Terasen Gas

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June 2, 2006

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

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

Dear Sir:

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

Response to British Columbia Utilities Commission (the "Commission") Information Request No. 1

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

1.0 Reference: Project Justification, p. 5

1.1 The CPCN Application at page 5 states that Terasen Gas is considering a number of IT improvement projects over the next two to three years. Which of these projects are likely to impact the systems that will be developed to implement unbundling for residential customers?

Response:

The major improvement projects that Terasen Gas is considering are:

- the replacement of the existing mobile dispatching system for Customer Service;
- technical upgrade of the SAP system; and
- various small functional enhancements to the Energy (CIS) system.

There are a number of smaller initiatives that require interfaces to and from the Energy system to ensure success of the end to end process. As well, CustomerWorks is planning on some additional technical improvements to the systems to ensure system reliability. Due to the integrated nature of the Terasen Gas application architecture, most projects have a dependency on the Energy CIS from a testing perspective and must be coordinated as an overall program. Residential Unbundling is another initiative that must be taken into account.

It is anticipated that there will be minimal impact to the actual "systems" that will be implemented for Residential Unbundling but there will potentially be material impact on the resources to implement these improvements. Considerable effort and prioritization will be required to ensure that all objectives can be staffed appropriately and parallel testing environments can be managed effectively to ensure success.

1.2 To what extent will development work done according to the program outlined in the CPCN Application become out of date when the IT improvement projects are completed? Will significant effort and expenditures be required to update the unbundling systems in recognition of the IT improvement projects? Please quantify such costs where possible.

Response:

There is no direct dependency or overlap with the IT improvement projects and the work required for Residential Unbundling as outlined in the CPCN Application.

1.3 Please discuss the impact on the program to develop the systems for unbundling, the cost of developing the unbundling systems and the cost of updating the unbundling systems, if the Gas Flow Date was delayed to November 1, 2008.

Response:

The impact of the delay would be that the resources that are planned for this initiative would have to be reviewed to determine their continued availability. Their associated costs would likely be higher due to the annual adjustment that most consulting firms typically apply to their resources. The specific level of such cost changes would have to be negotiated.

In addition, all the other initiatives that Terasen Gas is planning over the next couple of years would have to be reviewed. The timing of the Residential Unbundling program as proposed in the CPCN Application represents the least impact from a timing perspective compare to the other initiatives. If the project were materially delayed, these other initiatives would either have to be brought forward, delayed or assume much higher risk to accommodate a more complicated implementation plan.

2.0 Reference: Project Justification, p. 5

2.1 The CPCN Application at page 5 states that a delay in the start of the Implementation Phase significantly after September would result in a 2-9 percent cost increase. Please define "significantly."

Response:

In the Application Terasen Gas requested a Commission decision by July 31, 2006. The reference to "significantly" in the Application means any decision made after August 15 would likely delay the start of implementation by at least 6 to 12 months.

Please also refer to the response to question 2.2 for additional information.

2.2 What is the latest date for Commission approval, to permit a September start?

Response:

As indicated in the response to question 2.1 the latest date that the Commission could provide approval to proceed is August 15, 2006. Approval by this date would permit a project start in September 2006.

As part of the implementation efforts starting September 2006, Terasen Gas will be performing activities to finalize the details of the proposed solution for Residential Unbundling. The activities are required elements of the implementation phase but are not critical to the approval phase. The issues and related activities to resolve them include:

1. Marketer input on customer education efforts
    - refer to RG information request #1 Q 17(a)
2. Design of marketer settlement report
    - refer to RG information request #1 Q 23
3. Providing customer information to marketers
    - refer to RG information request #1 Q 26(a)
4. Use of voice signatures for telemarketing
    - refer to RG information request #1 Q 28(a)
5. Configurable actions for dispute resolution menu
    - refer to BCUC information request #1 Q 19.9

These issues require input from stakeholders. Terasen Gas plans to work with stakeholders in the Fall 2006 to address them. Terasen Gas expects to file the necessary submissions by October 31, 2006 with Commission approval required by no later than November 30, 2006.

Terasen Gas will file a submission seeking Commission approval for activities 3 and 4 listed above as there implications on customer information privacy and the Code of Conduct. Activities 2 and 5 do not require Commission approval. For Activity 1, Terasen Gas plans to circulate the proposed draft communication pieces for comment, in order to ensure a balanced approach and messaging. No further Commission approval will be sought for customer education material.

Other activities required as part of the implementation phase and planned for Fall 2006 for which Terasen Gas will file a submission seeking Commission review and approval, include:

- Negotiating a final operating agreement with CustomerWorks
    - refer to MEM information request #1 Q 12.1

- Revenue Accounting and Financial reporting review
    - refer to MEM information request #1 Q 13.1.

Terasen Gas requires approximately 30 days after approval to pull together the resources needed to establish a project team consisting of internal and external resources. By moving the approval date back to August 15, 2006, this creates a 15 day delay that would result in pushing out the completion date into early April 2007. A delay longer than this would result in placing the service introduction and deployment requirements at risk given that systems and processes need to be ready for enrollment processing on May 1, 2007.

In determining the optimal implementation start for Residential Unbundling Terasen Gas reviewed the timing of other application and system improvement projects that are currently planned or under consideration, the availability of internal resources, and the cost and availability of external resources that would be required. This review indicated that there are three opportunities to fit a Residential Unbundling project into a crowded timeline over the next two years. The first and least costly would allow implementation to begin in September 2006. The second would allow for start of implementation approximately six months later in March 2007, and the final one would allow for a start of implementation six months after this in September 2007.

Practically though, starting implementation in March 2007 is not optimal as that would mean the first gas flow date for the Residential Unbundling program would occur in May 2008, outside of the heating season, a time when consumer interest is low. This means that should Commission approval not be received by August 15, 2006 for a September 2007 implementation start, the next date for start of implementation is September 2007, a full year later.

2.3 Please outline the basis on which Terasen Gas quantified the potential cost increase.

Response:

The potential cost increases of 2% and 9% are reflective of the need to hold resources available for considerable periods into the future. Unlike typical commercial quotations that have a 30 to 60 day validity, Terasen Gas asked its external consultants to provide a fixed price bid valid for one year. The majority of the potential cost increase is a result of the bid provided by the external consultants.

2.4 Please explain why changes to the proposed education program would affect costs to rework and redesign system and process requirements. Would changes to the education program for subsequent years (after 2007) have any impact in this regard?

Response:

The reference in the Application is unclear. To clarify, the reference is contained on page 6 of the Application where it states:

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.

The last sentence should be revised to "…. with potential incremental costs to rework and redesign system and process requirements developed and **rework planned customer education efforts**………". (additional words in bold).

The customer education efforts are not directly tied to the system design and process requirements, except in the year one of implementation where a significant portion of the customer education are required prior to enabling Gas Marketers to start enrolling customers. Enrollment of customers can only occur with the completion of system and process requirement which are dependent on the finalization of business rules.

3.0 Reference: Cost of Service, pp. 6, 88

3.1 Please provide a schedule showing the calculation of the charge of approximately $0.10/GJ for the first three years of the program and approximately one-half that afterward. With annual sales of 75,000 TJ/y, please confirm that a $0.10/GJ rider would generate about $7.5 million of revenue.

Response:

The attached schedule sets out that a rider of $0.10 /GJ would generate revenue of approximately $7.5 million based on annual volumes of approximately 75,000 TJs. This annual revenue amount recovers the $12.5 million in implementation costs as well as the $3.0 million in ongoing operating costs that are expected after 2007 as set out in the Application. The implementation costs are assumed to be amortized over a three year period starting in 2008. The ongoing operating costs would be recovered in the year in which they are incurred.

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

		2006	2007	2008	2009	2010	2011	2012
Deferred Charges								
Program Implementation Costs								
Opening Balance		$ -	$ 2,915,090	$ 8,730,042	$ 11,187,523	$ 13,519,527	$ 15,718,527	$ 17,838,396
Additions								
Scoping Solution Deferral costs		212,252	841,548	-	-	-	-	-
Valid of Business Model Rules Deferral		85,350	214,650	-	-	-	-	-
Build - Accenture & KTC		2,834,000	2,008,750	-	-	-	-	-
Build - Terasen Gas		82,000	126,000	-	-	-	-	-
TGI - Finance Process Changes		165,000	335,000	-	-	-	-	-
Consumer Education (start up)		600,000	4,400,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Contingency		308,000	247,000	-	-	-	-	-
Subtotal		4,286,602	8,172,948	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Less Tax Savings		(1,414,579)	(2,697,073)	(990,000)	(990,000)	(990,000)	(990,000)	(990,000)
Net Additions		2,872,023	5,475,875	2,010,000	2,010,000	2,010,000	2,010,000	2,010,000
AFUDC	6.0%	43,067	339,076	447,481	322,004	189,001	109,868	87,839
Cumulative Total		2,915,090	8,730,042	11,187,523	13,519,527	15,718,527	17,838,396	19,936,234
Amortization Provision				(4,549,415)	(4,549,415)	(4,549,415)	(2,487,143)	(2,487,143)
Cumulative Provision		$ -	$ -	$ (4,549,415)	$ (9,098,831)	$ (13,648,246)	$ (16,135,388)	$ (18,622,531)
Net Balance		$ 2,915,090	$ 8,730,042	$ 6,638,107	$ 4,420,696	$ 2,070,281	$ 1,703,007	$ 1,313,703
Transactional Operating Costs								
Opening Balance			$ -	$ -	$ -	$ -	$ -	$ -
Terasen Gas			115,900	159,100	163,900	168,800	173,639	178,618
BCUC - IDRM			57,900	79,600	82,000	84,400	86,820	89,309
ABSU - Customer Care			414,400	503,800	567,400	645,900	664,418	683,467
Subtotal			588,200	742,500	813,300	899,100	924,877	951,393
Less: Recoveries from Marketers			-	-	-	-	-	-
- Marketer Groups			(59,400)	(125,300)	(193,100)	(275,600)	(283,501)	(291,629)
Subtotal			528,800	617,200	620,200	623,500	641,376	659,764
Total Rider Required for Recovery of Deferral Costs								
Implementation Deferral Costs			$ -	$ 4,549,415	$ 4,549,415	$ 4,549,415	$ 2,487,143	$ 2,487,143
Tax Gross Up on Deferral Costs	51.8%		$ -	$ 2,356,194	$ 2,356,194	$ 2,356,194	$ 1,288,119	$ 1,288,119
Maintenance Deferral Costs			528,800	617,200	620,200	623,500	641,376	659,764
Total Recoveries			$ 528,800	$ 7,522,809	$ 7,525,809	$ 7,529,109	$ 4,416,638	$ 4,435,026
Average # of Customers			735,000	747,000	760,000	773,000	786,141	799,505
Annual Volumes (TJ)			73,128	74,379	75,991	77,319	78,688	79,788
Average cost / Month / Customer			$ 0.06	$ 0.84	$ 0.83	$ 0.81	$ 0.47	$ 0.46
Average cost / GJ			$ 0.01	$ 0.10	$ 0.10	$ 0.10	$ 0.06	$ 0.06

3.2 Please explain the basis for proposing to amortize the implementation costs over three years, as set out on page 88. Would a longer amortization period of perhaps five years be acceptable?

Response:

The basis for proposing a 3 year amortization period was to use a period of time that would smooth out the rate impact for recovery of the deferral costs from residential customers. This treatment also matches the three year period matches the amortization period that was approved for the Commercial Unbundling program.

The impact of using a 5 year amortization period can be seen from the results in the response to Retailer Group IR1 question 22. For a 5 year amortization, the annual amortization is $3.665 million versus the $4.549 million for the amortization proposed in the CPCN. Terasen Gas does not object to a 5 year amortization period providing there is a mechanism for recovery of the costs over the 5 year period.

3.3 Please describe how Terasen Gas proposes to allocate the cost of the new unbundling systems between residential, commercial and other customers and provide a schedule showing the calculation of the approximate charges for commercial customers.

Response:

The costs for the Residential Unbundling would be accounted for in a deferral account that would be separate from the deferral account used for the Commercial Unbundling program. By tracking the costs of the two separate unbundling programs in different deferral accounts, it will be possible to directly assign Residential Unbundling costs to residential customers and Commercial Unbundling costs to commercial customers. This treatment is consistent with the principle from Commission Letter No. L-25-03 that directed the allocation of costs to the utility commercial customers who have the opportunity to participate in the commercial unbundling program. Similarly, residential customers who have the opportunity to participate in the residential unbundling program should be allocated the costs of the residential unbundling program.

The recovery of the deferred Residential Unbundling costs would be by way of a rider applicable to all eligible residential customers rather than through the Utility's general cost of service which would then impact other customer classes.

The following table is from Terasen Gas' January 16, 2004 Commercial Unbundling Cost Allocation application, pages 12 and 13 that summarized the implementation costs and 3 - Year Average Cost per Customer and per gigajoule.

Deferred Account			
	2005	**2006**	**2007**
Amortization of Implementation Costs	$2,336,000	$2,336,000	$2,336,000
Total Cost of Service	$2,029,000	$2,134,000	$3,668,000
Present Value of Annual Cost of Service	$6,678,420		
Levelized Annual Cost of Service (first 3 years)	$2,570,680		
Average Annual Cost of Service (first 3 years)	$2,610,333		
Average Number of Customers	76,286	76,286	76,286
Annual Volumes (TJ)	39,758	39,758	39,758
Average Cost / Customer / Year	$26.60	$27.97	$48.08
Average Cost / GJ	$0.051	$0.054	$0.092
3 – Year Average Cost / Customer / Year	$34.21		
3 – Year Average Cost / GJ	$0.065		

(Average # of customers and volumes exclude Revelstoke and Fort Nelson customers).

3.4 If portions of the new systems have benefits for the Terasen Gas system overall, please explain whether the cost of such components should be considered to be part of the utility's regular capital budget expenditures.

Response:

Please refer to the response to Question 10.1 regarding benefits of business process enhancements.

Terasen Gas views the modifications required to its business systems and processes as being directly related to supporting Residential Unbundling. Without the Unbundling initiative, Terasen Gas would not undertake the system and process enhancements. As such, Terasen Gas is of the view that it would be inappropriate to consider these costs as part of the Utility's regular capital budget expenditures.

4.0 Reference: Regulatory Review of CPCN Application, p. 6

4.1 The CPCN Application at page 6 states that the CPCN Application is subject to approval of the Terasen Gas Board of Directors. Please provide a copy of the Board approval, or outline when such approval is expected to be obtained.

<u>Response:</u>

As noted in its Application, Terasen Gas has requested approval to proceed with capital expenditures of $11.1 million (over and above the $1.4 million which was approved as part of the scoping process) to implement the Residential Unbundling program. In respect of Terasen Gas' internal approval process, all capital projects are subject to the Capital Approval Policy which outlines the approval authority for executives of the organization. Terasen Gas has received Board approval in principle for this project, assuming it is approved by the Commission as applied for. If there are conditions attached to approval of the CPCN, it may be necessary to obtain additional approvals.

5.0 Reference: Regulatory Review of CPCN Application, pp. 7, 8, 87, 88

5.1 The requested approvals on pages 7 and 8 of the CPCN Application that relate to riders, transaction fees and tariffs appear to relate more to Sections 59 and 61 than to Section 45 of the Utilities Commission Act. Please clarify which Section such matters should be considered under.

Response:

Terasen Gas confirms that its requests for rate riders, transaction fees and tariffs included in the Application should have been made pursuant to Sections 59 and 61 of the Utilities Commission Act, and as such revises its Application to reflect this.

5.2 Terasen Gas requests that the Bad Debt treatment approved by Order No. G-25-04 for Commercial Unbundling apply for Residential Unbundling as well. Please describe how the Bad Debt treatment would work for residential customers, quantifying any charges and showing how the charges were calculated. Is the "forecast Bad Debt experience" consistent with the forecasts that underpin Terasen Gas' current Revenue Requirements Settlement?

Response:

Terasen Gas is supportive of the Commission's approved methodology outlined in Order No. G-25-04 for Commercial Unbundling and is proposing a similar methodology be adopted for the Residential Unbundling phase. In Order G-25-04 the Commission directed Terasen Gas to record in a deferral account the dollar difference between the actual bad debt for unbundled customers and 0.30% based on historical experience, which is the overall bad debt recovery forecast used for the purpose of the Terasen Gas annual budget. The example of 0.30% bad debt experience is consistent with the forecasts that underpin Terasen Gas' current Revenue Requirements Settlement.

To determine the associated incremental bad debt for unbundled customers for a specified period, Terasen Gas will be reviewing the number of unbundled customer accounts and amounts sent to collection agencies. Customer accounts sent to collection agencies are good indicators of bad debt experience. The difference between the calculated % bad debt experience for unbundled customers and the forecast bad debt experience used for budgeting purposes (i.e. in prior example, this would be 0.30%), is then multiplied by the total billed revenues for the unbundled customers to derive the charges / amount that should be allocated to the deferral account.

