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June 2, 2006

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

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

Dear Sir:

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

**Response to BC Public Interest Advocacy Centre Information Request No. 1**

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Terasen Gas respectfully submits the attached responses to the above noted Information Request.

Twenty hard copies of the attached will be sent to the Commission office by Monday, June 5, 2006

The full submission including all appendices will be available on the Terasen Gas website by Tuesday, June 6, 2006 at the following location:

<http://www.terasengas.com/Publications/Regulatory/Submissions/LowerMainlandInterior/default.htm>

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

Yours very truly,

**TERASEN GAS INC.**

***Original signed by: Tom Loski***

*For:* Scott A. Thomson

Attachment



Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 1

## 1.0 Reference: Application, p. 4

Preamble: The evidence states: "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."

- 1.1 Please clarify that the "final decision to proceed" refers to TGI's decision to proceed to be taken subsequent to BCUC approval. If able to thus clarify, please state the circumstances under which TGI would decide not to proceed after receiving BCUC approval.

### **Response:**

The reference to a "final decision to proceed" found on Application page 4 means the BCUC decision that is requested for July 31, 2006. TGI will proceed with implementation of the proposed program as set out in the Application if approval to proceed is granted.

Please refer to Terasen Gas' response to question 4.1 of BCUC Information Request No.1.

- 1.2 Please confirm that TGI's proposal would recover the costs associated with residential unbundling (RU) from all residential customers, i.e., from participants and non-participants in the program, and please provide the rationale for consumers who do not want the unbundled option having to pay some of the costs for those that want the unbundled option.

### **Response:**

Terasen Gas confirms that its proposal in the Application is for implementation and ongoing operating costs to be recovered from all residential customers in Terasen Gas' service territories that will be eligible to participate in the Residential Unbundling program.

Terasen Gas' rationale is that all residential consumers who are able to participate in the unbundled option will benefit as a result of having the ability to choose. As the question suggests, some consumers may choose not to participate but there is still a conferred benefit by having the option made available to them.

This is consistent with the cost recovery treatment approved by the Commission for Phase 1 (Commercial) of the Commodity Unbundling program implementation. Capital and operating costs are recovered from all eligible Commercial customers, regardless of whether they elect to participate through a marketer offering.



Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 2

- 1.3 With respect to the preceding question, please indicate how the proposed recovery of costs respects the principles of (i) cost causality and (ii) value of service.

**Response:**

The proposed recovery method of having all eligible residential customers pay for the implementation and operating costs for Residential Unbundling is consistent with the principles of cost causality and value of service, as all eligible customers receive a benefit from having the ability to exercise choice, regardless of whether they choose to or not. The cost-causality principle (i.e. user pay) is important in delivering a cost-effective solution where the incremental costs beyond that required for the core system requirements are borne by the parties that benefit directly from exercising commodity choice.

- 1.4 Please provide the estimated annual bill impacts on the non-commodity portion of the bill for customers participating in the RU program, of a requirement that the operating costs of the RU program be recovered completely and solely from RU participants under the assumption of (i) 10% participation in RU, (ii) 20% participation in RU, and (iii) 40% participation in RU.

**Response:**

As set out in the Application, the implementation costs and ongoing operating costs net of marketer fees will be recovered from eligible customers using a rate rider. This rider is volume based and will be charged on the commodity portion of the bill. No non-commodity charges will appear on the bill.

Item 1 on the following schedule indicates the annual level of the bill impact assuming that 100% of the customers are charged for the implementation costs and ongoing operating costs net of marketer fees. Items 2, 3, and 4 show the level of the annual bill impact assuming that only participating customers pay for the implementation costs and ongoing operating costs net of marketer fees. In the initial years where participation is likely to be in the 10% range, residential customers participating would be faced with an increase of \$1 per gigajoule or approximately \$100 per year on their bill, making it potentially cost prohibitive for customers to participate.



Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 3

TERASEN GAS INC.  
 INCREMENTAL COST OF SERVICE FOR CUSTOMER UNBUNDLING  
 Scenario # 1b - 3 Year Amortization

	#	2007	2008	2009	2010
<b>Total Rider Required for Recovery of Deferral Costs</b>					
Implementation Deferral Costs		\$ -	\$ 4,549,415	\$ 4,549,415	\$ 4,549,415
Tax Gross Up on Deferral Costs	51.8%	\$ -	\$ 2,356,194	\$ 2,356,194	\$ 2,356,194
Maintenance Deferral Costs		<u>528,800</u>	<u>617,200</u>	<u>620,200</u>	<u>623,500</u>
Total Recoveries		\$ 528,800	\$ 7,522,809	\$ 7,525,809	\$ 7,529,109

**METRICS**

**1. 100% Eligible Customers**

Average # of Customers		735,000	747,000	760,000	773,000
Annual Volumes (TJ)		73,128	74,379	75,991	77,319
Average volumes per customer (GJ)		99.49	99.57	99.99	100.02
Average annual cost / customer		\$ 0.72	\$ 10.07	\$ 9.90	\$ 9.74
Average cost / GJ		\$ 0.01	\$ 0.10	\$ 0.10	\$ 0.10

**2. 10% Participation**

No. of Enrollments	10%	73,500	74,700	76,000	77,300
Annual volumes of participants (TJ)		7,313	7,438	7,599	7,732
Average annual cost / customer		\$ 7.19	\$ 100.71	\$ 99.02	\$ 97.40
Average cost / GJ		\$ 0.07	\$ 1.01	\$ 0.99	\$ 0.97

**3. 20% Participation**

No. of Enrollments	20%	147,000	149,400	152,000	154,600
Annual volumes of participants (TJ)		14,626	14,876	15,198	15,464
Average annual cost / customer		\$ 3.60	\$ 50.35	\$ 49.51	\$ 48.70
Average cost / GJ		\$ 0.04	\$ 0.51	\$ 0.50	\$ 0.49

**4. 40% Participation**

No. of Enrollments	40%	294,000	298,800	304,000	309,200
Annual volumes of participants (TJ)		29,251	29,752	30,396	30,928
Average annual cost / customer		\$ 1.80	\$ 25.18	\$ 24.76	\$ 24.35
Average cost / GJ		\$ 0.02	\$ 0.25	\$ 0.25	\$ 0.24



Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 4

## 2.0 Reference: Ibid

The evidence states: "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."

2.1 Please provide the number of calls from interested parties representing residential consumer interests, the number of calls from interested parties representing marketer interests, and the total number of calls from interested parties concerning residential unbundling.

### Response:

With regards to calls from interested parties representing residential consumer interests, Terasen Gas has not received any calls asking commodity choice be provided for residential consumers.

With respect to calls from interested parties representing marketer interests, Terasen Gas has been working collaboratively with the licensed Gas Marketers in the Commercial Unbundling in implementing the Commercial Unbundling phase and investigating and designing the Residential Unbundling phase. Currently, there are seven Gas Marketers listed on the Commission's website as being licensed to operate under the Commercial Unbundling program.

With regards to the total number of calls from other interested parties concerning Residential Unbundling, Terasen Gas has not received any calls asking for commodity choice to be provided to residential consumers.

2.2 If the numbers requested in 2.1 are unknown, can TGI provide some indication as to the level of interest in RU from small volume residential utility sales customers?

### Response:

As part of the investigation and evaluation efforts to-date for Residential Unbundling, Terasen Gas conducted primary market research in the summer of 2005 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.

As outlined on Page 19 of the Application, the research suggests that customer participation rates, even with a \$1 monthly service charge in the initial year(s), will range from 5% to 10% or between 40,000 to 80,000 customers.

