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VIA E-MAIL

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May 11, 2006

TGI Commodity Residential Unbundling CPCN – Exhibit A-4

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

Dear Mr. Thomson:

Re: Terasen Gas Inc. (“Terasen Gas”)
Certificate of Public Convenience and Necessity
Residential Unbundling Project
Commission Information Request No. 1

The attached Commission Information Request No. 1 has been developed in accordance with the Regulatory Timetable. A response is requested by Friday, June 2, 2006.

Yours truly,

Robert J. Pellatt

RB/rt
Attachment
cc: Registered Intervenors

BRITISH COLUMBIA UTILITIES COMMISSION
Commission Information Request No. 1

**Terasen Gas Inc. (“Terasen Gas”)
Commodity Unbundling Project for Residential Customers
CPCN Application dated April 13, 2005**

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?
- 1.2 To what extent will development work done according to the program outlined in the CPCN Application become out of date when the IT improvement projects are completed?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.
- 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.

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.”
- 2.2 What is the latest date for Commission approval, to permit a September start?
- 2.3 Please outline the basis on which Terasen Gas quantified the potential cost increase.
- 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?

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.
- 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?
- 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.

- 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.

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.

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.
- 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?
- 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.
- 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.
- 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.
- 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.

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.

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

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

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.

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?

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?

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.

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?

10.4 Terasen Gas Finance Process Changes - \$500,000

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

10.5 Terasen Gas Build Contingency - \$555,000

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

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.
- 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?
- 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.

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.
- 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?

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?

14.0 Reference: Bill Messaging Service, p. 55

- 14.1 What is done in other jurisdictions that have a residential unbundling program?
- 14.2 Does personal privacy legislation prevent Terasen Gas from including marketers' direct sales material as a bill insert?
- 14.3 If the marketer is allowed to provide a bill insert, what would be the cost?

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?

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?

15.2 What methods were examined to lower the fee?

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?

17.0 Reference: Campaign Costs, p. 67

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

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.

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

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

- 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.

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?
- 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?
- 19.3 Please provide a copy of the standard dispute form that the call centre will use to record the formal complaint.
- 19.4 Please describe how complaints that a customer brings to the arbiter or the Commission will be brought to the formal complaint level.
- 19.5 Can a Gas Marketer initiate a formal complaint?
- 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.
- 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?
- 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.
- 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.

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

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?

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.
- 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?
- 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?
- 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.
- 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.
- 21.6 If the stranded CCRA costs and benefits are not expected to average zero over time, please explain.
- 21.7 Based on current information, what Customer Choice Fee and ESM Fee would Terasen Gas propose for November 2007?
- 21.8 Please clarify whether Terasen Gas proposes to continue with the 12 month fixed price rule. If the rule is to continue, and enrollment that would be in violation of the rule are not permitted, why is the ESM Fee needed?

- 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.
- 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?
- 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.
- 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?