In addition, Terasen Gas will be comparing the average amount of unbundled customer accounts written-off to those bundled customer accounts written-off to identify any significant difference. This difference will also be charged to the deferral account.

Below are three scenarios illustrating how the charges will be calculated.

Scenario 1 - Higher default rate

Key Assumptions
- no difference between marketer commodity rate and Terasen Gas default rate
- higher default rate for unbundled customers

	Unbundled Cust.	Bundled Cust.	Diff.	Recorded in Deferral account
Total billed amount	$ 1,000	$ 1,000	$ -	
# of customers	10	10	0	
Billed amount per customer	$ 100	$ 100	$ -	
Bad Debt				
# of cust. Account written off	2	1	1	
Amount per cust written off	$ 100	$ 100	$ -	
Total bad debt	$ 200	$ 100	$ 100	$ 100
Experience rate	20%	10%	10%	(calculated as diff. in bad debt exp times
(total bad debt / by total billed amount)				billed revenues for bundled customers)

Scenario 2 - Higher billed amount per customer

Key Assumptions
- marketer commodity rate higher than Terasen Gas default rate
- same default rate for unbundled customers

	Unbundled Cust.	Bundled Cust.	Diff.	Recorded in Deferral account
Total billed amount	$ 1,100	$ 1,000	$ 100	
# of customers	10	10	0	
Billed amount per customer	$ 110	$ 100	$ 10	
Bad Debt				
# of cust. Account written off	1	1	0	
Amount per cust written off	$ 110	$ 100	$ 10	
Total bad debt	$ 110	$ 100	$ 10	$ 10
Experience rate	10%	10%	0%	(calculated as diff. in bad debt per customer
(total bad debt / by total billed amount)				times number of unbundled customers defaulting)

Scenario 3 - Higher default rate and Higher billed amount per customer

Key Assumptions
- higher default rate for unbundled customers
- marketer commodity rate higher than Terasen Gas default rate

	Unbundled Cust.	Bundled Cust.	Diff.	Recorded in Deferral account	
Total billed amount	$ 1,100	$ 1,000	$ 100		
# of customers	10	10	0		
Billed amount per customer	$ 110	$ 100	$ 10		
Bad Debt					
# of cust. Account written off	2	1	1		
Amount per cust written off	$ 110	$ 100	$ 10		
Total bad debt	$ 220	$ 100	$ 120	$ 120	Consisting of
Experience rate	20%	10%	10%		
(total bad debt / by total billed amount)				$ 100	(calculated as diff. in bad debt exp times billed revenues for bundled customers)
				$ 20	(calculated as diff in bad debt amount per customer times number of unbundled customers defaulting)

Further, as noted by the Commission in Order No. G-25-04, the disposition of the amounts to the deferral account and the establishment of an appropriate bad debt factor will be subject to future determination by the Commission.

5.3 Recognizing the total body of residential customers receiving gas service will not change with unbundling and that billing and collections will continue to be handled by Terasen Gas, please explain why the Bad Debt experience for residential customers overall is expected to be any different whether or not residential unbundling goes ahead.

Response:

Terasen Gas expects that since Gas Marketers must build their operating costs and a profit margin into their pricing, the gross billings will increase for unbundled customers. With potentially no change in experience rates for bad debt from that currently being experienced for bundled customers, the overall amount for bad debt expense would then still be expected to be proportionately higher for an unbundled customer. Please refer to Scenario 2 outlined in response to Question 5.2.

5.4 Further to the previous question, please explain why residential customers who chose unbundled service are expected, overall, to represent a higher Bad Debt risk than residential customers who continue to buy the gas commodity from the utility.

Response:

Please refer to scenarios outlined in answer to Question 5.2. It is not necessarily that an unbundled residential customer will have a likelihood of default but also that an unbundled customer will have a proportionately higher dollar bad debt amount per account written off.

5.5 Further to the responses to the two previous questions, please explain why there should be any additional Bad Debt charges and treatment for residential customers who select unbundled service.

Response:

In the past filings, Terasen Gas stated, and the Commission has confirmed, that its shareholders should not be at risk for the costs of implementing Unbundling. In requesting approval for the proposed bad treatment outlined in the CPCN Application, Terasen Gas is proposing a recovery mechanism that is intended to place the risk of any incremental bad debts with those that creates the additional cost.

Further, in its ruling in Order No. G-25-04, the Commission Panel concluded that if a higher bad debt expense for unbundled gas customers can be demonstrated by Terasen Gas, the Commission should grant a higher bad debt allowance and compensation from Gas Marketers to cover the increased bad debt amount to keep Terasen Gas whole.

Terasen Gas agrees with the Commission's previous ruling that there be no incremental bad debt factor allocated to Gas Marketers until it can be demonstrated that a higher (or lower) payment risk is present, and is of the view that the same ruling should be applicable to this second phase of the implementation of Commodity Unbundling for low-volume customers.

5.6 Please provide a summary of transactions to date related to the Bad Debt deferral account for commercial customers. Based on this experience, please discuss whether the proposed Bad Debt treatment is justified for either Commercial or Residential Unbundling.

Response:

Analysis of bad debt data for period May 2005 to April 2006 provides no evidence that unbundled commercial customers have a higher bad debt impact than a bundled commercial customer.

It is Terasen Gas' view that based on only one year of historical data, it is too early to conclude that the proposed bad debt treatment is unsupported. Further monitoring and analysis is required over longer periods to validate the appropriateness of the proposed bad debt treatment. The proposed deferral account treatment methodology is effective in ensuring that Terasen Gas is not placed at risk for any costs associated with Unbundling, yet provides a means to monitor the significance of this potential issue without unnecessarily burdening Gas Marketers with added costs.

6.0 Reference: Stable Rate Offering , pp. 21, 24

6.1 On page 21 of the CPCN Application, Terasen Gas states that the Stable Rate Option aids an orderly transition to an unbundled environment. For the period commencing January 1, 2007, please explain why Terasen Gas believes the Stable Rate Option will stimulate consumers' interest in buying gas from Gas Marketers, and will provide educational benefits with regard to the residential unbundling program.

Response:

For the period commencing January 1, 2007 and onwards, Terasen Gas firmly believes that in addition to the proposed customer education program, the Stable Rate Option will continue to provide value by stimulating residential consumers' interest in commodity choice, creating a higher level of awareness and a better understanding of the merits of commodity choice. With a combination of initiatives such as that outlined in the proposed customer education plan and also the Stable Rate Option, residential customers will be more informed and aware of the benefits of commodity choice.

As part of its educational value, the Stable Rate Option provides a "benchmark" product which will aid residential consumers in their purchase decision in an unbundled environment. Currently, residential consumers' awareness of commodity choice or "Unbundling" is low as evidenced by the Commodity Unbundling Survey which was conducted in summer of 2005 (refer to page 4 of Appendix 4 of CPCN Application), after the first year of the Stable Rate Option being offered. The survey results showed that residential customers' awareness of Unbundling was very low with only 13% of customers saying they had ever heard of commodity choice or "Unbundling" before.

In an unbundled environment, consumers' purchase decision are likely to be complicated as consumers will be exposed to a multitude of different terms and conditions such as pricing and the length of the contract. By Terasen Gas offering the Stable Rate Option, consumers will benefit as they will have an easily accessible product to compare Gas Marketers' offerings against. In the end, consumers will be in a better position to make informed purchase decisions.

In addition, with the Utility continuing to offer the Stable Rate Option in an unbundled environment serves to benefit customers by providing more choice. Generally, the more supply choices available, whether through the utility or through Gas Marketers, the better off consumers are.

Much remains to "educate" residential customers, allowing them to make informed purchase decisions regarding commodity choice.

6.2 How does Terasen Gas respond to arguments that continuation of the Stable Rate Option into 2007 is more likely to discourage consumers from selecting to buy gas from Gas Marketers, to confuse consumers by placing a third form of supply option before them (in addition to the utility's regulated supply and buying gas from a Gas Marketer) and to absorb some of the utility's educational efforts and funding?

Response:

As stated in the Application, Terasen Gas does not believe the Stable Rate Option will act as an impediment to the creation of a competitive environment for commodity choice offerings by Gas Marketers as it has two distinct differences from products offered by Gas Marketers. First, the Stable Rate Option is limited in term to a 1 year contract term whereas typically Gas Marketers offer 3 to 5 year contract terms (i.e. refer to Appendix 1 of Application; page 6 for pricing options offered by Gas Marketers in other Canadian jurisdictions). Second, Terasen Gas employs more informational and softer promotional tactics than the door-to-door sales or potentially telemarketing techniques typically successfully used by most Gas Marketers. 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 tactics.

As outlined in the answer to Question 6.1 above, Terasen Gas believes that generally as long as choice provides value to consumers and it can be offered cost-effectively with minimal confusion, the more supply choices made available, whether through the Utility or through Gas Marketers, the better off consumers are. Terasen Gas believes the Stable Rate Option is consistent and supportive of the direction outlined in the 2002 BC Energy Policy to provide more commodity choice for small volume consumers.

With regards to the comment "to absorb some of the utility's educational efforts and funding", Terasen Gas believes the Stable Rate Option, as outlined in the answer to Question 6.1 is instead complementary to the proposed customer education program, as it will provide a real "benchmark" product which consumers can use for comparison against other offerings available in the marketplace. As stated earlier, in an unbundled environment, consumers' purchase decisions are likely to be more complicated with a multitude of different terms and conditions such as pricing and the length of the contract available. By the Utility or Terasen Gas offering the Stable Rate Option, consumers will benefit as they will have an easily accessible product to compare Gas Marketers' offerings against.

With a combination of initiatives such as that outlined in the proposed customer education plan and also the Stable Rate Option, residential customers will be more informed and aware of the benefits of commodity choice.

6.3 How much does Terasen Gas propose to spend on customer education with respect to the Stable Rate Option if the program is approved for 2007?

Response:

If the Stable Rate Option is approved for 2007, Terasen Gas proposes to spend $175,000 for marketing and customer education. This is consistent with the two prior year's offerings where approximately $175,000 was spent per year.

6.4 Further to the statement on page 24 that program costs are expected to remain in the $0.3 million per year range, please provide a complete summary of the Stable Rate Option costs including customer education for 2006, and a forecast for 2007.

Response:

Program costs consist of marketing and education costs referred to in answer to Question 6.3 above and fixed operating costs paid to CustomerWorks in support of the program.

For the 2006 version of the Stable Rate Option program (i.e. Jan 1 – Dec 31, 2006) excluding enrolment fees to process a Stable Rate application received, Terasen Gas has or will incur approximately $175,000 in total program costs.

Of the $175,000 in costs forecasted, $16,000 is for the monthly Stable Rate surcharge paid to CustomerWorks during the term of the program; $159,000 is for marketing and education costs consisting of $52,000 for production and distribution of the Stable Rate bill insert; $11,000 for marketing in the Terasen Gas Summer 2005 edition Get Comfortable newsletter; $90,000 for production and broadcast of television commercials publicizing the Stable Rate program; and $6,000 for the enablement of online enrolment capability for the program.

Subject to negotiating an acceptable renewal of the Client Services Agreement for Year 3 of the Stable Rate Program with CustomerWorks, Terasen Gas forecasts, excluding enrolment processing fees, total program costs of $200,000 consisting of $175,000 for marketing and education costs and $25,000 for fixed operating costs.

The statement on page 24 that program costs are expected to remain in the $0.3 million per year range or less is consistent with the expenditures spent for the 2005 version of the Stable Rate program, where fixed operating costs totalled to about $110,000 with marketing and education costs amounting to $175,000 for a total of approximately $300,000. Terasen Gas continues to work with CustomerWorks to streamline activities and potentially reduce the operating costs for the Stable Rate program.

6.5 Is Terasen prepared to transfer the Stable Rate Option to an non-regulated affiliate after residential unbundling goes into effect?

Response:

Any Terasen Gas' decision to transfer the Stable Rate Option to an non-regulated affiliate after Residential Unbundling would go into effect depending on the circumstances at that time, including an assessment of the continued education value provided by the Stable Rate inside the regulated utility, residential customer demand, and developments in the marketplace.

6.6 In the event the Commission determines that there should not be an overlap between the Stable Rate Option and residential unbundling, the alternatives would appear to be to terminate the program at the end of December 2006 or at the end of October 2007. Please discuss the pros and cons of the two options.

Response:

As discussed above, Terasen Gas does not believe the Stable Rate Option should be terminated.

If the Commission were to terminate the Stable Rate Option at the end of December 2006, a disadvantage is that residential customers would not have a commodity choice program available to them to fix their natural gas price from January 1, 2007 until November 1, 2007, the proposed start of the Residential Unbundling program. Existing Stable Rate customers would have to be returned to the Terasen Gas default rate option effective January 1, 2007. Related to the time gap between the January 1 to November 1, 2007, another disadvantage is that some of the ongoing educational value and heightened consumer awareness of the Stable Rate Option for customers could be lost due to the time elapsed until November 1, 2007.

Terasen Gas does not support terminating the Stable Rate Option at the end of October 2007 as that would mean offering only a 10 month fixed rate for the 2007 version of the Stable Rate Option. This will lead to increased confusion for customers of only being offered 10 months of price protection. Instead, if the Commission is contemplating terminating the Stable Rate Option, a more feasible date would be January 1, 2008. This date would enable Terasen Gas to continue with offering full year Stable Rate Option for 2007 and allow for a more orderly transition for customers. In addition, residential customers would still be a position to switch to an alternative supplier effective January 1, 2008, which is only a two months difference.

6.7 Please provide cases where other jurisdictions allow the host utility the opportunity to provide a fixed rate option to residential customers in competition with marketers.

Response:

Based on its search, Terasen Gas has identified one utility, Northern Indiana Public Service Co. (NIPSCO) that offers a fixed rate option to residential customers in conjunction with Gas Marketers offering commodity choice. NIPSCO has approximately 712,000 natural gas customers and 445,000 electric customers across the northern third of Indiana. NIPSCO is the largest natural gas distribution, and the second largest electric distribution company, in the state.

The NIPSCO Choice Program, which gives natural gas customers the opportunity to choose their natural gas supplier from other than the regulated utility, has been available to all NIPSCO gas customers since April 1, 1999. Enrollment on NIPSCO Choice is currently capped at 150,000 residential customers and 20,000 business customers. There are currently seven natural gas marketers listed on NIPSCO's website as being qualified suppliers. Gas Marketers offer fixed rate plans from 12 to 36 months. Approximately 50,000 customers are currently enrolled in the NIPSCO Choice Program.

Through its regulated entity, NIPSCO is currently offering its gas customers three alternative pricing options to its natural gas customers.

Capped Price Option

This option guarantees a customer's Gas Supply Charge will not exceed a pre-set amount for each therm they use for one full year, regardless of how high market prices rise. Each month, they pay either the capped price or the market price – whichever is lower. The customer also pays an additional predetermined Capped Price Fee. Approximately 10,000 customers are enrolled in the Capped Price Option.

http://www.pps.nipsco.com/capped.asp

Fixed Price Option

Under the Fixed Price Option, the customer pays a set price per therm for the gas supply portion of their bill for a 12 month period. While your usage may vary from month to month, the price per therm stays the same. This price does not include the gas delivery charge – it is charged separately. Approximately 35,000 customers are enrolled in the Fixed Price Option.

http://www.pps.nipsco.com/fixed.asp

Dependabill

Under the DependaBill Option, a customer pays a predetermined amount each month with no interim adjustment or end-of-year reconciliation unless they are on the program for considerably more or less than one year. The amount is determined by the customer's usage history and the historical temperatures in their area. If the customer uses 15 percent more cumulative non-weather related gas, they may be removed from the program and returned to a standard gas tariff.

Dependabill has been available since November 2002. Enrollment is capped at 45,000 customers (residential and business combined). Enrolment to date is about 7,000 customers.

http://www.dependabill.nipsco.com

6.8 The proposed educational budget for residential unbundling has a component of $4.5 million and an extensive plan to acquaint the customer with the concept that the customer has options for the supply of natural gas. What deficiencies are in the proposed educational plan that would be corrected if the Stable Rate Option continued?

Response:

As discussed in the response to Question 6.2, Terasen Gas believes the Stable Rate Option is complementary to the proposed customer education program, as it will provide a real "benchmark" product which consumers can use for comparison against other offerings available in the marketplace. In an unbundled environment, consumers' purchase decisions are likely to be more complicated with a multitude of different terms and conditions such as pricing and the length of the contract available. By Terasen Gas offering the Stable Rate Option, consumers will benefit as they will have an easily accessible product to compare Gas Marketers' offerings against.

With a combination of initiatives such as that outlined in the proposed customer education plan and also the Stable Rate Option, residential customers will be more informed and aware of the benefits of commodity choice.