A full copy of the survey reports are included in Appendices 3 and 4 of the Application.



Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 5

### 3.0 Reference: Ibid

- 3.1 Regarding the implementation phase and ongoing program costs forecast for the residential unbundling program, for each (implementation costs and ongoing costs) separately, please provide the following figures for the commercial unbundling program (i) costs as initially forecast by TGI, (ii) costs approved by the BCUC, and (iii) the actual costs.

#### **Response:**

For the Commercial Unbundling program, Terasen Gas forecast implementation costs in the amount of \$7.1 million, including AFUDC, which was approved by the Commission. Actual expenditures incurred as of December 31, 2004 following implementation was approximately \$6.2 million including AFUDC. Due to prudent management, scope manages with cost implications were minimized. This information was included in a report dated on March 16, 2005 filed with the Commission titled "Commodity Unbundling – Post Implementation Review and Next Steps".

For operating costs, Terasen Gas outlined two scenarios, a low case and a high case for projected operating costs in its filing dated January 16, 2004 titled "Terasen Gas Inc. Commodity Unbundling and Customer Choice Phase 1 Cost Allocation Application". For the two scenarios, the projected 2005 O&M balance to be recovered from customers were forecasted to range between \$146,000 and \$179,000. The actual costs recorded for 2005 net of market recoveries totaled approximately \$122,000 with the favourable variance due primarily to lower operating and maintenance costs incurred for the program

- 3.2 Please provide the incremental revenue requirement associated with the commercial unbundling program development costs for each year for which such costs were incurred and, for each of these years, the amount of this revenue that was or will be recovered from (i) the commercial rate class and (ii) the residential rate class.

#### **Response:**

The following schedule shows the capital costs, on an after-tax basis, incurred to implement the Commercial Commodity Unbundling Program and the amortization of those costs from the beginning of the program development period until the end of the current year.



Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 6

Commercial Commodity Unbundling & Customer Choice Program Capital Costs

	Costs Incurred (Net of Tax)	Amortization via Rate Rider (Net of Tax)	Cumulative Balance (Net of Tax)
December 31, 2002 (actual)	\$0	\$0	\$0
December 31, 2003 (actual)	\$2,062,141	\$0	\$2,062,141
December 31, 2004 (actual)	\$1,950,556	\$0	\$4,012,697
December 31, 2005 (actual)	\$637,935	(\$1,420,034)	\$3,230,598
December 31, 2006 (forecast)	\$89,281	(\$1,044,181)	\$2,275,699
<b>Totals</b>	<b>\$4,739,913</b>	<b>(\$2,464,214)</b>	<b>\$2,275,699</b>

Under the Commercial Commodity Unbundling Program, the receipt of Marketer provided gas commenced on November 1, 2004, and the capital costs were to be amortized over a three-year period via a rate rider which became effective January 1, 2005. The costs are being recovered from commercial customers eligible to participate in the program (Rate Schedule 2, 2U, 3, and 3U customers within the Lower Mainland, Inland, and Columbia service areas, excluding Revelstoke and Fort Nelson). No costs related to the Commercial Commodity Unbundling Program are being recovered from residential customers, or other non-commercial rate classes.

3.3 Regarding the commercial unbundling program, for each year of its existence, please provide the average yearly bill impact for non-participating commercial customers.

**Response:**

The capital costs and the operating and maintenance costs, net of the marketer fees, are being recovered via a rate rider from commercial customers eligible to participate in the program (Rate Schedule 2, 2U, 3, and 3U customers within the Lower Mainland, Inland, and Columbia service areas, excluding Revelstoke and Fort Nelson). The rate rider is set on a volumetric basis – each commercial customer eligible to participate in the program is billed the effective per GJ amount. Effective January 1, 2005 the rate rider was \$0.056/GJ and effective January 1, 2006 the rate rider was \$0.045/GJ. The annual consumption quantities within the commercial rate classes, Rate Schedule 2, 2U, 3, and 3U, can vary significantly among customers. The following schedule provides the annual bill impact for a Rate Schedule 2 customer consuming 300 GJs per year and a Rate Schedule 3 customer consuming 3,300 GJs per year, which are the typical annual consumption amounts used for Lower Mainland commercial customers for other commodity and delivery rate change bill impact schedules.



Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 7

Commercial Commodity Unbundling & Customer Choice Program

Annual Customer Bill Impacts of Rate Rider

	Annual Consumption (GJs)	2005		2006	
		Effective Rate Rider (\$/GJ)	Annual Bill Amount (\$)	Effective Rate Rider (\$/GJ)	Annual Bill Amount (\$)
Rate Scheule 2	300	\$ 0.056	\$ 16.80	\$ 0.045	\$ 13.50
Rate Scheule 3	3,300	\$ 0.056	\$ 184.80	\$ 0.045	\$ 148.50

Please also refer to the response to question 8.1.





Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 8

**4.0 Reference: Application, p. 5**

4.1 Regarding the commercial unbundling program, please provide the participation rate for commercial customers both in number and percentage of total commercial customers, and the throughputs represented by participating commercial customers in terms of volume and in terms of percentage of overall commercial throughputs (i) three months after implementation, (ii) six months after implementation, and (iii) the most currently available data.

**Response:**

In the table below, Terasen Gas assumed a constant number for eligible commercial customers (Rate Schedule 2 and 3) totaling 78,000. These two rate classes consume about 38.7 PJ or 38,700,000 GJs per year in a normal year (most recent figures).

Entry Date	Total Customers Enrolled	% of Total Customers Enrolled	Volume of Throughputs Annually (GJ)	% of Overall Commercial Throughputs - 12Months
Feb. 2005 - 3 mths	8,618	11.05%	3,074,064	7.94%
May. 2005 - 6 mths	11,511	14.76%	4,796,568	12.39%
May. 2006 - recent	16,500	21.15%	7,026,336	18.16%



Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 9

**5.0 Reference: Ibid**

5.1 Regarding the "number of IT system improvement costs are under consideration by Terasen Gas over the next two to three years," please indicate (i) whether or not any estimate of these costs has been included in TGI's forecast implementation and operating costs, (ii) if applicable, the amount of these costs included in TGI's forecasts, (iii) an estimate of the costs of the projects under consideration, and (iv) how TGI proposes to recover these costs, if incurred.

**Response:**

The IT system improvements referred to in the Application are not related to the proposed Residential Unbundling program. As a result no costs for these improvements have been included in the estimated implementation and ongoing operating costs.

While the IT system improvements are not related to the proposed Residential Unbundling program, they do affect the timing of when the proposed program can be implemented. Please refer to the response to BCUC IR1 question 2.2 for additional information about this issue.



Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 10

**6.0 Reference: Application, p. 6, Cost of Service**

6.1 Regarding the statement that Terasen Gas' shareholders will not be at risk for RU implementation costs, RU operating costs, or any assets stranded by RU, please provide: (i) the amount included in rate base associated with RU implementation costs, (ii) the maximum possible amount of assets stranded by RU.

**Response:**

The amount to be incurred of \$12.5 million to implement Residential Unbundling is to be recorded in a non-rate base deferral account to be recovered from residential customers. This is consistent with the approved cost recovery method as approved by the Commission for Commercial Unbundling.

If unrecovered from customers, the maximum amount of assets stranded by RU would consist of initial implementation costs, annual operating costs and any stranded gas costs. Initial implementation costs are identified to be \$12.5 million. Annual operating costs net of project marketer recoveries and including customer education costs would be \$3.6 million per year. Stranded gas costs are difficult to quantify and project given the uncertainty of variables which drives stranded gas costs and could range significantly as outlined in the table included in the answer to question 21.4 of BCUC IR No.1.

