups with similar adjustments for each entry date.

5.3.4 Receipt Point Allocation

The Commission set out in Letter No. L-25-03 that Gas Marketers would deliver gas to Terasen Gas at three supply / market hubs: Sumas, Compressor Station 2, and AECO in the same proportions as the overall Terasen Gas portfolio requirement. This section provides further information about how Terasen Gas proposes to implement this business rule.

Terasen Gas currently diversifies its supply portfolio by purchasing gas at a combination of three market hubs in British Columbia and Alberta; these are Sumas, Compressor Station 2, and AECO. Gas Marketers will be required to deliver gas to Terasen Gas to meet their Total Delivery Requirement at these three market hubs in the same proportions as the overall Terasen Gas supply portfolio as determined in the Annual Contract Plan and approved by the Commission each year.

The Total Delivery Requirement will be allocated accordingly to the three Receipt Points (Huntingdon, Compressor Station 2 and AECO NIT) on the basis of Receipt Point Allocation Percentages that are determined annually to be effective November 1st of each year. These allocation percentages will remain unchanged until the next November 1st and will apply to any adjusted total delivery requirements that come into effect during the year regardless of the order of magnitude of the adjustment to the Total Delivery Requirement. The allocated Total Delivery Requirement will be expressed as a gigajoule per day quantity for each Receipt Point rounded to the nearest gigajoule. A new Transaction Confirmation protocol for each Receipt Point will be used for each entry date that the Total Delivery Requirement is adjusted.

5.3.5 Fuel Requirements

Commission Letter No. L-25-03, states that Gas Marketers will also deliver fuel-in-kind equal to Terasen Gas' average off-system fuel requirements. This section describes further details regarding Terasen Gas' implementation of this business rule. Terasen Gas will be responsible for transporting gas from the market hub to the customer and will take title to the gas at the corresponding Receipt Point. In addition, the Gas Marketer will be responsible for providing fuel-in-kind at a rate equal to Terasen Gas' average off-system fuel requirement. Remittances will not apply to fuel deliveries.

The Fuel Percentages will be specific to each of the three Receipt Points and will be used to calculate an in-kind fuel requirement for each Receipt Point expressed in gigajoules per day (rounded to the nearest gigajoule). The Fuel Percentages will be determined annually to be effective November 1st each year and will remain in effect until the next November 1st. Similar to the Receipt Point Allocation Percentages, the Fuel Percentages will apply to any adjusted total delivery requirements that come into effect during the year. To the extent that the actual off-system Fuel Percentages and fuel requirements experienced by Terasen Gas are different than reflected by the Fuel Percentages, Terasen Gas, as the Midstream Provider, will absorb the variances. This variance will be factored into setting the fuel rates for the next year so that the amount collected (estimate) and the amount used (actual) by the Midstream will trend to zero over time.

The Fuel Percentages will be communicated to Gas Marketers via a notice at least 30 days in advance of each November 1st. As with the Receipt Point Allocation Percentages, it is anticipated that Terasen Gas will provide estimated Fuel Percentages once the Annual Contract Plan is approved.

5.3.6 Backstopping

As noted in the Commission's Letter No L-25-03, the shortfall for short-term Gas Marketer failure will be supplied by Terasen Gas and Gas Marketers will be charged for such a backstopping service.

In the event of shorter term marketer failure, Terasen Gas will make up the difference between the authorized quantity and the Delivery Requirement at each Receipt Point on a mandatory basis through a “sale” of Backstopping Gas at the Receipt Point. The Backstopping Gas sale will be triggered in the event there is a shortfall between the authorized quantity and the Delivery Requirement at a Receipt Point at the completion of the Evening Nomination Cycle. For the AECO market hub, this yields the equivalent to the nomination cycle that would have aligned with the Evening Nomination Cycle on the TCPL BC system. The reason for limiting the Gas Marketer's opportunity to makeup shortfalls to the Evening nomination cycle is to give Terasen Gas sufficient opportunity to make arrangements to replace the shortfall.

The Backstopping Charge (commodity sale price) that Terasen Gas proposes will be two times the highest Gas Daily common high for the three supply / market hubs: Sumas, Compressor Station 2, and AECO. The punitive nature of the Backstopping Charge is meant to ensure that Gas Marketers do not view Backstopping gas as a viable alternative supply option. Under the Essential Services Model, Gas Marketers participating in the program are not responsible for any of their customers' balancing or peaking requirements. The Gas Marketer's obligation to deliver is limited to a baseload (100% load factor basis) requirement. Any delivery shortfalls will therefore not be related to difficulties in reacting to daily load balancing requirements but true supply problems.

Terasen Gas will also be required to have supply shortfalls eliminated on a daily basis. However, Terasen Gas will be given the opportunity to make up shortfalls between the Delivery Requirement and the authorized quantity on all nomination cycles including the intraday cycles. For shortfalls that remain following the final nomination cycle for the Gas Day, the shortfall will be supplied by Terasen Gas at cost. The rationale behind treating Terasen Gas differently than a Gas Marketer with respect to shortfalls is that Terasen Gas is regulated and gas costs are accounted for on a flow through basis. Terasen Gas also has the Supplier of Last Resort obligation.

5.3.7 Gas Marketer Failure

The Commission Letter No. L-25-03, states that the Commission will determine whether a marketer supply failure has occurred. In the event of longer term Gas Marketer failure the customers impacted would return to Terasen Gas at the standard system supply rate. This section describes in further detail the mechanics and triggers proposed by Terasen Gas for determining that a longer term marketer failure has occurred.

Gas Marketer failure is defined as the event where the Commission has revoked a Gas Marketer's license and directed the return of the Gas Marketer's customers to Terasen Gas as Supplier of Last Resort. Gas Marketer failure may occur either due to serious consumer abuses related to the Gas Marketer's business practices or due to a longer term supply failure that would result in Terasen Gas requesting the Commission to order the declaration of a failure. A shorter term Gas Marketer supply failure event will be covered by mandatory sales of Backstopping gas to the Gas Marketer from Terasen Gas at a punitive rate. In the case of longer term Gas Marketer supply failure, the failure may be either the result of a Gas Marketer exiting the marketplace completely or as a result of a demonstrated pattern of supply unreliability.

Terasen Gas recommends that the standard form agreement between a Gas Marketer and Terasen Gas for Commodity Unbundling set out specific criteria under which Terasen Gas would seek an order for failure from the Commission. Factors to consider when determining the criteria include Terasen Gas' exposure to the cost of Backstopping gas provided to cover the failure, the magnitude and timing of the remittances to Gas Marketers for the previous month's purchases, and the length of time anticipated for obtaining an order and returning the customers to Terasen Gas' standard system supply rate.

Specifically, the agreement between Terasen Gas and Gas Marketers will specify that Terasen Gas will consider that longer term supply failure is occurring, and will seek an order from the Commission, in the event that the Gas Marketer has four days of non-delivery or 15% under-delivery in any rolling 30 day period. This would apply on a Receipt Point basis as well as a Total Delivery Requirement basis. The non or under-delivery would not necessarily need to occur on consecutive days. Terasen Gas would send a notice to the Gas Marketer that Terasen Gas was invoking the marketer failure clause. The Gas Marketer's right to resume deliveries would be suspended until further notice to enable Terasen Gas to enter into firm arrangements for replacement supply rather than relying on day-to-day spot purchases during a period of potentially volatile prices. Terasen Gas would be permitted to enter into firm supply arrangements up to a maximum term of one month while waiting for the Commission to issue an order and would also suspend the Gas Marketer's remittances immediately. The final accounting would be completed after the enrolled customers returned to Terasen Gas.

5.3.8 Program Fees

In keeping with principles established for the Commercial Unbundling Program, Terasen Gas recommends that operating costs be paid by Gas Marketers where possible. These operating costs would be recovered from Gas Marketers in the form of transaction fees and are set out in detail in section 10.2.2.

5.4 PROGRAM LIMITATIONS

Unlike the Commercial Program which faced a number of initial limitations, such as the number of enrollments and frequency of entry periods, proposed design improvements largely eliminate the need for limitations to the Residential Unbundling program.

5.4.1 Number of Customers

No limits to the number of customer allowed to enroll are proposed for the Residential Unbundling program. The process and systems improvements planned to support the proposed Residential Unbundling program are designed to process over two to three times the total number of residential customers eligible to participate. No limit to the number of customers enrolled in the initial entry dates assumes the appropriate recovery of any stranded gas costs.

Terasen Gas reserves the right to introduce a customer limit cap, subject to Commission approval should there be unanticipated significant customer migration impacting Terasen Gas' annual contracting process and Price Risk Management Plan.

5.4.2 Number of Marketer Groups

No limits to the number of marketer group are proposed for the Residential Unbundling program.

5.4.3 Entry Dates

No limits to the availability of entry dates are proposed for the Residential Unbundling program. Entry dates will be monthly, starting with the first Gas Flow Date on November 1, 2007.

5.4.4 Customer Eligibility

All residential customers within the Terasen Gas service area will be eligible for the program, except those residential customers in the Fort Nelson and Revelstoke service areas. Customers serviced by Terasen Gas (Vancouver Island) Inc. on Vancouver Island and the Sunshine Coast, by Terasen Gas (Squamish) Inc. in Squamish, and Terasen Gas (Whistler) Inc. in Whistler are currently ineligible due to differing regulatory agreements in these regions and would continue to be ineligible.

5.5 IMPLEMENTATION COST ESTIMATE

The estimated cost set out in this Application to complete the Implementation Phase of Residential Unbundling by Terasen Gas in British Columbia assumes that Commission approval is granted in time to permit a Implementation Phase start in September 2006. Additionally, any scope changes arising out of a final decision to proceed with the proposed Residential Unbundling program may result in the need to revise the cost estimate included in this Application.

5.5.1 Project Costs

In preparing for this project, Terasen Gas completed a detailed design review and cost estimate using external consultants as part of the Pre-Scoping and Scoping Phase for Residential Unbundling between July 2005 and March 2006. To complete this work, the Commission approved $1.4 million in funding for deferral treatment in 2005. In this Application, Terasen Gas requests additional funding to be recorded in a deferral account required to complete the Implementation Phase of Residential Unbundling. The total implementation and operating cost for the proposed Residential Unbundling program includes:

- **$11.1 million - the estimated additional direct cost to complete the Implementation Phase of Residential Unbundling.**

  This amount is comprised of five components that require expenditures from September 2006 to November 2007. The following table provides a summary of these costs:

Residential Unbundling - Implementation Phase Costs

A. Program Implementation Phase Costs (Sep 2006 – Dec 2007)

	2006	2007	Total
Build - Accenture & KTC	2,834,000	2,008,750	4,842,750
Build - Terasen Gas	82,000	126,000	208,000
Terasen Gas Finance Process Changes	165,000	335,000	500,000
Terasen Gas Build Contingency	308,000	247,000	555,000
Customer Education	600,000	4,400,000	5,000,000
Total	**$3,989,000**	**$ 7,116,750**	**$11,105,750**
Cumulative	3,989,000	11,105,750	

The first component includes $4.84 million on a fixed price basis to cover the cost to build and complete the proposed process and systems changes by Accenture and KnowledgeTech Consulting. Terasen Gas' IT department has reviewed the cost proposal and believes that it represents appropriate value based on the experience of previous systems projects and appears to be in line given the level of detail and certainty required as an output of the Pre-Scoping Phase.

The second component is $0.2 million and is intended to cover the cost to provide IT infrastructure and facilities by Terasen Gas for third party vendors while the project is being built, as well as to cover the costs of a full time project manager.

The third component is $0.5 million required to complete the scoping, design, and implementation of a solution for revenue accounting and financial reporting process that are needed to ensure that these processes are able to sustain the proposed Residential Unbundling program over the long-term. Additional information about this item can be found in section 5.5.2.

The fourth component includes a contingency by Terasen Gas of $0.6 million. This cost is intended to cover scope changes that may arise from the final decision that effects the proposed process and systems changes that need to be built.

The final component includes $5.0 million for the customer education campaign that is planned for 2007.

- **$0.6 million – the estimated annual operating costs.**

  Approximately $0.6 million in operating costs will be incurred annually once the program is operational. This amount is net of estimated recoveries from Gas Marketers. Costs that are expected to be incurred include labour costs for two full time equivalents ("FTE") required by Terasen Gas to help administer the program, one FTE required to administer the Independent Dispute Resolution process by a third party, and by Accenture Business Services for Utilities ("ABSU")[12] for the cost of incremental customer care activities. The final level of these costs will be established after an operating agreement with ABSU for the provision of customer care services required by the program is negotiated in the fall of 2006.

[12] ABSU is Terasen Gas' outsource billing and CIS provider.

- **$3.0 million – annual funding required for continued customer education after 2007.**

  To continue with ongoing customer education approximately $3.0 million is required annually after 2007. This funding is needed to help ensure the success and continued sustainability of the proposed Residential Unbundling program.

Based on the costs set out above, the total estimated cost to provide a Residential Unbundling program in British Columbia is $11.1 million in implementation cost plus $1.4 million in previously approved spending for a total of $12.5 million. This cost estimate assumes that Commission approval is granted in time to permit the start of the Implementation Phase in September 2006. Additionally, any scope changes arising out of a final decision to proceed with the proposed Residential Unbundling program may result in the need to revise the cost estimate included in this Application.

It is expected that a September 2006 start of the Implementation Phase will permit the process and systems changes to be completed and ready for use by April 2007. This completion would allow Gas Marketers to begin the process of enrolling customers starting May 2007, with gas flowing to enrolled customers starting November 1, 2007.

5.5.2 Modifying Revenue Accounting and Financial Reporting Processes to Support Residential Unbundling

As part of the Scoping Phase conducted from November 2005 to March 2006, Terasen Gas reviewed issues associated with financial calculation and reporting processes that are required to support the proposed Residential Unbundling program. The primary focus of the review included reporting of commodity, midstream, and Gas Marketer costs. Specific review objectives to support Residential Unbundling included:

- develop a common understanding of Terasen Gas' commodity and midstream financial management processes across Forecasting, Gas Supply, Finance, and Regulatory;
- identify what processes, if any, must be changed to support Residential Unbundling; and
- identify where additional automation may be required to support greater Unbundling volume.

With the introduction of Residential Unbundling and the projected increase in the number of participating Gas Marketers and Gas Marketer pricing groups, the current processes being utilized to support Commercial Unbundling require significant overhaul in order to be able to continue to report accurately and timely on the Commodity Cost Reconciliation Account ("CCRA") and Midstream Cost Reconciliation Account ("MCRA") costs and gas revenues. Currently, for Commercial Unbundling, the following manual activities are performed monthly to reconcile and report on CCRA and MCRA costs and gas revenues:

- by Gas Marketer, for each rate class (i.e. Rate Schedule 2, 3), for each region (division) – total dollars and volumes for each are retrieved from Energy billing reports in order to calculate a weighting to allocate unbilled volumes by Gas Marketers;

- by Gas Marketer, for each rate class (i.e. Rate Schedule 2, 3), for each region (division) – billed volumes, previous month unbilled volumes, current month unbilled volumes need to be input to spreadsheets to calculate calendar month volumes;
- by Gas Marketer, for each rate class (i.e. Rate Schedule 2, 3), for each region (division) – requires a determination of the average commodity cost recovery rate in order to book the cost of gas recovery for the month. Once the calculation is complete, a separate spreadsheet is maintained for each Gas Marketer for each rate class to calculate the cost of gas. All are separately keyed into different orders in the SAP financial system;
- separate calculation for each Gas Marketer for each rate class for each region of the volume variance (gas purchased vs gas sold) that needs to be transferred to MCRA;
- separate tracking in Gas Supply and transfer of information to Finance (spreadsheets) of gas purchased each month from each Gas Marketer;
- additional work involved in calculating calendar month riders and moving each to a deferral account for any unbundling riders;
- separate line and order on journal vouchers and in SAP financial system required to track activities related to each Gas Marketer; and
- maintenance, tracking and settlement of separate internal orders for each Gas Marketer in the SAP financial system.

Further compounding the problem is that currently data that is captured, used, and reported across these various functions and systems is at varying levels of detail and often calculated differently for different purposes (e.g. using a blended average Gas Marketer gas costs vs. actual Gas Marketer rates by group), further complicating variance analysis and comparison activities that are performed manually.

To support Residential Unbundling, what is needed is an integrated process for tracking and reporting gas revenues and costs in Gas Supply, Regulatory and Finance. Current processes and the related business applications (such as Forecast Information System, Nucleus, etc) were designed to support only the specific operational needs of a particular business unit. To support Residential Unbundling, Terasen Gas requires integrated end-to-end processes designed to link together gas volume forecasting, financial plan and budget development, actual gas costs, revenues, and delivery margin accounting that is necessary to report gas revenues and costs, accurately and timely. Without this integration, the integrity of revenue accounting and financial reporting for gas revenues and costs for Residential Unbundling is jeopardized with the potential for material reporting errors occurring due to reconciliation or data keying problems. In addition, Terasen Gas' ability to meet monthly revenue accounting and financial reporting deadlines is put at risk. Due to the sequential nature of the manual steps as previously outlined, this problem cannot simply be resolved by adding more staff and still meet monthly reporting deadlines.

Consistent with the desire in Commercial Unbundling to minimize costs where possible, Terasen Gas has managed to continue to use the gas revenues and costs accounting and reporting processes in place to support Commercial Unbundling. However, Terasen Gas strongly believes the time has come with the next phase of Unbundling, where rework and integration of revenue accounting and financial reporting processes is required to ensure the successful implementation of Residential Unbundling.

Included in the $11.1 million requested to implement Residential Unbundling is $0.5 million required to modify existing revenue accounting and financial reporting processes to support the Residential Unbundling program. If Residential Unbundling is approved, using unspent existing approved funding (i.e. authorized spending of $1.4 million to-date), Terasen Gas will proceed in the fourth quarter of 2006 to prepare a detailed delivery plan to address the revenue accounting and financial reporting process deficiencies. Should the cost estimate at that time be higher than the $0.5 million included in this Application, Terasen Gas will advise the Commission and seek approval for additional funding.

5.6 IMPLEMENTATION TIMELINE

Terasen Gas proposes a timeline for the Implementation Phase leading to the development and launch of a Residential Unbundling program that is modeled after the successful launch of the Commercial Unbundling program in 2003/4. In order to meet a Gas Flow Date of November 1, 2007, the Implementation Phase should commence no later than September 2006. The following Gantt chart provides an overview of the key milestones in the proposed project plan.

Chart 2 – Project Timeline

ID	Task Name	Start	Finish
1	**Residential Unbundling Implementation**	Mon 9/4/06	Thu 3/8/07
2	Project Management	Mon 9/4/06	Wed 10/25/06
3	1000 Project Management	Mon 9/4/06	Wed 10/25/06
21	Customer Care	Mon 9/4/06	Thu 3/8/07
22	Plan	Mon 9/4/06	Tue 9/5/06
23	1100 Plan	Mon 9/4/06	Tue 9/5/06
32	Analyze	Mon 9/4/06	Fri 9/15/06
33	2500 Analyze Training and Performance Support	Mon 9/4/06	Fri 9/15/06
42	Design	Wed 9/6/06	Wed 10/18/06
43	3100 Design Application	Wed 9/6/06	Tue 10/3/06
58	3500 Design Training and Performance Support	Thu 9/7/06	Wed 10/18/06
68	Build	Wed 10/4/06	Thu 12/7/06
69	4100 Build Application	Wed 10/4/06	Thu 12/7/06
78	4500 Build Training and Performance Support	Wed 10/4/06	Tue 10/31/06
85	Test	Fri 12/8/06	Thu 2/1/07
86	5100 Test Application	Fri 12/8/06	Thu 2/1/07
93	5300 Test Technical Architecture	Fri 12/8/06	Fri 12/8/06
97	5500 Test Training and Performance Support	Fri 12/8/06	Fri 12/15/06
102	Service Introduction	Fri 2/2/07	Thu 2/8/07
103	1900 Service Introduction	Fri 2/2/07	Thu 2/8/07
110	Deploy	Fri 2/9/07	Thu 3/8/07
111	6100 Deploy	Fri 2/9/07	Thu 3/8/07
130	Forecasting	Mon 9/4/06	Thu 3/8/07
131	Plan	Mon 9/4/06	Tue 9/5/06
132	1100 Plan	Mon 9/4/06	Tue 9/5/06
141	Analyze	Mon 9/4/06	Fri 9/15/06
142	2500 Analyze Training and Performance Support	Mon 9/4/06	Fri 9/15/06
151	Design	Wed 9/6/06	Wed 10/18/06
152	3100 Design Application	Wed 9/6/06	Tue 10/3/06
167	3500 Design Training and Performance Support	Thu 9/7/06	Wed 10/18/06
177	Build	Wed 10/4/06	Thu 12/7/06
178	4100 Build Application	Wed 10/4/06	Thu 12/7/06
187	4500 Build Training and Performance Support	Thu 10/19/06	Wed 11/15/06
194	Test	Fri 12/8/06	Thu 2/1/07
195	5100 Test Application	Fri 12/8/06	Thu 2/1/07
202	5300 Test Technical Architecture	Fri 12/8/06	Fri 12/8/06
206	5500 Test Training and Performance Support	Fri 12/8/06	Fri 12/15/06
211	Service Introduction	Fri 2/2/07	Thu 2/8/07
212	1900 Service Introduction	Fri 2/2/07	Thu 2/8/07
219	Deploy	Fri 2/9/07	Thu 3/8/07
220	6100 Deploy	Fri 2/9/07	Thu 3/8/07
239	Gas Supply	Mon 9/4/06	Thu 3/8/07
240	Plan	Mon 9/4/06	Tue 9/5/06
241	1100 Plan	Mon 9/4/06	Tue 9/5/06
250	Analyze	Mon 9/4/06	Fri 9/15/06
251	2500 Analyze Training and Performance Support	Mon 9/4/06	Fri 9/15/06
260	Design	Wed 9/6/06	Tue 10/17/06
261	3100 Design Application	Wed 9/6/06	Tue 10/3/06
276	3500 Design Training and Performance Support	Wed 9/6/06	Tue 10/17/06
286	Build	Wed 10/4/06	Thu 12/7/06
287	4100 Build Application	Wed 10/4/06	Thu 12/7/06
296	4500 Build Training and Performance Support	Wed 10/4/06	Tue 10/31/06
303	Test	Fri 12/8/06	Thu 2/1/07
304	5100 Test Application	Fri 12/8/06	Thu 2/1/07
311	5300 Test Technical Architecture	Fri 12/8/06	Fri 12/8/06
315	5500 Test Training and Performance Support	Fri 12/8/06	Fri 12/15/06
320	Service Introduction	Fri 2/2/07	Thu 2/8/07
321	1900 Service Introduction	Fri 2/2/07	Thu 2/8/07
328	Deploy	Fri 2/9/07	Thu 3/8/07
329	6100 Deploy	Fri 2/9/07	Thu 3/8/07

5.6.1 July 2006

Commission approval is granted for the Implementation Phase of Terasen Gas' proposed Residential Unbundling program as set out in this Application. Once approvals are granted, time is required to establish a project team and to marshal the resources needed to begin the Implementation Phase.

If a Commission decision to proceed is not received by July 2006, preventing a September 2006 start for the Implementation Phase, this will result in a change to the November 1, 2007 Gas Flow Date for the program with the revised date dependent not only on availability of third party vendor resources but also on Terasen Gas' other business requirements. In addition, there will be additional costs to contract the third party vendors. For more discussion, refer to section 5.9 Project Risks.

5.6.2 September 2006

The Implementation Phase of the proposed Residential Unbundling program begins with changes to processes and systems.

5.6.3 March 2007

The Customer Education plan begins the advertising campaign. Three phases with distinct key messages are planned, leading to the flow of gas on November 1, 2007.

5.6.4 May 2007

Completing the proposed process and systems changes needed for the Residential Unbundling program is scheduled to be finished by April 2007. With these changes completed, Gas Marketers are able to enroll eligible customers on a monthly basis beginning May 2007. Enrollments for November 2007 entry will be accepted until the end of September 2007. Gas Marketers will be notified of their delivery requirements in October 2007.

5.6.5 November 2007

The Residential Unbundling program goes live on November 1, 2007 with gas flowing to enrolled customers.

5.7 OPERATING COSTS

The ongoing operation of the proposed Residential Unbundling program requires operating resources. While a portion of these costs are fixed in nature, others scale with the level of transactions that require processing. Although costs incurred by Terasen Gas are expected to remain primarily fixed in nature, customer care costs are not and will scale with the level of activities processed. The following table illustrates the anticipated level of operating costs.

Table 5 - Residential Unbundling Operating Costs

A. Volumetric Assumptions

	2006	2007	2008	2009	2010
No of Marketers	-	3	6	8	10
No. of Groups /Marketer	-	3	6	8	10
Ave No. of Residential Customers	723,000	735,000	747,000	760,000	773,000
No. of Enrolment Requests	-	44,100	44,800	45,600	46,400
No. of Enrolment Reconsiderations	-	2,200	2,200	2,300	2,300
No. of Enrolments at Year-End	-	39,700	78,100	115,200	151,200

B. Operating Costs

	2006	2007	2008	2009	2010
Terasen Gas	-	115,900	159,100	163,900	168,800
BCUC - IDRM	-	57,900	79,600	82,000	84,400
ABSU - Customer Care	-	414,400	503,800	567,400	645,900
Total O&M Costs	**$ -**	**$ 588,200**	**$ 742,500**	**$ 813,300**	**$ 899,100**

*IDRM – Independent Dispute Resolution Mechanism

These costs do not include offsetting recoveries expected to be collected from Gas Marketers. The level of these offsetting recoveries and effect on net operating costs is discussed in section 10.2.2.

The costs set out in the estimate above are subject to change based on a final operating agreement negotiated with ABSU that needs to be negotiated in the fall of 2006 for the provision of customer care services required by the program.

5.8 POST IMPLEMENTATION REVIEW

Terasen Gas recommends a post-implementation review of the Residential phase of the Commodity Unbundling program similar to that performed for the Commercial Unbundling phase by mid 2008, about 6 months after the projected gas flow date of November 1, 2007. The purpose of the review is to assess the effectiveness and efficiency of the implemented solution with the intent to make refinements and introduce changes that will enhance the attractiveness and effectiveness of the overall Unbundling program for all stakeholders involved.

5.8.1 Essential Services Model & Key Business Rules

The Essential Services Model and the key business rules should be reviewed to ensure that the model along with the key business rules are working as intended. Critical components such as the rate setting and cost recovery for midstream charges and the marketer delivery requirements forecast and reforecast process require review not only to ensure workability but to prevent potential gaming behaviour and abuse by Gas Marketers.

5.8.2 Cost Recovery

Proposed cost recovery methods along with their respective rates should be reviewed to ensure they result in proper and equitable allocation and recovery of costs and that they promote appropriate behaviour from marketers operating in a competitive environment. For example, the marketer transaction fees should be reviewed to ensure adequacy of cost recovery.

5.8.3 Consumer Protection

As consumer protection is paramount to promoting and achieving a functional and competitive business environment, consumer protection mechanisms such as an Independent Dispute Resolution process, licensing of marketers, the Code of Conduct and customer education plans should be reviewed for opportunities to make adjustments and enhancements. Customer education needs should be reviewed to ensure that customers understand commodity choice and can make fully informed decisions.

5.8.4 Systems and Process Performance

The actual Customer Care, Gas Supply and Forecasting processes and systems for the Residential Unbundling phase require review to ensure that customer enrollment and billing, marketer remittance and data exchange, nominations and forecasting / re-forecasting processes are operating effectively and are able to handle the forecasted increased transaction activities.

5.9 PROJECT RISKS

The proposed Residential Unbundling Project faces a number of key risks.

The timing of other IT system improvement projects.

A project implementation window has been identified between September 2006 and April 2007 and allows the project to be completed with minimal overlap with other systems improvements currently under consideration by Terasen Gas and by ABSU. A delay preventing a September 2006 start for the Implementation Phase will result in a change to the November 1, 2007 Gas Flow Date for the program with the revised date dependent not only on availability of third party vendor resources but also on Terasen Gas' other business requirements. This may result in a full year's delay of the program with a revised Gas Flow Date of November 1, 2008, as the events and activities required to support the program such as the customer education and opening up the system for receiving customer enrolments on May 1 will be have to re-sequenced into a workable plan.

Implementation Phase cost increases if project approval faces significant delays.

The third party vendors who will be contracted to complete the proposed process and systems changes have provided fixed price proposals, including costs that would apply if implementation is delayed. A delay greater than one year after a September 2006 start for the Implementation Phase would require a new review of all third party pricing proposals.

The Commission has provided direction that Terasen Gas' shareholders are not at risk for the implementation costs, the ongoing costs to operate the program, or by any stranded gas costs.

Changes in Proposed Business Framework and Rules

Should the Commission in its review of the Application determine changes to the proposed business framework and model and customer education efforts are warranted, the timing of the proposed Implementation Phase schedule may be affected with potential incremental costs to rework and redesign system and process requirements developed as part of the scoping efforts to date.

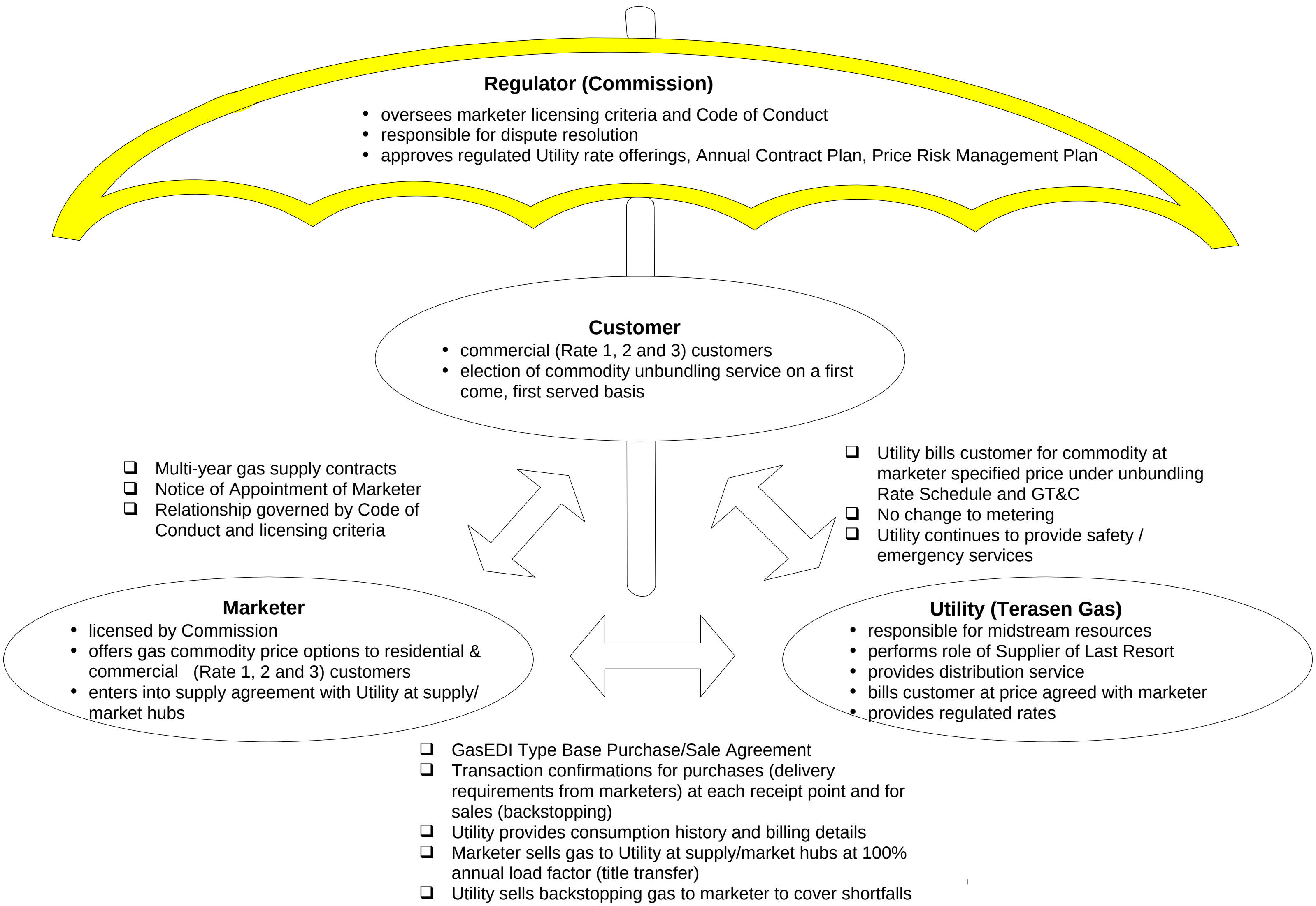
6. TARIFF & AGREEMENTS

The business rules that define the business model determine the various terms and conditions that govern the Commodity Unbundling service for both residential and commercial customers. These terms and conditions are contained in a variety of tariffs, agreements and regulatory licensing criteria that define the nature of the relationships between the various stakeholders. The integrity of the business model relies on the terms and conditions in these various documents being viewed as a whole.

6.1 STAKEHOLDER RELATIONSHIPS

The stakeholders involved are the Commission, the customer, the Gas Marketer and Terasen Gas. The following diagram depicts the nature of the relationships between the stakeholders. The chart is similar to that used to illustrate the relationships between the stakeholders for the Commercial Unbundling program and now includes the addition of residential consumers as stakeholders.

Diagram 4 – Stakeholder Relationships



6.1.1 Role of Commission

The Commission oversees the licensing of Gas Marketers and requires them to adhere to a set of licensing criteria that includes a Code of Conduct. Legislative changes in 2003 to the *Utilities Commission Act* give the Commission the authority to enforce the licensing criteria with Gas Marketers. The Commission is also responsible for dispute resolution regarding the business practices of a Gas Marketer relative to the Code of Conduct and other licensing criteria. The licensing criteria are expected to include standard terms and conditions that must be included in Gas Marketer's supply contracts with customers as well as the terms to be set out in the notice to Terasen Gas that the customer has selected a Gas Marketer.

In addition, the Commission approves Terasen Gas' regulated rate offerings, including the stable rate for residential customers, the Annual Contract Plan, the Price Risk Management Plan and the Commodity Unbundling tariff and terms and conditions for the Base Purchase/Sales Agreement (Rate Schedule 36) between Terasen Gas and the Gas Marketer.

6.1.2 Role of Customers

All commercial customers currently on Rate Schedules 2, 3 or 23 in the Terasen Gas Lower Mainland, Inland and Columbia Service Areas are eligible for the Commodity Unbundling service, excluding customers in the City of Revelstoke. For the Residential Unbundling program, all residential customers currently on Rate Schedule 1 in the Terasen Gas Lower Mainland, Inland and Columbia Service areas, excluding the City of Revelstoke, will also be eligible for the Commodity Unbundling service.

The role of the customer is to choose from a selection of supply offerings including the option to remain with Terasen Gas on the standard default rate offering.

6.1.3 Roles of Gas Marketers

Gas Marketers will offer gas commodity pricing options to commercial and residential customers under the Commodity Unbundling program by entering into a supply contract with the customer. Gas Marketers must be licensed by the Commission and adhere to a Code of Conduct in their business practices with customers. The Code of Conduct will also dictate certain required terms and conditions that must be included in their contract with the customer. Gas Marketers must also obtain the signature of the customer on a Notice of Appointment of Marketer.

The Gas Marketer enters into a supply arrangement with Terasen Gas and indicates to Terasen Gas the commodity price that Terasen Gas should bill the customer.

6.1.4 Role of Terasen Gas

As the midstream operator, Terasen Gas is responsible for the midstream resources required for balancing, storage, peaking and transportation from the market hubs to the customer. Terasen Gas purchases baseload gas supply from Gas Marketers for supply to their customers. Terasen Gas, as midstream operator, also performs the role of Supplier of Last Resort and will continue to supply customers in the event of Gas Marketer failure. Finally, Terasen Gas will bill the customer at the price the Gas Marketer indicates to Terasen Gas.

As a commodity provider, Terasen Gas provides regulated rate offerings including the Stable Rate offering for residential customers and standard system rate for those customers who do not wish to select alternative supply arrangements and any customers who return to system supply due to marketer failure.

6.2 LEGAL & CONTRACTUAL DOCUMENTS

The terms and conditions that govern the Commodity Unbundling service for commercial and residential customers are contained in the following agreements, tariffs and Code of Conduct and together define the business model for the Commodity Unbundling service. Following are descriptions of the agreements and tariffs that will be required as part of the business framework to support a Residential Unbundling program.

6.2.1 Licensing Criteria & Code of Conduct

The licensing criteria and Code of Conduct define the relationship between the Gas Marketer and the customer. As indicated earlier, Terasen Gas proposes for the Commission's consideration structuring bonding requirements for a Gas Marketer to reflect the number of customers a Gas Marketer signs up in the Unbundling program. Changes will be required to the Code of Conduct to accommodate Residential Unbundling. Terasen Gas has identified and highlighted changes to the Code of Conduct included in Appendix 8. Further discussion is provided in section 9 on Consumer Protection.

6.2.2 Marketer Supply Contract with Customer

As outlined in the Commission's Rules for Gas Marketers (refer to Appendix 13 for a copy of Rules for Gas Marketers), Gas Marketers must include in their natural gas supply contract documents with consumers the requirements related to term, price and disclosure of other information as set out in the Rules, the Code of Conduct for Gas Marketers, the Code of Conduct and Transfer Pricing Policy for Provision of Utility Resources and Services, and tariff scheduled for unbundled commodity service.

6.2.3 Notice of Appointment of Marketer

The Notice of Appointment of Marketer is signed by the customer and intended to inform the customer of the role of Terasen Gas as well as to provide direction to Terasen Gas. It will be a required standard document set out in the licensing criteria. As well as indicating the Gas Marketer that the customer has selected, the notice also gives Terasen Gas the authorization to forward historical and ongoing consumption data to the Gas Marketer. A signature is required on the Notice of Appointment of Marketer. The individually signed documents will not be forwarded to Terasen Gas but will be available to Terasen Gas and the Commission for audit purposes or in the event of a dispute.

The Notice of Appointment of Marketer document for Residential Unbundling has been included in Appendix 9.

6.2.4 Rate Schedule 36 - Base Purchase / Sale Agreement between Marketer & Terasen Gas

The existing Rate Schedule 36 agreement between the Gas Marketer and Terasen Gas used for the Commercial Unbundling program has been reviewed and revised accordingly for the Residential Unbundling program. The existing Rate Schedule 36 is similar to the standard industry GasEDI base purchase / sale agreement rather than the existing industrial transportation tariff and transportation agreement. In addition to the standard GasEDI type terms and conditions such as those describing gas quality, payment, etc., the existing Rate Schedule 36 for Commodity Unbundling describes the terms and conditions that are specific to the Commodity Unbundling service. The revised Rate Schedule 36 is included in Appendix 10 for reference.

6.2.5 Terasen Gas General Terms & Conditions

Additional language may also be required for the Terasen Gas General Terms and Conditions to include residential customers' obligations under Commodity Unbundling service and conditions for return to standard system supply. A copy of the proposed Terasen Gas General Terms and Conditions is included in Appendix 11 for reference.

6.2.6 Commodity Unbundling Rate Schedules

One new Rate Schedule (Rate Schedule 1U) will be required for the Commodity Unbundling service for residential customers. The rate schedule will be similar to those used for commercial customers, Rate Schedule 2U and 3U and will describe the applicability and availability of the service as well as the Gas Cost Recovery Charge. A copy of the proposed Rate Schedule 1U, and amended Rate Schedules 2U and 3U are included in Appendix 12 for reference.

7. STAKEHOLDER CONSULTATION

7.1 STAKEHOLDER CONSULATION EFFORTS TO DATE

Since the release of the BC Energy Policy back in November 2002, Terasen Gas has worked closely and cooperatively with all interested stakeholders in facilitating commodity choice cost-effectively for small volume consumers that not only provides more choice for customers where there is value but also provides for a competitive and functional retail market in which Gas Marketers can operate.

With the successful launch of the Commercial Unbundling phase in 2004, Terasen Gas was directed by the Commission in 2005 to investigate and evaluate the requirements to introduce commodity choice to residential natural gas customers in British Columbia. On June 5, 2005, Terasen Gas filed an application for funding of $300,000 to carry out activities to scope a solution for Residential Unbundling. Stakeholders were provided the opportunity to comment on the proposed application. Interested stakeholders that provided comment included DEML, Energy Savings B.C. (“ESBC”), CEG Energy Options Inc. (“CEG Energy”), Columbia Fuels Inc. (“Columbia”), IGI Resources, Inc. (“IGI Resources”), Avista Energy Canada, Ltd. (“Avista”), MxEnergy Inc. (“MxEnergy”).and BCPIAC.

During the summer of 2005, Terasen Gas also consulted with interested stakeholders in developing survey questions for primary market research in order to determine residential consumers’ awareness and interest in having natural gas commodity choice. A copy of the market research survey questions and results are contained in Appendices 3 and 4. Many stakeholders including representatives from BCPIAC, the existing licensed Gas Marketers under the Commercial Unbundling program and a representative from Elk Valley Coal were solicited for comments. Suggestions and comments to the proposed survey were offered by ESBC, DEML, Columbia and Elk Valley Coal. Revisions to the survey were made with final endorsement of the proposed survey provided by DEML and ESBC. ESBC commented “We reviewed it and find it to be objective and balanced”. DEML replied “Upon review, it was apparent that our feedback was considered and we are pleased with the subsequent revisions”. In addition to the above consultation efforts, Terasen Gas also consulted with representatives from DEML, ESBC and CEG for their input into the proposed business model and key rules for Residential Unbundling.

On September 19, 2005, Terasen Gas filed an application requesting additional funding approval of $1,053,800 to be recorded in a deferral account to complete the scoping and business systems analysis work to enable the filing of a CPCN application by March 2006. The September 19 filing was followed with a filing to the Commission on December 9, 2005 in which Terasen Gas sought Commission endorsement of the proposed framework and business rules for Residential Unbundling in order to prepare a delivery plan with capital and operating cost estimates for implementation of Residential Unbundling. Stakeholders asked to comment on the proposed business model and rules included licensed Gas Marketers operating under the Commercial Unbundling program and representatives from the BCPIAC, Columbia Fuels, Ministry of Energy, Mines and Petroleum Resources (“MEMPR”) and B.C. Health Services (“BCHS”).

As mentioned earlier in this document, Terasen Gas submitted on December 9, 2005 a document titled "Residential Unbundling – Business Model and Key Business Rules (FINAL)" which provided a summary of the guiding principles, essential elements and the business model and key business rules that Terasen Gas believes are necessary to ensure commodity choice for residential customers is implemented successfully. Subsequent to this filing, Terasen Gas in response to stakeholder comments received for the December 9, 2005 submission filed its response on January 5, 2006.

Terasen Gas believes that it has sufficiently identified and addressed the issues raised by the Gas Marketers during the recent consultation process, either by incorporating Gas Marketers' suggestions into the business model and rules or by providing appropriate response and comment to the issues. Two issues that Terasen Gas would like to comment further on now are the monthly marketer group fee and providing a bill messaging service for Gas Marketers.

Regarding the existing $150 per month charge per marketer group, Gas Marketers have requested that Terasen Gas lower the existing charge as it is cost prohibitive. Terasen Gas reviewed the request as part of the Scoping Phase and has confirmed the $150 monthly fee is still required. Working with the Accenture consultant during the Scoping Phase, Terasen Gas was unable to identify a way to lower the $150 monthly fee charged by Accenture, which Terasen Gas flows through for recovery from Gas Marketers. Recovering the monthly fee in its entirety is consistent with the cost-causality principle that Terasen Gas believes is fundamental to having a successful Residential Unbundling program.

The second issue is regarding Gas Marketers' interest in Terasen Gas providing a bill messaging service. Terasen Gas' position is that the bill messaging and bill insert delivery capabilities are limited and therefore are reserved for the gas utility's use to deliver information and messages primarily related to natural gas safety, reliability, efficient energy use, customer programs and rate changes. Priority is given to the utility's requirements. Any remaining space could possibly be contracted to third parties for a fee but unanticipated, last minute utility requirements to distribute information which would have higher priority will create a scheduling and contractual issue for the utility. In addition, 'overuse" of bill messages and inserts may reduce the effectiveness of these delivery channels, as customers "learn" to disregard information distributed through these channels. Terasen Gas believes it is in the best interests of its customers to preserve the bill message and insert information channels for delivery of only utility related information. Furthermore, with the recent personal privacy legislation, Terasen Gas is not comfortable with including directed sales material for Gas Marketers as Terasen Gas does not have specific customer consent for such purpose.

Terasen Gas believes that what it proposes to provide, the Gas Marketer's name and contact information on the bill for customers who participate in the Residential Unbundling program sufficiently meets the requirements of the program. Terasen Gas believes the Residential Unbundling program is about offering commodity choice to homeowners and not about offering other energy related products. If Gas Marketers choose, they can use their own systems and processes to support offering related energy products.

8. CUSTOMER EDUCATION

Customer education is extremely important in ensuring that residential customers have the opportunity to make informed decisions with respect to their choice of gas commodity supplier. Unbundling is a complex and unfamiliar proposition to most consumers in British Columbia. With this in mind, Terasen Gas proposes and requests approval for the following customer education and communications plan.

Based on the successes and failures of the Commercial Unbundling stage, the plan recommends unfolding education and communications in three main stages:

- Pre-Introduction Education;
- Pre-Introduction Competitive Activity (Gas Marketer communications begin) and;
- Unbundling Implementation.

The core message will evolve as the campaign moves from stage to stage. There will also be on-going consumer research to measure the effectiveness of the communications, to allow for fine-tuning and to assist in the identification of necessary budget requirements for future years.

The projected expenditures to conduct a successful campaign are:

- 2006 - $600,000
- 2007 - $4,400,000
- 2008 and onwards - $3,000,000 per year

Ongoing Commercial Unbundling communication activities are expected to require annual expenditures of $300,000 for the next several years. These monies have not been included in the totals provided. Approval for funding will be requested as part of the established annual post implementation review process for the Commercial Unbundling program.

From lessons learned during the Commercial Unbundling roll-out, Terasen Gas and Wasserman Partners, an advertising consultant, have identified 11 key messages that must be communicated if customers are to be made aware of, and achieve a general understanding of Unbundling.

Because of the broad mix of messages that need to be communicated and the need to achieve a high level of awareness for a subject that is mundane to the target audience, television will be the lead medium, with support from on-line media, newspapers and bill inserts. A constant theme of all consumer communications will be to drive traffic to the Terasen Gas website where the depth of detail that cannot be communicated in the other media can be easily provided. Terasen Gas has provided recommendations as how best to utilize its website to ensure customers are well and easily informed.

8.1 CUSTOMER EDUCATION OBJECTIVES

Communication activities are critical to the successful implementation of Residential Unbundling. A sound plan will ensure that inquiries to the Terasen Gas call centre and the Commission are minimized. It will also help reduce the number of disputes between Gas Marketers and residential customers.

Consistent with the Commercial Unbundling market research conducted in 2004, it is recommended that the focus is on creating attention to attract readership and keeping the messages simple and easy to understand.

The objectives of the customer education plan include the following:

- raise awareness of Unbundling and create a general understanding of the concept to the majority (above 85%) of residential customers; and
- provide all interested customers with ready access to the information they need to make a knowledgeable decision when selecting a commodity supplier.

8.2 KEY MESSAGES

Customer communications are scheduled to begin in the first quarter of 2007. The communications strategy considers the successes of Commercial Unbundling, addressing areas that were identified as weaknesses, and factoring in the differences between commercial and residential gas consumers.

The messages do not represent distinct communications. Each must be adequately related to customers either separately, or combined with other messages. Much of the Commercial Unbundling content can be re-purposed for residential communications. In total, eleven messages have been identified as important to communicate to ensure consumers have the appropriate information to make an informed choice on commodity purchase. Several of the messages are considered integral to making it simple for the consumer to understand and to allow them to make an informed choice. These key messages include message 1 on what Commodity Unbundling offers, message 8 stating that natural Gas Marketers are independent from Terasen Gas and message 10 outlining that BCUC is responsible for regulating Gas Marketers activities.

Unbundling and Supplier Choice

A key problem that must be addressed is to find an alternative, more intuitive term for Unbundling. In focus groups conducted last year, the term was perceived as being as inherently meaningless and too technical. Testing will take place to investigate the use of alternative names for natural gas Commodity Unbundling. The adoption of a customer friendly name is recommended.

Message 1: *Natural gas Commodity Unbundling allows third parties called Gas Marketers to sell long-term, fixed-price contracts to supply natural gas to customers, providing price stability on the natural gas commodity. Choice of supplier is only available on the commodity component.*

Message 2: *Natural Gas Commodity Unbundling is consistent with the provincial government's energy policy released in late 2002 that states licensed Gas Marketers will be able to sell directly to small-volume customers. This new competitive market allows residential homeowners to buy their natural gas commodity from either Terasen Gas or licensed Gas Marketers.*

Message 3: *Gas Marketers may sign contracts with customers starting May 1, 2007, with delivery beginning November 1, 2007. But check the fine print for terms and conditions before you sign.*

Message 4: *A natural Gas Marketer may contact you directly after May 1, 2007, or you can find a list of participating Gas Marketers on www.terasengas.com or www.bcuc.com. Signing a contract with a Gas Marketer can be compared to signing a contract for a fixed-rate mortgage: It sets the price of the natural gas commodity for a specific number of years. Choosing to buy the gas commodity from a Gas Marketer is an option, not a requirement.*

Message 5: *Unbundled gas service is available to residential and small business Terasen Gas customers in the Lower Mainland, and BC Interior (excluding Whistler, Squamish, Revelstoke and Fort Nelson).*

Midstream Charges

Communications regarding midstream charges is required, much more so than for the Commercial Unbundling rollout. To mitigate customer confusion, midstream charges and bill changes will be covered more extensively.

Message 6: *Terasen Gas pays midstream charges to other companies who store, transport and help us manage the gas we deliver to our customers. Midstream is not a new charge: It is identified separately on your bill so that you can compare the actual commodity price to quotes from other sources.*

Commodity versus Delivery

Research continues to indicate that most consumers do not understand the natural gas market or the role of Terasen Gas. Many still believe that Terasen Gas explores, produces and sells natural gas at a profit. The communications must dispel this notion and clarify our role as a distribution company.

Message 7: *Gas service has two components – commodity and delivery. Terasen Gas buys gas on behalf of customers and passes the cost of the commodity on without mark up. Terasen Gas charges for the delivery service, which is how the company makes its money.*

Gas Marketers

Commercial Unbundling experience suggests more significant attention be paid to defining Gas Marketers to customers. The residential customer education campaign should provide more information about Gas Marketers including specific details about companies operating in the market, their contact details, their history, customer service and billing and pricing procedures.

Message 8: *Natural Gas Marketers are independent businesses that offer gas supply choices. They have no connection to Terasen Gas. Also reference their obligation to comply with the code of conduct*

Terasen Gas Services and Customer Safety

Message 9: *Gas delivery and billing services will continue to be provided by Terasen Gas and safety will not be compromised.*

Utilities Commission

Message 10: *The BCUC is responsible for regulating the Gas Marketers and their compliance to a code of conduct.*

Terasengas.com

Very few customers (4%) reported having visited the Terasen Gas website during the initial roll out of Commercial Unbundling. Moreover, the proportion visiting the website did not really change during the entire campaign.

Building on the concept of a one-stop shop website approved by the Commission in 2005 in support of the Commercial Unbundling Program, Terasen Gas intends to provide the same information for residential customers. The "one-stop" shop will be designed to provide residential customers easy access to natural gas commodity pricing and other relevant information regarding the Commodity Unbundling program. Research indicates that customers see cost / pricing information as an important factor in making an informed decision and that cost / pricing information is a key factor in choosing a natural Gas Marketer. Terasen Gas will emphasize its website in all communications in order to drive target customers there to find out more about Unbundling.

Message 11: *Visit www.terasengas.com for more information about natural gas Commodity Unbundling.*

8.3 MEDIA STRATEGY

With the Commercial Unbundling program, despite using a number of print channels (direct mail, bill inserts, trade publications) and in spite of the audience having a more vested interest in the topic as it affects their bottom line as a business, only 51% recalled seeing or hearing any message regarding Commercial Unbundling.

It takes a combination of media to get the message across. With a residential audience that likely has limited interest in the topic of Unbundling, television is needed to deliver an intrusive message that will cut through the clutter of everyday advertising. Supplementing print strategy with television will help achieve the objectives of the customer education plan.

For the following reasons, the use of a number of media is recommended:

- there are multiple messages that need to be communicated. Different media lend themselves to different messages depending on complexity, interest to audience and visual versus auditory impact;
- the residential audience has differing trust levels and usage levels of specific media. By employing a number of communication channels, the odds messages are received and understood are increased;
- some media like television are excellent for reaching a wide audience while others like newspaper and the web are better for delivering a depth of detail; and
- cost considerations dictate the choice of media. Some media are simply much more cost effective in reaching a broad audience like residential customers than others.

All media will promote www.terasengas.com as the repository of in-depth information about Unbundling.

8.3.1 Television

Television will be the lead medium as it has a unique ability to reach almost all of our target audience (above 90%) more cost effectively than any other medium. Radio peaks out at approximately 70%.

Not only will television provide intrusive audience reach in a cost effective manner, the messages appear often enough to build broad consumer awareness and understanding of Unbundling and sustain both over the length of the campaign. The Commercial Unbundling experience suggests that awareness of the message builds with continued exposure, but awareness falls rapidly and has to be rebuilt if advertising is decreased.

A critical role for television will be to drive people to www.terasengas.com for more information. Television is excellent for delivering a single-minded message, but it's basically limited to 30 seconds or approximately 65 words. The message must be kept simple to be effective. Repeated exposure to www.terasengas.com will push people to the website for more information and ensure the website is the relied upon source for detailed information.

8.3.2 On-line Media

People use the Internet to learn about new opportunities and information. People will search the Internet for information on Unbundling to understand what it means to them. In the June 2005 research on Unbundling by NRG Research Group, consumers indicated that the first place they would go to find out about Unbundling would be the Internet.

On-line media reinforces television as it allows delivery of a message in an environment where the audience has the ability to get instant additional information by clicking and going to the Terasen Gas website. It allows interested customers to easily get more information on the Residential Unbundling program. On-line advertising also enables the customer to receive the message out of the home – at school or the office, for example.

8.3.3 Newspapers

Newspapers (daily and community) are also planned as a support medium in order to extend the reach of the campaign to audiences that may be light television users. There is also a segment of the population (usually older) that see newspaper as the traditional source of news and information and would expect to see information on Unbundling in these publications. In addition, newspapers offer an opportunity to provide more details than either on-line ads or television can provide. This helps deliver the secondary messages that can't adequately be explained on television or through on-line ads.

Newspaper ads can also run alongside competitive advertising and business editorial. It is anticipated that when the program begins, reporters will be commenting on the process of Unbundling and having ads running at the same time in the same papers expands the story and increases understanding of the concept among residential users.

Gas Marketer ads are also likely to be running in the newspapers at the same time and having their information adjacent to the Terasen Gas story will also help clarify the information residential customers need to make an informed decision.

8.3.4 Bill Inserts

Research indicates that Commercial Unbundling bill inserts were cited as the most frequent "first" source of information. 23% of respondents indicated bill inserts were their first source of information at the beginning of the campaign. This increased to 32% during the second phase but by the end of the campaign, awareness remained virtually unchanged. Standing alone, bill inserts cannot drive sufficient awareness or understanding of Unbundling.

Bill inserts offer a good way of providing more details to the homeowner on changes to their bill, explaining midstream charges, and other detailed messages. Other media will remind consumers to check their bills for important updates regarding Unbundling and will drive greater readership levels. Bill inserts can also change more frequently than television ads to best reflect each phase of the campaign. The proposed bill insert strategy is consistent with the Commercial Unbundling communications (six to eight will be produced).

8.3.5 Consumer Trade Shows

Consumer trade shows are also recommended to support the Residential Unbundling program. They are unique in that they can provide on-the-ground, face-to-face interaction with a qualified target audience who are thinking about their home, appliances and other energy issues. All other recommended media do not provide the personal interaction that is possible with trade shows. For those people who are looking for in-depth explanations and want to talk directly to an individual, trade shows provide this opportunity. By provincially targeting four to five major home-focused trade shows such as the Home & Garden Show at BC Place in Vancouver, residential customers will get the opportunity to express their issues to Terasen Gas employees and have their questions answered.

8.3.6 Terasengas.com

The Terasen Gas website will be a central component of the Unbundling campaign. While the primary goal of television is awareness, the primary goal of the web site is to educate. The website in this campaign will be the source of all information on Unbundling: the information source that is easy to find, easy to understand, and makes it simple to get more information. Because of the complexity of the topic of Unbundling, the website will be the place where Terasen Gas will provide deeper information on the topic of Unbundling for consumers. All communications will drive people here to learn more.

The website will also be important for people who are searching online to find more information on Unbundling in general. Consumers will be using the Internet and searching on search engines to learn what Unbundling means, what their options are, and how it will impact them. It will be important that the Terasen Gas website ranks high on the search engines for key words and phrases. It will also be important that once a visitor clicks through to the Terasen Gas site they find answers to what they are looking for on their landing page.

A number of key initiatives will be required in order for the Terasen Gas website to meet this education function. The current site has substantial depth of information, but site visitors experience difficulty in finding what they need. The site structure is stressed. Incorporation of new navigational elements is problematic, and sinking Unbundling farther into the site will cause confusion and low traffic. Due to growth and expanding communication requirements, desired information can be difficult to find. Simply adding more information to an already overloaded web site will not attain the goal of educating the public on Unbundling. It is important that the information is easy to find, and once found, easy to navigate.

8.4 RESEARCH

The plan is to research the program’s name and the campaign’s creative direction thoroughly. Research will occur during the development phase to ensure the messages are clear and noticed by the intended audience, and during the Implementation Phase to ensure the campaign is meeting objectives.

Customer group representatives and participating Gas Marketers will be provided the opportunity to vet concepts and messages for appropriateness. These will then be submitted to the Commission for review.

Once the material has been produced and is running or delivered, the impact of the campaign will be tracked continuously to make sure it is doing the intended job.

The visits to the website will also be tracked on an ongoing basis to determine which pages on the site are being visited, how many people are coming to the site and so on.

All of this data will help shape the campaign as it moves through the various phases towards the ultimate objective of residential customers having a clear understanding of Residential Unbundling, and having the tools available to make a sound decision.

8.5 WEBSITE ENHANCMENTS

Terasengas.com should be redesigned to best support Residential Unbundling. A redesign will make it easy to find the desired information and facilitate better use of the site. Search engine optimization will ensure the on-line search tools find the Residential Unbundling program information easily and return the Terasen Gas website in the results.

8.5.1 Information Architecture

Empowering consumers to learn about Unbundling quickly and easily at their convenience on the Terasen Gas website will not be as simple as adding a new content area. This is primarily due to the fact that the web site has outgrown its information architecture, making it difficult and time-consuming for visitors to find what they are looking for. The confines of the current information architecture system require that visitors must often click through several levels of navigation to find what they are seeking. The goal of an updated information architecture system would be to significantly shorten the path to important information, in particular the Residential Unbundling content.

8.5.2 Interaction Design

To further eliminate any confusion for site visitors, the result of clicking on links and buttons must be self-evident, with no explanation required. Otherwise time spent getting lost, being disappointed, clicking the back button and continually guessing will add to visitors' frustration. This could cause them to leave the site without the information they were looking for, and ultimately, with a negative impression of the Residential Unbundling program.

Areas that fall under interaction design may include:

- site search function;
- usage calculators and other tools;
- animated content (e.g. videos, demos, etc.);
- printable pages;
- e-mail this page;
- adjustable font size;
- online form submissions; and
- PDF downloads.

8.5.3 Search Engine Marketing

The web site will also be critical for people who are searching online to find more information on Unbundling in general. Consumers will be using the Internet and searching on search engines to learn what Unbundling means, what their options are, and how it will impact them. It will be critical that the Terasen Gas website ranks high on the search engines for key words and phrases. It will also be important that once a visitor clicks through to the site they find answers to what they are looking for on their landing page.

8.5.4 Content Development

To educate consumers about Residential Unbundling, the content should be factual and informative, but it should also be engaging. The subject matter can be complex and potentially dry. It is important that full advantage of the medium be taken to present the content in a way that is inviting. This may include video clips, animated demos, visual images, and/or interactive tools.

8.5.5 Interactive Tools

To help consumers understand how Unbundling will personally impact them, Terasen Gas recommends considering interactive tools that would allow them to compare costs with their different options under Unbundling. This also provides transparency, which increases customer trust of the information being provided to them on the web site.

8.6 EDUCATION CAMPAIGN TIMELINE

Residential Unbundling communications will unfold in three main stages:

8.6.1 Pre-Introduction Education Phase – March 2007

During this period, the messages will focus on building awareness that in the near future residential natural gas consumers will be given a choice of where they buy their natural gas. Other messages during this period will feature why they are being given a choice and an explanation of why their bill has changed to include midstream charges and what elements go into midstream charges.

8.6.2 Pre-Introduction Competitive Activity – May to November 2007

This phase recognizes that natural Gas Marketers will be starting to pre-sell their contracts in the six month window prior to the November 1, 2007 Gas Flow Date. Communications will continue to build awareness of the impending unbundled rate offerings, advise people that Gas Marketers will likely contact them, and provide information that residential customers need to make an informed decision. In essence the messages from phase one will be continued, but often with more specific details about Unbundling. Another layer will be added to recognize the activities of the Gas Marketers.

This approach is supported by Commercial Unbundling research findings. As the campaign proceeded, customers wanted more specific details about Unbundling such as “cost/pricing information” (23%), “Supplier/Marketer information” (8%) and information about “Program specifics and How does it work” (8%).

8.6.3 Unbundling Implementation – November 2007

Residential customers can now buy their natural gas from the Gas Marketer of their choice. Messages during this phase will reflect the reality of choice: how the process works, the potential risks, the potential rewards, how to contact a Gas Marketer and the fact that regardless of their natural Gas Marketer, Terasen Gas will continue to be the delivery company. These messages will run in the latter portion of 2007 and continue into 2008 to firmly establish awareness and understanding of Unbundling.

Media Scheduling

The pattern of media expenditures reflects the 3 phases of the campaign. At the beginning of each phase, there will be increased advertising activity to introduce the new messages and get attention focused on the new situation. For example, during the Pre-introduction phase, television will run with heavy weight for the first four weeks and then less often for the following four weeks. When ads are appearing frequently on television, newspaper and on-line ads will add to overall frequency. During the less active weeks (maintenance periods), television will run at lower weights and will only be supported with trade show activity when available and bill inserts. Bill inserts will used between six and eight times during 2007. The website will be active throughout all phases.

The same pattern is followed in the second and final stages although the heavy TV periods will be slightly shorter (three weeks versus four) and the maintenance periods longer. In some cases, there are one-week gaps between the maintenance weeks in order to maintain a presence while stretching the budget. Continuous weeks run into the fall when customer attention is more focused on heating costs and other energy consumption.

8.6.4 Media Approach – 2008 & Beyond

In 2008, the year starts out with a heavy weight of television activity followed by maintenance flights employing alternate weeks of advertising to stretch the budget and maintain a presence until the late summer. A heavier final advertising push is made at the beginning of the fall heating season on television, on-line ads and newspapers and then advertising drops to television only with maintenance weights up to the year-end.

The advertising frequencies have been chosen to provide cost efficient education of residential customers. The heavy-ups are moderate but adequate (e.g. a McDonald’s new product launch would be 50% to 75% higher during heavy advertising periods) to get the attention of consumers of a change that they may not see as that important in the grand scheme of their life.

The maintenance levels are at a minimum level to maintain awareness and interest in the message. Tracking experience with a number of the agency’s clients indicates that advertising frequency lower than that recommended are inadequate to cut through the clutter of daily messages that bombard the consumer. By taking the approach of maintaining a constant presence over the time period, (versus a short burst of heavy advertising) customers are not given the opportunity to forget the message and learning is increased, as is retention. The difference in approaches is like cramming for exams versus studying the material throughout the year. The second approach is remembered much better and much longer.

This campaign is expected to:

- reach 88 - 94% of Terasen Gas residential gas customers; and
- be seen by a typical customer 77 to 83 times during the campaign that runs for 22 months starting March 2007 and ending December 2008, which averages just less than one view per week.

8.7 CAMPAIGN COSTS

2006 Budget			
Production	$ 400,000		TV commercials produced in 2006
Web enhancements	$ 150,000		Changes to accommodate Unbundling
Research	$ 50,000		Name and creative concepts
2006 Total:		$ 600,000	
2007 Budget			
Media			
Television media	$ 1,940,000		
Newspaper	$ 1,240,000		
On-line media	$ 450,000		
Sub-total:		$ 3,630,000	
Production	$ 150,000		Print and TV post production
Bill inserts	$ 240,000		
Web enhancements	$ 100,000		
Trade show	$ 150,000		
Research	$ 130,000		
Sub-total:		$ 770,000	
2007 Total:		$ 4,400,000	
Launch total:		$ 5,000,000	
2008 Budget			
Media			
Television media	$ 1,714,000		
Newspaper	$ 516,000		
On-line media	$ 140,000		
Sub-total:		$ 2,370,000	
Production	$ 300,000		
Bill inserts	$ 120,000		
Trade show	$ 70,000		
Research	$ 140,000		
Sub-total:		$ 590,000	
2008 Total:		$ 3,000,000	

* *Above budget excludes proposed $300k annual expenditure for commercial customer specific communications in 2007 and 2008.*

9. CONSUMER PROTECTION

Consumer protection from unfair marketing practices will be addressed through the licensing of Gas Marketers and the Code of Conduct for Agents, Brokers, and Marketers. Licensing conditions and a Code of Conduct are essential elements of a market where commodity choice is available to help protect consumers' interests. Terasen Gas has included in this Application proposed changes to the licensing requirements and Code of Conduct for the Commission's consideration. A key difference from the Commercial Unbundling program is the proposal for a robust Independent Dispute Resolution Mechanism. This mechanism is needed in order to ensure that residential customers have an effective process to resolve disputes with Gas Marketers.

9.1 LICENSING CRITERIA

Gas Marketers wishing to participate in the proposed Residential Unbundling program require a valid license from the Commission. Licensing requirements for participation in the Commercial Unbundling program include the need to post a $250,000 performance bond, or equivalent financial security. In addition to this requirement, the Commission, in its guide "Rules for Gas Marketers" outlines requirements for agreements between Gas Marketers and customers they enter into contracts with for commodity supply. 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 proposes the continuation of licensing requirements for Gas Marketers participating in Residential Unbundling, with the Commission responsible for licensing. Also, Terasen Gas proposes for the Commission's consideration structuring bonding requirements for a Gas Marketer to reflect the number of customers a Gas Marketer signs up in the Unbundling program.

Please refer to Appendix 13 for a copy of the existing "Rules for Gas Marketers", including a description of the licensing criteria for Gas Marketers participating in the Commercial Unbundling program.

9.2 CODE OF CONDUCT

The purpose of the Code of Conduct is to provide a guide for appropriate sales practices for Gas Marketers to use for the marketing of natural gas to customers. Given that retail gas marketing is in the early stage of development in British Columbia, it is critical to ensure that customers are fully informed and protected from unfair practices.

The current Code of Conduct created for use in the Commercial Unbundling program was developed so that it could be readily adapted for use in a Residential Unbundling program. While much of this Code of Conduct appears to be relevant for the proposed Residential Unbundling program, Terasen Gas proposes amendments now to support the roll-out of Residential Unbundling. Rather than having potential two Codes of Conduct, one for Commercial and one for Residential, Terasen Gas believes having one Code of Conduct governing both residential and commercial gas marketing activities under the Unbundling program is the most effective to administer. Terasen Gas proposed changes are as follows:

- clarification in the Code, where applicable, of different practices for residential consumers versus commercial customers;
- new language specifying that Gas Marketer shall confirm that the authorizing party has the specific authority to sign the contract. This will help reduce potential disputes about a party's ability to legally sign on behalf of the premise – Article 3;
- contracts for residential consumers are fully portable within the service regions eligible to participate in the proposed Residential Unbundling program; contracts with commercial customers will still terminate upon the customer moving from their existing premise – Article 11;
- specific to residential consumers, a ten day cooling off period, starting from the date of the proposed confirmation letter allowing residential consumers to reconsider a signed contract with a Gas Marketer without penalty – Article 11;
- clearly stated business hours during which Gas Marketers may solicit customers in order to comply with the Telemarketer Licensing Regulation under the B.C. Consumer Protection Act) – Article 12, Article 14;
- new language to accommodate Internet marketing, use of online contracts and electronic signatures – Article 12;
- new language to introduce the use of the Independent Dispute Resolution process for resolving residential consumer disputes. Subject to Commission acceptance of the proposed dispute resolution mechanism, the process could possibly be used for resolving disputes for commercial consumers also.
- new language regarding "evergreening" existing contracts where no renewal or termination instructions are received from a Gas Marketer prior to the cut-off date. Where no instructions are received, Terasen Gas proposes that the contract be rolled over at the same fixed price for another 12 month consecutive period – Article 27.

Please refer to Appendix 11 for a copy of the revised "Code of Conduct for Agents, Brokers, and Marketers" for Gas Marketers participating in the Commercial Unbundling program that includes tracked changes to illustrate recommended amendments to the current Code.

Terasen Gas believes the proposed changes to the Code of Conduct are not only required to support the business rules and framework adopted for Residential Unbundling but are necessary to provide adequate consumer protection for residential consumers.

9.3 DISPUTE RESOLUTION PROCESS

Terasen Gas requests approval of the proposed Independent Dispute Resolution process as set out in the following section and identification of the part(ies) responsible for resolving contract disputes. This approval is required to ensure that Terasen Gas has sufficient time to assess the impact on the Implementation Phase and potential scope changes.

The purpose of the Independent Dispute Resolution process is to provide customers and Gas Marketers with a means to resolve disputes. An efficient dispute resolution process also helps to build confidence in the retail natural gas market. The independence of the arbitrator is a key element of the process that should provide customers with assurance that their complaints will be handled fairly. It should be noted that use of the Independent Dispute Resolution process is the last step, not the first step, in settling disputes. If a dispute between a customer and their Gas Marketer arises, both parties are responsible for attempting to resolve any issues as quickly as possible before they turn to the use of the dispute resolution process. If this attempt fails, a customer may initiate logging a dispute using the Independent Dispute Resolution process.

Terasen Gas proposes that the Independent Dispute Resolution process be used primarily to handle disputes for residential customers, as it believes commercial customers are more knowledgeable and capable of handling disputes, either directly with Gas Marketers or through the courts. In its review, the Commission needs to consider whether or not the dispute resolution process is the same for both residential and commercial customers or not. The proposed Independent Dispute Resolution process has been designed to support either just residential customers, or both residential and commercial customers.

9.3.1 Types of Disputes in Other Jurisdictions

Experience in other Canadian jurisdictions shows a common set of complaints that could also occur in British Columbia after a Residential Unbundling program is implemented. Typical reasons for disputes include:

- misrepresentation of the terms and nature of the contract (e.g. price, length of contract, etc);
- misrepresentation of identity (e.g. who the marketer is);
- failure to fully disclose all pertinent information (e.g. the existence of fees)
- false claims (e.g. guarantees or price comparisons);
- unauthorized signatory (e.g. a non-accountholder in the household signs);
- fraudulent behaviour (e.g. customer signed up without knowledge or consent, changing the price on the contract);
- Gas Marketers' behaviour/business conduct (e.g. harassment to sign, threat that energy will not be provided); and
- failure to comply with a customer's request (e.g. not processing a cancellation).

The Independent Dispute Resolution process is intended to address complaints by customers regarding the behaviour of Gas Marketers, not by customers who do not sign a contract with a Gas Marketer.

The Experience of Other Provinces

In Ontario, Manitoba, and Alberta where Gas Marketers are allowed to offer natural gas commodity retail services to residential customers, an Independent Dispute Resolution Mechanism has been established.

In Alberta the complaints process is administered by the Alberta Ministry of Government Services. Government Services conducts investigations under a number of Acts including the Fair Trading Act (Energy Marketing Regulation) which governs the actions of energy marketers. Disputes between Gas Marketers and customers are therefore handled in the same way as other customer complaints. When a customer contacts the ministry they are asked to speak directly with the Gas Marketer to resolve the issue. If customers are unsuccessful in their attempt to resolve matters, they are asked to submit a written complaint to the ministry and an investigation is launched. Ministry officials contact both parties to collect background information and then provide a report to both parties outlining the findings and action. The ministry can apply a number of remedies including requiring the Gas Marketer to comply with provincial consumer legislation. They can also recommend further action be taken against the Gas Marketer if the breach of the act is severe.

In Manitoba, the MPUB handles complaints. The first step after receiving a complaint is to direct the customer to resolve the dispute directly with the Gas Marketer. If the Gas Marketer and customer cannot resolve the dispute, the customer can file a written complaint with the MPUB. The MPUB can then arrange a written or oral hearing, after which the MPUB issues a determination.

In Ontario customer disputes are handled by the OEB's compliance office. The first point of contact for a customer facing a dispute is the OEB customer service centre. The customer service centre provides information and directs them to speak with their Gas Marketer. If the customer can't resolve the dispute with their Gas Marketer, the case is passed onto the compliance office. The customer is contacted within five days and asked to submit a written complaint. The compliance officer may contact the complainant to obtain more background information, including copies of bills and contacts. The compliance office reviews the complaint and then passes it onto the Gas Marketer. The Gas Marketer is expected to review the complaint and report back to the compliance office within 30 days explaining the resolution they have provided the customer. If the two parties can not reach an agreement, the Gas Marketer must provide the OEB with the rationale for their position. If the rationale they offer is deemed to be reasonable to the compliance office, the case is closed and the customer is informed that the OEB will take no further action. If the Gas Marketer's explanation is not deemed to be credible, the compliance office provides the Gas Marketer with an interpretation of the Gas Marketer' responsibilities and a recommended action they need to take to resolve the matter.

Ontario experimented with a third party mediation service for a period of time. However, the OEB found that the mediation service was unable to provide resolution in many cases and was escalating them back to OEB staff. The OEB felt that their in-house compliance staff was better equipped to effectively resolve disputes and facilitate appropriate solutions, thus achieving the same or improved results internally and at a lower cost. Ultimately, the OEB assumed the arbitrator role in the Independent Dispute Resolution process.

9.3.2 The Proposed System for British Columbia

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 BCUC may initiate a review. However, when a dispute arises between a Gas Marketer and a 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 resolution process described below.

Following is a description of the proposed Independent Dispute Resolution process that would allow customers to report disputes with a Gas Marketer to an arbiter, the independent body with the power to reach a binding decision. The arbiter could either be the Commission, or another party selected by the Commission to fulfill this role. A system that supports this dispute resolution process will enable Gas Marketers and the arbiter to access individual dispute details. Additionally, Terasen Gas' customer service representatives will be able to see the progress of disputes and their resolution as customer records are updated.

The process begins with a customer contacting their Gas Marketer, or Terasen Gas' customer call centre, or the arbiter, to file a formal dispute. The customer will be asked if they have attempted to resolve the complaint with their Gas Marketer before the dispute is logged. The dispute will be logged in the system via the above noted avenues using a standard dispute form that asks a set of configurable questions and creates a file number.

The Gas Marketer and Terasen Gas are then notified of the dispute. The Gas Marketer uploads into the system a scanned copy of the signed contract between them and the customer, plus any other pertinent details related to the dispute. Terasen Gas also gathers background details on customer and Gas Marketer activity relating to the dispute. Either party in the dispute may have access to the information collected in the open file in order to review it for accuracy and to comment on the facts as gathered.

The arbiter is able to act on the dispute once the background details are collected and provided in a file for review. The arbiter will make a decision on the dispute based on the Residential Unbundling business rules and using only the information available in the file that is passed along to them for review. Once the arbiter submits the ruling by selecting the appropriate configurable action, the system automatically initiates the necessary changes (e.g. cancel enrollment with Gas Marketer and return to previous Gas Marketer). After receiving confirmation from the Gas Marketer and Terasen Gas that the decision has been enacted, the arbiter notifies the customer in writing of the outcome of the decision and action taken.

In keeping with the directive from the Commission that program participants pay for operating costs where possible, Terasen Gas proposes the introduction of an Independent Dispute Resolution Fee to be paid by Gas Marketers. This fee was reviewed in section 5.3.8 and will be discussed again in section 10.2.2.

9.3.3 Timeline for Resolving Disputes

Terasen Gas recommends the resolution of a dispute within 10-15 business days of a formally logged complaint. This timeline assumes that the customer has already attempted but been unable to resolve the dispute with their Gas Marketer. The following table provides a summary of the proposed resolution timeline and assumes that the BCUC plays the role of arbiter.

Table 6 – Dispute Resolution Timeline

Data Collection:			*Cumulative Time*
Terasen Gas	Gathers customer history, background info available at Terasen Gas and uploads into system	2 - 3 business days	*2 - 3 business days*
Gas Marketer	Uploads scanned copy of contract and any other pertinent details (concurrent to Terasen Gas activity above)	2 - 3 business days	*2 - 3 business days*
Review & Decision:			
Arbiter	Reviews dispute file, checks for completeness, makes decision	4 - 6 business days	*6 - 9 business days*
Action & Notification:			
Gas Marketer / Terasen Gas	Confirms to arbiter that prescribed action has been completed	2 - 3 business days	*8 - 12 business days*
Arbiter	Notifies customer that action has been taken	2 - 3 business days	*10 - 15 business days*

9.3.4 Dispute Volumes

The experience in other provinces provides a sense of the range of the number of disputes that are likely to be processed using the proposed dispute process. Based on the experience of other jurisdictions and market research, it is likely that approximately 5% (40,000) of eligible residential customers will sign contracts in year one and an additional 5% in year two. The lack of detailed dispute statistics from other jurisdictions, especially during the period of initial introduction of unbundled programs, makes estimating the level of disputes British Columbia may experience very difficult.

Using numbers available from Ontario and extrapolating the experience in Ontario complaint to customer ratios for the period 2002 – 2005, the number of disputes could range as follows during the initial period of program introduction:

	Range	
No of Contracts Signed Annually	40,000	40,000
Dispute - Contract Ratio	1:50	1:450
Est. Annual Number of Disputes	**800**	**90**

For the purposes of calculating operating costs, this Application assumes approximately 350 disputes during the initial year of operation, which yields approximately one dispute for every 125 contracts signed. Variance to these estimates would either increase, or decrease, the level of operating costs incurred and recovered from Gas Marketers as set out in detail in section 10.2.

Terasen Gas notes that statistics used in estimating the likely number of disputes for British Columbia reflects only the most recent years' experience in Ontario, a relatively mature market that has been deregulated for over ten years. Consequently, the recent experience in Ontario may not necessarily be a good indicator of the number of disputes to occur in British Columbia.

Ontario

Approximately 1,100,000 Ontario natural gas customers currently have contracts with Gas Marketers. Assuming that the term of each contract is five years (the maximum contract length) then approximately 220,000 contracts are created each year. Although residential deregulation began in 1988, the OEB only began to track complaints in September 2002 after assuming direct responsibility for the dispute resolution process. From September 2002 until April 2003 (eight months) the OEB recorded 2,726 complaints, an average of 340 per month. This represents an annual rate of 4,089 complaints or one complaint for every 53 contracts signed in a 12 month period.

After April 2003, the rate of complaints fell, which the OEB attributed primarily to the introduction of telephone verification. Gas Marketers are required to contact consumers by telephone and confirm that the customer has signed the contract and are aware of its terms. The telephone conversation is recorded. From May 2003 to December 2004, there were 1,412 complaints representing an annualised rate of 847, which translates into one complaint for every 260 contacts signed in a 12 month period. In 2005, the OEB estimates (data is no longer collected) that 500 complaints where received or one complaint for every 440 contracts signed during the year.

The OEB has three staff (Compliance Advisors/Analysts) in the Compliance Office who spends a portion of their time on dispute resolution. They handle not only disputes between marketers (electric and gas) and customers, but also between the LDCs and customers. On average the three staff members involved in dispute resolution process 100 complaints a month. These break down into approximately 60 gas complaints and 40 electricity complaints. About 30% of the 60 gas complaints are related to gas distributors and the other 70% relate to Gas Marketers.

Manitoba

In 2001, the first full year of the current deregulated format, the MPUB received 35 complaints with 12 being upheld. In 2002 there were 10 complaints with 4 upheld. The complaints process is administered by 1 person.

Alberta

Alberta did not disclose the number of customer complaints made about the behaviour of natural Gas Marketers.

