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April 23, 2004

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”) Application for Rate Schedules 7,
10, 14 & 14A (“the Application”) – for November 1, 2004 through
October 2005 (“2004/05 Gas Year”)
Terasen Gas Response to Information Requests**

Terasen Gas submitted its Application to the British Columbia Utilities Commission (“the Commission”) on March 17, 2004 and reviewed its Application at a Commission Workshop on April 2, 2004, in accordance with Commission Letter No. L-20-04 dated March 24, 2004. Following the Workshop parties submitted comments to the Commission respecting the appropriate process for review of the Application and the Commission determined that a written regulatory process should be established to deal with the Application, which was specified in Order No. G-37-04, dated April 15, 2004. Terasen Gas respectfully reiterates its concern that the length of the proceeding may pose difficulties for customers when making their supply sourcing decisions for the 2004/05 Gas Year.

Terasen Gas received Information Requests from Commission Staff, CEG Energy Options Inc. and Avista Energy Canada Ltd., in accordance with Order No. G-37-04. This submission includes Terasen Gas’ responses to these Information Requests, in the timeframe set out in the aforementioned Order.

Commission Order G-37-04 directed Terasen Gas to provide all Intervenors with copies of all documentation. At this time Terasen Gas is aware of only one Registered Intervenor, Direct Energy Marketing Limited, but anticipates there will be more forthcoming. In light of this uncertainty, Terasen Gas will distribute this submission to all parties who were present at the April 2, 2004 workshop. If the Commission desires a broader distribution please advise.

We trust the Commission will find the attached satisfactory. However, should further clarification be required, please contact Tom Loski at (604) 592-7464.

Sincerely,

TERASEN GAS INC.

Original signed by Tom Loski

For: Scott A. Thomson

Attachments

TERASEN GAS INC.

**RATE SCHEDULES 7, 10, 14 AND 14A FOR 2004/05 GAS YEAR
RESPONSE TO BCUC STAFF INFORMATION REQUEST NO. 1**

1.0 Reference: Terasen Gas Application dated March 17, 2004, Appendix 1, RS 7

- 1.1 *Terasen Gas proposes to discontinue the Daily Index Rate option under RS 7 effective November 1, 2004. Please confirm that the customer who now takes service under this option has been informed of the proposal, and provide any response that the customer has provided on the proposal.*

Response

The customer affected by the removal of the Daily Index Rate option under Rate Schedule 7 has been informed and did not provide any comments on the proposal. Information on alternative rate options has been provided to the customer in preparation for an August 31st, 2004 deadline to move to an alternative rate effective November 1, 2004.

- 1.2 *Terasen Gas states it believes the RS 7 Daily Index Rate option is not consistent with the implementation of the Essential Services Model. Please explain fully why Terasen Gas holds this view.*

Response

Under the Essential Services Model, supply is either purchased by Terasen Gas or delivered to Terasen Gas by marketers at three supply hubs, Station # 2, AECO and Sumas, on a 100% annualized load factor basis. The expected delivery allocations, subject to Commission approval, are approximately 70% at Station # 2 and 15% at both AECO and Sumas. Terasen Gas then utilizes the Midstream resources, pipeline capacity plus upstream and market area storage and peaking resources, to meet daily demand.

Under the Rate Schedule 7 Daily Index Rate Option, which is based on the Sumas Index, 100% of the gas Terasen Gas would require to supply this offering would be purchased at the Sumas market hub. Purchasing 100% of the commodity at Sumas for this rate option would be a departure from the delivery allocation requirements as described under the Essential Services Model. To accommodate this departure, Terasen Gas would need to calculate a different Midstream charge for this rate option to take into consideration the unique delivery requirements, thereby compromising the consistency of the application of the Essential Services Model across all bundled sales customers.

Terasen Gas felt it more appropriate to discontinue this rate offering rather than attempting to make some compromise to the Essential Services Model, in this case calculating a reduced Midstream rate. Furthermore Terasen Gas believes that attempting to make a compromise to the Essential Services Model, when there is currently only one customer receiving service under this rate option would not be reasonable or appropriate.