Other costs as a result of introducing Residential Unbundling include potential for increased bad debt, respecting which Terasen Gas has proposed what it considers to be appropriate treatment in this Application, and incremental gas supply costs not covered by the performance bonding requirement as a result of a marketer failure and which are borne by utility customers.

6.2 Please provide the rationale for receiving any return on equity in respect of assets for which the shareholder is not at risk for implementation costs or stranded assets.

**Response:**

Terasen Gas must provide the capital to finance capital expenditures, including the implementation costs associated with Commodity Unbundling program. The capital structure and rate of return is for all of the utility's investment, not just the incremental investments and all have an opportunity cost, rate of return, to compensate for the use of funds. The future recovery of costs incurred involves risk and is not risk-free. The BCUC does not guarantee the utility's rate of return, it only provides the opportunity to earn the allowed rate of return. The utility is allowed to earn a fair and reasonable return on the assets that it has prudently invested in, including the costs associated with the Commodity Unbundling program. The residential commodity unbundling program costs would only be risk free for the utility investors if, for example, customers or other groups were to provide all of the funds prior to the unbundling costs being incurred.



Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 11

**7.0 Reference: Ibid**

7.1 Regarding recovery of commercial unbundling ongoing operating costs, please indicate the total amount that has been incurred to date and the amount of these costs that have been or are expected to be recovered from gas marketers (i.e., i.e., the amount that has not been accumulated in a deferral account to be recovered from all commercial customers eligible to participate in the CU program).

**Response:**

The following schedule shows the operating costs and Gas Marketer transaction fee recoveries to date, as of April 30, 2006, for the Commercial Commodity Unbundling Program.

Commercial Commodity Unbundling & Customer Choice Program Operating Costs

	Operating Costs Incurred (Before Tax)	Marketer Transaction Fee Recoveries (Before Tax)	Deferral Balance to be Recovered via Rate Rider (Before Tax)
December 31, 2003 (actual)	\$0	\$0	\$0
December 31, 2004 (actual)	\$59,162	(\$1,577)	\$57,585
December 31, 2005 (actual)	\$188,383	(\$66,317)	\$122,066
YTD - April 30, 2006 (actual)	\$55,406	(\$36,426)	\$18,980
Totals	\$302,951	(\$104,320)	\$198,631

The operating costs not recovered from Gas Marketers are accumulated in a deferral account to be recovered from commercial customers eligible to participate in the program (Rate Schedule 2, 2U, 3, and 3U customers within the Lower Mainland, Inland, and Columbia service areas, excluding Revelstoke and Fort Nelson).

7.2 For a typical commercial customer, please provide (i) the annual impact on the non-commodity portion of the bill of participating in CU, (ii) the annual impact on the non-commodity portion of the bill if it were required that ongoing operating costs were to be recovered completely and solely from CU participants, and (iii) the annual impact on the non-commodity portion of the bill if it were required that ongoing operating costs along with implementation costs were to be recovered completely and solely from CU participants.

**Response:**

The capital costs and the operating and maintenance costs, net of the Marketer transaction fees, are being recovered via a rate rider from all commercial customers



Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 12

eligible to participate in the program (Rate Schedule 2, 2U, 3, and 3U customers within the Lower Mainland, Inland, and Columbia service areas, excluding Revelstoke and Fort Nelson). Please see the response to BCOAPO Information Request No. 1 Question 3.3 for additional detail.

The following schedules provide the estimated per GJ recovery and the estimated annual bill impact if the Commercial Commodity Unbundling Program O&M costs were to be recovered only from customers participating in the program.

Commercial Commodity Unbundling & Customer Choice Program Cost Amortization Schedule for O&M Costs

	<u>FY 2006</u>
Projected Dec. 31, 2005 Deferred Account Balance <sup>(1)</sup>	\$151,219
Deferral Amortization	\$151,219
AFUDC @ 5.85% p.a.	<u>4,859</u>
Sub-total	\$156,079
Program Participants' Annual Volume (GJ) <sup>(2)</sup>	<u>7,026,336</u>
<b>Unit Cost / GJ</b>	<b>\$0.022</b>

- Notes: (1) Projected December 31, 2005 balance including AFUDC to that date, based on the Terasen Gas Inc. Application, dated December 6, 2005, to set the Commercial Commodity Unbundling Deferral Cost Recovery Rider 8 rate effective January 1, 2006.  
(2) Forecast sale volume for participating commercial customers (Rate Schedule 2U and 3U customers) based on the May 2006 Entry Date enrolment stats.

Commercial Commodity Unbundling & Customer Choice Program O&M Costs  
Annual Customer Bill Impacts of Estimated Recovery

		<u>2006</u>	
	Annual Consumption (GJs)	Estimated Recovery (\$/GJ)	Annual Bill Amount (\$)
	<u>          </u>	<u>          </u>	<u>          </u>
Rate Schedule 2U	300	\$ 0.022	\$ 6.60
Rate Schedule 3U	3,300	\$ 0.022	\$ 72.60

The following schedules provide the estimated per GJ recovery and the estimated annual bill impact if the Commercial Commodity Unbundling Program Capital costs were to be recovered only from customers participating in the program.



Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 13

**COMMERCIAL COMMODITY UNBUNDLING PROGRAM COST AMORTIZATION SCHEDULE**

(Scenario utilizing Dec. 31, 2005 actual costs, 5.85% AFUDC rate, amortized over 3 years to Rate Schedule 2U and 3U customers only)

	<u>Yr 1 (2005)</u>	<u>Yr 2 (2006)</u>	<u>Yr 3 (2007)</u>	<u>TOTAL</u>
Dec. 31, 2005 Deferred Account Balance <sup>(1)</sup>				<b>\$6,941,732.80</b>
Deferral Amortization	\$2,180,264.89	\$2,311,286.38	\$2,450,181.53	<b>\$6,941,732.80</b>
AFUDC @ 5.85% p.a.	348,248.95	217,227.45	78,332.31	<b>643,808.71</b>
Sub-total	<b>\$2,528,513.84</b>	<b>\$2,528,513.84</b>	<b>\$2,528,513.84</b>	<b>\$7,585,541.51</b>
Forecast Annual Volume (GJ) <sup>(2)</sup>	4,796,568	7,026,336	7,728,970	<b>19,551,874</b>
<b>Unit Cost / GJ</b>	<b>\$0.527</b>	<b>\$0.360</b>	<b>\$0.327</b>	<b>\$1.214</b>

Notes:

(1) Dec 31, 2005 balance includes AFUDC to that date.

(2) Forecast sale volumes for participating commercial customers (Rate Schedule 2U and 3U). Year 1 volumes based on the May 2005 Entry Date enrolment stats, Year 2 volumes based on the May 2006 Entry Date enrolment stats, and Year 3 volumes based on the previous year's volumes plus a 10% growth factor.

**Commercial Commodity Unbundling & Customer Choice Program Capital Costs**  
**Annual Customer Bill Impacts of Estimated Recovery**

	Annual Consumption (GJs)	2005		2006		2007	
		Estimated Recovery (\$/GJ)	Annual Bill Amount (\$)	Estimated Recovery (\$/GJ)	Annual Bill Amount (\$)	Estimated Recovery (\$/GJ)	Annual Bill Amount (\$)
Rate Schedule 2U	300	\$ 0.527	\$ 158.15	\$ 0.360	\$ 107.96	\$ 0.327	\$ 98.14
Rate Schedule 3U	3,300	\$ 0.527	\$ 1,739.60	\$ 0.360	\$ 1,187.55	\$ 0.327	\$ 1,079.59



Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 14

**8.0 Reference: Ibid**

8.1 With respect to the estimated impact of RU on eligible residential customers of \$0.10/GJ/year or \$9.90 annually for the first three years, please provide the comparable figures for commercial customers eligible for the CU program.

