



**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](mailto:scott.thomson@terasengas.com)  
[www.terasengas.com](http://www.terasengas.com)

Regulatory Affairs Correspondence  
Email: [regulatory\\_affairs@terasengas.com](mailto:regulatory_affairs@terasengas.com)

June 2, 2006

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

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

Dear Sir:

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

**Response to Jean Binette 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



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

**1. Reference Midstream cost Reconciliation Account/Hedging strategy Page 78.**

*Terasen - "Midstream Charges; The term "Midstream" refers to charges Terasen Gas pays other companies who store, transport and help us manage the gas we deliver to our customers. This cost is also passed on to customers without mark-up. Note: While all customers pay this charge as part of their Commodity cost, only Rate Schedule 2 and 3 customers will see this charge separately shown on their bill. For all other sales customers, the Midstream Charge will be embedded within the Cost of Gas charge under the Commodity portion of the bill."*

1.1 Please provide a list of the names of other companies Terasen Gas pays "Midstream charges" to who store, transport, and help manage the gas Terasen delivers to its customers.

**Response:**

The Midstream Charges (MCRA) are reviewed and approved as part of the gas cost applications that are made to the Commission. The costs that are included in this account relate to transportation, storage, and commodity to meet the design day requirements of bundled residential, commercial, and industrial customers. These assets are also required to manage the daily load balancing needs of all customers on the system.

Terasen Gas pays for transportation on third party pipelines from such counterparties as Westcoast Energy Inc, and TransCanada Pipelines Ltd. (BC System). Terasen Gas also holds storage capacity at Aitken Creek (Unocal Canada), Mist (Northwest Natural), and other facilities in the region. The Company also purchases and sells commodity from about 50-60 counterparties who participate in the wholesale marketplace, the transactions which are included in the MCRA. Examples, of these counterparties include Canadian Natural Resources and BP Canada Energy Company.

1.2 Please provide an explanation as to why there is a marked and significant difference in the cost of gas commodity and midstream charges passed on to customers without markup, i.e between residential and commercial accounts etc., and what is the difference in the physical properties of the gas, if any.

**Response:**

There is not a marked and significant difference in the cost of gas commodity and midstream charges between residential and commercial accounts. For the combined midstream and cost of gas charges per GJ, there is a slight difference of approximately \$0.04 per GJ between each rate class. This slight difference is due to the application of the rate design methodology that has been approved by the Commission. Please refer to the table below that compares the combination of midstream and cost of gas charges



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

per GJ for Lower Mainland Rate Schedule 1 Residential, Rate Schedule 2 Small Commercial, and Rate Schedule 3 Large Commercial customers.

Rate Class (Lower Mainland)	Midstream Charge per GJ	Cost of Gas Charge per GJ	Total Commodity Charge per GJ
1	\$0.475	\$7.662	\$8.137
2	\$0.504	\$7.673	\$8.177
3	\$0.552	\$7.627	\$8.179

1.3 Please provide the net savings per gigajoule of "hedging" activities for the calendar years ending December 31, 2003, 2004, and 2005.

**Response:**

Terasen Gas recorded hedging gains of \$7.5 million or \$0.06 per GJ in 2003, \$10.5 million or \$0.09 per GJ in 2004, and \$64.75 million or \$0.56 per GJ in 2005. Hedging gains refer to "in the money positions" and are used to reduce the commodity gas cost for bundled sales customers. The savings per gigajoule was derived based on core sales volume of approximately 320 TJs per day.

1.4 Please provide a cost per unit (gj) breakdown of pipeline transportation charges provided by Westcoast Energy Inc. from the outlet at Station 2 to the delivery point at Huntington for the period January 1, 2006 - March 31, 2006.

**Response:**

Using the toll schedule effective January 1, 2006 from Westcoast Energy Inc.(WEI) the cost per unit (GJ) of pipeline transportation charges on the WEI system from Station 2 to Huntington is CDN \$0.416 /GJ in the period between January 1, 2006 to March 31, 2006. This figure was determined using a heat rate conversion factor of 38.25/GJ to convert the gas volumetrically to a unit of energy (GJ).

The Calculations are:

$$\$484.40/10^3M^3/Month \text{ based on the 1 year rate (from Westcoast Energy Inc.)}$$

$$(484.40 \times 12 \text{ months}) / 365 \text{ days} = \$15.9255/10^3M^3/Day$$

To convert to GJ's:

$$15.9255/10^3M^3/Day / 38.25 = \text{CDN } \$0.416 /GJ$$



Terasen Gas Inc. ("Terasen Gas") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 2, 2006
Response to Jean Binette Information Request No. 1	Page 3

## 2. Reference 1.3 PROJECT JUSTIFICATION

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

- 2.1 If Terasen gas is "committed to providing effective customer choice that provides value for its customers", and "believes that it has developed a cost-effective and workable solution" please explain the paradoxical statement , "Terasen Gas is not promoting the "residential unbundling program".

