



Scott A. Thomson
VP, Finance & Regulatory Affairs and
Chief Financial Officer

16705 Fraser Highway
Surrey, B.C. V3S 2X7
Tel: (604) 592-7784
Fax: (604) 592-7890
Email: scott.thomson@terasengas.com
www.terasengas.com

Regulatory Affairs Correspondence
Email: regulatory_affairs@terasengas.com

June 21, 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 COPE 378 Information Request No. 1

Terasen Gas respectfully submits the attached responses to the above noted Information Request dated June 7, 2006.

The full submission will be available on the Terasen Gas website by Thursday, June 22, 2006 at the following location:
<http://www.terasengas.com/Publications/Regulatory/Submissions/LowerMainlandInterior/default.htm>

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

Yours very truly,

TERASEN GAS INC.

Original signed by: Tom Loski

For: Scott A. Thomson

Attachment



Terasen Gas Inc. ("Terasen Gas") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 21, 2006
Response to COPE 378 Information Request No. 1	Page 1

1.0 Reference: Recovery of program costs from residential customers (p.4, p.6)

- 1.1 Program implementation costs are to be recovered from residential customers who have access to the program, and ongoing operating costs from Gas Marketers "where possible". Further, residual operating costs are also to be recovered from residential customers eligible to participate in the program. This contradicts the Guiding Principles for Residential Unbundling (p.27), in which it is claimed that "Terasen Gas believes following a cost-causality principle (i.e. user pay system), where program costs are recovered from parties who cause program costs, is warranted. These costs should be recovered where possible from both the Gas Marketer enrolling a customer and the enrolled customer." Is Terasen's general goal to recover costs from all eligible residential customers, or from Gas Marketers and enrolled customers only?

Response:

Please refer to Terasen Gas' responses to questions 1.2 and 1.3 of BCOAPO Information Request No. 1 for explanation of proposed cost recovery and rationale.

As stated in Terasen Gas' response to question 1.3 of BCOAPO Information Request No. 1, the proposed recovery method of having all eligible residential customers pay for the implementation and operating costs for Residential Unbundling is consistent with the principles of cost causality and value of service, as all eligible customers receive a benefit from having the ability to exercise choice, regardless of whether they choose to or not. The cost-causality principle (i.e. user pay) is important in delivering a cost-effective solution where the incremental costs beyond that required for the core system requirements are borne by the parties that benefit directly from exercising commodity choice.

- 1.2 Does Terasen believe that customer value is added by charging customers for program costs they may not be interested in?

Response:

Please refer to Terasen Gas' response to question 1.2 of BCOAPO Information Request No. 1. Terasen Gas believes that there is a conferred benefit to all eligible customers by providing them the ability to choose.



Terasen Gas Inc. ("Terasen Gas") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 21, 2006
Response to COPE 378 Information Request No. 1	Page 2

- 1.3 Under either cost recovery plan, will the program cost surcharges be made clear on bill statements (and, if applicable, on Gas Marketer promotional materials)?

Response:

As outlined on page 87 section 10.2.3 Recovery of Implementation, Operating Costs of the CPCN Application, Terasen Gas proposes to recover the costs of the Unbundling program using a rate rider. The rate rider will be included and form part of the Commodity Charge on customers' bills. The rate rider for Residential Unbundling will not be a separate line item on residential customers' bills, a practice consistent with the billing treatment in the past for rate riders used for recovery of costs for other purposes.



Terasen Gas Inc. ("Terasen Gas") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 21, 2006
Response to COPE 378 Information Request No. 1	Page 3

2.0 Reference: Project justification (p.5)

- 2.1 In regards to achieving improved cost effectiveness with Residential Unbundling than can be achieved under the Commercial Unbundling program, Terasen refers to the use of greater automation. Please provide details on the impact of this automation on Terasen employees and their job functions.

Response:

The reference to automation in the Application referred to the need to manually intervene in the processing of enrollments and in the generation of the Marketer Supply Requirement. It is expected that the transaction volumes generated by the Residential Unbundling program can not be sustained given the manual intervention today. The changes proposed for the Residential Program are not expected to significantly affect Terasen Gas employees and their job functions.

Please also refer to the response to question 6.1.