**Response:**

In the "Commodity Unbundling and Customer Choice Phase 1 Cost Allocation Application" dated January 16, 2004, Terasen Gas set out the estimated cost per GJ and customer on page 13 as follows:

- Average cost per GJ \$0.065
- Average annual cost per customer \$34.21

The average costs were based on the implementation costs that were expected to be amortized over a three year period, plus annual operating costs incurred in the operation of the Commercial Unbundling program.

Actual implementation costs for the Commercial Unbundling program were approximately \$6.2 million compared to a budget of \$7.1 million. Actual annual operating costs were approximately \$122,000 in 2005 compared to a forecast of \$179,000. Using these actual costs yields an average cost of approximately \$0.06 per GJ that is being recovered from eligible commercial customers. This recovery represents an average annual cost of \$31 per eligible commercial customer.

Please also refer to the response to question 3.3.



Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 15

**9.0 Reference: Application, p. 13**

9.1 The evidence states that "[i]f the Residential Unbundling plan is approved, the Commercial Unbundling program will benefit from the proposed process and system improvements." Please indicate whether, and if so how, TGI proposes to recognize these benefits to the CU program in terms of cost allocation and rate design proposals.

**Response:**

While there are benefits to the Commercial Unbundling program as a result of the proposed Residential Unbundling program, Terasen Gas' view on the issue is that the implementation costs should be recovered from only residential customers. The Commercial Unbundling program in its current state is operating successfully from a process and system standpoint. Without the enhancements that would be introduced as a result of Residential Unbundling, the Commercial program could continue to operate in its present form.

Therefore, it is difficult to argue that the Commercial Unbundling program should be allocated a portion of the costs for Residential Unbundling as it is the residential customers who need the system enhancements in order to be able to benefit from the introduction of Residential Unbundling.





Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 16

**10.0 Reference: Application, p. 14, section 3.1 and section 3.1.1**

10.1 With respect to the residential commodity unbundling experience in Ontario, please provide the historical participation rates in direct purchase for residential customers of Enbridge Gas Distribution Inc. and Union Gas Limited.

**Response:**

Terasen Gas has been unable to locate the historical participation rates in direct purchase for residential customers of Enbridge Gas and Union Gas through its contacts with the Ontario Energy Board and Enbridge Gas and Union Gas.

10.2 The evidence states that "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."

10.2.1 Please confirm that TGI or any other utility could provide the same price stability as any marketer by simply replicating the marketer's gas supply portfolio.

**Response:**

Provided that the mandate is provided by the Commission, Terasen Gas or any other utility can provide the same price stability as any marketer subject to having the necessary credit and risk management support to manage the increased financial exposure. For instance, In order to be able to provide the longer price stability that a gas marketer offers, Terasen Gas would have to have the necessary credit arrangements to enable it to hedge out longer (i.e. up to 5 years). The ability of Terasen Gas to replicate the marketer's gas supply portfolio at the same cost is dependent on Terasen Gas' credit rating.

10.2.2 Please provide an estimate of the incremental benefits of the gas marketers' price stability and possible cost savings offerings given that (i) the marketer will be marking up the commodity and (ii) the utility will be offering the stable rate program extension.

**Response:**

In responding to this question, Terasen Gas infers the second assumption to mean that the Stable Rate program can have contract terms greater than 1 year (i.e. 3 or 5 years). If it is assumed that the gas utility is able and willing to offer alternative commodity with no markup similar to that being proposed by Gas Marketers; 1 year, 3 year, 5 year fixed rate offerings, the incremental benefits the value Gas Marketers bring would be limited.



Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 17

However, Terasen Gas recognizes that there is a portion of its customers that simply value having choice being offered by other commodity suppliers than Terasen Gas. It is hard to quantify what this choice in supplier is worth to customers.

10.2.3 Please indicate what gives rise to the possible "cost savings" referred to.

**Response:**

The possible "cost savings" statement refers to the potential for a customer who locks in the price of the gas commodity with a Gas Marketer for a time period to pay less than what they would have paid had they remained on the local utility supply. Alternatively, locking in prices could result in higher costs relative to what the customer would have paid under the utility rate.

Terasen Gas believes the primary benefit of fixed price options are providing price stability on the natural gas commodity.

10.2.4 Please indicate how it is possible, in the long run, to secure both a lower commodity price AND a less volatile commodity price at the same time.

**Response:**

Customers have generally indicated an interest in price stability for their commodity purchases. Hedging or fixed rates help to provide pricing to customers that is less volatile than otherwise possible. And in a rising price environment, hedging offers the additional benefit of reducing costs that a customer would otherwise pay for natural gas in the market. However, in a decreasing price environment this may lead to higher costs.

10.2.5 Does TGI believe that risk and reward are usually traded off, i.e., to get a higher return/lower price, usually more risk/volatility must be assumed?

**Response:**

Generally, Terasen Gas would agree that higher risk should result in a higher return. However, Terasen Gas does not agree that in order to get a lower price more volatility must be assumed. There is not necessarily a causal relationship between the two.



Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 18

**11.0 Reference: Application, p. 17, section 3.2**

11.1 Regarding survey results of small commercial customers (Rate Schedule 2), please provide an update to the 2005 survey results if available.

**Response:**

As part of its submission on May 31, 2005 to the Commission titled "Enhancement to the Commercial Phase of the Commodity Unbundling Program", Terasen Gas identified a requirement to conduct a customer satisfaction survey to measure customer satisfaction for those customers currently enrolled the Commercial Unbundling program. The survey was conducted in the last half of 2005 and has not been repeated since then.

11.2 Please provide a copy of the survey results.

**Response:**

The survey results are attached as follows.

<p style="text-align: center;">Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005</p>	<p style="text-align: center;">Submission Date: June 9, 2006</p>
<p style="text-align: center;">Response to BCOAPO Information Request No. 1</p>	<p style="text-align: center;">Page 19</p>

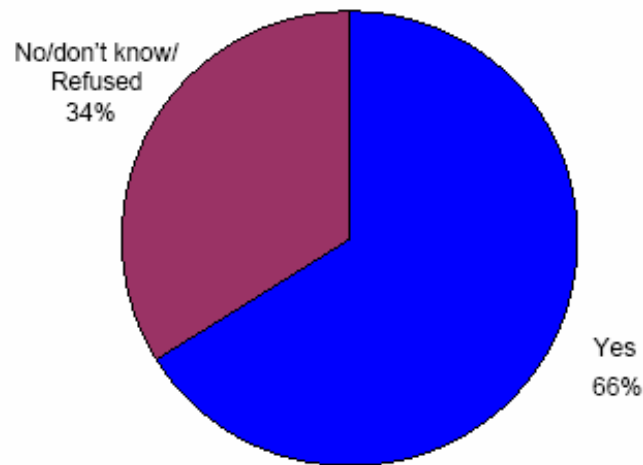
## 9. Commodity Unbundling Program Summary (Coastal/Interior Only)