9.3.5 Role of the BC Utilities Commission and Other Third Parties

The proposed design of the systems supporting an Independent Dispute Resolution process permit the assignment of the role of arbiter to any party the Commission determines is best suited for this role. Given the Commission's role in handling customer complaints filed against regulated utilities and the experience in other jurisdictions, suggests that the Commission may be a strong candidate to assume this role. Alternate third parties are also available, such as the Better Business Bureau, and need to be considered.

In developing the proposed dispute resolution process and determining how best to resource it, Terasen Gas met with representatives from the British Columbia chapter of the Better Business Bureau. The meeting addressed two objectives. The first objective was to advise the Better Business Bureau of the potential rollout of Residential Unbundling in 2007 and to familiarize them with the key aspects of the program. The second objective was to determine on a preliminary basis the possibility of the Better Business Bureau being contracted to staff and manage the proposed Independent Dispute Resolution process on behalf of the Commission.

The Better Business Bureau, a member funded organization, is a long standing organization that is well recognized by consumers in British Columbia. It has established processes and experience in handling and managing disputes between parties. For the majority of complaints received the standard timeline for resolving those averages about 30 days. In total, about 98% of all complaints involving companies that are members of the Better Business Bureau reach resolution. In the last two years, the Better Business Bureau has streamlined its complaint management process with the implementation of an online complaint process where disputing parties can register complaints. In addition, optional mediation and arbitration services are offered to the parties with the costs shared between the disputing parties.

Based on its initial discussion with the Better Business Bureau, Terasen Gas believes there is merit in pursuing further the possibility of the Better Business Bureau being contracted on behalf of the Commission to manage the dispute resolution process. The Better Business Bureau is well recognized in British Columbia by consumers and has relevant experience and supporting processes and resources to potentially manage the proposed dispute resolution process for the Unbundling program.

10. COST RECOVERY & CUSTOMER RATE IMPACT

The following section sets out how Terasen Gas proposes to treat and recover the costs related to the Residential Unbundling program, including program implementation, operating and stranded gas costs. The proposed treatment of these costs, except for stranded gas costs is consistent and similar to that implemented and currently in practice for the Commercial Unbundling program. Additional fees are also proposed for the recovery of stranded gas costs and operating costs from Gas Marketers. These fees include the Customer Choice fee, Essential Services fee, Confirmation letter fee, Dispute Resolution fee, and consideration of a bad debt factor on Gas Marketers' sales to customers.

Terasen Gas proposes that program implementation costs be recovered from all residential customers who are able to participate in the Residential Unbundling program. Ongoing operating costs would be recovered where possible from Gas Marketers. Further, any residual operating costs would be recovered using a rate rider from residential customers who have access to program. Having Gas Marketers pay for the majority of all the implementation and operating costs for the program is an option but is not practical, as it would create a sizable barrier to entry and would likely deter effective competition from developing in the marketplace.

The proposed cost treatment approach follows the methodology adopted for use in the Commercial Unbundling program. In Order No. G-25-04 dated March 12, 2004 regarding Commercial Unbundling, the Commission directed use of deferral account treatment and a cost recovery methodology using a 3 year amortization period and inclusion of AFUDC of the program development costs incurred in the implementation of the Commodity Unbundling program. Cost recovery of the ongoing operating costs related to providing the Commercial Unbundling program to the extent possible were to be recovered from Gas Marketers. Any operating costs not recovered from Gas Marketers were to be accumulated in a deferral account and expected to be recovered from all commercial customers who have access to the program, through the use of a rate rider.

By Letter No. L-73-05, dated September 7, 2005, the Commission confirmed that Terasen Gas' shareholders are not at risk for the costs to implement a Residential Unbundling program, any of the operating costs incurred in operating such a program, or for any assets stranded by Residential Unbundling.

10.1 MIDSTREAM COST RECONCILIATION ACCOUNT & COMMODITY COST RECONCILIATION ACCOUNT

Terasen Gas performs an essential service by utilizing its distribution system assets and the midstream resources to move commodity from market/supply hubs to customers' premises. In consideration of this, Terasen Gas has developed and implemented the Essential Services Model for the Commercial Unbundling phase whereby Terasen Gas is responsible for contracting of all midstream resources needed to move gas from market / supply hubs to the distribution system and to provide balancing and peaking services. Terasen Gas believes application of the Essential Services Model to Residential Unbundling is critical to the success of the program.

Under the Essential Services Model, the midstream costs are regulated in a manner consistent with past practice. All resources contracted for are subject to review by the Commission. Costs are tracked in a separate deferral account and flowed through to customers, without mark-up. Terasen Gas continues with its mitigation efforts related to all of the midstream resources.

Terasen Gas purchases gas on behalf of its sales customers and passes these costs through to sales customers without mark-up. Costs related to the gas commodity and midstream are recovered from customers through gas cost recovery rates. Since these gas cost recovery rates are based on forecast costs and actual costs invariably differ from forecast costs, the MCRA and the CCRA which replaced the Gas Cost Reconciliation Account ("GCRA") in April 2004 are used to accumulate the difference between the costs incurred by Terasen Gas to purchase the gas commodity and midstream services and the revenue collected by Terasen Gas through the gas cost recovery component of rates.

Terasen Gas recommends that the gas cost recovery review mechanisms and process currently in place in support of Commercial Unbundling continue to be used for Residential Unbundling for tracking and recovery of the midstream and commodity costs. The commodity cost recovery rate for the standard rate schedules will continue to be reviewed and adjusted on a quarterly basis. Multiple CCRAs will be required in order to separately track the costs related to the Terasen Gas standard commodity offering and for each marketer supplying commodity under the Unbundling Program. For midstream costs however, an annual review and adjustment process currently used is more appropriate due to the annual load balancing. An annual adjustment process provides stability to the midstream component of gas costs for customers. In addition, it synchronizes with the annual delivery margin adjustment process on January 1st of each year, helping to streamline communications with customers regarding rate adjustments. Furthermore, an annual review process for midstream resources is consistent in timing with the current annual process for developing the Annual Contracting plan.

The midstream related costs, including pipeline capacity, storage capacity, balancing and peaking resource requirements are recovered from all customers who are on the existing commodity sales rate schedules. These costs are not incremental to the total costs that commodity sales customers are paying today. The existing transportation rate schedules are not impacted.

The existing methodology used to allocate midstream resource costs to the various existing sales rate schedules continue to be used under the Essential Services Model. The Commission in its Letter No. L-25-03 dated June 6, 2003, confirmed this allocation methodology as appropriate for the Commercial Unbundling program. Costs are broken down into fixed versus variable, with the fixed costs allocated to the rate schedules based on that rate class load factor and the variable costs allocated based on consumption.

The purpose of the CCRAs is to accumulate any commodity price variances so that these may be assigned to the appropriate customers. Basically, each of the CCRAs captures the costs incurred by Terasen Gas to purchase the baseload gas commodity and the revenue collected by Terasen Gas through gas commodity rates. The commodity providers are supplying baseload gas, on a 100% load factor basis, as per the forecast annual supply requirements. Terasen Gas' costs for this baseload gas are debited to the appropriate CCRA. The revenue collected by Terasen Gas for the commodity portion of the customer sale, at the tariff or marketer rate is credited to the appropriate CCRA. There will be a difference between the baseload supply requirement and the consumed quantity. This volume-related variance will be transferred to the MCRA so that only commodity price-related variances are accumulated in the CCRA.

Under normal circumstances, the marketer CCRAs are not expected to result in any accumulated price-related variances since the commodity is purchased at the same price as which it is sold and all volume-related variances are transferred to the MCRA.

The Terasen Gas standard commodity offering CCRA collects the baseload commodity costs incurred and the baseload commodity costs recovered. Accumulated variances are recovered from all customers remaining on the utility standard sales rate schedules. All volume-related variances are transferred to the MCRA. Costs collected in the CCRA are not incremental to the total costs that customers are paying today.

Table 7 below sets out the proposed cost recovery mechanisms for stranded gas costs.

Table 7 - Program Fees: Gas Cost Recovery

Fee	Description	Cost Type	Existing	New
Customer Choice Fee[13]	Amount of fee to be determined; fee is designed to recover commodity costs stranded when customers opt to leave Terasen Gas' standard rate offering. Described in section 10.1.1	Stranded Gas cost recovery in CCRA[14].		New
ESM Fee[15]	Amount of fee to be determined; fee is designed to recover commodity costs stranded when Gas Marketers violate the ESM. Described in section 10.1.2.	Stranded Gas cost recovery in MCRA[16].		New

10.1.1 Customer Choice Fee

With the implementation of the Residential Unbundling, the risk of significant stranded gas costs occurring in the CCRA increases. These stranded gas costs will result from mark-to-market losses on forward hedge positions and any unrecovered, outstanding CCRA deferral account balances attributable to customer migration to Gas Marketers.

[13] Program applicability to be determined.
[14] CCRA means Commodity Cost Reconciliation Account.
[15] Program applicability to be determined.
[16] MCRA means Midstream Cost Reconciliation Account.

The mark-to-market gain or loss on the forward hedge position for each customer is calculated by computing the difference between hedged purchase prices and resale prices as the hedge position is liquidated, or unwound on a twelve months forward basis. The outstanding CCRA deferral account is determined by taking the difference between the Terasen Gas tariff rate and the actual cost of gas on a twelve months forward basis, including a share of any existing balance in the CCRA deferral account.

The sum of the two components equals the departing customer's share of the balance in the CCRA account.

The following table illustrates the possible scenarios that could result in stranded gas costs or benefits.

Table 8 - Stranded Gas Cost Scenarios

CCRA Deferral Account	Hedging Position	Effect on Stranded Gas Cost
Under collection (deficit)	Hedge loss	Maximum stranded gas cost
Under collection (deficit)	Hedge gain	Depends on degree to which under collection offsets hedge gain
Over collection (surplus)	Hedge loss	Depends on degree to which over collection offsets hedge loss
Over collection (surplus)	Hedge gain	Maximum stranded benefit

Factors affecting the level of stranded gas costs include the extent of hedging and the price of the hedges in Terasen Gas' CCRA, volatility of natural gas prices and the extent of customer attrition to Gas Marketers.

To provide an order of magnitude to the potential stranded gas costs, Terasen Gas reviewed historical data from 2002 to 2005 for hedging gains and losses and data from 2004 to 2005 for CCRA deferral account balances only, given that CCRA data was not available until after April 2004, when the gas costs were tracked using CCRA and MCRA.

Table 9 - Historical CCRA Deferral Account balances & Hedging Gains / Losses($ millions)

	Minimum	Maximum	Average
Hedge Gain	$0	$160	$39
Hedge Loss	$0	($147)	($38)
CCRA Deferral Account Deficit	($1)	($182)	($57)
CCRA Deferral Account Surplus	$6	$25	$16

Consistent with the proposed cost-causality guideline as a way to deliver a cost-effective solution for Residential Unbundling, Terasen Gas proposes that those customers who elect commodity choice with a Gas Marketer shoulder the burden of any stranded gas costs. Terasen Gas recognizes Gas Marketers' concerns about such an "exit" fee being an impediment to commodity choice. However, this concern has to be balanced against the need to not unfairly penalize those customers who chose to remain with the utility default offering. Given the price volatility in the natural gas market in recent years and the potential for a significant number of residential gas customers seeking price stability, the risk of material stranded gas costs occurring arising is significant.

Terasen Gas proposes as part of this Application implementation of a stranded cost recovery mechanism in the form of a Customer Choice Fee, applicable to both residential and commercial customers who elect to switch to a Gas Marketer under the Unbundling program.

Principles of Recovery Mechanism

For an effective recovery mechanism, Terasen Gas believes the design must incorporate the following principles:

- **Cost - Causality**: allocation of costs should be equitable such that costs are borne by those for which it was incurred;
- **Administrative Simplicity**: cost recovery mechanism should be simple to administer; and
- **Materiality**: cost recovery mechanism should consider the materiality of stranded cost and associated impact on utility rates.

Terasen Gas believes the proposed cost recovery mechanism is warranted. The establishment of a competitive environment for retail gas sales should not impede full cost recovery by 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.

Terasen Gas recognizes that there may be other ways to recover the noted stranded gas costs, such as recovering them through the MCRA account. The Commission retains the right to determine what is appropriate to use for cost recovery.

Customer Choice Fee Deferral Account

In order to provide price transparency enabling customers to make decisions when comparing Terasen Gas' default rate offering to those of Gas Marketers, and in the interests of administrative simplicity, Terasen Gas is proposing the use of a fixed one year stranded cost Customer Choice Fee. This would be managed through a stranded cost deferral account, which would track the over / under collection of the fixed one year fee relative to the actual stranded costs. The fixed one year fee would be set on an annual basis, using a forecast of the twelve month forward CCRA deferral account balance and twelve month forward hedging gain or loss, adjusted for the forecasted attrition rate of departing customers. Terasen Gas will be tracking the variance between the Customer Choice Fees collected and the migrating customers' share of the CCRA deferral balance and hedge gain or loss on an ongoing basis to ensure no significant variance build-up. Terasen Gas reserves the right to adjust the fixed one year fee at any time if the Customer Choice Fee deferral account starts building up a significant variance.

10.1.2 Essential Services Model (ESM) Fee

As set out in detail in sections 5.3.2 and 10.1, the ESM provided the foundation for the introduction of commodity choice for small volume commercial customers. The success of the ESM as the foundation of the Commercial Unbundling program demonstrates that this business model is also suitable for the proposed Residential Unbundling program.

A key business rule required to support the ESM is that customers must stay with Gas Marketers for at least one year at the same price and must be renewed in 12 month increments. For example, if a customer is enrolled for November 1, 2007 entry date, the customer must stay with that Gas Marketer until October 31, 2008 at the same fixed price. A customer can not leave their Gas Marketer before this date. As the midstream account will handle any volume variances arising between forecasted annual demand versus actual annual demand, the 12 month fixed price business rule is required to ensure the midstream account is not burdened with the effect of price changes arising from customers moving from one Gas Marketer to another Gas Marketer. A change in the 12 month fixed price rule creates a significant issue for Terasen Gas customers and undermines the integrity of the Essential Services Model.

The following scenarios illustrate how the ESM is affected by allowing Gas Marketers to change prices outside the 12 month rule.

Scenario 1 – Fixed Marketer Price:

A Gas Marketer enrolls 50,000 typical residential customers in March to begin gas deliveries April 1.

Per current ESM rules, the Gas Marketer offers a fixed $10/GJ Marketer Price.

Fixed Marketer Price Scenario

102	GJ/year/average customer
50,000	enrolled customers
5,100,000	total GJ to be delivered

	Apr	May	Jun	Jul	Aug	Sep
Typical Customer Usage Profile (% of Annual Total)	8%	5%	3%	3%	3%	4%
Forecasted Monthly Customer Consumption	408000	255000	153000	153000	153000	204000
Marketer Supply Requirement per ESM Model	425000	425000	425000	425000	425000	425000
Volume Variation (managed by Terasen MCRA)	-17000.0	-170000.0	-272000.0	-272000.0	-272000.0	-221000.0
Fixed Price ($ per gj)	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00
Customer Revenues	$ 4,080,000	$ 2,550,000	$ 1,530,000	$ 1,530,000	$ 1,530,000	$ 2,040,000
Paid to Marketer	$ 4,250,000	$ 4,250,000	$ 4,250,000	$ 4,250,000	$ 4,250,000	$ 4,250,000
Variation in proceeds	$ (170,000)	$ (1,700,000)	$ (2,720,000)	$ (2,720,000)	$ (2,720,000)	$ (2,210,000)
Cumlative Total	$ (170,000)	$ (1,870,000)	$ (4,590,000)	$ (7,310,000)	$ (10,030,000)	$ (12,240,000)

	Oct	Nov	Dec	Jan	Feb	Mar	Total
Typical Customer Usage Profile (% of Annual Total)	8%	11%	15%	16%	13%	11%	100%
Forecasted Monthly Customer Consumption	408000	561000	765000	816000	663000	561000	5100000
Marketer Supply Requirement per ESM Model	425000	425000	425000	425000	425000	425000	5100000
Volume Variation (managed by Terasen MCRA)	-17000.0	136000.0	340000.0	391000.0	238000.0	136000.0	0.0
Fixed Price ($ per gj)	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	
Customer Revenues	$ 4,080,000	$ 5,610,000	$ 7,650,000	$ 8,160,000	$ 6,630,000	$ 5,610,000	$ 51,000,000
Paid to Marketer	$ 4,250,000	$ 4,250,000	$ 4,250,000	$ 4,250,000	$ 4,250,000	$ 4,250,000	$ 51,000,000
Variation in proceeds	$ (170,000)	$ 1,360,000	$ 3,400,000	$ 3,910,000	$ 2,380,000	$ 1,360,000	$ -
Cumlative Total	$ (12,410,000)	$ (11,050,000)	$ (7,650,000)	$ (3,740,000)	$ (1,360,000)	$ -	$ -

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

- Gas Marketer supply deliveries of 5,100,000 GJ match customer consumption of 5,100,000 GJ at the end of the contract year;
- Terasen Gas manages the daily/monthly volume variations; and
- Customer Revenues of $51,000,000 matches Gas Marketer remittances of $51,000,000 with no net variation at the end of the contract year.

Scenario 2 – Variable Marketer Price:

A Gas Marketer enrolls 50,000 typical residential customers in March to begin gas deliveries April 1.

The Gas Marketer is allowed to vary their price, and chooses to offer gas at $12/GJ from April thru September, and $8/GJ from October thru March.

Variable Marketer Price Scenario

102	GJ/year/average customer
50,000	enrolled customers
5,100,000	total GJ to be delivered

	Apr	May	Jun	Jul	Aug	Sep
Typical Customer Usage Profile (% of Annual Total)	8%	5%	3%	3%	3%	4%
Forecasted Monthly Customer Consumption	408000	255000	153000	153000	153000	204000
Marketer Supply Requirement per ESM Model	425000	425000	425000	425000	425000	425000
Volume Variation (managed by Terasen MCRA)	-17000.0	-170000.0	-272000.0	-272000.0	-272000.0	-221000.0
Fixed Price ($ per gj)	$ 12.00	$ 12.00	$ 12.00	$ 12.00	$ 12.00	$ 12.00
Customer Revenues	$ 4,896,000	$ 3,060,000	$ 1,836,000	$ 1,836,000	$ 1,836,000	$ 2,448,000
Paid to Marketer	$ 5,100,000	$ 5,100,000	$ 5,100,000	$ 5,100,000	$ 5,100,000	$ 5,100,000
Variation in proceeds	$ (204,000)	$ (2,040,000)	$ (3,264,000)	$ (3,264,000)	$ (3,264,000)	$ (2,652,000)
Cumlative Total	$ (204,000)	$ (2,244,000)	$ (5,508,000)	$ (8,772,000)	$ (12,036,000)	$ (14,688,000)

	Oct	Nov	Dec	Jan	Feb	Mar	Total
Typical Customer Usage Profile (% of Annual Total)	8%	11%	15%	16%	13%	11%	100%
Forecasted Monthly Customer Consumption	408000	561000	765000	816000	663000	561000	5100000
Marketer Supply Requirement per ESM Model	425000	425000	425000	425000	425000	425000	5100000
Volume Variation (managed by Terasen MCRA)	-17000.0	136000.0	340000.0	391000.0	238000.0	136000.0	0.0
Fixed Price ($ per gj)	$ 8.00	$ 8.00	$ 8.00	$ 8.00	$ 8.00	$ 8.00	
Customer Revenues	$ 3,264,000	$ 4,488,000	$ 6,120,000	$ 6,528,000	$ 5,304,000	$ 4,488,000	$ 46,104,000
Paid to Marketer	$ 3,400,000	$ 3,400,000	$ 3,400,000	$ 3,400,000	$ 3,400,000	$ 3,400,000	$ 51,000,000
Variation in proceeds	$ (136,000)	$ 1,088,000	$ 2,720,000	$ 3,128,000	$ 1,904,000	$ 1,088,000	$ (4,896,000)
Cumlative Total	$ (14,824,000)	$ (13,736,000)	$ (11,016,000)	$ (7,888,000)	$ (5,984,000)	$ (4,896,000)	$ (4,896,000)

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

- Gas Marketer supply deliveries of 5,100,000 GJ match customer consumption of 5,100,000 GJ at the end of the contract year; and
- Terasen Gas manages the daily/monthly volume variations.

Customer Revenues of $46,104,000 does not match Marketer Remittances of $51,000,000, with a resulting deficit of $4,896,000 that flows through the MCRA account.

As part of the Scoping Phase, Terasen Gas was requested to review the issue of offering greater flexible pricing, providing Gas Marketers the ability to offer products other than those just with 12 month fixed price intervals. As illustrated in the previous example, a change in this rule creates a significant issue for the integrity of the Essential Services Model. Allowing Gas Marketers the ability to vary their customer's price other than a 12 month fixed price can have a significant negative financial impact on midstream costs that all customers share in.

To mitigate this cost impact and to encourage adherence to the 12 month fixed price rule, Terasen Gas proposes an ESM fee. The ESM fee will capture the price differential between the original price and the subsequent price for the remaining forecasted normalized volumes for the 12 month period. Terasen Gas' systems will detect contracts with terms less than 12 month long by tracking contract start and end dates. The enrollment process will be configured to flag enrollments with a violation of the 12 month fixed price rule and indicate to Gas Marketers the cost of the ESM fee that will be charged if they want to continue to proceed with the enrollment. At that point, a Gas Marketer may choose to finalize enrolling the customer and pay the ESM fee or the Gas Marketer may elect to stop the enrollment.

Terasen Gas believes that with the introduction of the ESM fee and the supporting processes to administer the fee, it has developed a cost-effective solution to minimize poaching activities between Gas Marketers and to ensure adequate cost recovery from those who cause these costs to be incurred.

10.2 RATE IMPACT OF IMPLEMENTATION AND OPERATING COSTS

In Letter No. L-25-03 dated June 6, 2003 the Commission provided direction on the allocation of costs to commercial customers eligible to participate in the Commercial Unbundling program and to Gas Marketers involved. The Letter stated "The implementation and maintenance costs will be recovered from customers in those rate classes that are eligible for the service. Annual operating costs (fixed and transactional related costs) should be recovered, to the extent possible, from marketers." Terasen Gas proposes to follow this same direction in the treatment of implementation and operating costs for the Residential Unbundling program.

10.2.1 Implementation Costs

Terasen Gas seeks approval to spend an additional $11.1 million (including the estimated $0.5 million for revenue accounting and financial reporting processes to support Residential Unbundling) above the $1.4 million the Commission has already approved to meet the proposed start of the Gas Flow Date on November 1, 2007 for eligible residential customers as directed by the Commission. This total is subject to change based on the final approved business rules for Residential Unbundling and a Commission approval to proceed with an initiative to address the sustainability of the revenue accounting and financial reporting needed to support Residential Unbundling.

The amortization of the implementation costs (including AFUDC) has been set to recover the after tax costs over a three year period from 2008 through 2010. The amortized amount is approximately $4.4 million per year.

10.2.2 Operating Costs

As set out above, operating costs will be recovered from Gas Marketers where possible. Any unrecovered operating costs will be accumulated in a deferral account and are expected to be recovered from eligible residential customers through the use of a rate rider.

Operating costs are comprised of some that are fixed and others variable based on activity levels. The variable costs scale directly with activities that are processed manually. Other costs scale with certain Gas Marketer transactions. Terasen Gas proposes four transaction fees to recover operating costs directly from Gas Marketers. These fees would be charged to Gas Marketers monthly and netted against the remittances made to Gas Marketers each month. Of these proposed fees, two exist in the Commercial Unbundling program, and two are new fees.

The following table includes a summary of the fees proposed for the Residential Unbundling program.

Table 10 – Program Fees: Operating Cost Recovery

Fee	Description	Cost Type	Existing	New
Group Fee	$150 per month for each active marketer group will be charged to Gas Marketers; fee is designed to offset the cost to set up rates in the Energy CIS.	Operating cost recovery.	Exists in Commercial Unbundling program.	
Customer Bill Fee	$0.40 per month will be charged to Gas Marketers based on the number of bills sent to customers; fee is designed to offset the cost to produce and mail monthly bills.	Operating cost recovery.	Exists in Commercial Unbundling program.	
Confirmation Letter Fee[17]	$0.60 will be charged to Gas Marketers based on the number of enrollments that take place for a Gas Marketer; fee is designed to recover to cost to produce and mail confirmation letters.	Operating cost recovery.		New
Dispute Resolution Fee[18]	Amount of fee to be determined; fee to be comprised of a fixed and variable component; fee is designed to recover costs incurred in operating the Independent Dispute Resolution process.	Operating cost recovery.		New

For Residential Unbundling bad debt treatment, Terasen Gas proposes application of the existing bad debt treatment as approved by the Commission in Order No. G-25-04 for the Commercial Unbundling program. In Order No. G-25-04 dated March 12, 2004, the Commission approved a zero incremental bad debt factor to apply to unbundled commercial customers for the period beginning November 1, 2004 to October 31, 2005. For the same time period, the Commission directed Terasen Gas to record in a deferral account the dollar difference between the actual bad debt experience for unbundled customers and the 0.30% of the gross revenue received from unbundled customers.

[17] Not applicable to the Commercial Unbundling program.
[18] Program applicability to be determined.

Terasen Gas believes there is the same potential for increased bad debt associated with introducing Residential Unbundling. While there is no conclusive evidence available to date, Terasen Gas believes the same treatment should be provided for Residential Unbundling as that used currently for Commercial Unbundling, where a deferral account is made available to capture the dollar difference between the actual bad debt experience for residential unbundled customers and the forecast bad debt experience for residential customers based on historical experience.

In addition, Terasen Gas reiterates its position that Gas Marketers should be aligned with managing bad debts by sharing in the business risk associated with managing bad debts for residential customers. This means Gas Marketers would be allocated an incremental bad debt factor. A review of the issue of charging Gas Marketers a bad debt factor on their sales to customers should be considered.

All fees are subject to change based on a regular review of operating costs incurred in the operation of the Residential Unbundling program. Fees for the start of the program are expected to be set in the fall of 2006, once final operating agreements are negotiated with ABSU for the incremental customer care services that will be required for the program.

The following table provides an estimate of the level of operating costs that are likely to remain unrecovered from Gas Marketers. The unrecovered operating costs depicted on the last line of the table would be recorded in the Operating Cost deferral account.

Table 11 - Operating Costs & Recoveries

	2006	2007	2008	2009	2010
Terasen Gas	-	115,900	159,100	163,900	168,800
BCUC - IDRM	-	57,900	79,600	82,000	84,400
ABSU - Customer Care	-	414,400	503,800	567,400	645,900
Total O&M Costs	**$ -**	**$ 588,200**	**$ 742,500**	**$ 813,300**	**$ 899,100**
Marketer O&M Recoveries	-	(59,400)	(125,300)	(193,100)	(275,600)
Net O&M Costs	**$ -**	**$ 528,800**	**$ 617,200**	**$ 620,200**	**$ 623,500**

10.2.3 Recovery of Implementation, Operating Costs

Terasen Gas proposes that the recovery of implementation and operating costs be completed using a rider as is the practice for the recovery of other deferred charges. By having the implementation costs attract AFUDC and the recovery of the amortization of the implementation costs and ongoing operating costs by a rider, Terasen Gas' rate base and cost of service remains unaffected by the Residential Unbundling program. The estimated recovery and the amount of the rider are set out in the following table.

Table 12 - Summary - Unbundling Costs
Scenario # 1b - 3 Year Amortization

	2006	2007	2008	2009	2010
Deferral Account					
Opening	$ -	$ 2,915	$ 8,730	$ 11,188	$ 13,520
Additions	4,287	8,173	3,000	3,000	3,000
Less tax	(1,415)	(2,697)	(990)	(990)	(990)
Net Additions	2,872	5,476	2,010	2,010	2,010
AFUDC	43	339	447	322	189
Cumulative Costs	2,915	8,730	11,188	13,520	15,719
Cumulative amortization recovery			$ -	$ (4,549)	$ (9,099)
Annual Amort.of Costs/Recoveries - levelized		$ -	$ (4,549)	$ (4,549)	$ (4,549)
Deferral Account Balance	2,915	8,730	6,638	4,421	2,070
Average cost / GJ - Rider			**$ 0.10**	**$ 0.10**	**$ 0.10**
Average cost / Month / Customer			$ 0.84	$ 0.83	$ 0.81
Average # of Customers			747,000	760,000	773,000
Annual Volumes (TJ)			74,379	75,991	77,319

	2008-2010	2011-2015
Average Cost /GJ	**$ 0.10**	**$ 0.06**
Average Cost /Customer /Month	**$ 0.83**	**$ 0.46**
Average Cost /Customer /Year	**$ 9.90**	**$ 5.48**

Based on a three year recovery of the implementation costs, the estimated total impact on residential customers eligible to participate in the Residential Unbundling program is expected to be on average approximately $9.90 per year per customer for the first three years of the program. On a variable basis the cost would be approximately $0.10 /GJ. These costs are reduced to approximately one half of this level after 2010 with the full recovery of the initial implementation costs.

Terasen Gas proposes that the implementation costs for the Residential Unbundling program be recovered over a three year period commencing January 2008, using an estimate variable charge of $0.10 /GJ for all residential customers eligible to participate in the Residential Unbundling program. Operating costs not recovered from Gas Marketers would be recovered in a similar manner also commencing January 2008 and would be included in the estimated variable cost of $0.10 /GJ. The level of these cost recoveries need to be reviewed prior to January 2008 to ensure that the recoveries are based on actual costs.

11. REVIEW OF PRE-SCOPING & SCOPING PHASE COSTS

In Order No. G-110-05, dated October 31, 2005, the Commission requested a review of costs incurred in the deferral account for the Scoping Phases leading to the CPCN Application for Residential Unbundling. A review of costs incurred to early March 2006 follows. Terasen Gas believes that these expenditures were made prudently, in accordance with Commission Orders, and should be recovered as set out in section 10.

11.1 PRE-SCOPING FUNDING FOR DEFERRAL TREATMENT

In Order No. G-66-05, dated June 30, 2005, the Commission approved $300,000 in deferral account funding for the validation of the business model and business rules, as well as market research, needed for the Residential Unbundling Program.

Pre-Scoping work commenced in July 2005 and continued into the fall. To the end of 2005, approximately $100,000 in costs were incurred to perform primary and secondary market research (~$31,000), to facilitate business processes and rules (~$28,000) along with an assessment of issues and impacts related to gas supply (~$24,000). Less expenditures were incurred as a result of activities either completed using Terasen Gas' in-house resources or where estimated costs were less than anticipated.

11.2 SCOPING FUNDING FOR DEFERRAL TREATMENT

In Order No. G-110-05, dated October 31, 2005, the Commission approved $1,053,800 in funding recorded in a deferral account to complete the scoping and business systems analysis required to enable the filing of a CPCN application for implementation of a Residential Unbundling program by Terasen Gas.

The Scoping Phase started in late November 2005 and concluded by mid March 2006 with a report submitted by Accenture and Knowledge Tech Consulting setting out the process and systems changes needed to enable the implementation of a Residential Unbundling program fir Terasen Gas. Work on the Scoping Phase continues with the preparation and filing of this CPCN Application.

Terasen Gas is on track to spend the approved $1,053,800. To the beginning of March 2006, a total of $500,000 in costs has been incurred. An additional $494,000 is committed to be incurred by early April 2006, for a total of $994,000. The remaining estimated expenditures are required to cover the costs of the Project Manager during the period when the Commission completes its review of the Application. Of total estimated expenditures, $809,800 is for work completed by Accenture; $144,000 is for work completed by Knowledge Tech Consulting; and $100,000 is for work completed by Terasen Gas' Project Manager.

APPENDIX 1

Residential Commodity Unbundling Research Update Report

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As Amended June 27, 2005

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Background

Terasen Gas Inc. ("Terasen") implemented commodity unbundling for all commercial customers effective November 1, 2004. The British Columbia Utilities Commission ("BCUC") has requested Terasen prepare and submit an application for approval of a plan and cost estimate for developing an implementation plan for expanding commodity unbundling to Terasen's residential gas customers.

The purpose of this report is to provide an assessment and update on residential natural gas unbundling developments in other jurisdictions with the focus on Canadian jurisdictions and, in particular, the provinces of Ontario and Alberta.

Scope of Report

This report is an update and overview of the residential natural gas unbundling business model in place in other jurisdictions, in particular, in Canada. For the Ontario and Alberta jurisdictions, the following aspects are specifically addressed:

- An assessment of the competitiveness of the marketplace that has developed to date (i.e. the number of marketers participating, identification of the significant players, customer participation rates and consumer pricing options available);
- The key business rules, in particular, those concerned with customer eligibility and mobility, billing and collections, customer education and consumer protection, and billing capabilities;
- The key aspects of the business model related to gas supply, load balancing and exit fees;
- An estimate of the historical and current implementation costs and timelines and the historical and current operating and maintenance costs;
- Identification of the significant issues encountered and feedback regarding what has worked well and what has not worked well;
- Current and planned developments for residential unbundling; and
- Feedback on the value proposition for residential customers based on the direct purchase experience to-date.

Methodology

The research for this report was conducted through telephone interviews with staff of utilities and regulators and through review of legislation, regulatory applications, decisions and reports, and utility tariffs. The contact information for key individuals is included and the key written material is referenced in the appendix to the report. In addition, the written material has been copied to compact disk and provided with this report.

It should be noted that much of the information regarding marketer and customer participation levels is not available as published information. The material provided in this report has been deduced from the telephone interviews and references in the written material. In some cases, the author has made a judgment call regarding these participation rates where information varied from one information source to another.

The cumulative capital costs and ongoing operational costs for programs that are in place for the other jurisdictions in Canada were also not readily available in many cases due to the length of time the unbundling programs have been in place and the staff turnover that has occurred over this timeframe. Where available, information has been taken from the utility applications to regulators.

Executive Summary

Three Canadian provinces have had active residential natural gas direct purchase programs for the past five to ten years. In Ontario and Manitoba, buy/sell programs that had significant participation levels preceded the current bundled transportation services and this facilitated the signup of customers on bundled transportation service. The Ontario market is particularly mature and is saturated with customer participation rates that fluctuate between 40 and 50%. Participation rates in Manitoba are lower but significant at about 20%. Alberta has had direct purchase options for a decade but marketer and customer participation rates had been low until the recent legislative changes to the market due to perceived barriers in the business model. Direct Energy Marketing Limited and the provincial subsidiaries of the Energy Savings Income Fund are the major players in each of the three provinces.

In both Ontario and Alberta, the electricity market is also unbundled and the respective provincial governments are actively working, through legislation and regulatory initiatives, to align the electricity and natural gas markets on the conviction that convergence will result in more effective competition. In Alberta, these legislative changes are now in place and the utilities are in the final stages of implementing these changes. In Ontario, the regulator is in the process of writing the service agreements and electronic business transaction rules required in the Gas Distribution Access Rule (GDAR). The intent is to standardize the direct purchase business rules for natural gas and align them with the existing electricity market rules. Manitoba does not currently have an unbundled electricity market and has a somewhat complicated gas supply model but they anticipate that they will likely be encouraged to make changes to their business model as a result of spillover from the Ontario business rule changes.

The following table summarizes the key elements of the residential direct purchase programs in each of the three provinces.

Summary Table

	Ontario	Manitoba	Alberta
Customer and Marketer Participation Rates	**Current:** The two largest gas distributors, Enbridge and Union have about 1.5 and 1.2 million customers, respectively. About 1 million customers are currently on direct purchase through Agent Billing and Collection (ABC) bundled T service (630,000 Enbridge and 400,000 Union customers). Although 37 marketers are currently licensed with the OEB, only about 10 are active. In the residential market, the market is dominated by two major players: Ontario Energy Savings Corp. (OESC) and Direct Energy Marketing Limited (DEML). DEML currently has in the order of 600,000 customers, OESC has in the order of 400,000 and the next largest marketer, Superior Propane, has in the order of 85,000 customers. OESC and Superior operate under the income trust model whereas DEML now operates under the consolidated home services model. Most of the marketers serving the residential market also offer electricity supply contracts as well as gas supply contracts. **Initially:** When direct purchase was	**Current:** Centra has approximately 250,000 residential customers. About 45,000 residential customers are currently enrolled in Western T service. Although there are 10 licensed marketers, only two marketers are active in the residential market. Municipal Gas (a subsidiary of Direct) has 30,000 and Manitoba Energy Savings (an affiliate of OESC) has 15,000 customers. Manitoba Energy Savings re-entered the marketplace recently. **Initially:** Western T service was introduced in May 2000. A buy/sell program was in place prior to this and marketers actively switched their customers from buy/sell to Western T at the outset. Enrollment has fluctuated between 30,000 and 50,000 since program inception. **Future:** Manitoba Energy Savings is actively working to increase market share.	**Current:** Atco South and Atco North provide distribution service to the majority of the residential gas customers in the province (940,000 customers). AltaGas Utilities is the other significant utility with about 60,000 customers. Current residential direct purchase participation rates are at about 7% and increasing. Since the recent legislated market changes (Bill 19 in 2003), the number of active marketers has increased. Currently the primary players in the residential market are Direct Energy Essential Services, Enmax and Alberta Energy Savings. Most players offer both gas and electricity supply contracts. **Initially:** The direct purchase option was introduced in 1995 with Gas Utilities Core Market Regulation. There was very low marketer participation (at times only one marketer was active) and customer participation was low as a result (4%). **Future:** The implementation of Bill 19 is still in progress, specifically the balancing provisions. The

	Ontario	Manitoba	Alberta
	first introduced there were a large number of active marketers. Some were aggregators who sold customer contracts to the other players. There were some instances of marketer failure initially and some customers were moved back to system supply as a result. **Future:** No significant changes in the players or the level of participation (40 to 50% range) are anticipated at this time.		outcome of this process will likely impact the marketer participation and hence customer participation.
Pricing Options	**Current:** Residential gas offers are all fixed price and tend to be for terms of 3 to 5 years. There are some as short as one year. Some have declining rates on a year-by-year basis. Although the utilities' billing services support monthly price changes, marketers do not offer contracts to the residential market with more frequent price changes. Marketers may have exit fees or bonuses as part of the contract. Transportation and administrative charges can be billed separately to the customer on Union's ABC service. **Initially:** No significant changes since inception. **Future:** Once the GDAR rules, specifically the customer mobility rules, are implemented, it is	**Current:** Prices must be expressed in $ per m^3. Centra allows prices to be changed on a monthly basis with 30 days notice to be effective on the first of the month. Marketer residential offerings have all been fixed price for 3, 4 or 5 year terms. **Initially:** No significant changes since inception. **Future:** No changes are contemplated by the utility.	**Current:** No restrictions on pricing options. Marketers do their own billing. Pricing options are more varied than in Ontario and Manitoba but natural gas supply contracts for the residential market are primarily fixed price for terms of 3 to 5 years. Legislation limits contract terms to 5 years. There is no central price discovery mechanism and the utility is not privy to marketer prices. **Initially:** Price offerings for the residential marketplace have traditionally been fixed price for with terms of 1 through 5 years. **Future:** Unknown what pricing offers marketers may offer in future.

	Ontario	Manitoba	Alberta
	anticipated that marketers will increasingly incorporate exit fees.		
Consumer Protection	**Current:** The Ontario Energy Board (OEB) is responsible for licensing marketers and enforcing the marketer Code of Conduct. The application fee for a license is $500. There is no performance bond requirement. The OEB has the ability to fine marketers up to $20,000 per infraction. The OEB have a call center and compliance group to deal with customer complaints. The provincial government has consumer protection regulations that address the nature of contracts, requires a written (or recorded telephone conversation) reaffirmation process for the initial contract signup and written or recorded telephone confirmation of contract renewals. Renewal notices must be sent no more than 120 and no less than 60 days prior to contract expiry. **Initially:** Initially consumer protection measures were lax or non-existent. Ontario has responded to demonstrated consumer abuses by introducing a series of consumer protection initiatives over the years, including licensing marketers, a Code of Conduct, the ability to fine	**Current:** The Manitoba Public Utilities Board is responsible for consumer protection and licensing of marketers. Marketers pay $500 for the initial license and $100 annually. There is no performance bond requirement. Marketers must abide by a Marketer Code of Conduct. Marketers must provide corporate warranties that they have gas supply for core customers on a minimum rolling 2 year term and confirm that they hold firm transportation. Centra sends the customer a letter notifying them they have been enrolled. Customers have a 10 day cooling off period from the time they sign the contract to cancel the contract. Marketers must not renew a contract with a customer unless the contract contains the terms of the renewal and the customer receives advance notice of the renewal not more than 120 days and not less than 30 days in advance of the renewal. **Initially:** The Code of Conduct initially provided for an automatic rollover of contracts for a 90 day term (at the same price) if the customer did not respond to the renewal notice. This provision was removed from the Code of Conduct in 2004. The	**Current:** The Consumer Services Branch of Alberta Government Services is responsible for licensing marketers under the Natural Gas Marketing Regulation of the Fair Trading Act. The regulations cover licensing, marketer code of conduct, the form of the contract between marketers and customers and a disclosure statement. The licensing fee is $1000 per year and marketers are required to post a $250,000 bond. In 2003, the Alberta Government established the Office of the Utilities Consumer Advocate to represent small consumers in regulatory proceedings. **Initially:** Same as current requirements with the exception of the internet marketing provisions that were added to the Code of Conduct effective January 2004 together with the requirement that customer contracts can no longer be automatically renewed without written or electronic consent within the 6 month period prior to contract expiry. **Future:** No changes contemplated

	Ontario	Manitoba	Alberta
	marketers, consumer protection legislation and an OEB run call center for customers complaints. **Future:** No additional changes contemplated at this time.	renewal notice period was also modified to allow renewal notices to be sent to customers no more that 120 days before the end of the contract term replacing the 90 day maximum that previously was in the Code of Conduct. **Future:** No changes are contemplated.	at this time.
Customer Education	**Current:** There has been minimal customer education in recent years, primarily bill inserts provided by the OEB. The OEB provides customer education material on their website. **Initially:** Customer education has been primarily through bill inserts, brochures that marketers distribute with contracts and website information. **Future:** Unknown.	**Current:** Very little customer education has been provided since the initial program rollout. A recent utility initiated effort was cancelled due to perceived bias. **Initially:** At the time Western T service was introduced, a customer education program was developed on a collaborative basis with representatives of all the parties. A generic customer education package was developed which was available to customers from marketers and the utility. Bill inserts were also used as part of the education program. **Future:** Currently working on a collaborative basis to develop another customer education package.	**Current:** Provided by the provincial government via website, telephone call center and consumer tip sheets. **Initially:** Same as current process. **Future:** No change contemplated.
Customer Mobility	**Current:** Customers can be enrolled on the first of the month. The required notice period varies by utility. Union requires 55 days to add a new customer while Enbridge requires 30 days notice. Customers are enrolled with the first marketer to submit a valid enrollment and the customer stays	**Current:** Customers can be enrolled on quarterly entry dates (November 1, February 1, May 1 and August 1). Enrollment requests are to be submitted no more than 90 days and no less than 30 days prior to entry date. Customers are assigned to first marketer to enroll them and they stay with that marketer until that	**Current:** For the residential market, Atco has daily enrollment effective the day following the submission of the enrollment request. Customer stays with last marketer to submit an enrolment request. The marketer or Default Supply Provider (DSP) that the customer is being switched

	Ontario	Manitoba	Alberta
	with that marketer until that marketer releases them. Utilities do not track contract term. **Initially:** Essentially unchanged since inception although signup lead times have been adjusted over the years. **Future:** The implementation of the GDAR will bring significant changes to customer mobility with the switch to the practice of having the customer go with the last marketer to submit a valid enrollment request.	marketer releases them. Customers are required to stay on Western T service for terms of one year but there is no mechanism to enforce it in the utility's business processes. There are no exit or entrance fees for customers. **Initially:** Customers already on buy/sell service were allowed to be enrolled on a monthly basis during an initial six month transition period when Western T service was introduced. Customers enrolled from system supply had to enroll on the program's quarterly enrollment dates. **Future:** Centra anticipate that marketers will want changes to match any changes in Ontario arising from Ontario's GDAR.	from is notified. Atco does not notify the customer. **Initially:** Under the previous regulations customers were enrolled effective the first of the month. **Future:** No further changes are contemplated at this point.

	Ontario	Manitoba	Alberta
Gas Supply	**Current:** The direct purchase service is a bundled transportation service where the utility provides the load balancing on annual basis at a 100% load factor. The delivery rate is based on forecast annual customer consumption and divided by 365 to get a daily delivery requirement. The distribution utilities are the suppliers of last resort and provide the load balancing. Marketers can choose to deliver at the Alberta border or at the utility interconnect and take responsibility for upstream transportation service. Union recently implemented two mid-year checkpoints to ensure that deliveries are in line with consumption. Enbridge is contemplating a mid-year checkpoint as well. To the extent that the utility incurs balancing costs these are recovered through the distribution charge on a rate class basis. **Initially:** The basic gas supply model has not changed since inception. Title transfer within the province was initially prohibited by provincial legislation when ABC-T service was initially introduced. This restriction was later removed.	**Current:** Gas consumed by the customer is spilt into Primary Gas and Supplemental Gas. Customers have the option, under Western T service, to have the Primary Gas portion supplied by a marketer. The Primary Gas component averages about 94% of the total forecast consumption. Under Western T service, marketers deliver to Centra, at the Alberta border, a quantity of gas based on a forecast of their customers annual Primary Gas requirements divided equally over the year and taken at an 80 percent load factor. The Maximum Daily Quantity (MDQ) equals 125% of average daily quantity of forecast Primary Gas. Centra informs the marketer of the actual daily nomination. The daily nomination changes track the nomination changes for the system supplied Primary Gas. A Gas Loan Mechanism is used to manage the difference between marketer delivery and the customer Primary Gas billed quantities each month with the assumption the volumetric difference is injected or withdrawn from storage. Any imbalances at the end of the year are cashed out at the Centra October Primary Gas price. The end of the year reconciliation also has a volumetric adjustment to account for the difference between the actual Primary Gas consumption and the delivered quantity.	**Current:** Under Bill 19, the distribution and regulated system supply functions have been separated. Distributors may outsource the system supply function to a Default Supply Provider (DSP) together with the supplier of last resort function. Customers on the regulated supply option are supplied with a flow through market based rate that is adjusted on a monthly basis and based on a portfolio of monthly and daily supply contracts. The DSP function for customers on the Atco system has been outsourced to Direct Energy Regulated Services (DERS). Atco currently provides monthly balancing. Both the DSP and marketers are provided, on a monthly basis, with a daily supply requirement (100% load factor over the month) based on the customers enrolled with them at the beginning of the month. Atco's balancing costs are charged to the DSP and the regulated system supply customers pay the balancing costs. **Initially:** Monthly load balancing model. **Future:** As part of Phase 2 of

	Ontario	Manitoba	Alberta
	Future: The prospect of an unbundled transportation service (with the requirement for daily load balancing) may be revisited as part of the Natural Gas Forum initiative although there has been little interest from marketers in the pilots run to date.	There is a minimum customer load requirement for a marketer to participate. (310,000 m^3/yr per marketer contract). Centra is supplier of last resort. **Initially:** The PGVA balance outstanding at the time Western T service was introduced was recovered from all customers through the Distribution Charge. The gas supply rules have not changed since Western T service was introduced. **Future:** No changes are contemplated by the utility at this time.	implementation of Bill 19, Atco is moving to implement daily balancing. It is anticipated this may take one to two years to complete.
Billing	**Current:** ABC Service is offered on an optional basis. Marketers can choose to bill for the commodity portion if they wish but no marketer serving the residential market is doing so. Under ABC service prices must be expressed in cents per cubic metre. Union supports three items on the bill; commodity, administration charge and upstream transportation. Enbridge only allows the marketer one line on the bill for a commodity charge. **Initially:** No significant changes since program inception. **Future:** Union has been working toward offering more billing features such as the marketer logo and messaging on a fee basis but the	**Current:** ABC Service is offered on optional basis. Marketers can choose the option of billing for the Primary Gas portion themselves although no marketer serving the residential market has elected to. ABC fees remain unchanged at $0.25 per bill. Remittances to the marketer are based on the Primary Gas quantities billed to the customers and then adjusted by the Gas Loan Mechanism amount. **Initially:** ABC Service was mandatory for the first year of the program (until May 2001). **Future:** No changes are contemplated at this time. Ultimately there may be spillover from Ontario with some marketers lobbying for a consolidated marketer bill option.	**Current:** Atco implemented the One-Bill in the spring of 2004, as part of its compliance with Bill 19 legislation. Under the One-Bill, the marketer or DSP bills the customer both the distribution and the commodity components. **Initially:** Initially Atco billed both the commodity and distribution components. In 2000, Atco stopped billing the commodity on behalf of marketers and so customers on this service received two bills; one from Atco for distribution and one from the marketer for the commodity. **Future:** No further changes planned at this time.

	Ontario	Manitoba	Alberta
	GDAR service agreements may supercede some of these planned enhancements. Under the GDAR, the service agreements will set out the standard billing service features to be offered by the distributor. Marketers will also have the option of choosing distributor consolidated billing, split billing or marketer consolidated billing. It is anticipated that at least one marketer will choose marketer consolidated billing within 5 years.		
Implementation Costs	**Current:** Union just completed a significant ($5.5 million) implementation of a new transactional system and business rules to accommodate their interpretation of the GDAR. It is anticipated that it will become obsolete when the GDAR rules and electronic transaction standards are finalized. Both Union and Enbridge have a variety of transactional fees charged to marketers to recover operational costs. **Initially:** Significant implementation costs have been incurred since program inception. Customers paid the capital costs. Transactional fees charged to marketers were intended to recover the program operational costs.	**Current:** No significant implementation costs since the program was put in place. Transactional fees do not cover operational costs and remain at $0.25 per bill. **Initially:** Initial implementation costs were anticipated to be $1.2 million in the board order. Implementation costs were borne by both system gas and direct purchase customers. **Future:** No significant additional costs are contemplated at this time.	**Current:** Atco estimated it would cost $5.2 million to develop systems to support the implementation of Bill 19. **Initially:** Unable to determine. **Future:** Atco is shedding systems as part of the move to implement the One-Bill, outsource the DSP function and move to daily balancing. The implementation costs are shifting to the other players.

	Ontario	Manitoba	Alberta
	Future: Both utilities are reviewing the transactional fees charged to marketers. In addition, significant capital costs are anticipated to implement the expected GDAR business rules and electronic transaction standards.		
Marketer Creditworthiness	**Current:** The utilities set out the creditworthiness requirements for marketers in their terms and conditions for service. **Initially:** Essentially no change since inception. **Future:** The GDAR may set out the creditworthiness standards in the future.	**Current:** Effective 2001, Centra added the requirement that marketers are subject to a creditworthiness review and must have at least a B++ credit rating or provide a letter of credit equal to the value of gas for the two highest consumption months. **Initially:** No creditworthiness requirements initially in the utility terms and conditions. **Future:** No indication of further change at this time.	**Current:** Atco established the marketer's initial prudential security requirement based on their creditworthiness and then reviews this on a monthly basis. **Initially:** Utilities required a letter of credit equal to the sum of 90 days of customers' maximum amount payable when they billed for the commodity. **Future:** No indication of further change at this time.

Ontario

Overview

The Ontario natural gas direct purchase market is fairly mature and appears to have reached saturation levels for the residential market under the existing rules for bundled transportation service. The consumer protection issues that characterized the early years of direct purchase in Ontario have largely been addressed and the province now has fairly effective consumer protection measures in place.

The business model and the rules have continued to evolve over the past few years on two fronts. On the first front, the two major utilities have responded to marketer feedback and have worked to make processes more efficient and to offer marketers more services. On the second front, changes are occurring or are imminent as part of a government driven effort to align the natural gas market model and rules with that of the less mature electricity direct purchase market. At this point in time, there is considerable uncertainty regarding the rules and the associated implementation costs that will result from this alignment. It is also clear that the province is committed to unbundling and firm in the belief that it provides value to customers. There do not appear to be any cost-benefit analyses that have been conducted.

The anticipated increased demand for natural gas for use in electricity generation is also influencing the direction the market changes may take. In addition, the challenges presented in the electricity market in Ontario in recent years have lead to changes in the regulatory environment. Another factor that will influence the market direction in the upcoming years is the fact that the two primary marketers have diverging business models. In summary, the Ontario natural gas is poised for change and it is not entirely clear at this point how extensive the changes will be, how costly they will be and how quickly they will be need to be implemented.

Market Competitiveness

Direct purchase was introduced to residential and small commercial customers in Ontario about 1988 with the introduction of buy/sell service. About 30 percent of these customers were on buy/sell service when the next form of direct service, Agent Billing and Collection Transportation (“ABC-T”) service, was introduced in 1996. ABC-T service is a more direct form of direct purchase that does not rely on marketers rebating the customer the difference between the utility rate and the marketer price. Under ABC-T service the customer is billed the marketer price on the utility bill. Their marketers converted the majority of the existing buy/sell customers directly to ABC-T service when ABC-T service was introduced. From that point it took about 5 years to reach participation rates in the 50% range. Participation peaked at about 55% and has fluctuated between 40 and 50% since. Current participation rates are about 40% for residential customers.

The market is fairly mature and considered to be saturated under the current market structure. Some of the key factors affecting participation are commodity price, utility commodity price volatility and the introduction of new business rules that affect customer mobility. For example, shortly after the electricity marketplace was opened up, the rules were changed for both gas and electricity to require written confirmation upon renewal of expiring contracts rather than the automatic renewals provisions that had been permitted to that point. Marketers experienced significant increases in attrition for the period when this rule was introduced.

The Ontario Marketplace has two main natural gas utilities: Union Gas Limited ("Union") and Enbridge Gas Distribution Inc. ("Enbridge"). Both utilities offer direct sales services for residential customers referred to as "bundled T" service, under which the utility retains responsibility for load balancing. Both utilities offer Agent Billing and Collection ("ABC") as a billing option for this bundled transportation service. Although marketers can choose to bill for the commodity portion themselves (split bill option), no marketer serving residential and/or small commercial customers in Ontario has chosen this billing option.

There are currently 37 licensed gas marketers of which only about 10 are active. In the commercial market, some of the marketers specialize in a particular market sector or act more as agents and advisors. In the residential market, there are only a few active players now that the market has matured. In the early days there were many players, some whose sole purpose was to aggregate customers for sale to other marketers. Direct Energy Marketing Limited ("DEML") and Ontario Energy Savings Corporation ("OESC") are currently the two dominant players in the residential gas marketplace with the bulk of the market share between them. They also offer electricity supply contracts.

Since OESC was formed in 1997, OESC has actively acquired many of the competing marketers' customers through the purchase of these customers directly from the marketer en masse. In 2003, OESC bought all of Epcor's customers in Ontario (about 20,000) as well as Toronto Hydro's customers. Suncor was the third largest gas marketer in Ontario in 2002 before they sold their 120,000 customers to OESC.

The next largest player after DEML and OESC is Superior Propane ("Superior"). There are two new recent entrants into the residential gas market who are currently active: Universal Energy Corporation and Canadian Rite Rate Energy Corporation. The indication is that Universal Energy Corporation is backed by some of the principal players of DEML who left when Centrica bought DEML and who had five-year non-compete clauses with Centrica that have now expired.

Union has about 1.1 to 1.2 million residential and small commercial and institutional customers. Union staff estimates that there are currently about 400,000 Union customers on direct purchase. Participation has been flat at between 35 to 40% for the past couple of years after peaking in 2003 at about 50%. The drop from the peak was due to the introduction of legislative changes around contract renewal and contract reaffirmation and more stable utility system supply rates that tend to make it harder for marketers to gain market share. In Union's territory, Union staff estimates that DEML and OESC have about the same market share at approximately 200,000 customers each. The next largest player is Superior at about 10,000 customers.

Enbridge has about 1.6 to 1.7 million customers. Enbridge is largely residential with only about 100,000 commercial customers. They have about one third of their customers on direct purchase (630,000 customers). At the peak a few years ago they estimate they had about 730,000 on direct purchase. DEML has about 350,000 to 400,000 customers while OESC has about 150,000 to 200,000. Superior has in the order 75,000 customers.

Contract pricing offers are currently all fixed price for the residential natural gas market and tend to be for terms of 3, 4 or 5 years although some are as short as one year. The maximum contract term allowed in Ontario is five years as set out in the Code of Conduct for Gas Marketers. Some contracts have declining prices over the term of the contract. Some offer signing bonuses or bonuses if the customer stays in the contract for the full term. Pricing is expressed in cents per cubic meter.

EnergyShop offers price comparisons for customers via its website at www.energyshop.com as well as price forecasts and estimates of savings based on marketer offers from past years.

OESC, Superior and several of the other key players in Ontario over the years operate under an income trust model. DEML also operated successfully under this model prior to the Centrica purchase of DEML. This model was pioneered in Ontario for natural gas commodity unbundling. Players operating under the income trust model rely on long-term contracts with customers (3 to 5 years) and are looking for stable income streams to return to investors in the form of regular income distributions. They are typically interested in keeping the business as simple as possible so do not wish to do their own billing and prefer to have the utility provide the load balancing service.

Energy Savings Fund, OESC's parent, has recently noted that they have been so successful with the income trust model that they have now reached a threshold regarding the limits of the tax shelter benefits afforded this model. They are looking at a corporate restructuring plan that will be presented at the next AGM.

DEML departed from the income trust model when Centrica bought DEML and brought with them the bundled home services model from the U.K. Under this model the marketer establishes a relationship with customers that allows them to leverage off for offering a broader suite of home services than just gas and electricity commodity sales contracts. The ability for the marketer to do its own billing is an important element of this model as branding is key. Union staff indicated that they expect DEML to take on billing for its customers within 3 to 5 years. In addition, DEML has apparently shown more interest than other marketers in the potential for taking on load balancing in order to gain access to the utility storage assets.

The two different market models have resulted in two distinct types of marketers and this is often a factor in which markets they choose to expand into. In the U.S., DEML, as Energy America, was active in a half dozen states including those where the marketer must do their own billing and load balancing. OESC affiliates are only now entering the residential marketplace in the U.S. and they have chosen to start in Illinois where marketers do not do their own billing. They plan to enter the New York marketplace this year. Energy Savings Fund, the fund that operates OESC, Alberta Energy Savings and Energy Savings (BC), also noted that the requirement to bill their own customers was a significant barrier for them in Alberta until Alberta Energy Savings contracted with Epcor for this service. It is reasonable to anticipate that these key differences in business model will shape the direction and business rules that these players support or lobby for in the marketplaces that they operate in or wish to enter.

Key Business Rules

For both the Union and Enbridge systems, customers can be enrolled on a monthly basis on the first of the month. However, the deadlines for the transactions related to enrollment, switching and pricing vary considerably from between the two utilities. On the Union system the deadlines are: 15 days notice to delete a customer from a contract, 28 days notice to change a price on an existing price point, 28 days notice to transfer consumers between price points on the same contract, 44 days notice to request a new price point for transferring customers in the same contract to, 55 days to add a new customer to a price point or to transfer a customer between price points on different contracts, and 74 days to set up a new price point. Union also requires 60 days notice to return to system supply.

On the Enbridge system, 30 days notice appears to be the standard for adding price points and enrolling customers. Enbridge allows monthly price changes on 3 days notice under their ABC service.

Some changes have been made to the signup and renewal processes as a result of legislation that was enacted in 2002 (Ontario Regulation 200/02). Under this regulation, all contracts must be reaffirmed in writing or via a recorded telephone conversation with the marketer once the customer receives a copy of the written contract. Although the legislation states that it is the customer who must reaffirm, the practice is that the marketer telephones the customer for the reaffirmation to ensure they have it.

In addition, automatic renewals are no longer permitted. Marketers must notify customers of the renewal terms not less than 60 and not more than 120 days prior to the end of the contract term. Contract renewals now require written confirmation from the customer. The customer has 14 days after providing written renewal notice to retract the renewal notice. The legislation also describes the specific requirements for replacing a contract with another part way through the term of the original contract as well as the circumstances under which a contract can be declared invalid.

For both the Union and Enbridge systems, the first marketer to enroll the customer with the utility keeps the customer in contrast to the last marketer rule employed in the commercial unbundling model in Terasen's program in British Columbia. As a consequence, there are no issues around "poaching" in the Ontario gas marketplace. In contrast, the issue in Ontario is around reservation and release of customers. As part of the enrollment process, a marketer reserves or books a customer until the confirmation or reaffirmation process is finished. This prevents another marketer from enrolling the customer. In some cases, marketers may wait until the last moment to release a customer even though the customer may have indicated earlier that they have changed their mind. This can make it difficult for the second marketer to meet the enrolment deadlines.

Issues are also experienced at the time of contract expiry. If a customer does not renew with a marketer, the original marketer must release the customer through the enrollment process with the utility. Some marketers are slow to submit the de-enrollment notice to the utility after the customer has indicated they do not wish to renew their contract. This can prevent the new marketer from successfully enrolling the customer or the utility from knowing they have customers returning to system supply. On the Union system, this can result in the customer returning to system supply for one month between marketers when a customer switches marketers.

Although ABC service is not mandatory, no marketer serving the residential or small commercial consumer market in Ontario has chosen the option to bill for the commodity portion. Under ABC service, prices must be a unit price expressed in cents per cubic meter. Union allows three line items on the bill for marketer charges: commodity price, upstream transportation charge (for capacity that has been assigned to the marketer) and a marketer's administration fee. Under its billing service, Enbridge only allows the marketer one line item on the bill so the marketer's upstream transportation costs cannot be billed as a separate item from the commodity price. Union is currently working to add more flexibility and optional services to their ABC service.

Many of the business rules, particularly around customer mobility, will be changed significantly when the Gas Access Distribution Rule ("GDAR") is ultimately implemented. The GDAR deals with service agreements between marketers and the utilities, the electronic business transactions standards and billing options. The GDAR is discussed in more detail later in this report.

<u>Consumer Protection/Customer Education</u>
Initially in Ontario consumer protection measures were lax or non-existent. The utility was often placed in the middle of disputes between the marketer and the customer. Ontario is often cited as the premiere example of the practices that marketers will employ when there are no formal consumer protection measures in place.

Ontario has, over time, introduced a series of consumer protection initiatives, including licensing, a Code of Conduct for Gas Marketers, the authority to suspend or revoke licenses and to impose financial penalties (up to $20,000 per day), and specific rules around enrollment and contract renewal through regulations introduced as part of legislative changes related to the opening of the electricity market. Ontario now has reasonably robust and effective consumer protection mechanisms.

The Ontario Energy Board ("OEB") is the body responsible for licensing marketers and enforcing the Code of Conduct and regulations around consumer protection. The OEB was given the power to fine marketers in 2001. The OEB did fine two marketers, including DEML, for forgery. The fines and the public exposure through the accompanying OEB press releases proved very effective in curbing much of the more blatant customer abuses.

The OEB is responsible for dealing with customer complaints, although they contracted this out to a third party for several years. They have now taken it in-house and have a full Compliance group of about a dozen staff, in addition to a call center, with 8 or 9 staff, operated by their Communications group. Customers deal with the call center first. Complaints that cannot be resolved in the call center or by referral back to the marketer are escalated to the Compliance group.

As noted earlier, the Ontario government introduced additional consumer protection regulations in 2002 (Ontario Regulation 200/02) for both the electricity and gas direct purchase markets when the electricity market opened. These regulations prescribe specific requirements around the nature and content of contracts, the signup and reaffirmation process, renewals and changes to contracts during the term of a contract.

In 2003, the OEB's structure and act were changed to accommodate some structural and performance changes. The OEB is now a self-funded crown corporation with clear direction to render decisions in a timely fashion. The funding for the OEB is largely provided from the utilities.

A new Code of Conduct for Gas Marketers, dated December 20, 2004, came into effect March 21, 2005. The changes from the previous Code are largely around cleaning up the Code and removing duplication of items that are covered in the legislation and regulations.

There has been minimal customer education in recent years. The OEB has done some customer education over the past year via inserts that are included with the utility bill. The OEB pays for the inserts.

<u>Gas Supply Model</u>

Direct purchase service for residential and other small customers is offered through “bundled T” service where the load balancing is done by the utility on an annual basis. Marketers can choose between “Western T” and “Ontario T” depending on whether they want to take assignment of service. The capacity assignment quantity is generally less than the maximum daily delivery requirement due to capacity turn backs by the utilities on the TransCanada Pipelines (“TCPL”) system in recent years. Upstream capacity assignments follow the customer and may be done in a “vertical slice” of the utility’s upstream capacity portfolio depending on the market area.

The load balancing is on an annual basis. The annual consumption for the customers is forecast on a contract group basis and then divided by 365 to arrive at a mean daily delivery requirement. Marketers deliver up to this quantity plus fuel. The actual volumes delivered on a day are determined by TCPL’s allocation of FST service. Marketers can over deliver with the consent of the utility to make up imbalances. The difference between deliveries and actual consumption of the customers in the contract is tracked in balancing gas accounts (“BGA”).

Effective February of this year, Union introduced two mid-year account balancing checkpoints together with associated readjustment to delivery requirements. The checkpoints are February 28 and September 30. The difference between how it was operated before and the new system is that the marketer previously had the option to supply extra gas in the winter whereas they now have the obligation to supply extra gas to manage to the checkpoints. Under the new system, contract BGAs cannot dip below the February 28 checkpoint requirement or go above the September 30 checkpoint requirement. Marketers are allowed to divert gas in the winter if they expect to be above the February checkpoint.

In the past, marketers have sometimes ended the year with fairly substantial imbalances in their BGAs. Union initiated these changes as a result of a cold winter where marketers drafted significantly over the winter and Union had to replace this gas. This created problems in the summer when marketers began packing up their accounts to resolve their imbalances and Union did not have the storage capacity for this gas. The introduction of the checkpoints has been well received by marketers. Enbridge is expected to follow Union’s lead and implement an end-of-winter account balancing checkpoint at some time as well.

Initially, the utilities required customers to commit to terms that were multiples of one year on direct purchase service to align with the annual load balancing supply model. However, the utilities had no way to monitor and enforce this. Enbridge and Union do not charge customers exit fees.

The regulated utility system supply rates are set through a quarterly rate adjustment mechanism ("QRAM"), where every three months the price of gas is set based on a 12-month forecast of commodity prices. The process is fairly mechanical in nature. The forecast is based on the average of the 12-month NYMEX strip over a 21-day period just prior to the time of the application. The difference between the QRAM price and actual supply costs is tracked in a purchased gas variance account ("PGVA"). A rate adjustment is determined every three months to clear the PGVA by spreading the variances over the following 12 months. Union aggregates the PGVA and commodity price into one line item whereas Enbridge reports the two components separately. Both utilities have been using this QRAM process effective January 1, 2004.

<u>Implementation and Ongoing Operational Costs</u>

Both utilities have incurred significant capital expenditures to support direct purchase both with the initial implementation and to support ongoing enhancements over the years. These enhancements have been driven by changes to legislation as well as utilities responding to marketers' requested changes.

Enbridge indicated they recently completed a significant update of their systems and business processes but it was an integrated system upgrade that was broader than just the direct purchase processes and systems. The author was unable to determine the cumulative costs for Enbridge in the timeframe available for preparing this report.

Union just spent $5.5 million to implement their new transactional system, Xtreme Direct Purchase ("XDP"), to accommodate their interpretation of the GDAR as it was set out by the OEB in 2002. This was the biggest systems update implementation for Union's direct purchase systems since 2002. Prior to 2002, cumulative unbundling program implementation costs were at least $15.7 million.

Union implemented the XDP system over the recent May long weekend. The OEB released a decision on how they intended to proceed with GDAR on May 9, 2005. In this decision, the OEB indicated it is writing the service agreements between the distributor and gas vendor and defining the electronic business transaction standards. Given that the ultimate GDAR rules may be significantly different than Union contemplated, Union are anticipating much of the XDP system may need to be replaced or modified. At this point, Union anticipates these additional costs could potentially be very significant but that they will not know until the OEB process around GDAR is completed. The GDAR implementation is also expected to require significant changes for the Enbridge systems.

Both Enbridge and Union charge marketers a variety of transactional fees in order to recover their operational costs. However, these fees have not been reviewed for a number of years to account for system and business process changes that have been implemented over time. Both utilities indicated that they were currently in the process of reviewing these fees.

Enbridge charges marketers the following fees to a monthly maximum of $850 per contract:

- $1.05 per residential bill per month, $2.00 per mid size account bill per month and $5.00 per bill for large customers
- $50.00 per month per contract, and
- 50 cents per new customer added and 15 cents for each renewal.

Union charges marketers the following fees:

- $75 per month per contract,
- $1.35 per bill, and
- 19 cents per month per customer.

Union is also working to implement optional billing services such as including the marketer's logo and color on a fee basis. Effective November 2004, Union introduced a messaging service to marketers for $0.02 per bill. At this point, all of the marketer's customers' bills must have the same message.

Initially, when ABC-T service was introduced, the Enbridge and Union systems did not support marketer groups with multiple price points. As a result there was a proliferation of marketer groups with larger marketers such as DEML and OESC holding hundreds of contracts with each utility. Each contract was managed separately for delivery requirement and balancing purposes.

Both utilities have introduced the ability to have multiple price points within one contract and there has been significant consolidation of contracts. Ultimately, the expectation is that each marketer will only have 12 contracts. This consolidation has allowed the utilities and the marketers to achieve some significant efficiencies but has also resulted in reduced fee revenue from the monthly contract administrative fees. Union also had to change their rules from remitting on deliveries to remitting on consumption to support contract consolidation.

<u>Anticipated Future Developments</u>

The Ontario marketplace is poised to enter into a new era under the Gas Distribution Access Rule ("GDAR"). The GDAR was originally introduced by the OEB in an effort to provide greater customer mobility and more billing options to facilitate gas supply competition. The GDAR also was intended to align the natural gas retail direct sales market with the developing electricity direct sales market on the basis that consumers would benefit from convergence in energy service offerings and potential economies of scale.

In the case of the electricity industry, there were many more players (initially over 100 utilities) and they were all commencing implementation concurrently so it made sense to have one comprehensive set of business rules and systems that applied to all players.

The GDAR was originally approved by the OEB in December 2002 with implementation timelines set out in the rule. Union and Enbridge both took issue with some of the rules, in particular, the ability for marketers to choose to bill for the distribution charges. The utilities took this to the courts but lost this challenge.

In addition, the players were to work toward the development of service agreements between the distributors and the gas vendors (marketers) but this did not progress as planned as the parties disagreed on scope. As a consequence, the OEB recently issued a decision that sets out how the OEB will assist and direct this process under some defined timelines. The OEB feel the scope of the service agreements should be broader than envisioned by Enbridge and Union and believe the service agreements and electronic business transaction standards should model those of the electricity market to the maximum extent possible to facilitate an efficient competitive gas market.

OEB staff will draft the service agreements and the electronic business transaction ("EBT") standards by early summer. There will then be a period for comment from the parties and a decision will then be issued by about the first week in August.

The adoption of the GDAR will potentially have significant impacts on both the business rules and the types of systems and standards used for the exchange of data between the parties in the various transactions. The business rules around customer mobility are expected to change to full mobility with enrollment on any day of the month and including the ability for a customer to retain their contract with the marketer when they move within the same service territory.

Under the GDAR rules that are to be implemented, the expectation is that the process will be aligned with the electricity market rules where the customer is changed to another marketer at any time this new marketer submits the enrollment request. The notice deadlines would also be aligned with the electricity rules and so would then also be the same for both gas utilities. Implementation of the GDAR will likely require significant business process changes on both the part of the utilities and the marketers.

The GDAR also makes it the marketers' option as to which of three billing options they wish to choose. The options are a consolidated distributor bill, a split bill and a consolidated gas vendor bill. There has also been discussion about what the service agreements would set out as the base billing service offered by the distributors. Marketers believe that options such as including marketer logos and messages should be part of the base service paid for by customers through distribution rates rather than as optional fee based services.

The OEB is also currently working through an initiative called the “Natural Gas Forum”. The driver seems to be the electricity industry and the need for gas fired generation in light of plans to phase out coal-fired generation. The main issues to be addressed are rate regulation, access to infrastructure (i.e. storage and upstream transportation), determining which parties should be responsible for developing infrastructure and whether there should continue to be a regulated system supply rate option.

A report setting out the conclusions of the Natural Gas Forum was issued in March of this year. One of the conclusions was that the regulated system supply rate would be continued with a quarterly flow through price adjustment mechanism. They also concluded that a fixed price, fixed term offering from the utility was inappropriate.

Issues and Challenges

Currently there is significant uncertainty around the GDAR service agreements, the electronic business transaction standards and the anticipated implementation dates. OEB staff is currently writing the service agreements and they are to be released in early summer for comment by the various parties. The service agreements are to be finalized by early September. Until that time it is not clear what the rules will be but it is anticipated that they will more closely resemble those of the electricity market.

Alberta

Overview

The Alberta market has had direct purchase options for residential and small commercial customers since 1995 but marketer participation had been low (one to two players) under the market design that was originally put in place.

The Alberta natural gas and electricity markets have undergone significant structural changes in the past two years as a result of legislative changes that were largely designed to open the electricity market. These legislative changes have moved Alberta much more quickly in the direction that Ontario is headed where the natural gas and electricity market rules are aligned in a effort to encourage convergence in the respective direct purchase markets.

Amendments to the Gas Utilities Act were approved in the spring of 2003 that provided for the separation of the regulated rate function from the distribution function for both the natural gas and electric industries. The legislation also set out that the regulated rate function no longer needed to be provided by the distributor. All of Atco Gas’ (“Atco”) natural gas and electricity customers who were on the regulated system supply rate, have been transferred to the Default Supply Provider (“DSP”) for Atco’s system, Direct Energy Regulated Services (“DERS”).

Atco has implemented the legislative changes in two phases (billing and load balancing) and is still working through the second phase. The first phase implemented the “One Bill” model where the retailer or DSP bills for both the commodity and distribution charges. The second phase will move to daily load balancing and settlement. Customer participation rates have recently increased in response to increased marketer interest and activity under the new rules.

<u>Market Competitiveness</u>
Residential and other small volume consumers have had direct purchase service options in Alberta since 1995 when the Gas Utilities Core Market Regulation was put in place but the market has not been very active until the recent legislative changes were enacted separating the distribution and regulated rate functions. The belief is that the previous market design created barriers to effective competition. Only one or two marketers were active in the years leading up to the recent legislated changes.

There are number of natural gas distributors in Alberta, but Atco, with its two divisions Atco North and Atco South, is the largest with about 940,000 gas customers. AltaGas Utilities is the other major gas utility in the province with about 60,000 customers.

Prior to the recent market structure changes, the Atco customer participation rate in direct purchase service hovered around 4% (about 40,00 customers). The current residential participation rate in Alberta is about 7% (about 65,000 customers) and growing, with much of the increase from 4% to 7% occurring in the last six months.

Some of the marketers participating in the residential market are Alberta Energy Savings (“AES”), Enmax and Direct Energy Essential Services (“DEES”). Marketers generally offer both natural gas and electricity supply contracts.

AES entered the market in November 2004 when it bought 27,000 natural gas and 66,000 electricity contracts from Epcor. In order to facilitate its entry into the marketplace, AES also contracted with Epcor for Epcor to do AES' billing for the next 5 years. Epcor has exited the retail market at the residential level.

It is not clear how the market share is distributed at the residential level. According to Energy Savings Fund information, AES’s purchase of Epcor’s customers has given them over half the market share. Atco staff, however, felt that DEES was likely the bigger player.

Pricing offers are more varied than in Ontario and Manitoba as the marketers are responsible for their own billing and decide themselves what billing functionality to support. There are examples of flow through pricing as well as fixed prices. However, the majority of offers are fixed price for terms of 3, 4 or 5 years. Alberta legislation limits contracts to a maximum term of 5 years. Some offers feature signup bonuses.

Atco is not privy to prices so could not comment on the pricing options that are available. There is no central clearing house or price discovery mechanism so customers must contact marketers (or be contacted by marketers) to find out what pricing alternatives are available at any given time.

<u>Key Business Rules</u>
Prior to the legislative changes that were made in 2003, the direct purchase market operated under the Core Market Transportation Service Regulations that were put in place in 1996. The model that underlay these regulations was based on monthly load balancing provided by the distributor. The distributor provided an estimate of the load for the month and marketers delivered the quantity at an equal rate each day.

Under the old rules, marketers were responsible for billing their own commodity since Apollo challenged Atco's billing rules in 1999. Atco, in turn, retained responsibility for billing its own distribution charges so a customer on direct purchase would receive two bills.

Major legislative changes to the Gas Utilities Act were introduced in 2003 through Bill 19. The legislation is intended to align the natural gas and electricity market in order to facilitate convergence and to provide retailers with the opportunity to market both commodities together and bill for them in a single bill. The legislative changes separate the regulated supply function from the distribution function and allowed the distributor to assign the regulated supply function to another party. The intent is to put the retailers and regulated rate providers on more equal footing. The legislation also confirms that the regulated rate will be determined on a flow through basis based on market rates. Lastly, the legislation sets out Codes of Conduct for the distributor, regulated supply provider and affiliated retailers. As a result of this legislation, the Alberta retail direct purchase natural gas market is currently in the midst of a significant transition as the natural gas industry works to implement these legislative changes.

Atco chose to assign the regulated rate function. DERS is now the regulated rate provider and supplier of last resort for the Atco gas service areas. Atco is implementing the legislative changes in a phased approach and they have modeled their gas Terms and Conditions for Distribution Access Service on those that they already had approved and in place for their electricity distribution service. Phase 1 of the implementation focused on the "One Bill" model under which the marketer or the DSP bill the customer for both the commodity and the distribution charges. This Phase is now complete.

Phase 2 deals with the load balancing requirements. Under the requirements of the legislation, Atco will move to daily balancing to more closely mirror the electricity market load settlement rules and to facilitate full customer mobility. As part of this move, Atco is shedding load-balancing assets.

Until Phase 2 of the implementation is complete, the previous monthly load balancing rules under the Core Market Transportation Service, specifically, those outlined in Atco's Rate 11 and Rate 13 services, will apply. Once the Phase 2 transition is complete Rates 11 and 13 will be obsolete.

Effective with the implementation of Phase 1, customers are enrolled on a daily basis on a first-come, first-serve basis to be effective the following day. Customers stay with a marketer until another marketer enrolls them. Once a customer is enrolled with a new retailer, Atco notifies the old retailer. Atco does not notify the customer.

Atco will provide the retailer or DSP with 12 months of historical consumption for each customer, with the written consent of the customer, at no charge once per 12-month period. A fee will be applied to subsequent requests within the 12-month period.

The retailer or DSP can request that Atco disconnect a customer for non-payment although there are certain restrictions during the winter heating season for residential and commercial residential accounts.

<u>Consumer Protection/Customer Education</u>
Marketers are licensed by the Alberta Government Services, Consumer Services Branch under the Fair Trading Act. The licensing fee is $1000 per year. Marketers are required to post a $250,000 bond.

The Natural Gas Direct Marketing Regulation (AR 186/99) was repealed and replaced by the Natural Gas Marketing (Fair Trading Act) Regulation (AR 10/2004) effective January 19, 2004. The new regulation permits and sets out the rules for internet marketing contracts. In addition, the new regulations require that customer contracts cannot be automatically renewed. Customers must consent to renewal in writing or electronic form within 6 months before the date of the renewal.

The Alberta Government's Department of Energy provides customer education via the Customer Choice website, a call centre, tip sheets and booklets. The website lists licensed marketers and also provides a template for comparing retail offers.

In addition, in 2003, the Alberta government established the Office of the Utilities Consumer Advocate to provide a mechanism for consumers to deal with utility service complaints and issues. The Advocate deals with enquiries and complaints about utility service and monitors proceedings before the Alberta Energy and Utilities Board ("EUB") and other regulatory bodies to ensure that decisions do not unreasonably or unfairly affect customers. Besides educating consumers the Utilities Consumer Advocate helps facilitate representation of consumers at regulatory hearings. The Office of the Utilities Consumer Advocate recently appointed an Advisory Council comprised of Alberta citizens. Alberta appears to be unique in its efforts to ensure small consumers have a voice in the restructuring process.

The government organized Customer Choice and Utilities Consumer Advocate are funded by the utilities and other regulated market entities.

Alberta also has a Natural Gas Rebate Program that is designed to protect consumers from high commodity prices. The rebate program is triggered whenever the natural gas commodity price goes over $5.50 per GJ in the winter heating season (November through March). All residential customers receive the rebates regardless of whether they are on the regulated default flow through supply rate or supplied by a marketer through a multiyear fixed price contract. There are no restrictions on a marketer offering a contract for a price higher than the rebate trigger level.