7.0 Reference: Design Summary, p. 32

7.1 On page 32, Terasen Gas says that the ten day cool-off period permits customers to cancel a pending contract. Please explain why Terasen Gas believes the ten day period should commence with the confirmation letter rather than when the Gas Marketer/customer contract is signed.

Response:

The purpose of the Confirmation Letter is to provide eligible customers with an additional level of consumer protection by an independent third party. Terasen Gas believes that customers will be more willing to consider participating in the program if they can clearly see that they have an ability to easily exit a pending contract should they have reservations. In order for this option to be meaningful, customers need enough time to be able to respond to such a letter after they receive it.

In the Application Terasen Gas outlined an enrollment management process based on feedback from Gas Marketers who requested the ability to enroll customers up to each monthly entry date. Additionally, the enrollment management process needs to be able to accommodate differing enrollment management practices followed by Gas Marketers, some of whom intend on submitting daily enrollments to Terasen Gas, while others intend on providing them in batches. In order to accommodate these requirements, and to keep the time between monthly entry dates from expanding, an enrollment management process is most efficient if the 10 day cooling off period starts once the final enrollment was received for these last customers. If the cooling off period was changed to start from the date that the contract was signed, Gas Marketers would have to submit final enrollment candidates at least 10 days prior to each entry date so that customers would have enough time to make use of the 10 day cooling off period. Additional data, such as the date that a contract was signed, would also have to be collected and tracked in order to ensure the validity of enrollments. Managing this additional data adds to the complexity of data flows and the systems required to process them.

Another drawback with starting the 10 days cooling-off period from the date that a customer signed a contract is that is would potentially leave insufficient time for a customer to respond to a Confirmation Letter. The time required to print, post, and deliver the letter effectively reduces the time a customer would have to respond by 3 to 4 days after receipt of the letter. Any additional time that passes between the time that a contract is signed and when the Confirmation Letter is prepared further reduces the time available to a customer.

A drawback from a Gas Marketer's perspective with the approach proposed by Terasen Gas is that they would have little opportunity to attempt to convince a customer to reconsider a decision to exit a contract before the 10 day cooling off period ends. However, this would provide an incentive for Gas Marketers to exercise greater care in their selling efforts, something that is arguably beneficial to customers.

Terasen Gas believes that its proposal finds the best balance between offering customers an effective level of additional consumer protection by an independent third party, and efficiently managing the enrollment process so that the time between entry periods is kept to a minimum.

7.2 From a system design and enrolment management perspective, would Terasen Gas be as well served if the customer had ten days after the confirmation letter to advise the utility whether it had cancelled the contract under a ten day cool-off period that started when the contract was signed?

<u>Response:</u>

Please also refer to the response to question 7.1.

The 10 day cooling off period could be supported by either one of the two following approaches:

- the ten day cooling-off starts when Terasen Gas produces the Confirmation Letter, or
- the ten day cooling-off starts when the contract is signed by the customer followed by a Confirmation Letter that is generated either by the Gas Marketer or by Terasen Gas.

From a system design and enrollment management perspective Terasen Gas could support processing enrollments set out in either scenario equally well, but the proposed program is designed to support the first scenario for the reasons described in the response to question 7.1. The second scenario would entail a scope change from the proposed program and result in additional costs.

While the second scenario could be supported with system and process changes, Terasen Gas does not advocate adopting this approach. In this approach a Confirmation Letter may be redundant if its primary purpose is to provide a measure of consumer protection because there is no way of ensuring that a letter would arrive in time before the customer has time to act.

7.3 Could the ten day period be reduced to perhaps five days?

<u>Response:</u>

Please refer to the responses to questions 7.1 and 7.2 for additional information about the 10 day cooling-off period.

In terms of duration the 10 day period was suggested because it conforms to the Business Practices and Consumer Protection Act. The Act sets out that consumers have the right to cancel direct sales contracts within 10 days from the date a contract is signed.

8.0 Reference: Marketer Failure, p. 37

8.1 Factors to consider when determining the criteria under which Terasen Gas would seek an Order for Marker Failure from the Commission include:

- Cost of the Backstopping gas provided to cover the failure.
- Magnitude and timing of remittances to Gas Marketers for the previous month's purchases.
- Length of time anticipated for obtaining an order and returning the customers to Terasen Gas' standard system rate.

Please provide a hypothetical example of a marketer failure condition to illustrate the steps Terasen Gas would apply to mitigate the damage caused by the marketer failure.

Response:

The rules and process around Marketer Failure being proposed for Residential Unbundling have not changed from what was approved by the Commission as part of the Commercial Unbundling program. Following is a discussion of the process Terasen Gas would apply to handled marketer failure.

In order for Terasen Gas to seek an Order of Marketer Failure from the Commission, one of the following must occur:

i. 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

ii. 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

iii. 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.

These conditions are set out in Terasen Gas' approved tariff under Rate Schedule 36 Commodity Unbundling Service.

If one of the preceding conditions occurs, Terasen Gas will send a Notice ("Marketer Failure Notice") to the Gas Marketer as part of an application to the Commission for an order declaring Marketer Failure and revoking the Gas Marketer's License as Gas Marketer. While Terasen Gas waits for a Commission decision, it would purchase natural gas or use midstream resources to cover off the supply shortfall on a daily basis.

Once the Commission makes a ruling to terminate the Gas Marketer license, the Gas Marketer's customers would be returned to the default offering on the next entry date. Until that time, Terasen Gas would procure the natural gas required to meet the customers' load until this change was processed.

In the event of Marketer Failure, Terasen Gas has the right per the "Notice of Appointment of Marketer" (Clause #6) to charge the customer directly for any incremental gas costs.

9.0 Reference: Number of Customers, p. 38

9.1 "Terasen Gas reserves the right to introduce a customer limitation cap, subject to Commission approval should there be unanticipated significant migration impacting Terasen Gas' Annual Contracting Plan and Price Risk Management Plan."

What process and advance notice would Terasen Gas anticipate launching in order to introduce a customer cap?

<u>Response:</u>

Terasen Gas included this statement as a continuation of the limit that was included as part of the successful implementation of the Commercial Unbundling Program. In this program, Terasen Gas had a cap on the number of customers (10,000 for the first entry period) and no entry period for the second entry date (February 2005). This was to help Terasen Gas manage any unforeseen significant system and processing problems that would be encountered due to the start of the program. Also, these restrictions were intended to help Terasen Gas manage any impact to the Annual Contracting Plan ("ACP") and the Price Risk Management Plan ("PRM") that may have been unforeseen when the business rules were finalized.

As part of this Application, Terasen Gas did not specifically identify any restriction on entry dates or customer caps, but included this clause to protect customers in the event of unforeseen significant system or process problems and/or potential stranded gas costs.

10.0 Reference: Implementation Cost Estimate, pp. 40 – 41

10.1 Terasen Gas is receiving benefits from the revamp of a number of its internal functions such as gas supply forecasting, internal financial controls and improvements to its website etc. In many cases Terasen Gas would have had to make these expenditures as part of normal business conditions. Please provide an overview of the benefits received by Terasen Gas through the commercial and residential unbundling programs. What is the monetary value of these benefits?

Response:

Terasen Gas disagrees with the premise included in the Information Request. Terasen Gas would not have had to make these expenditures as part of normal business conditions.

In implementing Unbundling for commercial customers and developing the proposed solution to introduce Residential Unbundling, a review of key existing business systems and processes occurred in order to determine how best to implement and support Unbundling. Key functional areas reviewed included Customer Care and Billing, Forecasting, and Gas Supply. In addition, a review of the Terasen Gas' website was undertaken to determine enhancements necessary to make it easy for consumers to find the relevant Unbundling information. However, no significant modifications have been made to the revenue accounting and financial reporting processes to support Commercial Unbundling. Terasen Gas has managed to continue to use the gas revenue and cost accounting and reporting processes in place prior to implementation of Commercial Unbundling in 2004.

As a result of the review undertaken, Terasen Gas now has a better understanding of the key business systems and processes required to support its core business. However, the benefits, in terms of learning, end there. The system or business process enhancements being undertaken are in direct support of the Unbundling program. Without the Unbundling initiative, Terasen Gas would not have undertaken the system and process enhancements.

For example, to support Unbundling, modifications have been or are being made to the Forecasting processes. The modifications are to enable Terasen Gas to calculate accurately and on a timely (monthly) basis the marketer supply requirement, directly in support of the Unbundling initiative. For Gas Supply and Customer Care processes, enhancements are required to directly support the customer enrollment process for Unbundling. Processes like tracking customer contract end dates, enabling customer portability, sending out confirmation letters, tracking marketer billing groups and modifying the customers' bill are required only for Unbundling and would have little or no other business value if there was no Unbundling initiative.

Terasen Gas views the modifications required to its business systems and processes as being directly related to supporting Unbundling. As stated in the

Application, Terasen Gas does not promote the Unbundling program as an initiative by itself. Rather, it is reacting to calls from interested parties, the Commission and BC Energy policy for providing commodity choice. Should the Commission decide not to proceed with Residential Unbundling, Terasen Gas would have little or no business value for the proposed system and process modifications identified.

10.2 Build – Accenture & KTC - $4,842,750

A fixed price of $4.84 million covers the cost to build and complete the proposed process and system changes by Accenture and Knowledge Tech consulting.

What tests did Terasen Gas perform on the cost estimate to validate the results in order to prove they were reasonable?

Please provide a breakdown of the estimate.

Response:

Terasen Gas reviewed the proposed rate structure from both Accenture and KnowledgeTech and found them to be in line with market for the required skills. Both Accenture and KnowledgeTech are intimately familiar with the applications and offer the most cost effective choice of vendor to minimize learning curve challenges and provide immediate productivity. Another consideration is the fact that Terasen Gas does not own the development or testing environments for the Energy system and therefore any other supplier would have to create and staff these environments at a cost that would be so prohibitive as to not be an option.

Typically in the IT industry, companies that ask for the risk sharing of a fixed price proposal give up the right to ask detailed questions about the specific tasks and the supporting work done internally by the company to prepare the fixed price bid. The nature of a fixed price proposal is to ensure certainty of cost and risk mitigation around performance. As such, it is the end result that is the focus and there is less detail available on the specifics of each task. The table below shows the high level costs and the anticipated effort of those resources for Accenture.

Resource/Expense		Hours	Benchmark Rate		Amount	
Project/Program Management		2,136	$	380	$	811,680
Solution Architect		1,070	$	380	$	406,600
Accenture/Peace Resources		12,717	$	162	$	2,056,720
Third Party (print provider)					$	120,000
Total Labor					**$**	**3,395,000**
Expenses	10%				$	339,500
Contiingency	10%				$	373,450
Total					**$**	**4,107,950**

This initiative will be staffed with resources from Canada and the dollars below represent a blended rate in Canadian funds.

The KnowledgeTech proposal indicates that 5 FTE's will be required for the duration of the 6 month project; 4 people will be dedicated project resources and the other FTE will be a combination of various experts in specific areas. The total cost for KnowledgTech will be $ 734,800 which includes a 10% contingency as part of the costs.

10.3 Build – Terasen Gas - $208,000

Please provide a more detailed breakdown of the costs between IT services and the project manager.

What are the qualifications of the project manager, hourly rate and estimated hours for this project?

Response:

The following table sets out the components included in the $208,000 Terasen Gas build costs.

Residential Unbundling Implementation Costs

Terasen Gas Build Costs
A. Implementation Costs - Capital

	2006	2007	Total	Notes
1. Project Team Setup	20,000	-	20,000	(1)
2. FIS Development Environment	20,000	-	20,000	(2)
3. Facilities	-	-	-	(3)
4. Project Manager	42,000	126,000	168,000	(4)
5. Other	-	-	-	
Total	**82,000**	**126,000**	**208,000**	

Notes
(1) IT infrastructure costs for 12 people, including Telus setup.
(2) FIS development environment, allows FIS to remain in production needed for the commercial program.
(3) Facilities set up for 12 project team members - minor costs per Darlene Smith (telephone 29 Mar06).
(4) Full time project manager for 16 months from September 2006 to December 2007.

The project manager needed to oversee the implementation of the Residential Unbundling program requires a detailed familiarity with the existing Commercial Unbundling program, as well as the business rules that form the framework for the business model. This familiarity includes an understanding of the systems used by the Gas Supply and Forecasting departments and CustomerWorks, the customer care outsource provider. This familiarity with the Commercial Unbundling program is critical given the objective to use as much of the existing program in the proposed Residential Program as possible, as well as to implement one program wherever possible. Once implementation is completed Terasen Gas continues to remain responsible for the daily operation and identification of future enhancements of the systems after the third party consultants have completed their work. The project manager is expected to play a key role in meeting these post implementation requirements.

Costs of $168,000 are included in the implementation costs for a project manager to lead the implementation of the proposed Residential Unbundling program. These costs are based on an hourly rate of $75.00 times 2240 hours. This time is expected to be used starting August 2006, when final approval to proceed is granted, through December 2007.

10.4 Terasen Gas Finance Process Changes - $500,000

Please provide the detailed cost estimate that supports the proposed expenditure of $500,000.

Response:

As was set out in the Application, in order to keep costs in the Scoping Phase to a minimum, Terasen Gas did not complete 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. If the program is approved, Terasen Gas will proceed in the final quarter of 2006 to prepare a detailed delivery plan to address this issue. The funding required for this work will be provided by using the remaining deferral account funding approved for the Pre-Scoping Phase in 2005.

Terasen Gas' external consultants suggested that the implementation of a solution would roughly involve the effort of five consultants working for 60 days times $1725 /day for a total of approximately $500,000. This amount assumes that the appropriate analysis and scoping work was completed and a detailed delivery plan prepared prior to the implementation of a solution.

10.5 Terasen Gas Build Contingency - $555,000

Why is the 10 percent contingency sufficient and how was this level arrived at?

Response:

Terasen Gas included a 10% contingency, totaling $555,000, in the estimated implementation costs in the Application. Additionally, Terasen Gas' consultants, who would be selected to implement the system and process changes required by the proposed program, have also included a 10% contingency in their cost proposal. Overall this represents a contingency of 20% and is required to address the potential for scope changes as a final decision on business rules is reached and as the implementation proceeds. The level of this contingency is consistent with what was proposed and accepted for the implementation of the Commercial Unbundling program in 2003.

The scope changes considered would be the result of changes to business rules or if design elements were found to be sub-optimal after a more detailed design analysis was completed. Major changes to key aspects of the Essential Services Model, or a change to monthly enrollments for example, would not be considered the type of scope change that would be covered by this contingency. Changes of that nature would result in a major review of the implementation costs, with a significant increase likely over the estimates provided in the Application.

11.0 Reference: Project Costs, pp. 40, 67

11.1 On page 67 of the CPCN Application, Terasen Gas identifies Customer Education costs of $600,000 in 2006 and $4,400,000 in 2007. Please explain why extensive television and newspaper advertising is necessary and more cost effective than several lower cost approaches such as bill inserts. Please provide a copy of the market research or the advice from consultants that Terasen Gas used to arrive at its conclusion.

Response:

Media mix is the proportion of television, radio, print, Web and other advertising used in a campaign. Each medium contributes its own distinct advantages. The best mix for a particular campaign considers the type of product offered, communication objectives, target audience and budget. Considering each of these issues in the context of Commodity Unbundling for residential customers:

1. The type of product being offered: Natural gas is a low interest category for the majority of consumers unlike vacations, a new car or the latest cell phone. People just don't spend a lot of time thinking about energy choices. As a result it is very difficult to get their attention and have them notice and understand a message regarding the unbundling of natural gas. Television and newspapers are critical in getting the message received and understood thereby avoiding confusion in the market place. The sight, sound and general intrusiveness of television allows the message to penetrate into the consciousness of the customer.

2. The communication objectives of the customer education plan identified in section 8.1 of the CPCN included:

    a. Raise awareness of unbundling and create a general understanding of the concept to the majority (above 85%) of residential customers; and

    b. Provide all interested customers with ready access to the information they need to make a knowledgeable decision when selecting a commodity supplier.

3. Target audience: The target is to reach all eligible Lower Mainland and BC Interior residential gas customers.

4. Budget: Dependent on the first three objectives.

Terasen Gas' recommended media plan budget was established based on the first three items listed above: the target audience, the audiences' relative interest in the product category, and the communication objectives identified.

The proposed budget will result in a viable, healthy unbundling environment that achieves the communication objectives. Spending less than that proposed will result in lower than desired levels of awareness and understanding, poor pick-up rates and potentially higher numbers of consumer complaints.