- **The majority (66%) of small commercial customers in the Coastal and Interior regions are aware of the Commodity Unbundling Program launched in November 2004.** This awareness level is common among most sub-groups except as expected, between those who use natural gas as their primary fuel source for space heating and those who use other forms of fuel, where awareness is higher among primary natural gas users (70% vs. 42%, respectively).
- **Four out of ten small commercial customers perceive the Commodity Unbundling Program as valuable (4-5 out of 5).** For the remainder, 24% do not perceive the program to be valuable (1 or 2 rating out of 5) while 26% gave a middle rating of 3 out of 5 and 9% were unable to provide any rating. These figures are echoed across most sub-groups. Perhaps not unexpected, those who are aware of the unbundling program are more likely to find it very valuable (27% vs. 17% among those not aware), while those not aware are more likely to say "don't know" (16% vs. 5% among those aware).
- **Within a year of launching the program, 16% of small commercial customers in the Coast and Interior claimed to have signed on with a natural gas marketer.** Among this group, 83% are satisfied ("Extremely", "Very" or "Somewhat") with the service they receive from their gas marketer while 77% are satisfied with the other aspects such as educational materials on the program and billing.
- Although the sample size is small, a few of the customers who use other suppliers made suggestions for change with the Commodity Unbundling Program. Specifically, they want more information about providers and marketers (21%), marketers to be better trained and more knowledgeable (7%), and reduced pricing (6%). One-half could not offer any suggestion for change.
- **Among those who chose to stay with Terasen Gas (and are aware of the Commodity Unbundling Program), loyalty and familiarity with Terasen Gas is the main reason given by 19% of small commercial customers who stayed.** However, lacking the time or too much paperwork is a reason given by 14% of customers. Other top reasons given by customers for staying with Terasen are being unsure of other companies, price and lack of information.

## 9. Commodity Unbundling Program – Awareness & Value of Program

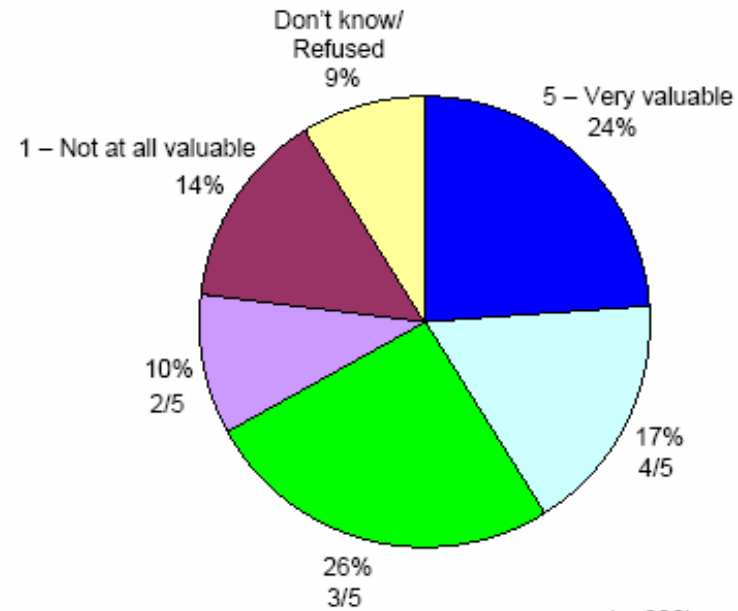
*- Among Customers In Coastal/Interior Regions -*

**Program Awareness**



(n=396)

**Perceived Value of Program**

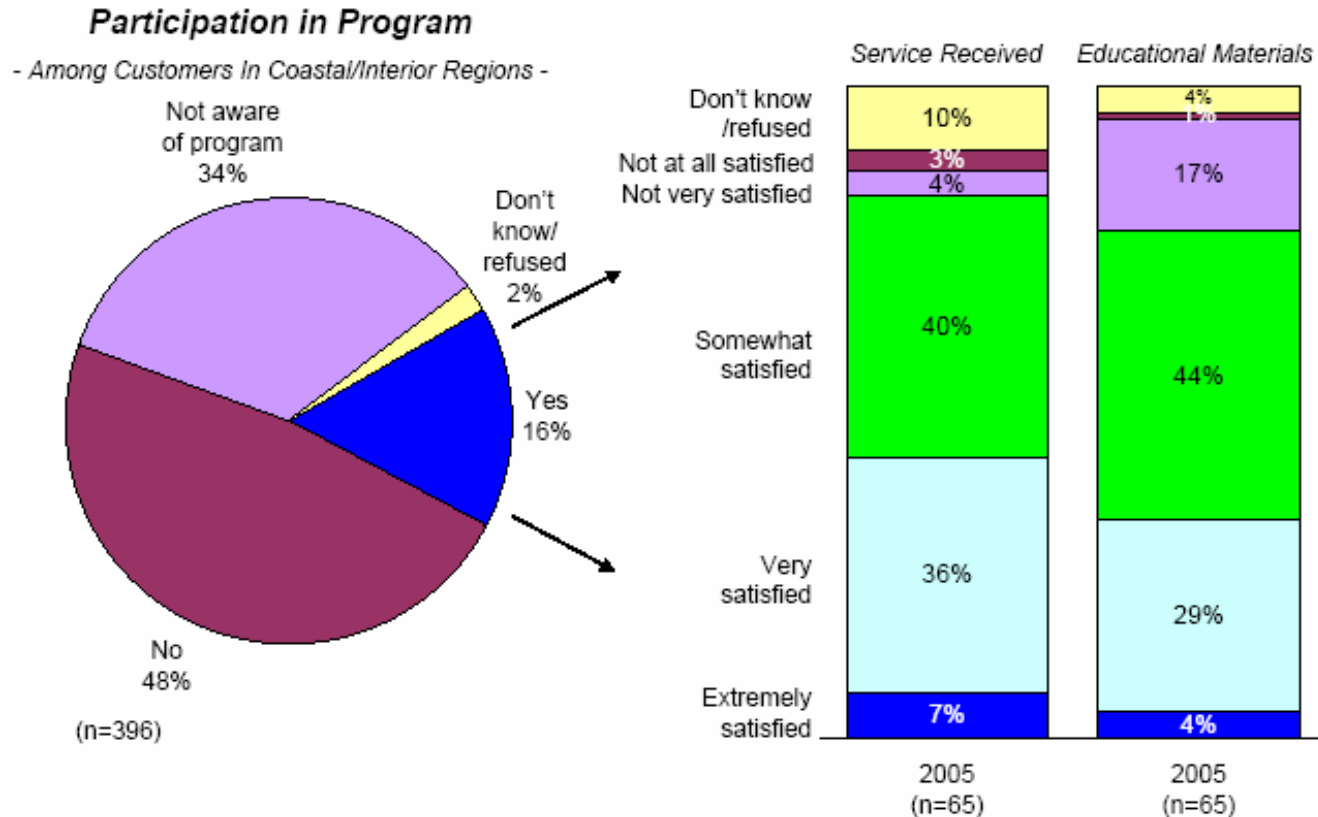


(n=396)

G11. Are you aware of the commodity unbundling program launched in November 2004 that allows commercial customers to purchase their natural gas from whomever they choose: a licensed gas marketer or Terasen Gas? A licensed gas marketer provides customers the ability to lock in their natural gas commodity price for up to 5 years.

G12. How valuable is the commodity unbundling program to you? Please tell me using a 5-point scale where 1 means not at all valuable and 5 means very valuable.

## 9. Commodity Unbundling Program – Participation & Satisfaction



G13. Has your company signed a contract to purchase natural gas from a supplier other than Terasen Gas?

G14a. How satisfied are you with the commodity unbundling program, in terms of the service you receive from your gas marketer? Are you...

G14b. How satisfied are you with the commodity unbundling program, in terms of other aspects such as educational materials on the program, billing, et cetera? Are you...



Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 22

## 9. Commodity Unbundling Program – Suggested Improvements

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	<u>2005</u>
Base (Among program participants)	65
	<u>%</u>
Provide more information about providers/marketers	21
Marketers should be better trained/more knowledgeable	7
Reduce pricing	6
Show savings	4
Change the contract length	4
Other	9
Nothing	32
Don't know/refused	19

G15. What, if anything, would you change about the commodity unbundling program to improve it?



Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 23

## 9. Commodity Unbundling Program – Reasons for Staying with Terasen Gas

	<u>2005</u>
Base (Among those staying with Terasen Gas)	186
	<u>%</u>
Loyalty/always been with them/familiar with Terasen	19
Don't have the time/can't be bothered/too much paperwork	14
Unsure of other companies' reputation/stability	9
The price/initial price was higher/no savings	8
Not aware you could/don't know any others/need more info.	8
We don't use much	7
Have not been approached	7
Prefer current billing/don't want extra bills	5
Do not want to risk paying higher prices when rates go down/ don't want to get locked in	4
Reviewing it now/have not made a decision/ want to see what happens in the marketplace	3
They did not offer a fixed rate	2
Don't like marketers/don't want to be pressured	2
Want only one supplier	2
Other	11
No reason in particular	5
Don't know/refused	4

G16. What are your reasons for not choosing to purchase natural gas from a supplier other than Terasen Gas?





Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 24

**12.0 Reference: Application, p. 21**

12.1 The evidence states that as of January 1, 2006, 8,000 eligible residential customers were enrolled in the Stable Rate program, up from 2,000 customers who signed up in year one. Please provide the total number of eligible customers for each of these years.

**Response:**

The following table provides an estimate of the number of residential customers that were eligible to participate in the 2005 and 2006 offerings of the Stable Rate Option program. Only residential customers in the Lower Mainland ("LML"), Inland ("INL") and Columbia ("COL") regions were eligible to participate in the program.

The first 20,000 residential customers, on a first come, first serve basis were able to sign up for the 2005 and 2006 offerings during the last quarter of 2004 and 2005 respectively.

BCOAPO Q12.1  
Recorded Actual Customers

<b>Region</b>	<b>Rate Class</b>	<b>Dec-04</b>	<b>Dec-05</b>
LML	RATE1	494,756	502,589
INL	RATE1	192,798	196,183
<u>COL</u>	<u>RATE1</u>	<u>19,128</u>	<u>19,322</u>
Total		706,682	718,094



Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 25

**13.0 Reference: Application, p. 22, section 4.4**

13.1 Regarding the financial premium of \$1.36/GJ for the 2006 Stable Rate Option, please show how this premium was calculated.

**Response:**

The premium of \$1.36 / GJ and the final Stable Rate price of \$11.28 / GJ was approved in Commission Order No. G-93-05. Attached are copies of the Order and Terasen Gas' application dated September 21, 2005 detailing how the \$1.36 / GJ premium was derived.



Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 26



ROBERT J. PELLATI  
COMMISSION SECRETARY  
Commissioner, British Columbia  
website: <http://www.bcu.bc.ca>

SIXTH FLOOR, 401 HASTINGS STREET, BOX 600  
VANCOUVER, B.C. V6C 4A5 (ASTORIA)  
TELEPHONE: (604) 681-1100  
TOLL FREE: 1-800-665-5100  
FACSIMILE: (604) 681-1105

Eng No. 11533

VIA E-MAIL

[regaffairs@bcutils.com](mailto:regaffairs@bcutils.com)

September 23, 2005

Mr. Scott Thomson  
Vice President, Finance and Regulatory Affairs  
Terasen Gas Inc.  
16705 Fraser Highway  
Surrey, B.C. V3S 2X7

Dear Mr. Thomson:

Re: Terasen Gas Inc. ("Terasen Gas")  
Application – Approval of Stable Commodity Rate Residential Service – RS 13

Further to your September 21, 2005 application for approval of amendments to Stable Commodity Rate Residential Service, Rate Schedule 13, we enclose Commission Order No. G-93-05.

Please file amended and corrected tariff pages in accordance with the approval given by this Order.

Yours truly,

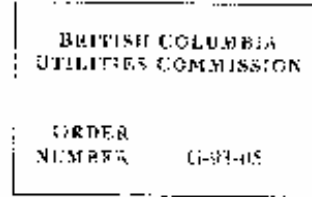
Robert J. Pellati

RJP:dlf  
Enclosure



Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 27

3-8111 4008 WINGWATER STREET, BOX 180  
VANCOUVER, B.C. V6P 2N3, CANADA  
TEL: 604.691.6666 FAX: 604.691.6667



TELEPHONE: 604-691-1150  
BC UTILITIES: 1-800-663-1150  
FAX: 604-691-6667

IN THE MATTER OF  
the Utilities Commission Act, R.S.B.C., 1996, Chapter 473

and

An Application by Terasen Gas Inc.  
for Approval of Stable Commodity Rate Residential Service for 2006

**BEFORE:** L.N. Kelsay, Commissioner September 22, 2005

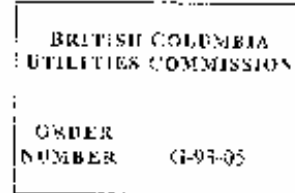
**O R D E R**

**WHEREAS:**

- A. Commission Letter L-14-05 dated April 16, 2005 directed Terasen Gas Inc. ("Terasen Gas") (formerly BC Gas Utility Ltd.) to proceed with the Stable Rate Option for residential customers effective November 1, 2004; and
- B. Order No. G-90-03 dated January 9, 2004 and effective April 1, 2004 approved the format of the Stable Commodity Rate (Rate Schedule 15) and the Stable Commodity Rate Agreement; and
- C. Order No. G-25-04 approved the deferral account treatment and cost recovery methodology for the implementation costs and annual operating costs of providing the Stable Commodity Rate Service program; and
- D. Order No. G-57-05 dated June 15, 2005 approved the Stable Commodity Rate Residential Service program for the period January 1, 2006 to December 31, 2006; and
- E. On September 19, 2005, Terasen Gas requested Commission approval of revisions to Rate Schedule 15, effective September 26, 2005 for the 2006 calendar year offering; and
- F. On September 21, 2005, Terasen Gas filed a revised application for the Stable Commodity Rate Residential Service; and
- G. The Commission has reviewed the Terasen Gas filing and is satisfied that revisions to Rate Schedule 15 effective September 26, 2005 is appropriate and in the public interest.



Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 28



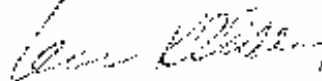
2

NOW THEREFORE the Commission orders as follows:

1. The Commission approves for Terasen Gas, revisions to the Terasen Gas Stable Commodity Rate Residential Service, G-13-05 Rate Schedule 15, as set out in the application from Terasen Gas dated September 21, 2005. The revisions are to be effective September 26, 2005 for the period of January 1, 2006 to December 31, 2006.
2. The Commission approves the fixed gas price for Rate Schedule 15 at \$11.280/GJ.

DATED at the City of Vancouver, in the Province of British Columbia, this *7<sup>th</sup>* day of September, 2005.

BY ORDER

  
L.F. Kelsey  
Commissioner



Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 29



Scott A. Thomson  
Vice President,  
Finance & Regulatory Affairs

15705 Fraser Highway  
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Tel: (604) 592-7784  
Fax: (604) 592-7890  
Email: scott.thomson@terasengas.com  
www.terasengas.com

September 21, 2005

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

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

Dear Sir:

**Re: Terasen Gas Inc. Stable Commodity Rate Residential Service Application  
Calendar Year 2006 Offering - Revised**

---

As requested by Commission staff and pursuant to the letter Terasen Gas Inc. ("Terasen Gas") filed on September 19, 2005 regarding the Application for the 2006 Stable Rate offering, attached is a revised supporting schedule reflecting some minor adjustments to the pricing.