Terasen Gas Inc. ("Terasen Gas") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 21, 2006
Response to COPE 378 Information Request No. 1	Page 4

3.0 Reference: Overview of unbundling solutions in other jurisdictions (p.14)

Terasen indicates that none of the utilities or regulators' representatives (of Alberta, Manitoba, Ontario) had undertaken research to measure the success of their retail commodity choice programs from the customer's perspective. The same representatives are said to believe that customers perceived the primary benefit of Unbundling as providing price stability with the possibility of cost savings.

3.1 Would Terasen then agree that the stated benefits to customers are theoretical, or at best anecdotal?

Response:

Terasen Gas disagrees with the assertion that the potential benefits of Unbundling, price stability, and the possibility of cost savings are theoretical and at best anecdotal. As part of its investigative and scoping efforts for the CPCN Application, Terasen Gas conducted primary research of its residential customers' interest in Residential Unbundling. The details and results of the research are contained in Appendices 3 and 4 of the CPCN Application. Terasen Gas refers COPE specifically to pages 21 and 22 of the quantitative study which provides the customers' responses to two questions:

- Q9. If Unbundling was available to you, what would be your level of interest in buying your natural gas from a supplier other than Terasen Gas?
 - 24% of customers surveyed indicated that they would be "very interested".
- IF INTEREST Q9:
Q10. Why do you say that?
 - Of the customers who indicated they would be "very interested" in Unbundling, 38% indicated the reason they would be interested is because of "choice / competition".

Respondents to the survey place value in having commodity choice made available to them.

Regarding the possibility of cost savings, please refer to Terasen Gas' response to question 10.2.3 of BCOAPO Information Request No. 1 for Terasen Gas' perspective on cost savings. However, Terasen Gas believes the primary benefit of fixed price options is providing price stability on the natural gas commodity.



Terasen Gas Inc. ("Terasen Gas") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 21, 2006
Response to COPE 378 Information Request No. 1	Page 5

- 3.2 Please provide research or studies from non-utility or non-regulator sources in these Canadian jurisdictions, or any source from other jurisdictions, which details the number of customers receiving cost savings due to the introduction of unbundling. If possible, compare cost savings for commercial and residential customers.

Response:

Terasen Gas has no such research available of other jurisdictions as the quantification of cost savings depends on a number of variables including:

- the time period of the assessment and the direction of natural gas prices during this time period (i.e. increasing or decreasing trend);
- the default commodity offering in different jurisdictions and its variability with the price of natural gas in the marketplace; and
- terms and conditions including price of Gas Marketers' offerings in the marketplace.

As stated in the response to question 3.1 above, the primary benefit of fixed price options is providing price stability for the natural gas commodity. A fixed rate, or hedging, helps to provide pricing to customers that is less volatile than otherwise possible. In a rising price environment, hedging offers the additional benefit of reducing costs that a customer would otherwise pay for natural gas in the market. However, in a decreasing price environment this may lead to higher costs.



Terasen Gas Inc. ("Terasen Gas") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 21, 2006
Response to COPE 378 Information Request No. 1	Page 6

4.0 Reference: Primary customer market research (p.18)

- 4.1 What effects might the timing of the quantitative phase ("a time when the market for natural gas was experiencing price volatility") have on the survey results?

Response:

Please refer to Terasen Gas' response to question 3.1 of BC Ministry of Energy Mines and Petroleum Resources Information Request No. 1 for explanation of the timing of the quantitative phase of the survey.

As mentioned in the response to the question, the results of the survey may have been skewed towards reporting a higher degree of interest than otherwise.



Terasen Gas Inc. ("Terasen Gas") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 21, 2006
Response to COPE 378 Information Request No. 1	Page 7

5.0 Reference: Customer education (from p.21)

- 5.1 Please specify how the Stable Rate Option provides educational benefits leading to an increased level of understanding of alternative gas commodity offerings. In a time of market change and customer uncertainty, one might expect a third option to increase confusion and make program comparisons more difficult.

Response:

Please refer to Terasen Gas' responses to questions 6.1 and 6.2 of BCUC Information Request No.1.

- 5.2 It seems that Terasen's variety of rate options will lead to customer education which benefits Terasen by advertising its Stable Rate Option as a benchmark for comparison with Gas Marketers' offerings. As Terasen is employing the principle of cost-causality, and will benefit competitively from advertising its rate options, how will Terasen calculate its financial contribution to the costs of customer education?