<u>Gas Supply Model</u>
Atco is no longer the supplier of last resort. This function was transferred to DERS together with the default system supply role. Atco, as distributor, provides both marketers and DERS with delivery requirements based on the customers the marketers and DERS supply. The same delivery and balancing rules and requirements apply to the retailers and the DSP.

Currently, in the interim period before Phase 2 of the Atco's implementation of the legislative changes is completed, the delivery requirements continue to be determined under the Core Market rules. Under this mechanism, the delivery requirement is equal to the estimated forecast of the customers' load on monthly basis (100 percent load factor over the month), plus an "unaccounted for gas" component and any imbalance requirements. Imbalances are settled over following month by mutually agreed schedule or, failing that, at a constant rate over a 30 day period.

Implementation of Phase 2 of the Atco's compliance application will move to daily balancing with a daily load requirement forecast on the basis of historical consumption for the customers in the group, the previous day's (back cast) weather and the forecast weather for the day. This will facilitate the move to full mobility where customers can switch suppliers at any time of the month.

In the Atco territories, the regulated rate offering is now provided by DERS as the DSP. The regulated rate offering is priced on a monthly basis with simple flow through methodology and no hedging. All purchases are on the daily and monthly spot market. The price is set on the 5th to last day of one month for the following month and is based on a combination of the day and month market forecast prices. The methodology is transparent with DERS required to file monthly reports. DERS posts these reports on their website.

In EUB decision 2001-75, the EUB directed that no entrance or exit fees should apply to regulated gas rate offerings since the passage of the Natural Gas Price Protection Act obviated the need for price stabilization features such as hedging and extended deferral gas account periods through the Natural Gas Rebate Program. This consumer price protection mechanism facilitated the move to a monthly flow through regulated default supply rate.

The Alberta EUB notes that entrance and exit fees are only justified where mechanisms such as hedging and extended deferred gas accounts are used to manage price volatility. In this instance, the EUB noted, exit and entrance fees are inevitably required to ensure fairness. The presence of entrance and exit fees, however, is considered a barrier to ensuring customers can freely choose amongst gas service alternatives. Alberta utilities had exit fees initially when direct purchase was implemented but they were no longer allowed after the 2001 decision.

<u>Implementation and Ongoing Operational Costs</u>
Implementation costs to facilitate the recent legislated restructuring of the Alberta market are not readily available due to the number of parties are impacted. The marketers have had to modify billing systems to take on the billing of the distribution charges under the “One Bill” system. DERS needed to implement billing system changes as well and also had to establish gas supply management systems. Atco has noted that they have shed costs as they shed functions such as customer billing and gas supply.

Some specific costs estimates, provided by Atco in applications detailing the steps needed to achieve compliance with the legislation, are outlined below. In the Phase 2 implementation, Atco describes the need for two new systems. The Daily Forecasting and Settlement System (“DFSS”) will be developed to manage the daily load forecasting function. The Gas Transportation Information System (“GasTIS”) will be developed to manage the retailer supply /demand balances and to communicate with the Atco Gas Pipelines transmission system on a nomination cycle basis. The estimated capital costs to develop these systems were put forward as the following in the Atco Retailer Service and Gas Utilities Act Compliance Application dated July 25, 2003.

	2003	2004
LPSS	$1,250,000	$490,000
GasTIS	0	$3,500,000
Total	$1,250,000	$3,990,000

Anticipated Future Developments
It is not clear what the next developments will be once the current legislative changes are implemented.

Issues and Challenges
Atco's Phase 2 of its Gas Utility Act compliance implementation deals with the move to daily balancing. Atco staff expressed reservations regarding this move to align load balancing and settlement rules for natural gas with those of the electricity market. Nevertheless, they are proceeding with the move to daily balancing. The balancing rules will be applied to both the DSP and marketers.

As part of the move to daily balancing, Atco will continue to shed balancing assets. There appear to be ongoing issues associated with the disposal of the Carbon storage asset that will need to be worked through.

As part of the transition under the new legislation, 198 municipalities had to renegotiate their franchise agreements. Alberta Municipal Affairs helped to move these negotiations forward. 56 agreements were signed last year. Under the new franchise agreements, they use a deemed sales rate based on the regulated rate option.

Manitoba

Overview
Manitoba originally had a buy/sell program to facilitate direct purchase. A Western T service, modeled on the Ontario bundled T service, was introduced in 2000. Manitoba, however, was faced with infrastructure issues associated with a lack of market area storage that lead to some unique and complex features in the design of their annual load balanced direct purchase service.

There have been no real enhancements to their program but changes in the Ontario marketplace and the entrance of a second active marketer in the residential and small consumer market have lead to concerns that they will be encouraged to make changes similar to those happening in Ontario as a result of the GDAR process.

Market Competitiveness
There are only about 250,000 residential gas customers in Manitoba. Centra Manitoba, a division of Manitoba Hydro, is the gas utility. Direct purchase via Western T service was introduced in May 2000. Prior to that point, Manitoba had a buy/sell option available. Enrollment in direct purchase service has fluctuated

between 30,000 and 50,000 over the past few years. It had dropped to a low of 30,000 a few years ago but activity has increased recently.

Although there are about 10 marketers currently licensed, only two marketers serve the residential market. Municipal Gas (a subsidiary of DEML) was the only player for a number of years. Recently, however, Manitoba Energy Savings (an affiliate of OESC) has entered the residential marketplace and is actively enrolling customers.

Currently there are a total of about 45,000 (18%) residential customers enrolled in Western T service with participation on the upswing due to recent increases in the price of the utility regulated system supply rate. Of the current enrollment, about 30,000 are with Municipal and 15,000 are with Manitoba Energy Savings.

As in Ontario, pricing offers are fixed price for terms of 3, 4 or 5 years.

<u>Key Business Rules</u>
In Manitoba, direct purchase service is provided under Western T service. There have been no real changes to Western T service since it was introduced. The option for marketers to do their own billing was introduced in 2001 but no marketers have chosen to move away from the ABC service provided by the utility.

Customers are enrolled on a quarterly entry date system with 30 days notice. Customers can be removed on a quarterly basis with 30 days notice. The first marketer to enroll the customer keeps them in the event more than one marketer tries to enroll a customer. Only the marketer who has the customer enrolled with them can release the customer.

Centra Manitoba receives image copies of all customer contracts from the marketer. The utility tracks contract term but only as a mechanism for flagging, for system supply planning purposes, when to anticipate that customers might be returned to system supply. Centra Manitoba would like customers to stay with a marketer on direct purchase for one year terms to match the load balancing model but they have no way of enforcing it. There are no exit fees for customers who switch mid-year.

Centra Manitoba has minimum annual forecast consumption limits for a marketer to establish a price point group. The minimum is the equivalent of about 100 residential customers.

Enrollment and switch data is submitted in Excel format. The format requires the customer name and premise number to enroll. The premise number is printed on the bill. Centra Manitoba staff are concerned that marketers might push for some of the transactional standards contemplated in Ontario's GDAR such as the option of providing only 2 out of 3 data items to enroll a customer.

The utility provides the marketer a Maximum Daily Quantity (MDQ) on a customer-by-customer basis. The marketer receives the delivery requirements 5 to 10 days ahead of the flow date. The actual daily delivery requirement can be changed at any time, even multiple times during the day, although they have never done this. It is, however, common to change the delivery requirement multiple times during the month and marketers have difficulties with this feature of the Manitoba program.

Billing for the commodity component by the utility under ABC service is optional but all residential and commercial marketers currently use the utility ABC service. This service requires a fixed price. Prices can be changed on a monthly basis on 30 days notice.

Consumer Protection/Customer Education

The Manitoba Public Utilities Board is responsible for consumer protection and licensing marketers. Marketers pay $500 to apply for a license and $100 on annual basis. There is a Marketer Code of Conduct. They have a mandatory 10-day cooling off period after the contract is signed.

At the outset, when Western T service was implemented, there was a significant customer education program developed on a collaborative basis with participation from all the parties. There has been very little customer education delivered since that time.

Centra Manitoba recently developed and delivered a customer education program. The education program also highlighted the positive elements of the regulated system supply (e.g. security of supply via a hedging program) but they were strongly criticized by the marketers for the biased message in the education package and withdrew it. They are currently working through a collaborative process with marketers to develop a new customer education program.

Gas Supply Model

The Manitoba marketplace presents similar infrastructure issues as the B.C. marketplace due to the lack of market area storage. The gas supply model adopted by Centra Manitoba splits out the commodity portion based on an annual forecast of the customers load requirement with deliveries spread out through the year.

The marketer does not, however, supply the full quantity forecast for their customers' consumption. The forecast consumption is split into Primary Gas and Supplemental Gas based on an estimate of the peaking gas that will be required to augment storage withdrawals in the winter heating season. Marketers supply the Primary Gas component. The split between Primary Gas and Supplementary Gas is forecast on an annual basis. It can be adjusted more frequently.

Generally, the Primary component averages approximately 94% of the forecast total consumption.

In addition to supplying the Supplementary Gas, the utility remains responsible for load balancing and upstream transportation.

Although marketers are given a delivery requirement based on a 100 percent load factor calculated on an annual basis the utility has the right to change the delivery requirement on a daily nomination cycle basis. In practice, the delivery requirement may be adjusted a couple of times each month and the changes are the same proportion for all marketers and tracks the changes to the system supply delivery requirements for the Primary Gas. The actual annual load factor for Primary Gas delivery requirements is about 80% according to Centra Manitoba staff.

Under the direct purchase service, customers can choose to buy the Primary Gas component from a marketer. All customers see the Primary Gas and Supplemental Gas components of their total consumption for a billing period as separate line items (with separate quantities for each) on the bill. Upstream Transportation also appears as a separate line item. This bill design created considerable customer confusion when it was originally introduced.

Primary gas rates are set on a quarterly basis. Supplemental gas rates are set on an annual basis. Supplemental Gas prices have varied widely over the years ($0.3926 per m^3 in 2001/02 to $0.0784 per m^3 in 2002/03). There are separate Purchased Gas Variance Accounts (PGVA) for Primary Gas and Supplementary Gas.

A Gas Loan Mechanism is used to manage the difference between marketer delivery and the customer Primary Gas billed quantities each month with the assumption the volumetric difference is injected or withdrawn from storage. The value of the volumetric difference is determined using the marketer price (or the Centra Primary Gas price if the marketer chose not to use ABC service). Centra pays the marketer when the difference is positive and the marketer pays Centra when the difference is negative.

Any imbalances at the end of the year are cashed out at the Centra October Primary Gas price. The end of the year reconciliation also has a volumetric adjustment to account for the difference between the actual Primary Gas consumption and the delivered quantity. The fact that both the annual load requirement and the portion that is Primary gas are both forecast on an annual basis and the delivery requirement is changed frequently throughout the year, results in a complicated reconciliation at year-end that involves reconciling both commodity and financial components.

Centra is supplier of last resort. Centra provides a Bridging Service for customers who return to system supply between the quarterly entry dates. Centra provides Backstopping Gas to marketer for any shortfalls at two times the cost of the incremental gas. If Centra is unable to acquire Backstopping Gas, the marketer's customers must curtail or be charged Penalty Gas Charges and/or Penalty Delivery Charges.

Implementation and Ongoing Operational Costs

The cumulative program implementation costs were not available. It is thought that the initial capital costs were fairly modest. No significant enhancements have been made since Western T service was introduced. Business processes and systems are not complex and rely on Excel spreadsheets to upload and download data between the utility and the marketer.

The billing fee is still set unchanged at 25 cents per bill. It was arbitrarily set by the regulator and is not based on actual operational costs. This is the only fee Centra Manitoba charges marketers for Western T and ABC service.

Anticipated Future Developments

Centra Manitoba currently has no plans for changes to the direct purchase service or enhancements to their systems at this time. At recent gas cost proceedings, Municipal Gas has indicated they would like to see some enhancements and options introduced for direct purchase service. For instance, Centra Manitoba staff indicated that Municipal Gas has expressed interest in an unbundled daily balancing service option.

Centra Manitoba staff anticipate the implementation of the GDAR in Ontario will lead to a spillover effect where marketers lobby for similar changes in Manitoba. The requested changes would likely include full customer mobility, contracts that follow customers when they move and flexibility on data requirements for enrollment.

Issues and Challenges

The market infrastructure continues to pose challenges in Manitoba, specifically the lack of market area storage. The load balancing model employed by Centra Manitoba to facilitate direct purchase is complex and does not easily serve as a building block for implementing changes should marketers lobby for business process changes to match those that have been put in place in the last few years in Ontario and, in particular, those anticipated under Ontario's GDAR. The annual nature of the load forecast and the split between Primary and Supplemental gas is predicated on customers staying with direct purchase contracts for one-year increments. For example, giving marketers the ability to consolidate delivery requirements for multiple groups and any increased customer mobility would undermine the gas supply model.

Other Canadian Provinces

Quebec

Commodity unbundling has recently been implemented in Quebec. The market is not large; Gaz Metropolitain has about 150,000 customers. In preparation for unbundling, Gaz Metropolitain split their customer bill into the following components in 2001: supply, fuel gas, transportation, load-balancing and distribution. There are a variety of unbundled options available to various customer classes allowing customers to unbundle just the supply and fuel or to also unbundle the transportation and load-balancing as well. The bundled direct purchase service uses an annual load-balancing model.

OESC's affiliate, la Corporation d'economie d'energie du Quebec, has recently entered the residential market in Quebec in the Gaz Metropolitain territory. Energy Savings Income Fund indicates that it has targeted 50,000 new customers in the combined markets of British Columbia and Quebec.

New Brunswick

Enbridge Gas New Brunswick awarded distribution rights in 1999. First deliveries of natural gas commenced in March 2001. This marketplace is unique in North America in that customers had choice of supplier from the outset. Customers who elect the utility supply option do so for one-year terms. The number of customers and marketer activity levels are still low in New Brunswick as they are building the distribution network.

Saskatchewan

SaskEnergy has had an ABC-T service available for residential and small commercial customers since 1999 but it is not apparent whether there are any residential customers on this service and whether there are marketers active in this area.

U.S. Marketplace

Overview

In the United States, 18 states and the District of Columbia had some form of unbundling program for residential and other small volume customers as of the end of 2004. Six had statewide programs with 100% of customers eligible.

Customer enrollment as well as the number of marketers serving these customers decreased in 2004 even though the number of eligible customers increased. About 33 million of the 62 million residential customers in the U.S. have access to customer choice programs and about 4 million have chosen to participate. It is thought that higher natural gas prices in recent years may have discouraged some marketers from participating.

Participation ranges from practically zero in California, New Mexico, West Virginia and Massachusetts through approximately 30 to 40% in Ohio, Indiana, Wyoming and Kentucky and up to 100% of those eligible in Florida, Nebraska and Georgia where customers who did not choose a marketer were assigned one.

The following state by state summaries give some specific data regarding marketplaces where OESC's affiliate, U.S. Energy Savings Corporation ("USESC"), and DEML's affiliates, Direct Energy Pennsylvania and Direct Energy Ohio, have chosen to participate in the residential and small commercial marketplace. It appears that one common characteristic of the natural gas plans offered by these U.S affiliates is that these marketers are choosing to have the utility handle the billing of the marketer supplied commodity. Energy America, another DEML affiliate, appears to be inactive as a gas marketer at the current time.

The author conducted a high level survey of U.S states offering unbundling programs to determine whether any had successfully implemented customer choice programs for residential customers in marketplaces characterized by the absence of access to market area storage. This search was unsuccessful.

<u>Illinois</u>
At the end of 2004, about half of Illinois residential customers were eligible for direct purchase and 7% (150,000) of those eligible had chosen to participate. USESC entered the Illinois residential direct purchase market in 2004. In Illinois, marketers have the option to have the utility bill on behalf of the marketer so the customer can continue to receive one bill. This was likely a significant factor in USESC's decision to enter this market. USESC has chosen to have the utility bill its customers in Illinois.

<u>New York</u>
New York has had a comprehensive statewide unbundling program for residential customers for a number of years. Participation rates were 1.8% in 1999 and rose to 7% by the end of 2001. The state had hoped to have the utilities out of the merchant function by now but participation rates have remained steady at 7% since 2001. In an effort to accelerate the transition, the New York Public Service Commission restated its commitment to customer choice in 2004 and outlined several strategies to boost participation including continuing the option for utilities to handle the marketer billing. The NYPSC is also encouraging utilities to consider purchasing marketers' account receivables to reduce the marketers need to perform credit checks.

USESC plans to enter the New York residential gas market in 2005.

<u>Ohio</u>
Natural gas choice programs were introduced in 1997 with the three largest utilities. Ohio reached 30% participation of eligible residential customers by 2000 and has fluctuated between 30 and 40% since. High natural gas prices in the

winter of 2000/01 caused some marketers to exit. There have been 8 to 10 active marketers in the residential market since that point.

An aggregation program was introduced through legislation in 2001. This program allows residential and commercial customers to form buying pools to obtain better price deals. They are formed at the community level. So far 190 Ohio communities have approved aggregation programs.

Ohio has an “Apples to Apples” price comparison program where the Public Utilities Commission posts price comparisons on its website.

Direct Energy Ohio participates as a marketer in this state.

<u>Pennsylvania</u>
The first pilot for retail unbundling was introduced in 1996 in Pennsylvania. In 1999, all utilities were to file unbundling plans and licensing and standards of conduct were established. Residential customer participation peaked at 12% of eligible customers in 2001 and has declined since then to current levels of 7%. During the initial pilot programs, customers were exempted from the 5% gross receipts tax. This advantage ended in 2001.

The Public Utilities Commission is required to evaluate the competitiveness after 5 years and report its findings. The PUB is currently conducting this evaluation and will report its findings in 2005.

Direct Energy Pennsylvania participates as a marketer in this market.

Customer Value
In Ontario and Alberta, where the electricity industry is now open to direct purchase as well, the provincial governments have been driving the unbundling process by enacting legislation. The costs of implementing unbundling programs in these provinces have been significant but the respective provincial governments and regulators have made it clear that they believe the cost of restructuring is ultimately worth the effort. The customers have been paying the utilities’ capital costs through rates. Marketers typically pay some or all of the utility direct purchase program operational costs. The marketers also incur their own capital and operating costs to support their call centers, marketing programs and back office systems.

The Ontario and Alberta governments have stated that they see a convergence of the electric and natural gas direct purchase markets as bringing value to customers through a broader diversity of product offerings, combined bills and economies of scale. In order to achieve these benefits, the electric and natural gas business processes must be aligned as closely a possible. (References: OEB Decision RP-2000-0001 dated May 9, 2005 regarding GDAR and Alberta

EUB Decision 2001-75 dated October 30, 2001 regarding GCRR Methodology and Gas Rate Unbundling).

Marketers argue that the customer value is in price stability as well as price savings for long-term contracts. They point to savings of hundreds of dollars over the term of a contract for customers that locked into long-term contracts in the past. The savings, of course, not only flow to the customer but to the marketer as the marketers have a markup on commodity sales in contrast to the utilities. Energy Savings Fund, OESC's parent, describe targeted margins in the order of $170 and $120 per year per customer for Canadian and U.S. customers, respectively, in its Management Discussion and Analysis report to investors.

As part of the work to implement the recent legislative in Alberta, the EUB requested Atco do some calculations of the cost of implementing the recent legislative changes. They appear to have concluded that consumers were at worst neutral as a result of the restructuring from the perspective of distributor rates.

The newly created Alberta Office of the Utilities Consumer Advocate Advisory Council has prepared a discussion paper on wholesale and retail electric market design in Alberta. They express concerns that the transition to a competitive retail market is imposing additional cost and risk on small consumers. They recommend that the regulated rate option retain some element of long term hedging.

References and Contacts

A number of telephone interviews were conducted as part of the research process for this report. The people at the various organizations with responsibility for direct purchase programs are noted below. An asterisk indicates an individual who provided extensive information obtained via the telephone interviews. The contact information for others, who play key roles in the direct purchase market for their province, is also included below for Terasen's future reference. In some cases, these particular individuals were not available for interviews or referred the author to others for detailed information.

Ontario

- Ontario Energy Board   www.oeb.gov.on.ca
    - Brian Hewson, Chief Compliance Officer   416-440-7628
    - Elaine Wong, Manager of Licensing   416-440-7638
    - ***** Neil McKay, Manager, Licensing and Facilities   416-440-7634 neil.mckay@oeb.gov.on.ca
    - ***** Paul Gasparatto, Project Advisor, Compliance Office   416-440-7724 paul.gasparatto@oeb.gov.on.ca
- Union Gas Ltd.   www.uniongas.com
    - *Chris Ripley, Manager, Retail Marketer Services, 519-436-5476 cripley@uniongas.com

- Enbridge Gas Distribution Inc. www.cgc.enbridge.com
    - Jody Sarnowsky, Manager of Strategic & Key Accounts 416-495-6785
    - ***Kishore Singh, Agent, Broker and Marketer Manager 416-495-5516 kishore.singh@enbridge.com
- Direct Energy Marketing Limited www.directenergy.com
- Ontario Energy Savings Corporation www.oesc.ca

Alberta

- Atco Gas www.atcogas.com
    - Ralph Trevato, 780-420-7341
    - Mary Magee-Perry, Supervisor of Pricing and Contracts 780-420-7064
    - ***Jennifer Bell, 780-420-7928
    - ***Tammy Ricket, 780-420-5752
- Direct Energy Regulated Services www.directenergy.com/alberta/home_regulated/
- Direct Energy Residential Services www.directenergy.com/alberta/home_essential/
- Alberta Energy Savings www.aeslp.ca
- Alberta Energy and Utilities Board www.eub.gov.ab.ca
- Alberta Government
    - www.energy.gov.ab.ca
    - www.customerchoice.gov.ab.ca
    - www.utilitiesconsumeradvocate.gov.ab.ca

Manitoba

- Centra Manitoba www.hydro.mb.ca
    - Greg Barnlund, Senior Consultant, Rates and Regulatory 204-480-5243
    - ***Pam Mansky, Market Planning Analyst 204-477-7857 pmansky@hydro.mb.ca

Quebec

- Gaz Metropolitain www.gazmetro.com

New Brunswick

- Enbridge Gas New Brunswick www.amazingenergy.ca

United States

www.eia.doe.gov/oil_gas/natural_gas/restructure

Reference Material
Considerable written material was available for reference in the form of regulatory reports and decisions, utility applications and tariffs, and government legislation and regulations. Copies of the following material are provided on the enclosed Compact Disc. Additional material is available on the websites indicated above.

<u>Ontario</u>
- Ontario Government
    - OEB Act Regulation 200-02
- OEB
    - Code of Conduct for Gas Marketers December 2004
    - GDAR Decision May 9, 2005
    - Natural Gas Forum Report March 30, 2005
- Union
    - General Terms August 2004
    - Collection Service Agreement
    - EMAC Meeting Notes June 2004
    - EMAC Meeting Notes December 2004
- Enbridge
    - Rates Handbook
    - ABC Agreement
    - Ontario T Service Tariff
    - Western T Service Tariff
- Energy Savings Fund
    - 2005 Management Discussion and Analysis

<u>Alberta</u>
- Alberta Government
    - Natural Gas Marketing (Fair Trading Act) Regulation 10/2004
    - Gas Utilities Act Regulation 183/2003 - Code of Conduct
    - Gas Utilities Act Regulation 184/2003 - Default Gas Supply
    - Gas Utilities Act Regulation 185/2003 - Natural Gas Billing
    - Gas Utilities Act Regulation 186/2003 - Roles, Relationships and Responsibilities
    - Natural Gas Marketing License Process (excerpt from RU 10/2004)
    - Natural Gas Marketing Consumer Tips Sheet January 2004
- Alberta EUB
    - AEUB Decision 2001-75
    - AEUB Decision 2003-102 regarding Atco Application 1308709
    - AEUB Decision 2003-108 regarding Atco Application 1303682
    - ATCO 2003 Gas Rate Unbundling Application 1303682
    - Atco Retailer Service & GUA Compliance Application 1308709
- Atco
    - Atco General Terms and Conditions for Distribution Access Service
    - Retailer's Handbook for Distribution Access Service

Manitoba

- Manitoba Public Utilities Board
    - Market Code of Conduct
- Centra Manitoba
    - Gas Terms and Conditions
    - ABC Agreement
    - Customer Notification Letter

Quebec

- Gaz Metro
    - Gaz Metro Tariff Overview Document

New Brunswick

- Enbridge Gas New Brunswick
    - New Brunswick Natural Gas Buyers Guide

APPENDIX 2

American Gas Association

Policy Analysis Issues

Policy Analysis Group
400 N. Capitol St., NW
Washington, DC 20001
www.aga.org

Issue Brief 2003-02 **September 10, 2003**

Summary of Residential Customer Choice Pilot Programs and Initiatives 2003 Update

Introduction

Over the last several years, local natural gas utilities have offered customers an increasing array of options and services. These services have traditionally provided larger industrial and commercial customers with the opportunity to purchase supplies in the marketplace from a variety of suppliers, and have also helped these large-volume consumers to store natural gas and balance their need for gas during periods of high and low demand. More than 95 percent of large-volume natural gas customers, such as electric power plants and manufacturing companies, now have the option of selecting their own natural gas supplier. Similarly, an increasing number of commercial customers, such as hospitals and foodservice operations, also have access to this "customer choice" option. AGA estimates that more than 72 percent of commercial customers can now, or will be able to soon, buy gas from a non-utility supplier.

As the energy industry continues to evolve, small-volume commercial and residential customers are now being provided the opportunity to purchase their supplies in the marketplace. From 1996 to 2003, a significant number of residential pilot programs were proposed by gas utilities that allow residential customers to choose their natural gas supplier, similar to how they can choose a long-distance telephone carrier. The programs allow marketing companies to cluster customers, so that the market can be served in an efficient manner, with the gas utility still delivering the gas to homes and maintaining safety standards.

This issue brief identifies 24 states and the District of Columbia where residential choice programs have occurred, are underway, or are proposed. Several other states are investigating choice programs. Jurisdictions such as the District of Columbia, Georgia, New York, New Jersey, Pennsylvania, and West Virginia and utilities in Illinois, Maryland, Michigan, Montana, New Mexico, Ohio, Virginia, and Wyoming have created or are in the process of providing **all** of their customers with the ability to choose their gas supplier. In all, almost 30 million U.S. households with natural gas service, or 56% of the residential sales in 2001, will have the opportunity to purchase their gas from a non-utility supplier. Table 1 provides a state-by-state description of gas utility residential pilot programs and unbundling initiatives. When combined with the commercial, industrial, and electric utility sectors, 83 percent of the gas consumed today could be purchased from non-utility sources. These totals apply only to those projects and initiatives that have been proposed to date or are currently in place. Thus, the actual number of customers able to select their gas supplier is expected grow as more programs are adopted.

TABLE 1
RESIDENTIAL PILOT PROGRAMS AND UNBUNDLING INITIATIVES

STATE	COMPANY	POTENTIAL # OF HOMES	POTENTIAL DEMAND (Bcf)	IN-SERVICE DATE	PENDING OR COMPLETED GOVERNMENT ACTION*
California	Pacific Gas & Electric	3,704,000	199.2	8/91	CPUC Rulings Issued, State Law Prohibits PUC From Further Res. Choice Until 2000
	San Diego Gas & Electric	74,000	3.4	8/91	
	Southern California Gas	486,000	26.4	In-Service	
Dist. of Columbia	Washington Gas	138,000	12.9	1/99	
Florida	Chesapeake Utilities	9,000	0.3	2002	
	Indiantown Gas	1,000	0.1	2002	
Georgia	Statewide	1,737,000	120.0	11/98	State Law Passed
Illinois	Nicor Gas	1,808,000	219.4	1999	ICC Hearing
	North Shore Gas	139,000	19.3	2002	
	Peoples Gas Light & Coke	796,000	111.5	2002	
Indiana	Northern Indiana Public Svce.	150,000	14.2	05/98	URC Study Completed
Iowa	Statewide	818,000	71.1		IUB Rulemaking
	MidAmerican Energy	875	0.1	11/95-10/96	
Kentucky	Columbia Gas of Kentucky	127,000	10.0	2/00	Proposed Legislation
Maryland	Baltimore Gas & Electric	557,000	38.6	11/97	PSC Recommendations Issued
	Columbia Gas	28,000	2.4	11/96	
	Washington Gas	359,000	35.0	11/96	
Massachusetts	Statewide	1,283,000	106.6		Collaborative Workshops
Michigan	Consumers Energy	1,499,000	164.9	04/98	PSC Hearings Held
	Michigan Consolidated Gas	1,130,000	136.0	04/97	
	Michigan Gas Utilities	141,000	14.5	2002	
	SEMCO Energy	207,000	24.9	04/99	
Montana	ENERGY WEST	24,000	2.1	09/99	State Law, PSC Proceeding
	Northwestern Energies	138,000	12.5	Winter 1999	
Nebraska	KN Energy	75,000	11.0	6/98	Localities Regulate Utilities
New Jersey	Statewide	2,437,000	209.8	12/99	State Law
New Mexico	Public Ser. of New Mexico	406,000	32.0	12/97	
New York	Statewide	4,243,000	376.1	In-Service	PSC Regulations Issued
Ohio	Cincinnati Gas & Electric	363,000	30.4	10/97	State Law Passed
	Columbia Gas of Ohio	1,265,000	115.2	04/97	
	East Ohio Gas	1,137,000	124.1	04/98	
	Vectren	288,000	25.9	2003	
Oklahoma	Oklahoma Natural Gas	707,000	54.7	TBD	Proposed Rulemaking
Pennsylvania	Statewide	2,543,000	238.8	7/2000	State Law
South Dakota	MidAmerican Energy	62,000	4.9	1995	
	North Western Public Service	35,000	3.2	1995	
Virginia	Columbia Gas of Virginia	178,000	12.6	12/97	State Law
	Washington Gas	355,000	29.6	7/98	
West Virginia	Statewide	363,000	33.5	1986	State Law
Wyoming	KN Energy	58,000	5.0	06/96	PSC Study Completed
	Questar Gas	21,000	1.8	1999	
TOTAL		29,889,000	2,654		

* In most cases, regulatory approval is needed for utilities to offer residential transportation services
NOTE: The information in this table and study is based on published reports and is updated periodically. If you have additional information or corrections, please contact Bruce McDowell at AGA (202/824-7131 or e-mail bmcdowell@aga.org).

Providing unbundled services to residential customers poses a host of questions for gas utilities, state regulators, marketers looking to serve the residential market, and customers themselves. Issues such as designing and administering customer aggregation programs, developing new contractual relationships with marketers, potentially redefining the utility's obligation to serve and the resulting costs of that service, and designing new balancing services must be considered. In addition, marketing rules and regulations, the allocation of upstream pipeline and storage capacity, and the collection/administration of social costs must be addressed in developing a residential transportation program.

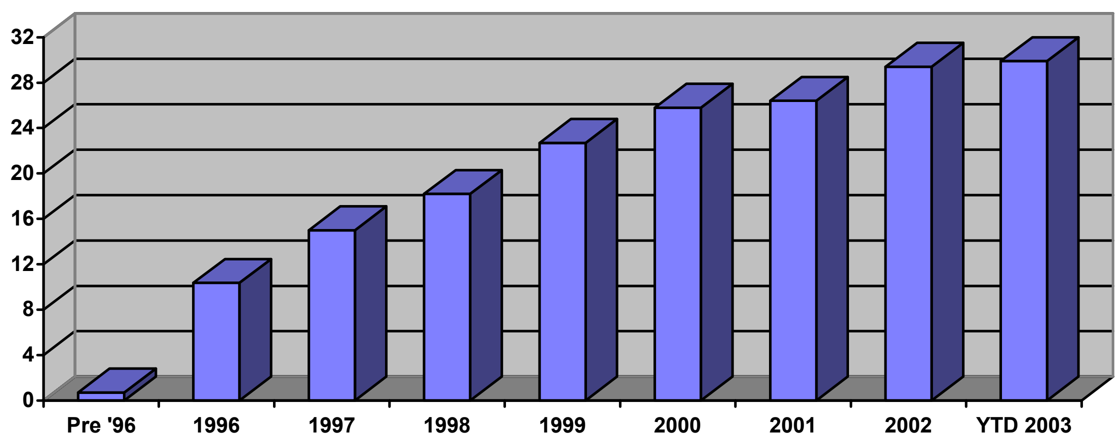
This issue brief is intended to provide a summary of the residential choice programs that have been placed in service or proposed for implementation. This document is not intended to advocate residential unbundling for all customers nor does it attempt to place any judgment on how a residential unbundling program should be constructed. Every gas utility is different in terms of customer base and system design. This, along with the legal obligation to serve all customers, means that the path to unbundling should be addressed in light of these concerns. State regulatory authorities and gas utilities are more aware of the anomalies in specific locales, and therefore unbundling initiatives are best resolved at the state, rather than the federal, level. In fact, generic unbundling attempts at the federal level could actually slow the movement of the market in this direction.

Prior to 1996, customer choice programs were primarily available to industrial, electric utility, and large commercial gas customers. Chart 1 illustrates that in 1996 utility announcements of small customer transportation programs increased substantially. Program introductions or expansions since 1996 have steadily increased the number of residential customers that will be able to choose their gas supplier.

Chart 1

Residential Customer Choice Program Announcements

(Cumulative Number of Homes Eligible-Millions)



2003 Survey Results

Most of the companies with current or proposed residential customer choice programs responded to an AGA survey on program implementation. The results are summarized in Table 2. The number listed besides the answer indicates the number of companies checking that answer on the survey form. The number of utility program responses to this survey is 20.

Table 2
Responses to AGA Survey to Utilities with Choice Programs

Utility offers pipeline capacity	Must-7	May-8	Does not-5	
If yes, is it recallable	Yes-12	No-0		
Utility offers storage capacity	Must –8	May-7	Does not-5	
If yes, is it recallable	Yes-7	No-4		
Marketer must take pipeline capacity	Yes-2	No-9		
Marketer must take storage capacity	Yes-8	No-7		
Capacity rates charged	Maximum-14	Market*-2		
Marketer must balance**	Monthly-7	Annually-5	Daily-18	Other-1
Imbalance made up through**	Cash out-19	Trade-9	Other-3	
Utility imposes balancing fee	Yes-13	No-6		
Program offers specific low-income customer protection	Yes-4	No-13		
Customer billing options**	Utility-14	Marketer-11	Both-18	
How often can customer switch suppliers	Anytime-1	Monthly-18	Annually-0	Other-0
Customer education by**	Utility-20	Marketers-13	Regulators-12	Other Govt-4
Formal mechanism to recover stranded costs	Yes-8	No-10		
Do you recover program administrative costs?	Yes10	No7		
Utility has standby charge	Yes-4	No-12		
Utilities subject to more taxes than marketers	Yes-4	No-12		
Utility plans to stay in merchant function	Yes-19	No-1	Not sure-0	
Regulation forces utility from merchant function	Yes-0	No-19	Maybe-1	
Future retail customer marketing will	Increase-1	Decrease-0	Stay as is-18	
Utility jointly markets with marketers	Yes-11	No-4		
Certification of marketers?	Yes-18	No-2		
Marketers must prove creditworthiness?	Yes-20	No-0		
Utility has unregulated marketing affiliate	Yes-10	No-10		
PSC reviews utility & affiliate transactions	Yes-19	No-1		
Are regulators examining other areas for deregulation?	Metering-5	Billing-4	Balancing-1	Supplier of last resort-3
Default Supplier	Utility-18	Other-0		
Supplier of Last Resort	Utility-18	Other-0		

* With price cap
** More than one may apply

Respondents listed six different obstacles, Primarily lack of marketer participation/interest (6), customer need for education (4), and low utility prices (3).

Residential Choice Program Participation Rates

Table 3 shows the level of participation in natural gas company residential choice programs.

Table 3
CUSTOMER CHOICE PROGRAM PARTICIPATION RATES

STATE	COMPANY	MAXIMUM PARTICIPATION	NUMBER ENROLLED	PARTICIPATION RATE	AS OF	
CA	Pacific Gas & Electric	3,900,000	11,000	Neg.	Augr-03	
	San Diego Gas & Electric	70,000	300	Neg.	Dec-02	1/
	Southern California Gas	455,000	11,000	2%	Dec-02	1/
DC	Washington Gas	136,000	23,000	17%	Aug-03	
GA	Atlanta Gas Light	1,430,000	1,430,000	100%	Dec-02	1/
IL	Nicor Gas	1,860,000	136,000	7%	Aug-03	
	North Shore Gas	35,000	1,200	3%	Aug-03	
	Peoples Gas Light & Coke	188,000	4,400	2%	Aug-03	
IN	N. Indiana Public Service	150,000	39,300	26%	Aug-03	
KY	Columbia of Kentucky	126,400	41,500	33%	Aug-03	
MD	Baltimore Gas & Electric	570,000	73,000	14%	Mar-03	2/
	Columbia Gas of Maryland	27,600	1,400	5%	Aug-03	
	Washington Gas	347,000	82,500	24%	Aug-03	
MA	Bay State Gas	83,000	70	Neg.	Dec-02	1/
MI	Consumers Energy	600,000	138,000	23%	Aug-03	
	Michigan Consolidated Gas	440,000	65,000	15%	Mar-02	
	SEMCO Energy Gas	24,000	0	0%	Mar-02	
MT	ENERGY WEST	24,000	0	0%	Dec-02	1/
	Montana Power	150,000	0	0%	Dec-02	1/
NE	KN Energy	75,000	74,000	98%	Dec-02	1/
NJ	New Jersey Natural	406,000	17,000	4%	Feb-02	2/
	NUI Elizabethtown Gas	236,000	0	0%	Dec-02	2/
	Pub. Service Electric & Gas	1,461,000	8,500	1%	Aug-03	
	South Jersey Gas	275,800	99,500	36%	Aug-03	
NM	Pub. Ser. Co. of New Mexico	406,000	1	Neg.	Dec-02	1/
NY	KeySpan NY	1,195,000	75,000	6%	Apr-03	2/
	Central Hudson Gas & Electric	56,000	300	Neg.	Apr-03	2/
	Consolidated Edison Co. of NY	934,000	33,000	4%	Apr-03	2/
	Corning Natural Gas	17,000	3,500	21%	Apr-03	2/
	KeySpan Long Island	438,000	25,000	6%	Apr-03	2/
	National Fuel Gas	484,000	39,000	8%	Apr-03	2/
	NY State Electric & Gas	221,000	1,000	Neg.	Aug-03	
	Niagara Mohawk Power	504,000	65,000	13%	Apr-03	2/
	Orange & Rockland Utilities	109,000	33,000	30%	Apr-03	2/
	Rochester Gas & Electric	266,000	43,000	16%	Apr-03	2/
OH	Cincinnati Gas & Electric	380,000	29,000	8%	Feb-03	2/
	Columbia Gas of Ohio	1,227,000	582,000	47%	Aug-03	
	Dominion East Ohio Gas	1,127,000	551,000	49%	Aug-03	
	Vectren	217,000	2,000	1%	Feb-03	2/
PA	Columbia Gas of Pennsylvania	359,000	99,000	27%	Aug-03	
	Equitable Gas	241,000	31,000	13%	Aug-03	
	National Fuel Gas	203,000	0	0%	Apr-03	2/
	Dominion Peoples	318,000	91,000	29%	Aug-03	
	PECO Energy	411,000	1,000	Neg.	Apr-03	2/
	UGI Gas	263,000	4,000	2%	Apr-03	2/
VA	Columbia Gas of Virginia	187,000	6,400	3%	Aug-03	
	Washington Gas	354,000	69,000	19%	Aug-03	
WY	KN Energy	58,000	9,000	16%	Dec-02	1/
	TOTAL	**23,044,800**	**4,048,871**	**18%**		

neg. = Negligible, less than one percent
SOURCE: AGA Summer 2003 Survey, unless noted (see below)
1/ Energy Information Administration (http://www.eia.gov)
2/ State Public Utility Commissions
3/ Company Website

The participation rates range from zero to 100 percent (all of Atlanta Gas Light's customers had either elected, or were assigned to, non-utility marketers by September 1999), with an overall average of 18 percent for all of the choice programs for which data were available. On average, participation rates have been holding steady over the past year or so. While some observers feel that participation levels should be higher, a report from the National Regulatory Research Institute indicated that these levels are typical during the initial years of these programs for industries undergoing restructuring.

> The inception of choice for small customers inevitably requires a transition during which the immaturity of a market effectuates outcomes that should not be expected to reflect long-term customer behavior. *The fact that customer participation may be feeble over the initial years of a program should not necessarily be interpreted as disappointing.* Experiences with other sectors undergoing transformation toward competition customarily show that residential and other small customers, while not inert, require time, perhaps several years, to accept and take advantage of new market opportunities. [1]

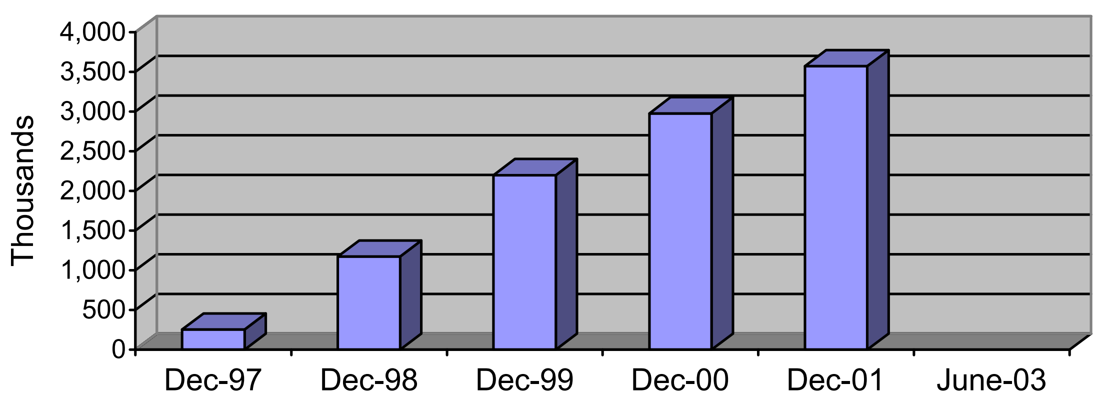
Trends in Customer Choice Programs

Availability of Choice

As shown in Chart 1, the number of residential customers that have, or soon will have, supplier choice has grown significantly since 1996. In the last couple of years, the growth rate has slowed due to saturation of prime markets (northern, heavily populated areas), waning marketer interest, and volatility in the natural gas and electricity markets.

The number of customers accessing choice has increased significantly over the past seven years. The higher growth rate of participating customers relative to the growth rate for customer availability indicates that participation in existing programs is increasing.

Chart 2
Residential Customers Accessing Choice



Company Programs

Based on current and previous surveys of company programs, some trends can be determined. While many of the operational characteristics have stayed the same, some changes have occurred since the first survey in 1998, which had 30 respondents. Please keep in mind that some of the responding companies have changed since 1998.

- Fewer utilities charge a balancing fee (68 percent in 2003 vs. 90 percent in 1998)

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[1] Household Participation in Gas Customer Choice Programs: Some Facts, Explanations, and Lessons Learned, Ken Costello, National Regulatory Research Institute (Columbus, OH, January 1997).

- Most customers can switch monthly (100 percent vs. 42 percent)
- More companies are recovering associated administrative costs (59 percent vs. 33 percent)
- Fewer companies operate in jurisdictions where marketers have a price advantage due to tax inequities (25 percent vs. 70 percent)
- More companies plan to stay in the regulated merchant function (95 percent vs. 56 percent)
- Fewer companies have an unregulated marketing affiliate (50 percent vs. 87 percent)

Changes in State & Company Initiatives Since Last Report

The following lists the significant changes in state and company initiatives over the past year:

- The Pennsylvania PUC approved Philadelphia Gas Works application to start a choice program.
- Columbia Gas of Virginia expanded choice to all its customers.
- Vectren Energy Delivery of Ohio started a choice program
- The Florida PUC allowed Chesapeake Utilities and Indiantown Gas to exit the merchant function and have all their customers get supplies from a non-utility source, including residential customers.
- The Michigan PUC approved Sempco Energy’s program.

Individual State Initiatives

ARIZONA

As part of a rate case settlement, Southwest Gas has agreed to support an unbundling initiative in Arizona. Two marketers that intervened were successful in requesting the opening of a docket that would allow residential and small commercial customers the ability to choose their supplier. The settlement, approved by the Arizona Corporation Commission in August 1997, calls for a generic unbundling proceeding by the commission.

In April 1998, Enron filed a request with the ACC to initiate a generic investigation and eventual rulemaking on competition in the natural gas industry.

CALIFORNIA

In 1986, shortly after FERC issued Order No. 436, the California Public Utilities Commission (CPUC) instituted a new classification system for gas customers, with a "noncore" class consisting of large industrial and electric generating customers with alternate fuel capability, and a "core" class consisting of residential and commercial customers. In February 1991, the CPUC created an experimental transportation-only service for core customers that aggregated their loads. This allowed core customers to procure and transport their own gas supplies. The core aggregation transportation (CAT) program was initially limited to 10 percent of the core's volume and to 10 aggregators. Aggregators were required to transport a minimum of 250,000 therms annually. Marketers were granted *pro rata* access to interstate pipeline and storage capacity at the same rate as the gas utility, based on the aggregator's share of peak winter core demands. Marketers paid a core balancing charge of 50 percent/150 percent of utilities' commodity cost of gas for imbalances that exceed the 10 percent imbalance. Marketers are able to trade imbalances as a way to minimize imbalance charges.

The CAT program was revised significantly by the CPUC and made permanent through a decision issued in July 1995 (D95-07-048). A settlement agreement reached by many parties in the case and approved by the CPUC would allow aggregators of small- and medium-sized core customers to purchase interstate pipeline capacity in competitive markets. Under the settlement, storage rights were allocated to each aggregator in the same proportion as storage capacity was allocated to the core customer class. Storage costs remained bundled in core customer rates. Upon approving the settlement, the CPUC directed Pacific Gas and Electric (PG&E), Southern California Gas, and San Diego Gas and Electric to unbundle their interstate transportation costs and services from core transportation customers' rates. In its July 1995 decision, the CPUC declined to adopt unbundled rates for core services such as meter reading, billing, and collections.

The CPUC approved guidelines in August 1998 regarding implementing natural gas customer choice throughout the state. The guidelines called for the state's five major gas distributors to file unbundling rate cases by February 1999, lifted restrictions on customer aggregation programs after a consumer protection program is in place, ordered studies on unbundling metering and other customer services, and planed public hearings

Pacific Gas and Electric Company

The natural gas industry in Northern California changed with the implementation of the Gas Accord settlement on March 1, 1998. The Accord structure increased competition and customer choice for PG&E's gas consumers. The three-part program changed PG&E's role in procuring gas supplies for core customers, unbundled its gas transmission and distribution facilities to create new markets for the use of its intrastate capacity, and settled all outstanding regulatory issues involving PG&E's gas business unit at the CPUC.

Under the terms of the *Gas Accord*, PG&E increased customer choice and provided more market options for core customers. PG&E removed the cap on participation in gas customer choice. PG&E continues to hold storage capacity to ensure reliability for firm customers, but has allowed choice of reliability resources for competitive firm suppliers, at least until 2004. An advisory committee was created to assist in the unbundling process. PG&E continues to provide gas sales service to customers that elect not to choose an alternative supplier. Procurement for bundled customers is regulated by an incentive mechanism based on market index prices.

PG&E also unbundled its interstate pipeline demand charges from firm transportation rates effective July 1997. Firm suppliers choose their own interstate pipeline capacity mix. Competitive firm suppliers have a preferential right, but not an obligation, to acquire interstate and intrastate pipeline capacity reserved to serve firm customers. The utility procurement group is required to take a fixed allocation of capacity

In May 2000, the CPUC approved a settlement between PG&E and 28 other parties that allows competitive firm suppliers to 1) choose between PG&E storage and alternative resources, 2) obtain a billing credit for offering consolidated billing, and 3) choose to balance daily and receive a credit for avoiding balancing services.

In 2002, PG&E proposed to the California PUC that the terms of its Gas Accord, including the current features of its customer choice program be extended without change for the years 2003 and 2004. They were extended in this manner through 2003.

In 2003, PG&E made a new proposal for 2004, with several proposed operational, rate, and customer choice improvements. That proposal is pending, at this writing.

San Diego Gas & Electric

As of Aug. 1, 1991, all San Diego Gas & Electric (SDG&E) core customers (residential and small commercial) customers have the option of purchasing their natural gas from a third party supplier, with participation currently limited to 10 percent of SDG&E's daily core demand. To participate in this Core Aggregation Transportation (CAT) program, the customer must join an aggregation group. Each aggregated group must meet a minimum demand requirement of 250,000 therms per year (approximately 520 homes). The Aggregator is responsible for procuring and balancing the group's natural gas supplies.

A CAT program customer has the option of continuing to have SDG&E send them the transportation billing, or to have the company send the transportation bill to their Aggregator. The CAT program requires an initial 12-month term of service, after which time the customer may elect to change suppliers, return to SDG&E service, or remain with their current supplier. SDG&E is the "default" gas supplier to its customers. As the default gas supplier, SDG&E will continue to provide core customers who do not join a CAT group, and will serve customers that are abandoned by their Aggregator.

Southern California Gas Company

Southern California Gas (SoCalGas) customers are divided into two customer groups --core and noncore -- and are afforded different service options. Core customers are defined as residential customers and those customers who consume less than 250,000 therms per year. Core customers are typically smaller commercial and industrial customers in addition to residential customers. Noncore customers are larger commercial and industrial customers consuming more than 250,000 therms per year.

To participate in this program, customers aggregate their natural gas consumption with other core customers and purchase their supplies from third-party suppliers. Customers selecting this option must have an aggregated historic consumption of 250,000 therms per year. Participation in this program is currently limited to 10 percent of SoCalGas' daily core demand, although provisions do exist for increasing the size of this program under appropriate circumstances.

COLORADO

The Colorado Public Utilities Commission held a hearing on March 6, 1997, to review and discuss the processes and issues surrounding customer choice options for natural gas supply. After the hearing, the PUC wrote a letter to the Colorado Senate President requesting the legislature grant the PUC authority to permit gas utilities to unbundle.

In August 1997, the PUC proposed a tentative unbundling structure for utilities in the state and requested comments from interested parties. Three of the larger utilities in the state, KN Energy, Public Service of Colorado, and UtiliCorp United, all spoke in favor of unbundling in their comments, with some proposing timetables with unbundling occurring around 2000. Some of the smaller gas utilities, such as Greeley Gas and Citizens Utilities, stated a preference for a more cautious approach to unbundling, citing potential problems with internal system changes and noting the lack of consumer demand for unbundling. The PUC submitted a report to the Legislature late in 1997, providing six options for the evolution of unbundling in the state.

In 1999, the Legislature passed customer choice legislation. Specific items addressed by the bill include:

- Voluntary participation by utilities
- Regulated supply service until one-third participation by customers
- Codes of conduct
- Utility rates can be market-based once marketers serve a third of the customers
- Five non-regulated suppliers must operate in an area to ensure open competition
- Gas utilities must set aside 0.75 percent of gas revenue for low-income programs

The legislation had the support of the state's major gas utilities and was signed into law on May 28, 1999. The law became effective Aug. 4, 1999. As of the summer of 2003, no utility had filed for such a program, citing relatively low gas costs as a disincentive for marketers to sell to small-volume customers.

CONNECTICUT

The Connecticut Department of Public Utility Control opened an unbundling docket in 1997. In a December 6, 2000 report, the DPUC declared its commitment to encourage competition in the state, and would take steps to extend choice to the residential sector. Included in these steps are eliminating cross-subsidization in rates and working through supplier of last resort and capacity access issues. As of the summer of 2003, however, no residential choice programs were being considered.

DELAWARE

Conectiv Power Delivery

Conectiv received PSC approval on April 7, 1999 for a one-year customer choice program for 14,500 residential and 1,200 small commercial customers, representing about 15 percent of those customers. Enrollment began in June 1999 with deliveries starting in November 1999.

As of the end of 1999, about 6,390 residential and 1,240 commercial customers enrolled in the program. Since then, participation decreased dramatically. By April 2000, 600 customers dropped out. A follow-up survey listed the following reasons: confusion with the program (50%), inability to stay on the utility's budget billing program for commodity costs (25%), and general dissatisfaction (17%).

By the end of 2000, less than 500 customers were participating. Due to the low participation rate, Conectiv decided not to extend the program beyond the Oct. 31, 2001 end date. A future retail choice program is a possibility, as a recent regulatory settlement directs the utility to meet with government officials and gas marketers to examine the viability of instituting a new choice program.

DISTRICT OF COLUMBIA

Washington Gas

Washington Gas received approval from the District of Columbia's Public Service Commission to implement a two-year pilot program in which up to 3,000 residential customers could purchase their gas supplies from third parties. Enrollment was scheduled to extend from Oct. 1 to Nov. 30, 1998, with gas deliveries starting Jan. 1, 1999. In February 1998, the PSC approved a choice program for 260 large commercial customers, which became effective April 1, 1998.

In early 1999, the PSC increased the program to a maximum of 13,000 residential customers. By the late spring of that year, the PSC opened the program to all 130,000 residential customers. Customers are allowed to join the program on a rolling enrollment basis.

In February 2001, the PSC approved Washington Gas' request to make the choice pilot program permanent. Washington Gas listed a number of accomplishments from the two-year pilot, including a 13 percent participation rate, about 65 percent of those participating experiencing savings compared to the utility tariff rate, and an approval rating of 81 percent from those participating in the program.

All of the customer choice programs have been expanded to allow all customers to be eligible to choose an alternative supplier. As of July 1, 2003, approximately 23,521 residential customers and 3,061commercial customers participated in the program. The percentage of customers participating in the program is 17 percent residential and 31 percent commercial.

FLORIDA

The Florida Public Service Commission staff proposed an unbundling model tariff for gas utilities in October 1997. Only eight gas distributors and two marketers responded to the proposal. Due to the lack of response from non-utilities, in September 1998 the PSC substituted a rulemaking that would lower the minimum volumes required for industrial and commercial customers to qualify for transportation tariffs.

In February 2000, the PSC voted that all local gas distribution companies in Florida must offer transportation service to all non-residential customers. The utilities had until July 1, 2000 to file revised transportation tariffs.

In 2002, the PSC allowed Chesapeake Utilities Corporation and Indiantown Gas Company to convert their residential and commercial sales customers to transportation service and to exit the merchant function as part of experimental transitional pilot programs. Both utilities had only a small portion of their volumes under sales tariffs, and requested to migrate the remaining sales customers into aggregated customer pools.

GEORGIA

In 1996, Atlanta Gas Light proposed to the Georgia Senate and House Competitive Natural Gas Service Study Committee a new regulatory framework that would allow for increased customer choice for the company's 1.4 million residential and small commercial customers. A natural gas deregulation bill similar to the Atlanta Gas Light proposal was introduced in the Georgia General Assembly in January 1997, passed in March, and was signed into law by the governor.

Responding to recent price volatility and marketer bankruptcies, state lawmakers passed legislation in April 2002 that provides a permanent provider of last resorts, imposes a surcharge on interruptible customers that will help provide gas to low-income customers and expand the pipeline system, allows electric cooperatives to become gas marketers, and sets forth a consumer's bill of rights and performance standards for utilities and marketers.

Atlanta Gas Light

Atlanta Gas Light (AGL) filed a plan with the Georgia Public Service Commission (PSC) on Dec. 4, 1997, that will allow independent marketers to sell natural gas directly to more than 1.4 million customers. AGL's plan follows the guidelines of the Natural Gas Competition and Deregulation Act signed into law in April 1997.

Highlights of the filing include:

- Rates AGL will charge for delivery services
- Appropriate new revenue requirements for AGL to bring about competition and customer choice
- A performance-based regulation (PBR) plan under which AGL will share financial benefits with consumers if AGL effectively manages prices and quality of delivery service
- A proposal under PBR to establish and maintain rates for standard delivery service for five years
- A universal service fund to provide consumer safeguards and to enable the expansion of the gas distribution system in the public interest

- An increase in annual revenues to support changes in AGL's business systems to ensure reliable service to customers and that the systems are in place to serve new gas suppliers in the competitive marketplace.

On June 25, 1998, the PSC approved AGL's plan, but denied AGL's request for performance-based rates. In a separate ruling, the PSC ruled that the AGL marketing affiliate could not use a name similar to the parent until sufficient competition has been established in the Georgia market. As part of a compromise agreement, AGL agreed to change its marketing affiliate's name to Georgia Natural Gas Services, but will still use the blue flame logo of AGL.

The PUC approved a total of 19 marketers at the start of the program. A total of 444,600 had enrolled by mid February 1999. The quick enrollment pace encouraged government officials to consider altering the existing legislation to allow the PUC to assign all of AGL's non-participating customers to a supplier before that delivery pool reached the 33 percent mark. By April 1999, the General Assembly had passed, and the Governor had signed, legislation to accelerate assignment of these customers. On April 30, 1999, the PSC declared the entire AGL service territory competitive, setting off a 100-day period for customers to select a third-party marketer before being assigned to one. For those not choosing a supplier by Aug. 11, 1999, they were assigned to a marketer based on the market share of those suppliers participating in the program.

Random assignment began in August 1999, based on the final market shares. All in all, Georgia Natural Gas Services got 31 percent, SCANA Energy Marketing got 30 percent, Peachtree Natural Gas got 11 percent, Shell Energy Services got 11 percent, Columbia got six percent, United Gas Management got five percent, and Energy America got four percent.

As part of the choice program, AGL revised its rate structure to recover its demand charges over the five month heating season, similar to pipeline rate structures, as opposed to over 12 months. This, combined with a warm 1998-1999 heating season, caused customer bills to increase relative to previous years. Resulting customer complaints led the PSC to hold hearings on re-regulating AGL's rates in early January 1999. In late January, AGL reached a settlement with the PSC to revert back to volumetric-based pricing as of February 1, 1999. The utility also agreed to refund about $14.5 million to its customers.

In October 1999, Peachtree had declared bankruptcy due to higher than foreseen costs and billing delays. Through court proceedings, Peachtree's customers were sold to Shell Energy Services. Funds from security bonds and proceeds from the customer sale helped to defray money owed to AGL by Peachtree.

A number of studies examining AGL's program were released in the spring of 2000. PHB Hagler Bailly's study showed the program resulted in customer savings of seven to 12 percent and improved service options. Energy Market Solutions' study noted that while program implementation was successful, some consumers expressed dissatisfaction with the process, marketers' cost to acquire customers was higher than expected, and that adequate administrative systems need to be in place before the program begins. Chartwell Inc.'s study also noticed some implementation difficulties, particularly in billing, slamming, and customer service, mostly due to the speed of the implementation process.

In the summer of 2000, Titan Energy of Georgia, the sixth-largest marketer in Georgia, filed for bankruptcy protection. Most of Titan's customers were on a fixed-price schedule, but as gas prices increased suppliers were unwilling to sell Titan gas at prices low enough to meet the fixed-price. Energy America, formerly the fifth-largest marketer, purchased Titan's customer accounts for $44/customer, or $2.5 million in July 2000. A third marketer, Southeastern States Energy, also filed for bankruptcy protection that summer due to cash flow problems, but hoped to continue operations under bankruptcy proceedings.

In September 2000 the American Public Gas Association (APGA) released a survey of customers in the AGL choice program. A majority of the respondents would not recommend customer choice to other areas. The primary disadvantage of the program was higher gas bills, with billing problems and poor customer service also identified as problem areas.

While the program started with 19 suppliers, by October 2001 only eight marketers were serving the area, with three companies accounting for 94 percent of the customer base. In the summer of 2001, the PSC named New Power Company as the sole interim marketer, which includes the responsibility of providing gas to customers whose original supplier could not meet its obligations.

The winter of 2000-2001 witnessed a significant increase in customers' bills due to cold weather combined with higher natural gas prices. Many Atlanta Gas Light customers fell behind on their payments, and by the fall of 2001 about 50,000 customers were disconnected due to non-payment. In December 2001, the PSC approved a Provider of Last Resort (POLR) plan to reconnect these customers. While the customers would not have to make payments on their old debts to take advantage of this service, the customers would be required to pay a $150 deposit, an 11.95/month customer service fee, and a $0.10/therm premium over the provider's variable rate. The program was scheduled to end on June 30, 2002. The PSC selected Infinite Energy as the POLR.

ILLINOIS

At the request of state legislators and the governor's office, the Illinois Commerce Commission (ICC) opened a residential unbundling inquiry in July 1997. Workshops were held in August 1997 with interested parties. A final report was submitted to the governor's office Oct. 22, 1997. The report concluded that significant differences of opinion on most of the unbundling issues raised exist among the workshop participants.

The ICC launched an investigation into potential regulatory standards on affiliate/utility transactions in the fall of 1999. The rules took effect in September 2001. In 2002, a law took effect directing the Illinois Commerce Commission to implement rules governing certification of alternative gas suppliers.

Central Illinois Light Company

Central Illinois Light Co. (CILCO) received approval from the Illinois Commerce Commission in June 1996 to allow 10,000 residential customers in its service territory to purchase their own gas supplies. The five-year *Therm Quest* pilot program was scheduled to begin Oct. 1. Under the terms of the program, residential customers purchase gas supplies through aggregation and customers are free to change suppliers or return to the utility at the beginning of any billing cycle.

The program is available to customers in the cities of Springfield, Heyworth, Manito, and Williamsville. Approximately 3,500 customers had enrolled in the program by May 1998. By fall 2000, interest in the program had waned and no suppliers were participating in the residential program.

CILCO has requested the ICC's approval for termination of the program.

Nicor Gas

Nicor Gas conducted a four-year customer choice pilot program, called Customer Select®. The program began in May 1, 1998 and ran through February 28, 2002.

On August 11, 2000, Nicor Gas filed a request with the Illinois Commerce Commission (ICC) to expand Customer Select from a pilot program to a permanent program that would have offered choice to all of its 1.9 million customers beginning in March 2001. On September 20, 2000, the ICC voted to suspend the filing and initiate hearings about the program that lasted 11 months. In the suspension order, the ICC encouraged Nicor Gas to request an extension of the existing pilot program beyond April 30, 2001, in order to preserve the availability of service to those customers who were eligible.

In July 2001, the ICC approved Nicor Gas' request to open its choice program to all residential customers. Shortly thereafter, Nicor Gas requested and was granted a rehearing on the following issues: 1) monthly program charges, 2) the Company's billing service charge and 3) implementation dates on various aspects of the program. On January 3, 2002, the ICC approved Nicor Gas' Customer Select program to begin March 1, 2002.

Previous versions of this analysis contain details of the Nicor program on such topics as:

Customer Enrollment/Solicitation
Supplier Qualifications
Customer Billing
Supply Operations
Account Management
Upstream Capacity

Members and subscribers can find the previous AGA studies the AGA website:
http://www.aga.org/Template.cfm?Section=Consumers_and_Demand1&Template=/TaggedPage/TaggedPageDisplay.cfm&TPLID=46&ContentID=8748.

Peoples Energy

The Peoples Gas Light and Coke Company (Peoples Gas) implemented in June 1997 a customer choice pilot program for 20,000 small commercial, industrial, and larger residential customers. The pilot covered a two-year trial period starting November 1, 1997 and continuing through October 31, 1999.

In April 1999, the Illinois Commerce Commission approved Peoples Gas' request to extend the pilot program operations to June, 2000. At that time there were seven natural gas suppliers serving approximately 12,000 customers. Peoples Gas expanded the program to include all of its Chicago non-residential customers on Sept. 1, 2000.

In May 2001, Peoples Gas and North Shore petitioned the ICC to allow the companies to extend customer choice to the residential customers of both Peoples Gas and small commercial, industrial and residential customers of North Shore Gas. The program was approved in March 2002, and became effective in May 2002.

INDIANA

Citizens Gas & Coke

Citizens Gas & Coke would offer choice its larger customers under an alternative regulatory plan filed with the Indiana Utility Regulatory Commission (IURC). The IURC approved the program in 2003, with commercial and industrial customers getting choice phased-in over a three-year period. Due to problems encountered in other jurisdictions, residential customers are not included in the program.

Northern Indiana Public Service Company

Northern Indiana Public Service Company (NIPSCO) filed a proposal for a two-year customer choice program with the IURC in August 1996. The program allowed 50,000 residential and 1,500 commercial/industrial customers to purchase supplies from a list of qualified, alternative providers. The proposal was part of NIPSCO's Alternative Regulatory Plan (ARP), which included new transportation and sales services, an incentive mechanism for gas costs, firm no-notice backup supply service, large volume negotiated sales, and other gas supply services (parking, lending, and firm peaking capacity).

NIPSCO filed an agreement with the IURC on March 31, 1997, stating terms under which the utility's proposed ARP should be approved. After the filing, NIPSCO modified its plan to reflect an agreement reached with the Citizens Action Coalition, a consumer advocacy group originally opposed to the plan.

The IURC approved the ARP on Oct. 8, 1997. NIPSCO launched an enrollment program by the end of 1997, with gas deliveries starting around May 1, 1998. As of April 1, 1999, all of NIPSCO's residential customers were eligible for the program, with an enrollment cap of 150,000. The small commercial program was opened to all customers as well, with a cap of 20,000.

IOWA

In January 1997, the Iowa Utilities Board (IUB) opened a rulemaking to increase customer choice. In April 1997, the IUB received comments on unbundling gas utility services in the state. Based on these comments, on Oct. 23, 1997, the IUB issued an order requiring statewide customer choice by Feb. 1, 1999.

The Iowa utilities submitted unbundling plans to the PUC in the winter of 1998-99. Starting in January 1999, the IUB held five workshops to identify and discuss issues concerning unbundling services. While consensus was reached for obligation to deliver gas, need for customer education, and regulation of delivery service, various proposals were offered on how to move forward. Some parties wanted to wait for enabling legislation, others wanted to have utilities provide tariffs, and the rest wanted to have model tariffs developed by the IUB. Due to those differences, which were similarly spelled out in the utilities' unbundling plans, the IUB staff dismissed the filed plans. The staff's report is on the IUB Website at www.state.ia.us/government/com/util/noi983.htm.

Unsatisfied with the programs proposed, in March 2000 the board dismissed the unbundling plans and ordered each utility to propose tariff changes by November 2000. Finalized tariffs were expected to be in place in the spring of 2002. No progress on choice programs has been reported since the order.

MidAmerican Energy

MidAmerican Energy conducted a one-year experimental program that unbundled gas service to eligible customers in the town of Rock Valley, consisting of approximately 875 residential and 80 commercial and industrial customers, beginning in November 1995. Over 82 percent of the eligible Rock Valley natural gas customers elected to participate in the program.

Initial results from the pilot were positive. Suppliers performed well even in the face of extreme cold weather in late January and early February of 1996. The Rock Valley experiment ended in November 1996 and MidAmerican Energy elected not to extend the program for an additional year.

KANSAS

Two different customer choice bills were introduced in the Kansas legislature in early 1999. One would require the Corporation Commission to implement a customer choice program for gas customers by mid 2001. The other bill would allow any marketer to request authorization to provide gas to consumers.

In February 1999, the Kansas Corporation Commission (KCC) issued a Notice of Inquiry to get comments on the potential value of customer choice programs in the state. In addition to "traditional" programs, the KCC is seeking alternative programs that might be better suited for this gas producing state. In July 1999, the KCC staff recommended that retail choice not be implemented because these programs would be too risky and may not result in lower prices. Instead, the staff recommended that performance based rates be used to help keep gas prices down.

KENTUCKY

In July 1997, the Kentucky Public Service Commission issued "Natural Gas Unbundling in Kentucky: Exploring the Next Step Toward Customer Choice", which summarized comments from local gas utilities, consumer groups, and marketers. In August 1997, the PSC hosted an informal meeting on unbundling with consumer groups, local gas utilities, and marketers. The consumer groups expressed concerns about unbundling's impact on low-income customers and reliable gas supplies. The gas utilities generally spoke in favor of unbundling, but warned that issues such as obligation to serve and security of supply need to be addressed.

Columbia Gas of Kentucky

Columbia Gas of Kentucky filed with the PSC on April 22, 1999 to bring customer choice to the state beginning Nov. 1, 1999. The consensus filing was a result of a collaborative effort between Columbia, the Kentucky Attorney General's Office, the Lexington-Fayette Urban County Government, Community Action Council representing low-income customers, and FSG Energy Services, a marketing subsidiary of Wisconsin Public Service Resources Corporation.

The PSC approved the plan on Jan. 27, 2000. The pilot program runs from September 18, 2000 through October 31, 2004. Columbia sponsored a 60-day customer education program at the beginning of the program. The final order changed the original proposal somewhat, including eliminating the risk/reward potential and modifying other aspects of stranded cost recovery. Columbia filed a rehearing request on Feb. 18, 2000, and a March 6, 2000 PSC ruling agreed to some of Columbia's requests, including prescribed date and clarification on cost recovery through off-system sales, and the need for amending the tariff for defining marketers.

As of August 2003, three marketers are serving approximately 47,000 customers, representing 33% of the eligible customer base.

MAINE

In May 1997, Maine's Public Utilities Commission initiated an inquiry regarding gas utility unbundling. In February 1998, the PUC closed its inquiry, deciding that utilities should be allowed to offer bundled services. The PUC concluded that the natural gas distribution industry is not sufficiently developed and potential expansion would be discouraged by forcing utilities out of the merchant function.

MARYLAND

The staff of the Maryland Public Service Commission (PSC) published a customer choice framework on Dec. 20, 1994. At the end of 2000, the Maryland legislature passed a law giving the PSC authority to license gas marketers. Previously, the local utilities were responsible for evaluating the financial capabilities of potential marketers.

In the spring of 2001, a Maryland court upheld the PSC' ruling on utilities and their affiliates. The PSC established restrictions on the affiliate's ability to use utility employees, name and logo.

The PSC also required asymmetrical pricing for transactions between the two entities. In September 2002, the PSC ruled that utilities should not be forced out of the merchant function.

Baltimore Gas and Electric Company

As a result of the roundtable discussions initiated by the PSC, Baltimore Gas and Electric (BGE) reached a settlement on Aug. 2, 1995. The minimum transported volume for BGE Delivery Service was reduced to 250 dekatherms per year beginning in November 1996. BGE also agreed to develop a pilot program that allowed a number of residential customers to purchase gas from third-party suppliers and have it transported by BGE Delivery Service. The utility offered a two-year pilot program, beginning Nov. 1, 1997. Enrollment ran from Aug. 1, 1997, through April 8, 1998. BGE began a customer education process in May 1997. BGE limited the number of participants to 25,000 to minimize potential stranded costs (capacity assignment is not mandatory). As of April 1998, the program had almost 25,000 participants.

In May 1998 BGE requested and received approval to double the size of the residential pilot program to 50,000 customers. Enrollment in the program ran from July 1 to October 8. By the first week in September 1998, the enrollment maximum had been reached. In November 1998 the Gas Options choice program was opened to all commercial customers.

In May 1999, the PSC approved expansion of the program to all 540,000 residential gas customers on BGE's system beginning November 1, 1999. As a result of the program expansion, BGE implemented a Daily Requirement Service (DRS) under which marketers' daily deliveries will change based on estimated weather impacts on customer usage. In addition, marketers are allocated a portion of BGE's pipeline storage assets to meet their customers' demand during winter periods and to facilitate daily balancing at BGE's city gate.

As of March 2002, BGE had 9,100 commercial and 79,000 residential customers in the DRS Gas Options program served by 15 suppliers. The customers participating represent 14% of total annual throughput for 2001. Over 90% of the largest industrial and commercial customers participate in BGE's Daily-Metered program, which represent 41% of total system load for 2001.

Columbia Gas of Maryland, Inc.

Columbia Gas of Maryland received MPSC approval in July 1996 to place in service a two-year residential transportation program for 10,000 customers beginning in November 1996. The *Columbia CHOICE* program was available to approximately 37 percent of Columbia's residential customer base in western Maryland.

Columbia offered marketers a choice between taking assigned interstate pipeline capacity and paying a bundled standby charge. The FT pipeline capacity assigned was based on the annual average daily demand of the customer group. Released capacity stays with the customer. Storage capacity was not released.

Columbia continues to serve customers on a critical day even if the supplier fails to deliver supplies to the Columbia city-gate. The penalty to the supplier for non-compliance with an Operational Flow Order given on a critical day is $30/Mcf for the shortfall, plus payment of the *pro rata* share of all other charges incurred by Columbia as a result of the supplier's non-compliance, including any pipeline penalties.

Marketers are charged a monthly balancing fee for each of their customers for the costs associated with the use of storage throughout the year and the difference between Columbia Gas Transmission and Columbia Gulf Transmission's FT services. The program has an annual cashout provision comparing actual deliveries from the supplier and actual billed volumes to the customers. Cashout will be based on the weighted average commodity cost of gas billed by Columbia for the same 12-month period.

In October 2000, the PSC approved Columbia's petition to extend the pilot program through October 2002, remove the 10,000 customer participation limit, and allow marketers the option to contract for their own interstate pipeline capacity.

As of March 2002, three marketers are serving 2,200 Choice customers that represent approximately 7% of the eligible customer base.

Washington Gas

Washington Gas received approval from the Maryland PSC in June 1996 to start its two-year *Residential Delivery Service Pilot Program*. In the first year of the pilot program, over 6,000 residential customers participated in the program. In August 1997, Washington Gas received approval from the PSC to expand its choice program from 6,300 to 25,000 customers on a first-come, first-served basis.

The PSC approved Washington Gas' request for recovery of stranded capacity on a permanent basis on April 1, 1998. These stranded costs result from unneeded capacity due to unbundling. Washington Gas will try to mitigate the excess capacity by offering capacity assignment to marketers, using the excess capacity for load growth and releasing unneeded capacity. Washington Gas will recover the costs from all firm customers since all firm customers will accrue benefits from the customer choice program. The residential sales service customers have a price cap, which limits the annual amount they will pay towards stranded cost recovery.

The PSC approved a Washington Gas filing on April 15, 1998 for expansion of its delivery service programs. All of the Company's 25,000 commercial customers were able to choose their gas supplier on a monthly enrollment basis, effective June 1, 1998. In addition, the participation target level for residential customers was raised to 100,000 customers on a monthly enrollment basis, effective Sept. 1, 1998.

In December 1999 the PSC approved a request to expand the eligibility of the residential program to 200,000 customers. On April 1, 2001, all residential customers were eligible to participate in the program and could choose an alternative supplier. As of July1, 2003, there are approximately 83,281 residential customers and 8,955 commercial customers participating in the choice program. The percentage of customers participating in the program is 24 percent residential and 45 percent commercial.

MASSACHUSETTS

On March 14, 1997, a joint motion was made to the Massachusetts Department of Public Utilities (DPU) proposing that the DPU address the establishment of unbundled rates and services for all customer classes on a statewide basis and examine a variety of issues related to developing competition for, and restructuring of, the natural gas industry in the state. The DPU directed gas utilities to commence a collaborative process to develop common principles and procedures for unbundling gas utility natural gas services in Massachusetts. The ten Massachusetts gas utilities formed a working group that first met on Sep. 15, 1997 and had hoped to implement choice by the 1998-1999 heating season. All interested stakeholders were encouraged to attend and participate.

In July 1998, the DTE issued a directive that delayed the start of statewide unbundling until April 1999. Billing process concerns (who bills the customer, are existing systems are capable of handling the restructured environment, etc.), capacity assignment, and stranded costs were the main unresolved issues.

On February 1, 1999, the DTE approved a settlement reached by the gas utilities and six marketers. The group agreed on nomination processes, curtailment policies, and billing matters.

The next day DTE ordered that capacity assignment would be mandated for up to five years. Under this “slice of the system” approach, pro-rata shares of pipeline capacity, at the utility’s average cost, would follow the customer that leaves the system. Issues left to be determined include an implementation timeline and some terms and conditions of service.

Efforts to develop a statewide plan continued through 1999, and the start date was again pushed back to April 1, 2000. DTE got comments on a final proposal on model terms and conditions for capacity assignment, peaking services, default services and service quality issues in December 1999. In early 2000, the DTE approved model tariff provisions regarding capacity assignment, peaking service, and default service. Utilities were directed to files specific tariffs based on the model. By the end of 2002, however, only three licensed marketers expressed interest in serving the residential market.

Bay State Gas Company

Bay State Gas received approval from the DPU in July 1996 to launch the *Pioneer Valley Customer Choice* program, the first residential unbundling program in New England. This two-year residential program allowed up to 10,000 residential customers to begin purchasing gas supplies from an alternative supplier. Enrollment in the program began Aug. 1, 1996. Availability was awarded on a first-come, first-served basis to the company's 83,000 residential customers in 16 cities and towns in western Massachusetts. Service in the program began Nov. 1, 1996.

Bay State offered suppliers a *pro rata* assignment of firm capacity on its upstream pipelines. Assignment of pipeline capacity was voluntary and suppliers could elect to deliver gas through any of their other resources. Storage capacity is not assigned during the first year of the pilot. Under-deliveries are cashed out on a daily basis based on the pipeline or supplemental supply service as the marginal supply source. Under-deliveries during OFO periods are assessed at $50/MMBtu.

After evaluating the pilot's initial success in attracting almost 6,500 Springfield-area participants, in July 1997 the DPU approved Bay State's request to expand its pilot program. The second phase of the program extended eligibility to all of Bay State's residential and small business customers in its Western Massachusetts service area. Enrollment for the expanded program began Aug. 1, 1997, and remained open for the duration of the program. *Choice Advantage from Bay State Gas* provided competition and choice in Western Massachusetts to all 83,000 residential and all 6,000 small business customers as well as to all 10,000 small business customers in the company's Southeastern Massachusetts service area.

In October 1997, Bay State filed a rate case with the DPU asking for recovery of $1.6 million for external expenses related to unbundling. The company also requested that a two-year rate “bridge” be implemented, with an incentive mechanism that would allow ratepayer/stockholder sharing of earnings above the allowed rate of return. The DPU approved Bay State’s plan in December 1997.

In October 1998, the DPU approved extending Bay State’s program five months beyond the October 31 end date. This allowed the 26,300 participants to continue receiving gas from third-party suppliers through the winter season. After the five-month extension is over, the program could be extended month-to-month until a statewide choice program is adopted.

By April 1999, only 22,000 customers were participating in the program, because one supplier dropped out of the program. More than 4,000 of customers of that supplier elected to return to utility service. By February 2000, participation dropped to 17,000, and by the end of that year, participation was negligible.

Boston Gas Company

Boston Gas Company filed a proposal with the Massachusetts DPU in May 1996 to offer choice to all its commercial, industrial, and residential customers by November 1997 and fully exit the merchant function by the year 2000.

The company received an order from the DPU on Nov. 29, 1996, approving its commercial and industrial transportation program. The new program began Jan. 1, 1997. An additional 300 customers opted to choose their own supplier in the first two months of the new program. The DPU did not approve the residential portion of the plan.

MICHIGAN

In January 1996, the Michigan Public Service Commission (MPSC) initiated a legislative-type hearing to assess the appropriateness of allowing all customers access to the competitive gas market. The topics of the hearing centered on barriers to transportation service, actions necessary to improve access to transportation, the public interest benefit of allowing all customers to access transportation, the costs associated with enhanced transportation access, and the appropriate time frame for implementing any transportation programs.

In the summer of 2000, the MPSC invited all gas utilities and other interested parties to a collaborative to expand choice to all customers in the state. Meetings were held in August with interested parties to discuss rates and program features. Those meetings resulted in general agreement for procedures for a variety of matters, including adoption of a phased-in approach. MPSC staff then developed draft tariffs based on those procedures, most of which were approved by the MPSC in October 2000. The MPSC has set up a Website for this process at http://cis.state.mi.us/mpsc/gas/choice.htm.

After a series of meetings, comments, and negotiations, a Sept. 27, 2001 report by MPSC staff recommended a phased-in choice plan for SEMCO Energy and Michigan Gas Utilities. The report noted prior agreements on codes of conduct, supplier registration, nomination notification, and customer protections. The report can be found at `http://cis.state.mi.us/mpsc/orders/gas/2000/u-12550b.pdf`.

In November 2001, the PSC adopted the uniform terms and conditions for these utilities' choice programs. The program is similar to that of Consumers Energy, with modifications to reflect operational differences between the companies.

Consumers Energy Company

Consumers Energy announced in November 1996 a two-year experimental pilot program that allowed all of its customers in Bay County to purchase their gas supplies from alternative providers. The program, which was approved by the MPSC Dec. 10, 1996, began in April 1997.

Consumers Energy proposed changing its choice program significantly in late 1997. On Dec. 19, 1997, the Michigan Public Service Commission approved the company's proposal to terminate the previous program and begin a voluntary, experimental program that allowed up to 300,000 natural gas customers choose their own supplier over the next three years.