The revised fixed price for the Stable Rate option is \$11.28 per gigajoule for the term of the offering from January 1, 2006 to December 31, 2006.

Also attached is an updated blacklined version of Rate Schedule 1S reflecting minor amendments to the service agreement for the revised price, effective dates of the offering and contact information. Terasen Gas will be submitting a revised Table of Charges in the fourth quarter, reflecting any updates to Rate Schedule 1S.

If there are any questions regarding the content of this, please contact James Wong at 604-592-7871.

Yours very truly,

**TERASEN GAS INC.**

*Original signed by Tom Loski*

For: Scott A. Thomson

Attachments

cc: Brian Williston  
Bob Brownell



**Terasen Gas Inc.**  
**Stable Commodity Rate Program - FINAL**  
 21-Sep-06

Scope: 1 year fixed commodity rate (including commodity and midstream) for residential customers

Assumptions: 1 year forward price based on Station 2, AECO and Sumas  
 Receipt point allocation - 70% Station 2, 15% AECO and 15% Sumas  
 100% load factor

Commodity Methodology: 1) Hedge for maximum number of customers allowed under program  
 2) Determine use rate per customer - assume normalized use  
 3) Total delivery requirements before fuel gas  
 4) Allocate to different receipt points as per approved contracting plan

20,000 customers  
 103.3 gjs per year  
 2,066,000 gjs per year  
 weighted normalized average use for 2005

Station 2	AECO	Sumas	Total	Receipt points
70%	15%	15%	100%	Receipt point allocation - as per 2005/06 Midstream plan

1,448,200 309,900 309,900 2,068,000 gigajoules per year

45,386 3,099 - 48,485 gigajoules per year

1,489,586 312,999 309,900 2,112,485 gigajoules per year

4,081 856 849 5,786 gigajoules per day - 100% load factor

\$ 10.530 \$ 10.530 \$ 10.530

\$ (0.170) \$ 0.008 \$ 0.025

\$ 10.360 \$ 10.538 \$ 10.584

Cdn \$ per gigajoule As per trades Sep 16, 2005  
 Cdn \$ per gigajoule Updated as at Sep 16, 2005  
 Cdn \$ per gigajoule

11) Gross gas purchase dollars

\$15,432,111 \$ 3,290,227 \$ 3,366,833 \$ 22,097,171

\$ 10.460 Average cost per Cdn \$ per gigajoule purchased

\$ 10.698 Average cost per Cdn \$ per gigajoule chargeable to customer  
 (based on consumption volumes before fuel gas)

I. Mainland Inland Columbia

\$ 0.849 \$ 0.542 \$ 0.878

72.6% 24.5% 2.9%

\$ 0.471 \$ 0.133 \$ 0.020 \$ 0.624

Cdn \$ per gigajoule As at July 1, 2005  
 Weightings based on total forecasted consumption by Division  
 Cdn \$ per gigajoule Weighted average Midstream rate

Midstream Methodology 12) Use July 1 existing Midstream rate charged to residential customers  
 13) Compute a single Midstream rate used in Stable Rate program

Total Commodity Rate Charge

Standard	Stable Rate
Rate 1	Rate 1R

\$ 9.292	\$ 10.698
----------	-----------

\$ 9.292	\$ 10.810
----------	-----------

\$ 0.824	\$ 0.624
----------	----------

\$ 0.824	\$ (0.150)
----------	------------

\$ 0.674	\$ 0.474
----------	----------

Based on \$9 per enrollment request received and assumed rejections

Unquantifiable midstream adjustment

**Commodity**  
 Add Enrollment costs for Stable Rate program  
 Total Commodity rate

**Midstream**  
 Total Midstream rate

Total Commodity Charge

\$ 9.918 \$ 11.28

13.8% Premium on Approved Oct 1 - combined commodity and midstream



Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 31

Terasen Gas  
Rate Schedule 1S

## Terasen Gas Stable Commodity Rate Schedule 1S Service Agreement Between Terasen Gas and Customer ("Agreement") Terms and Conditions

**Stable Commodity Rate.** Terasen Gas Inc. ("Terasen Gas") offers to you, during the term of this Agreement, a fixed natural gas supply commodity charge of ~~\$11.288,39~~ per Gigajoule. This fixed commodity charge does not include, and you are responsible for, any applicable taxes, Franchise Fees and surcharges. In addition, you are responsible for paying the applicable Gas delivery charges. This offering does not apply to your Gas delivery charges, which may still change during the term of this Agreement.

- Term.** This Agreement will be effective for the initial twelve-month period beginning on January 1, 2005 and ending on December 31, 2006. This Agreement is subject to cancellation by Terasen Gas at any time at the conclusion of each twelve-month term. Subject to such cancellation, the Agreement will be automatically renewed for another twelve-month period starting on January 1<sup>st</sup> of each succeeding Year at a new fixed commodity rate to be determined by Terasen Gas and approved by the British Columbia Utilities Commission, unless you provide Terasen Gas with written notice of termination by no later than the immediately preceding November 30<sup>th</sup>. If you do not notify Terasen Gas of your intention to discontinue this Agreement, you will be renewed at the new rate for the next twelve months. If you elect not to renew the Agreement, you will then be transferred back onto the Terasen Gas standard rate schedule effective the next January 1<sup>st</sup>. Terasen Gas will notify you in writing of any price change by no later than October 1<sup>st</sup> of each year.
- Eligibility.** You are a residential natural gas customer (Rate Schedule 1). All residential service customers in Terasen Gas' Service Areas defined as Lower Mainland (Vancouver to Hope), Inland (Okanagan to Northern B.C.) and Columbia (east Okanagan to the Kootenays) are eligible to participate in this program. Residents in the Fort Nelson and Revelstoke areas are not eligible to participate. Customers who are currently disconnected are not eligible to enrol. Terasen Gas reserves the right to change eligibility requirements from time to time.
- Enrolment.** Enrolment in the program will be on a first-come, first-served basis with participation strictly limited to the first 20,000 eligible residential service customers that enrol. You may enrol in the program by accessing Terasen Gas' Account Online services at [www.terasengas.com](http://www.terasengas.com) or by completing and returning a completed enrolment form by mail or fax. A copy of an enrolment form along with instructions can be obtained at the Terasen Gas website [www.terasengas.com](http://www.terasengas.com) or by calling the call center at 1-888-224-2710. Applications will be accepted starting on October 1, 2005 and continuing until November 30, 2005 or until the 20,000 customer enrolment limit is reached, whichever occurs first. Incomplete and late applications will not be accepted.

Order No.: G-80-04  
Effective Date: August 13, 2004

Issued By: Scott Thomson, Vice President  
Finance and Regulatory Affairs

BCUC Secretary: Original signed by R.J. Pellatt

Original Page SA-1S.1





Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 32

Terasen Gas  
Rate Schedule 1S

You can return your completed enrolment form by mailing it to Terasen Gas Inc. Stable Rate Option at PO Box 48230 Bentall Centre, Vancouver, B.C. V7X 1N8 or by faxing it toll-free to 1-888-409-890077-683-6855.