Media Strategy Rationale

The proposed media strategy is consistent with media theory, consultant advice, and market research findings. Customer interviews last year suggested:

> …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.[1]

While bill inserts and direct mail offer ideal selective exposure to the customer base, these media have severe limitations because of people's relative indifference to Terasen Gas' product and service. Experience has shown that these media cannot be relied upon to deliver effective reach. People often just throw the inserts away without looking at them or forget the message because they don't see it often enough. And this is the reason most of the Terasen Gas' safety and marketing communications are now featured on TV commercials instead of bill inserts, trade publications or magazines.

To illustrate the limited impact of bill inserts, one only has to look as far as people's ongoing confusion regarding Terasen Gas' role as a natural gas distribution company. Despite years of print activity dedicated to ensuring people understand what Terasen Gas does and how Terasen Gas makes money, confusion and mistrust still dominates.

A specific example of how poorly bill inserts perform can be seen from research conducted after initial commodity spikes several years ago. When asked, "How did you become aware of natural gas prices increasing?" only 11% respondents indicated bill inserts. [2] At the residential audience level, Terasen Gas' experience indicates that approximately 90% of the target audience never read bill inserts. Moreover, bill inserts are largely limited to those opening the bills and may or may not physically reach the household's decision maker.

Research conducted on Commercial Unbundling indicated that even when used

[1] Focus Group Report Unbundling July 2005 v4, NRG Research Group, Page 4.

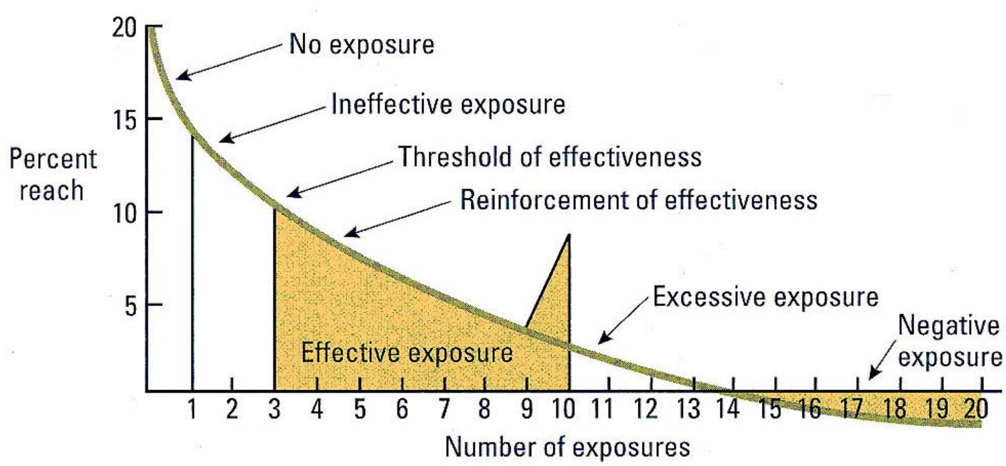
[2] BC Gas Rate Increase Survey, BC Wide Consumerscope, July 2000, MarkTrend Research Inc. Table 5, page 5.

with other print vehicles such as trade magazines and direct mail, five bill inserts were unable to build long-term awareness among the majority of commercial customers of the term "Natural Gas Commodity Unbundling" or NGCU (to a high of 53% in Wave 2 and 51% in Wave 3).[3] Only 2% of respondents at the end of the campaign could correctly name the month and year NGCU was to begin.[4]

It's necessary to choose a media mix that reaches customers often enough that they remember the key messages. The proposed budget addresses the eleven key messages identified in the Application. With the TV/Newspaper strategy Terasen Gas will reach more than 85% of our target audience and establish effective exposure levels for each message.

"No one knows the exact number of exposures necessary for an ad to make an impact, although advertisers have settled on three as the minimum. Effective reach (exposure) is shown in the shaded area of the graph below to be in the range of 3 to 10 exposures."[5]

Figure 1: Graph of effective reach[6]



[3] Terasen Gas Natural Gas Commodity Unbundling Communications Survey, Quantitative Tracking Survey, Wave 3-2004, Draft #3 – Detailed Report. Western Opinion Research Inc., page 3.

[4] Terasen Gas Natural Gas Commodity Unbundling Communications Survey, Quantitative Tracking Survey, Wave 3-2004, Draft #3 – Detailed Report. Western Opinion Research Inc., page 3.

[5] Advertising & Promotion: An Integrated Marketing Communications Perspective. Belch, Belch and Guolla, 2005. P. 259.

[6] Advertising & Promotion: An Integrated Marketing Communications Perspective. Belch, Belch and Guolla, 2005. P. 259.

"Advertising tracking research in other categories such as financial services (another low interest category) indicates that before a concept can be internalized and remembered, it takes continuous long term exposure to become part of the customer's knowledge base. Television is particularly cost effective at providing a broad reach of the customers with strong frequency. For a province wide customer base it is the most efficient medium on a cost per thousand people reached."[7]

Calculating Cost Per Thousand (CPM)

	Bill insert	TV
Target audience	723,500	723,500
Reach	723,500	3,400,000
Effective reach (%)	10%	85%
Effective reach (target audience)	72,350	614,975
Impressions	1	40 *
Cost	$ 30,000	$ 2,340,000

CPM

Bill inserts	$\frac{\$30{,}000 \times 1000}{72{,}350 \times 1}$	=	$ 414.65
TV	$\frac{\$2{,}340{,}000 \times 1000}{614{,}975 \times 40}$	=	$ 95.13

* Assumes commercials will be seen between 77 to 83 times, or approximately 40 times in 2007. With five to six commericals to cover off the three communication phases, each message will be seen on average between six and eight times.

To highlight the results attained using primarily a mix of television and newspaper, tracking research indicated that during the change of name from BC Gas to Terasen Gas the combination of the two media was able to make 90% of consumers aware of the new name. Residential Unbundling is a much more complicated story than a simple name change but it does indicate the effectiveness of TV and newspaper in imparting information.

Television because of its frequency also has the ability to build an initial level of awareness quickly unlike bill inserts which are limited to once per month and have very limited readership. This ability to rapidly build an initial level of awareness will help reduce the confusion in the marketplace in the early phases

[7] Comments from: Gary Grafton, Partner, Wasserman + Partners Advertising Inc., Suite 160, 1020 Mainland Street, Vancouver, BC Canada V6B 2T4.

of the unbundling introduction.

The role of the newspaper is multipurpose. It provides the opportunity to expand on the detail of the unbundling process. It reinforces the unbundling details in the context of other news stories featuring unbundling and therefore increases understanding of the concept. It also offers the opportunity to increase the frequency of the message (critical if it is to be internalized) against the lighter television user.

People choose to watch television or read a newspaper and are therefore actively engaged in the messages provided while bill inserts are passive and will generally be ignored unless the subject matter is very compelling. Unbundling does not fall into this category for most people.

There are less expensive media vehicles to try and communicate the details of unbundling, but none of them have near the power and ability of television and newspapers to successfully introduce the residential unbundling concept to BC customers.

Choosing to implement a budget-compromised media plan will result in significantly lower awareness levels, customer confusion, potentially higher customer complaint rates, and a less than optimal business environment for gas marketers to operate in.

In terms of the market research Terasen Gas used please refer to Appendix 4 and 5 of the Application and to the market research attached to the Post Implementation Report dated March 16, 2005.

11.2 If the Commission determined that only $3,000,000 should be spent on customer education in 2006 and 2007, please explain how the program identified in the previous question would be modified. Why would this program not be adequate?

Response:

A 40% reduction in the education budget for residential unbundling would result in significantly lower levels of consumer awareness and understanding. Each aspect of the proposed media mix has a critical role to play in the education process. This change would eliminate newspaper and on-line advertising, trade shows, and some television weight.

Overall the 40% reduction would cause the program to change from a multi-media campaign to primarily a single medium campaign (TV), hence the reduction in effectiveness. The rationale for not reducing all media equally is that many years of experience and tracking in other categories has shown that you need to do the job as best you can in one medium before adding a second. In this case TV is the primary carrier and the single medium that will have the most influence on achieving the educational objectives as it can create awareness and general understanding across a broad range of audiences while driving people to the website for more details.[8]

Revised campaign costs based on 40% reduction to 3 million dollar budget

2006 Budget		
Production	$400,000	
Web enhancements	$150,000	
Research	$50,000	
2006 Total		$600,000
2007 Budget		
Media		
Television	$1,830,000	
Newspaper	$0	
Online	$0	
Sub-total		$1,830,000
Production	$100,000	
Bill inserts	$240,000	
Web enhancements	$100,000	
Trade shows	$0	
Research	$130,000	
Sub-total		$570,000
Launch total		$3,000,000

Terasen Gas is of the view that the reduced budget will be inadequate to reach the educational objectives and will likely lead to a higher number of customer complaints and disputes to be handled by the Commission.

The elimination of the newspaper component has the following consequences:

i. Significantly reduces the frequency of messaging reaching the light television viewer. Newspaper readers also tend to be the better educated, older, are often business leaders or in government and often influence public opinion and knowledge.

ii. Removes the best vehicle for communicating the more complicated details of the unbundling program; details that cannot be addressed adequately in a 30 second television spot. Television has to be relied upon to drive people to the website and bill inserts to get more information.

[8] Comments from Gary Grafton, Partner, Wasserman + Partners Advertising Inc.,Suite 160, 1020 Mainland Street, Vancouver, BC Canada V6B 2T4.

iii. Removes flexibility in the program to address the changing conditions over the education period. Television commercials are produced at one time to limit production costs. It is time consuming and expensive to make even small changes to TV. Communication refinements are normally addressed in newspaper ads because of their short lead times and lower production costs.

Dropping online advertising will result in reduced website traffic. The education program would rely almost solely on television advertisements to drive people to the website for more information. People who are on the Internet often look for information on-line. Being able to simply click through on a banner advertisement to get more information increases the number of people exposed to the details of the concept. This advertising component is especially useful to target younger customers who tend to spend the most time on-line.

Trade shows would also be a casualty of a 40% budget reduction and this would remove a key opportunity for one on one conversation with customers and may result in higher numbers of telephone requests for information. Having direct conversations with customers who are interested in the topic should increase customer satisfaction and provide Terasen Gas valuable feedback as to what customers see as the key issues and areas of confusion.

The proposed $5 million media plan is designed to educate residential customers in the most efficient and effective manner possible. A change of this magnitude jeopardizes the program's success. And instead of being able to estimate with confidence that awareness of the unbundling program will peak in the 85%+ range, Terasen Gas estimates the reduction in funding and scope of the education efforts would reduce the awareness levels to the 50% range or lower.

11.3 On page 41 of the CPCN Application, Terasen Gas proposes to spend $3 million per year on customer education in years after 2007. Assuming that Gas Marketers will be actively promoting their marketing activities, please explain why it will be necessary for Terasen Gas to undertake significant customer education regarding residential unbundling on an ongoing basis.

Response:

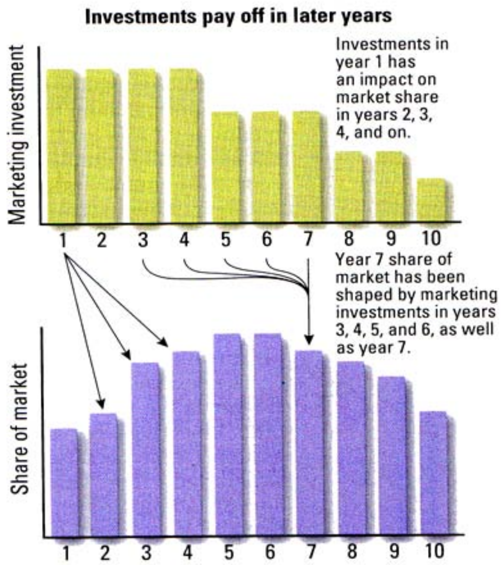
The customer education program has to address a complex and unfamiliar concept in the form of unbundling. The initial challenge is to create awareness among customers of the fact that change is taking place in the manner in which they are able to buy their natural gas. The second challenge is to have customers understand the change and the final challenge is to have them remember the information for future reference in making informed decisions about their natural gas purchases. This takes time and repetition, especially in a category where there is limited interest.

The activities in 2007 are designed to create awareness and understanding with as many customers as possible and the progress against these objectives will be tracked to ensure the objectives are being accomplished.

Support in 2008 and beyond is designed to stabilize and build unbundling in BC. It specifically addresses the third challenge to get the target audience beyond just understanding the concept. People need to internalize the information so that when faced with activities by gas marketers the information is recalled, www.terasengas.com is remembered as a source of additional information and ultimately an informed decision can be made between the competing claims of the various gas marketers.

Ongoing advertising investment past 2007 is consistent with marketing strategies for new product launches in other product or service categories. While the gas marketers have an important role in shaping the marketplace, marketing communication investment driven by Terasen Gas will ensure long-term Commodity Unbundling viability and consumer understanding. As shown in Figure 2, the investments made in years subsequent to product launch will drive market stability and success.

Figure 2: Marketing investments[9]



Secondary factors to consider include:

i. Every year a number of younger British Columbians move into their first home and have to make decisions regarding their natural gas supplier. At the moment they may ignore any messages regarding unbundling because it is not relevant to their personal situation. Some on-going support to provide impartial information about residential unbundling should be maintained.

ii. Similarly, ongoing communication is important to educate people migrating from other parts of Canada where unbundling does not exist, as well as those coming to BC from other countries. These new customers will have to understand the unbundling concept and should have access to unbiased information. On-going support is advisable.

iii. Terasen Gas will continue to be the exclusive delivery agent and the name on invoice customers receive on their monthly bills even after residential unbundling is established. If they have any questions on unbundling they will look to Terasen Gas to answer those questions.

[9] Advertising & Promotion: An Integrated Marketing Communications Perspective. Belch, Belch and Guolla, 2005. P. 273.

Providing a level of ongoing communication support explaining unbundling will minimize confusion and complaints by creating a basic understating of the concept and awareness that more information is always available at terasengas.com.

Ultimately, ongoing Commodity Unbundling communication budgets should be based on customer research findings. While Terasen Gas is confident that the $3.0 million request for 2008 communication activities is appropriate, adjustments should be made to subsequent years as tracking information becomes available.

Stability and confidence in a reliable and safe natural gas industry is in everyone's interest. When people are approached by gas marketers with offers in 2007 or beyond, it is important consumers are confident that they have an accurate understanding of the opportunity, the possible pitfalls, and where they can obtain more information.

12.0 Reference: Project Costs, pp. 40, 46

12.1 Further to the references on pages 40 and 46 to the negotiation of an agreement with ABSU later in 2006 for customer core services related to residential unbundling, please provide the relevant sections of the current service agreement with ABSU and use them to explain why there should be any additional payments to ABSU in this regard. Please distinguish between costs related to a new service that ABSU currently does not provide, and an expected increase in effort such as increased call centre activity.

Response:

The agreement for additional customer care services will be negotiated with CustomerWorks Limited Partnership later in 2006

In Sections 2.1 of Schedules A, B C and D of the Client Services Agreement between Terasen Gas Inc., (then BC Gas Utility Ltd.) and CustomerWorks Limited Partnership, the stated intent of the services to be included in the agreement at that time are defined as follows: "The Scope of Services and level of performance documented in this Services Schedule is intended to be consistent with the level of service BC Gas currently provides to its customers." At the time the agreement was executed on December 31, 2001 Commodity Unbundling for residential customers had not been contemplated and therefore could not be included within the defined scope of services.

An increase in call handling activity has been estimated as a result of Residential Unbundling to handle inbound call centre activity primarily related to customer response to the ongoing education program. Calls are also expected related to customer inquiries in response to changes to the bill to include marketer details and disputes.

Costs for new activities that were not contemplated at the time of the original outsourcing agreement include the administration costs for marketer group set-up and maintenance, the effort associated with processing retroactive drops resulting from customer disputes, and the costs associated with sending confirmation letters to customers and capturing response results.

This costing approach is the same as had been previously submitted and approved by the Commission related to the Commercial Commodity Unbundling Program. Attached is a copy of Schedule "F" (Attachment 12.1) amending the Client Services Agreement to provide the costing basis for the additional operational services required for Commercial Commodity Unbundling. If this application is approved Terasen Gas will submit for approval a similar amendment to the Client Services Agreement.

12.2 What is the risk that the re-negotiated operating agreement with ABSU will contain significantly higher costs? What is percentage reliability in this aspect of cost estimate in the CPCN Application?

Response:

Through the next phase of the Residential Unbundling project, the ongoing operating costs will be confirmed. The structure of these costs is largely fixed transactional ensuring that costs will be incurred in response to customer interest and activity. The unit costs are not expected to change although changes in volume could substantially impact overall cost.

The program has been structured anticipating that marketer fees will be used to offset some of these costs. Higher activity volumes will result in higher fees from marketers to offset these costs. From a planning perspective, CustomerWorks provided a fixed cost estimate that includes a contingency of 15% in the operating cost estimate used in this CPCN Application.