The new program included several features to protect participating and non-participating customers from distribution service cost increases or cost shifts, and to maximize incentives for the utility to control its costs and make efficient business decisions:

- Distribution service rates for all retail gas customers were frozen
- The gas cost recovery clause was suspended and the gas commodity charge was frozen at the 1996-97 rate of $2.8364 per thousand cubic feet (Mcf) for customers who remain full-service sales customers

- An earnings sharing mechanism provided for refunds to customers in the event the company's actual gas utility business earnings exceed certain predetermined levels. No rate increases can result from the operation of the mechanism, even if the gas unit's earned return on equity falls below its authorized level

The new program began April 1, 1998, when 100,000 residential, commercial and industrial retail gas sales customers of Consumers Energy were offered the opportunity to participate on a first-come, first-served basis. By October 1998, 54,000 customers were participating in the program. By the end of 1998, enrollment reached 102,338 customers, exceeding the original first-year cap of 100,000. During the first month of the program's second year, participation numbered 135,000.

The MPSC approved Consumer's proposal for a permanent program in October 2000. Enrollment limits were increased to 600,000 on April 1, 2001, 900,000 on April 1, 2002, and full participation by April 1, 2003. As of March 2002, almost 180,000 customers were participating.

Michigan Consolidated Gas Company

In December 2001, the Michigan Public Service Commission issued an order approving a permanent customer choice program for Michigan Consolidated Gas Company (MichCon), a subsidiary of DTE Energy. The permanent program began in April 2002 and participating suppliers may begin soliciting customers immediately.

Gas Choice is a voluntary program open to all of MichCon's 1.2 million residential and commercial customers on a first-come, first-served basis. Beginning in 2002, up to 440,000 customers can switch to a new gas supplier; 660,000 during the second year and beyond there will be no cap.

MichCon's Gas Choice program also features year-round enrollment; a 30-day unconditional cancellation period; a waived fee for the first switch to another supplier (subsequent switches will carry a $10 administrative fee; and additional protections against slamming and cramming. MichCon will continue to respond to emergencies, and administer meter reads and billing.

Michigan Gas Utilities

Michigan Gas Utilities (MGU) filed a two-year customer choice program with the PSC in the fall of 1997. The program would be open to 9,300 residential and 700 commercial customers in four Michigan towns. As part of the program, MGU wanted to continue charging the program participants a gas cost recovery charge that all MGU customers were paying.

After a year, MGU and the PSC could not come to terms on the gas cost recovery charge issue, and MGU withdrew the plan without prejudice. In late 2002, the PSC adopted terms for choice programs of mid-sized utilities, and soon thereafter MGU filed a proposal for a permanent choice program. The program was approved February 25, 2002. MGU's program starts in June 2002 with up to 14,000 residential customers eligible to participate. This number increases each year until all customers become eligible in 2005.

SEMCO Energy Co.

In September 1998, SEMCO received approval to provide choice to 21,000 residential customers by March 2002. In September 2001, SEMCO requested that the MPSC approve extending the choice program through March 2005. In October 2001, the MPSC staff recommended that SEMCO's program be expanded to all residential customers in a phased-in basis, starting with a maximum of 40 percent of its total customer base starting in April 2002 and increasing to 100 percent by April 2004. In November 2001, SEMCO withdrew its proposal to extend the pilot program due to an inability to settle on a fixed rate for the program with Staff.

Instead, SEMCO planed to adopt a program similar to Consumer's Energy, with 40 percent of customers being eligible by the time the current pilot ends (March 31, 2002), increasing to 60 percent in 2003 and allowing full choice by 2004.

In February 2002, the PSC approved an extension of the current pilot program while a permanent program is developed. On Feb. 20, 2002, SEMCO applied for U-13305, the Consumer's model program. The PSC approved a phased-in plan, with up to 78,000 of SEMCO's residential customers and all of its nonresidential customers can buy gas from a third-party supplier by October 2002. By April 1, 2004, all customers will be eligible.

MINNESOTA

In August 1997, markers petitioned the Minnesota Public Utilities Commission (PUC) to establish rules and regulations that would provide supplier choice to all customers by 2003. On Oct. 28, 1997, the PUC rejected the petition, stating that not enough evidence of consumer benefit was available.

MONTANA

The Natural Gas Restructuring and Customer Choice Act, passed by the state in 1997, allows gas utilities to open their system to competition. In May 1997, the Montana Public Service Commission (PSC) initiated an informal proceeding to develop proposed rules for restructuring the state's natural gas industry. Topics for review in the initial phase of the rulemaking included consumer and supplier protections as well as supplier licensing standards.

ENERGY WEST

ENERGY WEST's (formerly Great Falls Gas Co.) program calls for the utility to exit the merchant function three years after the start date, except for the traditional service product detailed below. Customers obtained the choice option in phases by class, with all customers eligible in September 1999. Customers that do not specifically select a service will default to the traditional service until the third year, when such customers would be assigned to a third party supplier or retained on traditional service, depending on commission regulations.

In December 1998, the PSC approved ENERGY WEST's proposal, but deferred the ruling on non-electing customer assignment for a later time. The PSC also required ENERGY WEST to put its supply management out for bid, rather than automatically select a company affiliate for this service. The PSC did approve a non-bypassable 1.72 percent charge on customer bills to fund a Universal System Benefits Program for low-income customers, in compliance with Montana law.

Montana Power

As part of a general restructuring of its distribution services, Montana Power filed in July 1996 to fully unbundle its system over a five-year period. Based on a proposed settlement, the minimal annual transportation volume requirement would initially be reduced from its current level of 60,000 MMBtu to 5,000 MMBtu for an interim period, and eventually be eliminated. The company is preparing pilot transportation programs for both residential and commercial customers.

In May 1997, Montana Power filed a third stipulation as part of its previous rate case. The stipulation would resolve outstanding rate design issues with a new demand and commodity charge, flexibility in discounting transmission and distribution rates, and moving gathering and transmission assets out of rate base into a supply division. The supply division would be limited regarding marketing to customers during the transition to unbundled service. The stipulation allows for recovery of $35.6 million in stranded costs through a competitive transition charge financed through revenue bonds. The PSC approved the third stipulation on Oct. 31, 1997. Montana Power issued $63 million in transition bonds in December 1998 to recover stranded costs.

The company stated that it intends to remain in the competitive gas supply business after the system completely unbundles. In March 2000, the PSC ruled that Montana Power could accrue and defer its customer choice education program for later recovery consideration.

NEBRASKA

KN Energy

KN Energy proposed a customer choice program for 100,000 customers in Nebraska. The *Choice Gas* program would start in April 1998, with deliveries beginning the following June. To address concerns from the three statewide organizations, KN Energy revised its original proposal. These revisions allowed the various parties to support the program and KN Energy started seeking approvals from the many municipalities in KN Energy's service area. As of March 1998, 165 of 180 communities approved the program.

By the start of the second year, 100,000 customers were participating in the program. KN estimated that these customers had saved $5 million on their gas bills. Of those 100,000, 74,000 were residential customers.

NEVADA

The Nevada Public Utility Commission (PUC) was encouraged by law to initiate alternative regulations of the gas and electric utilities. The PUC opened a docket to investigate issues regarding marketer licensing requirements. In July 1998, the PUC approved regulations that set up a process that can designate natural gas services as "potentially competitive." Achieving this designation would be the first step towards making that service fully open to competition.

NEW JERSEY

The Board of Public Utilities (BPU) submitted an energy restructuring bill to the state legislature in the third quarter of 1998, and was passed in February 1999. The bill mandated residential choice for gas customers starting in December 1999.The bill can be viewed at: http://www.njleg.state.nj.us/9899/Bills/al99/23_.htm

In compliance with that law, the state's gas utilities filed unbundled rates with the BPU in the spring of 1999. The BPU gave final approval to the programs in January 2000. In the summer of 2000 the BPU approved a pilot program for Internet enrollment for the choice programs.

NUI Elizabethtown Gas

On April 30, 1999, NUI Elizabethtown Gas Company (Elizabethtown) filed a Rate Unbundling program with the New Jersey Board of Public Utilities in compliance with the New Jersey legislation "Electric Discount and Energy Competition Act ("the Act"). In January 2000, the BPU approved ETG's program to allow all customers choice in gas suppliers.

New Jersey Natural Gas

New Jersey Natural Gas (NJNG) filed its *Natural Solutions* program with the New Jersey BPU on July 16, 1996, and received program approval on Jan. 22, 1997. The residential and small commercial unbundling program was designed to provide **all** of its customers with a range of choices for their natural gas needs. The original program provided three options for its residential customers.

Natural Solution's first enrollment period in 1997 ran from April 1 until April 16, when the enrollment limit of 5,000 customers was reached. On Sep. 14, 1998, the BPU approved an agreement with the utility that included allowing all residential customers a choice in gas suppliers by Jan. 1, 1999, dependant on the development of standards for third-party gas purchases and the implementation of a customer education program. Approximately 350,000 residential customers would then be eligible under this program.

NJNG and the BPU determined that while NJNG's plan called for total choice by Jan. 1, 1999, they would delay implementation of full choice until the Dec. 1, 1999 date set by the law. NJNG increased the enrollment cap to 40,000 to allow more participation in the program during the interim period. In January 2000, the BPU approved NJNG's program that allows full choice to all customers. In addition, the BPU approved a new Temperature Sensitive Delivery Balancing option, which allows suppliers to fulfill none of the balancing obligations. It also provided financial incentives to encourage residential and small commercial customers to switch to transportation services.

Public Service Electric & Gas

In the mid 1990s, Public Service Electric & Gas' proposed *SelectGas* program to allow 60,000 - 65,000 residential customers in Bloomfield, Piscataway, Pennsauken, and Westhampton to buy gas from alternative suppliers. The BPU approved PSE&G's program March 12, 1997. After the legislature passed the statewide choice law, PSE&G ended the pilot program and opened its entire system to choice. As of the summer of 2003, PSE&G had approximately 8,500 residential customers participating in its program.

South Jersey Gas

The BPU approved South Jersey Gas's one-year pilot residential transportation program for 13,000 customers throughout its service area. Customer enrollment, on a first-come, first-served basis, ran from April 1-June 30, 1997.

In June 1998, the BPU approved South Jersey's request to expand the program to 12,500 additional customers. As of April 1999, almost 20,000 customers had enrolled in the program. In May 1999, South Jersey asked the BPU to double the enrollment cap.

South Jersey filed for a full choice program, in accordance with state law, by the end of 1999. The BPU approved the program in January 2000. As of May 2000 over 51,000 of South Jersey's residential customers utilized third party suppliers for their gas supplies. The number of such customers then fell in early 2001, due to natural gas price increases that were not reflected in utility rates. As gas prices stabilized, the demand for alternate suppliers picked up and as of February 2002 approximately 53,000, or almost 20 percent, of South Jersey's residential customers utilized third party suppliers.

NEW MEXICO

Public Service Company of New Mexico

On March 31, 1997, Public Service Company of New Mexico (PNM) filed a report with its Public Utility Commission (PUC) outlining the utility's plan to exit the gas merchant function. The filing was in response to the PUC's request after the PUC learned of PNM's interest in having other parties purchase gas for utility customers.

In July 1997, PNM filed a customer choice pilot program with the PUC, which was approved the next month. Developed in partnership with regulators, marketers, and customers, PNM is offering a choice of suppliers to its 400,000 customers starting with December 1997 deliveries. In July 1998, the PUC approved extending the program indefinitely.

Three suppliers were certified to participate in the choice program, with Enron being the only one to serve residential load. Less than 300 residential customers participated in the program's first year. In August 1998, Enron announced that it was withdrawing from the residential program. Since July 1999, there has been no further participation by suppliers in the residential gas choice program.

NEW YORK

On March 28, 1996, the New York Public Service Commission (PSC) approved nine utilities' compliance filings that will allow all customers to choose their gas supplier. Under the new regulations, any customer that consumes 3,500 Dth/year or is part of an aggregated group that consumes 5,000 Dth/year will be eligible to choose their own natural gas supplier.

Previous versions of this analysis contain details of the New York program on such topics as:

Pipeline and Storage Capacity
Balancing
Consumer Protection
Creditworthiness
Rate Issues
Billing
Utility/Supplier Information Exchange
Unbundling Non-Gas Procurement Services
Customer Satisfaction

Members and subscribers can find the previous AGA studies the AGA website: http://www.aga.org/Template.cfm?Section=Consumers_and_Demand1&Template=/TaggedPage/TaggedPageDisplay.cfm&TPLID=46&ContentID=8748

Additional sources of information include New York's PSC website: http://www.dps.state.ny.us/ESCO_Topics.htm

A 1999 customer satisfaction survey can be found at that site as well: http://www.dps.state.ny.us/99gassrv.htm.

KeySpan Energy Delivery of New York

KeySpan began providing unbundled services on May 1, 1996. KeySpan's unbundled services tariff contains several key provisions.

- The company will release pipeline capacity and provide companion storage service as an option for marketers serving core transportation customers.
- Marketers serving core transportation customers who opt to purchase upstream capacity and storage from others must purchase a daily swing service from the company.
- Participation in a core aggregation program does not require a remote meter installation, and all sales service classes are eligible.
- Standby service, required for core "human needs" customers, is available as an option for core non-human needs customers.

Specific rate schedules include:

Comprehensive Transportation & Balancing Service - Under this service, marketers must deliver gas for their customers at a relatively constant daily rate every day based on an estimate of annual design consumption. KeySpan will release pipeline capacity based on an estimate of the annual requirements of a marketer's group under design winter conditions. KeySpan will inject and withdraw gas from storage as needed to meet daily and seasonal fluctuations in consumption.

A 12-month term is required from each customer who elects transportation service but no signed agreement is required. Standby service is not required for "human needs" customers since pipeline capacity released by the Company will be recallable in the event the marketer fails to supply gas. KeySpan will reconcile total deliveries and total consumption and cashout in May of each year. Over deliveries will be applied to reduce the following year's requirement, under deliveries will be charged to the marketer at the company's filed incremental gas cost.

Core Transportation & Swing Service - This service is available to marketers which use their own pipeline capacity and storage or services obtained from others to deliver gas at a different average daily amount each month based on an estimate of consumption at normal weather. Under this service, the marketer must deliver gas at a different daily rate each month, however, the amount delivered each day of the month is uniform. KeySpan will use pipeline capacity and storage, as needed, to meet daily fluctuations in consumption. Standby service is required for "human needs" customers and optional for others.

KeySpan's unbundled tariff has the option to require converting customers to take upstream capacity. In assigning pipeline capacity, KeySpan will determine which pipeline to assign and will release a daily amount equal to the customer (or aggregate group's) design annual requirement divided by 365. KeySpan will not release storage capacity, but will provide a cost-based storage rate.

Marketers enrolled in KeySpan's program can obtain individual customer consumption information via the company's Internet home page. Also, individual customer meter reads and other information is available at that site.

As of April 2003, KeySpan had 74,608 residential customers (11.2 million dekatherms, or Dth) and 11,073 non-residential customers (10.3 million Dth) accessing this transportation service.

Consolidated Edison of New York

Consolidated Edison of New York's current transportation tariff contains the following key elements:

- Firm transportation customers are given the option of three different balancing services: load following service, daily delivery service and daily cashout service. Under load following, Con Edison provides a customer's marketer with the amount the marketer is required to deliver each month in equal daily increments based on historical weather normalized usage. Since the Company is responsible for providing for the Customer's daily swings, the Customer is charged a load following charge on those daily swings. . Under the Company's Daily Delivery Service balancing program, Con Edison provides a customer's marketer with daily load data based on the customer's projected load and forecasted weather. Like load following, the Customer is charged a balancing charge *(daily delivery service charge") but it is lower than the load following balancing charge in recognition that a Marketer will have to make use of their own storage asses to meet day to day swings. A human needs customer taking daily delivery service also is charged a marketer area standby charge Under the Daily Cashout Service, a Marketer determines the daily quantity to deliver on behalf of their Customer's, assumes all responsibilities for meeting daily swing, and pays no balancing charge. Under all three services, there are provisions for daily and/or monthly cashouts on variations between actual versus required deliveries. Con Edison no longer applies a supply standby charge to human needs customers.
- Interruptible transportation customers are given the option of daily and monthly balancing service options.

- The volumetric threshold to qualify for transportation service is 3,500 Dth per year for individual customers and 5,000 Dth per year for groups of customers having individual requirements less than 3,500 Dth per year.
- Gas marketers are permitted to aggregate imbalances for their firm or interruptible transportation customers to minimize responsibility for charges and cashouts.
- Marketers may use their own capacity or obtain capacity from Con Edison to serve all or part of the load behind Con Edison's citygate for a 1, 2 or 3 year term commencing November 1, 2001 and ending October 31, 2004. Marketers electing to take capacity from the Company will be charged the Company's' weighted average cost of capacity. Marketers relying on their own capacity for all or portion of their capacity requirement must demonstrate that they have non-recallable firm transportation capacity with primary delivery point capacity.
- In February 2001, the Company began offering a virtual storage option to marketers whereby a marketer delivers excess gas to the Company's citygate during the summer period (April 1 through October 31) and the Company redelivers gas during the winter period in the production area. The Company also began offering an imbalance trading service which permits marketers to trade end of month imbalances providing marketers with the opportunity to reduce their responsibility for end of month cashout and penalty charges,

As of April 2003, Con Edison had 33,110 residential customers (annual demand of 7.0 million Dth), and 6,715 non-residential customers (annual demand of 9.0 million Dth) on transportation service.

KeySpan Energy Delivery of Long Island

KeySpan Energy Delivery of Long Island's (formerly Long Island Lighting Company) *Natural Choice* program allows all gas customers to select their own gas supplier. Residential customers may join together into buyer groups with a combined annual load of 5,000 Dth (approximately 35 homes). KeySpan will continue to provide transportation service and maintenance. Customers will be billed by marketers for the commodity service and by KeySpan for all other services.

KeySpan provides, at no extra cost to customers, a balancing service which includes holding of customer-owned natural gas if the customer's usage requirement on any day is less than the pre-determined quantity delivered by the marketer, as well as the provision of company-owned natural gas if the customer's usage requirement on any given day exceeds the marketer's delivery.

As of April 2003, KeySpan had 24,919 residential customers (annual demand of 4.3 million Dth), and 6,938 non-residential customers (annual demand of 5.7 million Dth) on transportation service.

National Fuel Gas Distribution

National Fuel Gas Distribution Corporation's customers may choose either National Fuel as their natural gas supplier or they may choose another company to purchase natural gas supplies from and have National Fuel deliver it to their home or business.

National Fuel Gas Distribution's transportation services provide sales customers converting to transportation service as of May 1, 1996, with the option of either contracting for standby service to meet the entire needs of the customer's facility or accepting one of three capacity assignment options. The three capacity assignment options are: (1) an assignment of upstream pipeline transmission capacity contracted by National Fuel, (2) an assignment of upstream pipeline transmission and storage capacity contracted by National Fuel, and (3) an assignment of storage capacity and intermediate pipeline transmission capacity contracted by National Fuel.

National Fuel has offered monthly Burner Tip balancing services since 1994 and daily-metered transportation service since September 1995. The changes made in response to the

PSC's March 28 order update the services the company provides in those areas. National Fuel has developed balancing requirements for monthly-metered transportation customers, for daily-metered transportation customers, and for supplier transportation and aggregation services. Under the supplier transportation, balancing and aggregation service the company will establish a monthly aggregated Daily Delivery Quantity (ADDQ) for the supplier's aggregated group. The ADDQ will be the sum of average day normalized monthly consumption for customers in the aggregation group. Aggregators will be required to balance deliveries to the city gate within a 5 percent tolerance band above and below the ADDQ. City-gate imbalance charges will apply to under deliveries below the tolerance levels. Nominations above the ADDQ may be rejected. The 5 percent tolerance band provides greater flexibility for the aggregator than the PSC's required tolerance band of 2 percent. During OFO periods the tolerance band may be tightened and OFO penalties will be the greater of $7/Mcf or the highest cost of gas for under deliveries between 2 percent and 5 percent and the greater of $10/Mcf or 125 percent of the highest cost gas for under deliveries in excess of 5 percent of the ADDQ.

Because National Fuel is applying a strict city-gate tolerance band for aggregation service, the company resolves Burner Tip imbalances of the aggregator by either rollover or cashout. Aggregators may rollover imbalances to the next available month. If so, imbalances will be used to adjust the next available month's ADDQ. Under the cashout option, aggregators can trade month-end imbalances with other aggregators, buy gas from National Fuel for deficiency imbalances, sell surplus imbalance gas to National Fuel, or deliver surplus gas to other transportation customers in later months.

In compliance with the PSC's requirements, National Fuel's supplier transportation, balancing and aggregation service is optional for transportation customers with annual throughput greater than 3,500 Mcf and mandatory for transportation customers below 3,500 Mcf annual throughput. The service allows aggregators to assume all customer billing responsibilities. National Fuel will bill the aggregator for all services rendered at the burner tip and the aggregator will, in turn, bill the customer the cost of the services it provides to the customer. Suppliers are entitled to a $0.80 per bill billing back-out credit. National Fuel also offers a billing and remittance service for aggregators at a charge of $0.84 per bill.

National Fuel has not placed any restrictions on transportation customers returning to bundled sales services after the expiration of their transportation service agreement. In addition, no charge has been imposed on residential customers returning to sales service.

As of April 2003, National Fuel had 39,249 residential customers (annual demand of 5.5 million Dth), and 13,784 non-residential customers (annual demand of 11.2 million Dth) on transportation service.

New York State Electric & Gas Corporation

New York State Electric & Gas' (NYSEG) restructured services plan provides unbundled and rebundled services for core and non-core customers.

- Aggregated transportation service is available to core residential and non-residential customers comprising aggregated pools of not less than 5,000 Dth per year. Pools may be non-daily-metered or daily-metered at the customer's election. Non-Daily metered pool aggregators must deliver the daily aggregated volume for their pool. The daily volume is provided to the Marketer from the Company. A balancing service is provided by NYSEG to handle daily swings.
- Daily Metered transportation customers have two balancing options, daily balancing or monthly balancing. All daily-metered transportation customers are pooled for purposes of balancing by their respective Pool Operator and Pooling Area. A +/- 10% imbalance tolerance is provided for daily imbalances under the daily balancing option. Imbalances

over the tolerance are cashed-out after the Pool Area is automatically adjusted. End of the month imbalances may be traded prior to cash out.

- Repackaged service allows customers to rebundle precisely the service they want based on any combination of unbundled services, ranging from unbundled transportation to a fully rebundled burner-tip sales service.
- Voluntary upstream capacity unbundling provides customers migrating from sales to transportation with available upstream pipeline capacity and storage.
- Effective April 1, 1999, there is no mandatory capacity assignment for migrating customers, except for limited circumstances.

As of April 2003, NYSEG had 445 residential customers (annual demand of 0.1 million Dth), and 4,179 non-residential customers (annual demand of 3.6 million Dth) on transportation service.

Niagara Mohawk, a National Grid Company

Niagara Mohawk's ***SupplierSelect*** program gives all customers, without any size restriction, the freedom to choose their natural gas supplier, while Niagara Mohawk continues to deliver the product.

Effective September 1, 2000, Niagara Mohawk implemented new balancing programs known as Daily Balancing Service and Monthly Balancing Service. Marketers and Direct Customers participating in Daily Balancing Service are subject to a daily tolerance (+/- 10% from April 1 through October 31; +/- 5% from November 1 through March 31) between nominations and the pool's consumption. If the pools as a whole are within the tolerance, there will be no daily cashouts. If, however, the pools as a whole are outside of the daily tolerance, individual pools that are outside of the daily tolerance are cashed out. Deliveries up to the daily tolerance roll to the end of the month when imbalance trading occurs, followed by a cashout of remaining imbalances.

Niagara Mohawk's Monthly Balancing Service is designed around and offered in conjunction with Dominion Transmission, Inc.'s Delivery Point Operator and City Gate Swing Customer Program. Marketers must participate in DTI's Program in order to participate in Niagara Mohawk's Monthly Balancing Service. Under the program, Niagara Mohawk releases to Marketers FTNN capacity and storage. Marketers participating in Monthly Balancing Service are provided with a daily forecasted flow order, which is the quantity of gas that may be delivered by a Marketer for the following day. An actual flow order, based on actual heating degree days, is delivered to the Marketer and DTI the day following the delivery of the gas. Storage that was released to the Marketer is adjusted by DTI for the difference in what was nominated vs. the actual flow order.

All 540,000+ sales customers are eligible to participate in the ***SupplierSelect*** program. As of April 2003, 65,479 residential customers (7.7 million Dth) and 8,559 commercial customers (7.4 million Dth) were participating in the program.

Rochester Gas & Electric

Rochester Gas & Electric (RG&E) reached an agreement with the PSC staff that would have PG&E pay competing suppliers $45 for each customer enrolled by that supplier. The dollar value represents costs avoided by RG&E as they eventually exit the merchant function. Leaving the merchant function will allow RG&E to implement a single retailer system where marketers, not consumers, pay utilities for transportation services. The $45 payment to the supplier will be in the form of a monthly credit on the suppliers' charge for distribution service.

At the end of 2000, RG&E received approval from the PSC to implement a "single-retailer" model for its customer choice program. Under this program, the utility would sell its distribution and related services to marketers, who would then sell these and gas supply services to the retail customers.

As of April 2003, RG&E had 43,236 residential customers (annual demand of 5.2 million Dth) and 6,329 commercial customers (5.0 million Dth) participating in the program.

OHIO

The Ohio General Assembly passed natural gas alternative regulation legislation, which was signed into law in June 1996. The law establishes customer choice as a state policy in the supply of natural gas services, and allows local gas utilities to unbundle their gas supply function and compete against other suppliers upon a Commission finding that competitive circumstances exist on the system. In August 1998, the PUC reversed an early prohibition against telephone sign-ups. Customers may now be enrolled by marketers over the phone, but only when the customer initiates the call.

The PUC also provides an "apples to apples" comparison of marketers' offers to residential customers. The PUC provides a worksheet, "Making Cents of Your Choices" that has sample bills and provides instructions on how to calculate the monthly bill under the Columbia program.

The PUC issued a detailed status report on unbundling efforts within the state, which included participation rates (sometimes broken down by customer demographics), complaints and inquiries, Codes of Conduct issues, enrollment procedures, customer information needs, and customer surveys.

In December 1999, the PUC rejected a staff proposal for tariff changes for all choice programs that would require marketers and utilities to adhere to specific standards. The PUC determined that current programs should continue while the issue is further studied.

In June 2000, the PUC set minimum requirements for door-to-door solicitations by marketing representatives under the gas choice programs. Among other things, marketers must provide customer acknowledgement forms and third-party verification.

In November 2001, the PUC proposed a new set of rules for natural gas competition. The PUC hopes that the Legislature approves these rules by July 26, 2002, the date marketers are required to be certified under the state's restructuring law. The rules establish, among other things, the following:

- Technical, managerial, and financial requirements competitive retail natural gas suppliers and natural gas aggregators must meet to be certified to provide service in Ohio;

- Rules governing the formation and operation of governmental aggregation including those aggregators with either "opt-in" (customer chooses to join) or "opt-out" (automatic inclusion unless customer chooses otherwise);

- Consumer protections regarding marketing, customer enrollment, complaint handling, disconnection, and contract disclosure;

- Process for competitive retail natural gas migration cost recovery; and

- Reporting requirements and enforcement procedures to ensure that retail natural gas suppliers and aggregators follow the rules.

Cincinnati Gas & Electric

In September 1994, the Cincinnati Gas & Electric Company (CG&E) began offering firm transportation service to all but residential firm customers. In Case No. 95-656-GA-AIR, CG&E received approval a residential aggregation/transportation program that would allow customers, effective Nov. 1, 1997, to pick an alternative gas supplier while CG&E continues to provide local delivery service. As of July 1999, CG&E had approximately 32,400 residential customers enrolled in its choice program.

CG&E's program is available to all customers in its entire service territory. The cost of gas purchased from the supplier will also be billed by CG&E, or can be billed separately by the supplier, at the supplier's discretion. To enroll in the program, customers will select a supplier and sign a contract with the supplier and a consent form.

All Ohio gas customers whose payments are current with CG&E may participate in the program. CG&E will notify customers who are enrolled in the program when their supplier service will begin. Customers commence service with their new supplier on the next regularly scheduled read date following notification of their enrollment with a new supplier.

For all customers, CG&E will continue to provide all gas distribution services, including:

- gas system repair and maintenance;
- emergency response to gas odors and leaks; and
- energy conservation and safety information.

Columbia Gas of Ohio

Columbia Gas of Ohio (COH) filed its *Customer CHOICE Program* at the PUC in October 1996 and received approval in January 1997. The program was initially offered for the greater Toledo area, where approximately 170,000 customers were eligible. Those eligible were residential and commercial customers using less than two million cubic feet per year. After one year of the program's existence, COH filed to the PUC, on March 31, 1998, for expansion throughout the remainder of the service territory. The PUC approved the plan on June 18, 1998.

Marketers must agree to participate in Columbia's aggregation service, as defined in its tariff. Marketers are required to meet certain creditworthiness standards, agree to operate under defined standards of conduct and a code of ethics, and must have a minimum of either 100 residential customers or a group of commercial customers with at least 10,000 Mcf of annual throughput to participate in the program.

Columbia offers total capacity equal to the sum of the peak day demand for each Aggregation Pool net of capacity required for Columbia's provision of non-temperature balancing service, as estimated by Columbia. Marketers may elect to take less than the maximum capacity offered.

Storage capacity is assigned from Columbia Gas Transmission's FSS service and pipeline capacity is assigned from Columbia Gulf or Columbia Gas' FT service. A daily balancing fee is charged to the extent a marketer does not take assignment of storage and there is a true-up between marketer deliveries and customer annually.

AGA members and subscribers can find details of the history of Columbia's program in previous versions of this report on the AGA website:
http://www.aga.org/Template.cfm?Section=Consumers_and_Demand1&Template=/TaggedPage/TaggedPageDisplay.cfm&TPLID=46&ContentID=8748

News items concerning Columbia's *Customer CHOICE Program* cam be found on their website:

http://www.columbiagasohio.com/news/choice/

East Ohio Gas

East Ohio's *Energy Choice Pilot Program* began as a ten county pilot area of approximately 170,000 customers (157,000 residential and 13,000 nonresidential) since its approval by the PUC on July 2, 1997.

Participation in the program surpassed expectations. As of March 1999, a total of 33,054 (approximately 19 percent) residential customers (including 3,549 PIP customers) and 2,710 (approximately 22 percent) nonresidential customers selected suppliers under this program. In all, 12 marketers were actively participating in the program. As of that date, customers realized savings from this program of approximately 4 percent, or almost $1.2 million.

East Ohio proposed expanding the program to all customers, and in June 2000 got PUC approval. Enrollment started September 2000, with gas flowing that fall. Customer education for those not in the program began in June that year.

Vectren Energy Delivery of Ohio

Vectren Energy filed a petition in June 2002 with the PUC to allow choice for all its gas customers. The PUC approved the plan in August 2002, with deliveries starting in January 2003. The program calls for a phase-in schedule, with up to 45,000 customers to start, and additional 100,000 in April 2003. Depending on the success of the program, all customers could have choice in September 2003.

Vectren Energy will reduce or eliminate pipeline contracts and will exercise reduction rights in its gas supply contracts to avoid stranded costs. Marketers will not have to take assignment of upstream pipeline capacity, and participating marketers will be assessed a $0.35/Mcf pooling service fee and a $0.12/Mcf balancing fee.

OKLAHOMA

In February 1997, the Oklahoma Corporation Commission (OCC) solicited proposals on gas deregulation. The OCC accepted proposals through March 21 and held technical conferences to clarify and further explain the various issues, including general items, unbundling areas/services, open access, consumer issues, continued regulation, time line, and other.

On Jan. 21, 1998, the OCC released a second draft rulemaking. The draft requires that all utilities submit a plan that unbundles functions upstream of the citygate. The OCC will select the providers of these functions through a competitive bidding process. A minimum of ten percent of the gas supply bid will be awarded to independent producers, whose bid price must be discounted by ten percent for comparison purposes to other bidders. The rules permit utilities to seek stranded cost recovery.

On Jan. 28, 1998, the OCC approved this latest draft, and sent it to the governor and legislature for approval. Oklahoma Natural Gas (ONG) appealed the order to the state Supreme Court, and the court agreed to hear the case. In a March 1999 order, the OCC delayed the start date for customer choice from Oct. 1, 1999 to at least June 1, 2001, pending resolution of various issues.

Oklahoma Natural Gas

In February 1997, Oklahoma Natural Gas (ONG) and ONG Transmission filed an application with the OCC to set in motion the process of unbundling. The application set forth ONG's intentions and presents a time-line for the unbundling process. The first phase would allow industrial and large commercial customers to choose their gas supplier. ONG will bring choice to very small commercial and residential customers in the following phase. In addition, ONG proposes to unbundle transmission and storage services by transforming ONG Transmission into an unregulated company.

The *Natural Choice* plan contemplated that beginning Sept. 1, 1997, all industrial and commercial customers whose usage exceeds 150 Mcf per year will have the choice of buying gas from among qualified suppliers, including ONG.

In June 1997, ONG temporarily withdrew its application for an unbundling program. Comments received by the OCC indicated that many parties preferred that the OCC develop regulations prior to approving ONG's unbundling program. ONG filed its upstream unbundling application with the OCC in spring 1998, which included a competitive bidding process for upstream services. The application also requested that customers be charged a flat monthly fee for distribution services, with gas costs billed separately based on consumption. The flat rate would be based on customer class, and includes a discount for low-income residential customers.

In the summer of 1998, the OCC passed an interim order requiring ONG to solicit competitive bids for upstream services in time for the 1998-99 winter heating season. OCC appealed the order to the Oklahoma Supreme Court, stating that the order exceeds the OCC's jurisdiction, represents an invasion of internal management direction, as well as other flaws.

In May 1999, ONG and OCC staff reached agreement on a major rate case, which was expected to pave the way for retail customer choice. The state Attorney General objected to the agreement, so the OCC voted against the agreement. After further negotiations, the OCC and ONG reached agreement. In July 1999, the OCC approved an order unbundling ONG's gathering and storage operations.

On May 30, 2000, the OCC approved a settlement between ONG, the OCC staff, and the Attorney General's office. The settlement separates ONG's transmission and distribution functions, and clears the way for further unbundling in the service area.

OREGON

In its 1997 objectives, the Office of Public Utility Commission decided to:

Implement direct access pilot programs to examine implications associated with unbundling utility services and rates for electricity and natural gas.

Since the consequences of retail competition in the state is not known, the commission wants to assess unbundling prior to implementing it for all customer classes. The commission will work with utilities and other stakeholders to develop pilot programs and will evaluate the success of these programs. The commission and gas utilities are discussing residential choice programs.

PENNSYLVANIA

The Pennsylvania legislature enacted a law in 1999 that completely unbundled the state's gas utility merchant functions. Originally introduced in 1997, the bill went through several iterations before finally being enacted. By March 1999, a major roadblock to the choice legislation had been settled. The Governor had proposed ending the state's gross utility tax, which disadvantaged utilities relative to unregulated marketers. In addition, the new version of the legislation called for mandatory capacity assignment, which had also been a contentious issue among the various parties.

In June 1999, the Pennsylvania General Assembly passed the customer choice bill (http://www.legis.state.pa.us/WU01/LI/BI/BT/1999/0/HB1331P2112.HTM) that was signed into law by the Governor that same month. Provisions of the bill include

- Unbundled service begins Nov. 1, 1999
- Unregulated suppliers can become alternative suppliers of last resort
- Utilities can remain in the merchant function

Columbia Gas of Pennsylvania

In August 1996, Columbia Gas of Pennsylvania received approval from the PUC to begin the state's first residential gas supplier choice program. The program allowed up to 20,000 residential and 700 small commercial customers in Washington County to buy natural gas from alternative suppliers beginning in November 1996. Columbia instituted an extensive educational program for both customers and marketers doing business in its service territory.

Marketers are able to aggregate customers in Columbia's program down to a minimum volumetric level of 5,000 Mcf/year or a minimum of 50 customers. Columbia has developed a set of marketer participation requirements, including creditworthiness requirements, a customer consent form, a *Columbia CHOICE* fact sheet that must be provided to each customer and a standard gas supply agreement. Any agreements between a gas supplier and a customer may not contain provisions requiring customers to purchase gas for a longer period than the length of the program, require customers to purchase other energy services, or require the payment of an application or service fee.

Columbia maintains a list of qualified marketers that it will provide to residential customers. Customers have the opportunity to change marketers, retain the same marketer, or return to sales service after the first year. Customers will not be charged to switch suppliers after the first year.

Columbia is offering marketers a choice between taking assigned interstate pipeline capacity and paying a bundled standby charge. The FT pipeline capacity assigned will be 80 percent of the customer group's average daily demand and will be assigned at maximum rates to assure no stranded costs or cost shifting. Released capacity will stay with the customer but will be assigned to the marketer. Capacity may not be reassigned. Storage capacity will not be released.

Each year, Columbia will calculate the difference between the actual deliveries received at Columbia's city-gate on behalf of the supplier and the volumes billed to the customer group. Columbia pays or bills the supplier for the difference in volumes at a rate equal to the weighted average commodity cost of gas billed by Columbia during the same 12-month period.

Columbia continues to serve customers on a critical day even if the supplier fails to deliver supplies to the Columbia city-gate. The penalty to the supplier for non-compliance with an operational flow order given on a critical day is $30/Mcf for the shortfall, plus payment of the *pro rata* share of all other charges incurred by Columbia as a result of the supplier's non-compliance, including any pipeline penalties.

On June 12, 1997, the PUC approved Columbia's request to expand the program to 100,000 customers in Allegheny County. The program design is similar to the program previously offered in Washington County. The PUC also authorized Columbia to test a capacity assignment service and to create a transportation tariff for small commercial customers.

In December 1999, Columbia received Commission approval to make Choice available on a statewide basis. With this approval, Columbia expanded its customer education efforts, allowed telephone enrollment, and provided an easier to understand bill. Suppliers continued to be able to select from a number of capacity choices, and had to adhere to standards of conduct. The utility's Customer Assistance Program (CAP), which aggregates and puts out to bid low income customer pool, was extended through 2003. Columbia also agreed to maintain its contribution to the state's Low Income Usage Reduction Program.

In April 2000, the PUC gave final approval to Columbia's tariff on the restructuring settlement reached the previous December. As part of the approval, Columbia integrated the PUC's interim standards of conduct for utilities and their marketing affiliates and modified its tariff so that all of the rules concerning Choice and traditional gas transportation services were located in one "Rules Applicable to Distribution Service" section of the tariff. Columbia also created a dispute resolution procedure for use with natural gas suppliers and continued its dedication to educate customers about Choice service and the new options available to them.

As of March 2002, Columbia maintains a highly successful Choice program with nine marketers serving approximately 117,000 customers. This represents approximately 30% of the eligible customer base.

Dominion Peoples

In 1997, Dominion Peoples introduced its Energy Choice Program that allows all customers to purchase gas from a supplier other than Dominion Peoples. The focus of the program is on residential and essential human need commercial customers (hospitals, nursing homes, apartments, etc.). Dominion Peoples will continue to offer sales service as an option for customers.

Under the *Energy Choice Program*, the same portfolio of gas delivery capability that Dominion Peoples employs to serve sales customers is made available to suppliers. In exchange for the payment of gas delivery capacity (via Dominion Peoples capacity charge), suppliers will receive, on behalf of their customers, a *pro rata* allocation of upstream pipeline capacity and off-system storage capacity. The supplier will also be allocated a *pro rata* share of on-system storage and local gas.

Suppliers are required to deliver sufficient gas on a daily basis to satisfy its customers' estimated daily usage. A separate balancing fee is not charged because the customer is paying for this service through the capacity charge. Daily imbalances created by the supplier's inability to match gas delivered to Dominion Peoples' system with estimated daily usage may be: 1) corrected by trading imbalance volumes with one or more priority-one suppliers, and/or; 2) subject to a monthly cash-out procedure based on the positive or negative daily imbalances.

Suppliers participating in the program must be licensed by the PUC and demonstrate creditworthiness prior to initiation of service. Credit evaluations will be based on standard credit factors such as previous customer history, Dun & Bradstreet financial and credit ratings, trade references, bank information, unused line of credit, and financial information.

Under the program, suppliers have the choice of two billing options: 1) Peoples will bill the customers for gas transportation service provided by Peoples and the supplier will bill the same customers for the gas supplied to these customers; and 2) Peoples will bill the customers for both the gas transportation service and for the gas supply.

As of June 2003, 91,424 residential customers have enrolled in the Energy Choice program.

Equitable Gas Company

On Oct. 25, 1995, Equitable Gas Company filed a petition with the PUC to establish a two-year pilot program of retail choice and competition for energy services for all classes of customers in the Borough of Pleasant Hills in Allegheny County. Under this program, the natural gas and electric utilities authorized to serve the borough would be directed to provide open access transportation service and encouraged to unbundle their rates for utility service on a voluntary basis. The utilities could compete as full or partial service providers to retain their own customers and to acquire additional load currently served by competing utilities. The PUC gave final approval to the gas side of the program in September 1996 and the program began Nov. 1, 1996.

On February 28, 1997 Equitable Gas Company voluntarily filed Tariff No. 21 which proposed to establish a Customer Choice Program that would give all customers, large and small, the ability to buy natural gas from a supplier other than Equitable. On December 4, 1997 the Pennsylvania Public Utility Commission approved Equitable's Program making it the first fully litigated, Commission approved, system wide Customer Choice Program in the state of Pennsylvania.

Equitable designed its Program with the following objectives:

- Continued reliability of service to essential human needs residential customers
- Full recovery of prudently incurred FERC-approved upstream pipeline capacity costs, i.e. avoidance of stranded costs
- The creation of a schedule of service which will make Equitable and its customers indifferent as between sales and delivery service and not subject remaining tariff sales customers to harm as customers migrate to delivery service

As of the end of 2002, more than 30,000 customers were participating in Equitable's choice program. Dominion Peoples Plus was supplying almost all of the residential customers.

National Fuel

National Fuel Gas Distribution Corporation's customers may choose either National Fuel as their natural gas supplier or they may choose another company to purchase natural gas supplies from and have National Fuel deliver it to their home or business.

On April 2, 1997, National Fuel filed a proposal for a customer choice pilot program called *Energy Select*, with the PUC. Following approval of the program, about 19,350 small commercial and residential customers in Sharon, Farrell, Hermitage, Sharpsville, Shenago, West Middlesex, and Wheatland Pennsylvania have the same gas transportation opportunities as National Fuel's larger customers have had for over a decade.

In the fall of 1998, National Fuel filed a proposal with the PUC to open all of its system to choice. This proposal expanded the current pilot program to 210,000 customers. In order to offer system-wide choice, the company requested a one-year waiver from the Federal Energy Regulatory Commission's rule requiring that gas shippers must have title to the gas they transport.

On February 11, 1999 the PUC approved National Fuel's system-wide choice program. Effective July 2000 National Fuel implemented changes in its program consistent with the Natural Gas Competition Act in place in Pennsylvania.

Under National Fuel's system-wide choice program, suppliers are provided with interstate transportation and storage capacity sufficient to meet the needs of the customers they serve. Suppliers are allocated sufficient capacity to meet the peak requirements of their customer group based on the following allocations: (1) 49% storage capacity, and (2) 51% release of upstream transmission capacity.

National Fuel's tariff contains procedures to monitor necessary deliveries, penalties if suppliers fail to deliver, and procedures for termination of supplier's participation. The tariff also contains a procedure for suppliers to assume responsibility for capacity contracts as they expire and, thereby, provides for a transition to competitive market without creating stranded capacity costs.

National Fuel bills customer for transportation service. Suppliers have the option of billing the customers directly for natural gas supply service or choosing National Fuel to provide billing and remittance services to the supplier. National Fuel's charge for billing and remittance service is $0.20 per bill.

PECO Energy

PECO Energy filed its plan to offer all its 420,000 customers a choice of suppliers with the PUC in December 1999. PECO will continue to transport gas to customers as well as control storage and peaking facilities. PECO will assign interstate capacity on a recallable basis for 12-month periods. Two billing options are available – separate billing or consolidated billing by PECO.

Penn Fuel

PFG Gas Inc. and Penn Gas Co., subsidiaries of Penn Fuel, filed customer choice plans with the PUC in December 1999. Starting in September 2000, their 73,000 customers would be able to choose a gas supplier. The companies will be updating their billing systems and rate structures. They also want to start a low-income assistance program called Operation Share, funded by customer and company contributions.

Philadelphia Gas Works

Under the state's customer choice law, Philadelphia Gas Works (PGW) came under the PUC's jurisdiction in July 2000. The law also required that a choice program for PGW be approved by April 1, 2003. In March 2003, the PUC approved PGW's proposed plan, which offers all its customers supplier choice starting in September 2003.

RHODE ISLAND

New England Gas Company

On April 9, 1997, Providence Gas Company filed with the Rhode Island Public Utilities Commission to provide supplier choice to another 3,400 of its commercial and industrial customers. The company's proposal would allow medium and large customers using at least 500 Mcf (500 thousand cubic feet) of gas per year to buy their gas from any source they choose. On Sep. 3, 1997, The Rhode Island Public Utilities Commission approved the regulatory plan for The Providence Gas. To date small businesses and residential customers do not have the opportunity to choose their gas supplier.

SOUTH DAKOTA

Two of the state's gas utilities, MidAmerican Energy Company and North Western Public service, have offered transportation service with no minimum volume requirements since the mid-1990s. Marketer interest in serving residential customers is not evident, so very few residential customers have used transportation service.

VIRGINIA

In the 1999 session, a bill passed the General Assembly that would allow Virginia gas utilities to offer customer choice. The utility must submit a plan to the SCC that includes an implementation timeline, a stranded cost recovery mechanism, codes of conduct, and other gas supply mechanisms. Suppliers must obtain licenses from the SCC before serving customers. The bill is on the General Assembly's Website at: http://leg1.state.va.us/cgi-bin/legp504.exe?991+ful+SB1105ER.

In May 2000, the SCC adopted rules for retail gas and electric access pilot programs. The rules address three general areas: relationships between utilities and suppliers, those parties' responsibilities to customers, and minimum requirements to become a licensed supplier in the state. The first licenses were issued in the fall of 2000.

In June 2001, the SCC adopted permanent rules on retail competition. One major provision called for utilities to provide marketers with a list of eligible customers, but allow customers to request that their names not be included on the list. The rules also stated what information would be on customers' bills and allow customers a 10-day grace period during which they can cancel a contract. The rules went into effect Aug. 1, 2001.

Columbia Gas of Virginia

On May 9, 1997, Columbia Gas of Virginia filed a rate case that included a customer choice program and a performance based rate design. The *Choice* pilot program enables about 26,000 residential and small commercial customers in Northern Virginia to choose their natural gas supplier. Customers may pick from a list of non-utility natural gas suppliers or stay with Columbia for the purchase of their natural gas. The Virginia State Corporation Commission (SCC) approved Columbia's *Choice* pilot program Oct. 1, 1997.

Customers living in Manassas, Manassas Park, and the Counties of Clark, Culpeper, Fairfax, Fauquier, Greene, Loudoun, Louisa, Madison, Orange, and Prince William were eligible for the two year pilot program.

Marketers have a choice whether to bill separately or to have Columbia bill for both delivery and gas supplies. Minimum aggregation is 10,000 Mcf per year or 100 customers. Columbia will only be offering firm transportation, and not storage, to marketers. The marketer must deliver gas "on a firm basis", and must pay 12 month firm transportation demand charges for each Mcf not delivered. Capacity assignment is optional, but capacity is scarce, and marketers may need to accept assignment of Columbia. The gas utility proposed that stranded costs be recovered from both participating and non-participating customers, which could amount to two cents per Mcf.

To become an authorized participant, suppliers must undergo a financial review and adhere to a detailed code of conduct as proposed by Columbia and approved by the SCC. In addition, the SCC ruled in April 1998 that marketers could promote their services through inserts in Columbia's bills. Also, some natural gas suppliers may offer a package of incentives to customers who sign up.

By February 2002 Columbia requested permission from the SCC to expand choice to all its customers by July 1, 2002. The SCC approved the plan in June 2002. A month later Columbia requested reconsideration of pricing and revenue allocation of a couple of optional supplier services. The program start date was then moved to October 2002 to allow consideration of the proposed changes.

Washington Gas

Washington Gas filed a request with the Virginia State Corporation Commission (SCC) to implement a two-year pilot program that would allow residential and commercial customers to choose a natural gas supplier. In June 1998, the Company received approval from the SCC.

Proposed enrollment targets for the first year of the pilot were set at approximately 29,000 residential customers and 2,000 commercial customers, which represented about ten percent of the company's Virginia customer base. Customers could enroll in the pilot program at any time and would be accepted on a first-come, first-served basis. In the second year, Washington Gas offered choice to 20 percent of the customers in each category.

In March 2001, the SCC approved Washington Gas' request to expand choice to all Virginia customers. As of April 1, 2001, the Virginia State Corporation Commission (SCC) expanded the customer choice program by phasing in the residential customers. The first phase included

150,000 customers. By January 2002, all the customers were allowed to choose an alternative supplier. The program basically followed the format of the pilot program, and will add a gas supply realignment adjustment charge to recover pipeline and storage maintenance costs.

As of July 1, 2003, there were 69,859 residential customers and 4,779 commercial customers participating in the program. The percentage of customers participating in the program was 20 percent residential and 30 percent commercial.

WEST VIRGINIA

The Public Service Commission of West Virginia issued General Order 228 on March 11, 1987. This order was issued to "maximize the economic utilization of transporters' pipeline systems, maximize the benefits of open access to local and interstate gas supplies for West Virginia customers, and eliminate non-economic bypasses of existing pipeline facilities." The order did not set any minimum usage limits, by that, allowing any of the customers to choose their own gas supplier.

Customers accessing the transportation service must install telemetering equipment, or pay a standby charge. The firm transportation service rate also includes transportation charges, base rate balancing fees, storage balancing fees, and fuel retention fees.

WISCONSIN

The Wisconsin Public Service Commission (PSC) issued a statement in March 1997 that outlined its approach to natural gas unbundling. The PSC stated that it would follow a measured approach to, rather than promotion of, competition in the natural gas industry. The PSC wants to assure that all gas customers continue to have gas service in the deregulated environment. The statement called for the formation of a working group to determine the appropriate regulatory structure.

Wisconsin Gas Company

Wisconsin Gas started its *GasAdvantage Program* in November 1996. In designing the program, Wisconsin Gas highlighted the following goals that it hopes to accomplish:

- Test the acceptability of supplier choice to small commercial and residential customers
- Assure the company's ability to support supplier choice to non-telemetered end-users
- Provide the ability for marketers to gain experience serving these markets
- Reflect concerns that are likely to be most important to the PSC in the program design
- Develop an evaluation plan that will accurately measure the program's success

In the spring of 2001, Wisconsin Gas decided to end its residential choice program by October 31. The utility noted that the program required subsidies that made it cost prohibitive and that marketer interest decreased significantly.

WYOMING

In November 1995, the Wyoming Public Service Commission (PSC) released a "white paper," *The Development of a Competitive Model for the Future of Retail Natural Gas Services and Regulation in Wyoming,* that focuses on the role of gas utilities in the changing regulatory environment and details key issues to consider as the state moves toward retail unbundling.

KN Energy

On Feb. 19, 1996, the Wyoming PSC approved KN Energy's *Choice Gas Service Program* that includes providing unbundled gas supply service for more than 9,000 residential and 1,300 commercial customers in 10 communities in Wyoming. Beginning in June 1996, customers in these areas were able to choose their own gas supplier with KN Energy continuing to manage other services (upstream pipeline transportation, distribution transportation, balancing, storage, scheduling, as well as meter reading, responding to leaks and appliance repair).

Customers were able to choose a gas supplier from a list of qualified suppliers approved by KN Energy. Core customers must stay with their suppliers for one year. In addition, a 20 percent backup supply capability was required by suppliers to participate and will be nominated in a nondiscriminatory manner on a *pro rata* basis by all suppliers. KN maintains a daily log of supplier nominations.

Marketers serving residential customers are required to take a portion of KN's interstate pipeline capacity. Capacity cannot be rereleased and it ultimately stays with the customer. Imbalances are cashed out daily. A standby service charge is incorporated into the residential transportation customer's rate. If a marketer does not meet his delivery obligation on a critical day, KN will provide the gas and will impose a penalty of a monthly index price plus $.25/Dth or actual costs, whatever is higher. Suppliers are able to own storage volumes in KN's storage fields, although they will be required to inject and withdrawal volumes based on KN's schedule.

KN bills customers for distribution transportation charges and supplier charges, process payments and provides collection services under their current policies. KN issues an end of the month report to its suppliers with customer billings and a check to the supplier from revenue received. An annual reconciliation also is performed of customer usage with supplier's daily deliveries to KN's receipt areas and deliveries for storage injection.

Approximately 5,700 of the 10,500 eligible customers elected to participate in the program. The PSC extended KN’s program for a second year on April 24, 1997.

In March 2002, the PSC approved a system-wide gas choice program for KN Energy. The PSC order can be found on its web site: http://psc.state.wy.us/htdocs/orders/30004-67-9221.htm

APPENDIX 3

Terasen Gas

Residential Customer Natural Gas Commodity Unbundling Qualitative Research

July 26, 2005

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Table of Contents

Executive Summary

Introduction

In June 2005, Terasen Gas employed Western Opinion Research (now NRG Research Group) to conduct a primary research study with residential customers of Terasen Gas. The purpose of this study was to gauge the level of customer interest in natural gas unbundling and to uncover any potential challenges such a program may face[1].

Both qualitative and quantitative research methods will be employed in this study[2]. This report summarizes the results of the *qualitative research* only, which will be used to identify the range of opinions on the subject and aid in the development of a questionnaire in the quantitative phase. The quantitative phase of the study will quantify the findings from the qualitative phase, and examine important differences in sub-groups.

For this phase of the research four focus groups were conducted with residential natural gas customers on June 27 and 28, 2005 as follows:

- 2 Groups with GVRD[3] residents (held in downtown Vancouver)
- 2 Groups with Kelowna Census Metropolitan Area residents (held in Kelowna)

The following key findings emerged from the qualitative research.

Key Findings

Residential customers' awareness of unbundling – was very low to the point of being almost non-existent. This was not surprising as unbundling is currently available to BC commercial customers and not to residential customers.

Value proposition for customers in having supplier choice
The value proposition for having supplier choice was not strong.

- Choice itself had value for some customers.
- The primary value proposition was that there may be some potential for cost saving.
- The ability to lock in prices for a longer period of time was seen as offering positive value if it was in a range similar to the current rate.

However, there were some negatives associated with the concept for a number of participants. These included:

- It would be a more complicated system where they would have to monitor gas rates from different potential suppliers as opposed to now where they rely on Terasen Gas to provide them with a reasonable rate for gas.
- Some see it as a provincial government (BC Liberal) "privatization" initiative and are opposed to it on that basis.

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[1] Please refer to the methodology for a detailed list of research objectives.
[2] At the time this report was written, the telephone survey had not yet been initiated.
[3] Greater Vancouver Regional District

- Some questioned the potential for cost savings using a longer term contract.
- Some questioned why, if a gas marketer could offer longer term contracts, Terasen Gas could not offer them as well.
- If there were more companies involved costs would be higher because they all have to make a profit.
- Some wondered how gas marketers could make money if Terasen Gas does not currently mark up the gas commodity it buys for customers

Customers' potential level of interest in unbundling – was low to medium. Clearly the potential to save money on natural gas would offer the highest benefit to customers. Having the choice of different purchase terms such as longer term fixed price contracts did have some merit but this was somewhat less compelling than the possibility of saving money.

Customers were negative towards paying a small fee to cover the costs of unbundling. A more common viewpoint was that unbundling offered some value to them but they were not enthusiastic about having to pay to receive these benefits.

Ways customers would prefer to be informed about unbundling
The view was that if unbundling was to be introduced it would be necessary to have a broadly based communication program to inform people in the province. It was felt the communication program should incorporate television, radio, newspaper, bill inserts and internet.

The program should be aimed at explaining the unbundling concept and the reasons for it. In addition, respondents would want information on gas marketers including, who they were, their stability and reliability, their history and their contact information.

There was some push back to the concept of having Terasen Gas undertake the information program on the basis that the gas marketers who would benefit from unbundling should undertake it.

Implications

1. Awareness of the term unbundling and what it means is very low among residential customers. Feedback from group participants was that it was not a self explanatory term. If possible, consideration should be given to giving another name to the unbundling program, one that is more descriptive of what it does (eg choice, competition etc).

2. Interest in participating in unbundling was moderate to low among participants. We hypothesize that customers will likely be more motivated by clearly defined benefit statements, than being told they will have more choice and purchase options. While there was some value to participants from having a choice of competing natural gas suppliers, the expectation of many was that competition would provide lower natural gas costs.

3. In order to make an informed decision whether or not to participate in unbundling, customers desire information in four broad areas i) the benefits of unbundling & how it works ii) pricing information iii) information about natural gas marketers and iv) the role of Terasen Gas in unbundling. The view was that if unbundling was to be introduced it would be necessary to have a broadly based communication program to inform people in the province. It was felt the communication program should incorporate television, radio, newspaper, bill inserts and internet.

4. Areas of concern relating to unbundling that could impact the rollout of or level of interest in an unbundling program that should be addressed include the following:

   - That it will be a more complicated system for consumers or that it will entail a lot of shopping around;
   - That unbundling is a provincial government “privatization” initiative;
   - Low interest in paying to receive the benefits of unbundling through charges that appear on the bill;
   - Concerns that gas marketers may not be reliable providers of natural gas;
   - That it won’t be true competition if Terasen Gas administrates unbundling.
   - Why Terasen Gas is taking on the role of communicating unbundling information to customers.

5. The focus groups were completed prior to undertaking a survey of people responsible for paying household natural gas bills. The survey will provide a quantitative measure of the above noted implications, as well as for the following areas that could be included in the survey:

   - Measure the actual proportion of natural gas bill payers aware of unbundling.
   - Determine which aspects of unbundling provide value to them e.g.
     - Long term fixed price contracts
     - Freedom to choose
     - Potential to realize lower natural gas costs
   - Determine what respondents see as concerns with unbundling.
   - Determine the level of interest of participating in unbundling.

- Find out how respondents would like to get information about unbundling.
- Understanding of the role of Terasen, the BC Utilities Commission and the provincial government in introducing unbundling.

Foreword

Research Objectives

In June 2005, Terasen Gas employed Western Opinion Research (now NRG Research Group) to conduct a primary research study with residential customers of Terasen Gas. The purpose of the research was to gauge the level of customer interest in natural gas unbundling and to uncover any potential challenges such a program may face[4].

The objectives of the study are as follows:

- Determine residential customers' awareness of unbundling.
- Determine the value proposition for customers in having supplier choice.
- Assess customers' potential level of interest in unbundling.
- Understand *how* customers would prefer to be informed about unbundling, to assist with developing an effective education program.
- Understand *what* information customers would like to receive regarding unbundling.
- Time permitting, to assess the willingness to pay to receive the benefits of unbundling

[4] Please refer to the methodology for a detailed list of research objectives.

Methodology

Both qualitative and quantitative research methods will be employed in this study[5]. This report summarizes the results of the qualitative phase only, which will be used to identify the range of opinions on the subject and aid in the development of a questionnaire in the quantitative phase. The quantitative phase of the study which will occur in July and August 2005 will be to quantify the findings from the qualitative phase, and to examine important differences in sub-groups.

Qualitative Phase: Focus Groups with Residential Gas Customers

Four focus groups were held with residential gas customers of Terasen Gas as follows:

- 2 Groups with Kelowna Census Metropolitan Area residents (June 27, 2005)
- 2 Groups with GVRD[6] residents (June 28, 2005)

The GVRD groups were held in the NRG Research focus group facility in downtown Vancouver. The Kelowna groups were held in a meeting room at the Kelowna Best Western Inn with a video feed to an adjoining meeting room for observers.

Participants were randomly recruited from telephone directory listings. Individuals in the household responsible for paying the household's natural gas were selected. To encourage participation, a $60 cash incentive was provided. Ten customers were recruited for each group for eight to participate (though up to ten were allowed to participate if they arrived). To be eligible to participate in the groups participants must have met the following criteria:

- Individuals and the members of their household could not be employed by Terasen Gas or subsidiary of Terasen Incorporated, a natural gas distributor, producer or natural gas marketer, the media, advertising, a utility or a market research firm;
- They must live within the boundaries of the GVRD/Kelowna CMA;
- They could not have attended a focus group within the past 12 months; and
- They could not have attended more than five focus groups in the past five years.

To ensure a broad representation of Terasen Gas residential customers, efforts were made to recruit a mix of:

- Males and females;
- Owners and Renters (though households with a gas bill are weighted to Owners);
- Those residing in single family as well as multi-family dwellings;
- Residents from a range of communities within the GVRD/Kelowna CMA; and
- Customers representing a range of age, education, household income and occupational categories.

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[5] At the time this report was written, the telephone survey had not yet been initiated.
[6] Greater Vancouver Regional District

A Note Regarding the Context of Qualitative Research

The primary benefit of focus group discussions is that they allow for in-depth probing with qualifying participants on behavior, habits, usage patterns, perceptions and attitudes that relate to the subject matter. The group discussion allows for flexibility in exploring other areas that may be pertinent to the investigation.

The focus group technique is used in marketing research as a means of gaining insight and direction, rather than collecting quantitatively precise data or absolute measures. Although numbers are sometimes presented as illustrative of the opinions of the participants in this study, these are offered for insight and should not be considered statistically reliable.

Detailed Findings

Natural Gas Commodity Unbundling

The main objective of the qualitative research was to gauge the level of interest in the Natural Gas Commodity Unbundling Program for residential customers. This began by assessing customers' awareness of unbundling and then exploring their interest in and reactions to unbundling. From this point on in the report we will refer to this program as "unbundling".

Awareness of Unbundling

Residential customers' awareness of unbundling was very low to the point of being almost non-existent. This was not surprising as unbundling is currently available to BC commercial customers and not to residential customers. When asked what they thought it meant people gave a variety of responses including:

- More competition
- Similar to when competition was brought in for long distance
- Breaking different parts down
- Privatization
- No idea

While a few customers made some correct assumptions about what unbundling means, most could not and a few, after hearing the description of unbundling commented that the term (unbundling) was not self explanatory to them. When asked to provide a better or alternative term to describe unbundling this was not fruitful. One participant suggested somehow incorporating the benefit of more "choice" into the term.

Reactions to Natural Gas Commodity Unbundling

Next, the moderator read a general description of unbundling and asked group participants their reactions to such a program.

"The Natural Gas Unbundling Program is a BC Government and BC Utilities commission proposal to create more competition and choice in residential natural gas prices. Unbundling refers to separating the supplier of natural gas from the deliverer of natural gas — allowing customers to choose where they buy their gas from. With Unbundling, customers would be able to buy natural gas from whatever supplier they chose from "gas marketers" (ie companies that buy and sells natural gas) or from Terasen Gas. Terasen Gas would continue to deliver the gas commodity to customers through their pipeline system".

Participants' reactions to the concept were mixed, with some expressing interest in having choice and competition while others had questions about how unbundling would affect / benefit them or were suspicious about the motives for introducing unbundling. The following comments express the range of reactions to unbundling.

Positive Reactions

- Competition is good
- More competition for your business
- I'm in favour if I get a better deal

Guarded/Mixed Reactions

- Suspicious if Terasen Gas administrates the program
- Is this collusion rather than competition?
- Mixed feelings, don't know enough about it.
- Not a huge deal (i.e. don't see a big change for them)
- Large consumers of natural gas such as commercial users would be more interested

Concerns/Negative Reactions

- Don't see any benefits – it is confusing, how can they tell which gas is mine in the pipe?
- I'm against the government foisting it off to private companies – a political move, a "shell game"
- Sounds like privatization, don't necessarily like it
- Government muddling with something that works
- Don't like the need to shop around to get the best price

Questions about Unbundling

- Why do this?
- What has been the effect in other areas (of unbundling)?
- Will we have 2 bills or just one bill?
- Why can't Terasen Gas do this (offer longer term contracts)?
- How can they (Natural Gas Marketers) make money if they don't mark up the gas?
- Who is behind unbundling?
- How can Gas Marketers sell for less?
- Which gas charges would go with the gas marketer and which with Terasen Gas?

After discussing unbundling in more detail and outlining the benefits to customers such as having a choice of natural gas suppliers and the choice of different purchase terms such as longer term contracts, customers' potential level of interest in unbundling can be described as "low to medium".

Clearly the potential to save money on natural gas through more competition would offer the highest resonance to customers. Having the choice of different purchase terms such as longer term fixed price contracts did have some merit but this was somewhat less compelling than the possibility of saving money.

Value Proposition for Customers in Having Supplier Choice

The value proposition for having supplier choice was discussed with participants. While it had some merit among participants, this benefit was not strong:

- Choice itself had value for some customers;

- The primary value proposition was that there may be some potential for cost saving arising from having competition;
- The ability to lock in prices for a longer period of time was seen as offering positive value if it was in a range similar to the current rate.

There were some negatives associated with the concept for a number of participants. These included:

- It would be a more complicated system where they would have to monitor gas rates from different potential suppliers as opposed to now where they rely on Terasen Gas to provide them with a reasonable rate for gas.
- Some see it as a provincial government (BC Liberal) "privatization" initiative and are opposed to it on that basis.
- Some questioned the potential for cost savings using a longer term contract.
- Some questioned why, if a gas marketer could offer longer term contracts, Terasen Gas could not offer them as well.
- If there were more companies involved, costs would be higher because they all have to make a profit.
- Some wondered how gas marketers could make money if Terasen Gas does not currently mark up the gas commodity price it buys and sells.
- Some wondered if it would be true competition if only Terasen Gas still distributes the gas.
- Questions were raised about the reliability of marketers, both from a customer service and a gas supply perspective.

Questions & Communications Points Necessary to Make a Decision on Unbundling

Participants were asked what additional information should be provided to them to help them decide whether or not to participate in unbundling. These information needs can be categorized into four main categories: the benefits of unbundling; pricing details; information about Marketers; and the role of Terasen Gas in Unbundling.

<u>More Info on Unbundling/ the Benefits</u>
- Why is unbundling being offered?
- How do the longer term contracts work – if I have a 5 year contract am I stuck for 5 years?
- What are the results in other jurisdictions?

<u>Pricing</u>
- A comparison of prices between Terasen Gas and Marketers
- Need to research past natural gas price trends to know how much to pay for it
- Why costs are they way they are?

<u>Marketers</u>
- How many alternatives are there in the marketplace?
- Provide information about the Marketers – company background, their owners
- Will the natural gas marketers be regulated somehow? Who is controlling / overseeing unbundling?

<u>Role of Terasen Gas in Unbundling</u>
- Who is Terasen Gas? Does the government still have a share?
- Will Terasen Gas be a supplier of last resort (if a Gas Marketer goes out of business)?

Ways Customers would Prefer to be Informed about Unbundling

The view was that if unbundling was to be introduced it would be necessary to have a broadly based communication program to inform people in the province. It was felt the communication program should incorporate television, radio, newspaper, bill inserts and internet.

Communications should be aimed at explaining the unbundling concept and the reasons for it. In addition, respondents would want information on gas marketers including, who they were, their stability and reliability, their history and their contact information.

There was some push back to the concept of having Terasen undertake the information program on the basis that the gas marketers who would benefit from unbundling should undertake it.

There was some interest in Terasen Gas providing competitive pricing information on the internet, at least initially as the Program is introduced. Some said this information would be helpful initially but wondered if Terasen Gas still needed to do this several years from now.

Willingness to Pay for Unbundling

Customers were negative to paying a small fee to cover the costs of unbundling[7]. A more common viewpoint was that unbundling offered some value to them but they were not willing to pay to receive these benefits. Comments in this respect included:

- Why does Terasen Gas have to pay for the communications?
- I don't want to pay to implement it.
- The benefits should offset any new costs (so that it is cost neutral to customers).

[7] Participants were told that customers would pay small fee of approximately $1 per month for a three year period to pay for implementing unbundling.

Appendices

A. Moderator Discussion Guide
B. Recruiting Screener

Appendix A: Focus Group Discussion Guide

Natural Gas Unbundling Focus Groups
June 27th & 28th, 2005 - Draft 4

Introduction

- Who is Western Opinion Research
- Importance of group / Feedback from all participants
- Don't all talk at once
- The moderator does not have any answers, just questions
- There are only right answers
- Have fun
- Video/audio taping -And we have observers
- Let's start by going around the room with brief intros [name, and what things you use natural gas for in your home. I.e. furnace, hot water, fireplace etc]

Natural Gas Commodity Unbundling

1. Has anyone heard of the term “Natural Gas Commodity Unbundling” before? What do you think it means?

    MODERATOR READ The Natural Gas Unbundling Program is a BC Government and BC Utilities commission proposal to create more competition and choice in residential natural gas prices. Unbundling refers to separating the supplier of natural gas from the deliverer of natural gas — allowing customers to choose where they buy their gas from. With Unbundling, customers would be able to buy natural gas from whatever supplier they chose from “gas marketers” (ie companies that buy and sells natural gas) or from Terasen Gas. Terasen Gas would continue to deliver the gas commodity to customers through their pipeline system.

    Is this clear to everyone? Is there anything that you don’t understand? What?

2. Currently natural gas commodity unbundling (NGCU) is available to commercial natural gas users in BC and for residential customers in some other provinces. Terasen Gas is considering offering NGCU to residential customers in the Lower Mainland and Interior of BC.

    - Is this something that should be done or not? Show of Hands. Why or why not?
    - What aspects of NGCU are of benefit to you/customers? (Choice of Suppliers) What aspects of NGCU are a concern to you/customers?
    - Is there anything about NGCU that concerns you?
    - Is Unbundling a good word, or should another term be used?

    - If there were a <u>small charge</u> included in the delivery charge to customers to be able to offer Unbundling, would this impact your interest in Unbundling? [IF NECESSARY: these charges would cover the costs of setting up the IT infrastructure, and communicating the new program to customers, among other costs.] [Cost: Approx. $1 per month for 3 years]

3. If Unbundling were offered to residential customers:

- Does Terasen Gas have a role in communicating information about Unbundling to customers? If not, then who?
- If yes, what information should Terasen Gas provide to customers about NGCU? Would you pay attention to it if they did?
- What would you expect NGCU to be promoted as? What should Terasen Gas call it in advertising campaigns?
- Where should they say it: Channel (TV, bill stuffers, internet, other?)
- How should they say it: Tone (humorous, educational, other?)

4. How many have access to the internet at home or work? How many have ever visited the Terasen Gas website?
   - What would you think if Terasen Gas offered a website for natural gas pricing information? It would contain comparative pricing between Terasen Gas and Natural Gas Marketers. Good/bad idea? What should the content be? Would you visit the website if it were offered?

Wrap-up Any last thoughts? Thank you for your help this evening. Good-bye

Appendix B: Recruiting Screener

Residential Unbundling Focus Groups
Recruiting Screener (#06-209)
Recruit 10 for 8 to show per group

Interviewer Name and No: ____

COMPLETE THIS SECTION ONCE THE PERSON QUALIFIES AND AGREES TO ATTEND

Participant Name: ____
Participant Address: ____

____

Participant Home Phone: ____________________ Work Phone: ____________________

Email: ________________________ __

- ❑ Group 1 - [Residents of Kelowna CMA] Monday **June 27 @ 5:30pm**
- ❑ Group 2 – [Residents of Kelowna CMA] Monday **June 27 @ 7:30 pm**
- ❑ Group 3 - [Residents of GVRD] Tuesday **June 28 @ 5:30pm**
- ❑ Group 4 – [Residents of GVRD] Tuesday **June 28 @ 7:30 pm**

INTERVIEWER: CHECK CATEGORY FROM LIST

- ❑ RESIDENTS OF GREATER KELOWNA MUNICIPAL AREA – [**RECRUIT FOR GROUP 1 & 2**]
- ❑ RESIDENTS OF GVRD – [**RECRUIT FOR GROUP 3 & 4**]
- ❑ STABLE RATE PROGRAM CUSTOMER [**RECRUIT ONE PERSON FOR GROUP 3 ONLY**]

A. Hello, My name is ________. I am calling on behalf of Western Opinion Research. This evening we are recruiting people who are responsible or jointly responsible for paying the utility bills in the household and who are interested in attending a focus group on the evening of: [IF KELOWNA: Monday June 27, IF GVRD: Tuesday, June 28] in order to discuss issues related to Terasen Gas and its natural gas services.

Group participants will be asked to give their feedback to some ideas and current topics. At no time during or after the group will anyone try to sell you anything. All participants will receive a $60.00 incentive for their time at the conclusion of the group. The group will last between 1 ½ - 2 hours.

Would that be you? Would you be interested in attending a discussion like this? [IF YES CONTINUE]

[IF NEED MORE INFO ON FORMAT] *Focus groups are a way of conducting MARKET RESEARCH. The intent of a focus group is to get your feeling and impressions on a particular* *topic. Focus groups are NOT SALES MEETINGS. A focus group is a small informal information sharing meeting where people get together with a research professional to discuss a particular topics and issues. We are inviting you to get your input.*

[**IF NEED TO VERIFY AUTHENTICITY OF THE RESEARCH**]

- Should you have any concerns about this research or would like to confirm the legitimacy of this research, please do not hesitate to contact: **Danielle Wensink at Terasen Gas, Phone 604.592-7497 (daytime)**

That's great. First, I have a couple of questions for qualifying purposes

1. Does your household currently receive a natural gas bill?
   - ❑ Yes **[CONTINUE]**
   - ❑ **N**o [**THANK AND TERMINATE**]

2. For this discussion group we are looking for the individuals who are responsible or jointly responsible for paying the household natural gas bill. Would that be you?

   - ❑ Yes **[CONTINUE]**
   - ❑ No **[ASK TO SPEAK TO PERSON RESPONSIBLE]**

3. Please tell me if you or any members of your immediate family hold jobs with any of the following:

   - ❑ Any Media including Radio, TV or print media **[THANK AND TERMINATE]**
   - ❑ Advertising **[THANK AND TERMINATE]**
   - ❑ Market Research **[THANK AND TERMINATE]**
   - ❑ Any utility company such as BC Hydro [**THANK AND TERMINATE**]
   - ❑ Terasen Gas or subsidiary of Terasen Incorporated **[THANK AND TERMINATE]**
   - ❑ A Natural Gas Distributor, Producer or Natural Gas Marketer [**THANK AND TERMINATE**]

4. [From voice indicate whether male or female] RECRUIT A GOOD MIX
   - ❑ Female
   - ❑ Male

IF GVRD:

5. Do you live within the Greater Vancouver Regional District? [IF NECESSARY; NO FURTHER EAST THAN LANGLEY OR MAPLE RIDGE AND NO FURTHER NORTH THAN WEST OR NORTH VANCOUVER] ,

   - ❑ Yes **[CONTINUE]**
   - ❑ No **[TERMINATE CALL WITH THANKS]**

IF GVRD:

6. In which community do you live?: [RECRUIT A GOOD MIX]

1. Burnaby
2. Coquitlam
3. Langley
4. Maple Ridge/Pitt Meadow
5. New Westminster
6. North Delta
7. South Delta/Tsawwassen/Ladner
8. Port Coquitlam
9. Port Moody/Belcarra/Ioco/Anmore
10. Richmond
11. Surrey
12. White Rock/ South Surrey
13. Vancouver
14. West Vancouver/Bowen Island
15. North Vancouver
16. OTHER SPECIFY ____________
17. REFUSED

7. IF VANCOUVER (code 13): What area of Vancouver do you live in?
   RECRUIT A GOOD MIX
   - ❑ Vancouver East
   - ❑ Vancouver West
   - ❑ Downtown Vancouver/West End - **MAXIMUM 3 PER GROUP**

IF KELOWNA CMA:

8. Do you live roughly within a one hour drive of Kelowna? ,
   - ❑ Yes **[CONTINUE]**
   - ❑ No **[TERMINATE CALL WITH THANKS]**

9. In which community do you live?: [RECRUIT A GOOD MIX]

1. City of Kelowna
2. Cherryville
3. Coldstream
4. Lumby
5. Oyama
6. Peachland
7. Summerland
8. Vernon
9. Westbank
10. Winfield

OTHER SPECIFY ____________
REFUSED

IF CITY OF KELOWNA (code 1)
10. What area of Kelowna do you live in?
   RECRUIT A GOOD MIX

- ❑ Central Kelowna/Downtown
- ❑ South Kelowna/Mission
- ❑ East Kelowna/Rutland
- ❑ North Kelowna
- ❑ Westside Kelowna/Lakeview Heights/Glenrosa
- ❑ Other _____________
- ❑ REFUSED

11. Do you own or rent your residence? [RECRUIT A GOOD MIX OF OWN/RENT]

- ❑ OWN
- ❑ RENT [MIN 1-2 EACH GROUP]
- ❑ DON'T KNOW
- ❑ REFUSED

12. Is your residence a single family dwelling or a multi-residential site such as a condo or apartment building?
RECRUIT A GOOD MIX OF SINGLE FAMILY-MULTI-RESIDENTIAL – ADVISE CAM IF THIS IS DIFFICULT TO DO

1. Single family dwelling
2. Multi-residential building
3. DON'T KNOW
4. REFUSED

13. Please tell me which age category you fall into? [AIM FOR A GOOD MIX – GET AT LEAST FOUR PER GROUP UNDER AGE 46]

- ❑ 18-25
- ❑ 26-35
- ❑ 36-45
- ❑ 46-54
- ❑ 55- 64
- ❑ 65+ [MAXIMUM **TWO** PER GROUP AGE 65+]

14. What is the highest level of education you have obtained? Is it …?
[**AIM TO RECRUIT GOOD MIX**]

- ❑ Less than high school **[MAX OF 2 PER GROUP]**
- ❑ High school graduate
- ❑ Some college or university
- ❑ College or university graduate

15. And in what range does your total household income before taxes fall? [RECRUIT A MIX]

Less than $20,000	☐
$20,000 - $34,999	☐
$35,000 - $49,999	☐
$50,000 - $69,999	☐
$70,000 – or more	☐

16. What is your current occupation? [PROBE FOR FULL RESPONSE] [IF RETIRED, FROM WHAT?]
Occupation ___________________________________

(**Check that no mention is made of categories in occupation screener. If so, THANK & TERMINATE CALL**)

17. Have you ever attended a discussion or focus group?

- ❑ Yes
- ❑ No [skip to Q.20]

18. If yes, how long ago? ____________ [TERMINATE IF IN THE LAST 12 MONTHS]

19. If yes, how many have you attended in the past five years? _________[TERMINATE IF MORE THAN FIVE]

20. Are you familiar with the concept of research discussion groups?

- ❑ Yes **[SKIP EXPLANATION OF FOCUS GROUP]**
- ❑ No

EXPLANATION OF FOCUS GROUPS

The purpose is to gather the opinions of the participants on a particular subject. Participation is on a completely voluntary basis and comments made during the discussion will remain confidential. During the session, participants are asked to discuss key issues related to the topic being examined.

Read to Stand-by Respondents

Thank you for answering my questions. Unfortunately, at this time, the group you qualify for is full. We would like to place you on our stand-by list. This means that if there is an opening in the group, we would then call you back and see if you are available to attend the group. May I please have a daytime contact number, an evening contact number and an email address, if you have one, so that we can contact you as soon as possible if an opening becomes available. **[RECORD CONTACT INFO]**

[Interviewers: Please do not give the respondent the address of the group if you are placing them on stand-by. The address should not be given to any stand-bys regardless of if the respondent requests the address]

Based on the answers you have provided, we would like to invite you to participate in our focus group which will last approximately between 1 ½ - 2 hours and for which you will receive **$60** for your participation.

Are you interested in helping out by attending this research discussion group?

Yes **That's great.**
No **[THANK AND GOOD BYE]**

Would you be able to participate in the discussion group, which will be held on [READ BASED ON LOCATION]:

- Group 1 - [Residents of Kelowna CMA] Monday **June 27 @ 5:30pm**
- Group 2 – [Residents of Kelowna CMA] Monday **June 27 @ 7:30 pm**
- Group 3 - [Residents of GVRD] Tuesday **June 28 @ 5:30pm**
- Group 4 – [Residents of GVRD] Tuesday **June 28 @ 7:30 pm**

The group is being held at:

GVRD: Nordic Research #1380 - 1100 Melville Street, downtown Vancouver (near Thurlow and Melville Street) There is parking on the Street.

KELOWNA: The Kelowna Best Western Inn, which is located at 2402 Highway 97 North, Kelowna BC.