**Faxed applications must be received by Terasen Gas and mailed applications must be postmarked by no later than November 30, 2005<sup>4</sup> in order to be eligible for enrolment. Submission of an application does not guarantee enrolment. Terasen Gas will notify you if you are successfully enrolled in the program.**

4. **Cancellation.** You may cancel this Agreement free of charge or penalty by either calling Terasen Gas at 1-888-224-2710 or by writing to Terasen Gas Inc. Stable Rate Option, PO Box 48230 Bentall Centre, Vancouver, B.C. V7X 1N8 within 10 days of enrolling. Once this Agreement has become effective after this 10 day period, you may cancel this Agreement for any reason at any time, subject to an Early Termination Fee as specified in *Section 7 Early Termination*. In such event, you will be transferred back onto the standard rate schedule, effective the Early Termination Date (see *Section 8 Early Termination Date*).
5. **Moving.** If you move from your existing premise, this Agreement will automatically terminate and you will be removed from the Stable Rate Option effective the date your gas account at the existing premises is terminated. There will be no applicable Early Termination Fee in that case.
6. **Other Termination Conditions.** If your account has been terminated at your premises for non-payment, this Agreement will automatically terminate and you will be removed from the Stable Rate Option effective the date your gas account at the existing premises is terminated. There will be no applicable Early Termination Fee in that case. Upon re-application for gas service at your premises, your account will be put onto the Terasen Gas standard rate schedule. You will be allowed to re-enrol in the Stable Rate Option for the next January 1<sup>st</sup> offering date, subject to meeting then current eligibility requirements.
7. **Early Termination.** Except as otherwise specified in this Agreement, an **Early Termination Fee** of \$100 will be charged in cases of early termination of this Agreement. The Early Termination Fee provides for the recovery of the costs of transferring you back to the Terasen Gas standard rate schedule in cases of early termination and the administrative and Gas supply costs of this program. Terasen Gas will have the right to recover the Early Termination Fee from you notwithstanding the early termination of this Agreement.
8. **Early Termination Date** *is your last billing date from the date Terasen Gas processes your request to cancel this Agreement which is usually within 10 calendar days of receiving your notice to cancel.* Upon early termination of this Agreement, you will be transferred back to the Terasen Gas standard rate schedule, effective the Early Termination Date. You will not be allowed to re-enrol in the program again until the next January 1<sup>st</sup> offering date, subject to meeting then current eligibility requirements.

Order No.: G-80-04

Issued By: Scott Thomson, Vice President  
Finance and Regulatory Affairs

Effective Date: August 13, 2004

BCUC Secretary: Original signed by R.J. Pellatt

Original Page SA-1S.2



Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 33

Terasen Gas  
Rate Schedule 1S

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*Important Notice: Participants in this new voluntary program pay a fixed commodity rate for Gas supply for a twelve-month period at a rate which likely includes a premium on top of the rate charged under the Terasen Gas standard rate schedule for the natural gas consumed, protecting them from large price swings for natural gas during that twelve-month period. [Customers who choose not to participate in this program are ordinarily subject to any price increases in the commodity price of natural gas that occur during the Year.] However, from time to time, market prices for natural gas may be lower than the fixed commodity rate under this program. Customers who choose to purchase Gas under this voluntary program could therefore end up paying more for the Gas commodity than those Customers who choose to remain under the Terasen Gas standard rate schedule, depending on the prevailing market price of Gas. This program benefits Customers who value price certainty for budgeting purposes, i.e., knowing exactly what their per gigajoule gas commodity cost is going to be for a fixed term. **However, Terasen Gas does not guarantee actual savings to program participants.***

**Enrolment Form**

Customer Name (as it appears on your Terasen Gas bill) \_\_\_\_\_

Service Address (as it appears on your Terasen Gas bill) \_\_\_\_\_

City \_\_\_\_\_

Province \_\_\_\_\_ Postal Code \_\_\_\_\_

Rate Class~~ification~~ (as it appears on your Terasen Gas bill) \_\_\_\_\_

Account Number (as it appears on your Terasen Gas bill) \_\_\_\_\_

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Order No.: G-80-04

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Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 34

**14.0 Reference: Application, pp 36-38, sections 5.3.6 and 5.3.7**

14.1 With respect to TGI's proposal, please indicate the conditions under which the financial consequences of the long-term failure of either a large gas marketer or a group of gas marketers could be visited upon residential customers who are not participating in the RU.

**Response:**

The means for managing marketer failure is a critical element of the Essential Services Model that was approved as part of the first phase of commodity unbundling for Commercial Customers. Commission Letter L-25-03 dated June 6, 2003 sets out the method available to Terasen Gas for managing marketer failure as part of the Commercial Unbundling program. No change is proposed to this practice for the Residential Unbundling program. The process for managing marketer failure is described in the response to BCUC IR1 question 8.1.

Rate Schedule 36 sets out the how costs are to be treated in the event of such an occurrence. A marketer supply failure is a long term event and occurs when a Gas Marketer fails to supply gas as required by the Delivery Requirement, which would force Terasen Gas to provide backstopping gas in order to prevent a supply interruption.

If a marketer supply failure occurs, Terasen Gas can apply to the Commission to have the license of the failing Gas Marketer revoked. Should a Gas Marketer's license be revoked by the Commission, this decision would confirm a marketer failure. The Gas Marketer's customers would be returned to the default offering and potentially charged directly for any incremental gas costs associated with their unscheduled return. Any costs not charged directly to returning customers would flow through to the MCRA account. The costs of backstopping gas are paid for by all customers who pay the Midstream service charge and is not limited to those participating in the Residential Unbundling program. These customers include those found in Rate Schedules 1 through 7.



Terasen Gas Inc. ("Terasen Gas" or "TGI") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 9, 2006
Response to BCOAPO Information Request No. 1	Page 35

**15.0 Reference: Application**

15.1 Please provide TGI's view as to the minimum number of approximately equally sized, active gas marketers that would be required for effective competition in serving RU participants, assuming an eventual participation rate of 40%.

**Response:**

The province of Ontario provides a proxy of what a mature marketplace for retail gas marketing looks like as it has a current participation rate reflective of the scenario outlined in the question. Agent Billing and Collection Transportation service or Unbundling was introduced to residential customers in Ontario in 1996. Since then, customer participation rates have fluctuated between 40% to 50% of the residential customer base. Currently, there are 33 marketers licensed with 8 marketers actively selling gas to retail customers. Below is a snapshot from the website [www.energyshop.com](http://www.energyshop.com) showing the gas marketers active in Enbridge Gas' service region.

**Deregulated Natural Gas Supply Rates (to electricity rates)**

Commodity prices in ¢/m<sup>3</sup>:

Supplier	Blended Price	1 Yr. Fixed	3 Yr. Fixed	4 Yr. Fixed	5 Yr. Fixed	Features
<a href="#">Canadian RiteRate Energy</a>	33.2 33.2	--	38.4	--	38.4	<a href="#">Sign-up Online</a>
<a href="#">GloWorm Gas</a>	--	--	43.4	--	41.9	-- <a href="#">Sign-up Online</a>
<a href="#">MXenergy (Canada) Ltd.</a>	--	46.8	--	--	--	<a href="#">Sign-up Online</a>
<a href="#">Selectpower Inc., an affiliate of Guelph Hydro</a>	--	--	43.0	--	41.9	-- <a href="#">Sign-up Online</a>
<a href="#">Superior Energy Management</a>	--	--	42.9	--	41.9	-- <a href="#">Sign-up Online</a>
<a href="#">Direct Energy Essential Home Services</a>	--	49.9	--	--	42.9 44.4	41.9 for 1st yr, then 42.9 44.4 price drops 1¢ /yr --
<a href="#">Ontario Energy Savings L.P.</a>	--	--	--	42.6	42.6	--

Terasen Gas has not completed a comparison of the 8 active gas marketers for size although a quick review of the marketer names suggest there exists a combination of large firms such as Direct Energy and Ontario Energy Savings compared to a smaller firm like GloWorm Gas.