13.0 Reference: Licensing Criteria and Code of Conduct, p. 52

13.1 Terasen Gas proposes that the bonding requirements for a Gas Marketer reflect the number of customers that the Gas Marketer signs up. Does Terasen Gas mean that the bonding requirements would fluctuate on a monthly basis during the year? What should be the cost per customer?

Response:

Based on the proposal outlined, bonding requirements would fluctuate on a regular basis, depending on the number of customers a Gas Marketer has enrolled. Practically, for administrative efficiency, Terasen Gas views that a review of bonding requirements should occur on a quarterly or semi-annual basis instead of a monthly basis, similar to a credit management process where a counterparty's financial status faces regular review. The performance bonding requirement per customer will depend on the assumptions made concerning potential financial harm to consumers or the Utility.

Following is a discussion of the issue and the need to review bonding requirements using a simple, illustrative example.

Terasen Gas' primary objective in proposing for Commission's consideration the structuring of bonding requirements for a Gas Marketer to reflect the number of customers a Gas Marketer enrolls in the Unbundling program is concern over the increased financial exposure as larger numbers of residential customers participate in the Unbundling program.

The increased financial exposure results from possible harm to consumers or public utilities caused by Gas Marketers' supply arrangements negotiated with consumers. An illustrative example is provided here for discussion.

Take an example where a Gas Marketer signs up 10,000 residential customers for the next five years at a fixed price of $6.00 per gigajoule. It is assumed the average annual consumption for these 10,000 residential customers is 100 gjgajoules per customer.

If natural gas prices were to rise and the Gas Marketer was to default on their supply arrangements due to financial difficulties, possibly caused by not having hedged its supply of gas, the 10,000 residential customers would now have to pay the current market price (i.e. for this example, the market price at time of marketer default is assumed to be $7.00 per gigajoule) compared to the $6.00 per gigajoule contracted for with the Gas Marketer. In total, the 10,000 residential customers would have to now pay an additional $5,000,000 over the life of the five year contract (i.e. 5,000,000 gjs X $1.00 per gigajoule difference). A performance bonding requirement of significance could potentially discourage a Gas Marketer from "walking" away from honouring their obligations with customers, or at least encourage an orderly unwinding of obligations should a Gas Marketer decide to exit marketing gas under the Unbundling program.

According to Commission Order No. G-90-03 concerning Rules for Gas Marketers to enforce rules and Code of Conduct and license conditions, the Commission may 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 including a breach of the Act, the Rules, the Code of Conduct for Gas Marketers, or conditions of the Gas Marketer license.

Currently, in order to receive a license, a Gas Marketer must provide proof of performance security in the amount of $250,000 (or such other amount as the Commission may determine).

Based on the illustrative example provided, which is a plausible scenario, the present $250,000 performance bonding requirements fails to adequately cover the potential harm to consumers. The table below provides a range of scenarios on how to potentially structure the performance bonding requirement based on the number of residential customers that choose to participate in the Unbundling program. The performance bonding requirement is provided on a per year contract term basis and will vary depending upon length of contract terms.

Number of Unbundled Residential Customers	per gigajoule $ 0.10	$ 0.50	$ 1.00
10,000	$ 100,000	$ 500,000	$ 1,000,000
50,000	$ 500,000	$ 2,500,000	$ 5,000,000
100,000	$ 1,000,000	$ 5,000,000	$ 10,000,000

* assumed avg annual use rate per customer is 100 gigajoules

Keeping in mind concerns about the size of the performance bond being an impediment to competition, Terasen Gas proposes for consideration a performance bonding requirement of $50 per customer per year of a supply agreement which expressed in gigajoules is $0.50 per gigajoule for the term of the supply agreement. In the example of 10,000 customers signed up for 5 year supply agreements, the performance bond required from a gas marketer would be $2.5 million (i.e. $50 per customer per year [or $0.50 per gigajoules X 100 gigajoules] X 5 year agreements X 10,000 customers).

Regardless of the Commission's decision on this issue, Terasen Gas' concerns are ensuring that there is adequate consideration by all stakeholders of the potential financial exposure to consumers and the Utility with the introduction of Residential Unbundling and recognition adequate performance bonding is an important element of consumer protection.

14.0 Reference: Bill Messaging Service, p. 55

14.1 What is done in other jurisdictions that have a residential unbundling program?

Response:

It is Terasen Gas' understanding that currently in all Canadian jurisdictions where the Utility provides billing services to marketers related to billing of gas commodity charges, the bill messaging services are limited to a description of the charge(s) and the contact details of the Gas Marketer providing the services. Based on Terasen Gas research into other Canadian jurisdictions, marketers are not currently provided with an ability to include marketing and sales messages on customer statements.

Standard bill messaging is used by the Utility primarily to provide information and reminders to customers related to payment plans, rate changes and arrears situations. Print space on the bill is limited and is reserved for Utility use to ensure that the messages are used only to highlight circumstances that are relevant to the customer's bill or use of gas services.

Terasen Gas strives to limit the number of multi-page bills that are produced. Not only do multi-page bills result in an increase in postal costs, historically multi-page bills have resulted in customer complaints and concerns related to conservation.

Recognizing the interests of Gas Marketers, Terasen Gas is open to further discussion on the matter with stakeholders in finding a solution that adequately addresses consumer privacy concerns (i.e. refer to the response in the next question) and cost recovery for changes required to the current billing processes.

14.2 Does personal privacy legislation prevent Terasen Gas from including marketers' direct sales material as a bill insert?

Response:

In order to provide direct marketing material to a customer Terasen Gas believes that explicit consent would be required from each targeted customer. The Personal Information Protection Act that was implemented effective January 1, 2004 governs the collection, use, and disclosure of personal information. Terasen Gas has not historically obtained specific consent from customers related to direct marketing and, with the enactment of this legislation does not believe it has clear consent to use customer personal information to target market either directly or on behalf of a third party. At this time Terasen Gas has no plan to start capturing specific intent to support future marketing activities.

The inserts that have been traditionally provided to customers relate specifically to the customer's contract with the Utility for the provision of the gas and include information on rates, billing options, and gas safety. As space permits the Utility also provides insert material related to energy conservation opportunities.

Terasen Gas is of the understanding that there are no jurisdictions currently in Canada where a Utility manages the billing function and where a Gas Marketer is able to include sales and marketing inserts into the monthly utility bill. In all cases access to the billing envelope is restricted and is used by the Utility to provide information related to rates, special billing programs, gas safety, and energy conservation programs.

14.3 If the marketer is allowed to provide a bill insert, what would be the cost?

Response:

Terasen Gas is not able to provide an estimated cost for bill inserts as the variables that would be included in the cost have not been defined. Additionally the variables will likely change depending on the composition of the insert as well as the distribution. Assuming that the Gas Marketer provided the insert material, prepared at their own cost and conforming to the size and weight parameters for inclusion in the billing envelope, the additional costs would include the cost to set up the inclusion parameters within the billing system, the cost of inserting the insert material and any additional mailing costs associated with increased postage related to the individual mailings. Additionally any inbound calls or complaints directed to the Utility's call centers would be passed on the individual marketer.

As stated in the Application, message and insert capacity is limited with rate, billing and gas safety being the highest priorities.

14.4 On page 61 it states that:

"Research indicates that Commercial Unbundling bill inserts were cited as the most frequent 'first' source of information."

If this method of communication has such a high degree of effectiveness and marketers were allowed to use bill inserts, what rules should be in place to set a level playing field for all marketers to participate?

Response:

The bill inserts provided as part of Commercial Commodity Unbundling were designed to educate customers on the specifics of the program without providing either an opinion or recommendation of the value of the service for the customer. The clarity of these inserts resulted in a high degree of customer awareness resulting in minimal inbound inquiries.

If this communication channel were to be made available to Gas Marketers, it would require that an internal service structure be established to handle the tracking and scheduling of all Gas Marketer requests. Protocols would need to be established to ensure equal access to all interested participants. Provisions would also have to be made to handle rescheduling due to critical utility requirements. Additionally, tracking mechanisms would have to be set up to ensure that all costs related to each insert are accurately captured so that they could be passed on the initiating Gas Marketer.

The cost of establishing and maintaining this service has not been included within the scope of the CPCN Application.

15.0 Reference: Monthly Marketer Group Fee - $150 per month charge per marketer group, p. 55

15.1 Please provide a justification for the $150 amount assigned to the Monthly Marketer Group fee?

Response:

The $150 Monthly Marketer Group Fee was established to serve as a direct recovery from Gas Marketers of the costs associated with setting up and maintaining the group and tariff structure required to support each Gas Marketer group within the CIS application. This cost is a direct cost flow-through from the customer care service provider and includes the activities required to establish and maintain Gas Marketer prices for each group across all qualifying jurisdictions. Additional costs are incurred directly by Terasen Gas in the ongoing administration of marketer group requirements with the gas supply, forecasting, and finance functions.

As this fee relates directly to Gas Marketer participation Terasen Gas believes it is appropriate to pass this cost on the Gas Marketers as it is consistent with the cost-causality principle of participation. It is a direct cost of a Gas Marketer's decision to participate in the marketplace.

The business processes and system support for establishing and maintaining marketer groups and tariffs are consistent with the approach implemented for Commercial Commodity Unbundling. Terasen Gas does not anticipate making any enhancements in this area. The cost to the marketer is unchanged.

Please also refer to the responses to questions 21.10, 21.11, and 21.12 for additional background information about marketer fees.

15.2 What methods were examined to lower the fee?

Response:

As part of the Residential Unbundling project, Terasen Gas approached its customer care outsource provider, CustomerWorks to validate the cost of marketer group set-up and maintenance and to validate that the $150 per month cost was still appropriate. CustomerWorks confirmed that this is a highly manual process and requires updates to the key tariff configuration functionality of the CIS application. Although this process was reviewed as part of the scoping phase for Residential Commodity Unbundling, given the complexity of tariff set-up and price maintenance, this was not an area where automation could be easily and cost effectively implemented. The current manual process provides greater confidence that marketer group prices are correctly established to support customer enrolments throughout all of the qualifying service areas.

The proposed Marketer Group Fee is consistent with the fee approved by the Commission for Commercial Commodity Unbundling. The anticipated review of the revenue accounting and financial reporting processes in the fall of 2006 may identify opportunities to reduce this fee in the future. Any reduction in the amount of this monthly fee will included as part of future program enhancements after the implementation of the proposed Residential Unbundling program is completed.

16.0 Reference: Customer Education, p. 56

It states that:

"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."

16.1 What are the objectives for the $300,000 expenditure? Is this expenditure necessary as the marketers should be creating awareness for the program and funding their own advertising campaigns which should provide enough educational support for the program?

Response:

The objectives for Commercial Unbundling communication expenditures, remain unchanged from what was approved by the Commission, and are consistent with the proposed Residential Unbundling education plan and include:

- raise awareness of commodity unbundling and create a general understanding of the concept by the majority of commercial customers; and
- provide all interested customers with ready access to the information they need to make an informed decision when selecting a commodity supplier.

Adjustments to communication budgets should be made in subsequent years based on advertising tracking information and market conditions. General awareness of Commercial Unbundling is still in process of being established in the marketplace. This requires a continued communication investment to ensure a stable pick-up rate and a viable operating environment for Gas Marketers.

Note that only 40% of commercial customers correctly defined the term Natural Gas Commodity Unbundling in Wave 3 of quantitative testing conducted in November of 2004. This was down from a high of 50% in Wave 2 testing conducted earlier that year. This underlines message retention problems and the need to continue reinforcing commodity unbundling with advertising even after the program's initial launch.

The campaign introducing Residential Unbundling will be seen at home by the same people who are commercial and industrial customers. While the proposed residential campaign will raise the issue of unbundling with commercial customers who may have missed the 2004 and 2005 education campaigns, continued support for specific Commercial Unbundling communications will provide context and clarity regarding what commodity unbundling means for businesses.

Other considerations include:

- as with residential customers, new commercial customers are constantly coming into the market and will have missed the initial education program; they need to be informed that they have a choice of gas suppliers; and
- continued support by Terasen Gas lends credibility to Gas Marketers and reinforces their sales message.

While Terasen Gas currently expects an ongoing investment of $300,000 is appropriate, the requested amount is subject to change. Per the response to question 11.3, future commodity unbundling communication budgets should be based on customer research findings. This understanding forms the basis for the proposal that continued funding be requested as part of the established annual post implementation review. After implementing Residential Unbundling the impact on commercial customers can be measured in 2007 and messaging requirements adjusted as necessary.

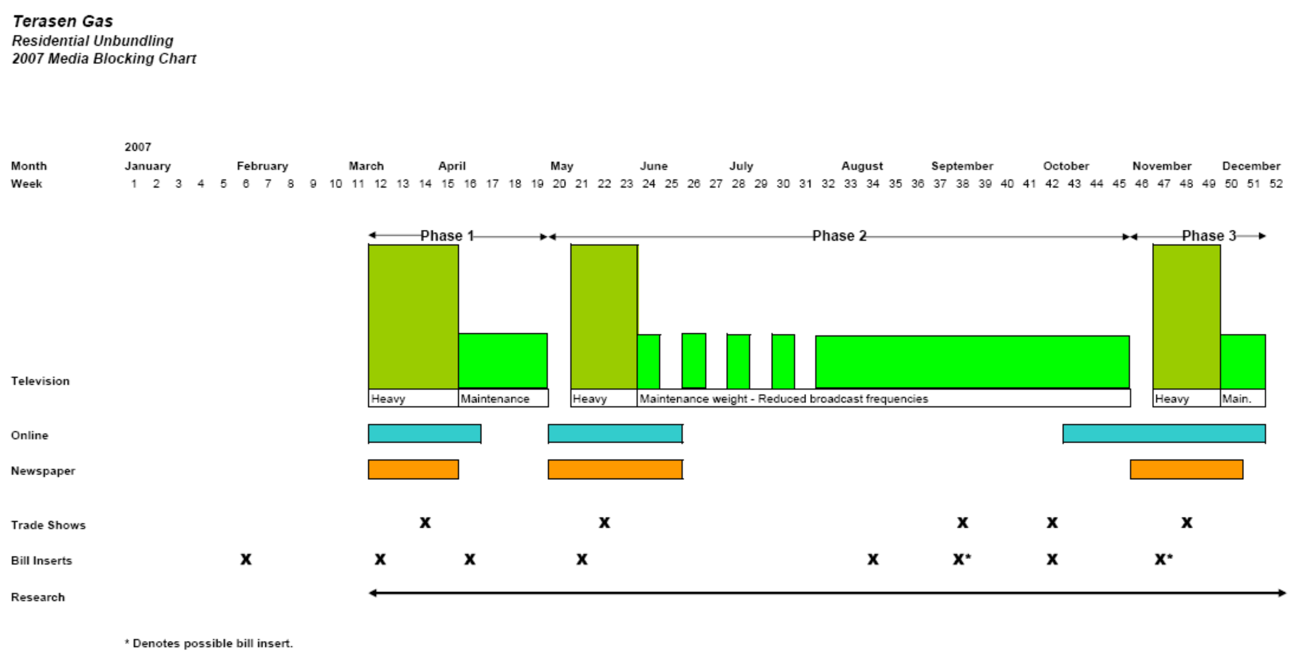
17.0 Reference: Campaign Costs, p. 67

17.1 Please breakdown the television media and newspaper budgets for 2007 and 2008 into more detail.

Response:

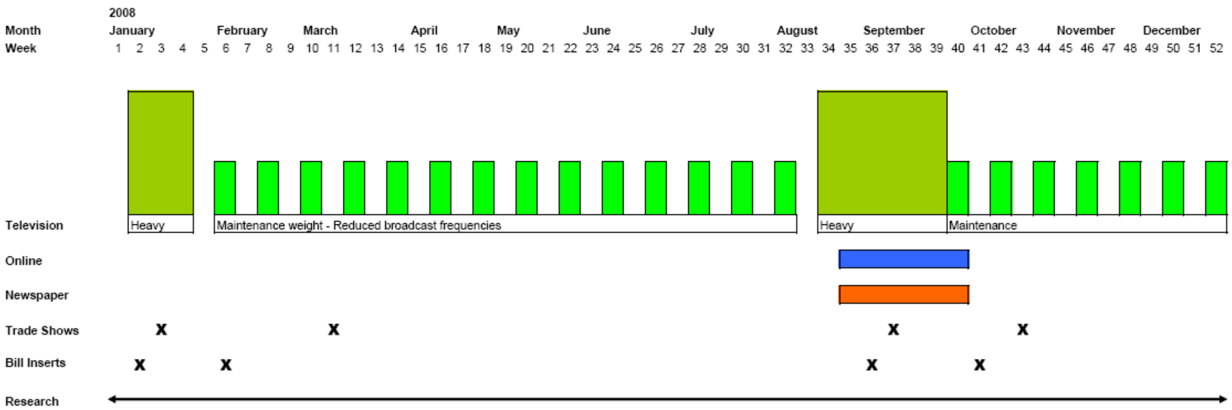
Please see attachments below:

- 2007 Media-Blocking Chart



- 2008 Media-Blocking Chart

Terasen Gas
Residential Unbundling
2008 Media Blocking Chart



- 2007 tentative print costing schedule

Terasen
Print Costing (Revision #1)
March 10 , 2006

Newspaper	Insert Date	Size Col	x	li	Line Rate (G)		Total Cost (G)	
Daily								
Cranbrook Daily Townsman	Thursday	10	x	149	$	0.72	$	1,072.80
Kamloops Daily News	Thursday	10	x	149	$	0.86	$	1,281.40
Kelowna Daily Courier	Thursday	10	x	149	$	1.19	$	1,773.10
Kimberley Daily Bulletin	Thursday	10	x	149	$	0.66	$	983.40
Nanaimo Daily News	Thursday	10	x	149	$	0.81	$	1,206.90
Nelson Daily News	Thursday	10	x	149	$	0.98	$	1,460.20
Penticton Herald	Thursday	10	x	149	$	0.85	$	1,266.50
Prince George Citizen	Thursday	10	x	149	$	1.01	$	1,504.90
Trail Times	Thursday	10	x	149	$	0.98	$	1,460.20
Vancouver Sun	Wednesday	10	x	149	$	6.51	$	9,699.90
Vancouver Province	Wednesday	9	x	149	$	4.86	$	6,517.26
Victoria Times Colonist	Wednesday	10	x	149	$	2.48	$	3,695.20
Community								
100 Mile House Free Press	Wednesday	6	x	149	$	0.79	$	706.26
Armstrong Advertiser	Wednesday	6	x	149	$	1.02	$	911.88
Ashcroft, Cache Creek Journal	Tuesday	6	x	149	$	0.67	$	598.98
Campbell River Mirror	Friday	7	x	149	$	0.94	$	980.42
Castlegar News	Wednesday	6	x	149	$	0.67	$	598.98
Chetwynd Echo	Friday	5	x	149	$	0.93	$	692.85
Comox / Courtenay Valley Record	Friday	6	x	149	$	1.05	$	938.70
Cranbrook Kootenay Advertiser (Radium)	Friday	6	x	149	$	1.27	$	1,135.38
Creston Valley Advance	Thursday	10	x	149	$	0.53	$	789.70
Duncan Cowichan News Leader	Wednesday	7	x	149	$	1.07	$	1,116.01
Duncan Cowichan Valley Citizen	Wednesday	9	x	149	$	0.61	$	818.01
Fernie Free Press	Wednesday	10	x	149	$	0.98	$	1,460.20
Fort Nelson News	Wednesday	10	x	149	$	0.66	$	983.40
Grand Forks Gazette	Wednesday	5	x	149	$	1.18	$	879.10
Invermere Valley Echo	Wednesday	6	x	149	$	0.68	$	607.92
Kamloops This Week	Friday	6	x	149	$	1.39	$	1,242.66
Kelowna Capital News	Friday	6	x	149	$	1.55	$	1,385.70
Keremeos Review	Thursday	6	x	149	$	0.62	$	554.28
Ladysmith/Chemainus Chronicle	Tuesday	6	x	149	$	0.55	$	491.70
Mackenzie, The Times	Tuesday	5	x	149	$	0.74	$	551.30
Merritt Herald	Wednesday	6	x	149	$	0.65	$	581.10
Nanaimo News Bulletin	Saturday	6	x	149	$	1.16	$	1,037.04
Nelson West Kootenay Wkender	Friday	9	x	149	$	1.12	$	1,501.92
Okangan Falls Review	Thursday	6	x	149	$	0.61	$	545.34
Oliver Chronicle	Wednesday	6	x	149	$	0.73	$	652.62
Osoyoos Times	Wednesday	6	x	149	$	0.73	$	652.62
Parksville Qualicum News	Friday	6	x	149	$	0.92	$	822.48
Penticton Western News	Friday	6	x	149	$	0.93	$	831.42
Prince George Free Press	Friday	6	x	149	$	1.11	$	992.34
Princeton, Similkameen News Leader	Monday	5	x	149	$	0.46	$	342.70
Princeton, Similkameen Spotlight	Wednesday	6	x	149	$	0.55	$	491.70
Powell River Peak	Saturday	6	x	149	$	0.75	$	670.50
Quesnel, Cariboo Observer	Wednesday	6	x	149	$	1.04	$	929.76
Community (continued)								
Revelstoke Times Review	Wednesday	6	x	149	$	0.58	$	518.52
Salmon Arm Observer / Market News	Wednesday	7	x	149	$	0.88	$	917.84
Sechelt Gibsons Sunshine Coast Reporter	Friday	6	x	149	$	0.75	$	670.50
Summerland Review / Bulletin	Sunday	6	x	149	$	0.58	$	518.52
Squamish Chief	Friday	6	x	149	$	0.73	$	652.62
Vernon Morning Star	Friday	6	x	149	$	1.27	$	1,135.38
Whistler Question	Thursday	6	x	149	$	0.72	$	643.68
Williams Lake, The Tribune	Friday	6	x	149	$	1.06	$	947.64
					Cost Per Week (G)		**$**	**65,421.43**
					Number of Weeks		**$**	**19.00**
					Total Cost (G)		**$**	**1,243,007.17**

The above schedule outlines the $1,240,000 listed on page 67 as the newspaper budget. Based on the estimated costs for each paper there would be approximately 19 insertions in 2007; and, depending upon future media rates, 7 to 8 insertions in 2008.

The Whistler and Revelstoke markets have been included in the newspaper buy in order to communicate that Unbundling rates aren't available in those two areas. This is to limit potential confusion driven by the TV and online advertising in the region. Exclusion of these two markets would not affect the total number of insertions.

Specific details of the proposed television media expenditure by program of $1,940,000 in 2007 and $1,714,000 in 2008 are not available at this time as it will depend on television program availability at the time of booking.

The TV media plan has been developed based on targeted audience share and reach levels. Because TV shows and even channel broadcasting rights shift from month to month, Terasen Gas is not in a position to provide clarity around the selection of channels and programs that will be used. Actual shows and channels are only identified upon execution of the media purchase. The proposed TV media buy is consistent with reaching over 85% of the target audience between six to eight times with five different commercials. This reach and frequency is consistent with media theory and will firmly establish Unbundling in the consumer's mind. Lower expenditure levels will simply reduce the reach and frequency of the campaign in the marketplace so fewer customers will understand the offer.

18.0 Reference: Licensing Criteria, p. 68

18.1 On page 68 of the CPCN Application, Terasen Gas proposes that the $250,000 performance bond requirement be changed to reflect the number of customers that a Gas Marketer signs up. Please describe and quantify the performance bond requirement that Terasen Gas is proposing.

Response:

Please refer to answer to Question 13.1 for Terasen Gas' view on the issue and the illustrative examples provided. Terasen Gas acknowledges that the Commission's decision on this issue must reflect a balance between managing the potential financial exposure to the utility or consumers caused by Gas Marketers and also ensuring a competitive environment in which Gas Marketers can operate in.

Alternatively, if the Commission views increasing the performance bond requirement would be an impediment to developing a competitive environment for Gas Marketers and recognizing the potential financial exposure caused by a Gas Marketer default, Terasen Gas proposes for Commission consideration a regular credit review (i.e. quarterly or semi-annually) of the Gas Marketer's financial condition (i.e. financial statements). On review and where there is evidence of significant deterioration in a Gas Marketer's ability to honour its contractual supply arrangements with its customers, the Commission can then request increased performance bond requirements. The amount would be determined based on the market and credit status conditions at that time.

To be in a position to request additional security during the term of a Gas Marketer's license, additional wording is required in the Rules for Gas Marketers.

Current language in the Rules for Gas Marketers

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.

Terasen Gas provides the following wording for consideration by the Commission. The wording is based on language found in the GasEDI contract used in the Gas Supply industry.

Proposed wording:

> *If the Commission has reasonable grounds regarding the Gas Marketer's ability to fulfill its obligations to its customers, the Commission may demand performance assurance.*

18.2 Why should the bond amount relate to number of customers rather than volume of Gas Marketer sales to Terasen Gas?

Response:

On average, annual normalized consumption for residential customers is approximately fairly uniform, averaging approximately 100 gigajoules per year across all residential customers in Terasen Gas' service territory. For performance bonding determination, it is fair to assume then that 1 residential customer is on average is equal to approximately 100 gigajoules per year of consumption. Using this noted relationship between a customer and their average annual consumption, having a bonding amount relating to the number of customers is synonymous to having a bonding amount tied to Gas Marketer sales volumes.

Please refer to discussion in response to question 13.1

18.3 What specific problem that has been experienced to date is the proposed change to the bond amount intended to resolve?

Response:

There has been no specific problem to date that the proposed change is intended to resolve.

Please refer to answer to Question 13.1 for further discussion of Terasen Gas' perspective on the issue. Terasen Gas' primary concern is ensuring that there is adequate consideration by all stakeholders of the potential financial exposure to consumers and the utility with the introduction of Residential Unbundling.

18.4 Terasen Gas proposes that bonding requirements be based on the number of customers that sign up for the Unbundling Program. In the Commercial Unbundling Program it was conceded that a bond would not cover the total financial exposure to the Commercial Unbundling Program if a marketer defaulted. Upgrading the bonding requirements reflecting the number of customers a Gas Marketer signs up may simply become an administrative burden. Please comment on the effect of the proposed bonding requirement and the administrative burden that would result.

Response:

Terasen Gas does not believe the propose performance bonding review process is likely any more onerous administratively than that currently practiced by organizations involved in the energy industry for managing counterparty financial exposure. For example, Terasen Gas regularly reviews its trading counterparty's credit worthiness relative to the amount of business Terasen Gas has with them. Requirement to increase counterparty performance security is acted on as required.

Terasen Gas believes the intent of licensing marketers by the Commission was to not only to ensure that reputable and credit worthy organizations are able to offer choice under the Unbundling program but also to convey a sense of confidence to the average residential or commercial customer, that the Gas Marketers have been qualified to operate in the Unbundling program.

Customers could potentially confuse Commission approved licensing as explicit endorsement that their supply agreements with Gas Marketers will be honoured. Increased performance bonding of Gas Marketers would help to increase the likelihood Gas Marketers honour contractual agreements, without detriment to customers.

19.0 Reference: Proposed System for British Columbia, p. 72

19.1 On page 72, Terasen Gas says that the arbiter in the Dispute Resolution Process will use only the information available in the file that is passed to him for review. Please explain why the arbiter should not be able to contact the parties to obtain further information, which would form part of the public record, if the circumstances indicated this was needed?

Response:

While the Application suggests that the arbiter would only use information provided in the file, it is more correct to say that the arbiter would primarily use the information provided in the file. The process is not intended to preclude the arbiter from contacting either party in a dispute for more information should this be required. The system will provide information collected during call centre calls, documentation uploaded to the open file, and governance summary reports that track different metrics, as well as any other information that the arbiter feels is relevant to the dispute.

The intent of the information collected to support the Independent Dispute Resolution process is to provide as complete information as possible as quickly as possible to the arbiter so that a decision can be made as efficiently as possible. This efficiency is critical in order to maintain service levels during periods when a large number of disputes are likely to occur, such as during the initial ramp-up of the program after enrollment start in May 2007. An efficient turn-around timeline is also important for helping to build confidence that the program is robust and can address issues quickly should they arise.

19.2 The proposed Dispute Resolution Process appears to be initiated when a customer files a formal complaint with the Terasen Gas call centre. Please outline the steps that the call centre will take to encourage the customer to resolve the matter with the Gas Marketer prior to accepting a formal complaint. Specifically, will a formal complaint be accepted if the customer has not contacted the Gas Marketer?

Response:

No, an issue will not be logged as a dispute if the customer has not contact their Gas Marketer and attempted to resolve matters. Contact with the Gas Marketer about an issue is required before the Independent Dispute Resolution process can be followed.

In the Application Terasen Gas provided a description of an overall complaint management process. Complaints that are managed using the Dispute Resolution Process are expected to fall into two basic groups. The first one includes complaints by customers that are of a general nature and where there is no expectation of relief from a contract. The second set of complaints fall into another group called disputes because customers expect relieve from a contract they have entered into with a Gas Marketer and expect the Commission to assist them.

The complaint management process is expected to operate as follows. The Terasen Gas call centre logs all calls and will track separately those relating to residential unbundling. Calls that involve complaints will be tracked and the complaint noted, but unlike a dispute, may not require specific action to be taken. A dispute however involves the expectation by a customer that an issue with their Gas Marketer can not be resolved by the two parties alone and requires the help of a third party. Before an issue is logged as a dispute and follows the Independent Dispute Resolution process, the call centre will ask the customer if they have contacted their Gas Marketer and attempted to resolve the issue. Details regarding this discussion will be logged. Where contact with their Gas Marketer has not been made, this will be noted in the customer file and the process stop. A formal dispute will not be accepted unless the customer has contacted their Gas Marketer first and can relay details of the contact attempt(s) to the call centre. Once these details are provided and noted in the customer file, the Independent Dispute Resolution process is initiated.

19.3 Please provide a copy of the standard dispute form that the call centre will use to record the formal complaint.

<u>Response:</u>

The standard dispute form will be designed as an electronic template and will be used to capture the details of customer disputes. Terasen Gas expects to confirm the detailed content as part of the next phase of the project in consultation with the other market participants, including the BCUC. As a starting point Terasen Gas expects the form to contain the following information:

Initiator: ___ Customer ___ Marketer ___ Other (please specify	
Customer Name	Marketer / Customer Contacted: ___ Yes ___No Contact Dates
Customer Account Number	
Premise Number	
Customer Contact Details	Address Phone number
Historical Market Participation Details	Marketer Name Contract Start Date Contract End Date (if applicable) Billing and Consumption History (if applicable)
Details of the Dispute	Description of complaint as provided by the Initiator.
Other Information	
Dispute Reference Number	Date Submitted: Date Resolved:

19.4 Please describe how complaints that a customer brings to the arbiter or the Commission will be brought to the formal complaint level.

Response:

The response to question 19.2 sets out how the general Independent Dispute Resolution process is intended to operate. While the primary means of logging a complaint rests with the Terasen Gas call centre, the system proposed in the Application also provides Gas Marketers and the Commission, or its appointed arbiter, the means to log complaints. Once either one of these parties enters a complaint into the system, background information relating to a dispute would also be uploaded into the file by Terasen Gas and the Gas Marketer. The information contained in this file is intended to provide a picture of the dispute that is as complete as possible so that the arbiter is able to finalize a review on a timely basis as possible.

19.5 Can a Gas Marketer initiate a formal complaint?

Response:

Yes. The process is designed to enable a Gas Marketer to initiate a complaint either on behalf of a customer or about a customer.

19.6 As Terasen Gas points out, the Commission may initiate a review if a dispute relates to the business practices of a Gas Marketer that rely on the Code of Conduct or licence conditions. Please discuss whether this nature of dispute would in future be dealt with by the Dispute Resolution Process, or separately by the Commission? If the Dispute Resolution Process will apply (and assuming the arbiter is not the Commission), please discuss whether this will be constrained by the Commission's inability to delegate its authority under the Utilities Commission Act.

Response:

The Independent Dispute Resolution process described in the Application is intended to offer customers an additional level of consumer protection. The systems used to support this process were designed to help process disputes between customers and their Gas Marketers that are of a contractual nature. Terasen Gas believes that issues such as those involving a review of a Gas Marketer's business practices, Code of Conduct, or license conditions should be dealt with in a Commission process. As such a process would not involve the Commission delegating its authority.

19.7 For the Dispute Resolution Process to apply to disputes of a contractual nature, which would otherwise be referred to the courts for resolution, it would seem that this needs to be a requirement of the contract between Gas Marketer and customer. Where is this requirement set out in the CPCN Application documentation?

Response:

Please refer to Appendix 8 of the Application, which contains a copy of the Code of Conduct with suggested amendments required for the Residential Unbundling program. On page 8 of the revised Code of Conduct, Article 13 includes the following proposed addition:

"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."

Additional wording is recommended

> "Only the BCUC, or another body appointed by the BCUC for the purpose of the Independent Dispute Resolution Process, may resolve disputes between the Consumer and the Gas Marketer relating to this Agreement"

In addition, Terasen Gas proposes that Article 2 Price and Other Terms of the Code of Conduct be amended to include the following wording:

> "The Consumer's Agreement shall state that all disputes relating to the agreement between the Consumer and the Gas Marketer must be submitted to the Independent Dispute Resolution Process for resolution and are considered binding."

19.8 Please provide pro forma wording that Terasen Gas believes should be included in the contract between Gas Marketers and customers, so that disputes are referred to the Dispute Resolution Process.