We ask that you arrive 15 minutes before the start of the group so that you have time to check in with the hostess and find the meeting room. Please bring a piece of personal identification such as a driver's license. If you need reading glasses please bring them as well.

If you have any questions or are unable to attend, please call our office as soon as possible so we will have time to recruit a replacement. Our toll-free office number is **1-888-265-2422**. Thank you very much for your time and cooperation. Someone from our office will call prior to the groups to confirm your attendance.

What time of day would be good to call you the day before the group? ________________ What ph. #?_____________

We look forward to seeing you on:

- Group 1 - [Residents of Kelowna CMA] Monday **June 27 @ 5:30pm**
- Group 2 – [Residents of Kelowna CMA] Monday **June 27 @ 7:30 pm**
- Group 3 - [Residents of GVRD] Tuesday **June 28 @ 5:30pm**
- Group 4 – [Residents of GVRD] Tuesday **June 28 @ 7:30 pm**

APPENDIX 4

Terasen Gas

Residential Customer Natural Gas Commodity Unbundling Survey

September 7, 2005

NRG Research Group

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Executive Summary

Introduction

In June 2005, Terasen Gas employed Western Opinion Research (now NRG Research Group) to conduct a primary research study with residential customers of Terasen Gas. The purpose of this study was to gauge the level of customer interest in natural gas unbundling[1].

Both qualitative and quantitative research methods were employed in this study. This report summarizes the results of the *quantitative research* only. The purpose of this phase of the research is to quantify the findings from the qualitative phase, and examine important differences in sub-groups.

For this phase of the research, 801 interviews with residential customers of Terasen Gas were conducted between July 27 and August 7, 2005; 501 interviews in the Lower Mainland and 300 interviews in the Interior. Results were weighted by region in order to be representative of the actual regional distribution. It should be noted that the survey was conducted during a period of general increases in natural gas pricing.

The following key findings emerged from the quantitative research.

Key Findings

Natural gas rates are generally perceived to be fair and reasonable

Most (59%) customers agree (strongly or somewhat combined) that the cost of natural gas is generally fair and reasonable as compared to other household expenses. However, it should be noted that this level of agreement leans largely towards somewhat than strongly agree. In addition, a sizeable minority (38%) of customers disagree (strongly or somewhat combined) with this statement.

Those not concerned about natural gas price increases in the next year (87% agree) and those with under $1000 estimated annual natural gas billings (76% agree) were more likely to agree that natural gas rates are fair and reasonable.

Customer concerns related to natural gas rates

In the focus groups we found that customers tended to be more concerned about natural gas costs when the amount they pay went up drastically (e.g. receiving higher winter consumption bill). People tend to think more in terms of the amount they pay each month rather than the natural gas rates they pay.

In terms of the level of concern about price increases for natural gas in the next year, most customers (86%) were very or somewhat concerned about this in the survey. This was slightly lower than the level of concern about price increases for gasoline (91% very or somewhat concerned) but higher than for electricity (72%). Reasons for

[1] Please refer to the research objectives section for a detailed list.

concern about future price increases related to the desire not to pay more for natural gas (19%), that rates are always increasing (19%), that they cannot afford to pay more for natural gas (19%), that they are on a fixed income (10%), or that natural gas is viewed as a staple (6%).

In the focus groups, some participants expressed feelings of "powerlessness" about paying more for natural gas. This related to the feeling that that they relied on natural gas to heat their homes but had no choice where to buy or what price they paid for it.

Those with less than $1000 in total estimated annual gas billings were less likely to be concerned about increases in the price of natural gas in the next year (79% concerned) than those with greater than $1600 in estimated annual billings (92%). In other words, customers with larger estimated annual billing amounts tend to be more concerned about future increases in the price of natural gas than those with lower amounts.

Residential customers' awareness of unbundling – was very low – only 13% of customers said they had ever heard of unbundling before. A similar result was obtained in the focus groups with customers. More frequently cited sources where survey respondents said they had first heard of unbundling included the newspaper (31%), bill inserts (11%), television (9%) or by word of mouth (8%).

When asked what they thought the term "natural gas commodity unbundling" meant, most said they didn't know (65%); while few of the balance could accurately describe what it meant. More frequent answers included *taking apart/separating* (9%), *bundling products together* (4%), *deregulation/free market* (4%), *separating the supply and delivery of natural gas* (4%) and *different pricing structure* (3%).

Value proposition for customers in Unbundling

Survey respondents were read a description of unbundling and asked if each of two different aspects of unbundling offered value to them or not. Results show that having more purchase options offered a similar (very marginally higher) degree of value to respondents as compared to having a choice of suppliers.

- 32% of respondents said that having more purchase options available to them such as being able to fix the price they pay for natural gas for up to five years would provide "a lot of value" to them, while another 31% said it would provide "some value" to them (combined a lot and some value 63%).
- A slightly lower proportion said that being given a choice of natural gas suppliers would provide "a lot of value" to them (27%) while another 32% said this would provide "some value" (combined a lot and some value 59%).

As would be expected for an itemized category scale as used here, the "some" value measure is a less definitive measure of value to respondents than the "a lot" of value measure. Those responding that a given value proposition provides "some" value can be characterized as people who are directionally positive to the idea, but would not necessarily commit to switching natural gas suppliers. In contrast, those who say that either proposition provides "a lot" of value to them are much more open to consider switching natural gas suppliers.

Customers' potential level of interest in unbundling

Two-thirds of customers surveyed (67%) said that they would be interested in buying natural gas from a supplier other than Terasen Gas (24% very interested and 43% somewhat interested).

Reasons for being interested in buying natural gas from a supplier other than Terasen Gas largely stemmed from *having more choice and competition* (28%); though many said their interest was *dependent on the price* (33%). Reasons for not being interested in unbundling related to *currently being satisfied with Terasen Gas* (31%), that there was *no benefit to them/no interest in unbundling* (17%) or that they *needed more information* (6%).

Later in the survey, when informed that there would be a charge of about $1 per month for three years included in their gas bill to pay for implementing the unbundling program, the level of interest in buying natural gas from a supplier other than Terasen Gas dropped from 67% to 55% (combined very and somewhat interested). Noteworthy, however, is that the percent very interested dropped from 24% to 14% in the post measure. However, customers will need more detailed information on prices/rates, as well as details on suppliers' reputation, reliability, level of service, supplier location, and contract terms before they make a final decision.

Target Groups for Unbundling

The following groups were identified as being more likely to be very interested in buying their natural gas from a supplier other than Terasen Gas (assuming a $1 per month charge for three years to implement unbundling):

- Those who **disagree that the cost of natural gas is fair and reasonable** (20% very interested vs. 11% among those who agree)
- Those **aged 35-54** (17% very interested versus 11% among those aged 55+)
- Those with a **total household income of $40K or more** (17% vs. 11% among those with incomes under $40K).
- Those with estimated **annual natural gas billings of more than $1600** (19% very interested versus 10% among those with annual billings of < $1000).

Communicating Unbundling to Customers

When asked what information was needed by customers to help make a decision about purchasing their natural gas from a supplier other than Terasen Gas, by far the leading type of information desired was *prices/rates* (47%). This was followed by information about *suppliers' reputation* (12%), *reliability* (10%), *general information* (9%), *level of service* (8%), *supplier location/Cdn vs. US Co.* (5%), and *contract terms* (4%).

If unbundling were introduced, respondents said they would first look for such information on a website (37%), in the newspaper (16%) in bill inserts (10%), or on information mailed separately from the bill (7%).

The idea of Terasen Gas providing on-line information about natural gas rates for competitive suppliers was well received by survey respondents. When asked if it would be useful to them if Terasen Gas provided information about natural gas rates for competitive suppliers on their website, most said it would be useful (72%) – 39% very useful and 33% somewhat useful.

Implications

1. Customers generally consider the cost of natural gas to be fair and reasonable compared to other household expenses, but this view is not overwhelmingly strong. There is a sizeable proportion of customers who think natural gas should be cheaper, and most customers say they are concerned about natural gas price increases in the next year. Furthermore, customers are more concerned about natural gas rates increasing in the next year than they are about increases in electricity rates.

2. Awareness of the term unbundling and what it means is very low among residential customers. Feedback from focus group participants indicated that 'unbundling' was not a self explanatory term. If marketing the unbundling program, consideration should be given to using another name, one that is more descriptive of what it does (e.g. choice, competition etc.).

3 In the pre-measure, some level of interest in buying natural gas from a supplier other than Terasen Gas was cited by 67% percent of survey respondents, though a more solid measure of interest is the percent stating they are *very* interested (24%).

   Informing respondents that there would be a charge of $1 per month for three years included in their gas bill reduced the percent of respondents who were very interested in buying their natural gas from a supplier other than Terasen Gas from 24% in the pre-measure to 14% in the post-measure.

   These measures of intent are best interpreted as being "directional" gauges of interest in switching suppliers rather than a reflection of the final purchase decision. Respondents say that they will need more detailed information on prices/rates, suppliers' reputation, reliability, level of service, supplier location, and contract terms before they make a final decision.

   Households with higher annual natural gas consumption, 35 - 54 year olds and those who disagree that the cost of natural gas is fair and reasonable are the groups most interested in unbundling.

4. In terms of whether the value proposition for unbundling lies in providing more choice of suppliers or in providing more natural gas purchase options, survey results indicate either benefit provides equal levels of value to natural gas customers. In part this inability to distinguish these different value propositions may lie in the more detailed information that respondents require about pricing and suppliers to help them make a decision about unbundling.

5. There is strong support for Terasen Gas to provide information about natural gas rates for competitive suppliers on a website. In addition, the internet was the most frequently cited source where customers would look to find information on unbundling. Next to the internet, other places customers would look include the newspaper, bill inserts, and information mailed separately from the bill.

Foreword

Research Objectives

In June 2005, Terasen Gas employed Western Opinion Research (now NRG Research Group) to conduct a primary research study with residential customers of Terasen Gas. The purpose of the research was to gauge the level of customer interest in natural gas unbundling and to uncover any potential challenges such a program may face.

The objectives of the study are as follows:

- Determine residential customers' awareness of unbundling.
- Determine the value proposition for customers in having supplier choice.
- Assess customers' potential level of interest in unbundling.
- Understand *how* customers would prefer to be informed about unbundling, to assist with developing an effective education program.
- Understand *what* information customers would like to receive regarding unbundling.
- Time permitting, to assess the level of interest in Terasen Gas providing competitive pricing information on their website

Methodology

Both qualitative and quantitative research methods were employed in this study. In the qualitative phase, four focus groups were held with customers in order to identify the range of opinions on the subject and aid in the development of a questionnaire. In the quantitative phase, 801 residential customers were surveyed by telephone to quantify the findings from the qualitative phase, and to examine important differences in sub-groups. This report summarizes the results of the quantitative research only[2].

Quantitative Phase: Telephone Survey of Residential Gas Customers

Between July 27 and August 7, 2005, NRG Research Group carried out a telephone survey of 801 residential gas customers of Terasen Gas as follows:

- 501 Lower Mainland interviews
- 300 Interior interviews

The survey was conducted during a period of general increases in natural gas pricing.

The results for the total sample are accurate to within +/- 3.5 percentage points at the 95 percent level of confidence. The results for the Lower Mainland are accurate to within +/- 4.5 percentage points and the results for the Interior are accurate to within +/- 5.8 percentage points.

To be eligible to participate in the survey, respondents must have met the following criteria:

- They must be responsible or jointly responsible for reviewing and paying the household natural gas bills; and
- Individuals and the members of their household could not be employed by Terasen Gas or subsidiary of Terasen Incorporated; a natural gas distributor, producer, natural gas marketer, utility or propane/heating oil company; the media; advertising; or a market research firm.

The list of customers for the telephone survey was provided by Terasen Gas. To ensure a broad representation of Terasen Gas residential customers, quotas were made to obtain a representative sample of:

- Males and females; (no more than 48 – 52% either gender)
- Customers by age group: 18-34 (13%), 35-54 (47%), 55+ (39%)[3]

Results for the total sample of 801 completed interviews were weighted to be representative of the total population of residential customers in the Lower Mainland and Interior regions of BC.

[2] Results for the qualitative research are bound under separate cover.
[3] Numbers total to less than 100% due to rounding.

The following table shows the unweighted and weighted proportions for each region and the weights used.

Unweighted and Weighted Frequencies for Region

Region	Unweighted %	Weighted %	Weight Factor
Lower Mainland	62.5%	71.17%	1.1387
Interior	37.5%	28.83%	0.7688

Throughout the report, survey results are reported in the form of weighted percentages; that is the weighted number of responses as a percentage of the total weighted number of people responding to each question. For significance testing purposes, the unweighted base is shown for each chart or table.

A number of survey questions were open-ended; these answers were recorded verbatim by interviewing staff. During data processing, response categories were developed, and the verbatim results numerically coded and tabulated.

Detailed Findings

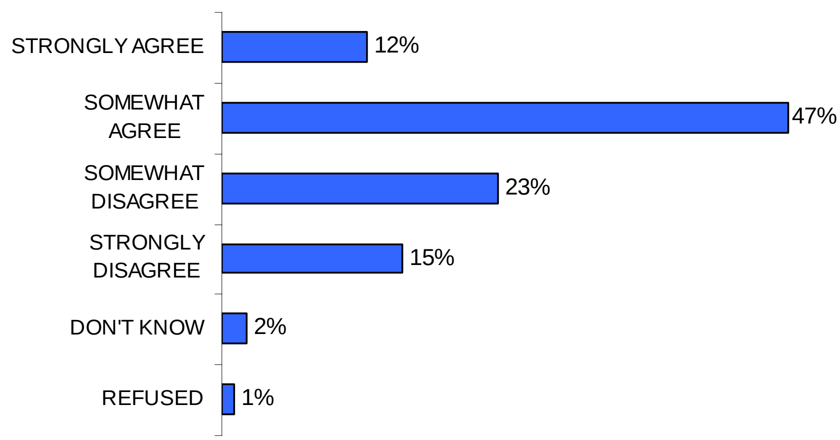
To provide context for respondents' views of unbundling and provide an introduction to the topic, we asked them if they thought current natural gas rates were fair and reasonable, and whether or not they were concerned about increases in natural gas rates in the next year.

Natural Gas Pricing

Are Natural Gas Rates Fair and Reasonable?

When we asked this question in the focus groups, customers told us that they needed a basis of comparison in order to answer. We also learned in the focus groups that customers tend to think of the total amount they pay for natural gas rather than the natural gas rates. As a result, we asked respondents in the survey whether they agreed or disagreed that "compared to other household expenses, the cost of natural gas is generally fair and reasonable."

Q1. Please tell me your level of agreement with the following statement: "Compared to other household expenses the cost of natural gas is generally fair and reasonable" [n=801]



Results show that most (59%) customers agree (strongly or somewhat combined) that the cost of natural gas is generally fair and reasonable as compared to other household expenses. However, it should be noted that this level of agreement leans largely towards *somewhat* rather than *strongly* agree. In addition, a sizeable minority (38%) of customers disagree (strongly or somewhat combined) with this statement.

Differences between sub-groups:

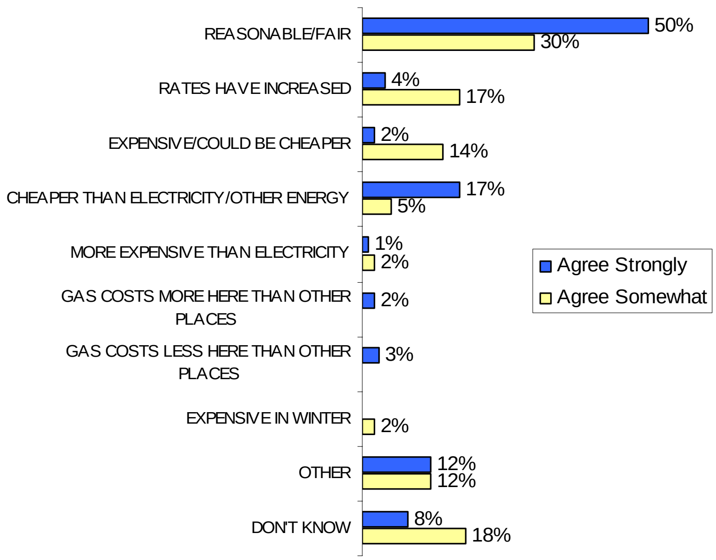
The following groups were more likely to agree that natural gas rates are fair and reasonable:

- Those not concerned about price increases for natural gas in the next year (87% agree versus 42% among those very concerned).
- Those with lower annual natural gas billings (e.g. those with under $1000 estimated annual natural gas billings 76% agree versus 43% among those with billings over $1600).

The following two charts explain why customers answered the way they did.

Reasons for Agreeing

IF AGREE in Q1
Q2. Why do you say that? [n=96 Agree Strongly; n=371 Agree Somewhat]



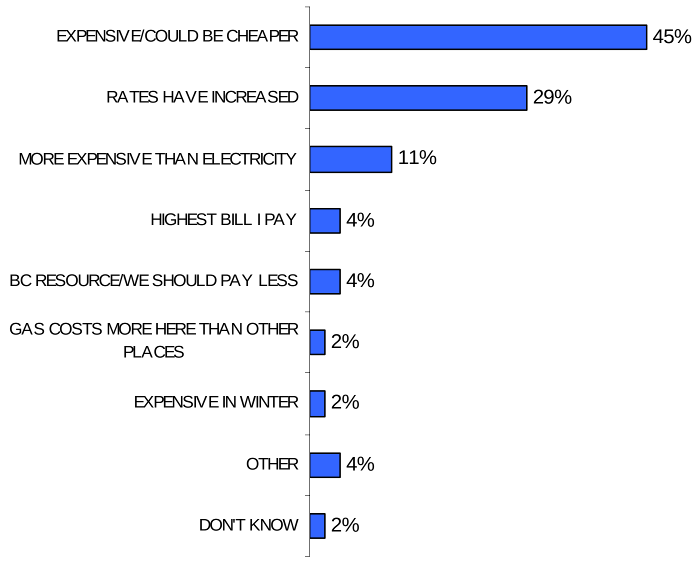
Most frequently, those in agreement said so because they think that the cost of natural gas is *fair and reasonable* (50% among those who agreed strongly), that *natural gas is cheaper than other forms of energy*, or that it *costs less here compared to other places*.

Noteworthy is that a number of respondents commented that *rates have increased* (17% among those who agree somewhat), that *natural gas is still expensive/could be cheaper*, that it is *more expensive than electricity* or *costs more here than other places*. As shown in the chart, in most of these cases these were reasons why customers said they were only "somewhat" in agreement as opposed to being "strongly" in agreement.

Reasons for Disagreeing

Those who disagreed that "compared to other household expenses the cost of natural gas is generally fair and reasonable" were asked to explain their answer.

IF DISAGREE in Q1
Q2. Why do you say that? [n=308]



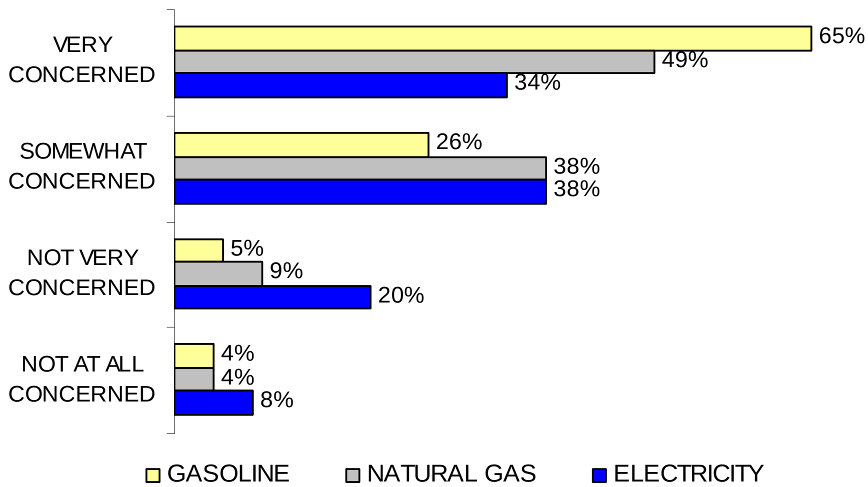
As might be expected, the main reasons why people disagree that the cost of natural gas is fair and reasonable are that they think it is *too expensive or could be cheaper* (45%) or because *rates have been increasing*[4] (29%). A few (11%) commented that it was becoming more *expensive relative to electricity*. Less frequently cited reasons were that the *gas bill was the highest they pay* (4%); that *natural gas is a BC resource so we should pay less* (4%); *gas costs more here than other places* (2%); and *natural gas costs are higher in winter* (2%).

[4] This code makes reference to rising natural gas rates in general, not necessarily with respect to the July 2005 rate increase.

Concerns about Natural Gas Rates

Customers in the focus groups told us that larger increases in their natural gas bill (often due to increased seasonal consumption) caused them concern; and most said that an upward movement in gas rates over the next year would be very likely. To quantify these findings we asked customers in the survey how concerned they were about price increases for gasoline, electricity and natural gas in the next year.

Q3a. For each of the following commodities, please tell me how concerned you are about price increases in the next year. How concerned are you about price increases for A – C in the next year? [n=801]



In total, 86 percent of customers surveyed said they were very or somewhat concerned about price increases for natural gas in the next year. Noteworthy is that a sizeable proportion of customers said they were very concerned (49%) as opposed to somewhat concerned (38%)[5]. We can conclude from these results that customers are quite concerned over the prospect of higher rates for natural gas in the next year.

Customers said they were more concerned about price increases for natural gas (86% concerned combined) than they were about electricity (72%); but less concerned than they were about price increases for gasoline (91%). For gasoline, 65% of respondents said they were very concerned about future price increases, which is substantially higher than for natural gas (49% very concerned). Similar feedback was obtained in the focus groups with customers.

[5] Combined results sum to 86% due to rounding.

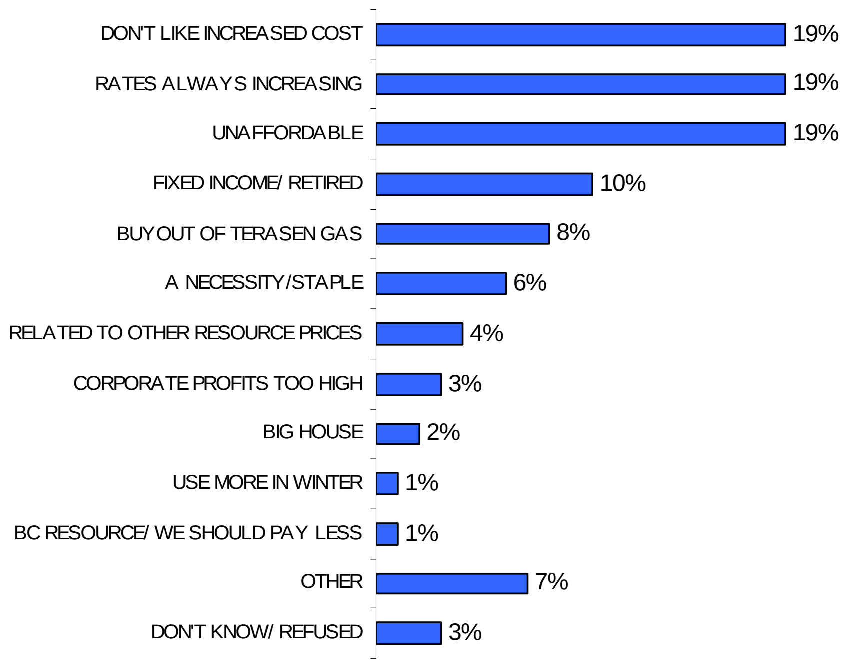
Differences between sub-groups:

The following groups were less likely to be very or somewhat concerned about increases in the price of natural gas:

- Those who know that Terasen Gas sells natural gas for the same price it pays (77% concerned vs. 89% among those who think that Terasen Gas marks up the price of natural gas it sells for profit.
- Those with <$1000 total estimated annual gas billings (79% concerned versus 92% among those with >$1600 total estimated annual billings).

Respondents who said they were very or somewhat concerned about price increases for natural gas in the next year were asked to explain their response.

IF CONCERNED ABOUT NATURAL GAS Q3ac
Q3B. Why are you [RESTORE RESPONSE] about natural gas price increases? [n=692]



Respondents said they were concerned about price increases of natural gas in the next year because they *don't like the increased cost* (19%), that *the cost of natural gas is always rising* (19%), that they *cannot afford price increases* (19%) or *because they are on a fixed income/retired* (10%).

Less frequently cited reasons for this concern included the *buyout of Terasen Gas* (8%), that *natural gas is a household necessity* (6%), that it is *related to other resource prices* (4%), or the belief that *corporate profits are too high* (3%).

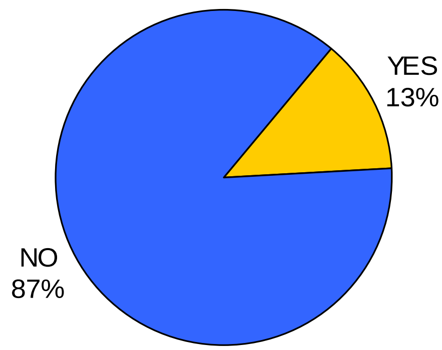
Natural Gas Commodity Unbundling

One of the objectives of the research is to determine residential customers' awareness of the Natural Gas Commodity Unbundling program. In the focus groups with customers very few participants had heard of unbundling before, and this result is corroborated in the survey results below.

From this point on in the report we will refer to this program as "unbundling".

Awareness of Unbundling

Q4 Have you ever heard of the term "Natural Gas Commodity Unbundling" before? [n=801]

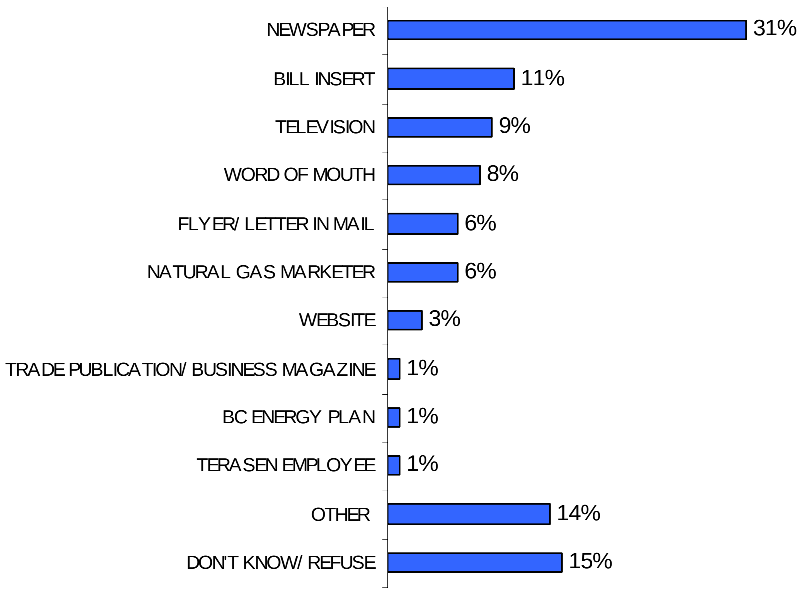


Very few, only 13% of customers said they had ever heard of the term Natural Gas Commodity Unbundling before. This is not surprising as unbundling is not currently available to residential customers in BC.

First Source of Information on Unbundling

Those who had heard of unbundling were asked where they first read, saw or heard about it.

Q5 IF YES Q4: Where did you first ever read, see or hear about Natural Gas Commodity Unbundling? [n=103]

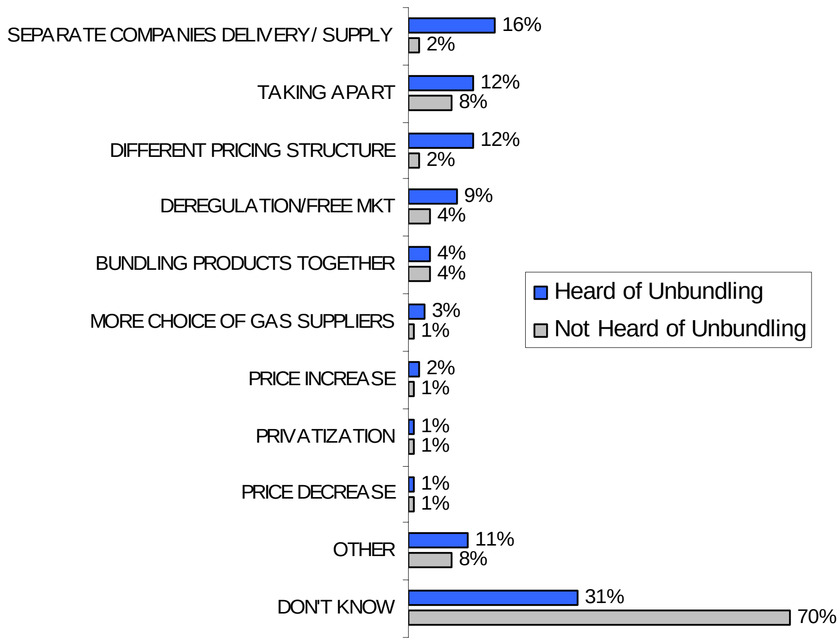


Among those who had heard of unbundling before, the highest proportion of respondents said they had first heard about unbundling in newspapers (31%). Other more frequent mentions included bill inserts (11%), on the television (9%) and by word of mouth (8%).

Knowledge of the Term Unbundling

Next, we assessed customer's knowledge of what the term natural gas commodity unbundling means. For those that had never heard of it before, we asked them to describe what they thought it meant. Results are shown below separately for those who had heard of unbundling before versus those who had not.

Q6 In your view, what does the term "Natural Gas Commodity Unbundling" mean? IF DON'T KNOW "What do you think it means?" [n=103 heard of unbundling; n=698 not heard]



Few respondents could accurately describe what the term natural gas commodity unbundling means. In this respect only a small percentage could accurately say that it related to *separating the supply from the delivery of natural gas.* Other correct responses included *deregulation/free market* and *more choice of gas suppliers*.

As expected, those who had heard of unbundling before were more likely to give correct answers than those who had not. Those who had heard of unbundling were significantly more likely to answer *separating the supply from delivery* (16% vs. 2%) and *deregulation/free market* (9% vs. 4%[6]). Those who had not heard of unbundling were more likely to say they *didn't know* (70% vs. 31%).

Given that only 13% of the total sample had ever heard of unbundling before, it is not surprising that many guessed what the term meant, and this included such responses as *taking apart*, *a different pricing structure*, *bundling products together*, and *privatization*.

[6] Significant at the (90%) level of confidence.

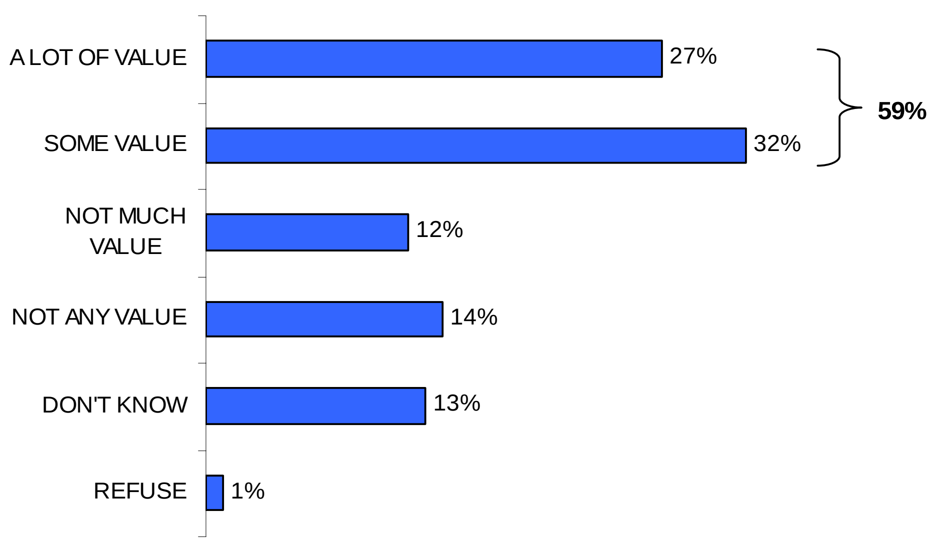
Value Proposition for Unbundling

An important objective of the research is to examine the value proposition to residential customers from introducing unbundling. In this respect we read the following description of unbundling to respondents.

> The Natural Gas Unbundling Program is a BC Government and BC Utilities Commission proposal to create competition and choice in supply of residential natural gas.
>
> Right now, residential customers buy their natural gas from Terasen Gas. With unbundling, customers would have a choice of suppliers for their natural gas. They could choose to buy their gas from Terasen Gas or from one of a variety of <u>other</u> natural gas suppliers. In either case Terasen would continue to deliver gas to your home. You would continue to receive one bill from Terasen to cover both delivery and natural gas costs.
>
> Suppliers other than Terasen Gas would offer different purchase options to customers. For example, one option would be to choose a fixed-price for your natural gas over a fixed period of time – say one, three or five years. This would allow customers to have stability over natural gas costs for that time period. Currently, the rate for natural gas from Terasen Gas is subject to review and change every three months by the BC Utilities Commission.

Then we asked respondents if having i) a *choice of natural gas suppliers* and ii) having *more purchase options* such as being able to fix the price that they pay for natural gas for up to five years would be of value to them or not.

> Q7. As I mentioned, with Unbundling, gas customers would be given a choice of natural gas suppliers. Generally speaking, would being given a choice of natural gas suppliers be of value to you or not of value? [n=801]



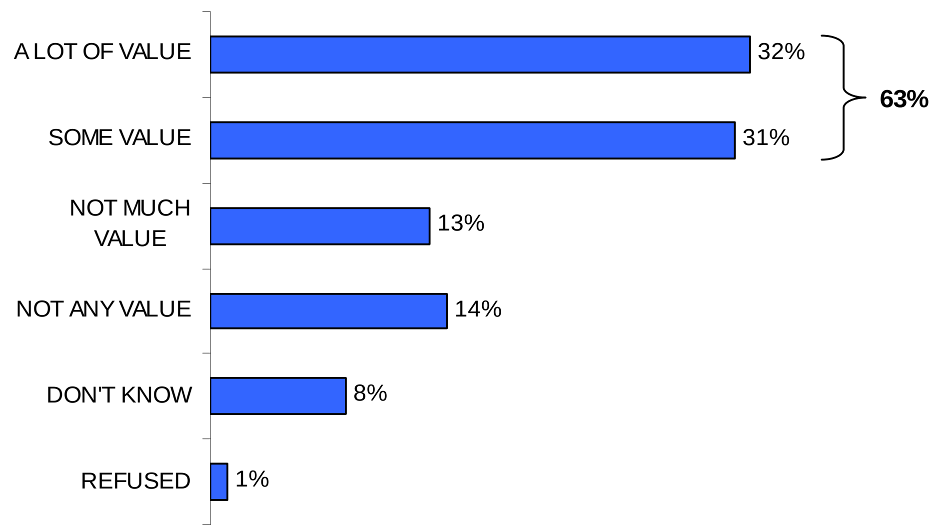
Just over a quarter of respondents (27%) said that being given a choice of natural gas suppliers would be “a lot” of value to them, while another third (32%) said this would provide “some” value. In total, 59% of customers surveyed said that having a choice of natural gas suppliers would be a lot or some value to them combined.

Differences between subgroups:

The following groups were more likely to say that having a choice of suppliers offered a lot of value:

- Those very concerned about price increases for natural gas in the next year (33% versus 24% among those somewhat concerned and 15% among those not concerned[7] about price increases)
- Those under age 55 (31% versus 21% among those age 55+)
- Those with estimated annual natural gas billings of .more than $1600 (38% a lot of value vs. 25% among those with $1600 or less in estimated annual billings)

Q8. With Unbundling, customers would be given more purchase options such as being able to fix the price that they pay for natural gas for up to five years. Would being given more purchase options be of value to you or not of value? [n=801]



With respect to the other major benefit of unbundling, that is, being given more purchase options for natural gas, just under a third said this would provide “a lot” of value (32%) while another 31% said it would offer “some” value.

Combined, 63% of customers surveyed said that being given more purchase options would be a lot or some value to them. This is very marginally higher than the comparable measure for more choice of suppliers (59%).

Comparing the responses to the two questions, we find the results to be highly (+0.76) correlated.[8] This indicates that people who rated having a choice of suppliers of value, also tended to rate having more purchase options of value.

In conclusion, while we know that both benefits are valued by a significant proportion of customers surveyed, customers rated both aspects equally highly.

[7] i.e. not very or not at all concerned combined

[8] Correlation is a measure of linear relationship between two variables which ranges from -1 (perfect negative relationship) to +1 (perfect positive relationship). A correlation of zero indicates there is no linear relationship.

<u>Differences between subgroups:</u>

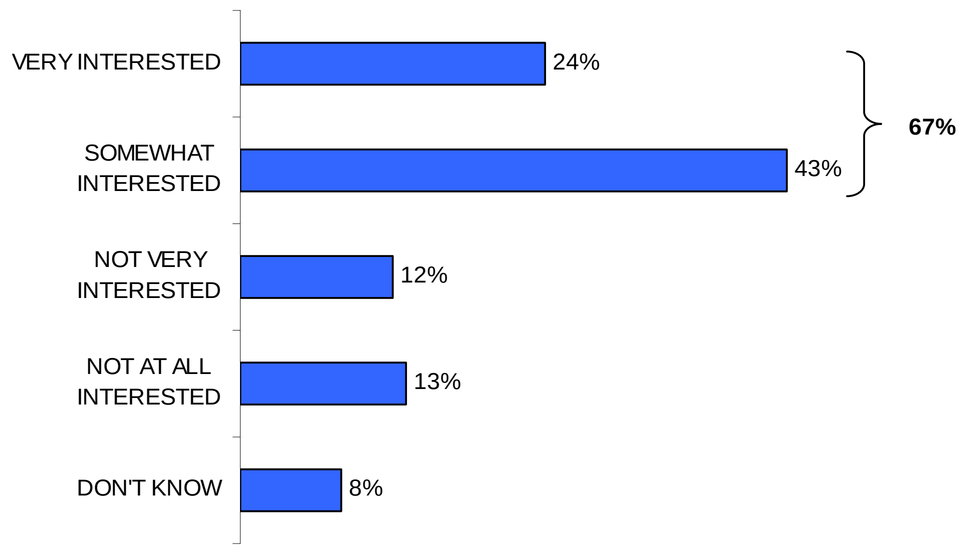
The following groups were more likely to say that having more purchase options offered a lot of value:

- Those very concerned about price increases for natural gas in the next year (36% a lot of value versus 22% among those not very or not at all concerned about price increases)
- Those under age 55 (36% a lot of value versus 25% among those age 55+)
- Those with estimated annual natural gas billings of $1000 or more (35% a lot of value vs. 27% among those with <$1000 estimated annual billings)

Level of Interest in Unbundling

To gauge customers' potential interest in unbundling, we asked them to rate their level of interest in buying their natural gas from a supplier other than Terasen Gas.

Q9. If Unbundling was available to you, what would be your level of interest in buying your natural gas from a supplier <u>other</u> than Terasen Gas? [n=801]



Just under a quarter (24%) said that they would be very interested in buying their natural gas from a supplier other than Terasen Gas, while another 43% said they were somewhat interested. Combined, two-thirds (67%) of customers surveyed expressed some level of interest in participating in unbundling.

<u>Differences between subgroups:</u>

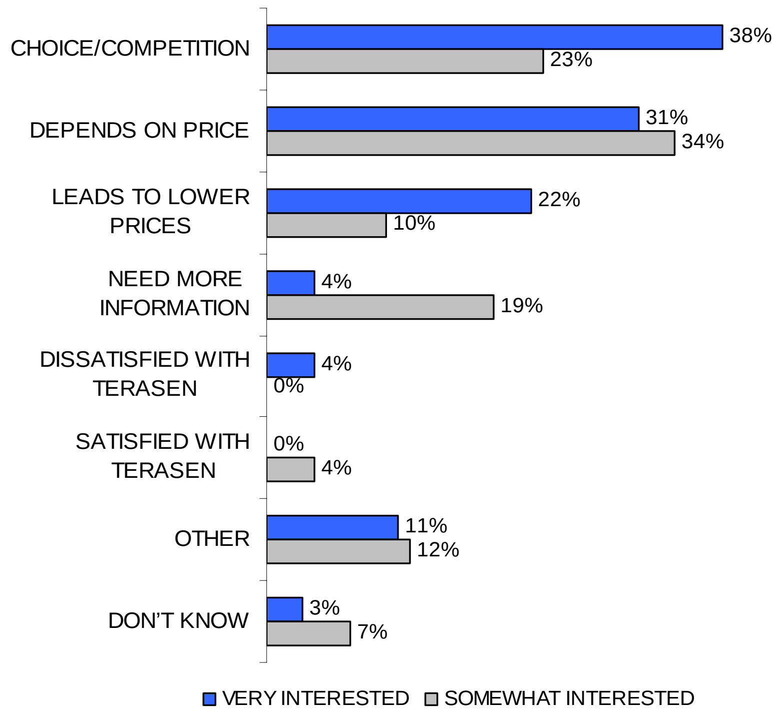
The following groups were more likely to say they were very interested in buying natural gas from a supplier other than Terasen Gas:

- Those who disagree that the cost of natural gas is fair and reasonable (35% very interested vs. 16% among those who agree strongly or somewhat)
- Those very concerned about price increases for natural gas in the next year (31% very interested vs. 17% among all other respondents)
- Those aged 35-54 (27% very interested versus 20% among those aged 55+)

- Those with total estimated annual natural gas billings of $1000 or more (28% very interested vs. 15% among those with less than $1000 in billings)

Those who said they were very or somewhat interested in unbundling were asked to explain their answer.

IF INTERESTED Q9:
Q10. Why do you say that? [n=194 Very interested & n=354 Somewhat interested]



Reasons for being interested in buying natural gas from a supplier other than Terasen Gas primarily revolved around having *more choice and competition for suppliers*, and that it *might lead to lower prices*. Noteworthy is that many respondents qualified their interest by saying that it was *dependent on the price of natural gas* through such suppliers or that they *needed more information about unbundling*. Similar findings were noted in the focus groups with customers.

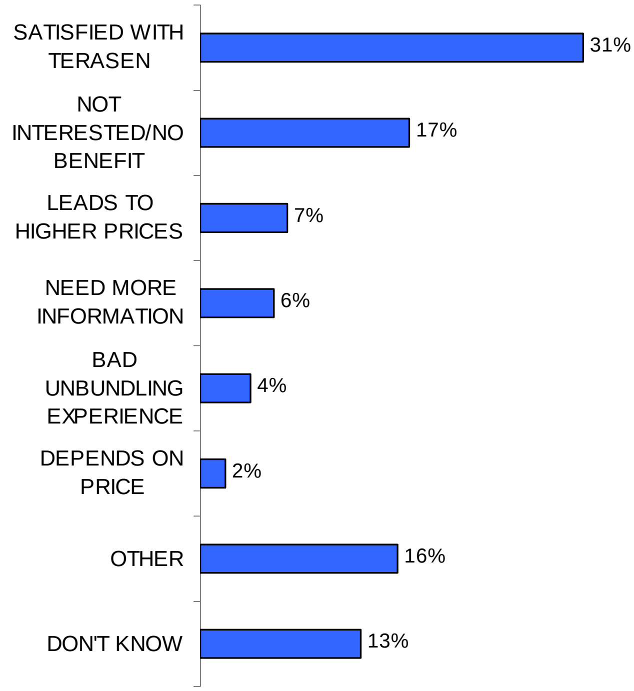
A number of differences were noted between those who said they were *very* versus *somewhat* interested in unbundling. Those very interested in unbundling were more likely to say they *liked having more choice/competition* (38% vs. 23%), that they thought it *might lead to lower prices* (22% vs. 10%) or that they were *dissatisfied with Terasen Gas* (4% vs. 0%). Those somewhat interested were more likely to say they need more information about unbundling (19% vs. 4%).

<u>Differences between subgroups:</u>

- "High" consumers of natural gas (122+ GJ per year) more likely to say they were interested because they thought it would lead to lower prices (21% vs. 11% among "low" consumers of natural gas (<72 GJ per year).

Reasons for not being interested in buying natural gas from a supplier other than Terasen Gas are summarized in the chart below.

IF NOT VERY OR NOT AT ALL INTERESTED Q9:
Q10. Why do you say that? [n=200]



Most frequently respondents said that they were *satisfied with Terasen Gas*, and thus were not interested in buying their natural gas from another supplier (31%).

Other reasons were that unbundling was perceived to be of no *benefit to them/no interest* (17%), the concern that it *would lead to higher prices* (7%), that *more information was required* (6%), that they had a *previous bad experience with unbundling* (4%) or that it *depended on the price* (2%).

With respect to the concern about higher prices, a similar concern was raised in the focus groups and this stemmed from the perception that if there were more companies involved, costs might be higher because they all have to make a profit.

Differences between subgroups:

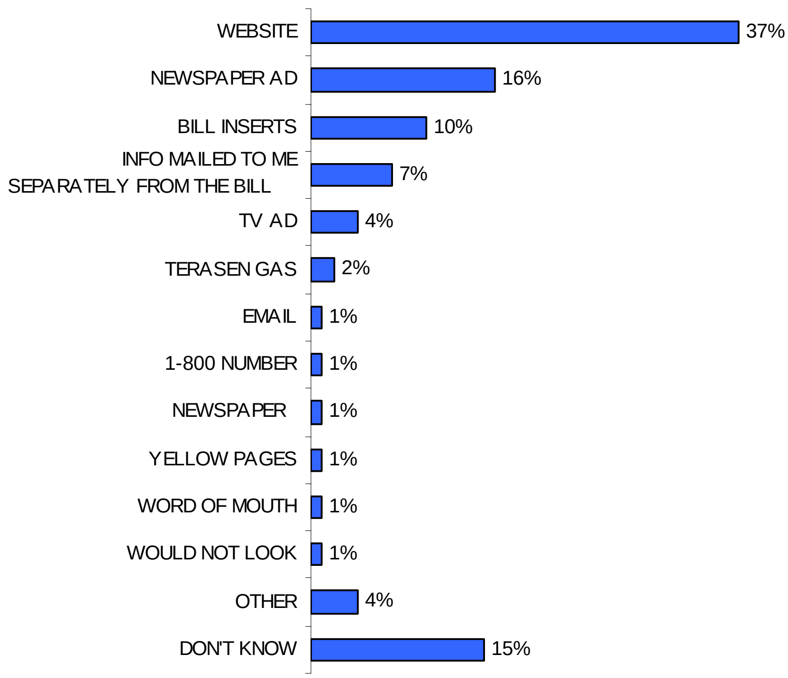
- Those who agree that the cost of natural gas is fair and reasonable are more likely to say they are satisfied with Terasen Gas (39%) than those who disagree (11%).
- Those who are not concerned about price increases for natural gas in the next year are more likely to say they are satisfied with Terasen Gas (46%) than those who are very concerned (19%).
- Those with estimated annual natural gas billings of less than $1000 were more likely to say they were satisfied with Terasen Gas (39% vs. 25% among those with $1000+ estimated annual billings)

Ways Customers Would Prefer to be Informed about Unbundling

In the focus groups, the general feedback was that if unbundling was to be introduced it would be necessary to have a broadly based communication program to inform people in the province.

Survey results below underscore three potential communications mediums preferred by customers: information on a website, in the newspaper and bill inserts/mailed information.

Q11. If Unbundling were introduced, where would you look first to find information about it? [n=801]

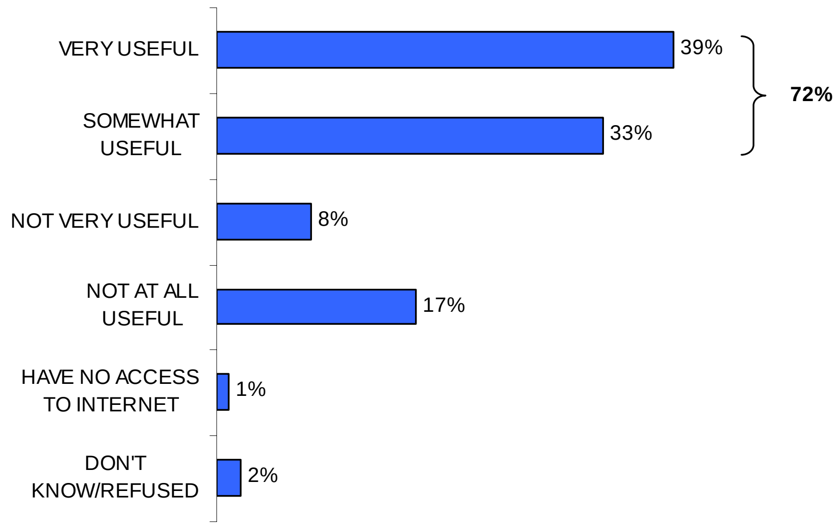


By far, the most frequently cited place that customers would look for information on unbundling was the internet (37%). Next to this, other more frequent mentions included newspaper ads (16%), bill inserts (10%) and information in the mail (7%).

Usefulness of Terasen Gas Website with Competitive Pricing Information

The idea of Terasen Gas providing information about natural gas rates for competitive suppliers was well received by survey respondents.

Q12. If Terasen Gas provided information about natural gas rates for competitive suppliers on their website, would this be useful to you or not? [n=801]



A sizeable minority of respondents said that a Terasen Gas website that provided information about natural gas rates for competitive suppliers would be very useful (39%), while another 33% said it would be somewhat useful. In total, nearly three quarters (72%) said that such a website would be very or somewhat useful to them.

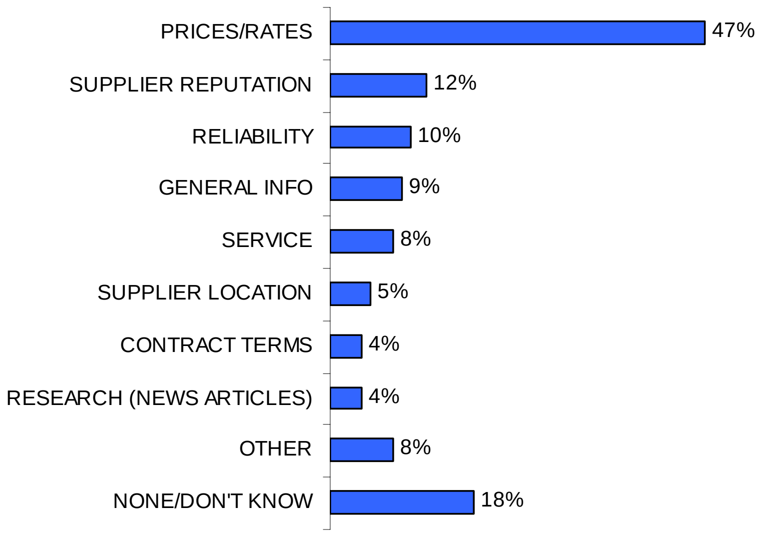
Questions & Communications Points Necessary to Make a Decision on Unbundling

Another objective of the research is to understand what information customers would like to receive about unbundling, and how customers would like to receive this information.

Customers in the focus groups told us that communications about unbundling should be aimed at explaining the unbundling concept and the reasons for it, as well as providing information on gas suppliers including: who they are, their stability and reliability, their history and their contact information.

Survey results below are similar to those from the focus groups, but highlight the requirement for information on suppliers' natural gas rates/prices.

Q13. What additional information would you need to make a decision about whether or not to purchase your natural gas from a supplier other than Terasen Gas? [n=801]



First and foremost, customers say they would like more information about *natural gas rates/prices of natural gas marketers* (47%). This will allow them to more accurately determine the cost implications of switching gas suppliers. Next to this, they want information on suppliers' *reputation* (12%), *reliability* (10%), *general information* (9%), *level of service* (8%), *supplier location/Cdn vs. U.S. Co.* (5%), and *contract terms* (4%). A few respondents commented that they would do *research on their own* by reading articles in the media (4%) relating to unbundling.

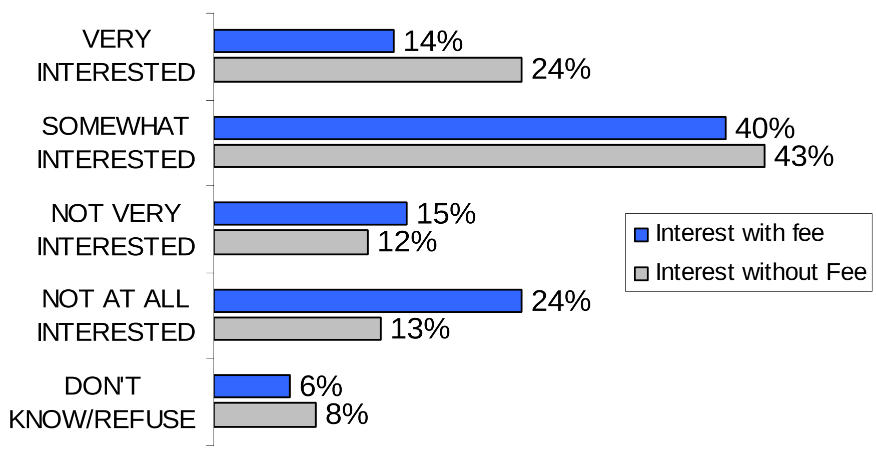
Level of Interest in Unbundling with Service Charge

Focus group participants were negative towards paying a small charge to cover the costs of unbundling. A more common viewpoint was that unbundling offered some value to them but they were not enthusiastic about having to pay to receive these benefits.

In order to measure the effect of a fee on customer interest in unbundling in the survey, we asked respondents to rate their level of interest in buying their natural gas from a supplier other than Terasen Gas without any mention of such a charge, and then we re-administered the question after we explained that in order to receive the benefits of unbundling, there would be a $1 per month charge for three years included in their gas bill. The chart below compares the initial level of interest with the "post fee" level of interest.

Q14. In order to get the benefits of Unbundling such as having a choice of suppliers and purchase options, there would be a charge of about $1 per month for three years included in your gas bill. This would pay for implementing the Unbundling Program.

Knowing this, what would be your level of interest in participating in Unbundling, that is, buying your natural gas from a supplier other than Terasen Gas? [n=801]



Informing respondents that there would be a charge of $1 per month for three years included in their gas bill reduces the percent of respondents who are "very interested" in buying their natural gas from a supplier other than Terasen Gas from 24% in the pre-measure to 14% in the post measure.

In terms of the percent of respondents who are either "very and somewhat" interested combined, this decreases from 67% in the pre-measure to 55% in the post measure.

If we examine the shift in response of the 194 respondents who were initially very interested in buying their natural gas from a supplier other than Terasen Gas, we find that 43% remained very interested while most of the rest (34%) became somewhat interested, and 17% became not very or not at all interested (and 7% didn't know or refused) after they were informed about the charge.

Differences between subgroups:

The following groups were more likely to say they were very interested in buying natural gas from a supplier other than Terasen Gas with a $1/month charge for three years:

- Those who disagree that the cost of natural gas is fair and reasonable (20% very interested vs. 11% among those who agree)
- Those aged 35-54 (17% very interested versus 11% among those aged 55+)
- Those with a total household income of $40K or more (17% vs. 11% among those with incomes under $40K).
- Those with estimated annual natural gas billings of more than $1600 (19% very interested versus 10% among those with annual billings of < $1000).

Sample Demographics

The following table provides details on the demographic composition of the sample of Terasen Gas residential customers interviewed in the survey.

Sample Demographics	*Weighted Percent n=801
Equal Payment Plan [Appended Variable]	
Household on EPP	46%
Household not on EPP	54%
Gender	
Female	50%
Male	50%
Education	
Less than High School	7%
High School Graduate	22%
Some Post Secondary	15%
Completed College/Technical/Vocational/Trade	20%
University Undergraduate Degree	18%
University Post Graduate Degree	16%
Don't Know/Refused	2%
Respondent Age Category	
18 – 24	2%
25 – 34	12%
35 – 44	19%
45 – 54	29%
55 – 64	18%
65 and over	21%
Region	
Lower Mainland	71%
Interior	29%
Total Annual Household Income for 2004	
< $20,000	7%
$20,000 to < $40,000	13%
$40,000 to < $60,000	18%
$60,000 to < $80,000	15%
$80,000 to < $100,000	13%
$100,000 or more	16%
Don't know/Refused	18%
Total Estimated Natural Gas Billings per Year (including all charges & taxes)	
Less than $1000 per year	25%
$1000 to $1600 per year	47%
More than $1600 per year	19%
Don't know/Refused	9%
Annual GJ Consumption [Appended Variable]	
<72 GJ	31%
72 to <122 GJ	50%
122 GJ or more	18%

** Weighted by region*

Appendices

A. Questionnaire

Appendix A: Questionnaire

TERASEN GAS
RESIDENTIAL NATURAL GAS COMMODITY UNBUNDLING SURVEY
DRAFT 9 (July 27, 2005)

Introduction

A. Hello, my name is ________ with NRG Research calling on behalf of Terasen Gas. This evening/today we are calling to conduct a short survey with natural gas customers in BC. May I please speak with the person in the household who is responsible or jointly responsible for reviewing and paying the natural gas bills?

IF SPEAKING: [CONTINUE]
IF RESPONDENT COMES TO PHONE: [REPEAT INTRODUCTION AT A]
IF RESPONDENT UNAVAILABLE: [ARRANGE CONVENIENT TIME TO CALL BACK]
HOUSEHOLD HAS NO GAS/NO GAS BILL [TERMINATE WITH THANKS]

Just to confirm, you are the person in the household who is responsible or jointly responsible for reviewing and paying the natural gas bill – is that correct? IF YES CONTINUE IF NO Ask for person responsible and if no-one qualifies TERMINATE WITH THANKS

Is this a convenient time for you to participate in the survey? [SCHEDULE CALLBACKS AS NECESSARY: What day and time of day would be convenient for you?]

IF NECESSARY, APPLY PERSUADERS:

- The purpose of this call is to conduct a survey; we are not selling anything at all.
- The survey takes about 10 minutes to complete on average.
- I can assure you that your answers will be anonymous because they will only be grouped with the responses of others, and no one's identity will be revealed.
- IF ASKED HOW WE GOT THEIR NAME: Your name and phone number were randomly selected from a customer list provided by Terasen Gas.
- IF CUSTOMER WANTS TO BE TAKEN OFF LIST FOR FUTURE RESEARCH Please call the Terasen Gas Customer Care Centre at 1-888-224-2710 and tell them you don't want to be contacted by Terasen Gas to participate in market research.
- IF CUSTOMER WANTS TO VERIFY THE LEGITIMACY OF THE RESEARCH Please call Terasen Gas at 604-576-7000 and say they you would like to verify the legitimacy of this research that is being conducted by NRG Research.
- When short of male quota, use the following: In order to represent both male and female opinions, we interview an equal number of men and women. Today, I am looking to speak with gentlemen who make decisions regarding their household utility bills. May I speak to the gentleman of the house?
- When short of age quota, start with the following: In order to represent the opinions of all kinds of customers, we ask to speak to people in certain age and gender groups. Today, I am looking to speak with INSERT age INSERT who make decisions regarding their household utility bills.

Screeners

That's great. First, I have a couple of questions for qualifying purposes

S1. Please tell me if you or any members of your immediate family hold jobs with any of the following:

a Any Media including Radio, TV or print media [THANK AND TERMINATE]
b Advertising agency [THANK AND TERMINATE]
c Market Research [THANK AND TERMINATE]
d Any utility company such as BC Hydro [THANK AND TERMINATE]
e Terasen Gas or subsidiary of Terasen Incorporated [THANK AND TERMINATE]
f A Natural Gas Distributor, Producer or Natural gas supplier [THANK AND TERMINATE]
NOTE: IF NATURAL GAS MARKETER VOLUNTEERED THIS IS A NG SUPPLIER
g A propane or heating oil company [THANK AND TERMINATE]

D2. To make sure that we have talked to a good cross-sections of households, please tell me which of the following categories contains your age, is it: [READ]

1. 18-24
2. 25-34
3. 35-44
4. 45-54
5. 55-64
6. 65 or older
7. REFUSED

Natural Gas Pricing

Q1. Please tell me your level of agreement with the following statement: "Compared to other household expenses the cost of natural gas is generally fair and reasonable" Do you: READ Agree Strongly, Agree somewhat, Disagree Somewhat or Disagree strongly with this statement?

Q2. [ASK FOR ALL RESPONSES EXCEPT REFUSED] Why do you say that? PROBE: Any other reasons?

Q3a For each of the following commodities, please tell me how concerned you are about price increases in the next year. How concerned are you about price increases for A – C in the next year? READ Very Concerned, Somewhat Concerned, Not Very Concerned or Not at all concerned?

RANDOM
a Electricity
b Gasoline
c Natural Gas
END RANDOM

ASK RIGHT AFTER C

Q3b.IF RATED CONCERN NATURAL GAS Why are you [RESTORE RESPONSE] about natural gas price increases?

HAVE ANSWER [RECORD VERBATIM RESPONSE]
96. DON'T KNOW
97. REFUSED

Natural Gas Commodity Unbundling

Q4 Have you ever heard of the term "Natural Gas Commodity Unbundling" before?

1. Yes 2. No 3. Don't Know/Not Sure

Q5 IF YES: Where did you first ever read, see or hear about Natural Gas Commodity Unbundling? DO NOT READ. THREE RESPONSES ACCEPTED.
IF BILL INSERT OR MAIL UNSPECIFIED PROBE "Did it come with your natural gas bill?

1. BILL INSERT IN THE MAIL ACCOMPANYING MY NATURAL GAS BILL
2. A LEAFLET/FLYER/LETTER IN THE MAIL (NOT WITH NATURAL GAS BILL)
3. AD IN A TRADE PUBLICATION OR BUSINESS MAGAZINE
4. NEWSPAPER
5. TELEVISION
6. COMPANY WHO WANTS TO SUPPLY NATURAL GAS / OR NATURAL GAS MARKETER [NOT TERASEN GAS]
7. BC ENERGY PLAN
8. WEBSITE [SPECIFY: Which company's website was this? _________________]
9. TERASEN GAS EMPLOYEE
10. OTHER [SPECIFY _________________________________]
11. DON'T KNOW/CAN'T RECALL

Q6 In your view, what does the term "Natural Gas Commodity Unbundling" mean? IF DON'T KNOW "What do you think it means?" PROBE Anything else? PROBE FOR CLARIFICATION AS NEEDED

1. HAVE ANSWER [SPECIFY: ___________]
2. DON'T KNOW/NO ANSWER

READ STATEMENT: The Natural Gas Unbundling Program is a BC Government and BC Utilities Commission proposal to create competition and choice in supply of residential natural gas.

Right now, residential customers buy their natural gas from Terasen Gas. With unbundling, customers would have a choice of suppliers for their natural gas. They could choose to buy their gas from Terasen Gas or from one of a variety of other [ADD "other" & UNDERSCORE THIS] natural gas suppliers. In either case Terasen would continue to deliver gas to your home. You would continue to receive one bill from Terasen to cover both delivery and natural gas costs.

Suppliers other than Terasen Gas would offer different purchase options to customers. For example, one option would be to choose a fixed-price for your natural gas over a fixed period of time – say one, three or five years. This would allow customers to have stability over natural gas costs for that time period. Currently, the rate for natural gas from Terasen Gas is subject to review and change every three months by the BC Utilities Commission.

Q7. As I mentioned, with Unbundling, gas customers would be given a choice of natural gas suppliers. Generally speaking, would being given a choice of natural gas suppliers be of value to you or not of value? IF VALUE Would that be A lot of Value or just some Value to you? IF NOT OF VALUE Would that be Not of Much Value or Not of any Value to you at all?

Q8. With Unbundling, customers would be given more purchase options such as being able to fix the price that they pay for natural gas for up to five years. Would being given more purchase options be of value to you or not of value? IF VALUE Would that be A lot of Value or just some Value to you? IF NOT OF VALUE Would that be Not of Much Value or Not of any Value to you at all?

READ: From this point on in the survey we will refer to the Natural Gas Unbundling Program as "Unbundling".

Q9. If Unbundling was available to you, what would be your level of interest in buying your natural gas from a supplier other [UNDERSCORE] than Terasen Gas? READ

Very Interested
Somewhat Interested
Not Very Interested
Not at all Interested
Don't Know/Need more information
Refused

IF NOT REFUSED ASK:
Q10. Why do you say that? PROBE Do you have anything else to add?

Q11. If Unbundling were introduced, where would you look first to find information about it? ONE ANSWER ONLY [DO NOT READ] IF MAILED INFO ASK: Should that be sent with your gas bill or separately from your gas bill?

1. BILL INSERTS / ALONG WITH MY BILL
2. INFO MAILED TO ME SEPARATELY FROM NATURAL GAS BILL
3. WEBSITE/INTERNET
4. E-MAIL
5. TELEVISION AD
6. RADIO AD
7. NEWSPAPER AD
8. 1-800 NUMBER TO CALL
9. OTHER [SPECIFY ___________________________]
10. DON'T KNOW

Q12. If Terasen Gas provided information about natural gas rates for competitive suppliers on their website, would this be useful to you or not? IF USEFUL Would that be Very useful or Somewhat Useful? IF NOT USEFUL Would that be Not Very Useful or Not at all Useful?

IF NO INTERNET/OR ACCESS TO COMPUTER – CODE AS NO INTERNET/ACCESS TO COMPUTER

Very Useful
Somewhat Useful
Not Very Useful
Not at all Useful
DON'T KNOW
REFUSED
HAVE NO INTERNET ACCESS/HAVE NO ACCESS TO A COMPUTER

Q13. What additional information would you need to make a decision about whether or not to purchase your natural gas from a supplier other than Terasen Gas?

PROBE What else?
RECORD RESPONSE
NO INFO REQUIRED
DON'T KNOW
REFUSED

Q14. In order to get the benefits of Unbundling such as having a choice of suppliers and purchase options, there would be a charge of about $1 per month for three years included in your gas bill. This would pay for implementing the Unbundling Program.

Knowing this, what would be your level of interest in participating in Unbundling, that is, buying your natural gas from a supplier other [UNDERSCORE]than Terasen Gas?

Very Interested
Somewhat Interested
Not Very Interested
Not at all Interested
Don't Know/Need more information
Refused

Demographics

Finally, I have some questions that will enable us to make sure that we have talked to a good cross-section of households. All responses will be held in strict confidence and will not be attributed to any individual.

D1. What is the highest level of schooling you have completed?

1. Some high school or less
2. High school graduate
3. Some post secondary (university/college/technical school)
4. Diploma, certificate, or degree from community college, trade, technical or vocational school or business college
5. University under graduate degree
6. University Post graduate degree
7. DON'T KNOW
8. REFUSED

D3. For statistical purposes only, we need information about your income. All individual responses will be kept confidential. Which broad income category best describes your total household income before taxes in 2004.

1. Under $20,000
2. $20,000 to under $40,000
3. $40,000 to under $60,000
4. $60,000 to under $80,000
5. $80,000 to under $100,000
6. $100,000 and over
7. DON'T KNOW
8. REFUSED

D4.Thinking of your personal residence only, which of the following categories includes your total natural gas billings per year including all charges and taxes? READ Your best estimate is fine.

1 Less than one thousand dollars ($1000) per year
2 One thousand ($1000) to sixteen hundred dollars ($1600) per year
3 More than sixteen hundred dollars ($1600) per year
4 DON'T KNOW
5 REFUSED

Thank you for participating in our survey!

IMPORT REGION FROM SAMPLE

RECORD GENDER FROM VOICE

APPENDIX 5

Residential Commodity Unbundling

Implementation Phase

Proposal

March 2, 2006

Introduction

We at Accenture Inc. ("Accenture") and KnowledgeTech Consulting ("KnowledgeTech") are pleased to submit this Proposal (the Proposal) to Terasen Gas to support the Implementation phase of the Terasen Gas Residential Commodity Unbundling Initiative ("the Project"). While this Proposal is not meant to constitute a formal offer, acceptance, or contract, Accenture and KnowledgeTech are submitting this Proposal with the understanding that Terasen Gas will negotiate and sign separate contracts with Accenture and KnowledgeTech containing terms and conditions that are acceptable to each company and that are consistent with this Proposal.

We understand that this Project is an important component of the next phase of commodity unbundling proceeding in British Columbia and will be used as important input to the British Columbia Utilities Commission (the "BCUC") in determining the feasibility and overall cost to implement Terasen Gas' Commodity Unbundling Program for residential customers. This Proposal outlines our understanding of the objectives, our proposed approach, planned deliverables, staffing, fees, and other assumptions associated with Accenture and KnowledgeTech's assistance on this Project.

Our Understanding of Your Situation

It is our understanding that the Commercial Commodity Unbundling Program Terasen Gas launched in November of 2004 has matured, and that marketers and the BCUC have requested Terasen Gas to open the program to Residential customers. This Proposal assumes a start date of September 2006 with implementation prior to April 2007 to enable enrollment of residential customers starting in May 2007 for a November 1st 2007 entry date.

We understand that the Commercial Commodity Unbundling initiative launched in 2004 has been successful in attracting marketers and commercial customers and that Terasen Gas and the BCUC wish to leverage and enhance the processes and technology developed to support the Commercial Commodity Unbundling Program in order to support a similar Residential Commodity Unbundling Program.

The Residential Commodity Unbundling initiative is a major program for Terasen Gas that will involve changes to a number of processes and systems in the following business areas:

1. Customer Care
2. Gas Supply
3. Forecasting
4. Marketer Portal
5. Finance

Proposal Overview

This Proposal outlines the intended scope, assumptions and key deliverables for the Project.

The scope of the Project includes overall program management and solution architecture as well as the development, testing and deployment required to support comprehensive, fixed price bids for:

1. The update, configuration and implementation of the systems and processes to support Residential Commodity Unbundling by Accenture,
2. modifications to the FIS and ODS systems, as required, by KnowledgeTech, and
3. ongoing operations of the associated customer care processes by ABSU.

This Proposal defines the deliverables and responsibilities of both Accenture and KnowledgeTech and supports the individual proposed prices provided separately by each company. Individual contractual agreements will be executed with both Accenture and KnowledgeTech upon acceptance of this Proposal.

Project Objectives

We understand your key objectives of this Project are to:

1. Refine and enhance system functional and data requirements to support Residential Commodity Unbundling.
2. Reuse and enhance existing interfaces where possible, providing a simple, integrated solution incorporating all systems.
3. Automate transactions and processes where the cost/benefit is justified.
4. Deploy systems and implement technologies that mitigate risk, lower implementation costs, and control operational costs.
5. Execute the delivery plan, as defined in the Project Schedule contained within this Proposal.

Why This Team?

The proposed implementation will continue to build upon a successful track record of delivery established by Accenture, KnowledgeTech, and Peace Software. Efficiencies in the proposed design were realized primarily due to the depth of knowledge and experience with the Terasen Organization, Unbundling Program, systems and processes that were deployed in the Commercial phase of Commodity Unbundling. In addition, Accenture has unique skills associated with its customer care operation for Terasen Gas through ABSU.

Accenture will provide management and coordination with the various initiatives underway across Terasen Gas and ABSU. Program management across the various efforts will be critical in insuring the efficiency and success of the Residential Unbundling Project implementation.

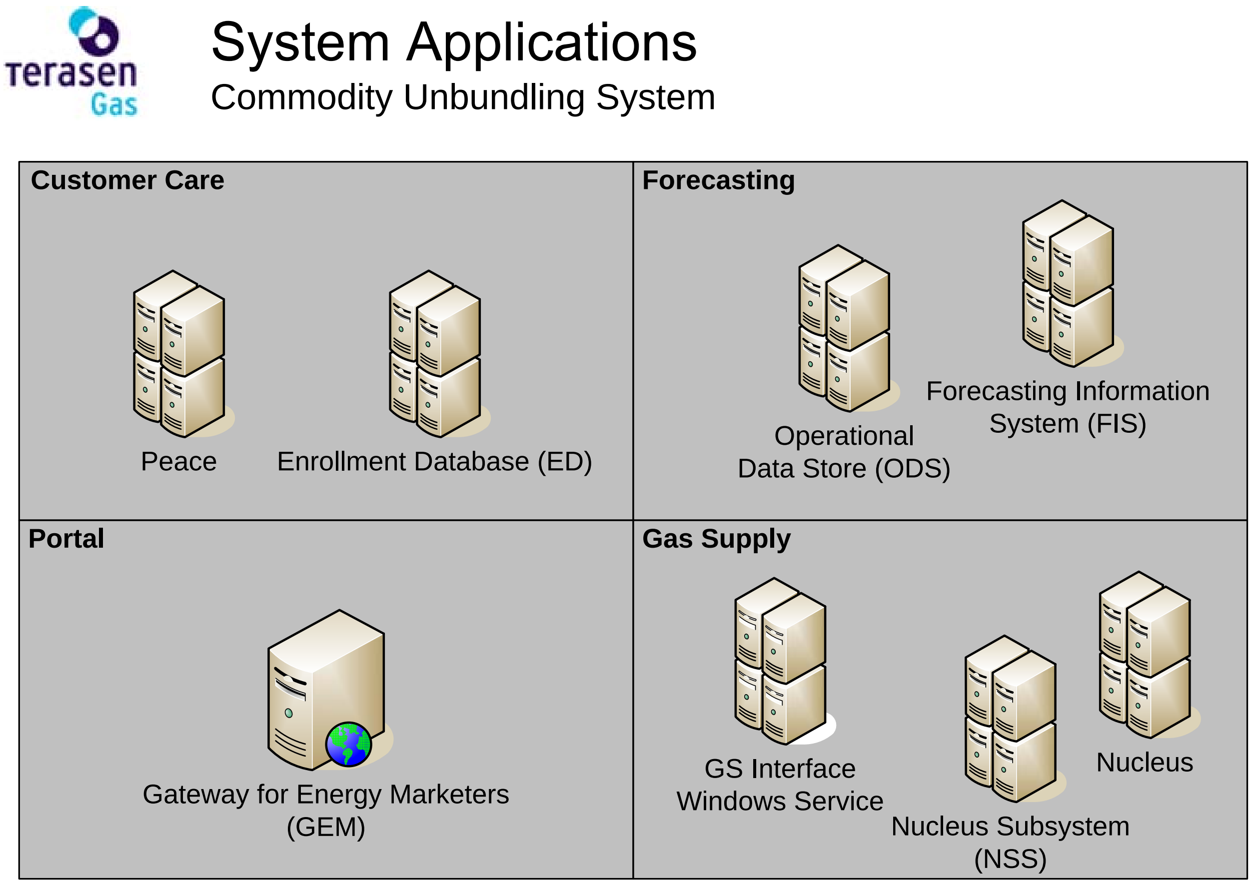
Project Scope and Approach

The scope of this Project will include the following:

1. Overall program management for the implementation of Residential Unbundling as defined in this Proposal. [1]

2. Deployment of the systems and processes as defined in the Project Deliverables section of this Proposal.

The following is a high level illustration of the system applications:



As with all fixed fee projects, effective scope management will be critical to the successful completion of this project. Accenture has proposed a Scope Change Control Procedure in this Proposal which will be used to manage scope changes that may arise during the implementation of this Project.

Accenture, KnowledgeTech and Terasen will work jointly on the Project to ensure that the solution designed is well integrated and fulfills the requirements of not only a successful

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[1] See Appendix A: Residential Unbundling Scoping Project Deliverables

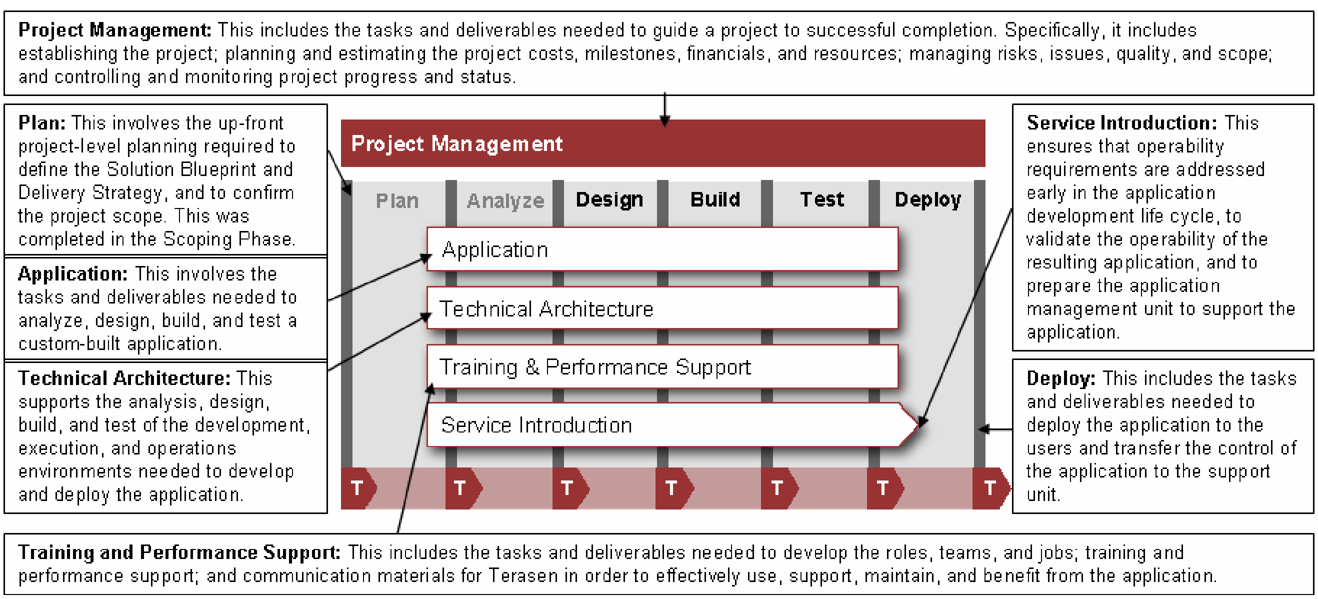
Unbundling Program but also one that supports the efficient operation of the solution at Terasen and ABSU. Our approach will leverage the work done to implement Commercial Commodity Unbundling, coupled with our extensive experience implementing unbundling and customer choice in other jurisdictions.

One of the primary objectives of this Project is to reuse and enhance existing interfaces and systems where possible. [2] Reuse of existing systems allow us to reduce costs and shorten the implementation schedule while still providing the enhanced functionalities sanctioned in the scoping phase and support the ability to accommodate Residential Unbundling volumes.

We will fully support the following goals of Terasen Gas:

- Be supportive of an open retail market.
- Develop a market model that works within the constraints of the British Columbia wholesale market.
- Deploy processes and systems to mitigate risks, lower implementation costs, and control operational costs.
- Provide reasonable and defensible implementation estimates.

Our implementation approach will consist of the following phases:



The majority of the Plan and Analyze phases were completed during the Scoping Phase.

During the scoping phase of this effort, business requirements were documented in Process Maps with accompanying Business Process Impact Documents. The process and technical elements required to support the new and enhanced requirements were documented in the Design Approach documents which are a part of this Proposal. An overall implementation

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[2] See Appendix B: Reuse of Commercial Unbundling Systems/Technologies

approach and workday estimate has been developed jointly by Accenture, KnowledgeTech and Terasen Gas, which was used to define the Project Schedule contained in this Proposal.

Sourcing assumptions, including confirmation of critical third party development resources and release windows will be determined closer to the actual start date of the Project.

Project Deliverables

Terasen, Accenture and KnowledgeTech have invested significant time reviewing and refining the business requirements needed to support the additional demands of Residential Unbundling.

Given the team's unique knowledge of Terasen's business, we believe that the designs and solutions described in this proposal will not only deliver to the technical specifications but additionally, will allow Terasen to provide it's customers with a world class commodity unbundling offering at a fraction of the build and operating cost that similar solutions have provided in other provinces across North America.