Response:

As indicated in the answer to question 5.1 above, in a Residential Unbundling environment, Terasen Gas believes it is residential customers that will benefit primarily from having alternative commodity rate options such as the Stable Rate option made available. As such, it is reasonable to expect that the costs of the program, including advertising expenses, be recovered from those residential customers who benefit from having the choice.

In the scenario where Residential Unbundling is not approved, as stated in Terasen Gas' response to questions 3 and 7b of Retailer Group's Information Request No.1, Terasen Gas would still promote the Stable Rate Option, and possibly other types of rate options, as Terasen Gas is committed to providing effective customer choice. Again, it is reasonable to expect that the costs of providing these options be recovered from those residential customers who benefit from having the choice.



Terasen Gas Inc. ("Terasen Gas") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 21, 2006
Response to COPE 378 Information Request No. 1	Page 8

- 5.3 As an overall guideline, does Terasen believe the costs of advertising its rate options should be borne by eligible customers?

Response:

As it relates to the Stable Rate Option and the Commodity Unbundling initiative, Terasen Gas' view is that the costs of the Stable Rate program, including advertising expenses, be recovered from those customers that benefit from having the choice.

As it relates to the other existing options for all rate classes (i.e. Rate Schedules 1 – 7, 22 - 27), Terasen Gas' view is that the costs of marketing, including advertising, the Company and its services be recovered as set out in the Revenue Requirement filing process and approved by the Commission.



Terasen Gas Inc. ("Terasen Gas") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 21, 2006
Response to COPE 378 Information Request No. 1	Page 9

6.0 Reference: Project costs (from p.39)

Terasen strongly believes that the time has come with the next phase of Unbundling, where rework and integration of revenue accounting and financial reporting processes is required to ensure the successful implementation of Residential Unbundling.

- 6.1 What impact will the automation, rework, and integration referred to have on the number of workers currently employed by Terasen and the type of work they do?

Response:

As set out in the Application, the detailed analysis needed to determine the type of changes required so that the revenue accounting and financial reporting processes are able to support Residential Unbundling have not been made. This review will be undertaken after a Commission decision is made to proceed with Residential Unbundling. No job losses are currently anticipated as a result of the review of these processes.

- 6.2 Will the development of proposed process and systems changes have positive effects on Terasen's profitability apart from the effects of the move to Unbundling?

Response:

As stated in the response to BCUC IR 1 question 10.1, the process and systems changes related to the implementation of commodity unbundling provide no other business benefit to the Company. As such, Terasen Gas would not implement these changes if Residential Unbundling does not proceed. If the Application is approved and the capital investments made by the Company were prudently incurred, then it would be expected that Terasen Gas would be allowed to earn a return on the equity component supporting the investment, based on the return on equity as approved by the Commission.

- 6.3 If Terasen's streamlining and systems integration helps its overall business, how does Terasen intend to contribute directly to project costs in line with its stated principle of cost-causality?

Response:

Please refer to Terasen Gas' responses to questions 3.4 and 10.1 of BCUC Information Request No. 1



Terasen Gas Inc. ("Terasen Gas") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 21, 2006
Response to COPE 378 Information Request No. 1	Page 10

7.0 Reference: Customer education (from p.56)

7.1 We agree that finding an alternative, more intuitive term for Unbundling (found to be inherently meaningless and too technical) will benefit all parties concerned.

Response:

As outlined on page 57 of the CPCN Application, Terasen Gas, as part of the proposed customer education efforts, will be researching for a more intuitive term for Unbundling.

7.2 No mention is made of customer targeting in the customer education process. An AARP study (attached or available at <http://www.aarp.org/research/reference/publicopinions/aresearch-import-185-DD81.html>) on utility deregulation found poor customer awareness of deregulation, knowledge of electricity and natural gas rates, and awareness of how to find out electricity and natural gas rates. These problems were more significant among older customers and among lower-income customers. We might expect some of these customers, and also non-English speaking customers, to be less literate, less computer-literate, or more likely to be targeted by gas marketers if insufficiently protected. What efforts to target older, lower-income, and non-English speaking customers are being made in Terasen's customer education?

Response:

Before any communications are designed, Terasen Gas plans to test key messages for simplicity and clarity. Terasen Gas intends to use plain language that conveys the information easily and unambiguously.

One of the main reasons television is chosen as the primary media channel is its ability to convey messages to these hard to reach individuals. Television offers the broadest possible audience and commercials can easily be versioned into other languages for use on ethnic television channels. To increase readership, television will remind people to look at their bill inserts to find out more information about Unbundling. Also, the proposed newspaper advertising will assist in providing access to program details to those customers that don't have ready access to the Internet.