Response:

Terasen Gas proposes the following wording,

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

19.9 Please provide the menu of "configurable actions" that the arbiter will be able to choose from. If this menu has not been defined, please outline the process that Terasen Gas proposes for developing it.

Response:

In an effort to keep the expenditure of costs to a minimum during the Scoping Phase, the menu of "configurable actions" that the arbiter will be able to choose from was not defined. It is expected that the actions making up the list will be defined during the fall of 2006 should approval to proceed with the program be granted. It is also expected that this list will be developed in consultation with Commission staff.

In terms of the type of actions that would be included in the list, they would be such actions as "Cancel enrollment with Gas Marketer (return to previous Gas Marketer)", "Drop customer from current Gas Marketer (return to Terasen Gas)", or "No action required". From a process perspective, once a decision is reached by the arbiter, an action is selected. The selection of the action automatically triggers all the necessary enrollment changes required to enact the decision.

19.10 Based on current information, what are the amounts of the fixed and variable fees proposed for the Dispute Resolution Process?

Response:

In the ongoing operating costs contained in the Application Terasen Gas identified the need for 1 FTE by the Commission to help manage its part in the Independent Dispute Resolution Process with an annual cost of $75,000. The amount of any fixed and variable fees have not been estimated at this time given uncertainty around the final scope of the process. Once a decision is reached about type of disputes that this process will manage, and who will be responsible for reaching a decision, any disputes costs that are likely to incurred can be estimated with greater accuracy.

20.0 Reference: Dispute Volumes, p. 73

20.1 Based on the estimated range of disputes (between 90 and 800 based on approximately 40,000 residential contracts) what is the estimated number of man-hours that has to be devoted to this activity by the Commission. What staffing requirements are expected to be added?

Response:

Please also refer to the response to question 19.10. The Application assumes that a dispute will require approximately 2 hours to resolve. Based on 800 disputes in a given year, approximately 1600 hours would be required to help process this number of disputes. Additionally, it is expected that the Commission would receive inquiries about the unbundling program, receive complaints that need to be entered into the system for processing, as well as running governance reports to help assess how well the program is operating. The estimated additional FTE identified in the Application that is likely needed by the Commission would be expected to process disputes requiring Commission action, as well as complete the other activities listed above. Assuming approximately 1725 hours are available in a given year, approximately 1600 hours would be devoted to managing disputes initially and the remaining 125 hours, or 17 days, would be used for the other activities. Over time as the program stabilizes its expected that the number of disputes will decrease, which would free some time.

21.0 Reference: Midstream Cost Reconciliation Account and

Commodity Cost Reconciliation Account, p. 78

21.1 Terasen Gas proposes a Customer Choice Fee to recover commodity costs stranded when customers leave Terasen Gas utility supply. Considering the expected levels of customer migration, please explain why Terasen Gas expects it will be unable to prudently manage its commodity supply portfolio, specifically hedging of gas purchases, so that such stranded costs or gains are small enough that the impact on remaining customers will be acceptably small.

Response:

Terasen Gas will continue to prudently manage its commodity supply portfolio, specifically hedging of gas purchases, in a residential unbundled environment. Terasen Gas recognizes that the stranded gas costs or gains could be small. In proposing the Customer Choice Fee, Terasen Gas' desire is to draw stakeholders' attention to the issue, recognizing that there will be un-recovered hedging gains or losses left behind by those customers who migrate from Terasen Gas' default commodity offering, if the issue is not dealt with.

Regardless of final decision on how the stranded gas costs or gains are to be recovered, first there is a need to identify the amount of the stranded gas costs or gains. Details of the proposed methodology are outlined in the response to question 21.4 of BCUC Information Request No.1.

Terasen Gas acknowledges stakeholders concerns about the proposed Customer Choice Fee and is open to an alternative solution such as having the calculated stranded gas costs / benefits transferred over from the CCRA to the MCRA to be recovered from all bundled sales customers. This would address concerns raised by some stakeholders about the disadvantages of the Customer Choice Fee option as being a barrier to effective competition. A third alternative raised by some stakeholders is to leave the stranded gas costs or benefits in the CCRA for remaining customers to bear. Terasen Gas' view is this option is acceptable if stranded gas costs / benefits were to remain small. However, should the amount of stranded gas costs / benefits became fairly significant, the concern that Terasen Gas raised initially about un-recovered hedging gains or losses and the impact on the remaining customers on Terasen Gas' default commodity offering remains.

21.2 What is the cost of providing the systems that will make it possible to bill a Customer Choice Fee and an ESM Fee?

Response:

The cost of the proposed solution for Residential Unbundling incorporates the ability to calculate and bill the Customer Choice and the ESM Fee. As the cost estimate was provided by Accenture / KnowledgeTech on an overall integrated solution basis to support Residential Unbundling, Terasen Gas is not able to specifically separate the cost of providing the support necessary to bill the Customer Choice Fee and the ESM Fee.

Despite this, Terasen Gas believes that any such incremental costs to supporting the Customer Choice and ESM Fees are minor in nature. For example, to calculate the Customer Choice Fee, Terasen Gas plans to integrate the requirements into the Gas Supply month end accounting processes supporting the CCRA and MCRA account reporting. The resources required to support the calculations required form part of the Terasen Gas staffing requirements identified in the operating cost estimates provided. With regards to the support of the ESM fee, a process has been outlined to automate its calculation as part of the overall solution to support Residential Unbundling.

Regardless of the Commission decision's whether to approve the Customer Choice Fee and/or ESM fees, resources will still be required to calculate and report on the impact of stranded gas costs or benefits from Unbundling on the CCRA and MCRA account.

21.3 Assuming the billing systems for these fees are included in the systems developed for unbundling, what is the incremental administrative cost to actually calculate, get regulatory approval for, bill and record these two fees?

Response:

As noted in response to question 21.2, there would be incremental administrative and regulatory work required to bill and record the fees. However, the costs for calculation, billing and recording of the fees would be minimal due to automation of the processes. There would also be a minimal increase in regulatory costs associated with approvals and would be dependent upon Commission approved process for approval. Terasen Gas does not have a breakdown of the costs, however all these costs would be captured in the O&M account associated with residential unbundling as noted in the Application.

21.4 In Table 9 on page 79, Terasen Gas provides information about CCRA balances and hedging gains and losses. Please use the underlying information to calculate the Customer Choice Fee and the amounts that would have been recorded in the proposed deferral account for 2004, 2005 and 2006 if the proposed Customer Choice Fee arrangement had been in effect and assuming 5 percent customer migration each year.

Response:

Table for Question 21.4: Actual CCRA Ending Balance and Mark to Market Monthly Totals for 2004, 2005 & 2006

Assumptions:

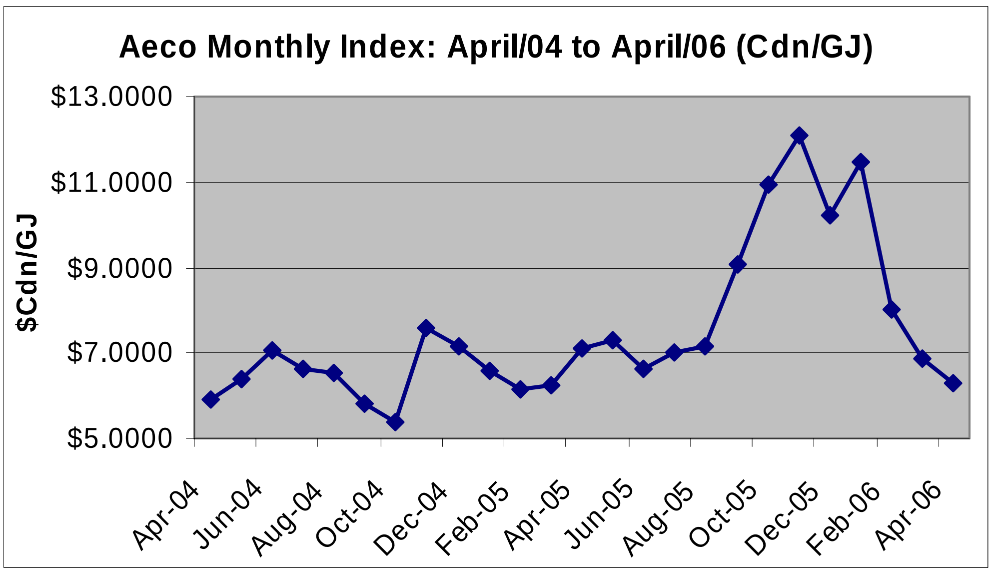
Actual CCRA Ending Balance (Column A) is the amount in the deferral account at month end. Difference between estimated rates and actuals rates.
Mark to Market (Column B) is a forward mark to market for the next 12 months. For Example, April/04 the positions covers May/04 to April/05 hedges in place
CCRA volume is based on 320,000 GJ/Day (Column D)
Residential Customer eligible 723,500 for unbundling
Normal Residential consumption is 100 GJ/Year, 8.3 GJ/Month
Migration of 5% per year, which translates into 36,175 customer year or 3,617,500 GJ/Year
Translate 36,715 customer loss per year into loss per month. Is 3014 customers or 25,016 GJ/Month (Column F)
Stranded Benefit is defined as an over collection (in the money) and would reduce customers gas costs
Stranded Cost is defined as an under collection (out of the money)) and would increase customers gas costs

Stranded Benefit is Negative
Stranded Cost is Positive

	Actual CCRA Ending Balance $ A	Mark to Market $ B	Stranded Gas Cost / Benefit $ C	CCRA GJ per Month 320,000 GJ/Day D	Total $/GJ E	Amount of Total GJ Leaving per month F	Stranded Gas Cost / Benefit for leaving Cust. $ G	Stranded Cost or Benefit per Res. Cust. Leaving $/Cust. H	CCRA GJ per Month After Customer Loss I = (D - F)	Stranded Cost or Benefit per Res. Cust. Remaining in CCRA ($/Cust.) J
Apr-04	$1,958,823.0	-$30,950,918.9	-$28,992,095.9	9,600,000	-$3.0200	25,016	-$75,548.57	-$25.07	9,574,984	-$0.07
May-04	-$634,026.4	-$41,239,317.2	-$41,873,343.7	9,920,000	-$4.2211	25,016	-$105,595.12	-$35.03	9,894,984	-$0.09
Jun-04	$1,997,201.0	-$28,879,143.0	-$26,881,942.0	9,600,000	-$2.8002	25,016	-$70,049.86	-$23.24	9,574,984	-$0.06
Jul-04	-$4,184,910.2	-$32,772,242.2	-$36,957,152.4	9,920,000	-$3.7255	25,016	-$93,197.59	-$30.92	9,894,984	-$0.08
Aug-04	-$12,060,983.6	-$17,650,477.1	-$29,711,460.7	9,920,000	-$2.9951	25,016	-$74,925.59	-$24.86	9,894,984	-$0.06
Sep-04	-$23,756,997.6	-$41,218,733.2	-$64,975,730.8	9,600,000	-$6.7683	25,016	-$169,315.93	-$56.18	9,574,984	-$0.15
Oct-04	-$36,776,003.3	-$74,070,543.7	-$110,846,547.0	9,920,000	-$11.1740	25,016	-$279,529.96	-$92.74	9,894,984	-$0.24
Nov-04	$3,080,908.9	-$34,405,193.8	-$31,324,284.9	9,600,000	-$3.2629	25,016	-$81,625.87	-$27.08	9,574,984	-$0.07
Dec-04	$4,109,660.6	$15,612.1	$4,125,272.7	9,920,000	$0.4159	25,016	$10,403.01	$3.45	9,894,984	$0.01
						Total $	**-$939,385.48**	**-$34.63**	**Average**	**-$0.09**
Jan-05	$1,560,124.2	-$12,061,519.0	-$10,501,394.9	9,920,000	-$1.0586	25,016	-$26,482.15	-$8.79	9,894,984	-$0.02
Feb-05	-$2,132,897.1	-$26,757,084.1	-$28,889,981.1	8,960,000	-$3.2243	25,016	-$80,659.80	-$26.76	8,934,984	-$0.08
Mar-05	-$5,555,136.2	-$56,551,171.2	-$62,106,307.4	9,920,000	-$6.2607	25,016	-$156,618.08	-$51.96	9,894,984	-$0.13
Apr-05	-$3,096,809.0	-$26,972,300.1	-$30,069,109.2	9,600,000	-$3.1322	25,016	-$78,355.09	-$26.00	9,574,984	-$0.07
May-05	-$5,466,843.9	-$18,089,828.1	-$23,556,672.0	9,920,000	-$2.3747	25,016	-$59,404.61	-$19.71	9,894,984	-$0.05
Jun-05	-$6,253,108.7	-$32,588,411.9	-$38,841,520.6	9,600,000	-$4.0460	25,016	-$101,214.53	-$33.58	9,574,984	-$0.09
Jul-05	-$16,487,469.7	-$45,300,369.5	-$61,787,839.2	9,920,000	-$6.2286	25,016	-$155,814.98	-$51.70	9,894,984	-$0.13
Aug-05	-$17,080,625.5	-$111,523,972.2	-$128,604,597.7	9,920,000	-$12.9642	25,016	-$324,311.76	-$107.60	9,894,984	-$0.27
Sep-05	-$7,062,691.8	-$159,707,734.8	-$166,770,426.7	9,600,000	-$17.3719	25,016	-$434,575.94	-$144.19	9,574,984	-$0.38
Oct-05	-$7,849,168.6	-$106,434,535.4	-$114,283,704.1	9,920,000	-$11.5205	25,016	-$288,197.70	-$95.62	9,894,984	-$0.24
Nov-05	$154,561.0	-$97,818,233.4	-$97,663,672.4	9,600,000	-$10.1733	25,016	-$254,495.25	-$84.44	9,574,984	-$0.22
Dec-05	$1,380,429.0	-$70,286,352.8	-$68,905,923.8	9,920,000	-$6.9462	25,016	-$173,765.18	-$57.65	9,894,984	-$0.15
						Total $	**-$2,133,895.05**	**-$59.00**	**Average**	**-$0.15**
Jan-06	$1,951,463.4	-$11,847,504.4	-$9,896,041.0	9,920,000	-$0.9976	25,016	-$24,955.58	-$8.28	9,894,984	-$0.02
Feb-06	-$15,296,175.1	$65,276,200.0	$49,980,024.9	8,960,000	$5.5781	25,016	$139,542.44	$46.30	8,934,984	$0.13
Mar-06	-$36,649,602.2	$38,640,066.6	$1,990,464.4	9,920,000	$0.2007	25,016	$5,019.50	$1.67	9,894,984	$0.00
Apr-06	-$37,193,300.0	$54,635,823.0	$17,442,523.0	9,600,000	$1.8169	25,016	$45,452.31	$15.08	9,574,984	$0.04
						Total $	**$165,058.67**	**$13.69**	**Average**	**-$0.02**

The table on the previous page provides the Customer Choice Fee that would have been recorded in the proposed deferral account. Gas cost information prior to April 2004 were not available as both commodity and midstream costs were recorded in Gas Cost Reconciliation Account ("GCRA"), prior to its split into the CCRA and MCRA as part of the Commercial Unbundling program.

For the period April 2004 to April 2006, the proposed Customer Choice Fee would have been zero because there would have been a stranded benefit (gain), 21 of the 25 months. During this time period, rising natural gas prices (refer to graph below) contributed to the stranded gas benefit (gain). However, in a declining price environment, the opposite would lead to stranded gas costs.



For the months reported, the highest stranded benefit per customer was ($144.19) observed in September 2005 with +$46.30 the largest stranded gas cost per customer observed recently in February 2006.

On a total dollar basis (refer to column C of table), the dollar amount of stranded gas cost / benefit can be quite significant, reaching a high of ($166) million in September 2005. With the potential for an unanticipated high number of customers migrating to marketers over a short time period, this creates the issue of significant buildup in stranded gas costs or benefits for remaining customers of the utility's default option.

As stated in the response to question 21.1, Terasen Gas' rationale in proposing a Customer Choice fee is primarily to ensure that the stranded gas costs or benefits are identified and accounted for properly, whether in recovering them from the customers who migrate towards marketers or recovered from the MCRA through all bundled sales customers.

To calculate the stranded gas costs or benefits associated with migrating customers, Terasen Gas proposes the following process:

a) At the end of each month, the CCRA deferral balance along with the mark to market hedge gain or loss on a 12 month going forward basis is calculated.

b) The total number of customers who will be migrating over to a marketer rate the next month will be recorded.

c) The total stranded gas cost or benefit ($) as determined in step (a) is then transferred over to the MCRA based on the number of customers who will be migrating over to a marketer rate the next month (i.e. entry date). The allocation is based on the migrating customers volumetric proportion of the overall supply requirements for the CCRA (i.e. % of 320 TJs per day). To simplify administration, alternatively, the calculation and allocation process can be carried out instead on a quarterly basis, to coincide with the quarterly review process for the CCRA.