The following is a list of Project Deliverables that will be produced during the Project:

Project Management

- Project Staffing Report
- Project Status Report
- Resource Plan
- Team Status Report
- Work Plan

Plan

- Delivery Strategy
- Review Summary
- Sponsor Goals and Expectations

Analyze

- Organization Impact Assessment
- Performance Assessment

Design

- Class and Stored Procedure Design
- Class Definition
- Data Conversion Design
- Interaction Diagram
- Job Description
- Job Design
- Logical Data Model
- Requirements Traceability Matrix
- Site Map
- Training Design
- Use Case Model
- User Interface Standards
- User Interface Wireframe

Build

- Communication Materials
- Organization Transition Materials
- Page Template
- Performance Support Materials
- Physical Data Model
- Test Plan
- Training Evaluation

Test

- Common Test Data
- Integration Test Results
- Regression Test Results
- Performance Test Results

- Training Materials
- User Acceptance Test Results

Service Introduction

- Service Introduction Plan
- Support Requirements Matrix
- Unit Readiness Status Report

Deploy

- Contingency Plan
- Deployment Plan
- Handover Documents
- Migration Procedures

Project Schedule

The Project may be carried out in the following time frames:

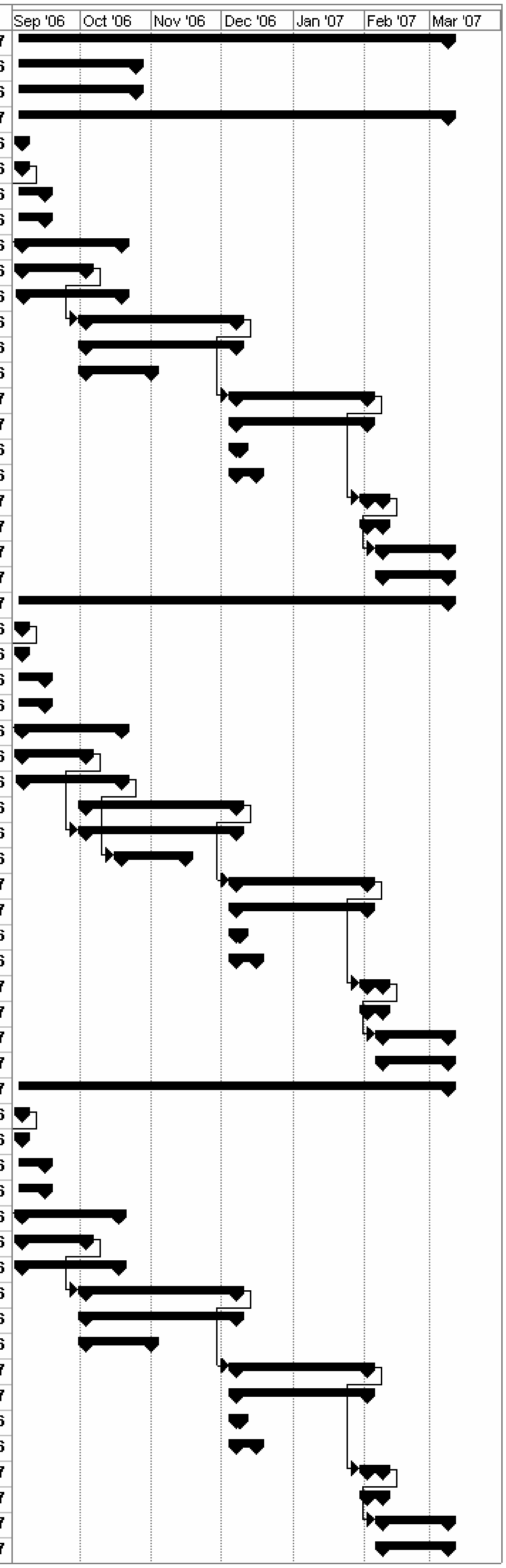
1. September 20 06 – March 2007 with a November 1, 2007 entry date.
2. March 2007 – September 2007 with a March 1, 2008 entry date. [3]
3. September 2007 – March 2008 with a November 1, 2008 entry date.

It is understood that Residential Unbundling is one of many different projects that Terasen will be executing over the next several years. The Unbundling Project has been estimated to take approximately six months to execute. Based on Terasen's analysis of the various projects contention for systems and critical resources, the optimal start time for Residential Unbundling will be September, 2006 which will enable the build to be complete in time to support the desired first entry date of November, 2007 for residential unbundling.

[3] This entry date may potentially increase Stranded Costs.

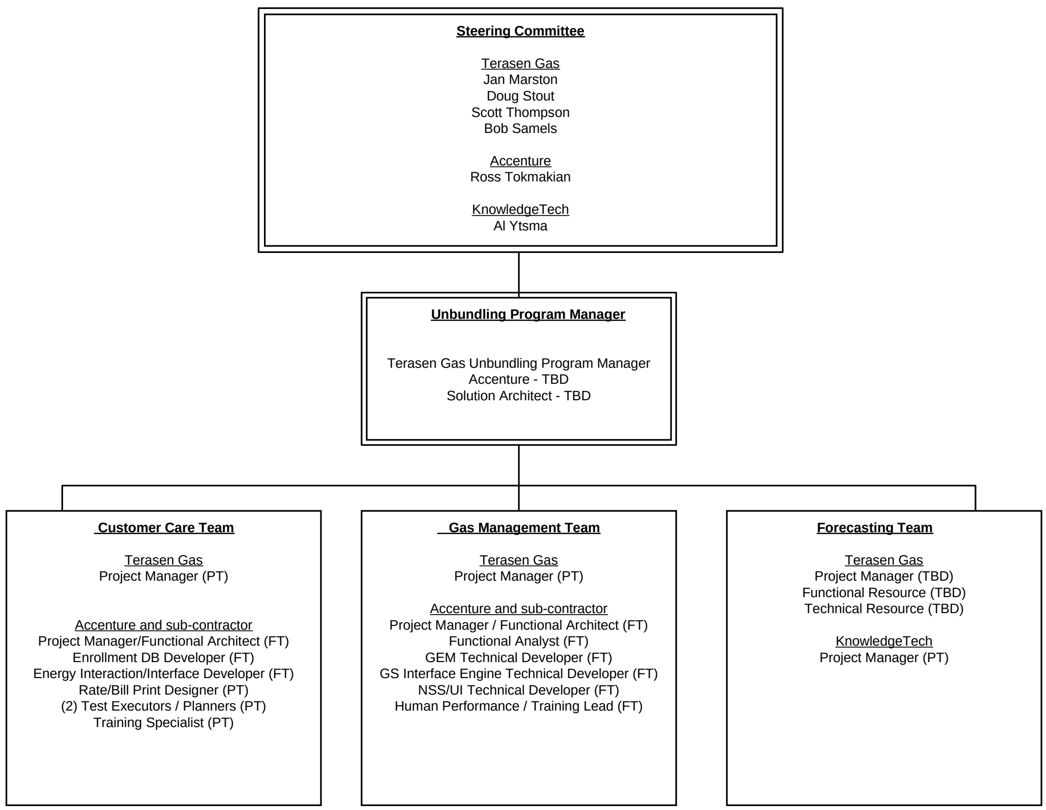
The workplan below highlights the schedule and key phases of the implementation effort:

ID	Task Name	Start	Finish
1	**Residential Unbundling Implementation**	**Mon 9/4/06**	**Thu 3/8/07**
2	**Project Management**	**Mon 9/4/06**	**Wed 10/25/06**
3	**1000 Project Management**	**Mon 9/4/06**	**Wed 10/25/06**
21	**Customer Care**	**Mon 9/4/06**	**Thu 3/8/07**
22	**Plan**	**Mon 9/4/06**	**Tue 9/5/06**
23	**1100 Plan**	**Mon 9/4/06**	**Tue 9/5/06**
32	**Analyze**	**Mon 9/4/06**	**Fri 9/15/06**
33	**2500 Analyze Training and Performance Support**	**Mon 9/4/06**	**Fri 9/15/06**
42	**Design**	**Wed 9/6/06**	**Wed 10/18/06**
43	**3100 Design Application**	**Wed 9/6/06**	**Tue 10/3/06**
58	**3500 Design Training and Performance Support**	**Thu 9/7/06**	**Wed 10/18/06**
68	**Build**	**Wed 10/4/06**	**Thu 12/7/06**
69	**4100 Build Application**	**Wed 10/4/06**	**Thu 12/7/06**
78	**4500 Build Training and Performance Support**	**Wed 10/4/06**	**Tue 10/31/06**
85	**Test**	**Fri 12/8/06**	**Thu 2/1/07**
86	**5100 Test Application**	**Fri 12/8/06**	**Thu 2/1/07**
93	**5300 Test Technical Architecture**	**Fri 12/8/06**	**Fri 12/8/06**
97	**5500 Test Training and Performance Support**	**Fri 12/8/06**	**Fri 12/15/06**
102	**Service Introduction**	**Fri 2/2/07**	**Thu 2/8/07**
103	**1900 Service Introduction**	**Fri 2/2/07**	**Thu 2/8/07**
110	**Deploy**	**Fri 2/9/07**	**Thu 3/8/07**
111	**6100 Deploy**	**Fri 2/9/07**	**Thu 3/8/07**
130	**Forecasting**	**Mon 9/4/06**	**Thu 3/8/07**
131	**Plan**	**Mon 9/4/06**	**Tue 9/5/06**
132	**1100 Plan**	**Mon 9/4/06**	**Tue 9/5/06**
141	**Analyze**	**Mon 9/4/06**	**Fri 9/15/06**
142	**2500 Analyze Training and Performance Support**	**Mon 9/4/06**	**Fri 9/15/06**
151	**Design**	**Wed 9/6/06**	**Wed 10/18/06**
152	**3100 Design Application**	**Wed 9/6/06**	**Tue 10/3/06**
167	**3500 Design Training and Performance Support**	**Thu 9/7/06**	**Wed 10/18/06**
177	**Build**	**Wed 10/4/06**	**Thu 12/7/06**
178	**4100 Build Application**	**Wed 10/4/06**	**Thu 12/7/06**
187	**4500 Build Training and Performance Support**	**Thu 10/19/06**	**Wed 11/15/06**
194	**Test**	**Fri 12/8/06**	**Thu 2/1/07**
195	**5100 Test Application**	**Fri 12/8/06**	**Thu 2/1/07**
202	**5300 Test Technical Architecture**	**Fri 12/8/06**	**Fri 12/8/06**
206	**5500 Test Training and Performance Support**	**Fri 12/8/06**	**Fri 12/15/06**
211	**Service Introduction**	**Fri 2/2/07**	**Thu 2/8/07**
212	**1900 Service Introduction**	**Fri 2/2/07**	**Thu 2/8/07**
219	**Deploy**	**Fri 2/9/07**	**Thu 3/8/07**
220	**6100 Deploy**	**Fri 2/9/07**	**Thu 3/8/07**
239	**Gas Supply**	**Mon 9/4/06**	**Thu 3/8/07**
240	**Plan**	**Mon 9/4/06**	**Tue 9/5/06**
241	**1100 Plan**	**Mon 9/4/06**	**Tue 9/5/06**
250	**Analyze**	**Mon 9/4/06**	**Fri 9/15/06**
251	**2500 Analyze Training and Performance Support**	**Mon 9/4/06**	**Fri 9/15/06**
260	**Design**	**Wed 9/6/06**	**Tue 10/17/06**
261	**3100 Design Application**	**Wed 9/6/06**	**Tue 10/3/06**
276	**3500 Design Training and Performance Support**	**Wed 9/6/06**	**Tue 10/17/06**
286	**Build**	**Wed 10/4/06**	**Thu 12/7/06**
287	**4100 Build Application**	**Wed 10/4/06**	**Thu 12/7/06**
296	**4500 Build Training and Performance Support**	**Wed 10/4/06**	**Tue 10/31/06**
303	**Test**	**Fri 12/8/06**	**Thu 2/1/07**
304	**5100 Test Application**	**Fri 12/8/06**	**Thu 2/1/07**
311	**5300 Test Technical Architecture**	**Fri 12/8/06**	**Fri 12/8/06**
315	**5500 Test Training and Performance Support**	**Fri 12/8/06**	**Fri 12/15/06**
320	**Service Introduction**	**Fri 2/2/07**	**Thu 2/8/07**
321	**1900 Service Introduction**	**Fri 2/2/07**	**Thu 2/8/07**
328	**Deploy**	**Fri 2/9/07**	**Thu 3/8/07**
329	**6100 Deploy**	**Fri 2/9/07**	**Thu 3/8/07**



Project Organization and Staffing

We will utilize an experienced project team to support this Project. The proposed Project organization structure is shown below:



Ross Tokmakian will provide overall Accenture oversight for the Accenture deliverables in his role as Terasen Gas Client Partner. Al Ytsma will provide oversight for the KnowledgeTech team and deliverables.

The team will consist of resources that have extensive experience with unbundling, customer choice, competitive retail markets, gas transportation, and/or large systems integration/implementation.

Input and participation from Terasen Gas is critical to the success of the Project. Terasen Gas will provide resources necessary to support overall project management, issue resolution, the timely sign-off of deliverables, and to resolve questions and issues related to implementation execution. A description of the Project Team roles and responsibilities is provided in the Roles and Responsibilities Matrix.[4]

[4] See Appendix C: Roles and Responsibilities Matrix

Project Fees and Expenses

Accenture and KnowledgeTech Consulting fees, expenses and payment terms will be sent to Terasen in separate letters.

Assumptions

The following are some of the assumptions and expectations that have been used to develop this Proposal. Deviation from the assumptions could cause changes to the Project schedule, fees and expenses, deliverables, and level of effort required to execute the Project.

- The scope of this Project as defined in the Process Maps and Business Process Impact Documents shall remain unchanged unless agreed upon by both parties in writing. Any changes will be managed through the procedures as outlined in the Scope Change Control Procedure section of the Proposal.
- Standard templates for deliverables will be used by all project teams.
- All new business requirements for Residential Unbundling will apply to all new and existing Commercial customers except for portability.
- The applications will have maximum configurability to accommodate the addition of customers, entry dates, regions, rate classes, etc.
- The Marketer Toolkit and the Front End Enrollment Processor (FEEP) will be retired.
- If it is necessary to limit the number of enrollments for a given entry date, Terasen will have the ability to move the enrollment deadline forward.
- The Project will be scalable and designed to accommodate unbundling for all of Terasen's customers.
- The system will be built and performance tested to accommodate up to 100,000 new enrollments per month.
- The implementation of the Project is based on version 6.4 of the Peace Energy CIS System ("Peace"). [5]
- Enrollment and Forecasting data will be available for analysis via Terasen's existing adhoc query and reporting tools.
- The costs associated with Bill Print modification are assumed to be minimal and are not included in the Build Estimate.
- The costs associated with Confirmation Letter Printing are assumed to be minimal and are not included in the Build Estimate. Vendor selection will not be restricted to the existing Print Provider.
- The Project is based on the market rules under which the Residential Commodity Unbundling program will be operated as outlined in Terasen Gas' recommendation to the Commission dated December 9, 2005 entitled "Terasen Gas Inc. Residential Unbundling – Business Model and Key Business Rules (FINAL)"[6]

[5] See Appendix F: Implementation on Peace 6.4

[6] See Appendix G: Terasen Gas Inc. Residential Unbundling – Business Model and Key Business Rules (FINAL)

- Further regulatory workshops and proceedings will seek to refine and confirm the details of these market rules, but will not substantially alter the market structure.
- Education planning and delivery to support Unbundling for third parties, including Customers, Marketers, the BCUC, and Customer Care, will be the sole responsibility of Terasen Gas.
- All Technical Infrastructure required to support development, testing, and operations is to be provided by Terasen Gas with the exception of technical infrastructure supported by ABSU.
- Terasen Gas will provide facilities and support logistics (workspace, PC, phone, internet access, printers, e-mail, network file storage, etc.) for the Project Team. We assume that the ABSU team will work in downtown Vancouver and the Gas Supply, Forecasting, and PMO teams will work at the Surrey facility.
- Terasen Gas will provide the Project Team with access to Terasen Gas personnel sufficient for the Project Team to fulfill its obligations. [7] Terasen Gas resources will be available to support the Project in a timely manner.

<u>Scope Change Control Procedure</u>

The scope of this Project is to deliver the systems and processes defined during the scoping phase and sanctioned by Terasen Gas, as documented in the Process Maps, Business Process Impact Documents, Design Approaches, Interface Specifications[8] and Business Rules. [9] Any deviation to the scope during implementation of the Project can impact the schedule, fees, expenses, and O & M estimates outlined in this Proposal and will be managed through scope change control procedures.

The scope change control process will ensure that all changes to sanctioned requirements are identified, controlled, consistently handled, and traced throughout the system development lifecycle. The purpose of the scope change control process is to:

1. Provide a defined process for managing changes to requirements.
2. Provide guidelines for approving and escalating changes to requirements.
3. Provide an audit trail of changes to requirements.
4. Document and agree upon changes in work effort.
5. Document and agree upon changes in financial agreements.

<u>O&M Related Risks:</u>

- Under the current tariff structure, the setup of tariffs (new marketer groups), and the testing thereof is labor intensive. There will be an impact on the existing manual process by the increased number of marketer groups expected. With the increase in the number of entry dates (monthly instead of quarterly) it may be difficult to meet existing marketer group setup service levels.

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[7] See Appendix C: Roles and Responsibilities Matrix
[8] See Appendix A: Residential Unbundling Scoping Project Deliverables
[9] See Appendix G: Terasen Gas Inc. Residential Unbundling – Business Model and Key Business Rules (FINAL)

    - Though this number is low there is a potential risk if the estimated growth of marketer groups exceeds expectations.
- Increased number of marketer groups requires the 'Print Provider' to make setup changes. There will be an impact on the existing manual process by the increased number of marketer groups expected.
    - Though this number is low there is a potential risk if the estimated growth of marketer groups exceeds expectations.
- Any issues that may exist with the current finance process may be by compounded by the expected increase in marketer groups and unbundled customers.

Project Related Risks:

- The design will be based on Peace 6.4 but would be such that an upgrade to Peace 8 would not significantly alter the design. A loosely-coupled design between the enrollment database and Peace allows for the core enrollment process to be handled outside of the Peace application while making use of existing core Peace functionality that exists in both versions of Peace.
    - The design removes the impact of the version of Peace being utilized and allows for minimal impact to existing daily processing. Residential Unbundling could potentially require additional 'fortification' investment to maintain required performance levels on Peace 6.4. This can be better assessed after the TGVI Go Live.
- If the decision to execute Peace 6.4 Fortification or Peace 8 Implementation is carried through, the timing of those projects may impact the initial entry date for the Residential Unbundling Program.
    - The pricing for project start dates other than the optimal date of September, 2006 has contingency dollars factored in to allow Accenture and KnowledgeTech to mitigate the potential impacts on project timing caused by the sequencing of these activities.
    - A Peace 8 implementation will require additional product, integration and regression testing that will be part of any such plan to upgrade the CIS platform.
- There are potential risks involved with the conflicts that may arise from impacts from other major IT projects Terasen has under consideration.
    - Based on the project schedule Terasen provided and to minimize impacts to the Project, the optimal Project time frame is September 2006 – March 2007.

The following is a summary of possible impacts from our understanding of other major IT Terasen Projects: [10]

1. **Replace MobileUP Application** (December 2006 – June 2007)
    - This project has impacts to Peace interfaces that do not have impacts to Unbundling.
    - This project may impact the capacity of the limited test environment, although the testing phases should not overlap.

2. **Single Regulatory Construct (Postage Stamp Rates)** (January 2007 – January 2008)

[10] Project Dates other than that of the Project are estimated based on conversations with Terasen and are subject to confirmation.

- This project may impact the capacity of the limited test environment.
- If the tariff structure is changed by this project, the Unbundling design will be impacted.
- This project could potentially have far reaching impacts across a number of systems and their underlying information. These changes could have significant impacts on Unbundling and would need to be analyzed to determine the impact on Unbundling. This Unbundling proposal is subject to significant revision if a Single Regulatory Construct model were to be pursued prior to, or in parallel with Unbundling.

3. **Electronic Application for Supply** (Channel Energy Project) (Time frame unknown)
   - There may be a possible testing impact with the potential of an Unbundling offering.
   - This project may be carried out in parallel with the Project.

4. **E-Bill (Remittance)** (Channel Energy Project) (Time frame unknown)
   - There may be a possible testing impact with the potential of an Unbundling offering.
   - This project may be carried out in parallel with the Project.

5. **Peace 8 Implementation** (June 2006 – June 2007)
   - If Peace 8 is to be implemented, the Project can be carried out in parallel but the start date of the Residential Unbundling Project must be staggered until the design component of the Peace 8 Implementation is complete. It is anticipated that changes to Unbundling would be minimal, but this is dependent upon how Peace 8 is ultimately implemented. Cost increases due to deviations from existing designs would be incorporated in the implementation estimate and proposal for the Peace 8 upgrade.

6. **Peace 6.4 Fortification** (May 2006 – August 2006)
   - There are no Project impacts assuming there are no changes to the core functionality of Peace 6.4.
   - If Peace 6.4 Fortification is to take place, the Project should take place after Peace 6.4 Fortification is complete so there is no overlapping in testing.

7. **Other Peace Maintenance Releases** (April 2006 – May 2006; August 2006 – October 2006; October 2006 – December 2006; January 2007 – April 2007; July 2007 – October 2007; October 2007 – January 2008)
   - Scheduled testing with Unbundling will be concurrent with Peace Maintenance Releases.

8. **SAP/ERP Upgrade (**July 2007 – January 2008)
   - There are no known impacts to the Unbundling Project.

9. **Finance Calculation (**June 2006 – August 2006)
   - There are no known impacts to the Unbundling Project.

10. **Measurement (**Time Frame unknown)
    - There are no known impacts to the Unbundling Project.

Please see **Appendix H** for an illustration of Terasen Project Timelines.

Design Summary

The Residential Unbundling Design as detailed in the business rules, business processes and system design will provide a robust platform upon which to launch the Unbundling Program. Careful attention to these details will provide benefits to all stakeholders. The benefits of the design are summarized as follows:

For Customers

- Choice
  - The ability to move from one Marketer to another, or from Terasen to a Marketer, at anytime is managed with the implementation of ESM Fees and Stranded Cost Recovery.
  - The printing of 'Evergreen' Messages on the Customer bill 60 to 120 days prior to the contract end date reminds customers of their contract renewal choices.
- Protection
  - The mailing of Confirmation Letters regarding pending enrollments gives Customers the visibility of the pending change.
  - The use of a 10 day 'Cooling Off' Period gives Customers the ability to cancel pending enrollments easily if they have had second thoughts.
  - The implementation of a consistent Independent Dispute Resolution Mechanism enables the rapid BCUC resolution of any issues between Customers and Marketers.
- Customer Satisfaction
  - The automated enrollments processing methodology provides a reduced enrollment turnaround time.
  - The consistent Disputes process reduces resolution time.
- Effortless Relocation
  - Portability will be implemented so that Customers who move from one eligible premise to another will automatically be enrolled with the same Marketer, or be re-enrolled if they move back to an eligible premise within the contract period.

For Marketers

- Fairness
  - The enhanced reporting and validation processes allow Marketers to make informed decisions.
  - The adoption of the Independent Dispute Resolution Mechanism provides consistent and rapid Dispute resolution.
  - The communication of potential ESM Fees related to pending enrollments, and the requirement for acknowledgement of this, eliminates unplanned 'poaching'.
- A Competitive Environment
  - This is assisted by a reduction in the Enrollment Deadline from 60 to 30 days.
  - The implementation of monthly instead of quarterly Entry Dates allows Marketers to be more responsive to Customer needs.
- Reduced Sales Costs

  - The implementation of 'Portability' means that Customers moving from one eligible premise to another will remain enrolled with no action required from the Marketer.
  - Evergreen renewals - at the expiry of a contract Customers will automatically be re-enrolled for one year, unless they request not to be, with no action required from the Marketer.
- Efficiency
  - Automated Enrollments Processing – the implementation of automated and real-time error handling will speed up the enrollments process.
  - Daily Supply Requirements – the provision of this report will allow the Marketers to make the best purchase decisions.
- Flexibility
  - The communication of ESM Fees incurred allows for Flexible Pricing and informed decision-making regarding 'poaching'.

For Terasen

- Neutrality – as Terasen remains the main contact point for Unbundled Customers it is important that they remain neutral yet responsive to customer requirements:
  - The Independent Dispute Resolution Mechanism ensures that Terasen is not dragged into disputes between Customers and Marketers, yet resolution is rapid and fair.
  - The 10-day 'Cooling Off' period allows Terasen to facilitate Customer Help Desk calls requesting cancellation of a pending enrollment.
  - The issuance of Confirmation Letters is also a communication vehicle providing status to the Customer.
  - The printing of 'Evergreen' Messages on Customer bills prior to the end of the contract allows a 'hassle-free' way for the Customer to request that Terasen return them to a standard rate.
- Efficiency
  - Automated Enrollments Processing – the implementation of automated error handling puts the onus on the Marketers and reduces the need for Terasen involvement.
  - Enhanced reporting, for the Marketers, will reduce the number of Marketer calls that need to be handled by Terasen.
- Stranded Cost Recovery
  - The implementation of ESM Fees for Marketers choosing to 'poach' another Marketer's customer at a date other than an anniversary date means that Terasen's costs will be covered.
  - The ability to accurately define the Stranded Cost for Customers choosing to leave Terasen, other than on November 1st, gives Terasen the ability to choose how to recoup those costs.
- More Accurate Information
  - Consumption – regular extracts of Billed Consumption by Premise will be provided.
  - Tariffs – ODS will receive regular extracts of tariff information and their relation to region/rate class.

The Market

- Fairness
    - The adoption of the Independent Dispute Resolution Mechanism provides consistent and rapid Dispute resolution under the control of the BCUC.
    - Program Rules – the implementation of the ESM and 'Exit' fees provide incentives for Marketers to adhere to the market rules.
- Supporting Customer Choice
    - The proposal allows customers to move between marketers, to and from the Utility, and between price points for the same marketer.
    - Portability - the proposal allows customers to maintain their Marketer contracts when they move to another eligible premise, or return to one within the contract period.
- Protection of Customers
    - The Independent Dispute Resolution Mechanism, the Confirmation Letters, the 'Cooling-Off' Period, and the 'Evergreen' process provide this.
- Flexibility
    - Marketer behaviour can be controlled via configurable blocking if the BCUC believes that the 'poaching' behaviour is too aggressive.
- Competitive
    - The proposal encourages Marketer participation which increases Customer choice.
- Efficiency
    - The Enhanced Reporting means that accurate and consistent information is available, at all times, to Terasen, the Marketers, and the BCUC.

Appendix A

Residential Unbundling Scoping Project Deliverables

Process Maps and Business Process Impact Documents

	High Level Process Map	Process Map
1.0	Marketer Qualifications	Process Map | BPID
1.0A	Marketer Group Setup	Process Map | BPID
1.0D	Marketer Group Maintenance	Process Map | BPID
2.0	Customer Enrollment and Verification	Process Map | BPID
2.0B	Drops	Process Map | BPID
2.0C	Customer Contract Expiry	Process Map | BPID
2.0D	Customer Marketer Issue Resolution	Process Map | BPID
2.0E	Portability	Process Map | BPID
2.0F	Confirmation Letter	Process Map | BPID
2.0G	Cancel Enrollments	Process Map | BPID
4.0D	Forecast Supply Requirement	Process Map | BPID
5.0	Annual Contract Plan	Process Map | BPID
5.0C	Preliminary Supply Requirement	Process Map | BPID
6.0	Short Term Supply and Balancing	Process Map | BPID
6.0A	Market Governance	Process Map | BPID
6.0B	Market Failure and Sustainment	Process Map | BPID
7.0	Baseload Marketer Supply Requirements	Process Map | BPID
8.0	Marketer Settlement	Process Map | BPID
9.0	Customer Billing	Process Map | BPID
9.0B	Enrollments or Drops after Entry Date	Process Map | BPID
11.0	Customer Inquiries Related to Unbundling	Process Map | BPID
12.0	Independent Dispute Resolution	Process Map | BPID
15.0	Daily Processes	Process Map | BPID
16.0	Monthly Processes	Process Map | BPID

Clear Choices and Requirements Documents

1. 60 Day Enrollment Deadline
2. Bad Debt Reduction
3. Confirmation Letters
4. Consumer Protection, Marketer Eligibility, and Licensing Criteria
5. Contract Cancellation Procedures

Design Approaches

Interface Specifications

Appendix B

Reuse of Commercial Unbundling Systems/Technologies

One of the primary objectives of this Project is to reuse and enhance existing interfaces where possible. The following summarizes system enhancements and reuse:

- **Enrollment Interface/Customer Care**
  This design reuses approximately 60% of the existing processes and code for the Enrollment Interface and Customer Care. New development will provide the enhanced capabilities geared to automate existing manual functions to accommodate all of Terasen's customers and to ensure synchronization of data based on a single source of record for enrollment transactions and support portability and Evergreen Renewal.

- **Forecasting**
  This design reuses approximately 80% of the existing processes and code for Forecasting. New development will support enhanced functionality and reporting for premise factor calculation, summarization of contracted supply, distribution of annual supply, MSR generation and supply variance.

- **Gas Supply**
  This design reuses approximately 80% of the existing processes and code for Gas Supply. New development will support enhanced functionality and reporting for market governance, marketer failure and sustainment, marketer supply baseloading, assessment of ESM violation fees and backstopping charges and stranded cost recovery.

- **Marketer Portal**
  This design reuses approximately 80% of the existing processes and code for the Marketer Portal. New development will support enhanced functionality and reporting for dispute tracking and resolution, violations, group prices, supply variance and settlement.

Appendix C

Responsibility Matrix

Key:
R - Responsible (the role responsible for performing the task)
A - Accountable (the role with overall responsibility for the task)
C - Consulted (people who provide input to help perform the task)
I - Keep Informed (people with a vested interest who should be kept informed)

Responsibility Matrix				
Stage	**Deliverable Name**	**Accenture**	**KTC**	**Terasen**
Project Management	Project Staffing Report	R	R	I
	Project Status Report	R	A	I
	Resource Plan	R	R	I
	Team Status Report	R	R	I
	Work Plan	R	R	I
Plan	Delivery Strategy	R	A	I
	Review Summary	R	A	I
	Sponsor Goals and Expectations	R	A	C
Analyze	Organization Impact Assessment	R	R	C
	Performance Assessment	R	R	I
Design	Class and Stored Procedure Design	R	R	I
	Class Definition	R	R	I
	Data Conversion Design	R	R	I
	Interaction Diagram	R	R	I
	Job Description	R	R	C
	Job Design	R	R	I
	Logical Data Model	R	R	I
	Requirements Traceability Matrix	R	A	I
	Site Map	R	R	I
	Training Design	R	R	C
	Use Case Model	R	R	I
	User Interface Standards	R	R	C
	User Interface Wireframe	R	R	C
Build	Communication Materials	R	R	C
	Organization Transition Materials	R	R	C
	Page Template	R	R	I
	Performance Support Materials	R	R	I
	Physical Data Model	R	R	I
	Test Plan	R	R	C
	Training Evaluation	R	R	I
Test	Common Test Data	R	A	I
	Integration Test Results	R	A	I
	Performance Test Results	R	A	I
	Training Materials	R	R	C
	User Acceptance Test Results	R	R	C
Service Introduction	Service Introduction Plan	R	A	C

Responsibility Matrix				
Stage	**Deliverable Name**	**Accenture**	**KTC**	**Terasen**
	Support Requirements Matrix	R	A	C
	Unit Readiness Status Report	R	A	I
Deploy	Contingency Plan	R	A	I
	Deployment Plan	R	A	I
	Handover Documents	R	R	I
	Migration Procedures	R	A	I

Appendix D

Build Estimate

The workday estimates provided in this proposal were built from a bottom-up estimating model based on the Accenture Delivery Methods which have been utilized in more than 10,000 projects delivered by Accenture across the world over the past 10 years. There are over 150 RICEF (Reports, Interfaces, Conversions, Extensions, and Forms) items, each of which were identified during the scoping phase and assigned a complexity factor. The inventory with the associated complexity of the core RICEF components are used as the basis upon which standard design, test, human performance, deployment and production support workdays are applied to the tasks.

The level of detail in the "high level of designs" produced during the scoping phase allowed the team to minimize the "unknowns" and thus, drive the overall cost and contingency reserves to a minimum while providing Terasen with a highly automated, easy to use solution.

Build Estimate Breakdown by System

Type	Name	New/ Modified	Complexity
Enrollments Database (ED)			
Conversion	Enrollments DB	n/a	Complex
External Interface	INT_ED_NSS_ER_c1& INT_ED_NSS_ER_c2	Modified	Simple
	INT_ED_NSS_ODS_ED_a	Modified	Medium
	INT_ED_PRINTPROVIDER_CONFLETTER	New	Simple
	INT_NSS_ED_DISP_STATUS	Modified	Simple
	INT_NSS_ED_ER_b	Modified	Simple
Stored Procedures	createCascadingTransactions	New	n/a
	CreateEnrollmentData	Modified	n/a
	createExternalReference	New	n/a
	createRetroactiveChangePTJ	Modified	n/a
	createValidationRecords	Modified	n/a
	deleteEnrollmentRequestLoadData	Modified	n/a
	deleteInvalidRateSwitch	New	n/a
	Generate Confirmation Letters	New	n/a
	loadApplicationForService	New	n/a
	loadCoolOffCancelationRequest	New	n/a
	loadDisputeResolutionEnrollDropCancel	New	n/a
	loadFinalReadsDrops	New	n/a
	loadMarketerInputFiles	New	n/a
	loadStableRateDropPTJ	Modified	n/a
	loadStableRateEnrollPTJ	New	n/a
	unloadCustomerUsage	Modified	n/a
	unloadEnrollmentDetailsExtract	Modified	n/a
	unloadResponseExtract	Modified	n/a
	updateCancelTransactions	New	n/a

Type	Name	New/ Modified	Complexity
	updateEnrollmentCoolOffPTJ	Modified	n/a
	updateEnrollmentEndDates	Modified	n/a
	updateEnrollmentStatus	Modified	n/a
	updateESMDelta	New	n/a
	updateInvalidRequests	Modified	n/a
	updateResponseCodes	New	n/a
	uploadeResponse24MonthHistory	Modified	n/a
	validateCustomer	Modified	n/a
	validateCustomerAtService	Modified	n/a
	validatePremise	Modified	n/a
	validateRate	Modified	n/a
	validateService	Modified	n/a
Forecasting Information System (FIS)			
External Interfaces	INT_FIS_GS_MSR	Modified	Simple
Reports	Actual MSR Report Criteria	New	Medium
	Annual Contract Supply Criteria	Modified	Simple
	Annual Contract Supply Extract	New	Simple
	Forecast Enrollment Details	New	Simple
	MSR Details by Marketer	New	Medium
	MSR Summary by Marketer	New	Medium
	ODS Reporting	Modified	Simple
	Supply Details by Premise	New	Medium
	Supply Summary	New	Medium
Stored Procedures	AllocateForecastSupplyToVirtualPremise	Modified	n/a
	CalculateActualMonthlyUseRate	Modified	n/a
	CalculateAnnualAccountGrowthND	Modified	n/a
	CalculateAnnualSupplyGrowthND	Modified	n/a
	CalculateContractYearUseRateND	Modified	n/a
	CalculatePremiseFactor	Modified	n/a
	CalculateSupplyToDistributeND	Modified	n/a
	CalculateTotalAnnualConsumption	Modified	n/a
	Determine New Premises	New	n/a
	DistributeSupplyToPremiseD	Modified	n/a
	DistributeSupplyToPremiseND	Modified	n/a
	GetActivePremises	New	n/a
	GetAnnualContractSupplyD	Modified	n/a
	GetAnnualContractSupplyND	New	n/a
	GetConsumptionHistoryForActivePremises	Modified	n/a
	GetMonthlyAccountsND	Modified	n/a
	UpdateMissingConsumptionHistory	Modified	n/a
	UpdatePremiseSupply	Modified	n/a
Gas Supply			
External Interfaces	INT_FIS_GS_MSR	Modified	Simple
GEM			
External Interfaces	INT_GEM_NSS_DISP_a1	Modified	Simple
	INT_GEM_NSS_DISP_a2	Modified	Simple
	INT_GEM_NSS_ER_a	Modified	Simple

Type	Name	New/ Modified	Complexity
	INT_NSS_GEM_CU	Modified	Simple
	INT_NSS_GEM_DISP_b1	Modified	Simple
	INT_NSS_GEM_DISP_b2	Modified	Simple
	INT_NSS_GEM_ED_a	Modified	Simple
	INT_NSS_GEM_ER_d1 & INT_NSS_GEM_ER_d2 (INT_NSS_GEM_ER_d)	Modified	Simple
	INT_NSS_GEM_MktrGroupPrice	Modified	Simple
	INT_NSS_GEM_MS	Modified	Simple
	INT_NSS_GEM_SV	Modified	Simple
Reports	Governance Summary - (2 views) Marketer View, Activity View	New	Simple
	Marketer Group Prices Screen	New	Simple
	Marketer Settlement Report (2 views)	New	Simple
	Marketer Transactions Screen	New	Complex
	Supply Variance Report (2 views - NSS, GEM)	New	Simple
NSS			
Conversions	NSS	n/a	Complex
External Interfaces	INT_ED_NSS_ER_c1 & INT_ED_NSS_ER_c2 (INT_ED_NSS_ER_c)	Modified	Simple
	INT_ED_NSS_ODS_ED_a	Modified	Medium
	INT_GEM_NSS_DISP_a1	Modified	Simple
	INT_GEM_NSS_DISP_a2	Modified	Simple
	INT_GEM_NSS_ER_a	Modified	Simple
	INT_NSS_ED_DISP_STATUS	Modified	Simple
	INT_NSS_ED_ER_b	Modified	Simple
	INT_NSS_GEM_CU	Modified	Simple
	INT_NSS_GEM_DISP_b1	Modified	Simple
	INT_NSS_GEM_DISP_b2	Modified	Simple
	INT_NSS_GEM_ED_a	Modified	Simple
	INT_NSS_GEM_ER_d1 & INT_NSS_GEM_ER_d2 (INT_NSS_GEM_ER_d)	Modified	Simple
	INT_NSS_GEM_MktrGroupPrice	Modified	Simple
	INT_NSS_GEM_MS	Modified	Simple
	INT_NSS_GEM_SV	Modified	Simple
	INT_NSS_ODS_MG	Modified	Simple
	INT_NSS_PEACE_SC	Modified	Simple
	INT_PEACE_NSS_CU	Modified	Medium
	INT_PEACE_ODS_NSS_Tariff	Modified	Complex
Reports	Customer Dispute Detail	New	Medium
	Customer Disputes	New	Medium
	Governance Summary - (2 views) Marketer View, Activity View	New	Simple
	Log Customer Dispute	New	Medium
	Marketer Settlement Report (2 views)	New	Simple
	Submit BCUC Ruling	New	Medium
	Supply Variance Report (2 views - NSS, GEM)	New	Simple
	Unbundling Charge Administration Screen	New	Medium

Type	Name	New/ Modified	Complexity
Stored Procedures	dropAllMktrTransactions	Modified	n/a
ODS			
Conversions	Debtor Data Conversion	n/a	Complex
External Interfaces	INT_DEBTOR_PEACE_ODS	Modified	Simple
	INT_NSS_ODS_MG	Modified	Simple
	INT_PEACE_ODS_BCR	Modified	Complex
	INT_PEACE_ODS_NSS_Tariff	Modified	Complex
	INT_PREMISE_PEACE_ODS	Modified	Simple
Reports	Billed Consumption by Premise	New	Simple
Stored Procedures	Automate the ODS Data Loads (6)	Modified	n/a
	Forecast Enrollment Details	New	n/a
	Generate Forecasted MSR	New	n/a
	Monitor New Premises (bucket)	Modified	n/a
Peace Energy			
Conversions	Charge Type Mapping	n/a	Complex
	Convert all current delivery tariffs	n/a	Complex
	SplitCommodityandMidstream	n/a	Complex
	Update 'enddates' for Evergreen	n/a	Simple
External Interfaces	INT_DEBTOR_PEACE_ODS	Modified	Simple
	INT_NSS_PEACE_SC	Modified	Simple
	INT_PEACE_NSS_CU	Modified	Medium
	INT_PEACE_ODS_BCR	Modified	Complex
	INT_PEACE_ODS_NSS_Tariff	Modified	Complex
	INT_PREMISE_PEACE_ODS	Modified	Simple
Stored Procedures	Change ABSU tariff setup process	New	n/a
	completeRate23PTJ	Modified	n/a
	createBillMessageEvergreen	New	n/a
	createDisputePTJ	Modified	n/a
	createEnrollmentCoolOffPTJ	Modified	n/a
	createPeaceTariffChange	New	n/a
	createRate23PTJ	New	n/a
	createStableRatePTJ	Modified	n/a
	loadComplaintPTJ	New	n/a
	loadRate23PTJ	Modified	n/a
	ProcessOneTimeCharges	New	n/a
	updateComplaintPTJ	Modified	n/a
	updateDisputePTJ	Modified	n/a
	updateRetroactiveChangePTJ	Modified	n/a
Print Provider			
External Interfaces	INT_ED_PRINTPROVIDER_CONFLETTER	New	Simple
Reports	AddMarketerContactInformationToBill	Modified	Simple
	AddPremiseNumber	Modified	Simple
	InvoiceChange	Modified	Simple
	PrintProviderSetup	Modified	Simple
	SplitCommodityandMidstream	Modified	Simple

Appendix E

O&M Estimate

Appendix F

<u>Implementation on Peace 6.4</u>

Version 6.4 of Peace will be used as the baseline for implementing this Project. Residential Unbundling will use existing 6.4 core functionality to:

- Provide Terasen customer service representatives (CSRs) with visibility to Unbundling activity and notification of manual intervention requirements via process tracking jobs.
- Provide Terasen CSRs with visibility to past/current/future enrollment status via external reference functionality.
- Effect changes to/from marketer commodity prices via tariff change functionality.
- Recoup stranded cost charges via special charge functionality.

This core functionality is supported in subsequent version releases of Peace, however, analysis will need to be performed in regards to accommodating Unbundling requirements in a future version release.

Appendix G

Key Business Rules

RESIDENTIAL UNBUNDLING
BUSINESS MODEL AND KEY BUSINESS RULES

INTRODUCTION

In developing the proposed Residential Unbundling framework and business rules, Terasen Gas utilized the nine Guiding Principles endorsed by the Commission in letter L-73-05 dated September 7, 2005. The Guiding Principles as outlined below provided the basis to shape the development of the proposed framework.

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 desired objective. Ideas mentioned include educational efforts jointly funded by Gas Marketers and Terasen Gas to promote efficient use of natural gas in new construction. Terasen Gas believes that an appropriate Residential Unbundling framework requires a solid foundation, one in which the primary participants, the gas customers, Terasen Gas and Gas Marketers, have a common interest in ensuring that demand for natural gas from end use customers remains an affordable energy choice.

In addition to the above noted guiding principles, Terasen Gas wishes to re-emphasize that key principles inherent in its Price Risk Management Plan today and that will continue in a Residential Unbundling environment are fundamental in ensuring that natural gas is positioned effectively and remains a competitive energy choice in the future. The key principles, and associated actions, are that they should 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.

In determining the proposed framework and business rules, Terasen Gas was also mindful of systems and processes required to support the administration of the framework. Key system and process considerations include automating processes where possible, supporting customer mobility in exercising commodity choice, supporting flexibility in pricing options offered to customers, providing an overall cost effective solution, and ensuring cost-causality in attributing and recovering costs associated with the Unbundling program.

Automation of processes where possible will be critical to delivering a solution that can effectively support the higher volume of customers and transactions along with the added features (i.e. portability, prevention of poaching) required for Residential Unbundling. Customer mobility in exercising commodity choice is desired as it is an integral part of consumer protection. Terasen Gas believes facilitating as much customer mobility as possible is integral to fostering an informed and effective marketplace. Providing customers the ability to choose is subject to being accountable for the choices they elect. Flexibility in pricing options is a desire expressed by some Gas Marketers to date, as it provides greater flexibility to allow a Gas Marketer to negotiate and structure a suitable gas arrangement for a specific customer.

In developing the proposed framework and business rules, Terasen Gas was particularly mindful of the desire to provide a cost effective solution, given the Commission's concern about the significance of the costs for implementing Residential Unbundling that was outlined in the letter dated October 31, 2005, approving Terasen Gas' request for additional deferral funding. In that letter, the Commission commented that "*However if the projected target market for the Residential Unbundling Program is only a very small portion of the potential market, and the cost analysis indicates a significant expenditure is necessary to modify the Terasen Gas customer information system, then justification of this Program must be reassessed*." To help address concerns about the potential of significant program costs, Terasen Gas believes following a cost-causality principle where program costs are recovered from part(ies) who cause program costs is warranted. These costs should be recovered from both the Gas Marketer that enrols a customer and the enrolled customer where appropriate.

Terasen Gas believes following such a cost-causality guideline (i.e. user pay system) is important in delivering a cost-effective solution where the incremental costs beyond that required for the core system requirements is borne by those part(ies) that benefit from the exercising of commodity choice. By paying for program costs directly caused by them, Gas Marketers will be in a better position to make proper economic decisions in support of ensuring a sustainable Residential Unbundling program. For customers that elect to exercise commodity choice, they will be able to make more informed commodity purchase decisions, as they weigh the benefits of commodity choice to its "true" costs (i.e. including incremental costs). Furthermore, those customers that elect to not exercise commodity choice will not be unfairly burdened with the costs of a program from which they received no benefit.
In scoping the solution for Residential Unbundling, Terasen Gas will be specifying system and process requirements to support the adoption of the cost-causality principle for program cost recovery. By having the necessary systems and processes in place, the solution for Residential Unbundling will support the Commission's decision on appropriate cost recovery. However, the Commission retains the right to determine which costs ought to be covered and how recovered costs are to be treated in the initial roll-out of the Residential Unbundling program.

Following is Terasen Gas' recommendations on the proposed business rules and framework for Residential Unbundling. Terasen Gas believes it has developed a framework that is balanced, recognizing the differing needs of stakeholders and providing a solid foundation on which to build a sustainable and cost-effective Residential Unbundling program. Where applicable and possible, the intent is to have a common set of business rules for both the Commercial and Residential Unbundling programs.

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 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. The requirement for Gas Marketers to be licensed is outlined in the Commission's document titled "Rules for Gas Marketers". In addition to licensing requirements, the document outlines requirements for agreements between the customer and the marketer and complying with the Code of Conduct for Gas Marketers. 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.

A review of the existing Code of Conduct for Gas Marketers will be required to reflect any changes necessary to support Residential Unbundling. Changes identified to date to include introducing language outlining "portability" provisions of customer contracts; and rewording of Article 20 which currently states "A Salesperson shall not induce any Consumer to breach a contract with another Gas Marketer" to include additional language specifying a Gas Marketer must bring to the attention of the customer to check for possible early termination fees if the customer decides to leave a Gas Marketer for another Gas Marketer before the end of the original contract term. At the suggestion of Gas Marketers, Terasen Gas will be reviewing the feasibility of accepting electronic signatures for contracts and possibly incorporating relevant language into the Code of Conduct for Gas Marketers.

Further, Terasen Gas proposes for consideration by the Commission and stakeholders a review of the existing performance bonding requirements. Currently, the performance bonding requirement is $250,000 for a Gas Marketer irrespective of the size of their Unbundled customer base. Terasen Gas proposes a bonding requirement that increases with expansions of a Gas Marketer's Unbundled customer base (or customer volumes), reflective of the increased financial exposure to the utility or customers that could be harmed by a Gas Marketer's actions.

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.

In situations where customers are still not satisfied after having attempted to resolve their complaint with a Gas Marketer directly, 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. The dispute resolution process will have clearly defined rules and procedures on how complaints are logged and processed, providing customers an effective means to handle their complaints in a timely manner. To support the tracking and monitoring of the customer complaints, Terasen Gas will include in the Scoping phase a requirement for a supporting system and processes. The system and processes will be required to log the customer complaints, report on the status of complaints and decisions made and to provide summary reporting on the types and number of complaints received for each Gas Marketer. Terasen Gas believes a tracking system such as that outlined is necessary to manage customer complaints efficiently for Residential Unbundling.

The responsibility for managing and resolving customer complaints will rest with the Commission or a third party that the Commission nominates. Terasen Gas will assist the Commission in developing the independent dispute resolution process, including outlining the procedures and building the systems to manage customer complaints and identifying resources to operate the dispute resolution process. While Terasen Gas is willing to assist in the development of a dispute resolution process and support systems, it believes the dispute resolution process itself is best managed by the Commission or Commission nominated third party.

Consistent with the cost-causality principle discussed earlier where the costs of the program are attributed and recovered from the part(ies) who benefit directly from Residential Unbundling, Terasen Gas proposes that Gas Marketers be allocated a portion of the costs to operate the independent dispute resolution process in the form of a fixed monthly fee and a variable fee based on the number of complaints logged for a Gas Marketer.

In addition, 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 include 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 media 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) initially 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. In addition to the initial rollout, regular education efforts will be required to ensure an effective marketplace on an ongoing basis.

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, enrolment 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 as part of the Scoping Phase in January 2006.

- 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. Terasen Gas has reviewed the feasibility of shortening the current 60 day cut-off enrolment period to possibly 30 days. To make this work, Gas Marketers will have to reduce their current notice period from 30 days to 10 days, leaving 20 days to accommodate the 10 day cooling off period for customers and 10 days for Terasen Gas to run its processes to determine marketer delivery requirements.

• 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.

• 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. The letter will state that the customer needs to respond by a certain date should the customer elect to opt out of the contract (i.e. within the 10 day cooling off period). Terasen Gas strongly believes this is a necessary component to ensuring adequate consumer protection.

Consistent with the cost-causality principle discussed earlier where the costs of the program are attributed and recovered from the part(ies) who benefit directly from Residential Unbundling, Terasen Gas proposes that Gas Marketers be charged the incremental costs of generating and sending out the confirmation letter.

• After reviewing the portability issue further, with portability defined as the ability for an existing fixed price gas contract to be "ported" to another physical premise for the same gas customer in Terasen Gas' eligible service regions, Terasen Gas recommends that portability be a mandatory feature of a contract between a customer and a Gas Marketer. There will be no discretion, at either the gas customer's or Gas Marketer's option to not make the contract portable. The gas customer will be obligated to fulfil the gas supply agreement to the end of the contract term unless the customer elects to terminate the contract, subject to payment of termination fees to the Gas Marketer. Further work will be done in the coming weeks to identify the specific processes to support mandatory portability. The business driver for the portability feature stems from the significant amount of customer movement that occurs naturally every year where customers change account information or physically move to another premise (i.e. ~15% of residential customer base). An effective solution is required to help ensure Gas Marketer contracts are fulfilled and administered. Terasen Gas proposes portability will apply only to residential customers gas supply contracts instead of also to commercial customers, as the volume differences and gas supply impacts between one residential premise to another is much smaller than that of one commercial premise to another.

• For handling transactions 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), Terasen Gas recommends an enrolment validation routine where the enrolment request submitted by the second Gas Marketer be accepted. This approach would provide customers the ability to change their mind but yet still be accountable for the results of their choice. The customer will receive a new confirmation of the most recent transaction advising they need to contact the first Gas Marketer concerning payment of any cancellation fees. Both Gas Marketers will also be sent an electronic notice of the "switch" transaction. To enable detection of poaching, Terasen Gas ask Gas Marketers to provide both start and end dates of the contract between the customer and the Gas Marketer in the enrolment information submitted. Terasen Gas' systems will be built with the option to turn this soft blocking approach to a hard blocking approach where a poaching transaction is rejected unless the first Gas Marketer agrees to submit a drop request. Should it be determined at a later point that a hard blocking approach is preferred, systems can easily be re-configured to hard block potential poaching transactions.

Further to tracking of contract end dates, Terasen Gas proposes to print the current contract end date on a customer's bill as a reminder. This will enable the customer to easily access the contract term end date, potentially reducing the frequency of poaching transactions occurring as the result of the customer not remembering the contract end date.

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 Terasen Gas will evaluate the current method for calculating the daily marketer delivery requirement given the higher number of transactions, 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, unbundled customers are returned to Terasen Gas as Supplier of Last Resort if these 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 for residential customers. As there is currently an allowance in Terasen Gas' operating and maintenance ("O&M") budget for bad debt expenses, Terasen Gas is willing to consider a reduction in its bad debt budget to address the issue of the bad debt being budgeted in two areas; with Gas Marketers and with Terasen Gas.

Under the recommended methodology, marketers will be charged a percentage of bad debt reduction on gross sales to their customers. This practice is consistent with that at Union Gas in Ontario where a bad debt allowance is recovered from the marketers through the levy of an administration fee. The utility would determine what the bad debt allowance should be.

11.0 <u>Program Cost Recovery</u>

For Commercial Unbundling implementation and maintenance costs are recovered from customers in rate classes eligible for the service. Annual operating costs (transactional related costs) are recovered from Gas Marketers where possible. Terasen Gas shareholders are not at risk for the costs of implementing and maintaining the service or for any assets stranded by Unbundling. Terasen Gas received confirmation from the Commission in Letter No. L-73-05 dated September 7, 2005 that its shareholders are not at risk for the costs of implementing and maintaining Residential Unbundling 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.

12.0 <u>Midstream Cost Recovery and Gas Cost Recovery</u>

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 pay for their share of 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.

Gas Marketers consulted on the exit fee issue expressed concern of the concept of an exit fee questioning its requirement and stating it would be an impediment to creating effective competition.

Considering Gas Marketers' interests, Terasen Gas still believes it is in the best interest of stakeholders to build a sustainable customer choice program following the cost-causality guideline by introducing a Customer Choice fee which is levied either directly to the customer or to the Gas Marketer when the gas customer leaves Terasen Gas' default rate offering. The Customer Choice fees collected will mitigate the stranded gas costs associated with the gas customer and potentially can be used to offset other program costs.

Terasen Gas believes that gas customers should be treated the same, whether they leave the utility for a Gas Marketer or leave a Gas Marketer for another Gas Marketer. Currently, Gas Marketers charge termination fees to customers who prematurely exit contracts in order to manage their risk. To protect customers that choose to remain with the default utility offering, Terasen Gas should be afforded the same ability to manage its risk of stranded gas costs caused by a customer leaving for another Gas Marketer,

Another issue for consideration is the requirement for a fixed price over a 12 month consecutive period in support of the Essential Services model. As discussed earlier, a fixed price over a 12 month consecutive period is critical to ensuring the appropriate reconciliation of charges collected from a Gas Marketer's customers to funds paid by Terasen Gas for gas supplied by a Gas Marketer. If the price is not fixed for a 12 month period, an opportunity for un-recovered gas costs would be created. Any unrecovered gas costs would place Terasen Gas' MCRA at risk. To address this, Terasen Gas proposes an enrolment validation routine where the system would "reject" an enrolment request that violates the 12 month fixed price rule. The rejection would be followed with a notice provided to the Gas Marketer that should they still wish to proceed with the enrollment, they will have to resubmit the enrolment request and will be levied a fee, called the Essential Services fee, by Terasen Gas. This fee would recover costs associated with violation of the Essential Services model.

Terasen Gas intends to continue to evaluate this issue and the impacts on business systems and processes, including the introduction of a Customer Choice fee for Unbundling and an Essential Services fee as part of the Scoping Phase. A decision on the exit fee issue (Customer Choice fee) and 12 month fixed price rule (Essential Services fee) can be made at a later time as part of the CPCN application. As mentioned earlier, Terasen Gas will be incorporating requirements to administer the two fees into the Scoping phase. By having the necessary systems and processes in place, the solution for Residential Unbundling will support the Commission's decision on appropriate cost recovery. The Commission retains the right to determine what is appropriate in this respect for the initial roll-out of the Residential Unbundling program.

Terasen Gas believes that with the introduction of customer mobility for Residential Unbundling, the proposed cost recovery mechanisms are warranted. 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.

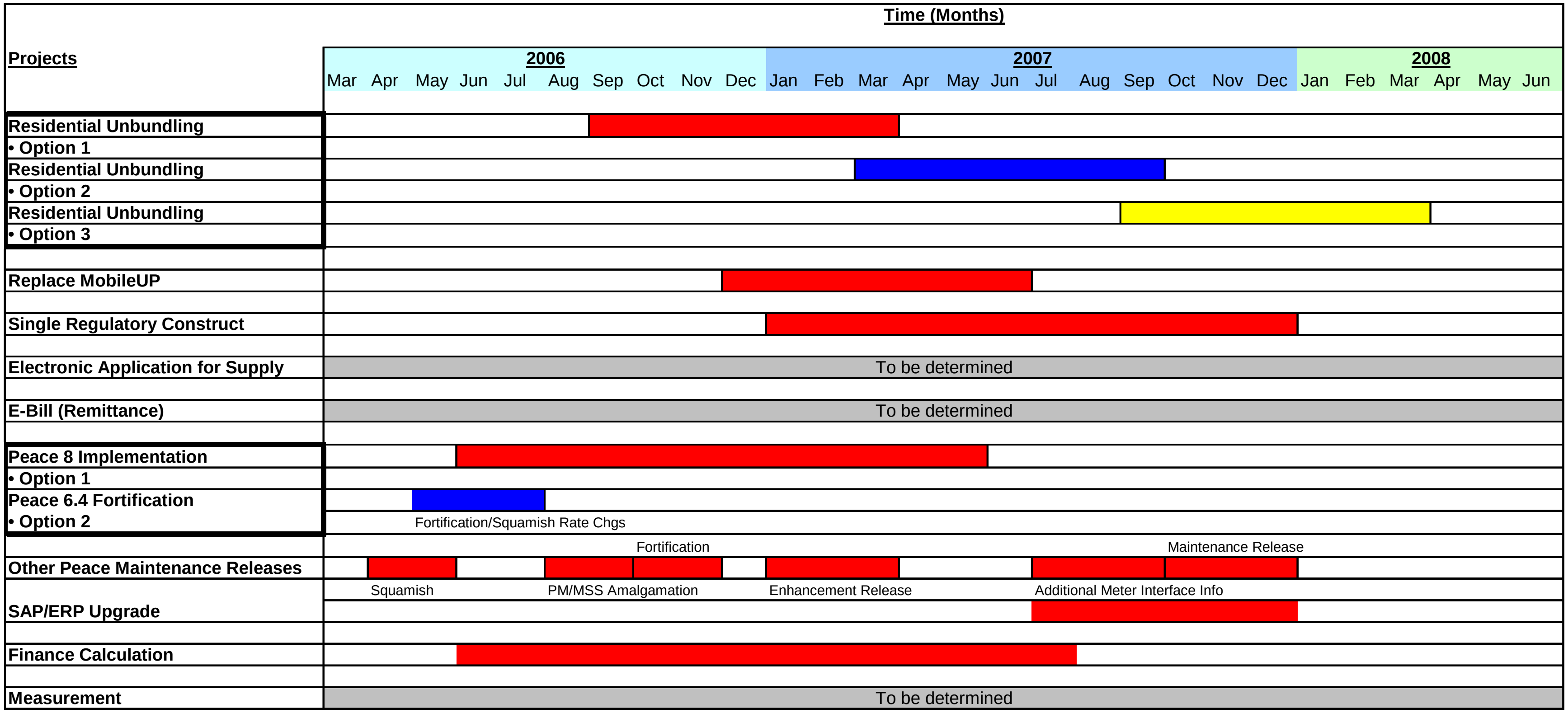
13.0 Balancing Provisions

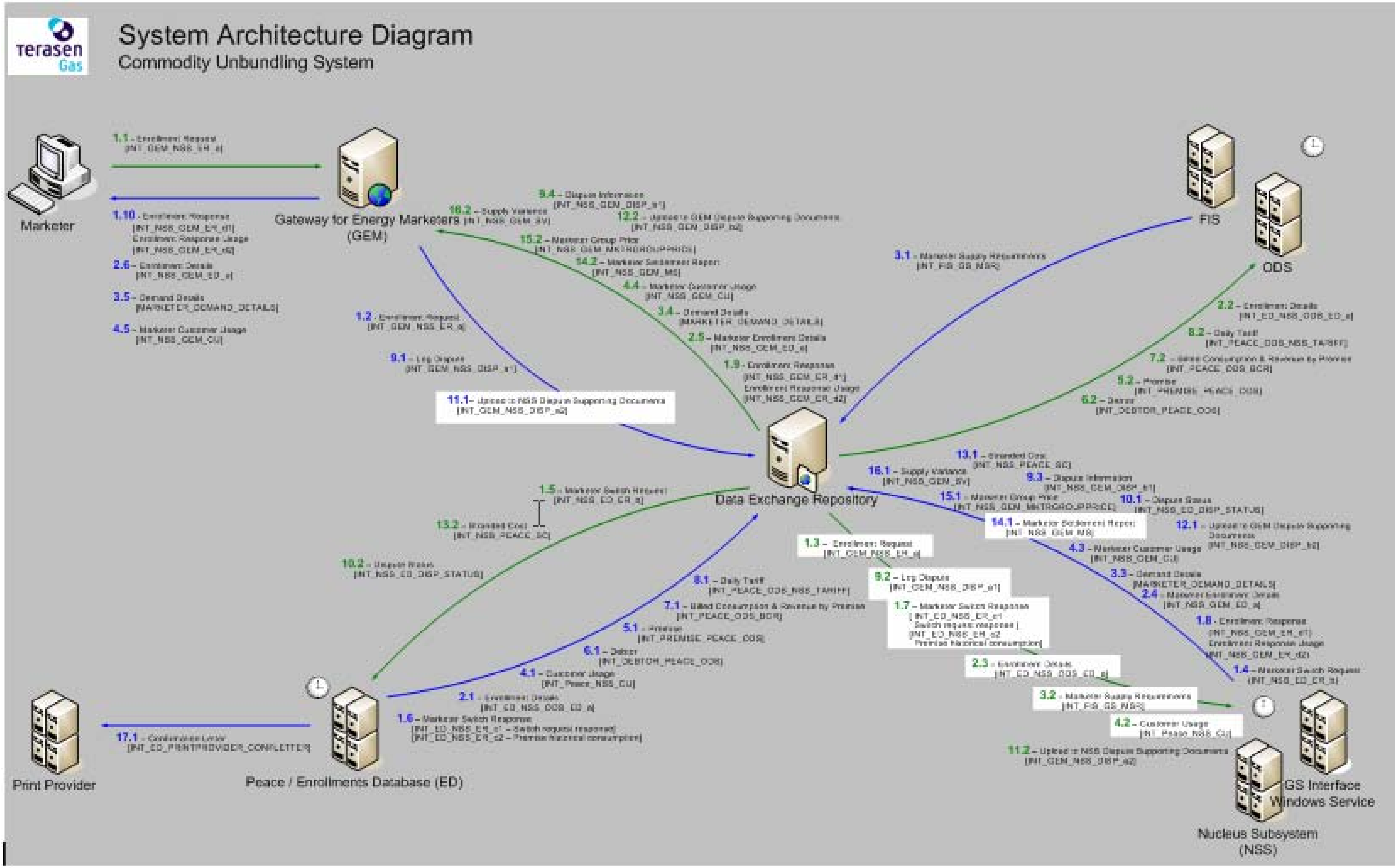
With Commercial Unbundling, the balancing provisions of the existing transportation service for industrial and large commercial customers remain unchanged.

Terasen Gas recommends no change to the above condition.

Appendix H

Terasen Project Timelines





Terasen Gas
System Architecture Diagram
Commodity Unbundling System
Marketer
Gateway for Energy Marketers (GEM)
FIS
ODS
Data Exchange Repository
Peace / Enrollments Database (ED)
Print Provider
GS Interface Windows Service
Nucleus Subsystem (NSS)
1.1 - Enrollment Request
1.10 - Enrollment Response
2.6 - Enrollment Details
3.5 - Demand Details [MARKETER_DEMAND_DETAILS]
4.5 - Marketer Customer Usage [INT_NSS_GEM_CU]
1.2 - Enrollment Request
9.1 - Log Dispute
11.1 - Upload to NSS Dispute Supporting Documents [INT_GEM_NSS_DISP_a2]
9.4 - Dispute Information
16.2 - Supply Variance
12.2 - Upload to GEM Dispute Supporting Documents
15.2 - Marketer Group Price
14.2 - Marketer Settlement Report
4.4 - Marketer Customer Usage [INT_NSS_GEM_CU]
3.4 - Demand Details
2.5 - Marketer Enrollment Details
1.9 - Enrollment Response
3.1 - Marketer Supply Requirements [INT_FIS_GS_MSR]
2.2 - Enrollment Details
8.2 - Daily Tariff
7.2 - Billed Consumption & Revenue by Premise
5.2 - Premise
6.2 - Debtor
13.1 - Stranded Cost [INT_NSS_PEACE_SC]
16.1 - Supply Variance [INT_NSS_GEM_SV]
9.3 - Dispute Information
15.1 - Marketer Group Price
10.1 - Dispute Status [INT_NSS_ED_DISP_STATUS]
14.1 - Marketer Settlement Report
12.1 - Upload to GEM Dispute Supporting Documents
4.3 - Marketer Customer Usage
3.3 - Demand Details [MARKETER_DEMAND_DETAILS]
2.4 - Marketer Enrollment Details
1.8 - Enrollment Response
1.4 - Marketer Switch Request
1.5 - Marketer Switch Request
13.2 - Stranded Cost [INT_NSS_PEACE_SC]
10.2 - Dispute Status [INT_NSS_ED_DISP_STATUS]
1.3 - Enrollment Request
9.2 - Log Dispute
1.7 - Marketer Switch Response
8.1 - Daily Tariff [INT_PEACE_ODS_NSS_TARIFF]
7.1 - Billed Consumption & Revenue by Premise [INT_PEACE_ODS_BCR]
5.1 - Premise [INT_PREMISE_PEACE_ODS]
6.1 - Debtor [INT_DEBTOR_PEACE_ODS]
4.1 - Customer Usage [INT_Peace_NSS_CU]
2.1 - Enrollment Details
2.3 - Enrollment Details
3.2 - Marketer Supply Requirements [INT_FIS_GS_MSR]
4.2 - Customer Usage
11.2 - Upload to NSS Dispute Supporting Documents
1.6 - Marketer Switch Response
17.1 - Confirmation Letter [INT_ED_PRINTPROVIDER_CONFLETTER]

Appendix J

Automation of Manual Processes

	Current Manual Processes	New Automated Process
1.	Account Finalization moving a customer from a marketer group back to Terasen requires ABSU to manually move the premise back to the standard utility rates.	This process will be fully automated with the release of Residential Unbundling.
2.	Forecasting reallocates and manually reviews exception situations on a quarterly basis to calculate the marketers supply requirements.	Preliminary Supply Requirements will be generated daily and provided automatically to marketers on a daily basis via GEM.
4.	Forecasting currently calculates a premise factor using SAS and loads this premise factor into ODS.	The calculation of premise factors for the use of the MSR calculation will be automated.
5.	The Dispute Process is currently manual and involves communications between the customer, marketer, the BCUC, and Terasen.	The entire dispute process will be automated with the release of Residential Unbundling including the logging of disputes, the reporting of disputes, the ruling on disputes, and the actions based on the rulings (i.e. enrollments or drops).
6.	Gas Supply is required to manually fax back a completed marketer group setup request.	Marketer Group Setup completion will be provided automatically via GEM.
7.	Regulatory currently manually maintains actual tariffs in ODS.	Tariff Maintenance will be automated via a daily interface from Peace.
8.	Marketers are currently provided with switch dates only but are not provided with the reason for the switch.	Marketers will automatically be provided with switch reasons to inform them the reasons for losing or gaining a customer. This should reduce the number of calls to Gas Supply regarding such scenarios.
9.	Erroneous enrollment requests submitted require a manual correction after the enrollment request had been submitted.	Erroneous enrollment requests are automatically rejected.
10.	When a customer moves from one premise to another, the premise must contact their marketer and request that the marketer re-enroll them at the new premise.	The Portability engine continuously monitors customers for new Applications for Supply. Customers that have moved to a new premise will be automatically enrolled with the same marketer and rate for their new premise.
11.	Gas Supply and IT support currently manually query the data to respond to questions and to analyze marketer	Gas Supply and Marketers will be provided with reports which will allow them to easily answer questions regarding

	Current Manual Processes	New Automated Process
	behaviour.	enrollments.
12.	The BCUC is currently not provided with any information on marketer behaviour. Any information the BCUC may require is sought out via regular communication channels.	Governance Summary Reports will be generated automatically on a monthly basis for Terasen to provide to the BCUC with marketer behaviour information.
13.	Currently, Gas Supply retrieves marketer settlement details via regular communication channels. Marketers are not provided with details on the fees displayed on the marketer remittance.	Marketer Settlement Reports will be generated automatically on a monthly basis for both marketers and Gas Supply. This will provide marketers with full settlement details including a breakdown of ESM Fees.
14.	Currently, there is no process to recover stranded costs.	Gas Supply will be provided with the ability to recover stranded costs from customers using the Stranded Cost Interface from Gas Supply to ABSU.
15.	Marketers must currently send in a manual drop request if requested to do by the utility commission or by a customer.	The ability to cancel an enrollment request during the cooling off period for a customer will be automated for the CSRs by making use of existing Peace Process Tracking Jobs ("PTJ") functionality. This will automatically move the customer back to their previous marketer and associated tariff.
16.	Requests to drop a customer after an entry date and adjust any associated bills must be manually coordinated with Gas Supply and ABSU.	Retroactive transactions will automatically generate a PTJ for manual review and intervention if required.
17.	An electronic data store accessible by Finance that provides monthly billed revenue and consumption at the premise level does not currently exist. Finance is currently provided with aggregated hard copy reports that contain such information.	Monthly billed revenue by customer will be made available for the use of Finance in ODS.

Appendix K

<u>Options Considered For Business Rules</u>

Where there were options for business rules, decision documents were created to document the process of walking through the options and defining the recommendation and associated requirements of the option selected. Decision documents can be found in **Appendix A**.

The table below summarizes the options considered and their outcome:

Business Rule	Options Considered	Outcome
Reduction of 60 Day Enrollment Deadline	• Remain the same • **Reduce the deadline**	Existing business processes and system functionality was reviewed to determine if the 60 day enrollment deadline could be reduced. After analysis was complete, a recommendation was made to *reduce the enrollment deadline from 60 days to 30 days* provided that the following functionality is built into the design: • Marketers must be provided with daily supply requirements which would allow them more time to set up their supply arrangements. This allows the marketers control over choosing to continue enrollments for an entry date or to stop enrollments for an entry date which would finalize their supply requirements. • Create an automated end to end enrollment process. This is required to create an up to date daily supply requirement. • The final cooling off period must start after the enrollment deadline to allow for the marketers to enroll up to the enrollment deadline. • The enrollment reallocation process must be optimized

Business Rule	Options Considered	Outcome
		• Daily supply requirements generated after the final cooling off period will be flagged as Final.
Support portability of contract for account finalizations	• **Full Portability** • **Reminder Message on Customer Bill / No Portability** • **Optional Portability**	*Pro's and Con's of each option were reviewed. After analysis was complete a recommendation was made to offer* Full Portability for Residential customers only. • A recommendation was made not to include commercial customers in this offering since the potential supply requirement impact of a premise move would be much larger than for residential customers. The recommendation was based on the following: • System impacts are less complicated and costly than Optional Portability • No manual processes are needed to port customers • Supports the ESM • Optional Portability can be added on to Full Portability by simply generating confirmation letters at the time the new premise is enrolled with the marketer.
Blocking versus last in enrollment validation	• Leave as-is, with a 'Last In' enrollment approach. • Modify validation approach to 'Block' • **Implement a 'Soft Blocking' approach which allows for 'Hard Blocking' to be turned on at anytime.**	After reviewing the options, a recommendation was made to *implement soft blocking with a fee with the ability to turn on blocking at any time.* In order for enrollment requests to be accepted, Marketers must acknowledge all violations to the ESM. Depending on if they are choosing to violate the ESM model or contract term, they will be charged an associated fee to recover the cost to Terasen for the violation.
Flexible Pricing	• A customer must remain	After reviewing the options a

Business Rule	Options Considered	Outcome
	at the same price point for a 12 month period. • **A marketer may move a customer between price points or may drop a customer at any time.**	recommendation was made to *allow a marketer to move a customer between price points or drop a customer at any time.* The ESM model is based on the assumption that the price point and the supply requirement remains the same for a 12 month period. If this assumption is violated there is an associated cost to Terasen. The new validation rules allow for flexibility to move a customer to different price points at any time while at the same time recovering the associated cost to Terasen and thus supporting the ESM model.
Bad Debt Reduction	• Marketer Settlement not to include a portion of bad debt (as is) • Marketer Settlement to include a portion of bad debt.	After reviewing the requirements for each option it was determined that the decision to include a portion of bad debt in the marketers' settlement requires a business decision. With regards to the impact on the Unbundling design, existing business processes and systems are able to accommodate either decision.

APPENDIX 6

Scott A. Thomson
VP, Finance & Regulatory Affairs &
Chief Financial Officer

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December 9, 2005

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.
Residential Unbundling – Business Model and Key Business Rules (FINAL)

On August 23, 2005, Terasen Gas filed a document titled **Terasen Inc. Residential Unbundling – Business Model and Key Business Rules (DRAFT)** outlining a DRAFT framework for Residential Unbundling including the key business rules and Terasen Gas' recommendations on the key business rules. Terasen Gas' recommendations were based in part on 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 the document, Terasen Gas outlined to the Commission and stakeholders the recommended business model and rules it was 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 served to provide a baseline reference point for the Scoping Phase but does and not preclude changes to the business model or rules later on should the need arise.

As approved and directed by Commission Order G-110-05, Terasen Gas is in the process of completing its scoping and business systems analysis work that will enable the filing of a CPCN application for the Residential Unbundling Program by March 2006. As part of the current Scoping phase, Terasen Gas is updating the **Residential Unbundling – Business Model and Key Business Rules (DRAFT)** document to address the outstanding issues that were identified previously; the independent dispute resolution process, customer enrolment – poaching, customer enrolment – portability, customer billing and collections, flexible pricing options, marketer remittances and billing and exit fee for gas cost recovery.

The sections of the updated document titled **Residential Unbundling – Business Model and Key Business Rules (FINAL)** attached 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. Additionally, descriptions of the business model and key business rules that Terasen Gas recommends in support of Residential

Unbundling are provided. The listing of the business model and key business rules follows a similar format to that used in Terasen Gas' August 23, 2005 submission to the Commission outlining the initial set of proposed business rules.

Terasen Gas is seeking endorsement by the Commission of the proposed framework and business rules for Residential Unbundling in order to prepare a delivery plan with capital and operating cost estimates for implementation of Residential Unbundling. Terasen Gas believes that the proposed business rules outlined are appropriate and will allow for a successful, cost-effective commodity choice program for residential customers to be implemented, recognizing that changes and their associated incremental implementation costs may be made as the program evolves over time.

In order to keep the Scoping phase on track, Terasen Gas proposes the following timeline for receiving Commission endorsement.

DATE	ACTION REQUIRED
December 21, 2005	Stakeholders to provide comments directed to BC Utilities Commission and cc. to Terasen Gas
Week of December 26 – 30, 2005	Terasen Gas to respond to stakeholder comments
January 5, 2006	Commission review and Order

If there are any questions regarding the content of this letter or the attached document **Residential Unbundling – Business Model and Key Business Rules (FINAL),** please contact Hans Mertins at (604) 592-7753, James Wong at (604) 592-7871 or Shawn Hill at (604) 592-7840 or the B.C. Utilities Commission, Bob Brownell at (604) 660-4711.

Yours very truly,

TERASEN GAS INC.

Original signed by Tom Loski

For: Scott A. Thomson

Attachments

cc: Unbundling Stakeholders

RESIDENTIAL UNBUNDLING
BUSINESS MODEL AND KEY BUSINESS RULES

INTRODUCTION

In developing the proposed Residential Unbundling framework and business rules, Terasen Gas utilized the nine Guiding Principles endorsed by the Commission in letter L-73-05 dated September 7, 2005. The Guiding Principles as outlined below provided the basis to shape the development of the proposed framework.

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 desired objective. Ideas mentioned include educational efforts jointly funded by Gas Marketers and Terasen Gas to promote efficient use of natural gas in new construction. Terasen Gas believes that an appropriate Residential Unbundling framework requires a solid foundation, one in which the primary participants, the gas customers, Terasen Gas and Gas Marketers, have a common interest in ensuring that demand for natural gas from end use customers remains an affordable energy choice.

In addition to the above noted guiding principles, Terasen Gas wishes to re-emphasize that key principles inherent in its Price Risk Management Plan today and that will continue in a Residential Unbundling environment are fundamental in ensuring that natural gas is positioned effectively and remains a competitive energy choice in the future. The key principles, and associated actions, are that they should 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.

In determining the proposed framework and business rules, Terasen Gas was also mindful of systems and processes required to support the administration of the framework. Key system and process considerations include automating processes where possible, supporting customer mobility in exercising commodity choice, supporting flexibility in pricing options offered to customers, providing an overall cost effective solution, and ensuring cost-causality in attributing and recovering costs associated with the Unbundling program.

Automation of processes where possible will be critical to delivering a solution that can effectively support the higher volume of customers and transactions along with the added features (i.e. portability, prevention of poaching) required for Residential Unbundling. Customer mobility in exercising commodity choice is desired as it is an integral part of consumer protection. Terasen Gas believes facilitating as much customer mobility as possible is integral to fostering an informed and effective marketplace. Providing customers the ability to choose is subject to being accountable for the choices they elect. Flexibility in pricing options is a desire expressed by some Gas Marketers to date, as it provides greater flexibility to allow a Gas Marketer to negotiate and structure a suitable gas arrangement for a specific customer.

In developing the proposed framework and business rules, Terasen Gas was particularly mindful of the desire to provide a cost effective solution, given the Commission's concern about the significance of the costs for implementing Residential Unbundling that was outlined in the letter dated October 31, 2005, approving Terasen Gas' request for additional deferral funding. In that letter, the Commission commented that "*However if the projected target market for the Residential Unbundling Program is only a very small portion of the potential market, and the cost analysis indicates a significant expenditure is necessary to modify the Terasen Gas customer information system, then justification of this Program must be reassessed*." To help address concerns about the potential of significant program costs, Terasen Gas believes following a cost-causality principle where program costs are recovered from part(ies) who cause program costs is warranted. These costs should be recovered from both the Gas Marketer that enrols a customer and the enrolled customer where appropriate.

Terasen Gas believes following such a cost-causality guideline (i.e. user pay system) is important in delivering a cost-effective solution where the incremental costs beyond that required for the core system requirements is borne by those part(ies) that benefit from the exercising of commodity choice. By paying for program costs directly caused by them, Gas Marketers will be in a better position to make proper economic decisions in support of ensuring a sustainable Residential Unbundling program. For customers that elect to exercise commodity choice, they will be able to make more informed commodity purchase decisions, as they weigh the benefits of commodity choice to its "true" costs (i.e. including incremental costs). Furthermore, those customers that elect to not

exercise commodity choice will not be unfairly burdened with the costs of a program from which they received no benefit.
In scoping the solution for Residential Unbundling, Terasen Gas will be specifying system and process requirements to support the adoption of the cost-causality principle for program cost recovery. By having the necessary systems and processes in place, the solution for Residential Unbundling will support the Commission's decision on appropriate cost recovery. However, the Commission retains the right to determine which costs ought to be covered and how recovered costs are to be treated in the initial roll-out of the Residential Unbundling program.

Following is Terasen Gas' recommendations on the proposed business rules and framework for Residential Unbundling. Terasen Gas believes it has developed a framework that is balanced, recognizing the differing needs of stakeholders and providing a solid foundation on which to build a sustainable and cost-effective Residential Unbundling program. Where applicable and possible, the intent is to have a common set of business rules for both the Commercial and Residential Unbundling programs.

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 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. The requirement for Gas Marketers to be licensed is outlined in the Commission's document titled "Rules for Gas Marketers". In addition to licensing requirements, the document outlines requirements for agreements between the customer and the marketer and complying with the Code of Conduct for Gas Marketers. 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.

A review of the existing Code of Conduct for Gas Marketers will be required to reflect any changes necessary to support Residential Unbundling. Changes identified to date to include introducing language outlining "portability" provisions of customer contracts; and rewording of Article 20 which currently states "A Salesperson shall not induce any Consumer to breach a contract with another Gas Marketer" to include additional language specifying a Gas Marketer must bring to the attention of the customer to check for possible early termination fees if the customer decides to leave a Gas Marketer for another Gas Marketer before the end of the original contract term. At the suggestion of Gas Marketers, Terasen Gas will be reviewing the feasibility of accepting electronic signatures for contracts and possibly incorporating relevant language into the Code of Conduct for Gas Marketers.

Further, Terasen Gas proposes for consideration by the Commission and stakeholders a review of the existing performance bonding requirements. Currently, the performance bonding requirement is $250,000 for a Gas Marketer irrespective of the size of their Unbundled customer base. Terasen Gas proposes a bonding requirement that increases with expansions of a Gas Marketer's Unbundled customer base (or customer volumes), reflective of the increased financial exposure to the utility or customers that could be harmed by a Gas Marketer's actions.

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.