Customers that still have questions will still be able to call Terasen Gas for more information and answers to specific questions.



Terasen Gas Inc. ("Terasen Gas") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 21, 2006
Response to COPE 378 Information Request No. 1	Page 11

8.0 Reference: Residential unbundling – building on the commercial unbundling program

The residential unbundling design is to have a greater degree of automation in the processing of enrollments, and an increased amount of data per enrollment that will be tracked.

8.1 What assurances can Terasen make about the protection of private data being transferred between Terasen and marketers?

Response:

As of January 1, 2004 British Columbia's new Personal Information Protection Act was established to govern the collection, use, and disclosure of personal information. At that time Terasen Gas reviewed and updated its Privacy Code and its commitment to keeping customer personal information secure.

In the case of residential commodity unbundling all data transfers between Terasen Gas and Gas Marketers that contain personal customer information will be through secure interface protocols. As well, the release of any customer personal data will be supported by the contracting process to ensure no data is transferred without a customer's prior consent.

8.2 Who will be directly responsible for the oversight of privacy concerns that emerge?

Response:

The Personal Information Protection Act applies to all companies doing business in this province including both Terasen Gas and Gas Marketers. Each organization is responsible for ensuring that they obtain the consent of individuals whose personal information is gathered and used for commercial purposes. Terasen Gas' use of customer personal information for the purposes of providing natural gas services is implied through the application for supply process. Gas Marketers will be required to obtain consent as well through their contractual arrangements with customers for the provision of commodity and other related services.



Terasen Gas Inc. ("Terasen Gas") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 21, 2006
Response to COPE 378 Information Request No. 1	Page 12

- 8.3 Terasen's implementation and ongoing services contractor, Accenture Inc. (or ABSU) has been implicated in BC privacy act violations both as a management business practice and as a result of security problems (see attached documents). Under the Freedom of Information and Protection of Privacy Act, which applies to Accenture's work for BC Hydro, Accenture may be fined up to \$500 000 per violation. What will Terasen's liability be, and what are its potential effects on customer rates, in the event of contractor privacy violations of Terasen customer data?

Response:

Through the Client Services Agreement currently in place between Terasen Gas and CustomerWorks Limited Partnership a provision is included under the confidentiality section of the agreement to ensure that *"CustomerWorks will keep confidential all Customer information, Terasen Gas Property, processes and procedures provided to it by Terasen Gas or information generated from new Customers whether or not it is described or marked as confidential and will abide by all relevant privacy legislation."* This obligation extends to Accenture Business Services for Utilities, the outsourcer providing services on behalf of CustomerWorks.

Terasen Gas cannot transfer it's liability with respect to customer privacy. To ensure compliance Terasen Gas continues to monitor key business process and audit customer interactions. Since the enactment of the Privacy legislation on January 1, 2004 Terasen Gas has not experienced any material complaints or challenges related to Customer personal privacy. Based on the policies and procedures currently in place as well as envisioned through the rollout of residential commodity unbundling Terasen Gas does not expect an increase in risk.

In the event of contractor privacy violations Terasen Gas would investigate the possibility of passing through any financial ramifications to the outsourcer as a direct damage under the Client Services Agreement.



Terasen Gas Inc. ("Terasen Gas") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 21, 2006
Response to COPE 378 Information Request No. 1	Page 13

9.0 Reference: Nature of the commodity unbundling service (p.34)

9.1 Terasen will be responsible for midstream resources including contracting and managing transportation and storage requirements and providing balancing and peaking services. Does Terasen then hold all responsibility for customer-level emergency system failure?

Response:

Terasen Gas will continue to hold all responsibility for customer-level emergency system failure and emergency response.

9.2 In the event of an emergency (i.e., an area loses gas service), how will customer service restoration be prioritized? Will Terasen customers have their service restored before marketer customers?

Response:

In the event of an emergency causing an outage, customer service restoration will be prioritized as it is today, based on resource availability in the geographic area impacted. All customers, whether they choose to buy their commodity supply from a Gas Marketer or from the Terasen Gas, will remain customers of the Terasen Gas for delivery services. Restoration prioritization will not be influenced by a customer decision to purchase their gas commodity through a Gas Marketer.