For numerical example, please refer to the table of numbers provided earlier in this response.

21.5 Using the stranded costs or benefits for 2004, 2005 and 2006 estimated in the previous question, please estimate the average impact on the typical annual bill of remaining residential customers for each year. Please discuss whether these amounts are likely to be significant to the customer, relative to both the total annual bill and the incremental cost of the residential unbundling program.

<u>Response:</u>

Using the information provided in the response to question 21.4, the total stranded gas benefit attributable to those customers that leave for a gas marketer totals to approximately $3 million for the two year period. It is important to note that the stranded gas cost / benefit associated with leaving customers can vary depending upon what period (i.e. month) the actual migration occurs. For example, if the customer migration is heavily concentrated in a given month where the stranded gas cost / benefit balance is high, then the results will be different than what is illustrated in the response to question 21.4.

Based on the numbers provided in the response to question 21.4, the stranded gas cost / benefit averages to about $1.5 million per year which on an absolute value basis is about 10% of the total implementation costs. In terms of the annual bill of about $1,400 / year for a residential customer, the average stranded gas cost / benefit is low (i.e. $2 per year per customer) under the scenario outlined as the majority of customers are assumed to remain with the utility.

The above analysis and conclusions will vary largely depending upon the extent and timing of customer migration and the extent of hedging gains or losses.

21.6 If the stranded CCRA costs and benefits are not expected to average zero over time, please explain.

Response:

Stranded (unrecovered) CCRA costs are caused by under-collection of realized costs and/or mark-to-market losses on forward hedge positions attributable to those customers who choose to leave the utility default rate for a Gas Marketer. All else equal, assuming that customer migration to Unbundling is as forecasted and there are minimal mark-to-market losses / gains on forward hedge positions, stranded costs (benefits) are expected to zero over time.

However, this may not be the case where customer migration towards Gas Marketer offerings is higher than anticipated or there are significant mark-to-market losses on forward hedge positions caused by a decline in the market price of natural gas. For example, if a Gas Marketer is able to offer a substantially lower gas price than Terasen Gas' default rate as a result of a significant decline in the price of natural gas, customers would likely have a greater incentive to switch to the Gas Marketer. Conversely, customer migration to an unbundled rate will be lower when there is a stranded benefit available (i.e. significant in the money forward hedge positions).

Base on this noted bias in the timing of customer switching behaviour, this will result in a smaller group of remaining customers sharing in the stranded gas costs and a larger group of remaining customers sharing in the stranded benefit available. Therefore, the risk of sharing in stranded CCRA costs and benefits is not symmetrical. For example, in the case where the CCRA is in a stranded gas cost position due to hedge losses, there will be a greater incentive for customers to switch to a gas marketer to avoid their share of the stranded gas costs. Alternatively, in the case where the CCRA is in a stranded gas benefit position due to hedge gains, there will be greater incentive for customers to remain with Terasen Gas.

21.7 Based on current information, what Customer Choice Fee and ESM Fee would Terasen Gas propose for November 2007?

Response:

Based on the table included in response to Question 21.4 outlining the estimated total stranded gas cost or benefit per customer from April 2004 to most recently April 2006, the range of potential Customer Choice Fee has varied from $46 stranded cost per customer recently observed in February 2006 to a $144 stranded (benefit) observed in September 2005.

Based on the information over the last two years as set out in the table in the response to question 21.4, the Customer Choice Fee would be set at zero initially, as experience in the recent past up to December 2005 has suggested the deferral account and hedge positions would be in a benefit position. In this case Terasen Gas does not propose "paying" a Customer Choice in the situation of stranded gas benefit as it is not designed to provide an incentive for customers to realize one-time gains. However, the first four months in 2006 suggests a stranded gas cost resulting in the need for a Customer Choice fee ranging between approximately $2 to $46. This illustrates the challenges in setting an appropriate Customer Choice Fee.

The ESM fee will be specific to each situation and will be calculated as the difference between the original fixed price and the subsequent fixed price for the remaining forecast normalized volumes during the 12 month period. Consequently, the ESM Fee will be different each time it is calculated. The ESM fee will be charged each time the 12 month fixed price rule is violated. Systems will be configured to automatically calculate the ESM fee.

As noted in the response to question 21.8 below, adopting a hard blocking approach to processing enrolments (i.e. not allow contracts to be terminated prior to expiry of 12 month consecutive period), would eliminate the need for the ESM fee. Terasen Gas is not opposed to adopting a hard-block approach to processing customer enrolments as it recognizes it would deter poaching of customers and prevent any 12 month fixed price rule violation, eliminating the need for the proposed ESM fee.

21.8 Please clarify whether Terasen Gas proposes to continue with the 12 month fixed price rule. If the rule is to continue, and enrolment that would be in violation of the rule are not permitted, why is the ESM Fee needed?

Response:

As stated in the CPCN Application (page 81), a key business rule required to support the ESM model 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.

On page 10 of Appendix 6 Proposed Business Rules which was endorsed by the Commission for use in investigating system design during the Scoping Phase, Terasen Gas proposes a soft-blocking approach for handling enrolment transactions which violates the 12 month fixed price rule and/or results in poaching of a customer from one Gas Marketer to another, before the end of the contract term. It is intended that both Gas Marketers will be notified of the pending enrolment violation prior to Terasen Gas accepting the enrolment request. By supporting a soft-blocking approach to such enrolment transactions, customers are allowed to change their mind and yet still are made accountable for their choices for violating the 12 month fixed price rule. (i.e. proposed ESM fee charged to Gas Marketer could be flowed through to the customer).

By having the ESM fee in place, the Gas Marketer can still drop the customer before the 12 months is up but now they have costs associated with their actions. The ESM fee serves to protect the integrity of the ESM model without impacting the midstream account. To date, in the Commercial Unbundling program, with no way to block transactions which violate the 12 month fixed price rule, Terasen Gas has experienced some instances of violation of the 12 month fixed price rule with the potential for increased incidences in the Residential Unbundling program.

Recognizing the differences in opinions on this issue, Terasen Gas has also designed its systems to be able to accept a hard blocking approach, preventing any 12 month fixed rule violations and potential poaching of customers by Gas Marketers. A hard blocking approach would eliminate the need for the ESM fee

As stated earlier in this response, Terasen Gas is proposing the soft-blocking approach in the Application. However, Terasen Gas is not opposed to adopting a hard-block approach as it recognizes it would deter prevent deter poaching of customers, prevent any 12 month fixed price violations and there eliminate the need for the proposed ESM fee.

21.9 Considering that Terasen Gas Commodity and Midstream charges for utility sales to residential customers are reviewed and potentially changed on a quarterly basis, please explain why the concern about the potential impact of unbundled sales on CCRA and MCRA balances is consistent with the impact of mid-year changes to the charges for utility sales.

Response:

In clarifying this question with Commission Staff, Terasen Gas understands the question to mean "How would stranded costs or benefits impact the current rate setting mechanism for CCRA and MCRA?"

With the process proposed in question 21.4 for calculating and potentially allocating the stranded gas costs / benefit for migrating customers over to the MCRA, there would be no impact except for the shifting of the stranded gas costs / benefits from the CCRA to the MCRA with recovery from customers using the existing approved recovery mechanisms.

21.10 The CPCN Application at page 86 identifies that the Customer Bill Fee of $0.40 per month per bill will be charged to offset the cost to produce and mail monthly bills. Will unbundling change the number of monthly bills that Terasen Gas produces and mails?

Response:

Residential Unbundling is not expected to change the number of bills issued on a monthly basis. In accordance with the Tariff, Terasen Gas will continue to bill all customers on a monthly basis. In cases where Gas Marketers are contacted to provide the commodity directly to customers, the charges related to gas commodity will appear on participating customer bills in place of the standard utility commodity offering.

The Customer Bill Fee of $0.40 per month per bill is expected to partially recover some of the incremental costs related to gas commodity unbundling for residential customers. It is not specifically an offset to the cost to produce and mail monthly bills.

This fee is consistent with the "Customer Administration Fee" described in Rate Schedule 36 and approved by the Commission for Commercial Commodity Unbundling. Terasen Gas is not proposing a change to the fee for Residential Commodity Unbundling.

Also refer to the response to question 21.12 for additional information.

21.11 What will be the incremental cost to Terasen Gas for the monthly bill for a residential customer who migrates from utility sales to a Gas Marketer? Please explain how the amount was determined.

Response:

Assuming there are no additional changes to the customer's bill, including the inclusion of optional messages and inserts, Terasen Gas does not anticipate any material additional incremental costs specific to billing. However, the fees outlined on page 86 of the Application are intended to offset the costs either directly or indirectly of additional services or activities required to support the proposed Residential Unbundling program.

Also refer to the response to question 21.12 for additional information.

21.12 Please explain if the proposed $0.40 per month charge is in excess of the incremental cost of bills for unbundled customers relative to other residential customers, and, if so, why the fee is appropriate. Do the same comments apply to the Customer Bill Fee for commercial customers?

Response:

The intent of the $0.40 per month customer fee is to recover some of the incremental costs related to the support of gas commodity unbundling for residential customers. The majority of the costs being recovered through this fee include the costs of additional call handling including customer education, billing inquiries and escalation of disputes as well as internal administrative costs associated with maintaining the program. These operating costs are described on page 46 of the Application. The outline of the program fees included on page 86 of the Application provides a very narrow description of the type of costs they are intended to help recover. From a broader perspective these program fees are designed to offset a portion of the estimated $600,000 to $800,000 in annual incremental operating costs the program is expected to incur. These costs would not be incurred if the program did not operate. The fees are expected to contribute between $100,000 to $200,000 annually to help offset the incremental program operating costs. The remaining amount will be recovered from customers.

In reviewing the fees commonly applied in other Canadian jurisdictions a monthly per customer fee is generally applied. The cost per customer ranges from $0.25 per bill to $1.35 per bill depending on the complexity of the price options supported as well as the scale of the program. The jurisdictions with the higher participation rates tend to have higher fees due to the degree of process and technical support required.

Terasen Gas believes that the use of fees is appropriate as it captures a portion of the cost attributable to Gas Marketers participating in the marketplace. The fees identified in the Application reflect a reasonable sharing of costs between costs being charged to ratepayers and the portion of costs that specifically accrue to customers electing to participate in the Commodity Unbundling program.

The same comments apply to the Customer Administration Fee for Commercial Commodity Unbundling. In the case of the Commercial Program, Commission Letter L-25-03 directed that operating costs, to the extent possible, were to be recovered from marketers.

Attachment 12.1

TABLE OF CONTENTS

CLAUSE **PAGE**

1. DEFINITIONS

Capitalized terms that are contained in this Schedule and are not defined herein shall have the respective meanings set out in Clause 1 of the Client Services Agreement.

1.1. "Commercial Unbundling Program" shall mean a British Columbia Utilities Commission ("BCUC") approved initiative which provides large and small commercial Customers with an opportunity to purchase their gas commodity from a supplier other than Terasen.

1.2. "Marketers" shall mean a party licensed by the BCUC to contract with end use Customers to provide gas commodity.

2. SCOPE OF SERVICES

2.1. CustomerWorks agrees to provide Terasen with the following services for all Terasen's large and small commercial Customers in accordance with the policies and procedures outlined in the Protocol and as set out below for the Commercial Unbundling Program.

2.2. Generally, CustomerWorks will provide Commercial Unbundling Operational Services (the "Services") as follows:

(a) Customer inquiry services related to billing and enrollment including calls related to the midstream gas components, Marketer names and phone numbers as well as participant status;

(b) Customer inquiry services resulting from Terasen's Customer education campaign;

(c) data capture and data transfer services related to Customer enrollments, rate changes, enrollment rejections, exception handling and rejection processing;

(d) financial reporting support identifying charges directly related to the new marketer tariffs;

(e) adjustment processing for retroactive rate changes resulting from Customer disputes;

(f) compilation and distribution of Customer consumption history at a premise based on authorized requests from Marketers; and

(g) Tariff set-up and maintenance related to the new marketer tariffs and Terasen midstream components.

3. SERVICE GUIDELINES

3.1. CustomerWorks’ Responsibilities

CustomerWorks will:

(a) perform the Services with sufficient and adequately trained staff in accordance with mutually agreeable policies and practices and sufficient to meet the service levels, all of which are set out in this Schedule and the Protocol;

(b) consult with Terasen through Terasen’s coordinator or the coordinator’s designate on matters related to the Services;

(c) ensure that adequate and appropriate systems, Customer contact technology and equipment are available to meet the service levels; and

(d) provide reasonable access to Terasen for monitoring purposes on request.

3.2. Terasen’ Responsibilities

Terasen will:

(a) be responsible for pre-validating transaction files and will own the relationship with Marketers and be responsible for all Marketer related communications with CustomerWorks;

(b) provide timely notification of changes to the requirements for Commercial Unbundling or the parameters used to determine pricing; and

(c) provide timely information and decisions on the Commercial Unbundling Program and related business process issues.

3.3. **Program Assumptions**

(a) Only existing large and small commercial Customers on Rates 2, 3, and 23, within the Lower Mainland, Inland and Columbia divisions, are eligible to participate in the Commercial Unbundling Program, excluding propane customers in Revelstoke;

(b) The initial Commercial Unbundling Program customer billing start date will be November 1, 2004. Subsequently, the Commercial Unbundling Program will support quarterly entry dates beginning in May 2005;

(c) Marketers will be required to maintain a 24/7 telephone service to support Customer inquiries related to Marketer provided rates and contract terms as well as advising of appropriate emergency contact procedures;

(d) Marketers will be limited to one rate change annually per pricing option; and

(e) CustomerWorks will not handle disputes between Customers and Marketers.

3.4. **Service Levels**

(a) Terasen will receive monthly reporting of complaints directly related to the Commercial Unbundling Program;

(b) CustomerWorks will report monthly financial information by Tariff class in accordance with the timelines as established by Terasen and as set out in the Protocol;

(c) Enrolment transactions and rejection responses will be processed each business day;

(d) Customer correspondence related to the Commercial Unbundling Program will be responded to within four (4) Business Days of receipt;

(e) Exceptions will be processed within three (3) Business Days; and

(f) Authorized Marketer requests for consumption history will be processed within five (5) Business Days of receipt.

3.5. **Policies and Practices**

3.5.1 CustomerWorks shall deliver the Commercial Unbundling Operational Services in accordance with the Protocol.

3.5.2 Terasen will:

(a) retain final approval rights for scripts, training materials and other materials for any Customer communications including approval of delivery method or channel;

(b) retain the right to monitor call quality.

4. REPORTS

CustomerWorks shall provide all management reports to Terasen in accordance with the Protocol which may be amended, from time to time.

5. PRICING

5.1. CustomerWorks will provide the Services described in this Schedule for three (3) years at the fees set out in the following table:

	2004	2005	2006
Commercial Unbundling Operational Services – Base Fees	$ 77,329	$ 121,632	$ 121,632
Enrolment Exception Transaction – per occurrence	$ 23.70	$ 23.70	$ 23.70
Marketer Group Set-up Request – per group	$1,776	$1,776	$1,776
Marketer Rate Change Request – per rate change per group	$ 91	$ 91	$ 91
Request for Customer consumption information – per request	$ 30	$ 30	$ 30

Note: Base fees will be billed monthly. Transactional fees will be billed monthly as incurred.

The base and variable fees are based on the following assumptions related to market participation and the program assumptions described in Section 3.3 of this Schedule.

a) Two Marketers are expected to participate in the first year of the program, each offering two pricing options. In the next two years participation is expected to increase to four additional Marketers each offering four pricing options; and

b) The number of enrolment requests is expected to be 10,000 requests per year with an exception handling rate of 15% in the first year and decreasing to 10% in the two following years.

6. PERFORMANCE MEASURES, DEFICIENCY CURE PERIODS AND PENALTIES

The performance Measures, Deficiency Cure Periods and Penalties set out in Schedule "A" and Schedule "B" shall apply.

Note: For the first ninety (90) days after the midstream charges are shown separately on commercial bills, any billing accuracy errors that are directly attributable to the calculation or presentment of these charges will be exempt from the calculation of billing accuracy for penalty determination purposes. In addition, for the first ninety (90) days after the start of billing Marketer tariffs in November 2004, any billing accuracy errors that are directly attributable to the calculation or presentment of these charges will be exempt from the calculation of billing accuracy for penalty determination purposes.

7. TERMINATION OF SCHEDULE "F"

Notwithstanding Clause 3.4 of the Client Services Agreement, the parties agree that Terasen may terminate this Schedule upon thirty (30) days written notice with no penalties or damages. All costs, reasonably and directly incurred by CustomerWorks or its subcontractors related to the Commercial Unbundling Operational Services, shall be paid by Terasen.