In situations where customers are still not satisfied after having attempted to resolve their complaint with a Gas Marketer directly, 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. The dispute resolution process will have clearly defined rules and procedures on how complaints are logged and processed, providing customers an effective means to handle their complaints in a timely manner. To support the tracking and monitoring of the customer complaints, Terasen Gas will include in the Scoping phase a requirement for a supporting system and processes. The system and processes will be required to log the customer complaints, report on the status of complaints and decisions made and to provide summary reporting on the types and number of complaints received for each Gas Marketer. Terasen Gas believes a tracking system such as that outlined is necessary to manage customer complaints efficiently for Residential Unbundling.

The responsibility for managing and resolving customer complaints will rest with the Commission or a third party that the Commission nominates. Terasen Gas will assist the Commission in developing the independent dispute resolution process, including outlining the procedures and building the systems to manage customer complaints and identifying resources to operate the dispute resolution process. While Terasen Gas is willing to assist in the development of a dispute resolution process and support systems, it believes the dispute resolution process itself is best managed by the Commission or Commission nominated third party.

Consistent with the cost-causality principle discussed earlier where the costs of the program are attributed and recovered from the part(ies) who benefit directly from Residential Unbundling, Terasen Gas proposes that Gas Marketers be allocated a portion of the costs to operate the independent dispute resolution process in the form of a fixed monthly fee and a variable fee based on the number of complaints logged for a Gas Marketer.

In addition, 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 include 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 media 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) initially 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. In addition to the initial rollout, regular education efforts will be required to ensure an effective marketplace on an ongoing basis.

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, enrolment 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 as part of the Scoping Phase in January 2006.

- 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. Terasen Gas has reviewed the feasibility of shortening the current 60 day cut-off enrolment period to possibly 30 days. To make this work, Gas Marketers will have to reduce their current notice period from 30 days to 10 days, leaving 20 days to accommodate the 10 day cooling off period for customers and 10 days for Terasen Gas to run its processes to determine marketer delivery requirements.

- 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.

- 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. The letter will state that the customer needs to respond by a certain date should the customer elect to opt out of the contract (i.e. within the 10 day cooling off period). Terasen Gas strongly believes this is a necessary component to ensuring adequate consumer protection.

  Consistent with the cost-causality principle discussed earlier where the costs of the program are attributed and recovered from the part(ies) who benefit directly from Residential Unbundling, Terasen Gas proposes that Gas Marketers be charged the incremental costs of generating and sending out the confirmation letter.

- After reviewing the portability issue further, with portability defined as the ability for an existing fixed price gas contract to be "ported" to another physical premise for the same gas customer in Terasen Gas' eligible service regions, Terasen Gas recommends that portability be a mandatory feature of a contract between a customer and a Gas Marketer. There will be no discretion, at either the gas customer's or Gas Marketer's option to not make the contract portable. The gas customer will be obligated to fulfil the gas supply agreement to the end of the contract term unless the customer elects to terminate the contract, subject to payment of termination fees to the Gas Marketer. Further work will be done in the coming weeks to identify the specific processes to support mandatory portability. The business driver for the portability feature stems from the significant amount of customer movement that occurs naturally every year where customers change account information or physically move to another premise (i.e. ~15% of residential customer base). An effective solution is required to help ensure Gas Marketer contracts are fulfilled and administered. Terasen Gas proposes portability will apply only to residential customers gas supply contracts instead of also to commercial customers, as the volume differences and gas supply impacts between one residential premise to another is much smaller than that of one commercial premise to another.

- For handling transactions 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), Terasen Gas recommends an enrolment validation routine where the enrolment request submitted by the second Gas Marketer be accepted. This approach would provide customers the ability to change their mind but yet still be accountable for the results of their choice. The customer will receive a new confirmation of the most recent transaction advising they need to contact the first Gas Marketer concerning payment of any cancellation fees. Both Gas Marketers will also be sent an electronic notice of the “switch” transaction. To enable detection of poaching, Terasen Gas ask Gas Marketers to provide both start and end dates of the contract between the customer and the Gas Marketer in the enrolment information submitted. Terasen Gas’ systems will be built with the option to turn this soft blocking approach to a hard blocking approach where a poaching transaction is rejected unless the first Gas Marketer agrees to submit a drop request. Should it be determined at a later point that a hard blocking approach is preferred, systems can easily be re-configured to hard block potential poaching transactions.

Further to tracking of contract end dates, Terasen Gas proposes to print the current contract end date on a customer’s bill as a reminder. This will enable the customer to easily access the contract term end date, potentially reducing the frequency of poaching transactions occurring as the result of the customer not remembering the contract end date.

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 Terasen Gas will evaluate the current method for calculating the daily marketer delivery requirement given the higher number of transactions, 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, unbundled customers are returned to Terasen Gas as Supplier of Last Resort if these 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 for residential customers. As there is currently an allowance in Terasen Gas' operating and maintenance ("O&M") budget for bad debt expenses, Terasen Gas is willing to consider a reduction in its bad debt budget to address the issue of the bad debt being budgeted in two areas; with Gas Marketers and with Terasen Gas.

Under the recommended methodology, marketers will be charged a percentage of bad debt reduction on gross sales to their customers. This practice is consistent with that at Union Gas in Ontario where a bad debt allowance is recovered from the marketers through the levy of an administration fee. The utility would determine what the bad debt allowance should be.

11.0 Program Cost Recovery

For Commercial Unbundling implementation and maintenance costs are recovered from customers in rate classes eligible for the service. Annual operating costs (transactional related costs) are recovered from Gas Marketers where possible. Terasen Gas shareholders are not at risk for the costs of implementing and maintaining the service or for any assets stranded by Unbundling. Terasen Gas received confirmation from the Commission in Letter No. L-73-05 dated September 7, 2005 that its shareholders are not at risk for the costs of implementing and maintaining Residential Unbundling 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.

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 pay for their share of 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.

Gas Marketers consulted on the exit fee issue expressed concern of the concept of an exit fee questioning its requirement and stating it would be an impediment to creating effective competition.

Considering Gas Marketers' interests, Terasen Gas still believes it is in the best interest of stakeholders to build a sustainable customer choice program following the cost-causality guideline by introducing a Customer Choice fee which is levied either directly to the customer or to the Gas Marketer when the gas customer leaves Terasen Gas' default rate offering. The Customer Choice fees collected will mitigate the stranded gas costs associated with the gas customer and potentially can be used to offset other program costs.

Terasen Gas believes that gas customers should be treated the same, whether they leave the utility for a Gas Marketer or leave a Gas Marketer for another Gas Marketer. Currently, Gas Marketers charge termination fees to customers who prematurely exit contracts in order to manage their risk. To protect customers that choose to remain with the default utility offering, Terasen Gas should be afforded the same ability to manage its risk of stranded gas costs caused by a customer leaving for another Gas Marketer,

Another issue for consideration is the requirement for a fixed price over a 12 month consecutive period in support of the Essential Services model. As discussed earlier, a fixed price over a 12 month consecutive period is critical to ensuring the appropriate reconciliation of charges collected from a Gas Marketer's customers to funds paid by Terasen Gas for gas supplied by a Gas Marketer. If the price is not fixed for a 12 month period, an opportunity for un-recovered gas costs would be created. Any unrecovered gas costs would place Terasen Gas' MCRA at risk. To address this, Terasen Gas proposes an enrolment validation routine where the system would "reject" an enrolment request that violates the 12 month fixed price rule. The rejection would be followed with a notice provided to the Gas Marketer that should they still wish to proceed with the enrollment, they will have to resubmit the enrolment request and will be levied a fee, called the Essential Services fee, by Terasen Gas. This fee would recover costs associated with violation of the Essential Services model.

Terasen Gas intends to continue to evaluate this issue and the impacts on business systems and processes, including the introduction of a Customer Choice fee for Unbundling and an Essential Services fee as part of the Scoping Phase. A decision on the exit fee issue (Customer Choice fee) and 12 month fixed price rule (Essential Services fee) can be made at a later time as part of the CPCN application. As mentioned earlier, Terasen Gas will be incorporating requirements to administer the two fees into the Scoping phase. By having the necessary systems and processes in place, the solution for Residential Unbundling will support the Commission's decision on appropriate cost recovery. The Commission retains the right to determine what is appropriate in this respect for the initial roll-out of the Residential Unbundling program.

Terasen Gas believes that with the introduction of customer mobility for Residential Unbundling, the proposed cost recovery mechanisms are warranted. 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.

Summary Matrix of the Residential Unbundling – Business Model and Key Business Rules (FINAL) January 5, 2006

- Commission endorsement is requested whereby the Commission agrees that Terasen Gas' recommendation(s) are appropriate for the purpose of the Scoping Phase but that they will be reviewed further for final approval as part of the upcoming CPCN application. However, if the Commission's decision later on is different than what has been initially endorsed, there may be some incremental costs to rework and redesign system and process requirements developed as part of the Scoping Phase.

Description of Key Business Rule / Issue	**Page Reference** to document dated January 5, 2006 titled "Stakeholders' Submissions Residential Unbundling – Business Model and Key Business Rules (FINAL)	**Commission Action requested by Terasen Gas**
General Midstream Cost Recovery and Gas Cost Recovery	Pages 2 – 5 Page 20	For the purposes of the Scoping Phase work only – **Commission endorsement** of Terasen Gas' recommendation to incorporate business processes supporting the cost-causality guideline for recovery of incremental costs beyond what is required for core system requirements (i.e. Customer Choice Fee, Essential Services Fee) Terasen Gas has also submitted for consideration an alternate recovery method where stranded gas costs are allocated to the Midstream account to be borne by all eligible and participating customers. Final determination of the appropriate method of cost recovery remains with the Commission and its ruling on the upcoming CPCN application.
Stable Rate Option	Page 5	None required at this point – Commission decision on status of the Stable Rate option required as part of upcoming CPCN application for Residential Unbundling.
Consumer Protection, Marketer Eligibility and Licensing Criteria	Page 8	**Commission endorsement** of the need to review Gas Marketer licensing requirement, changes to Code of Conduct for Gas

		Marketers, performance bonding requirements for Gas Marketers as part of Residential Unbundling.
Independent Dispute Resolution Mechanism	Page 10	**Commission endorsement** of the need to review the appropriate means to recover the costs of operating the independent dispute process.
Customer Education	Page 11	**Commission endorsement** of the outlined Customer Education requirements and the adoption of a central depository (website) for customer education material.
Customer Eligibility and Mobility *Confirmation letters*	Page 14	**Commission endorsement** of the confirmation letter process as outlined. **Commission endorsement** to evaluate further Terasen Gas' suggestion to recover the costs of producing the confirmation letter from Gas Marketers.
Customer Eligibility and Mobility *Enrolment validation for handling "poaching" transactions*	Page 16	**Commission endorsement** of proposed enrolment validation routine where the enrolment request submitted by the most recent Gas Marketer is accepted with a transaction confirmation sent to the customer and notification provided to both Gas Marketers involved. Terasen Gas will track contract start and end dates and will print the contract end date on a customer's bill.
Marketer Remittances and Billing	Page 19	**Commission endorsement** of the need to review the issue of charging Gas Marketers a bad debt deduction on their sales to customers.
Implementation and	Page 20	No action required; Commission decision required as part of

- <u>Commission endorsement</u> is requested whereby the Commission agrees that Terasen Gas' recommendation(s) are appropriate for the purpose of the Scoping Phase but that they will be reviewed further for final approval as part of the upcoming CPCN application. However, if the Commission's decision later on is different than what has been initially endorsed, there may be some incremental costs to rework and redesign system and process requirements developed as part of the Scoping Phase.

Maintenance Program Cost Recovery		upcoming CPCN application process.

Summary Matrix of the Residential Unbundling – Business Model and Key Business Rules (FINAL) January 5, 2006

- Commission approval is requested where the business rule / issue in question is supported by the majority of stakeholders.

Description of Key Business Rule / Issue	**Page Reference** to document dated January 5, 2006 titled "Stakeholders' Submissions Residential Unbundling – Business Model and Key Business Rules (FINAL)	**Commission Action requested by Terasen Gas**
Essential Services Model	Page 7	**Commission approval** of ESM for Residential Unbundling
Independent Dispute Resolution Mechanism	Page 10	**Commission approval** of an independent dispute resolution mechanism.
Customer Eligibility and Mobility *Eligible customers*	Page 12	**Commission approval** to initially offer Residential Unbundling to only Residential customers on the Mainland (Inland, Columbia and Lower Mainland regions)
Customer Eligibility and Mobility *Contract terms*	Page 13	**Commission approval** of contract terms of a minimum of 1 year and a maximum of 5 years in 12 month intervals at a fixed price.
Customer Eligibility and Mobility *Notice period*	Page 14	**Commission approval** to adopt a 30 day enrolment cut-off period for Residential Unbundling.
Customer Eligibility and Mobility *Enrolment validation*	Page 14	**Commission approval** of the use of a valid customer account number and a premise number to validate an enrolment transaction.
Customer Eligibility and Mobility *Entry dates*	Page 14	**Commission approval** of monthly entry dates for Residential Unbundling.
Customer Eligibility and Mobility *Contract portability*	Page 15	**Commission approval** of mandatory portability where an existing fixed price gas contract is ported to another physical premise for the same gas customer in Terasen Gas' eligible service regions.
Marketer Delivery Requirements	Page 18	**Commission approval** of the delivery requirement process currently utilized for the Commercial Unbundling program.
Terasen Gas System Supply and Supplier of Last Resort	Page 18	**Commission approval** that Terasen Gas is the Supplier of Last Resort and is responsible for longer term infrastructure planning and emergency response.

Summary Matrix of the Residential Unbundling – Business Model and Key Business Rules (FINAL) January 5, 2006 • Commission approval is requested where the business rule / issue in question is supported by the majority of stakeholders.		
Marketer Failure	Page 18	**Commission approval** of the marketer failure process currently utilized for the Commercial Unbundling program.
Customer Billing and Collections	Page 19	**Commission approval** that Terasen Gas will continue to provide the agency billing and collections service to Gas Marketers on a mandatory basis.
Marketer Remittances and Billing	Page 19	**Commission approval** of the remittance process currently utilized for the Commercial Unbundling program.
Balancing provisions	Page 21	**Commission approval** that the balancing provisions of the existing transportation service for industrial and large commercial customers remain the same.

APPENDIX 7

Scott A. Thomson
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January 5, 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: Stakeholders' Submissions
Residential Unbundling – Business Model and Key Business Rules (FINAL)

On December 9, 2005, Terasen Gas Inc. ("Terasen Gas") filed a document titled **Terasen Gas Inc. Residential Unbundling – Business Model and Key Business Rules (FINAL)** outlining a proposed framework for Residential Unbundling, including the key business rules and Terasen Gas' recommendations on the key business rules. The listing and description of the business model and key business rules followed a similar format to that used in Terasen Gas' August 23, 2005 submission to the Commission outlining the initial set of proposed business rules used to obtain a quote from a vendor for the cost of scoping out a solution and developing an implementation plan for Residential Unbundling.

Terasen Gas requested endorsement by January 9, 2006 from the Commission of the proposed framework and business rules for Residential Unbundling in order to prepare a delivery plan with capital and operating cost estimates for implementation of Residential Unbundling. Terasen Gas believes that the proposed business rules outlined are appropriate and would allow for a successful, cost-effective commodity choice program for residential customers to be implemented, recognizing that changes and associated incremental implementation costs may be made as the program evolves over time.

Stakeholders asked to comment on the proposed business model and rules included licensed gas marketers operating in Commercial Unbundling program and representatives from the British Columbia Public Interest Advocacy Centre ("BCPIAC"), Columbia Fuels Inc, Ministry of Energy, Mines, and Petroleum Resources ("MEMPR"), and B.C. Health Services ("BCHS").

Subsequently, stakeholders submitted to the Commission comments with respect to the document December 9, 2005 **Terasen Gas Inc. Residential Unbundling – Business Model and Key Business Rules (FINAL).** As of December 21, 2005, Terasen Gas was aware of comments provided to the Commission by Direct Energy Marketing Limited ("DEML"), Energy Savings B.C. ("ESBC") and CEG Energy Options Inc. ("CEG"). This letter is Terasen Gas' response, where appropriate, to the stakeholder comments received. It includes a summary of the stakeholder comments (*highlighted in italics*) for each issue following a similar format and order, where applicable, to that presented in the December 9, 2005 Terasen Gas submission.

RESIDENTIAL UNBUNDLING FRAMEWORK

General

Terasen Gas wishes to reiterate some of the key points raised in its December 9, 2005 filing in developing the proposed framework and business rules for Residential Unbundling.

In developing the proposed framework and business rules, Terasen Gas was particularly mindful of the desire to provide a cost effective solution, given the Commission's concern about the significance of the costs for implementing Residential Unbundling that was outlined in the letter dated October 31, 2005, approving Terasen Gas' request for additional deferral funding. In that letter, the Commission commented that "*However if the projected target market for the Residential Unbundling Program is only a very small portion of the potential market, and the cost analysis indicates a significant expenditure is necessary to modify the Terasen Gas customer information system, then justification of this Program must be reassessed*." To help address concerns about the potential of significant program costs, Terasen Gas believes following a cost-causality principle where program costs are recovered from participants who cause program costs is warranted. These costs should be recovered from both the Gas Marketer that enrols a customer and the enrolled customer where appropriate. In contrast, program development costs would be paid for by all customers eligible to participate in the proposed Residential Unbundling program.

Terasen Gas believes following such a cost-causality guideline (i.e. user pay system) is important in delivering a cost-effective solution where incremental costs beyond what is required for the core system requirements are borne by the participants who benefit from exercising commodity choice. By paying for program costs directly caused by them, Gas Marketers will be in a better position to make proper economic decisions in support of ensuring a sustainable Residential Unbundling program. For customers electing to exercise commodity choice, they will be able to make more informed commodity purchase decisions, as they weigh the benefits of commodity choice to its "true" costs (i.e. including incremental costs). Furthermore, those customers that elect to not exercise commodity choice will not be unfairly burdened with the costs of a program from which they received no benefit.

For additional consideration by the Commission, Terasen Gas submits that as an alternative to the fees being proposed for the recovery of stranded gas costs incurred as a result of the operation of the proposed Residential Unbundling program, these costs could be allocated to the midstream and be borne by all eligible and participating customers. Issues associated with this approach are set out in greater detail in the material that follows. Its important to note that a decision about the proposed Residential Unbundling business rules is needed to support the completion of the work currently in progress as part of the Scoping Phase. However, as outlined in Program Cost Recovery discussion of the December 9, 2005 filing, the CPCN application that will be filed in late March will address the issue of cost recovery in detail. Final decision about the appropriate method of cost recovery remains with the Commission and its ruling on the CPCN application.

DEML expresses a number of concerns regarding the central issue of cost-causality and asks for clarification from Terasen Gas on the introduction of the concept of cost-causality for Residential Unbundling, noting that this concept was not included in earlier program discussions and was not included in the Commercial Unbundling program. DEML submits the costs of Residential Unbundling should reside with all customers to whom the program applies. DEML comments further that no gas marketer would want to participate in Residential Unbundling knowing that they, as a first entrant, would pay a share of the program costs, suggesting that this is a classic example of the free-rider problem. DEML also suggests cost recovery from customers will also certainly dissuade them from seriously considering a competitive alternative.

On the issue of "exit" fees from the regulated rate, DEML submits that the hedging practices of a gas marketer are significantly different than those from Terasen Gas, and notes that the comparison whereby Terasen Gas has indicated it should be afforded the same ability to manage the risk of stranded gas costs caused by a customer leaving for another Gas Marketer is invalid. DEML argues that a gas marketer does not have a portfolio of supply in place as does Terasen Gas which is capable of dealing with customer attrition or with customers returning to the regulated rate from competitive marketers. DEML comments further that it is evident that the exit fee proposed by Terasen Gas will be detrimental to customer choice and provides a reference to Alberta regulation prohibiting such fees. The Regulated Rate Option Regulation for Alberta (electricity) section 19(1) states "An owner must not, either in its regulated rate tariff or by other means, (a) collect fees related to the entry to, or exit from, the regulated rate tariff by an eligible customer." prohibiting such fees.

ESBC expresses similar concerns about the appropriateness of the proposed Customer Choice fee (exit fee) and Essential Services fee (12 month fixed price rule), suggesting that the fees would pose a significant barrier to the development of the market. Such fees, especially as an unknown charge or credit to the consumer until billing occurs, will undermine the acceptance or consideration of retail offerings by consumers. ESBC also disagrees with Terasen Gas' characterization that the fees are similar to liquidated damages that accompany some retail contract products arguing that Terasen Gas' default regulated rate is a basic access service for supply and is positioned to provide recovery to Terasen Gas for any costs associated with this service. Therefore, ESBC argues that Terasen Gas bears no risk in the provision of this service. ESBC offers that any of the noted potential costs or credits should be managed within the Midstream Charge as the option/benefit of choosing an alternate supplier is available to all consumers.

ESBC states that it is their belief that such fee assessments would have a net minimal impact to the overall Midstream Cost Recovery as these fees would at times be charges and other times credits and that the loads involved are small residential volumes. ESBC further argues that charging consumers who choose an alternate retail supplier would be discriminatory and would be perceived by consumers to be a penalty for exercising their right to choose. ESBC also submits that no other natural gas market in which it operates promote the application of exit fees. ESBC submits that Terasen Gas' proposed Customer Choice and Essential Services fee be rejected by the Commission.

With respect to the recovery of stranded gas costs, CEG comments that if Terasen Gas is in a position of having significant un-recovered gas costs, that Terasen Gas should add a rider component directly on the bill and not blend it with the Cost of Gas. If customers exit the Terasen Gas rate, then CEG would support maintaining the rider for the marketer's customer.

CEG does not support specifically adding cost riders just for customers who transfer to a marketer, citing that this will create significant confusion with the customer. Further, CEG indicates that if negative stranded costs go with the customer, then any positive stranded gas costs should also go with the customer when transferring to a marketer.

To address DEML's comment "as a first entrant, would pay a share of the program costs", Terasen Gas wishes to clarify that its proposal for cost-causality in allocating costs related to Residential Unbundling is not intended to apply to overall implementation and general operating costs of the program (i.e. implement core system and process changes, deliver education, manage ongoing operations), which based on past precedent for the Commercial Unbundling program would likely be borne by all eligible customers for Residential Unbundling. As outlined in Section 11 Program Cost Recovery of the December 9, 2005 filing, the pending CPCN application will address the recovery of implementation and maintenance costs. Incremental costs and proposed related recovery fees are separate and result from issues or initiatives specific to the next phase of Unbundling. The incremental costs include the proposed Customer Choice and Essential Services fees that are needed to ensure adequate recovery of gas costs (refer to pages 13/14 of the December 9, 2005 filing for further details of the proposed fees) and the proposed fees for recovery of costs related to the operation of the independent dispute resolution process and generation of the proposed confirmation letter. As these incremental costs can be linked directly to participants, Terasen Gas believes an appropriate cost allocation methodology is have to the party(ies) that benefit directly from exercising commodity choice bear the incremental costs. Terasen Gas is mindful of the Commission's concern expressed recently about significance of potential costs to introduce Residential Unbundling and believes by adopting a cost-causality approach for recovery of these incremental costs, it can mitigate some of the concern regarding the significance of costs to introduce Residential Unbundling.

With regards to DEML's request for clarification from Terasen Gas on the introduction of the concept of cost-causality for Residential Unbundling, noting that this concept was not included in earlier program discussions and was not included in the Commercial Unbundling program, Terasen Gas believes that with the pending inclusion of residential customers in the Unbundling program, costs and cost recovery issues are significantly magnified beyond that originally considered for the Commercial Unbundling program, requiring review now. In the development of the Commercial Unbundling program, much of the focus was to minimize implementation costs where possible. Gas cost recovery issues (i.e. proposed Customer Choice and Essential Services fees) were viewed as minor in nature given the projected customer take-up rates. However with the continued growth of Commercial Unbundling phase and the introduction of Residential Unbundling, costs for the Unbundling program are expected to increase significantly. With Residential Unbundling, an additional 700,000 residential customers will be eligible. These 700,000 customers at an average annual consumption of 100 gigajoules per year per customer total to approximately 70 petajoules or sixty percent of overall annual gas supply requirements.

Both ESBC and DEML provide reference to Regulation in Alberta for electricity prohibiting the charging of fees for entry/exit from a regulated rate tariff. Terasen Gas notes that the example provides for good discussion and thought but questions its applicability to natural gas customers in British Columbia. Given that the natural market in British Columbia is significantly different than other jurisdictions, the ESM model is a made in BC solution that was developed for Commercial Unbundling and addresses this difference. ESBC further argues that no other natural gas market in which it operates promote the application of exit fees and submits that

Terasen Gas' proposed Customer Choice and Essential Services fee be rejected by the Commission. Terasen Gas does not believe that the application of exit fees in British Columbia should be denied because other jurisdictions have not adopted them. Other jurisdictions do not have the same price risk management requirements as Terasen Gas for its default gas supply portfolio. As a result, there may not be need for exit fees in those jurisdictions.

Terasen Gas disagrees with DEML and ESBC statements that Terasen Gas should not be afforded the same ability to manage the risk of stranded gas costs caused by a customer leaving for another Gas Marketer. DEML argues that a gas marketer does not have a portfolio of supply in place as does Terasen Gas which is capable of dealing with customer attrition or with customers returning to the regulated rate from competitive marketers. ESBC argues that Terasen Gas' default regulated rate is a basic access service for supply and is positioned to provide recovery to Terasen Gas for any costs associated with this service. Both parties essentially argue that Terasen Gas has the advantages of being a monopoly (i.e. flexible supply portfolio, ability to recover costs from all customers). Therefore, all customers should pay for any unrecovered gas costs. In addition, both ESBC and DEML argue that the proposed Customer Choice and Essential Services fees may not be conducive to a competitive marketplace. Terasen Gas' view is that offering commodity choice does not necessarily mean one group of customers should be subsidizing the costs of another. Terasen Gas firmly believes an effective and sustainable framework for Unbundling is one that is balanced, recognizing the needs of stakeholders, with costs allocated in a fair and equitable manner to those that benefit from the ability to exercise commodity choice.

Terasen Gas believes it is proposing a cost allocation methodology that is fair and equitable, recovering those costs from the party(ies) that benefit(s) directly by participating in Residential Unbundling. In fact, an argument can be made that by allocating Residential Unbundling costs across all eligible customers, customers that choose not to participate would be unfairly penalized and discriminated against.

With regards to CEG's suggestion that Terasen Gas should add a rider component to a customer's bill for recovery of un-recovered gas costs, Terasen Gas believes a more practical approach is for exit fees to be billed and recovered from Gas Marketers with whom customers have signed with. The recovery charge would be invisible to the customer, reducing possible confusion with the customer. To clarify, Terasen Gas is proposing a Customer Choice fee with the amount set on an annual basis reflecting the forecasted under-recovery of gas costs. The amount would either be zero or a positive charge; a credit would not be given to a customer.

Stable Rate Option

DEML reiterates the importance of the Stable Rate Option being eliminated in advance of Residential Unbundling. DEML indicates that to have competitive marketers compete with the incumbent utility in supplying a fixed price offering will act as a barrier to marketer entry and will compromise the success of Residential Unbundling.

ESBC writes that utility programs such as the Stable Rate program should cease coincident with the effective date of the Residential Unbundling program. ESBC states that should Terasen Gas wish to offer competing products, it be required to do so through an unregulated affiliate.

CEG provides no comment on the Stable Rate option.

As previously submitted, Terasen Gas believes the Stable Rate option is complementary to Residential Unbundling as it helps to facilitate an orderly transition to an unbundled environment. The Stable Rate option is intended to raise awareness in the residential marketplace of what commodity choice is and factors to consider in making an informed choice, and the advantages and disadvantages of commodity choice. The Stable Rate option is in its second year with enrolment for the 2006 program at 8,000 residential customers. The program has been successful in raising residential customers' awareness of commodity choice with coverage of the program achieved in local media such as the Vancouver Sun and CTV Consumer segment "Olsen on Your Side".

Summary

DEML summarizes and notes that it believes Residential Unbundling is an initiative borne of provincial policy. There is a cost to implement this policy and provide the benefits of commodity choice to all eligible British Columbians. All eligible residents should therefore share in the cost of implementing residential unbundling as all will share in the benefits. DEML states that if the cost structure is developed according to the cost-causality framework proposed by Terasen Gas, it will significantly limit the success of Residential Unbundling.

CEG comments that it is pleased with the direction that Terasen Gas is going with the application and fully supports an expeditious approval of the terms and conditions with serious consideration for the comments provided by CEG.

ESBC strongly supports an effective and efficient implementation of the unbundling program for residential customers. ESBC is of the view that there is strong consumer interest in having retail choice for natural gas supply.

Terasen Gas believes it has developed a framework that is balanced, recognizing the differing needs of stakeholders and providing a solid foundation on which to build a sustainable and cost-effective Residential Unbundling program.

In scoping the solution for Residential Unbundling, Terasen Gas will be specifying system and process requirements to support the adoption of the cost-causality principle for program cost recovery. By having the necessary systems and processes in place, the solution for Residential Unbundling will support the Commission's decision on appropriate cost recovery. Terasen Gas wishes to emphasize that the Commission retains the right to determine which costs ought to be covered and how recovered costs are to be treated in the initial roll-out of the Residential Unbundling program.

1.0 Essential Services Model

In the Essential Services Model ("ESM"), Terasen Gas continues to be responsible for contracting 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.

DEML supports the use of the Essential Services Model for Residential Unbundling. ESBC is fully supportive of utilizing the ESM for the Residential Unbundling program. CEG offers no specific comment on this issue but in past have stated its support for continued use of the ESM.

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

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.

A review of the existing Code of Conduct for Gas Marketers will be required to reflect any changes necessary to support Residential Unbundling. Changes identified to date to include introducing language outlining "portability" provisions of customer contracts; and rewording of Article 20 which currently states "A Salesperson shall not induce any Consumer to breach a contract with another Gas Marketer" to include additional language specifying a Gas Marketer must bring to the attention of the customer to check for possible early termination fees if the customer decides to leave a Gas Marketer for another Gas Marketer before the end of the original contract term. At the suggestion of Gas Marketers, Terasen Gas will be reviewing the feasibility of accepting electronic signatures for contracts and possibly incorporating relevant language into the Code of Conduct for Gas Marketers.

Further, Terasen Gas proposes for consideration by the Commission and stakeholders a review of the existing performance bonding requirements. Currently, the performance bonding requirement is $250,000 for a Gas Marketer irrespective of the size of their Unbundled customer base. Terasen Gas proposes a bonding requirement that increases with expansion of a Gas Marketer's Unbundled customer base (or customer volumes), reflective of the increased financial exposure to the utility or customers that could be harmed by a Gas Marketer's actions.

CEG provides no comment on this issue. DEML acknowledges that a review of the existing Code of Conduct for Gas Marketers is required and is eager to provide assistance. DEML submits that the $250,000 performance bonding requirement is to address breaches of the Code of Conduct by a gas marketer and has nothing to do with the financial exposure of the utility or customers that could be harmed. DEML states that the $250,000 should be sufficient as a licensing requirement for a gas marketer, and proposes a combined Residential and Commercial license to be established. ESBC states they are in general agreement that a review of the current Code of Conduct is required. ESBC recommends that is should be conducted under an open collaborative process. ESBC is not supportive of Terasen Gas' proposal to review the current performance bonding requirements and potentially utilizing an ascending sliding scale methodology for determination of the bonding requirement. ESBC submits that the current requirement is onerous and asks that should the Commission consider that Terasen Gas' proposal merit further consideration, that Terasen Gas be directed to provide detail rationale supporting their position and an opportunity for parties to intervene.

With regards to DEML's comments on the applicability of the $250,000 bonding requirement, Terasen Gas refers DEML to the existing Rules for Gas Marketers developed by the Commission pursuant to subsection 71.1(10) of the B.C. Utilities Commission Act to assist in the administration of Gas Marketer licensing. Rule 10 Enforcement of Rules and Code of Conduct and License Conditions states:

If the Commission finds, after notice and opportunity for the Gas Marketer to be heard in an oral or written hearing, that a Gas Marketer has failed to comply with **the Act, the Rules, the Code of Conduct for Gas Marketers or conditions in its Gas Marketer License,** and in addition to any other remedies or actions that may be applied, the Commission may:

a. Suspend or cancel the Gas Marketer License.
b. Amend the terms and conditions of, or impose new terms and conditions on the Gas Marketer until the deficiencies are resolved.
c. Apply penalties pursuant to Section 106(4) and (5) of the Act not to exceed $10,000 for each day for each day such violation continues.
d. Order that a portion or all of the performance security (referred to in Rule 9.0) be paid out to consumers, public utilities or other persons that the Commission considers to have been harmed by an act or omission of the Gas Marketer including a breach of **the Act, the Rules, the Code of Conduct for Gas Marketers, or conditions of the Gas Marketer License**.

Further, Rule 11 of the Rules for Gas Marketers states:

> Failure by a Gas Marketer to comply with its gas delivery obligations as outlined in the gas supply agreement between the Gas Marketer and the public utility may result in the suspension or revocation of the Gas Marketer License.

Terasen Gas believes that breach of Rule 11, where a Gas Marketer fails to fulfill its gas delivery obligations to the public utility would constitute a condition in which the Commission as outlined in Rule 10 has the authority to order that a portion or all of the performance security be paid out to consumers, public utilities or other persons that the Commission considers to have been harmed by an act or omission of the Gas Marketer. This is an example of the financial exposure of the utility or customers that could harmed by a Gas Marketer failing to fulfill its gas delivery obligations.

Nevertheless though, intuitively, the number of breaches of the Code of Conduct would be expected to increase with the resulting higher number of customer and gas volumes associated with a Residential Unbundling program. Therefore, Terasen Gas submits it is reasonable that more security or performance bonding is required to provide adequate coverage.

Terasen Gas disagrees with ESBC's comment that the current performance bonding requirement is onerous. It is Terasen Gas' understanding that for a marketer with meaningful financial strength, a $250,000 performance bond can be secured with relative ease and at low cost. A rule of thumb for the cost per annum would be about

1% of the amount of the bond, which for a $250,000 bond results in an annual financing cost of approximately $2,500 per year.

Further, ESBC requests that Terasen Gas be directed to provide detail rationale supporting their position should the Commission consider the increased bonding requirement proposal to warrant further consideration. The rationale for increased bonding is as outlined in the December 9th filing and in the discussion above addressing a similar question from DEML. Also, Terasen Gas wishes to clarify that it is the Commission and not Terasen Gas that has responsibility and authority for regulating Gas Marketers and overseeing the Rules for Gas Marketers, Code of Conduct for Gas Marketers and Licensing of Gas Marketers.

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.

For Residential Unbundling, in situations where customers are still not satisfied after having attempted to resolve their complaint with a Gas Marketer directly, 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. The dispute resolution process will have clearly defined rules and procedures on how complaints are logged and processed, providing customers an effective means to handle their complaints in a timely manner. To support the tracking and monitoring of the customer complaints, Terasen Gas will include in the Scoping phase a requirement for a supporting system and processes. The system and processes will be required to log the customer complaints, report on the status of complaints and decisions made and to provide summary reporting on the types and number of complaints received for each Gas Marketer. Terasen Gas believes a tracking system such as that outlined is necessary to manage customer complaints efficiently for Residential Unbundling.

The responsibility for managing and resolving customer complaints will rest with the Commission or a third party that the Commission nominates. Terasen Gas will assist the Commission in developing the independent dispute resolution process, including outlining the procedures and building the systems to manage customer complaints and identifying resources to operate the dispute resolution process. While Terasen Gas is willing to assist in the development of a dispute resolution process and support systems, it believes the dispute resolution process itself is best managed by the Commission or Commission nominated third party.

Consistent with the cost-causality principle discussed earlier where the costs of the program are attributed and recovered from the party(ies) who benefit directly from

Residential Unbundling, Terasen Gas proposes that Gas Marketers be allocated a portion of the costs to operate the independent dispute resolution process in the form of a fixed monthly fee and a variable fee based on the number of complaints logged for a Gas Marketer.

CEG offers no comment on this issue. DEML does not argue the need for an independent body to deal with dispute resolution, however it does not accept that funding be sourced from Gas Marketers. DEML argues that all residential customers are potentially the beneficiaries of Residential Unbundling, instead suggesting alternative funding from a levy on Terasen Gas or through general government funding. ESBC endorses Terasen Gas' proposal to create a dispute resolution process similar to that in Ontario however ESBC states it is not clear why Terasen Gas proposes that the costs for this Commission function should be recovered from Gas Marketers. ESBC argues that similar to all other jurisdictions, the costs for these services should be recovered through regulated rates. ESBC is of the view that Terasen Gas' cost allocation proposal should be rejected.

Terasen Gas restates for clarity its cost allocation proposal is for Gas Marketers to be allocated a **portion of the costs** (i.e. not all of it) to operate the independent dispute resolution process in the form of a fixed monthly fee and a variable fee based on the number of complaints logged for a Gas Marketer. Further to DEML's argument that all residential customers are potentially beneficiaries of Residential Unbundling, Terasen Gas believes that Gas Marketers stand to also significantly benefit from Residential Unbundling and therefore should bear some of the costs, particularly costs which are primarily driven by Gas Marketers' actions.

It is Terasen Gas' view that the demand and use of the proposed dispute resolution as outlined will be driven primarily by the conduct of Gas Marketers in their solicitation and interaction with gas customers. For example, the better trained and knowledgeable a Gas Marketer's sales staff is with complying with the Code of Conduct for Gas Marketers, the lower the number of customer complaints likely to be received relative to the size of the Gas Marketer's customer base, resulting in less resources and costs required to operate the independent dispute resolution process. The opposite situation holds true where a Gas Marketer's sales staff is not well-trained and knowledgeable with complying with the Code of Conduct. By making Gas Marketers responsible for a portion of the costs to operate the independent dispute resolution process, Terasen Gas believes Gas Marketers interests are more aligned with ensuring their behaviour is in compliance with the Code of Conduct, leading to a lower number of customer complaints for the benefit of all stakeholders.

4.0 <u>Customer Education</u>

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 in July 2006 for a January 1, 2007 launch date. Integral to the customer education efforts will be the availability of a central depository, in the form of a website, containing information about the Residential Unbundling program and gas pricing.

Terasen Gas is currently in the process of developing a preliminary education plan for Residential Unbundling and believes that sufficient funds must be spent (i.e. ~$2M to $4M) initially 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. In addition to the initial rollout, regular education efforts will be required to ensure an effective marketplace on an ongoing basis.

DEML endorses the proposed customer education efforts and also supports the development of a central depository, or website, containing information regarding the Residential Unbundling program and gas pricing. DEML, however, believes that the website should be housed separately from Terasen Gas' website noting that it is important that consumers are able to distinguish between the regulated provider and the offerings of competitive marketers. ESBC comments customer education is a very important element of the implementation plan and supports the need for education to begin prior to the start of the program. CEG offers no specific comment on customer education.

Terasen Gas is encouraged by the support expressed by the stakeholders in ensuring adequate customer education as part of a successful Residential Unbundling program. Concerning DEML's comment that a central depository, or website, should be housed separately from Terasen Gas' website, Terasen Gas has already consulted with Commission staff and the Commission staff's decision was to imbed the information within the Terasen Gas website.

Commission Order G-57-05 approved the introduction of the market pricing depository for the Commercial Unbundling program. The Commission instructed Terasen Gas to set up and maintain the website with the Commission providing oversight. The main objective was to provide greater information to the customer and reduce the potential for complaints when the residential market opens.

5.0 Customer Eligibility and Mobility

Terasen Gas Recommendations

With respect to the various issues affecting customer eligibility, enrolment 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.

CEG comments that the Commission should review the issues with Unbundling on Vancouver Island for both residential and commercial customers some time in the near future to determine if the regulatory hurdles are actually not unworkable. Columbia Fuels also asks for a Commission review of the possibility of extending the Unbundling program to customers on Vancouver Island and the Sunshine Coast.

Terasen Gas believes such a review should be in a subsequent phase of Unbundling.

- 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 as part of the Scoping Phase in January 2006.

  DEML supports Terasen Gas' intention to investigate the Flexible Pricing option further. In addition, DEML suggests that in addition to the scoping by Terasen Gas of variable rate offerings that Terasen Gas investigates its capability in billing service offerings on the same bill as the commodity to support Principle #9 of the Guiding Principles for Residential Unbundling.

  CEG does not believe that price flexibility in the first 12 months of Residential Unbundling is necessary nor of value to customers.

  Terasen Gas does not support DEML's suggestion for Terasen Gas to investigate its capability in billing other service offerings on the same bill. Terasen Gas believes the Unbundling program is about offering commodity choice to small volume customers and not about offering other products. If Gas Marketers choose, they can bill for such products using their existing billing capabilities.

- 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. In order to facilitate the timely processing of re-enrollments, customers need to respond with sufficient time to permit marketers to submit re-enrollment details to Terasen Gas.

A delay in providing timely re-enrollment details may trigger a referral to the dispute resolution process.

- 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. Terasen Gas has reviewed the feasibility of shortening the current 60 day cut-off enrolment period to possibly 30 days. To make this work, Gas Marketers will have to reduce their current notice period from 30 days to 10 days, leaving 20 days to accommodate the 10 day cooling off period for customers and 10 days for Terasen Gas to run its processes to determine marketer delivery requirements.

  DEML supports monthly entry dates with a 30 day enrolment period. CEG strongly supports the ability to enrol monthly and with a reduced notice timeline to 30 days. ESBC provides no specific comments on this issue.

  Given Gas Marketers' opinions and no objections raised, Terasen Gas recommends moving to a 30 day enrolment period for Residential Unbundling.

- 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.

  Gas Marketers are in agreement with the proposed transaction validation process.

- 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.

  All three Gas Marketers supported the introduction of monthly entry dates.

- Issuance of confirmation letters from Terasen Gas to the residential customers on receipt of enrolment requests for the Unbundling program. The letter will state that the customer needs to respond by a certain date should the customer elect to opt out of the contract (i.e. within the 10 day cooling off period). Terasen Gas strongly believes this is a necessary component to ensuring adequate consumer protection.

  Consistent with the cost-causality principle discussed earlier where the costs of the program are attributed and recovered from the participants who benefit directly from Residential Unbundling, Terasen Gas proposes that Gas Marketers be charged the incremental costs of generating and sending out the confirmation letter.

DEML supports the issuance of a confirmation letter and would like to engage Terasen Gas in discussions regarding the branding, content and cost of the letter. However, DEML does not believe the letter is the appropriate mechanism for dealing with the 10 day cancellation right. ESBC does not oppose the issuance of a customer notice letter but would oppose a confirmation letter should it require the customer to take action (i.e. by a certain date) or to contact Terasen Gas. ESBC notes that the 10-day cooling off period will have already elapsed before Terasen Gas receives the enrolment transaction. ESBC requests the wording of the confirmation letter be drafted in collaboration with the Gas Marketers. CEG supports a confirmation letter from Terasen Gas but requests that marketers have input into the content of the letter.

Terasen Gas appreciates Gas Marketers' concern about the content of the confirmation letter and is open to engaging Gas Marketers in developing appropriate wording and content. Terasen Gas notes that it believes the primary purpose of the confirmation letter is for consumer protection and not marketing purposes.

Regarding DEML's comment the 10-day cooling off period will have already elapsed before Terasen Gas receives the enrolment transaction, Terasen Gas notes that with the introduction of the confirmation letter for Residential Unbundling, enrolment transactions are instead expected to be submitted by Gas Marketers to Terasen Gas almost immediately after the customer signs the contract. The 10-day cooling off period will start from the date Terasen Gas receives the enrolment request from a Gas Marketer.

- After reviewing the portability issue further, with portability defined as the ability for an existing fixed price gas contract to be "ported" to another physical premise for the same gas customer in Terasen Gas' eligible service regions, Terasen Gas recommends that portability be a mandatory feature of a contract between a customer and a Gas Marketer. There will be no discretion, at either the gas customer's or Gas Marketer's option to not make the contract portable. The gas customer will be obligated to fulfil the gas supply agreement to the end of the contract term unless the customer elects to terminate the contract, subject to payment of termination fees to the Gas Marketer. Further work will be done in the coming weeks to identify the specific processes to support mandatory portability. The business driver for the portability feature stems from the significant amount of customer movement that occurs naturally every year where customers change account information or physically move to another premise (i.e. ~15% of residential customer base). An effective solution is required to help ensure Gas Marketer contracts are fulfilled and administered. Terasen Gas proposes portability will apply only to residential customers gas supply contracts instead of also to commercial customers, as the volume differences and gas supply impacts between one residential premise to another is much smaller than that of one commercial premise to another.

DEML is in agreement with mandatory portability. In addition, DEML suggests to Terasen Gas that a reasonable ground for contract termination would be for a customer to move to a region of B.C. where Residential Unbundling did not apply. ESBC is supportive of allowing portability of contracts. CEG supports a process where upon notice from the customer that it is moving to a new residence that the agreement automatically move to the new location.

With regards to DEML's comment that a reasonable ground for contract termination would be for a customer to move to a region of B.C. where Residential Unbundling did not apply, Terasen Gas is of agreement as it has defined portability as the ability for an existing fixed price gas contract to be "ported" to another physical premise for the same gas customer in Terasen Gas' **eligible service regions**.

- For handling transactions 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), Terasen Gas recommends an enrolment validation routine where the enrolment request submitted by the second Gas Marketer be accepted. This approach would provide customers the ability to change their mind but yet still be accountable for the results of their choice. The customer will receive a new confirmation of the most recent transaction advising they need to contact the first Gas Marketer concerning payment of any cancellation fees. Both Gas Marketers will also be sent an electronic notice of the "switch" transaction. To enable detection of poaching, Terasen Gas asks Gas Marketers to provide both start and end dates of the contract between the customer and the Gas Marketer in the enrolment information submitted. Terasen Gas' systems will be built with the option to turn this soft blocking approach to a hard blocking approach where a poaching transaction is rejected unless the first Gas Marketer agrees to submit a drop request. Should it be determined at a later point that a hard blocking approach is preferred, systems can easily be re-configured to hard block potential poaching transactions.

  Further to tracking of contract end dates, Terasen Gas proposes to print the current contract end date on a customer's bill as a reminder. This will enable the customer to easily access the contract term end date, potentially reducing the frequency of poaching transactions occurring as the result of the customer not remembering the contract end date.

  DEML does not endorse the proposed "soft-block" poaching solution. In DEML's opinion, the proposed process allows for the exception instead of preventing the majority of issues. According to DEML, for the majority of poaching instances, the customer is not willing to pay the exit fees and simply wishes to be returned to their original marketer.

ESBC does not support Terasen Gas' proposal, indicating it does not believe the solution is practical and will not be effective in managing the issue. ESBC comments that it does not believe Terasen Gas is entitled to contract information nor should Terasen Gas be required to manage contract start and end dates. ESBC further comments that contract dates can change for a number of reasons during the customer relationship.

ESBC states that a soft-blocking approach is what is in place today and is not sufficient. ESBC believes also that this view is generally endorsed by most stakeholders as discussed in the April 8 work group meeting. ESBC outlines an alternative solution where a hard reject process is enabled, rejecting any new enrolment transaction in which the customer is already enrolled with another Gas Marketer. Coupled with the hard reject process, ESBC proposes an amendment of the Code of Conduct for Gas Marketers ensuring that customers are held harmless on the second contract.

CEG supports the soft-blocking approach with a suggestion that a written confirmation from the customer be required confirming that the customer wishes to enter into an agreement with the second Gas Marketer and that the customer is willing to pay applicable penalties to the first Gas Marketer.

Terasen Gas believes its proposed process coupled with the enhancement to print the contract term end date on a customer's bill is the most effective in supporting customer mobility, providing customers the ability to switch to another Gas Marketer but yet still be accountable for the results of their choice. Terasen Gas believes making available the contract term end date on a customer's bill will contribute to preventing the majority of issues that DEML refers to, where a customer in signing a second contract does not realize they have an existing contract and that they would be breaking the existing contract by signing with a second Gas Marketer.

Terasen Gas also wishes to reiterate a point discussed earlier in this section that 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. Under the proposed business model, a Gas Marketer is entitled to only change a contract date after the expiration of the most current 12 consecutive month period.

Regarding ESBC's comment that a soft-blocking approach is what is in place today and is not sufficient, Terasen Gas believes its current automated proposal utilizing contract start and end dates, providing timely notification to the customer and the two Gas Marketers impacted, and printing the contract end date on the customer's bill is more robust than the manual-based solution in use today. Terasen Gas further disagrees with ESBC's statement that most stakeholders at the April 8 workshop felt the soft-blocking approach was not sufficient. Terasen Gas' recollection of the April 8 workshop discussion was that most stakeholders present supported a soft-blocking approach.

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, Terasen Gas will evaluate the current method for calculating the daily marketer delivery requirement given the higher number of transactions, 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.

DEML supports Terasen Gas' recommendation to continue the current marketer delivery requirement process for Residential Unbundling. ESBC and CEG offer no specific comments on this issue.

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.

DEML is in agreement with Terasen Gas functioning as the Supplier of Last Resort for residential customers. ESBC and CEG offer no specific comments on this issue.

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, unbundled customers are returned to Terasen Gas as Supplier of Last Resort if these 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.

DEML supports Terasen Gas' recommendation of no changes to the current conditions. ESBC and CEG offer no specific comments to this issue.

9.0 <u>Customer Billing and Collections</u>

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.

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.

DEML looks forward to the outcome of Terasen Gas' review efforts. ESBC and CEG offer no specific comment on the issues.

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 for residential customers. As there is currently an allowance in Terasen Gas' operating and maintenance ("O&M") budget for bad debt expenses, Terasen Gas is willing to consider a reduction in its bad debt budget to address the issue of the bad debt being budgeted in two areas; with Gas Marketers and with Terasen Gas.

Under the recommended methodology, marketers will be charged a percentage of bad debt reduction on gross sales to their customers. This practice is consistent with that at Union Gas in Ontario where a bad debt allowance is recovered from the marketers through the levy of an administration fee. The utility would determine what the bad debt allowance should be.

DEML is supportive of Terasen Gas in this regard. CEG indicates that would be supportive of Terasen Gas' proposal only if Terasen Gas also allocates a similar bad debt premium to its Cost of Gas rather than having it in the O&M. ESBC offers no comment on this issue.

Given the stakeholder comments that are generally supportive of the proposal on the handling of the bad debt issue, Terasen Gas believes it is prudent to review the issue further in the upcoming months with a final recommendation to be included in the CPCN application for Residential Unbundling.

11.0 Program Cost Recovery

For Commercial Unbundling implementation and maintenance costs are recovered from customers in rate classes eligible for the service. Annual operating costs (transactional related costs) are recovered from Gas Marketers where possible. Terasen Gas shareholders are not at risk for the costs of implementing and maintaining the service or for any assets stranded by Unbundling. Terasen Gas received confirmation from the Commission in Letter No. L-73-05 dated September 7, 2005 that its shareholders are not at risk for the costs of implementing and maintaining Residential Unbundling 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.

DEML looks forward to reviewing the proposed CPCN Application scheduled for March 2006.

Terasen Gas has no further comment as much of this issue regarding costs and cost recovery has already been discussed in preceding sections of this letter.

12.0 Midstream Cost Recovery and Gas Cost Recovery

Much of this issue has been discussed in the preceding sections of this letter. Terasen Gas wishes to reiterate that it intends to continue to evaluate this issue and the impacts on business systems and processes, including the introduction of a Customer Choice fee for Unbundling and an Essential Services fee as part of the Scoping Phase. A decision on the exit fee issue (Customer Choice fee) and 12 month fixed price rule (Essential Services fee) can be made at a later time as part of the CPCN application.

Terasen Gas believes that with the introduction of customer mobility for Residential Unbundling, the proposed cost recovery mechanisms are warranted. 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

For Residential Unbundling, Terasen Gas recommends no change to the balancing provisions of the existing transportation service for industrial and large commercial customers.

DEML supports the continuation of the existing transportation service for industrial and large commercial customers. ESBC and CEG provide no comments on the issue.

If there are any questions regarding the content of this letter, please contact Hans Mertins at (604) 592-7753, James Wong at (604) 592-7871 or Shawn Hill at (604) 592-7840.

Yours very truly,

TERASEN GAS INC.

Original signed

Scott A. Thomson

cc: Unbundling Stakeholders

APPENDIX 8

CODE OF CONDUCT (REVISED FOR RESIDENTIAL UNBUNDLING)

for

GAS MARKETERS

engaged in the

**COMMODITY UNBUNDLING SERVICE
IN THE PROVINCE OF BRITISH COLUMBIA**

Introduction

Marketing of natural gas under the Commodity Unbundling Service takes place usually, though not exclusively, in a Consumer's place of business or home, by personal contact, or via telephone or internet marketing. Marketing of Gas under the Commodity Unbundling Service involves several parties including Gas Marketers, utilities and the Consumer of the Gas. The relationship between the various parties must be based on fair and ethical principles.

Scope

The purpose of this Code is to foster and uphold a sense of responsibility towards the consumer and towards the general public by all those engaged in Marketing of Gas to Low Volume consumers participating in the Commodity Unbundling Service in the Province of British Columbia.

The Code applies to all practices used in the Marketing of Gas under the Commodity Unbundling Service for both residential and commercial Consumers. Where the practices are different between residential and commercial Consumers, it is noted.

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The Code is to be applied in spirit as well as to the letter, bearing in mind the varying degrees of knowledge, experience and discriminatory ability of Consumers.

Basic Principles

All Marketing of Gas under the Commodity Unbundling Service will conform to the principles of fair competition as generally accepted in business, with particular regard to:

- the terms of the offer and the methods and form of the contact with the Consumer;
- the methods of presentation and the information on the supply;
- the fulfilment of any obligation arising from the offer of purchase of Gas under the Commodity Unbundling Service.

Marketing of Gas under the Commodity Unbundling Service will be carried out in conformity with the laws of Canada and its provinces, where applicable.

Gas Marketers shall voluntarily assume responsibility towards the Consumer with respect to fair sales methods and product value, and shall make every reasonable effort to ensure Consumer satisfaction.

Gas Marketers shall ensure that their Salespersons are fully informed as to the characteristics of the gas supplies and/or services offered to enable them to give the consumer all necessary information to make informed decisions.

Definitions

For the purpose of this Code:

- **Act** means the Utilities Commission Act of British Columbia as amended from time to time.
- **Code** means this Code of Conduct for Gas Marketers.
- **Commission** means the British Columbia Utilities Commission.
- **Commodity Unbundling Service** is defined as the series of transactions involving the sale of gas by a Gas Marketer to a Gas utility for resale to a Low Volume Consumer arranged by Gas Marketer at a price agreed to between the Gas Marketer and the Low Volume Consumer.
- **Consumer** refers to any person or entity to which Gas Marketers direct or may direct their Gas Marketing activities under the Commodity Unbundling Service and includes both Consumers contracted with Gas Marketers or Consumers being supplied by a utility. Consumers include Residential and Commercial as defined by the local utility offering the Commodity Unbundling service.
- **Consumer's Agreements** means all written agreements and contracts between a Gas Marketer and a Consumer for the Marketing of Gas, other than the Offer.
- **Consumer Information** means information relating to a specific Consumer obtained by a Gas Marketer or its Salesperson in the process of selling or offering to sell Gas to the Consumer, and includes information obtained without the consent of the Consumer.
- **End User** is an entity or person who utilizes Gas either as fuel or a raw material.
- **Gas** means natural gas, substitute natural gas, synthetic gas, manufactured gas, propane-air gas or any mixture of any of them.
- **Gas Marketer** means an entity licensed by the Commission to engage in Gas Marketing to Low Volume Consumers under the Commodity Unbundling Service.
- **License** means a license issued under the Act by the Commission for the Marketing of Gas by a Gas Marketer to a Low Volume Consumer.
- **Licensed** means a person or entity holding a current valid License.

- **Local Distribution Company (LDC; Utility)** is a person/company enfranchised to distribute Gas within a defined territory.
- **Low Volume Consumer** – as defined by the Commission pursuant to section 71.1 of the Act. A "low-volume consumer" is defined as a person who, for the applicable period, either:
    - o has, or is expected to have, a normalized annual consumption at one premise of less than 2,000 gigajoules of Gas per year; or
    - o has chosen the Commodity Unbundling Service supply option, whatever the person's annual consumption of Gas.
- **Marketing** for the purpose of this Code, means any activities intended to solicit a Consumer or potential Consumer to contract with a Gas Marketer, including providing for a consumer's consideration an Offer, and is characterized by door-to-door selling, internet, telemarketing, direct mail selling activities, and any other means by which a Gas Marketer or its Salesperson interacts directly with a Gas Consumer or potential Gas Consumer.
- **Offer** means a proposal to enter into an agreement made to an existing or prospective Consumer for the sale of Gas.
- **Premise** means the building or portion of a building that is provided with Gas through a single meter.
- **Regulation** means a regulation made under the Act.
- **Salesperson** means a person who is employed by or otherwise conducts Marketing on behalf of a licensed Gas Marketer, or makes representations to Consumers on behalf of a Gas Marketer for the purpose of effecting sales of Gas to Low-Volume Consumers.
- **Third Party** with respect to a Gas Marketer, means a person other than the Gas Marketer, and includes other Gas Marketers, affiliates, Consumers and other persons.

The Terms of The Consumer's Agreements and the Offer

Accuracy

Article 1

The terms of any Offer and Consumer's Agreements shall be clear, so that the Consumer shall know the nature of the product and the benefits ,the commitment and risks involved in agreeing to contract for Gas with the Gas Marketer. In particular, but without limiting the generality of the foregoing, any Offer and Consumer's Agreements will be accurate and truthful as to any representation made as to price, delivery arrangements, payment terms and conditions, quality and value of services, and quantity and performance and warranty conditions.

Price and Other Terms

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 Offer and Consumer's Agreements shall clearly state agreement renewal provisions including default rollover provisions.

The Gas supply price must be a fixed price for 12 month intervals expressed in Canadian dollars per gigajoule. This price shall only apply to the sale of Gas and shall not include provision of other services.

If any other term or condition is subject to re-determination, indexation or arbitration, the Offer shall so state.

All Offers shall contain clear statements as to the quantities of Gas to be purchased, intended start-up and delivery dates, and the term of the agreement. The term shall not be less than one year or more than five years in length.

The Consumer's Agreements shall accurately and fully reflect the terms and conditions of the Offer as accepted by the Consumer.

No Offer shall require a sign-up fee to be taken in order to initiate a purchase of natural Gas arrangement under the Commodity Unbundling Service.

Obligations and Liabilities

Article 3

The Offer and Consumer's Agreements shall state the respective obligations, liabilities and risks of the Gas Marketer and Consumer in clear and understandable terms so that the Consumer may be sufficiently informed to understand them prior to executing Consumer's Agreements.

The Gas Marketer shall confirm with the Consumer that the Consumer has the signing authority to enter into the Consumer Agreement.

Protection

Article 4

This Code shall be interpreted in accordance with all applicable federal and provincial consumer protection and business practice legislation.

Guarantees

Article 5

Offers and Consumer's Agreements may contain the words "guarantee", "guaranteed", "warranty" or "warranted", or words having the same or similar meanings, only if the terms of the guarantee as well as the remedial action open to the Consumer are clearly and succinctly set out in the Offer and Consumer's Agreements. Any such guarantee shall in no way diminish the rights which a purchaser would otherwise enjoy under Canadian or applicable provincial laws. The name and address of the guarantor shall be clearly and fully stated.

Presentation of the Offer

Identity of the Gas Marketer

Article 6

The name, permanent address, main British Columbia office address and the telephone number, fax number, e-mail and website addresses of the Gas Marketer shall be clearly and fully disclosed in any Marketing document or other Marketing literature distributed to the Consumer, so as to enable the Consumer to remain in touch directly with the Gas Marketer. Marketing documents and other literature containing only an accommodation address or a post office box number are not acceptable.

Article 7

All Salespersons shall immediately, truthfully and fully identify themselves and provide proof of licensing and bonding, to prospective Consumers. They shall also truthfully and fully indicate the purpose of their approach to the Consumers, identify the Gas Marketer with whom they are associated and indicate that they are Marketing Gas under the Commodity Unbundling Service.

Article 8

Neither a Gas Marketer or any Salesperson shall mislead or otherwise create any confusion in the mind of a Consumer about the identity of the represented Gas Marketer, its promotion campaigns or trade mark, or those of competitors and/or LDCs.

Specifically, a Gas Marketer nor any Salesperson when Marketing a supply contract to a Consumer shall state that they are not representing the consumer's local distribution company.

Integrity

Article 9

Salespersons shall in good faith assist Consumers to evaluate the nature of the transactions. Marketing efforts shall be organized and carried out so as not to:

- create confusion in the mind of the consumer;

- mislead the consumer or misrepresent any aspect of the Offer or Consumer's Agreements;
- abuse the trust of the Consumer;
- unduly pressure or harass the Consumer to enter into transactions; and
- exploit the lack of experience and knowledge of the Consumer.

Clarity

Article 10

Gas Marketers and Salespersons shall ensure that all terms of any Offer or Consumer's Agreements are communicated to the Consumer in writing in a clear, complete, accurate and understandable manner. Print which by its size or other visual characteristics is likely to negatively affect the legibility or clarity of any Offer or Consumer's Agreements, shall not be used.

Truthful Presentation

Article 11

The characteristics of any transaction shall include:

- price, deposit, credit and rebate terms;
- terms of payment and frequency;
- the beginning and end dates of the agreement;
- identity of and accessibility to the Gas Marketer;
- process for making a complaint to or enquiry of the Gas Marketer;
- delivery terms and conditions, during-and after-sales services;
- sources and reliability of supplies;
- terms of guarantee and warranty;
- liabilities and obligations of the Gas Marketer and Consumer;
- benefits/risks to Consumer;
- awards, bonuses, prizes, discounts and other incentives with respect to the Offer and Consumer's Agreements;
- Consumer's entitlement to receive a copy of this Code from the Gas Marketer;
- reasons for which the agreement may be terminated by the Gas Marketer;
- for Commercial consumers, that the agreement is made with respect to the Consumer's Premise and terminates in the event the Consumer moves;

- for Residential consumers, that the agreement is made with respect to the Consumer's Premise and in the event the Residential customer moves, the Consumer's Agreement will apply to their new Premise, provided that the new Premise is served with natural gas and that it is in an eligible service territory as the Utility providing the Commodity Unbundling service.

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- for Commercial consumers, cancellation rights of the Consumer including a mandatory 10 day cooling off period as required under the Consumer Protection Act; a Gas Marketer must not submit a customer enrolment to the LDC for processing until the 10 day cooling off period has expired;
- for Residential consumers, for the purposes of the Commodity Unbundling Service, the 10 day cooling off period is defined as the 10 calendar days from the date of the confirmation letter sent by the Utility to the consumer.

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- rights under the Consumer's Agreements with respect to assignments, transfers and sales to another Gas Marketer;
- any deposit, exit, late fees or any other charges payable to the Gas Marketer, if applicable;
- any other information required to be provided to the consumer by Canadian or applicable provincial law; and
- all other terms of the Offer shall be presented completely, accurately and truthfully.

Telephone and Internet Marketing

Article 12

Telephone Marketing

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When conducting telephone Marketing, the Gas Marketer shall comply with applicable laws. All telephone contacts must be made Monday to Friday between the hours of 9am – 9:30 pm or on Saturday and Sunday between the hours of 10:00 a.m. and 6:00 p.m. local time. Salespersons must immediately, truthfully and fully identify themselves to the prospective Consumers. They shall also immediately, truthfully and fully indicate the purpose of their approach to the Consumers, identify the Gas Marketer with whom they are associated and indicate that they are selling Gas under the Commodity Unbundling Service. The caller must first personally obtain the consent of the recipient to play a recorded offer.

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The Gas Marketer shall forward a written agreement to sign-up for service by telephone marketing and obtain from the Consumer a signed agreement in return. The Gas Marketer shall direct the LDC to switch the Consumer's Gas supply only once the Gas Marketer is in possession of the signed agreement from the Consumer.

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Internet Marketing

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The Gas Marketer shall forward a written agreement to sign-up for service by Internet marketing and obtain from the Consumer a signed agreement in return or obtain an electronic signature which complies with the B.C. Electronic Transactions Act.. The Gas Marketer shall direct the LDC to switch the Consumer's Gas supply only once the Gas Marketer is in possession of the signed agreement from the Consumer.

Complaints

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Article 13

The Commission shall be responsible for investigating disputes related to the business practices of the Gas Marketers as outlined in the Code of Conduct including the conduct of the Gas Marketer's Salespersons, the contract the Consumer has with the Gas Marketer or any other matter related to the Gas Marketer.

Residential consumers may register a dispute under the Independent Dispute Resolution Process for investigation and resolution by the Commission. Disputes filed and settled in this manner are considered binding.

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Otherwise, it shall be the responsibility of the Consumers and Gas Marketers to resolve any contractual disputes between themselves or other agreed process between them or refer the disputes to the courts. As such, the Gas Marketer shall use good faith efforts to attempt to resolve all Consumer complaints and inquiries made to it.

Should any Consumer complain that a Gas Marketer or Salesperson has engaged in any improper course of conduct pertaining to Marketing under the Commodity Unbundling Service, the Gas Marketer shall promptly investigate the complaint and take all appropriate and necessary steps in the circumstances to redress any and all wrongs disclosed by such investigation.

Salesperson Operations

Respect of Privacy

Article 14

Marketing shall not be intrusive or harassing in nature. Marketing activity (excluding online Marketing) shall be limited to between Monday to Friday between the hours of 9am – 9:30 pm or on Saturday and Sunday between the hours of 10:00 a.m. and 6:00 p.m. local time. The right of a Consumer to refuse further discussion shall be respected.

Deleted: between the hours of 9am and 9pm on normal business days.

Honesty, Fairness and Veracity

Article 15

A Salesperson shall not abuse the trust of individual Consumers or exploit their lack of experience or knowledge, nor play on ignorance or on fear, thereby exerting undue pressure on Consumers. All Offers must, therefore, be clear and honest.

A Salesperson shall not make any statement or take any measure which, directly or by implication, omission, ambiguity or exaggeration, is likely to mislead a Consumer with regard to the terms of the Offer, Consumer's Agreements or any other matter.

A Salesperson shall, to the best of his or her knowledge and ability, give complete, accurate and clear answers to a Consumer's questions concerning the Offer or any other matter.

Article 16

A Salesperson shall ensure that the Consumers clearly and thoroughly understand the information given. The demonstration or explanation of the transaction under the Commodity Unbundling Service shall, as far as possible, be adapted to the needs and enquiries of the Consumers.

A Salesperson shall give sufficient time for Consumers to read the entire contract form thoughtfully and without interruption or harassment.

A Salesperson shall not make any verbal representations regarding agreements, rights or obligation unless those representations are contained in the Consumer's Agreements.

Gas Marketers shall ensure that their salespersons are generally knowledgeable in the natural gas business, fully informed as to the characteristics of gas supplies and/or services offered and the Consumer's Agreement utilized by the Marketer, to enable them to give the consumer all necessary information to make informed decisions.

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Testimonials and Endorsements

Article 17

A Salesperson shall not refer to any testimonial or endorsement which is:

- not authorized by the person quoted, if in a private capacity;
- not genuine or unrelated to the experience of the person giving it;
- obsolete or otherwise no longer applicable;
- taken out of context; or
- used in any way likely to mislead the Consumer.

Comparisons and Fair Competition

Article 18

A Salesperson shall refrain from using comparisons which might mislead and which are incompatible with the principles of fair competition. Points of comparison shall be fairly selected and shall be based on facts which can be substantiated.

All statements or promises made in any promotional material must be complete and in accordance with actual conditions, situations and circumstances existing at the time the promotion is made. Any data referred to must be competent and reliable and support the specific claim for which it is cited.

Article 19

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A Salesperson shall not discredit any competing company, firm or individual, or any supplies or services provided by such parties, directly or by implication. Accurate, complete and truthful comparisons, however, are acceptable. When price comparisons are used, they must be factual, complete and verifiable.

Article 20

A Salesperson shall not induce any Consumer to breach a contract with another Gas Marketer.

Article 21

A Salesperson shall not take unfair advantage of the goodwill attached to the trade name or symbol of another Gas Marketer or product.

A Salesperson shall clearly indicate that the Offer is not being made by a regulated Gas distributor, and not seek to mislead or otherwise create any confusion in the mind of a Consumer about the identity of the Gas Marketer, or about the trademarks of the regulated distributor or of competitors.

Article 22

A Gas Marketer shall not engage in any false or misleading advertising or publish any material which may have the effect of misleading potential Consumers.

Consumer Information

Information to be Maintained by a Gas Marketer

Article 23

A Gas Marketer shall have a current telephone number listed in British Columbia which may be reached by the general public without charge and shall provide it to every customer.

A Gas Marketer shall maintain on file:

- A list of all Salespersons and sub-contractors who act for that Gas Marketer;
- A list of its customers;
- The Notices of Appointment of Marketer signed by its customers;

- Copies of the Gas Marketer’s supply contract with each customer containing the customer’s written signature

and shall provide such information to the Commission upon request.

In addition, the LDC has a right to audit any Notices of Appointment of Marketers and the Gas Marketer’s supply contract with each customer by providing prior written notice of five business days to a Gas Marketer.

Article 24

Request for Historical Gas Consumption Information

Prior to submitting a request to the LDC for a Consumer’s historical gas consumption data, a Gas Marketer must obtain the Consumer’s signature on a consent form and provide a copy of this signed consent form to the LDC.

Confidentiality of Consumer Information

Article 25

A Gas Marketer must comply with the Personal Information Protection Act requirements of British Columbia.

A Gas Marketer shall not disclose Consumer information without the consent of the Consumer in writing, except where the Consumer information is required to be disclosed for the following purposes:

- For billing, collections or Gas supply management purposes (i.e. consumption information);
- For law enforcement purposes;
- For the purpose of complying with a legal requirement or an order of a regulatory body exercising jurisdiction over the Gas Marketer or the Consumer;
- For the processing of past due accounts of the Consumer which have been passed to a debt collection agency; or
- In the event that a Gas Marketer assigns, sells or transfers its list of Consumers and its existing agreements with Consumers to another licensed Gas Marketer.

Consumer information may be disclosed where the information has been sufficiently aggregated such that an individual’s information cannot reasonably be identified.

A Gas Marketer shall inform Consumers that information may be released to a Third Party without the Consumer’s consent for the purposes listed above.

A Gas Marketer shall not use Consumer information for one purpose from a Consumer for any other purpose without the written consent of the Consumer.

Agreements and Contracts

Agreement Specifications

Article 26

The first page of the agreement between the Gas Marketer and a Consumer must accurately summarize and clearly state the essential elements of the Offer including:

- Price (Canadian $ per gigajoule)
- Term (length in years, start and end dates
- Renewal provisions (type, frequency, dates)
- Penalties for early termination of the contract
- Conditions which may affect the price or term of the Offer

The minimum contract term is one year with a maximum contract term of no more than five years and the dates for commencement of service and termination of service must coincide with program entry dates.

Agreement Renewals

Article 27

The agreement should clearly set out the contract renewal provisions including those for default rollover.

- The renewal date shall be such that it coincides with a LDC program entry date. Notice periods for contract renewal should require the Gas Marketer to give notice to the Consumer no more than 120 days and no less than 90 days prior to the applicable renewal date.
- The Consumer shall have 30 days after receipt of written notice from the Gas Marketer to select renewal terms or cancel the contract.
- Where no instructions are received from the Gas Marketer prior to the cut-off date for the applicable renewal date, the Consumer's Agreement will the evergreened, with the same fixed price for a 12 month period.
- The timing of notices need to align with notice periods on entry dates to permit a Consumer to change Gas Marketers upon expiry or cancellation of an existing agreement.

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If the Consumer has cancelled its agreement and wishes to return to Utility supply, the Gas Marketer must notify the LDC within two business days of receiving notice from the Consumer.

Transfer of Agreements

Article 28

A Gas Marketer shall not assign, sell or otherwise transfer the Consumer's agreement to another person who is not a licensed Gas Marketer.

Within 30 days of assignment, sale or transfer of the administration of an agreement to another licensed Gas Marketer, the affected Consumer must be notified of the new Gas Marketer's address for service, telephone number and the Consumer complaints process, if these have changed.

The assignment, sale or transfer of a Gas Marketer's Consumer agreements to another Gas Marketer shall be approved in advance by the Commission.

Responsibility for Code Observance

Article 29

The primary responsibility for the observance of this Code rests with the Gas Marketer. Failure to comply with, or breach of, the Code may result in fines or the suspension or revocation of the Gas Marketer's license for a period to be determined by the Commission. A breach of this Code may occur in the course of inducing a person to enter into an Offer or Consumer's Agreement, even in the absence of a contract.

Gas Marketers shall ensure that their salespersons adhere to the standards required of a Gas Marketer as set out in the Code of Conduct for Gas Marketers, and shall be accountable for the behaviour and performance of their salespersons.

Article 30

The Utility shall refrain from conducting business with anyone who is not licensed in the province of British Columbia and does not strictly adhere to this Code.

Modification to the Code

Article 31

The Code shall be reviewed and modified if required at an annual meeting to be held prior to May 1 of each year. All changes will require the approval of the Commission.

APPENDIX 9

Appendix "C"
Notice of Appointment of Marketer

Notice of Appointment of Marketer and Authorization of Release of Information
(required attachment to the marketer's contract with the customer)

TO: Terasen Gas Inc. ("Terasen") and ______________________ ("Marketer")
Marketer Name

1. **Appointment of Marketer** – I confirm that I am the lawful owner or occupier of the service address indicated below ("Premises") and that I have entered into a natural gas supply agreement with ______________________ ("Marketer") for the supply of natural gas and I hereby appoint ______________________ ("Marketer") as my gas supplier on the Terasen Gas System for the Premises.

2. **Responsibility** – I confirm that I am the party responsible for the purchase of natural gas for the Premises. I understand that the Terasen General Terms & Conditions and the terms and conditions of the applicable Terasen Commodity Unbundling Service Rate Schedule apply and that I will comply and be bound by all terms and conditions set out therein.

3. **Authorization** – I give my Marketer the authority to do what is required with respect to the supply of natural gas including entering into the necessary agreements with Terasen. I acknowledge that Terasen will be entitled to rely solely on communications from the Marketer with respect to my enrolment in the applicable Commodity Unbundling Service as well as the termination or expiry of my natural gas supply agreement with the Marketer. I direct Terasen to release to my Marketer any and all historical and ongoing consumption information for the Premises.

4. **Terasen Role** – I understand that Terasen remains responsible for midstream commodity services, gas distribution, metering, billing and collections. In addition to the Terasen Basic Charge, Delivery Charge, Midstream Cost Recovery Charge and any applicable Franchise Fee Charge, applicable Riders or applicable taxes, Terasen will bill me for the gas supply provided by ______________________ ("Marketer") at the price communicated to Terasen by my Marketer. I acknowledge that Terasen has no obligation to verify that the price communicated by the Marketer is the price agreed between myself and the Marketer. All billing terms and conditions as well as payment options set out in the General Terms & Conditions of Terasen will continue to apply. I agree to keep the payment of my natural gas account up-to-date and pay accounts upon delivery when due and to be bound by and responsible for the billing arrangements made by my Marketer on my behalf.

5. **Notice to Return to Terasen System Supply** – I understand that my Marketer, acting on my behalf, must give Terasen a minimum of 60 days notice if I wish to return to the Terasen standard system supply rate at the end of the term of my natural gas supply agreement with marketer name. This rate may be higher than the price set out in my supply contract with my Marketer. I understand that if I return to Terasen without proper notice to Terasen that I may be liable for supply costs incurred by Terasen that are greater than the then current Terasen standard system supply rates.

6. **Marketer Failure** – In the event the British Columbia Utilities Commission declares that I will be returned to the Terasen standard system supply rate due to the failure of my Marketer to deliver gas supply to Terasen or other reasons, I will be returned to Terasen as supplier of last resort at the Terasen standard system supply rate with no interruption in the delivery of my gas supply. I understand that I may be liable for supply costs that are greater than the then current Terasen standard system supply rates.

Account Name: ______________________ Account Number: ______________ C
(as it appears on the Terasen bill)

Address of Premises: ______________________

Name: ______________________ Title: ______________________ C

Date: ______________________ Signature: ______________________

Witness Name: ______________________ Witness Signature: ______________________
(Optional) (Optional) C

APPENDIX 10

Terasen Gas

TERASEN GAS INC.

RATE SCHEDULE 36

COMMODITY UNBUNDLING SERVICE

Effective January 1, 2004

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RATE SCHEDULE 36: COMMODITY UNBUNDLING SERVICE

Article I Purpose

Section 1.01 Purpose

The purpose of this Rate Schedule 36 ("Rate Schedule") is to set out the terms and conditions upon which Terasen Gas will purchase, on a Firm basis, a quantity of Gas from the Marketer that is approximately equal to the aggregated normalized forecast load requirements of Customers enrolled in Commodity Unbundling Service under Rate Schedule 1U, 2U or 3U that have a Gas supply contract with the Marketer. In addition to the purchase of Gas from the Marketer by Terasen Gas, this Rate Schedule provides for the billing by Terasen Gas of such Customers for such Gas and other Services provided by Terasen Gas to the Customers' Premises.

Article II Definitions

Section 2.01 Definitions

The following words and terms wherever and whenever used or appearing in this Rate Schedule shall have the following meaning unless the context otherwise requires:

(a) "AECO NIT" shall mean a Nova Inventory Transfer on the TransCanada Alberta System.

(b) "Annual Contract Plan" means the supply, transportation and storage portfolio plan for Terasen Gas that is approved by the BCUC each year.

(c) "Backstopping Gas" has the meaning set out in Section 13.01.

(d) "Bad Debt Factor" has the meaning set out in Section 18.01.

(e) "Bad Debt Reduction" has the meaning set out in Section 15.03.

(f) "Blended Price" has the meaning set out in Section 8.01.

(g) "BCUC" shall mean the British Columbia Utilities Commission.

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(h) "Business Day" shall mean any day except Saturday, Sunday, or a statutory or banking holiday observed in the Province of British Columbia. A Business Day shall open at 8:00 a.m. and close at 5:00 p.m. local time for the relevant party's principal place of business. The relevant party, in each instance unless otherwise specified, shall be the party to whom the Notice, payment or delivery is being sent and by whom the Notice or payment or delivery is to be received.

(i) "Commodity Unbundling Service" means the Terasen Gas Service provided for under Rate Schedules 2U and 3U whereby a Commercial Service Customer may arrange for supply of the Gas commodity from a party licensed to do so by the BCUC.

(j) "Compressor Station 2" means Westcoast Energy Inc.'s compressor station number 2 located near Chetwynd, British Columbia.

(k) "Customer" shall mean the entity enrolled or applying to be enrolled in Commodity Unbundling Service. For the purposes of this Rate Schedule and the Rate Schedule 36 Service Agreement and the applicability of the General Terms and Conditions of Terasen Gas, the term "Customer" does not include a party defined as the Marketer under this Rate Schedule.

(l) "Customer Administration Fee" has the meaning set out in Section 16.03.

(m) "Delivery Period" means the period from 7:00 a.m. PST on one Entry Date to 7:00 a.m. on the next Entry Date.

(n) "Dispute Resolution Fee" has the meaning as set out in Section 16.05.

(o) "Essential Services (ESM) Fee" has the meaning as set out in Section 16.06.

(p) "Entry Date" has the meaning set out in Section 6.01.

(q) "ETA" shall mean the Excise Tax Act (Canada).

(r) "Evening Nomination Cycle" means the final nomination cycle that occurs on the Day immediately preceding the Day of Gas flow that the nomination cycle is for.

(s) "Firm" shall mean that either party may interrupt its performance without liability only to the extent that such performance is excused by the other party's non-performance or Marketer Failure or is prevented by Force Majeure; provided, however, that during Force Majeure interruptions, the party invoking Force Majeure may be responsible for any Imbalance Charges as set forth in Article XII related to its interruption after the nomination is made to the Transporter and until the change in deliveries and/or receipts is confirmed by the Transporter.

(t) "Fixed Price" shall mean a gas purchase price which is a single, non-tiered price per Gigajoule that does not change for the time period specified.

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(u) "Gas Daily Common High" means the Daily Common High Price as set out in Gas Daily's Daily Price Survey for Gas delivered to the particular market hub associated with the applicable Receipt Point. If the Gas Daily price is expressed in U.S. dollars per MMBtu, it shall be converted to Canadian dollars using the noon exchange rate as quoted by the Bank of Canada on the same Business Day as the Gas flow date, for each Day, and energy units shall be converted from MMBtu to Gigajoule by application of a conversion factor equal to 1.055056 Gigajoule per MMBtu.