### **Response:**

A summary of some key events during the last four years will provide context to Terasen Gas' statement that it is not promoting the residential unbundling program as an initiative of the Company, but instead reacting to calls from stakeholders initiating a process that may lead there.

Since the release of the BC Energy Policy in November 2002, at the direction of the Commission, Terasen Gas has been working collaboratively with stakeholders to facilitate the development of a cost-effective and workable solution to provide unbundling to small volume consumers in British Columbia.

In Letter No. L-49-02 dated December 13, 2002, Terasen Gas was requested by the Commission to assess the issues with providing an unbundling service for a November 1, 2004 start date. Subsequently, an unbundling service targeted for commercial customers was successfully launched on November 1, 2004 as phase one. Residential Unbundling, or phase two, was delayed pending the successful implementation of the Commercial program. Much of the framework that was developed for the Commercial Unbundling program, such as the Essential Services Model, continues to serve as the basis for the proposed Residential Unbundling program set out in the Application.

Terasen Gas believes the Essential Services Model reduces risk related to the management of midstream resources required to serve low-volume customers and believes that the model enables long term supply contracts to be offered in the marketplace. In the Essential Services Model, Terasen Gas performs an essential service by utilizing its distribution system assets and the midstream resources to move commodity from market hubs to customers' premises. Terasen Gas is responsible for contracting of all midstream resources needed to move gas from market hubs to the distribution system and to provide balancing and peaking requirements. This remains unchanged from the environment prior to the introduction of Unbundling. Under the



Terasen Gas Inc. ("Terasen Gas") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 2, 2006
Response to Jean Binette Information Request No. 1	Page 4

Essential Services Model, marketers will be required to deliver commodity to Terasen Gas at the market hubs in proportions similar to the overall portfolio requirement of Terasen Gas.

The Essential Services Model is a "made in B.C." solution, providing consumers the ability to exercise choice while still reflecting the delivery capacity constraints inherent in the regional marketplace. As well, some stakeholders believe, that the Essential Services Model is likely to attract more and smaller marketers into the region, and may facilitate marketers serving smaller communities, thereby promoting more effective competition.

On March 16, 2005, Terasen Gas submitted its report entitled "Commodity Unbundling Post Implementation Review and Next Steps" that presented a review of the program to date and suggestions for improvement and refinements to enhance its effectiveness.

On April 8, 2005, the Commission held a workshop at which Terasen Gas presented the report and stakeholders were invited to provide their comments. Gas Marketers requested that the Residential Unbundling program be introduced as soon as it is feasible to do.

On June 6, 2005, Terasen Gas submitted an application requesting approval for \$300,000 in deferral account funding to complete the Business Model, Rules Validation and market research work to support the development of a Residential Unbundling program. In Commission Order No. G-66-05, the Commission directed Terasen Gas to submit an application by September 16, 2005 seeking approval of deferral account funding to complete the scoping and business systems analysis phases so that a CPCN Application for the Residential Unbundling program can be filed with the Commission by March 2006.

On April 13, 2006, Terasen Gas filed its CPCN Application for Residential Unbundling, representing Phase two of the Commodity Unbundling initiative initially launched in 2004 with Phase one - Commercial Unbundling. The business model proposed for Residential Unbundling remains mostly the same as that in place currently, using the Essential Services model as its foundation but introducing some enhancements to apply it to the larger, residential marketplace.

Terasen Gas' role to date has been to facilitate the discovery of a solution for Residential Unbundling that meets the interests of stakeholders, is supportive of the BC Energy Policy, and provides value to customers.

2.2 If Terasen Gas does not promote the program as being good value for its customers, then why make this application in the first place.

**Response:**

As indicated in the response to question 2.1, Terasen Gas has been directed by the



Terasen Gas Inc. ("Terasen Gas") Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2005	Submission Date: June 2, 2006
Response to Jean Binette Information Request No. 1	Page 5

Commission to file the Residential Unbundling application. The business model proposed for Residential Unbundling remains mostly the same as that in place currently, using the Essential Services model as its foundation but introducing some enhancements to apply it to the larger, residential marketplace. The Essential Services Model is a "made in B.C." solution, providing consumers the ability to exercise choice while still reflecting the delivery capacity constraints inherent in the regional marketplace.

2.3 Given that Terasen is the largest "user" of natural gas within the Province of British Columbia, please explain how gas marketer's could possibly compete with Terasen's vastly superior purchasing and hedging power.

**Response:**

Terasen Gas secures natural gas in a competitive wholesale market place and pays market based prices for commodity, storage, and transportation. Terasen Gas does not have any competitive advantage over what Gas Marketers might offer customers in their rate offerings. The product that Gas Marketers are considering offering is different from the Terasen Gas default offering. The Gas Marketers' offering is generally a fixed price for a period of time, unlike the default Utility offering that could change every three months subject to Commission approval.