O

(v) "Huntingdon Pool" means the Huntingdon Pool delivery area on the Westcoast Energy Inc. pipeline system. C

(w) "Imbalance Charges" shall mean any fees, penalties, costs or charges (in cash or in kind) assessed by a Transporter for failure to satisfy the Transporter's balance and/or nomination requirements. C

(x) "Late Payment Charge" shall refer to the charge as described in Section 21.1 of the Terasen Gas General Terms and Conditions and as specified in the Standard Fees and Charges Schedule to the Terasen Gas General Terms and Conditions, as the same may be amended by Terasen Gas and approved by the BCUC from time to time. C

(y) "Marketer" means the marketer named on page 1 of the Rate Schedule 36 Service Agreement. C

(z) "Marketer Failure" has the meaning set out in Section 13.03.

(aa) "Marketer Failure Notice" has the meaning set out in Section 13.03. C

(bb) "Marketer Group" means all Customers' Premises that Marketer has indicated to Terasen Gas are Customers' Premises that should be invoiced at the same Commodity Cost Recovery Charge under the Commodity Unbundling Service regardless of their specific rate class or Service Area.

(cc) "Marketer Group Administration Fee" has the meaning set out in Section 16.02.

(dd) "Marketer Group Delivery Requirement" has the meaning set out in Section 7.04.

C

(ee) "Marketer Group Price" has the meaning set out in Section 5.06.

(ff) "Month" means, subject to any changes from time to time required by Terasen Gas, the period beginning on the first Day of the calendar month and ending on the first Day of the next succeeding calendar month.

(gg) "Notice" shall have the meaning set out in Article XXII. C

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(hh) "Obligated Quantity" shall mean the sum of the Receipt Point Delivery Requirement and Fuel Gas Delivery Requirement for the applicable Receipt Point.

(ii) "Rate Schedule" means this Rate Schedule 36 of the Terasen Gas Tariff together with all schedules, tables and appendices attached hereto, as may be amended and approved by the BCUC from time to time. C

(jj) "Rate Schedule 1U" shall mean the Terasen Gas Rate Schedule 1U, including all rates, terms and conditions, and the Table of Charges, appended thereto, as amended from time to time by Terasen Gas with approval of the BCUC

(kk) "Rate Schedule 2U" shall mean the Terasen Gas Rate Schedule 2U, including all rates, terms and conditions, and the Table of Charges, appended thereto, as amended from time to time by Terasen Gas with the approval of the BCUC. C

(ll) "Rate Schedule 3U" shall mean the Terasen Gas Rate Schedule 3U, including all rates, terms and conditions, and the Table of Charges, appended thereto, as amended from time to time by Terasen Gas with the approval of the BCUC. C

(mm) "Reallocation" has the meaning set out in Section 7.03.

(nn) "Receipt Point" shall mean the point(s) specified in Section 9.01 where Marketer delivers Gas to Terasen Gas under the terms of this Rate Schedule. C

(oo) "Receipt Point Allocation Percentage" shall have the meaning set out in Section 9.02. C

(pp) "Receipt Point Delivery Requirement" shall have the meaning set out in Section 9.02. C

(qq) "Receipt Point Fuel Percentage" has the meaning set out in Section 10.01.

(rr) "Receipt Point Fuel Requirement" has the meaning set out in Section 10.02. C

(ss) "Receiving Transporter" shall mean the Transporter receiving Gas at a Receipt Point, or absent such receiving Transporter, the Transporter delivering Gas at a Receipt Point.

(tt) "Scheduled Quantity" shall mean the quantity of Gas confirmed by Transporter(s) for movement, transportation or management. C

(uu) "Taxes" shall have the meaning set forth in Section 19.01.

(vv) "Terasen Gas" means Terasen Gas Inc. and its successors and permitted assigns. C

(ww) "Total Delivery Requirement" shall have the meaning set out in Section 7.05.

(xx) "Transaction" shall mean any Gas sale, purchase or exchange agreement effected pursuant to this Rate Schedule or the Rate Schedule Service Agreement between Terasen Gas and Marketer. C

C

(yy) "Transaction Notification" shall mean the document in the form of Appendix "A", setting forth the terms of a Transaction for a particular Delivery Period or Day.

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(zz) "Transaction Fee" shall have the meaning set out in Section 16.01.

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(aaa) "Transporter(s)" shall mean all Gas gathering or pipeline companies, or local distribution companies, acting in the capacity of a transporter, transporting Gas for Terasen Gas or Marketer upstream or downstream, respectively, of the Receipt Point pursuant to a particular Transaction.

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All other capitalized terms used in this Rate Schedule, unless otherwise defined in this Rate Schedule, will bear the corresponding meanings as defined in the Terasen Gas General Terms and Conditions and the Rate Schedule 36 Service Agreement.

Article III Applicable Terms and Representations

Section 3.01 Applicable Terms

All rates, terms and conditions as set out in Rate Schedule 1U, Rate Schedule 2U or Rate Schedule 3U as well as the Terasen Gas General Terms and Conditions shall apply to the Customers that Marketer enrols in Commodity Unbundling Service.

Section 3.02 Marketer Representations

Marketer represents and warrants that

(a) Marketer is licensed as a Gas marketer by the BCUC and will abide by the licensing criteria and code of conduct as established and amended from time to time by the BCUC,

(b) Marketer has obtained the appropriate Customer signature on the "Notice of Appointment of Marketer", in the form attached as Appendix "C" to this Rate Schedule, for each and every Customer for which the Marketer submits a Commodity Unbundling Service enrolment request,, and

(c) Marketer will adhere to the requirements of the British Columbia Consumer Protection Act, the Personal Information Protection Act, and similar applicable legislative requirements as amended from time to time.

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Article IV Title, Warranty and Indemnity

Section 4.01 Title to Pass at Receipt Point

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Unless otherwise specifically agreed, title to the Gas shall pass from Marketer to Terasen Gas at the Receipt Point(s). Marketer shall have responsibility for and assume any liability with respect

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Section 4.02 Right to Convey Title

Marketer warrants that it has the right to convey and will transfer good and merchantable title to all Gas sold hereunder and delivered by it to Terasen Gas, free and clear of all liens, encumbrances, and claims. As long as this Rate Schedule is in place and Marketer has entered into a Rate Schedule 36 Service Agreement with Terasen Gas in respect of service under this Rate Schedule, Marketer will ensure that no liens, encumbrances or charges of any kind shall be attached to any of the Gas sold by Marketer to Terasen Gas under this Rate Schedule.

Section 4.03 Indemnity

Marketer agrees to indemnify Terasen Gas and save it harmless from all losses, liabilities or claims including reasonable legal fees and costs of court ("Claims"), from any and all persons, arising from or out of claims of title, personal injury or property damage from said Gas and other charges thereon which attach before title passes to Terasen Gas. Terasen Gas agrees to indemnify Marketer and save it harmless from all Claims, from any and all persons, arising from or out of claims regarding payment, personal injury or property damage from said Gas or other charges thereon which attach after title passes to Terasen Gas.

Section 4.04 Liability for Claims

Notwithstanding the other provisions of this Article IV, as between Marketer and Terasen Gas, Marketer and Terasen Gas, Marketer will be liable for all Claims to the extent that such arise from a failure of Gas delivered by Marketer to meet the quality requirements of Article XI, or Marketer's breach of its warranty obligations pursuant to Section 4.02.

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Article V Customer Eligibility, Enrolment and Drops

Section 5.01 Customer Eligibility

Residential and Commercial Service Customers currently enrolled under Rate Schedule 1, 2, 3 and 23 in any Terasen Gas Service Area, except for the Municipality of Revelstoke, are eligible to be enrolled by the Marketer in Commodity Unbundling Service provided that the Customer provides the required notice of change from the Customer's existing Rate Schedule to the applicable Commodity Unbundling Service Rate Schedule at the subject Premises. Customers who are currently disconnected at a particular Premises for any reason are not eligible to enrol such Premises in the Commodity Unbundling Service.

Section 5.02

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Section 5.03 Notice of Appointment of Marketer

For each Customer with whom the Marketer has entered into a contract to supply Gas under Commodity Unbundling Service, Marketer must ensure that the Customer has signed a Notice of Appointment of Marketer, in the form attached as Appendix "C" to this Rate Schedule, authorizing Terasen Gas to disclose to the Marketer the Customer's historical and ongoing Gas consumption information on a billing cycle basis for such Premises. In addition, the Marketer must provide the Customer with a copy of "The Natural Gas Commodity Unbundling Program" booklet. C

Terasen Gas shall have the right to request a copy of the Marketer's contract with the Customer and/or the Notice of Appointment of Marketer for any such Customer Premises. Such request shall be in writing. Marketer shall be required to forward a copy of the requested document within 5 Business Days of receipt of such written request.

Section 5.04 Enrolment

Marketer must hold a valid license from the BCUC and must have executed a Rate Schedule 36 Service Agreement with Terasen Gas prior to submitting requests to enrol Customers' Premises in Commodity Unbundling Service. Requests for enrolment of Customer Premises will not be accepted prior to execution of this Service Agreement and will not be accepted in the event the Marketer's license is suspended, revoked or pending at the time the enrolment request is submitted.

Marketer shall be solely responsible for submitting to Terasen Gas the enrolment request in respect of the Customer Premises in Commodity Unbundling Service. Terasen Gas will not accept enrolment requests directly from Customers and will not be responsible for the failure of Marketer to submit to Terasen Gas an enrolment request in respect of any Customer's Premises. All enrolment requests shall be on a Premises specific basis.

Marketer shall submit Customer Premises enrolment requests in a timely fashion in the electronic format required by Terasen Gas. Terasen Gas will indicate to the Marketer in a timely fashion in an electronic format which enrolments have been accepted as valid and which enrolments have been rejected. Terasen Gas shall also indicate the Marketer Group in which that the Customer Premises has been enrolled in.

Section 5.05 Limitations on Enrolment

Aggregate enrolment limits may be approved by the BCUC for a particular Entry Date for Commodity Unbundling Service. In the event a total enrolment limit is approved, Marketer shall be informed of the limit at least 3 months prior to the subject Entry Date. Terasen Gas shall maintain an up-to-date running total of the aggregate number of valid enrolments and shall make this information available to Marketer and all other participating marketers. In the event and at the point in time that the total enrolment for such Entry Date reaches the approved limit, Terasen Gas will no longer accept enrolment requests for the subject Entry Date.

Section 5.06 Marketer Group and Marketer Group Price

Prior to submitting Customer Premises enrolment requests, Marketer shall communicate to Terasen Gas, via the electronic format determined by Terasen Gas, the Gas commodity price and the Entry Date on which this price shall become effective. Terasen Gas shall use this price for the purpose of establishing a Commodity Cost Recovery Charge for Customer Premises that the Marketer will subsequently enrol in Commodity Unbundling Service. The price established in the contract between the Marketer and the Customer must be a Fixed Price for 12 Months and may only be changed once per Year on the anniversary of the Entry Date on which the Customer was first enrolled in Commodity Unbundling Service with the Marketer.

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Marketer may establish more than one such price with different groups of Customers. Each such price must be expressed as a single Fixed Price per Gigajoule in Canadian dollars taken to a maximum of four decimal places. Such price shall not include amounts payable by the Customer to the Marketer for services other than the Gas commodity cost. Only one such Fixed Price shall be applicable for a particular Customer Premises at any time.

Terasen Gas shall establish one Marketer Group for each Fixed Price. Terasen Gas shall assign a unique Marketer Group ID number to the Marketer Group. All Customer Premises that the Marketer has indicated should be invoiced at this price shall be enrolled in the same Marketer Group regardless of rate class or Service Area. Such price shall be referred to as the "Marketer Group Price" and shall be used in the determination of the purchase price for the Gas sold to Terasen Gas by Marketer under a Rate Schedule 36 Service Agreement. The Marketer shall indicate the appropriate Fixed Price by referencing the appropriate Marketer Group ID when enrolling Customer Premises.

The Customer Premises will remain enrolled in the appropriate Marketer Group until either Terasen Gas receives a valid enrolment request from another marketer, the Marketer gives notice to Terasen Gas that the Customer should be enrolled in a different Marketer Group effective a prospective Entry Date, the Customer account with Terasen Gas is terminated or the Marketer sends Notice to Terasen Gas that the Customer is not renewing with the Marketer. The Customer Premises will be removed from the applicable Marketer Group effective the Entry Date specified by the Marketer except where a Customer's account for a Premises is terminated. In the event the Customer account for a Premises is terminated, the Customer Premises will be removed from the Marketer Group effective the account termination date.

Section 5.07 Limitations on Marketer Group Price Changes

The price for each Marketer Group must be a Fixed Price for 12 Months and can be changed no more often than once per Year and only then on the anniversary of the initial Entry Date for the Marketer Group. Notices of price changes for a Marketer Group must be sent to Terasen Gas by midnight on the night before the 1st of the Month that is one calendar months in advance of the effective date of the requested price change.

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Section 5.08 Customer Not Renewing With Marketer

In the event the Customer notifies the Marketer that the Customer does not wish to renew with the Marketer at the end of the term of the Customer's contract for Commodity Unbundling Service supply with Marketer for a particular Premises, the Marketer must give Notice to Terasen Gas of the effective Entry Date on which to remove the applicable Customer Premises from the Marketer Group within 2 Business Days of the Customer notifying the Marketer that the Customer does not intend to renew the Customer's contract with such Marketer in respect of Gas to be delivered to the Premises.

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Article VI Entry Dates and Term

Section 6.01 Entry Dates

The effective dates upon which Customers may commence Commodity Unbundling Service at a Premises are the first day of each month Commencing November 1, 2007. Customer Premises enrolment requests must be submitted to Terasen Gas by Marketer by midnight on the night before the 1st of the Month that is one calendar month in advance of the applicable Entry Date.

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Subject to the foregoing, Marketer may request enrolment of a Customer's Premises in a Marketer Group or removal of a Customer's Premises from a Marketer Group by Terasen Gas at any time but any such enrolment or removal will only be effective as of the next Entry Date following Notice of such request.

Section 6.02 Customer Contract Term

Customers must enrol Premises in Commodity Unbundling Service for a minimum term of one Year and a maximum term of five Years. The term of the Commodity Unbundling Service supply contract with the Marketer must be a multiple of one full Year.

Section 6.03 Term of Service Agreement

Subject to Section 6.03 of this Rate Schedule, the Rate Schedule 36 Service Agreement between Terasen Gas and Marketer may be terminated upon 30 days Notice but shall remain in effect until the expiration of the latest Delivery Period of any Transaction Notification(s). The rights of either party pursuant to Article XV of this Rate Schedule, the obligations to make payment hereunder, and the obligation of either party to indemnify the other pursuant hereto shall survive the expiry or earlier termination of the Rate Schedule 36 Service Agreement between Terasen Gas and Marketer.

Article VII Delivery Requirements

Section 7.01 Terasen Gas Annualized Weather Normalized Forecast

Terasen Gas completes an annual weather normalized forecast of consumption annually for budget purposes. This forecast is used in the development of the Terasen Gas Annual Contract Plan which is approved by the BCUC in the first quarter of each Year. For the purposes of this Rate Schedule, this forecast will also serve as the basis for determining the delivery requirements for Gas purchases from marketers serving Customers Premises enrolled in the Commodity

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Unbundling Service. The daily delivery requirements for the Gas purchases from Marketer under this Rate Schedule shall be an aggregate of the Customer Premises specific weather normalized forecast annual consumption divided by 365. For Commodity Unbundling Service and for the purposes of this Rate Schedule, these forecast requirements shall become effective November 1st following the effective date of the Annual Contract Plan based on such forecast and shall remain unchanged on a Customer Premises basis until November 1st of the following Year, subject to the adjustments described in Section 7.02.

Section 7.02 Adjustments to Delivery Requirements Due to Re-Forecasts

Terasen Gas may undertake a mid-year re-forecast of the aggregate annualized weather normalized forecast consumption. Variances between the re-forecast and the original forecast described in Section 7.01, at the aggregate level, that are due solely to changes in consumer consumption behaviour will be quantified. If the re-forecast is materially different from the forecast used to determine the previous November 1st requirements, Terasen Gas, with the approval of the BCUC, may utilize the revised forecast for the purposes of re-determining delivery requirements under Commodity Unbundling Service. The Marketer Group Delivery Requirements will then be re-determined by Terasen Gas accordingly for each Marketer Group to be effective the next effective Entry Date following the re-forecast, for which 10 days Notice of the new Marketer Group Delivery Requirements can be provided.

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In addition to the mid-year re-forecast, Terasen Gas reserves the right, to re-forecast the annualized weather normalized forecast consumption for Customers' Premises in a particular Marketer Group and/or determine new Marketer Group Delivery Requirements, with the approval of the BCUC in the event Terasen Gas determines that the consumer consumption behaviour has changed in some significant and material fashion for the Customer Premises in the Marketer Group or determines that there has been a significant degree of attrition of Customer Premises from the Marketer Group due to account terminations.

Material changes are defined as those that would result in significant Midstream Cost Recovery Charge implications should the new Marketer Group Delivery Requirements not be determined and implemented by Terasen Gas.

Section 7.03 Reallocation of Customers

Following the close of the enrolment period at midnight on the night before the 1st of the Month that is one calendar month prior to each particular Entry Date, Terasen Gas will undertake a reallocation ("Reallocation") of Customer Premises to each Marketer Group taking into account the enrolment of Customer Premises by Marketer and the attrition of Customer Premises from the Marketer Groups due to account terminations, Customer Premises enrolment with other marketers and the Customer Premises drops due to non-renewals. Based on this Reallocation, Terasen Gas will re-determine the Customer Premises enrolled in each Marketer Group effective each Entry Date.

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Section 7.04 Marketer Group Delivery Requirement

The Marketer Group delivery requirement ("Marketer Group Delivery Requirement") for a Delivery Period will be based on the Terasen Gas' annualized weather normalized forecast associated with the specific Customer Premises enrolled in the Marketer Group effective the Entry Date on which the Delivery Period commences, taking into account any scheduled or unscheduled mid-year re-forecast that may have triggered revisions to the Marketer Group Delivery Requirements as described in Section 7.02 and the Reallocation of Customer Premises described in Section 7.03.

Terasen Gas shall communicate the Marketer Group Delivery Requirements to Marketers via Notice at least 10 days in advance of each Entry Date. Marketer Group Delivery Requirements will become effective on the next Entry Date and shall apply for the full duration of the Delivery Period.

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Section 7.05 Total Delivery Requirements

The total delivery requirement ("Total Delivery Requirement") shall be the sum of the Marketer Group Delivery Requirements for all of Marketer's Marketer Groups. The Total Delivery Requirement shall be determined for each Delivery Period and represents the quantity of Gas to be purchased by Terasen Gas from the Marketer under this Rate Schedule for each Day in the applicable Delivery Period.

Article VIII Purchase Price

Section 8.01 Blended Price

The purchase price for the Total Delivery Requirement shall be a weighted average price, rounded to the fourth decimal place, based on the Marketer Group Delivery Requirements for each Marketer Group and the Marketer Group Price that the Marketer has indicated is applicable for the Marketer Group. Such weighted average price shall be referred to as the "Blended Price".

Article IX Receipt Points

Section 9.01 Applicable Receipt Points

The applicable Receipt Points shall be as follows:

(a) Huntingdon Pool,

(b) Compressor Station 2, and

(c) AECO NIT.

Section 9.02 Receipt Point Delivery Requirement

The Total Delivery Requirement shall be allocated to the applicable Receipt Points on the basis of allocation percentages that are determined annually to be effective November 1st of each Year. The Receipt Point allocation percentages ("Receipt Point Allocation Percentages") shall be the same allocation percentages as the market hub allocations approved by the BCUC in the Terasen Gas Annual Contract Plan for a Gas Year as filed with the BCUC. Receipt Point Allocation Percentages will remain unchanged until the next November 1st and will apply to any revisions to the Total Delivery Requirements that come into effect during the Year. Terasen Gas will communicate these Receipt Point Allocation Percentages to Marketers via a Notice at least 30 days in advance of each November 1st.

Terasen Gas reserves the right to change the Receipt Point Allocation Percentages effective an Entry Date other than November 1st in the event the BCUC approves a change to the Annual Contract Plan, on which the Receipt Point Allocation Percentages are based, that alters the market hub allocation percentages. Terasen Gas shall provide Marketer Notice of such change at least 30 days in advance of the subject Entry Date.

The Receipt Point delivery requirement ("Receipt Point Delivery Requirement") shall be the quantity calculated by multiplying the Total Delivery Requirement by the applicable Receipt Point Allocation Percentage. The Receipt Point Delivery Requirement shall be the Firm delivery requirement for the purchase of Gas by Terasen Gas from the Marketer at each applicable Receipt Point for each Day during the applicable Delivery Period.

Section 9.03 Transaction Notification

Terasen Gas will send to Marketer a Transaction Notification 10 days in advance of each Entry Date to be effective on the specified Entry Date. There will be one Transaction Notification for each Receipt Point. The Firm quantity of Gas to be purchased by Terasen Gas from Marketer at the Receipt Point for each Day during the Delivery Period will be the Receipt Point Delivery Requirement and the price will be the Blended Price.

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Article X Fuel

Section 10.01 Receipt Point Fuel Percentages

Fuel will be provided in-kind by Marketer at each Receipt Point. The fuel in-kind quantities shall be based on Receipt Point fuel percentages ("Receipt Point Fuel Percentages") that are applied against the Receipt Point Delivery Requirements. The same Receipt Point Fuel Percentages will apply to all marketers participating in Commodity Unbundling Service. Receipt Point Fuel Percentages will be determined annually to be effective November 1^{st} each Year based on a forecast of the applicable Transporter fuel percentages for the transportation of Gas from the Receipt Points to the Terasen Gas interconnections with the applicable Transporters and based on the Annual Contract Plan approved by the BCUC for the Year commencing that November 1^{st}. The Receipt Point Fuel Percentages will remain in effective until the next November 1^{st}. Terasen Gas will communicate the Receipt Point Fuel Percentages to Marketer via Notice at least 30 days in advance of each November 1^{st}.

In the event the actual fuel percentage experienced is materially different than the Receipt Point Fuel Percentage, Terasen Gas reserves the right to adjust the particular Receipt Point Fuel Percentage effective any Entry Date prior to November 1^{st} provided Terasen Gas first obtains BCUC approval of such change and then provides Marketer Notice of such change at least 30 days in advance of the subject Entry Date.

Section 10.02 Receipt Point Fuel Requirement

The applicable Receipt Point Fuel Percentage will be multiplied by the Receipt Point Delivery Requirement in effect for each Delivery Period to determine the applicable Receipt Point fuel requirement ("Receipt Point Fuel Requirement") for each Receipt Point for the subject Delivery Period. The Receipt Point Fuel Requirement for each applicable Receipt Point shall be a Firm delivery requirement from the Marketer to Terasen Gas for each Day during the Delivery Period. Terasen Gas will notify Marketer of the Receipt Point Fuel Requirement by sending a Transaction Notification to Marketer at least 30 days in advance of the subject Delivery Period.

Article XI Quality and Measurement

Section 11.01 Quality and Measurement

All Gas delivered by Marketer shall meet the pressure, quality and heat content requirements of the Receiving Transporter. The unit of quantity measurement for purposes of this Rate Schedule shall be specified as one GJ. Measurement of Gas quantities hereunder shall be in accordance with the established procedures of the Receiving Transporter.

Article XII Transportation, Nominations and Imbalances Charges

Section 12.01 Responsibility for Transportation

Marketer shall have the sole responsibility for transporting the Gas to the Receipt Point(s) and for delivering such Gas at a pressure sufficient to effect such delivery but not to exceed the maximum operating pressure of the Receiving Transporter. Terasen Gas shall have the sole responsibility for transporting the Gas from the Receipt Point(s).

Section 12.02 Nominations

The parties shall co-ordinate their Gas nomination and scheduling activities, giving sufficient time to meet the deadlines of the affected Transporter(s). Each party shall give the other party timely prior operational notice, sufficient to meet the requirements of all Transporter(s) involved in the Transaction, of the quantities of Gas to be delivered and purchased each Day. Such operational notice may be made by any mutually agreeable means, including phone, fax and email.

Section 12.03 Responsibility for Imbalance Charges

The parties shall use commercially reasonable efforts to avoid imposition of any Imbalance Charges. If Terasen Gas or Marketer receives an invoice from a Transporter that includes Imbalance Charges, the parties shall determine the validity as well as the cause of such Imbalance Charges. Each party shall be responsible for any and all Imbalance Charges incurred by that party.

Section 12.04 Fuel Gas Priority

Receipt Point Fuel Requirements and Receipt Point Delivery Requirement are to be separate nominations at each Receipt Point. Marketer shall ensure that Receipt Point Fuel Requirements shall have a higher delivery priority than Receipt Point Delivery Requirements.

Article XIII Performance Obligation and Marketer Failure

Section 13.01 Backstopping Gas

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

In the event the shortfall was due to actions of Marketer, for all Receipt Points except for the AECO NIT Receipt Point, the Backstopping Gas sale quantity shall be determined based on the lesser of the Scheduled Quantity at the completion of the Evening Nomination Cycle on the day preceding the Day of Gas flow and the Scheduled Quantity at the completion of any of the nomination cycles for the Day that occur on the Day of Gas flow. For the AECO NIT Receipt Point, the Backstopping Gas quantity shall be equal to the shortfall between the Obligated Quantity and the final Scheduled Quantity for the Day of Gas flow. In the event the shortfall was due to actions of Terasen Gas, the Backstopping Gas sale quantity shall be determined based on the Scheduled Quantity at the completion of the final nomination cycle for the Day of Gas flow.

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

Section 13.02 Backstopping Gas Sale Price

The price for Backstopping Gas sales shall be set out in Appendix "B". Changes to the Backstopping Gas sale price shall be as approved by the BCUC from time to time.

Section 13.03 Marketer Failure

If, in the opinion of Terasen Gas, Backstopping Gas sales due to actions of the Marketer demonstrate a pattern of shortfalls suggestive of inability or unwillingness of Marketer to continue to comply with its Gas delivery obligations under this Rate Schedule, Terasen Gas will request that the BCUC issue an order ("BCUC Order") returning the Customers to Terasen Gas as supplier of last resort and revoking the Marketer's license as Gas marketer ("Marketer Failure"). Marketer Failure shall have been deemed to have occurred effective the date the BCUC Order returns the Customers to Terasen Gas system supply. The trigger for initiating Terasen Gas' request for the BCUC Order due to Marketer Failure shall be any one of the following:

a) 4 Days, not necessarily consecutive, of complete failure by Marketer to deliver to Terasen Gas the Obligated Quantities in their entirety for the Days in question at any of the applicable Receipt Points in any rolling 30 Day period, or
b) failure of Marketer to deliver to Terasen Gas an aggregate of at least 85% of the Obligated Quantities on an individual Receipt Point basis for any rolling 30-Day period, or

c) failure of Marketer to deliver to Terasen Gas an aggregate of at least 85% of the total of the Obligated Quantities at all of the Receipt Points for any rolling 30-Day period.

Terasen Gas will send a Notice ("Marketer Failure Notice") to the Marketer in the event that Terasen Gas applies to the BCUC for an order declaring Marketer Failure and revoking the Marketer's license as Gas Marketer. Issuance of such Marketer Failure Notice would also suspend Marketer's right to resume deliveries under this Agreement until further Notice. Remittances by Terasen Gas will also be suspended effective the date of the Marketer Failure Notice. In the event the BCUC issues an order declaring Marketer failure and/or revoking the Marketer's license, all of the Customer Premises enrolled in the Marketer's Marketer Groups on the effective date of the order will be returned to Terasen Gas as supplier of last resort effective the date indicated in the BCUC order.

Section 13.04 Marketer License Revoked

In the event that the BCUC revokes Marketer's license for any reason including Marketer Failure, all of the Customer Premises enrolled in Marketer's Marketer Groups on the effective date that Marketer's license is revoked will be returned to Terasen Gas effective the date that the BCUC indicates the Marketer's license is revoked.

Section 13.05 Remedies Not Exhaustive

In the event of breach by the Marketer of any of its obligations under this Rate Schedule or the Rate Schedule 36 Service Agreement, Terasen Gas shall have the right to pursue any and all remedies which Terasen Gas may have at law or in equity against the Marketer, and will not be restricted by the remedies referred to in Sections 13.02, 13.03 and 13.04 above or elsewhere in this Rate Schedule, the Rate Schedule 36 Service Agreement or the Terasen Gas General Terms and Conditions.

Article XIV Force Majeure

Section 14.01 Relief Due to Force Majeure

Except with regard to a party's obligation to make payment due under this Rate Schedule or the Rate Schedule 36 Service Agreement, neither party shall be liable to the other party for failure to perform any of its obligations hereunder or under the Rate Schedule 36 Service Agreement, to the extent and only for the period during which such failure was caused by Force Majeure as defined in Section 14.02 below.

Section 14.02 Definition of Force Majeure

Force Majeure shall mean any event or occurrence which is not within the reasonable control of a party and shall include but not be limited to the following:

(a) Physical events such as acts of God, landslides, lightning, earthquakes, fires, storms or storm warnings, such as hurricanes, which result in evacuation of the affected area, floods, washouts, explosions, breakage or accident or necessity of repairs to machinery or equipment or lines of pipe;

(b) Interruptions or curtailments of Terasen Gas' or Marketer's firm delivery or takeaway transportation service at the Receipt Point(s) caused by Terasen Gas' Transporter or Marketer's Transporter;

(c) Acts of others such as strikes, lockouts or other industrial disturbances, riots, sabotage, insurrections or wars; and

(d) Governmental actions such as necessity for compliance with any court order, law, statute, ordinance, or regulation promulgated by a governmental authority having jurisdiction.

Terasen Gas and Marketer shall make reasonable efforts to avoid the adverse impact of Force Majeure and to resolve the event or occurrence once it has occurred in order to resume performance as soon as reasonably practicable.

Section 14.03 Force Majeure Exclusions

Neither party shall be entitled to the benefit of the provisions of Force Majeure to the extent performance is affected by any or all of the following circumstances:

(a) The curtailment of interruptible or secondary firm transportation or gathering and processing service;

(b) The loss or failure of Marketer's Gas supply or depletion of Gas reserves;

(c) The party claiming Force Majeure failed to remedy the condition and to resume the performance of such covenants or obligations with reasonable dispatch; or

(d) Economic hardship or changes in Gas market conditions.

In any event, the party claiming Force Majeure shall not be excused from its responsibility for Imbalance Charges.

Section 14.04 Labour Disputes

Notwithstanding anything to the contrary herein, the parties agree that the settlement of strikes, lockouts or other industrial disturbances shall be entirely within the sole discretion of the party experiencing such disturbance.

Section 14.05 Notice of Force Majeure

The party whose performance is prevented by Force Majeure must provide Notice to the other party. Initial notification may be given orally; however, written Notice with reasonably full particulars of the event or occurrence is required as soon as reasonably possible. Upon providing notification of Force Majeure to the other party, the affected party will be relieved of its obligation to make or accept delivery of Gas as applicable to the extent and for the duration of the Force Majeure, and neither party shall be deemed to have failed in such obligations to the other during such occurrence or event.

Section 14.06 Pro-rating and Priority of Firm Obligations

In the event of non-performance due to Force Majeure, the affected party shall, to the extent permitted by the Transporters, prorate all Firm obligations at the affected Receipt Point and shall give Firm obligations priority over all interruptible obligations.

Article XV Marketer Billing, Payment and Netting

Section 15.01 Invoicing

Marketer shall invoice Terasen Gas for the Receipt Point Delivery Requirement for each Day in the preceding Month for each Receipt Point. Marketer shall deduct the applicable Bad Debt Reduction, all applicable Backstopping Gas sales amounts, and applicable Transaction Fees.

Marketer shall provide supporting documentation acceptable in industry practice to support the amount charged. If the actual quantity delivered is not known by the billing date, billing will be prepared on the Scheduled Quantity, plus the Backstopping Gas quantity. The invoiced quantity will then be adjusted to the actual quantity on the following Month's billing or as soon thereafter as actual delivery information is available.

Section 15.02 Payment

With the exception of Force Majeure events, Terasen Gas shall remit payment to the Marketer for the purchase of Gas at each Receipt Point for each Month. Payment will be based on the Receipt Point Delivery Requirement in effect for each Day of the Month and the Blended Price. As such, remittances will include payment for shortfalls that have been covered by Backstopping Gas sales but not shortfalls due to Force Majeure. Payment will be on the 25th day of the following Month, provided that, if the payment date is not a Business Day, payment will be due on the preceding Business Day. All remittances from Terasen Gas to Marketer will be effected via electronic funds transfer as directed by Marketer.

In the event of Force Majeure, delivery shortfalls will not be made up with Backstopping Gas sales and remittances from Terasen Gas to the Marketer will be based on actual Scheduled Quantities.

Section 15.03 Bad Debt Reduction

Remittances from Terasen Gas to the Marketer for all Gas sold by Marketer to Terasen Gas shall be reduced by an amount ("Bad Debt Reduction") equal to the Bad Debt Factor multiplied by the Blended Price multiplied by the Total Delivery Requirement multiplied by the number of Days in the Month. Backstopping Gas sale charges and Transaction Fees will also be netted by Terasen Gas against remittances otherwise due from Terasen Gas to the Marketer under Section 15.02.

Subject to the provisions of this Section 15.03, Terasen Gas shall make remittance to the Marketer regardless of the payment status of the Customer bill.

Section 15.04 Payment from Marketer to Terasen Gas

In any event any payments are due from Marketer to Terasen Gas hereunder, payment to Terasen Gas shall be made by the due date specified in Section 15.02 above.

Section 15.05 Interest Charges on Late Payments from Marketer or Terasen Gas

If a party fails to remit the full amount payable by it when due, interest on the unpaid portion shall accrue from the date due until the date of payment at a rate equal to the lower of: (i) the per annum rate of interest identified from time to time as the prime lending rate charged to its most credit worthy customers for commercial loans by the Toronto Dominion Bank, Main Branch, Alberta, Canada, plus two percent per annum, compounded monthly; and (ii) the maximum applicable lawful interest rate.

Section 15.07 Currency

Payment shall be made in Canadian currency and in immediately available funds.

Section 15.08 Netting

The parties shall net all same currency amounts due and owing, and/or past due, arising under this Rate Schedule and the Rate Schedule 36 Service Agreement such that the party owing the greater amount shall make a single payment of the net amount to the other party in accordance with this Article XV; provided that no payment required to be made pursuant to the terms of any credit support document or agreement shall be subject to netting under this or any other provision of this Rate Schedule or the Rate Schedule 36 Service Agreement.

Section 15.09 Audit Right

A party shall have the right, at its own expense, upon reasonable notice and at reasonable times, to examine the books and records of the other party only to the extent reasonably necessary to verify the accuracy of any statement, charge, payment or computation made under this Rate Schedule or the Rate Schedule 36 Service Agreement. This examination right shall not be available with respect to proprietary information not directly relevant to the Transactions. All invoices and billings shall be conclusively presumed final and accurate unless objected to in writing, with adequate explanation and/or documentation, within two years after the Month of Gas delivery. All retroactive adjustments under this Article XV shall be made in full by the party owing payment within 30 days of notice and substantiation of such inaccuracy.

Article XVI Transaction Fees

Section 16.01 Transaction Fees

Terasen Gas will charge the Marketer the transaction fees ("Transaction Fees") as defined in this Article XVI. The current Transaction Fees are set out in Appendix "B". Changes to these Transaction Fees shall be as approved by the BCUC from time to time.

Section 16.02 Marketer Group Administration Fee

Terasen Gas will charge the Marketer a Marketer Group administration fee ("Marketer Group Administration Fee") on a Monthly basis based on the number of Marketer Groups in effect for the Marketer as of the first of that Month.

Section 16.03 Customer Administration Fee

Terasen Gas will charge the Marketer a Commodity Unbundling Service Customer administration fee ("Customer Administration Fee") on a monthly basis based on the total number of invoices that were produced for Customer Premises in respect of which Terasen Gas has billed the Customer a Commodity Cost Recovery Charge based on a Marketer Group Price during the Month, excluding any invoices that were subsequently reversed within the Month and any invoices in respect of which Terasen Gas has already charged the Marketer a Customer Administration Fee.

Section 16.04 Confirmation Letter Fee

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Terasen Gas will charge the Marketer a Commodity Unbundling Service Confirmation Letter Fee on a monthly basis based on the total number of Confirmation Letters that were produced, and sent out to customers, upon a Rate Schedule 1 customer enrolling with a Marketer for Commodity Unbundling.

Section 16.05 Dispute Resolution Fee

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Section 16.06 Essential Services (ESM) Fee

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Article XVII Billing of Customer

Section 17.01 Terasen Gas Solely Responsible for Billing Customers

Terasen Gas shall be solely responsible for billing Customers on Commodity Unbundling Service for the cost of the Gas commodity. Terasen Gas shall also be solely responsible for determining payment options to be offered to Customers, payment processing and credit and collections.

Section 17.02 Commodity Cost Recovery Charge

Terasen Gas shall be entitled to rely on Marketer communication to Terasen Gas of the applicable Marketer Group Price, as set out in Section 5.04, for the purpose of determining the Commodity Cost Recovery Charge applicable for the Gas supplied by Marketer. Terasen Gas shall have no independent obligation to verify that price with the Customer. Effective the applicable Entry Date, Terasen Gas will commence invoicing the Customer a Commodity Cost Recovery Charge equal to the Marketer Group Price that was indicated by the Marketer for the Customer's Premises at the time the Marketer submitted the enrolment request for such Customer Premises.

Effective the Entry Date that the Customer commences Commodity Unbundling Service at a Premises, Terasen Gas will display a Commodity Cost Recovery Charge on the Customer's invoice, equal to the applicable Marketer Group Price. Terasen Gas will also display on the Customer's invoice Marketer's name and Marketer's telephone contact number for Customer enquiries regarding the Commodity Cost Recovery Charge. Terasen Gas will determine the Commodity Cost Recovery Charges (including any applicable taxes) for Marketer supplied Gas in the same manner as Terasen Gas determines the Terasen Gas charges for Commodity Cost Recovery Charges for Customers not enrolled in Commodity Unbundling Service, including the provisions for proration of price changes within a billing period.

Section 17.03 Same Bill

Terasen Gas will bill the Customer for Marketer supplied Gas at a Premises on the same bill as Terasen Gas bills the Customer for the Basic Charge, Delivery Charge, Midstream Cost Recovery Charge and other charges applicable to the Premises as approved by the BCUC. Terasen Gas shall continue to bill Customers and bills will be issued to Customers for each Premises on the regular billing cycle as established by Terasen Gas from time to time.

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Section 17.04 Terasen Gas Solely Responsible for Collections

Terasen Gas shall be responsible for collecting the total amount due on the Customer bill from each Customer. Payments made by Customers to Terasen Gas pursuant to the bills rendered by Terasen Gas shall be made without any right of deduction or set-off and regardless of any rights the Customers may have against the Marketer. Non-payment of any amounts designated as Commodity Cost Recovery Charges on the bill shall entitle Terasen Gas to the same recourse as non-payment of any other Terasen Gas' charges on the Customer's bill and may result in disconnection or termination by Terasen Gas of Service, including Commodity Unbundling Service, at the Customer's Premises in accordance with the General Terms and Conditions of Terasen Gas.

In the event the Customer's account is terminated for a particular Premises, the subject Customer Premises will be removed from the Marketer Group effective the date on which the account was terminated. In the event the Customer wishes to re-enrol such Premises in Commodity Unbundling Service, the Customer will be required to re-apply for Terasen Gas Service as per the General Terms and Conditions of Terasen Gas prior to the Marketer submitting the Customer Premises enrolment request. Such enrolment request will be processed according to the procedures set out in Article V of this Rate Schedule and all applicable Transaction Fees and other fees will apply in accordance with this Rate Schedule.

Any Late Payment Charge applicable to a Customer will apply equally to the Commodity Cost Recovery Charges and other charges on the bill. No portion of those Late Payment Charges shall be remitted to the Marketer. Terasen Gas acknowledges that its recourse with respect to the payment of any amounts owed by a Customer shall be limited to making and enforcing a claim against the Customer. Terasen Gas shall have no recourse against the Marketer in this regard.

Article XVIII Bad Debt Factor

Section 18.01 Bad Debt Factor

The factor ("Bad Debt Factor") to be used to determine the Bad Debt Reduction as set out in Section 15.03 will be determined based on the overall bad debt Terasen Gas experiences for all

Commercial Service Customers. The Bad Debt Factor will be expressed as a percentage. The Bad Debt Factor shall be fixed effective each November 1st each Year based on the overall bad debt recovery forecast used for the purposes of the Terasen Gas annual budget for the calendar Year that includes such November 1st and shall remain unchanged until the next November 1st. Terasen Gas will provide Marketers with written Notice of the Bad Debt Factor at least 30 Days prior to the effective date. Terasen Gas reserves the right to the change the Bad Debt Factor, with the approval of the BCUC, should the actual overall bad debt experienced by Terasen Gas for Commercial Service Customers be significantly different from the Bad Debt Factor in effect. Terasen Gas shall provide Marketer with at least 30 days Notice of any changes to the Bad Debt Factor. All changes will be effective on the first of the Month following the giving of such Notice.

Article XIX Taxes

Section 19.01 Taxes Related to Gas Purchase by Terasen Gas

The party selling the Gas, including any fuel Gas and Backstopping Gas, shall pay or cause to be paid all taxes, fees, penalties, licences, interest or charges imposed by any government authority ("Taxes") on or with respect to the Gas, including any fuel Gas and Backstopping Gas, prior to the Receipt Point(s). The party buying the Gas, including any fuel and Backstopping Gas, shall pay or cause to be paid all Taxes on or with respect to the Gas, including any fuel Gas and Backstopping Gas, at the Receipt Point and all taxes after the Receipt Point(s). If a party is required to remit or pay any Taxes that are the other party's responsibility hereunder, the party responsible for such Taxes shall promptly reimburse the other party for such Taxes. Any party entitled to an exemption from any such Taxes or charges shall furnish the other party any necessary documentation in support thereof. The party buying the Gas, including the fuel Gas and Backstopping Gas, may, to the extent possible, pass on all such Taxes to the Customers enrolled in the Commodity Unbundling Service.

Section 19.02 GST

The Blended Price and the Backstopping Gas sale price do not include any amounts payable by the party buying the Gas, including the fuel Gas and Backstopping Gas, for the goods and services tax ("GST") imposed pursuant to the ETA or any similar or replacement value added or sales or use tax enacted under successor legislation. Notwithstanding Section 19.01, the party buying the Gas, including the fuel Gas and Backstopping Gas, will pay to the party selling the Gas, including the fuel Gas and Backstopping Gas, the amount of GST payable for the purchase of that Gas in addition to all other amounts payable under this Rate Schedule or the Rate Schedule 36 Service Agreement. The party selling that Gas will hold the GST payable by the party buying that Gas and will remit such GST as required by law. Both parties shall provide each other with the information required, including GST registration numbers, to make such GST remittance or claim any corresponding input tax credits.

Section 19.03 Taxes Payable on Breach, etc.

In the event that any amount becomes payable pursuant to this Rate Schedule or the Rate Schedule 36 Service Agreement as a result of a breach, modification or termination of this Rate

Schedule or the Rate Schedule 36 Service Agreement, the amount payable shall be increased by any applicable Taxes or GST remittable by the recipient in respect of that amount.

Section 19.04 Taxes on Customer Bill

Terasen Gas shall be responsible for collecting the applicable taxes related to the Customer bill from the Customer and for remitting the applicable GST and provincial sales taxes thereon to the appropriate authority.

Article XX Assignment

Section 20.01 Assignment

The terms of this Rate Schedule and the Rate Schedule 36 Service Agreement shall be binding upon and inure to the benefit of successors and permitted assigns of the respective parties hereto, and the covenants, conditions, rights and obligations of the Rate Schedule shall run for the full term of the Rate Schedule 36 Service Agreement. Except as otherwise specified in this Article XX of this Rate Schedule, no assignment of the Rate Schedule 36 Service Agreement, in whole or in part, will be made without the prior written consent of the non-assigning party, which consent will not be unreasonably withheld or delayed; provided either party may upon Notice transfer its interest to any parent or affiliate by assignment, merger or otherwise without the prior approval of the other party. Upon any transfer and assumption, the transferor shall not be relieved of nor discharged from any obligations hereunder.

Notwithstanding the provisions above, Marketer may assign the Rate Schedule 36 Service Agreement provided:

(a) The assignee holds a valid Gas marketer license issued by the BCUC;

(b) The assignee acknowledges to Terasen Gas that it will comply with and be bound by all the terms and conditions of this Rate Schedule and the Rate Schedule 36 Service Agreement as assigned to the assignee as of and from the date of the proposed assignment; and

(c) Marketer has given Notice of such assignment to the BCUC, the Marketer's Customers and Terasen Gas prior to the effective date of the assignment of the Rate Schedule 36 Service Agreement.

Article XXI Interpretation

Section 21.01 Interpretation

This Rate Schedule and the Rate Schedule 36 Service Agreement and all provisions herein and therein will be subject to all applicable and valid statutes, rules, orders and regulations of any Federal, Provincial, or local governmental authority having jurisdiction over the parties, their facilities, or Gas supply, this Rate Schedule, the Rate Schedule 36 Service Agreement, the Transactions or any provisions thereof.

Article XXII Notices

Section 22.01 Notices

A Transaction Notification will be sent from Terasen Gas to Marketer at least 30 days in advance of each Entry Date for each Delivery Period for each Receipt Point Delivery Requirement purchase obligation and for each in-kind Receipt Point Fuel Requirement. In the event a Backstopping Gas sale is triggered, a Transaction Notification will be sent the Day following the Day on which the shortfall occurred.

All Transaction Notifications, invoices, payments and other communications made pursuant to this Rate Schedule or the Rate Schedule 36 Service Agreement ("Notices") shall be in writing and made to the addresses for Notices specified by each respective party from time to time.

All Notices required hereunder may be sent by facsimile or mutually agreeable electronic means, a nationally recognized overnight courier service or hand delivered.

Notice shall be given when received on a Business Day by the addressee. In the absence of proof of the actual receipt date, the following presumptions shall apply. Notices sent electronically or by facsimile shall be deemed to have been received upon the sending party's receipt of confirmation of a successful transmission; if the day on which such electronic or facsimile Notice is received is not a Business Day or is after five p.m. on a Business Day, then such Notice shall be deemed to have been received on the next following Business Day. Notice by overnight mail or courier shall be deemed to have been received on the next Business Day after it was sent or such earlier time as it is confirmed by the receiving party.

Article XXIII Miscellaneous

Section 23.01 Liabilities

Provision of the Commodity Unbundling Service set out in this Rate Schedule in no way makes Terasen Gas liable for any obligation incurred by Marketer in favour of the Marketer's Customers or third parties. Notwithstanding any provision herein, nothing in this Rate Schedule or the Rate Schedule 36 Service Agreement shall be deemed to create an agency relationship between Terasen Gas and Marketer or any partnership or joint venture or like relationship between them.

Section 23.02 Severability

If any provision in this Rate Schedule or the Rate Schedule 36 Service Agreement is determined to be invalid, void or unenforceable by any court having jurisdiction, such provision shall be deemed to have been severed from the remainder of this Rate Schedule or the Rate Schedule 36 Service Agreement, as the case may be, and such determination shall not invalidate, void or make unenforceable any other provision, agreement or covenant of this Rate Schedule or the Rate Schedule 36 Service Agreement.

Section 23.03 No Continuing Waiver

No waiver of any breach of this Rate Schedule or the Rate Schedule 36 Service Agreement shall be held to be a waiver of any other or subsequent breach.

Section 23.04 Governing Law

The interpretation and performance of this Rate Schedule or the Rate Schedule 36 Service Agreement shall be governed by the laws of the Province of British Columbia, excluding, however, any conflict of laws rule which would apply the law of another jurisdiction, and, subject to Section 23.07, the parties hereby attorn to the exclusive jurisdiction of the courts of the Province of British Columbia.

Section 23.05 Due Execution

Each party to the Rate Schedule 36 Service Agreement represents and warrants that it has full and complete authority to enter into and perform the Rate Schedule 36 Service Agreement and to be bound by the terms of that agreement and this Rate Schedule accordingly. Each person who executes the Rate Schedule 36 Service Agreement on behalf of either party represents and warrants that he/she has full and complete authority to do so and that such party will be bound thereby.

Section 23.06 Arbitration

Any controversy or claim arising out of or relating to the Rate Schedule 36 Service Agreement or this Rate Schedule shall be determined by the BCUC or by arbitration before a single arbitrator selected by the parties in accordance with the Domestic Commercial Arbitration Rules of the British Columbia Commercial Arbitration Centre in Vancouver, British Columbia.

Section 23.07 Time is of the Essence

Time is of the essence of this Rate Schedule and the Rate Schedule 36 Service Agreement and the terms and conditions hereof and thereof.

Section 23.08 No Modification

This Rate Schedule together with the Rate Schedule 36 Service Agreement sets forth all understandings between the parties respecting each Transaction, and any prior contracts, understandings and representations, whether oral or written, relating to such Transactions, are merged into and superseded by this Rate Schedule and the Rate Schedule 36 Service Agreement and each Transaction Notification. No modification to this Rate Schedule or the Rate Schedule 36 Service Agreement will be effective unless signed in writing by the parties to this Agreement and consented to by the BCUC.

Section 23.09 Eligible Financial Contract

The parties agree that the Transactions constitute an "eligible financial contract" within the meaning of the Bankruptcy and Insolvency Act (Canada) and the Companies Creditors Arrangements Act (Canada) and similar Canadian legislation.

Article XXIV Limitations

Section 24.01 Limitations

Except as set forth herein, there is no warranty of merchantability or fitness for a particular purpose, and any and all implied warranties are disclaimed. Except as otherwise specifically provided for in this Rate Schedule or the Rate Schedule 36 Service Agreement, for breach of any provision for which an express remedy or measure of damages is provided, such express remedy or measure of damages shall be for the sole and exclusive remedy, a party's liability hereunder shall be limited as set forth in such provision, and all other remedies or damages at law or in equity are waived. If no remedy or measure of damages is expressly provided herein or in a transaction, a party's liability shall be limited to direct actual damages only, such direct actual damages shall be the sole and exclusive remedy, and all other remedies or damages at law or in equity are waived. Unless expressly herein provided, neither party shall be liable for consequential, incidental, punitive, exemplary or indirect damages, lost profits or other business interruption damages, by statute, in tort or contract, under any indemnity provision or otherwise.

It is the intent of the parties that the limitations herein imposed on remedies and the measure of damages be without regard to the cause or causes related thereto, including the negligence of any party, whether such negligence be sole, joint or concurrent, or active or passive. To the extent any damages required to be paid hereunder are liquidated, the parties acknowledge that the damages are difficult or impossible to determine, or otherwise obtaining an adequate remedy is inconvenient and the damages calculated hereunder constitute a reasonable approximation of harm or loss.

Article XXV Condition Precedent

Section 25.01 Condition Precedent

This Rate Schedule together with the Rate Schedule 36 Service Agreement is subject to the consent of the BCUC.

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Appendix "A"

Transaction Notification

TRANSACTION NOTIFICATION
For Terasen Gas Commodity Unbundling Service Transaction

This Transaction Notification is subject to the Rate Schedule 36 Service Agreement between Terasen Gas Inc and *Marketer* dated *month, day, year*. The terms of this Transaction Notification are binding and have been determined according to the terms and conditions set out in Rate Schedule 36 and the Rate Schedule 36 Service Agreement.	
FROM: Terasen Gas Inc. 16705 Fraser Highway Surrey, B.C. V3S 2X7	**TO:** *Marketer Name* *Marketer Address*
Attn:	Attn:
Phone:	Phone:
Fax:	Fax:
Contract ID#:	
Transaction Type:	
Special Comments:	
Delivery Period / Day:	
Entry Date:	
Receipt Point:	
Quantity:	
Price:	

Appendix "B"

Table of Charges

Backstopping Gas Sale Price

1. In the event the Backstopping Gas sale arose due to a delivery shortfall caused by the actions of Marketer, the Backstopping Gas price shall be the Blended Price plus two times the highest Gas Daily Common High for the market hubs associated with each of the Receipt Points where Marketer has a Receipt Point Delivery Requirement under this Rate Schedule and the Rate Schedule 36 Service Agreement.

2. In the event the Backstopping Gas sale arose due to a delivery shortfall caused by the actions of Terasen Gas, the Backstopping Gas price shall be zero.

Transaction Fees

1.	Marketer Group Administration Fee	$150.00
2.	Customer Administration Fee	$0.40
3.	Confirmation Letter Fee	$0.60
4.	Dispute Resolution Fee	To be determined
5.	Essential Services (ESM) Fee	To be determined

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Appendix "C"
Notice of Appointment of Marketer

Notice of Appointment of Marketer and Authorization of Release of Information
(required attachment to the marketer's contract with the customer)

TO: Terasen Gas Inc. ("Terasen") and ______________________________ ("Marketer")
Marketer Name

1. **Appointment of Marketer** – I confirm that I am the lawful owner or occupier of the service address indicated below ("Premises") and that I have entered into a natural gas supply agreement with ______________________ ______________________________ ("Marketer") for the supply of natural gas and I hereby appoint ______________________ ("Marketer") as my gas supplier on the Terasen Gas System for the Premises.

2. **Responsibility** – I confirm that I am the party responsible for the purchase of natural gas for the Premises. I understand that the Terasen General Terms & Conditions and the terms and conditions of the applicable Terasen Commodity Unbundling Service Rate Schedule apply and that I will comply and be bound by all terms and conditions set out therein.

3. **Authorization** – I give my Marketer the authority to do what is required with respect to the supply of natural gas including entering into the necessary agreements with Terasen. I acknowledge that Terasen will be entitled to rely solely on communications from the Marketer with respect to my enrolment in the applicable Commodity Unbundling Service as well as the termination or expiry of my natural gas supply agreement with the Marketer. I direct Terasen to release to my Marketer any and all historical and ongoing consumption information for the Premises.

4. **Terasen Role** – I understand that Terasen remains responsible for midstream commodity services, gas distribution, metering, billing and collections. In addition to the Terasen Basic Charge, Delivery Charge, Midstream Cost Recovery Charge and any applicable Franchise Fee Charge, applicable Riders or applicable taxes, Terasen will bill me for the gas supply provided by ______________________________ ("Marketer") at the price communicated to Terasen by my Marketer. I acknowledge that Terasen has no obligation to verify that the price communicated by the Marketer is the price agreed between myself and the Marketer. All billing terms and conditions as well as payment options set out in the General Terms & Conditions of Terasen will continue to apply. I agree to keep the payment of my natural gas account up-to-date and pay accounts upon delivery when due and to be bound by and responsible for the billing arrangements made by my Marketer on my behalf. I confirm that my Marketer has provided me with a copy of "The Natural Gas Commodity Unbundling Program" booklet. C

5. **Notice to Return to Terasen System Supply** – I understand that my Marketer, acting on my behalf, must give Terasen a minimum of 60 days notice if I wish to return to the Terasen standard system supply rate at the end of the term of my natural gas supply agreement with marketer name. This rate may be higher than the price set out in my supply contract with my Marketer. I understand that if I return to Terasen without proper notice to Terasen that I may be liable for supply costs incurred by Terasen that are greater than the then current Terasen standard system supply rates.

6. **Marketer Failure** – In the event the British Columbia Utilities Commission declares that I will be returned to the Terasen standard system supply rate due to the failure of my Marketer to deliver gas supply to Terasen or other reasons, I will be returned to Terasen as supplier of last resort at the Terasen standard system supply rate with no interruption in the delivery of my gas supply. I understand that I may be liable for supply costs that are greater than the then current Terasen standard system supply rates.

Account Name: ______________________________ Account Number: ______________
(as it appears on the Terasen bill)

Address of Premises: ____

Name: ______________________ Title: ______________________

Date: ______________________ Signature: ______________________

Witness Name: ______________________ Witness Signature: ______________________
(Optional) (Optional)

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Appendix "D"

Sample of Delivery Requirement Calculation

Print Date: 10/01/2004

Demand Detail
Marketer: XYZ Gas Marketing
Contract: 00093
Effective Date: 11/01/2004

Marketer Group Delivery Requirement

Marketer Group	Marketer Group Delivery Requirement	Amount ($)	Marketer Group Price ($)
xyz-g-0093-1	1586	8723.00	5.5000
xyz-g-0093-2	3184	13383.25	4.2500
xyz-g-0093-3	3317	16618.17	5.0100
xyz-g-0093-4	3289	17661.93	5.3700
xyz-g-0093-5	2663	13368.26	5.0200
xyz-g-0093-6	3653	16255.85	5.4500
xyz-g-0093-7	486	2128.68	5.3800
xyz-g-0093-8	105	457.80	4.3600
xyz-g-0093-9	3661	16767.38	5.5800
xyz-g-0093-10	3363	13653.78	4.0600
xyz-g-0093-11	3708	17909.64	4.8300
Total Delivery Requirement	**28979**	**136927.73**	**4.7251**

Receipt Point Delivery Requirement and Receipt Point Fuel Requirement

Station	Receipt Point Delivery Requirement	Amount ($)	Blended Price ($)	%	Fuel Reqm't	Obligated Quantity
DEGT-273 (Compressor Station 2)	20865	98587.97	4.2751	72%	625	21490
DEGT-995 (Huntingdon)	5216	24646.99	4.2751	18%	156	5372
Nova-1 (Inventory Transfer)	2898	13692.77	4.7251	10%	0	2898
Total	**28979**	**136927.73**	**4.7251**	**100%**	**781**	**29760**

Terasen Gas Inc.| 16705 Fraser Highway | Surrey, BC V6E 3C9

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RATE SCHEDULE 36 SERVICE AGREEMENT
BETWEEN MARKETER AND TERASEN GAS INC.

This Rate Schedule 36 Service Agreement ("Service Agreement") is dated _________________, 20___, between Terasen Gas Inc. ("Terasen Gas") and _________________________________ ("Marketer").

WHEREAS:

A. Terasen Gas (as defined in Section 2.01 of Terasen Gas Rate Schedule 36) operates a Gas distribution and transmission system in the province of British Columbia;

B. Marketer (as defined in Section 2.01 of Terasen Gas Rate Schedule 36) has entered into arrangements with certain Residential and Commercial Service Customers to supply Gas at a specified price to such Customers' Premises as provided for through Terasen Gas Rate Schedule 1U, Rate Schedule 2U or Rate Schedule 3U for Commodity Unbundling Service;

C. Marketer, subject to the provisions of this Service Agreement and the Commodity Unbundling Service terms and conditions approved by the BCUC (as defined in Section 2.01 of Terasen Gas Rate Schedule 36), from time to time, wishes to sell to Terasen Gas on a Firm basis a quantity of Gas approximately equal to the amount of Gas that such Customers consume on an annual load factor basis in accordance with the terms of this Service Agreement; and

D. Once filed and approved by the BCUC, this Service Agreement will form part of Rate Schedule 36 of the Terasen Gas Tariff and any changes to this Service Agreement are subject to the consent of the BCUC.

NOW THEREFORE THIS AGREEMENT WITNESSES THAT in consideration of the terms and conditions contained herein, the parties agree as follows:

1. Specific Information

1.1 Address of Marketer for receiving notices:

________________________________ (name of Marketer)	Attention: ____________________________
________________________________ (address of Marketer)	Telephone: ____________________________
________________________________	Fax: ____________________________
________________________________	
________________________________	

1.2 Address of Terasen Gas for receiving notices:

Terasen Gas Inc.
16705 Fraser Highway
Surrey, British Columbia V3S 2X7
Canada

Attention: ______________________
Telephone: ____________________
Fax: __________________________

1.3 Marketer DUNS Number: ____

1.4 Contract ID (to be assigned by Terasen Gas): __________________________

The information set out above is hereby approved by the parties and each reference in either this Service Agreement or Rate Schedule 36 to any such information is to the information set out above.

2. Rate Schedule 36

2.1 **Additional Terms** - All rates, terms and conditions set out in Rate Schedule 36 and the General Terms and Conditions of Terasen Gas, as either of them may be amended by Terasen Gas and approved from time to time by the BCUC, are in addition to the terms and conditions contained in this Service Agreement and form part of this Service Agreement and bind Terasen Gas and Marketer as if set out herein.

2.2 **Payment of Amounts** - Without limiting the generality of the foregoing, Marketer will pay to Terasen Gas all of the amounts set out in Rate Schedule 36 for the services provided under that Rate Schedule and this Service Agreement.

2.3 **Conflict** - Where anything in either this Service Agreement or Rate Schedule 36 conflicts with any of the rates, terms and conditions set out in the General Terms and Conditions of Terasen Gas, the terms and conditions of this Service Agreement and Rate Schedule 36 govern.

2.4 **Acknowledgment** - Marketer acknowledges receiving and reading a copy of Rate Schedule 36 and the General Terms and Conditions of Terasen Gas and agrees to comply with and be bound by all terms and conditions set out herein and therein as may be amended from time to time and approved by the BCUC.

IN WITNESS WHEREOF the parties hereto have executed this Service Agreement.

TERASEN GAS INC.	______________________ (here insert name of Marketer)
BY: ______________________ (Signature)	BY: ______________________ (Signature)
______________________ (Title)	______________________ (Title)
______________________ (Name – Please Print)	______________________ (Name – Please Print)
DATE: ______________________	DATE: ______________________

APPENDIX 11

27. Commodity Unbundling Service

27.1 In the event a Customer enters into a Gas supply contract with a Marketer for Commodity Unbundling Service under Rate Schedule 1U, 2U and 3U, the following terms and conditions will apply:

(a) The Customer must sign a Notice of Appointment of Marketer as notification to Terasen Gas that the Marketer has the authority to do what is required with respect to the Customer's enrolment in Commodity Unbundling Service, including entering into the necessary Commodity Unbundling Service agreements and related Rate Schedules. Such Notice of Appointment of Marketer shall also authorize Terasen Gas to share with the Marketer certain historical and ongoing consumption information and to verify the Commodity Cost Recovery Charge used to bill the Customer as directed by the Marketer.

(b) Terasen Gas shall be entitled to rely solely on communications from the Marketer with respect to the enrolment of the Customer in Commodity Unbundling Service and with respect to the termination or expiry of any contract between the Customer and Marketer. N

(c) Terasen Gas will bill the Customer a Commodity Cost Recovery Charge according to the price indicated by the Marketer. Such price must be expressed as a single fixed price per Gigajoule in Canadian dollars. Such price shall not include amounts payable by the Customer to the Marketer for services other than the Gas commodity cost. The price may only be changed by Marketer no more than once per year on the anniversary of the Customers' enrolment in Commodity Unbundling Service with such Marketer. Terasen Gas shall have no obligation to verify that the price communicated by the Marketer is the price agreed to between the Customer and the Marketer.

(d) Terasen Gas will continue to bill the Customer as per the billing, payment, credit and collections policies set out in these General Terms and Conditions.

(e) The Customer shall make payment to Terasen Gas based on the total charges on the bill and under no circumstances will payments be prorated between the various charges on the bill. Payments made by Customers to Terasen Gas pursuant to the bills rendered by Terasen Gas shall be made without any right of deduction or set-off and regardless of any rights or claims the Customers may have against the Marketer.

APPENDIX 12

TERASEN GAS INC.

RATE SCHEDULE 1U
RESIDENTIAL SERVICE

Rate Schedule 1U: Residential Service

Available

This Rate Schedule is available in all territory served by Terasen Gas, with exception of the Municipality of Revelstoke, provided adequate capacity exists in Terasen Gas' system. Entry dates for commencing service under this Rate Schedule shall be the first day of each month beginning November 1, 2007. Customers must participate for a minimum period of one Year. The deadline for enrolment shall be 30 days prior to the subject entry date. The Customer's appointed Marketer is responsible for notifying Terasen Gas that the Customer wishes to enrol in this Rate Schedule. The number of Customers that may enrol in Commodity Unbundling Service for a given entry date may be limited. In the event that there is a limit to the total number of Customers that may be enrolled in Commodity Unbundling Service under this Rate Schedule for a particular entry date, enrolments will be processed on a "first come, first served" basis.

Applicable

This Rate Schedule is applicable to firm Gas supplied at one premises for use in approved appliances for all residential applications in single-family residences, separately metered single-family townhouses, rowhouses, condominiums, duplexes and apartments and single metered apartment blocks with four or less apartments. Customers must appoint a licensed marketer to enrol in this service by signing a Notice of Appointment of Marketer. The appointed Marketer must hold a valid license issued by the British Columbia Utilities Commission and must execute a Rate Schedule 36 Service Agreement with Terasen Gas. Customers who are currently disconnected are not eligible to enrol.

Table of Charges

	Lower Mainland Service Area	Inland Service Area	Columbia Service Area
Delivery Margin Related Charges			
1. **Basic Charge** per Month	**$ xx**	**$ xx**	**$ xx**
2. **Delivery Charge** per Gigajoule	$ xx	$ xx	$ xx
3. **Rider 3** per Gigajoule	$ xx	$ xx	$ xx
4. **Rider 5** per Gigajoule	$ xx	$ xx	$ xx
Subtotal of per Gigajoule Delivery Margin Related Charges	**$ xx**	**$ xx**	**$ xx**
Commodity Related Charges			
5. **Commodity Cost Recovery Charge** per Gigajoule	As communicated to Terasen Gas by the Marketer appointed by the Customer.		
Midstream Cost Recovery Related Charges			
6. **Midstream Cost Recovery Charge** per Gigajoule	$ xx	$ xx	$ xx
7. **Rider 6** per Gigajoule	$ xx	$ xx	$ xx
8. **Rider 8** per Gigajoule	$ xx	$ xx	$ xx
Subtotal of per Gigajoule Midstream Cost Recovery Related Charges	**$ xx**	**$ xx**	**$ xx**

Delivery Margin Related Riders

Rider 2 (Reserved for future use.)

Rider 3 **Earnings Sharing Mechanism** - Applicable to Lower Mainland, Inland and Columbia Service Area Customers for the Year ending December 31,xxxx.

Rider 5 **Revenue Stabilization Adjustment Charge** - Applicable to Lower Mainland, Inland and Columbia Service Area Customers for the Year ending December 31, xxxx.

Midstream Cost Recovery Charge Related Riders

Rider 6 **Recovery of Deferred Gas Cost** - Applicable to Lower Mainland, Inland and Columbia Service Area Customers for the Year ending December 31, xxxx.

Rider 8 **Recovery of Commodity Unbundling Deferral Costs** - Applicable to Lower Mainland, Inland and Columbia Service Area Commercial Customers, excluding Revelstoke, for the Year ending December 31, xxxx.

Franchise Fee Charge of 3.09% of the aggregate of the above charges, including the Commodity Cost Recovery Charge, is payable (in addition to the above charges) if the Premises to which Gas is delivered under this Rate Schedule is located within the boundaries of a municipality to which Terasen Gas pays Franchise Fees.

Minimum Charge per Month - The minimum charge per Month will be the aggregate of the Basic Charge and the Franchise Fee Charge.

TERASEN GAS INC.

RATE SCHEDULE 2U
SMALL COMMERCIAL SERVICE

Rate Schedule 2U: Small Commercial Service

Available

This Rate Schedule is available in all territory served by Terasen Gas, with exception of the Municipality of Revelstoke, provided adequate capacity exists in Terasen Gas' system. Entry dates for commencing service under this Rate Schedule shall be the first day of each month, commencing November 1st, 2004. Customers must participate for a minimum period of one Year. The deadline for enrolment shall be 30 days prior to the subject entry date. The Customer's appointed Marketer is responsible for notifying Terasen Gas that the Customer wishes to enrol in this Rate Schedule. The number of Customers that may enrol in Commodity Unbundling Service for a given entry date may be limited. In the event that there is a limit to the total number of Customers that may be enrolled in Commodity Unbundling Service under this Rate Schedule and Rate Schedule 1U and 3U for a particular entry date, enrolments will be processed on a "first come, first served" basis.

C

Deleted: February 1st, May 1st, August 1st and November 1st of each year,

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Applicable

This Rate Schedule is applicable to Customers with a normalized annual consumption at one Premises of less than 2,000 Gigajoules of firm Gas, for use in approved appliances in commercial, institutional or small industrial operations. Customers must appoint a licensed marketer to enrol in this service by signing a Notice of Appointment of Marketer. The appointed Marketer must hold a valid license issued by the British Columbia Utilities Commission and must execute a Rate Schedule 36 Service Agreement with Terasen Gas. Customers who are currently disconnected are not eligible to enrol.

Table of Charges

	Lower Mainland Service Area	Inland Service Area	Columbia Service Area	
Delivery Margin Related Charges				
1. **Basic Charge** per Month	**$ 23.33**	**$ 23.33**	**$ 23.33**	A
2. **Delivery Charge** per Gigajoule	$ 2.328	$ 2.328	$ 2.328	A
3. **Rider 3** per Gigajoule	$ (0.049)	$ (0.049)	$ (0.049)	R
4. **Rider 5** per Gigajoule	$ 0.166	$ 0.166	$ 0.166	A
Subtotal of per Gigajoule Delivery Margin Related Charges	**$ 2.445**	**$ 2.445**	**$ 2.445**	A
Commodity Related Charges				
5. **Commodity Cost Recovery Charge** per Gigajoule	As communicated to Terasen Gas by the Marketer appointed by the Customer.			
Midstream Cost Recovery Related Charges				
6. **Midstream Cost Recovery Charge** per Gigajoule	$ 0.630	$ 0.570	$ 0.656	R
7. **Rider 6** per Gigajoule	$ (0.635)	$ (0.635)	$ (0.635)	R
8. **Rider 8** per Gigajoule	$ 0.045	$ 0.045	$ 0.045	R
Subtotal of per Gigajoule Midstream Cost Recovery Related Charges	**$ 0.040**	**$ (0.020)**	**$ 0.066**	R

Delivery Margin Related Riders

Rider 2 (Reserved for future use.)

Rider 3 **Earnings Sharing Mechanism** - Applicable to Lower Mainland, Inland and Columbia Service Area Customers for the Year ending December 31, 2006. C

Rider 5 **Revenue Stabilization Adjustment Charge** - Applicable to Lower Mainland, Inland and Columbia Service Area Customers for the Year ending December 31, 2006. C

Midstream Cost Recovery Charge Related Riders

Rider 6 **Recovery of Deferred Gas Cost** - Applicable to Lower Mainland, Inland and Columbia Service Area Customers for the Year ending December 31, 2006. C

Rider 8 **Recovery of Commodity Unbundling Deferral Costs** - Applicable to Lower Mainland, Inland and Columbia Service Area Commercial Customers, excluding Revelstoke, for the Year ending December 31, 2006. C

Franchise Fee Charge of 3.09% of the aggregate of the above charges, including the Commodity Cost Recovery Charge, is payable (in addition to the above charges) if the Premises to which Gas is delivered under this Rate Schedule is located within the boundaries of a municipality to which Terasen Gas pays Franchise Fees.

Minimum Charge per Month - The minimum charge per Month will be the aggregate of the Basic Charge and the Franchise Fee Charge.

Interim Rate Change - Pursuant to the British Columbia Utilities Commission Order G-132-05, Interim Delivery Rates have been approved effective January 1, 2006. Final determination of rates for Terasen Gas Inc. will be subject to the Commission's decision on the Return on Equity Application. The interim rates are subject to refund with interest at the average prime rate of Terasen Gas Inc.'s principal bank. N

TERASEN GAS INC.

RATE SCHEDULE 3U
LARGE COMMERCIAL SERVICE

Rate Schedule 3U: Large Commercial Commodity Unbundling Service

Available

This Rate Schedule is available in all territory served by Terasen Gas, with exception of the Municipality of Revelstoke, provided adequate capacity exists in Terasen Gas' system. Entry dates for commencing service under this Rate Schedule shall be the first day of each month, commencing November 1st, 2004. Customers must participate for a minimum period of one Year. The deadline for enrolment shall be 30 days prior to the subject entry date. The Customer's appointed Marketer is responsible for notifying Terasen Gas that the Customer wishes to enrol in this Rate Schedule. The number of Customers that may enrol in Commodity Unbundling Service for a given entry date may be limited. In the event that there is a limit to the total number of Customers that may be enrolled in Commodity Unbundling Service under this Rate Schedule and Rate Schedule 1U and 2U for a particular entry date, enrolments will be processed on a "first come, first served" basis.

C

Deleted: February 1st, May 1st, August 1st and November 1st of each year

Deleted: 6

Applicable

This Rate Schedule is applicable to Customers with a normalized annual consumption at one Premises of greater than 2,000 Gigajoules of firm Gas, for use in approved appliances in commercial, institutional or small industrial operations. Customers must appoint a licensed marketer to enrol in this service by signing a Notice of Appointment of Marketer. The appointed Marketer must hold a valid license issued by the British Columbia Utilities Commission and must execute a Rate Schedule 36 Service Agreement with Terasen Gas. Customers who are currently disconnected are not eligible to enrol.

Table of Charges

	Lower Mainland Service Area	Inland Service Area	Columbia Service Area	
Delivery Margin Related Charges				
1. **Basic Charge** per Month	**$ 124.50**	**$ 124.50**	**$ 124.50**	A
2. **Delivery Charge** per Gigajoule	$ 2.007	$ 2.007	$ 2.007	A
3. **Rider 3** per Gigajoule	$ (0.037)	$ (0.037)	$ (0.037)	R
4. **Rider 5** per Gigajoule	$ 0.166	$ 0.166	$ 0.166	A
Subtotal of per Gigajoule Delivery Margin Related Charges	**$ 2.136**	**$ 2.136**	**$ 2.136**	A
Commodity Related Charges				
5. **Commodity Cost Recovery Charge** per Gigajoule	As communicated to Terasen Gas by the Marketer appointed by the Customer.			
Midstream Cost Recovery Related Charges				
6. **Midstream Cost Recovery Charge** per Gigajoule	$ 0.559	$ 0.510	$ 0.596	A
7. **Rider 6** per Gigajoule	$ (0.513)	$ (0.513)	$ (0.513)	R
8. **Rider 8** per Gigajoule	$ 0.045	$ 0.045	$ 0.045	R
Subtotal of Terasen Gas per Gigajoule Midstream Cost Recovery Charge	**$ 0.091**	**$ 0.042**	**$ 0.128**	R

Delivery Margin Related Riders

Rider 2 (Reserved for future use.)

Rider 3 **Earnings Sharing Mechanism** - Applicable to Lower Mainland, Inland and Columbia Service Area Customers for the Year ending December 31, 2006. C

Rider 5 **Revenue Stabilization Adjustment Charge** - Applicable to Lower Mainland, Inland and Columbia Service Area Customers for the Year ending December 31, 2006. C

Midstream Cost Recovery Charge Related Riders

Rider 6 **Recovery of Deferred Gas Cost** - Applicable to Lower Mainland, Inland and Columbia Service Area Customers for the Year ending December 31, 2006. C

Rider 8 **Recovery of Commodity Unbundling Deferral Costs** - Applicable to Lower Mainland, Inland and Columbia Service Area Customers, excluding Revelstoke, for the Year ending December 31, 2006. C

Franchise Fee Charge of 3.09% of the aggregate of the above charges, including the Commodity Cost Recovery Charge, is payable (in addition to the above changes) if the Premises to which Gas is delivered under this Rate Schedule is located within the boundaries of a municipality to which Terasen Gas pays Franchise Fees.

Minimum Charge per Month - The minimum charge per Month will be the aggregate of the Basic Charge and the Franchise Fee Charge.

Interim Rate Change - Pursuant to the British Columbia Utilities Commission Order G-132-05, Interim Delivery Rates have been approved effective January 1, 2006. Final determination of rates for Terasen Gas Inc. will be subject to the Commission's decision on the Return on Equity Application. The interim rates are subject to refund with interest at the average prime rate of Terasen Gas Inc.'s principal bank. N

APPENDIX 13

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BRITISH COLUMBIA UTILITIES COMMISSION

Rules for Gas Marketers

Sections 71.1(1) of the Utilities Commission Act (the "Act") requires a person who is not a public utility and who performs a gas marketing activity for low-volume consumers to hold a Gas Marketer License issued by the Commission. The following Rules for Gas Marketers (the "Rules") have been developed pursuant to subsection 71.1(10) to assist the administration of Gas Marketer licencing.

1.0 Low-Volume Consumer

A "low-volume consumer" means a person who, for the applicable period, either:

a) has, or is expected to have, a normalized annual consumption at one premise of less than 2,000 gigajoules of gas per year; or

b) has chosen the unbundled commodity service option, whatever the person's annual consumption of gas.

2.0 Application for a Gas Marketer Licence

Application for a Gas Marketer Licence must be made using the form that is attached as Form A, and must be submitted to the Commission at least 60 days prior to the date that the licence is required together with a cheque in the amount of $1,000 made payable to the Ministry of Finance. The term of a Gas Marketer Licence will be specified in the licence and will be for a November through October gas contract year or such other period as the Commission may determine. Applications for licence renewals will follow the procedures for a new licence.

3.0 Agent for Service

If the Licensee does not have a registered office or other place of business in British Columbia, the Licensee must file with the Commission the name of a person who is to act as the Licensee's Agent for Service in British Columbia and upon whom service of process, notices or other documentation may be made. The Licensee's Agent for Service in British Columbia must be either an individual who is a resident of British Columbia and is at least 18 years old, or a corporation that has its head office or registered office in British Columbia.

4.0 Standard Form of Gas Supply Contract

The standard form of gas supply contract between the Gas Marketer and the public utility is subject to Commission approval. Section 71 of the Act requires that a copy of the gas supply contract between a Gas Marketer and a public utility must be filed with the Commission. Gas Marketers must incorporate, in their contracts with gas suppliers, appropriate clauses to ensure adequate security of supply.

5.0 Agreements with Customers

Gas Marketers must use a form of Notice of Appointment of Marketer that has been approved by the Commission to set out the arrangements between the consumer, the Gas Marketer and the public utility. Gas Marketers also must include in their natural gas supply contract documents with consumers the requirements related to term, price and disclosure of other information as set out in the Rules, the Code of Conduct for Gas Marketers, the Code of Conduct and Transfer Pricing Policy for Provision of Utility Resources and Services, and tariff schedules for unbundled commodity service.

6.0 Standard Information Booklet

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. A Gas Marketer must distribute the standard information booklet prepared by the public utility to all prospective clients (and include a reference to the booklet in their Notice of Appointment of Marketer). The public utility will make the booklet available in both hard copy and electronic form.

7.0 Limitation on Direct Sales

Except for conventional utility gas sales under its approved tariff, a public utility must not sell natural gas other than through a non-regulated subsidiary which is subject to the Rules. A public utility is required to demonstrate to the satisfaction of the Commission a complete operational separation from any such subsidiary. The relationship between the public utility and its non-regulated subsidiary is subject to the utility’s Code of Conduct and Transfer Pricing Policy for Provision of Utility Resources and Services.

8.0 Code of Conduct

All Gas Marketers must comply with the Rules and the Code of Conduct for Gas Marketers approved by the Commission and as may be amended by the Commission from time to time. Gas Marketers in violation of the Rules or the Code of Conduct may be subject to penalties and licence suspension or cancellation. Gas Marketers will reference the Code of Conduct for Gas Marketers and its availability to customers in their Notice of Appointment of Marketer and make a copy available to the customer.

9.0 Performance Security

In order to receive a Gas Marketer Licence an applicant must provide proof of performance security in the amount of $250,000 (or such other amount as the Commission may determine) and file with the Commission proof of that security. The performance security must be in the form of a bond, letter of credit or other security acceptable to the Commission, be payable to the Minister of Finance and must permit the Minister of Finance to draw upon the security in whole or in part at the discretion of the Commission in the event of a Commission finding pursuant to subsection 71.1(8) of the Act.

10.0 Enforcement of Rules and Code of Conduct and Licence Conditions

If the Commission finds, after notice and opportunity for the Gas Marketer to be heard in an oral or written hearing, that a Gas Marketer has failed to comply with the Act, the Rules, the Code of Conduct for Gas Marketers or conditions in its Gas Marketer Licence, and in addition to any other remedies or actions that may be applied, the Commission may:

a. Suspend or cancel the Gas Marketer Licence.

b. Amend the terms and conditions of, or impose new terms and conditions on the Gas Marketer Licence until the deficiencies are resolved.

c. Apply penalties pursuant to Section 106(4) and (5) of the Act not to exceed $10,000 for each day for each day such violation continues.

d. Order that a portion or all of the performance security (referred to in Rule 9.0) be paid out to consumers, public utilities or other persons that the Commission considers to have been harmed by an act or omission of the Gas Marketer including a breach of the Act, the Rules, the Code of Conduct for Gas Marketers, or conditions of the Gas Marketer Licence.

11.0 Failure by a Gas Marketer to comply with its gas delivery obligations as outlined in the gas supply agreement between the Gas Marketer and the public utility may result in the suspension or revocation of the Gas Marketer Licence.