- 1.3 *At one time, RS 7 provided service that was interruptible with respect to both the delivery of the gas and the supply of the gas commodity. In the circumstance of RS 7 being a fully interruptible service, please explain why the Daily Index Rate option would be inconsistent with the Essential Services Model, which applies for firm gas customers. That is, why should not the current terms of the Daily Index Rate option continue for fully interruptible RS 7 service?*

Response

Terasen Gas does not believe that the nature of the supply, either firm or interruptible, changes the appropriateness of the offering or its position. Under either quality of service, the Daily Index option is not appropriate. Furthermore, Terasen Gas believes it is appropriate that all bundled sales customers are required to pay the Midstream charge. However, notwithstanding this, Terasen Gas believes that interruptible supply under Rate Schedule 7 is not a service that customers value.

- 1.4 *Under the RS 7 Fixed Rate option Terasen Gas proposes to charge the RS 5 Commodity Cost Recovery Charge and the RS 5 Midstream Cost Recovery Charge ("MCRC") (currently \$5.879/GJ and \$0.872/GJ respectively for the Lower Mainland). If the Daily Index Rate option were to continue under RS 7 for firm commodity supply, please discuss whether it would be necessary and appropriate to charge the RS 5 MCRC.*

Response

If the Daily Index Rate option were to continue under Rate Schedule 7 for firm commodity supply, it would be necessary and appropriate to charge customers for a portion of the Midstream resources. As discussed in the response to Question # 1.2, it would be appropriate to calculate a reduced Midstream rate to take into consideration the unique delivery requirements, i.e. 100% Sumas delivery, therefore the Rate Schedule 5 MCRC would not be the appropriate charge.

- 1.5 *If the RS 7 Daily Index Rate option continues for firm commodity service and the RS 5 MCRC were charged, what would be the appropriate Commodity Cost Recovery Charge? Would it be the Commodity Charge per Gigajoule Index Pricing Option as currently defined, the current Commodity Charge less the MCRC or some other amount? Please justify your response.*

Response

See response to Question # 1.4.

- 1.6 *There are obvious parallels between firm commodity supply under bundled RS 3, 5 and 7, and firm commodity sales under RS 14 and 14A. Please confirm that the Commodity Charge per Gigajoule Index Pricing Option under RS 7 and the Daily Index Rate under RS 14 and 14A are identical (except that Westcoast Energy Inc. charges are collected separately under RS 14 and 14A, which in turn may have tax implications for the customer), or explain any differences.*

Response

The commodity cost under the Rate Schedule 7 Index Pricing option and Rate Schedule 14/14A Daily Index Rate option are identical (Gas Daily NW Sumas mid-point) with the exception of the tax implications associated with collecting the Westcoast Energy Inc. charges separately.

- 1.7 *Please explain why Terasen Gas believes that the Index Option (specifically the Daily Index Rate) continues to be appropriate under RS 14 and 14A but not under RS 7. Why is the Index Option under RS 14 and 14A not inconsistent with the Essential Services Model?*

Response

As described under response to Question # 1.2, the Essential Services Model is fundamentally different from the Transportation Service model and the two models are mutually exclusive. Rate Schedules 14 & 14A can only be used as a supply source for transportation customers and is not a supply source that can be used by marketers to supply customers under the commercial commodity unbundling program. Commodity supply requirements for Rate Schedules 14 & 14A are incremental purchases made by Terasen Gas and are not part of the baseload requirements. The rate options under these rate schedules are not directly comparable to the rate options under the bundled sales rate schedules.

- 1.8 *If a material difference between the terms for RS 3, 5 and 7 bundled firm sales, and RS 14 and 14A firm commodity supply relates to the impact of the balancing provisions that RS 14 and 14A customers access through their transportation service arrangements, this may indicate that transportation customers do not fully compensate other Terasen Gas customers for the gas supply assets that are used to provide balancing (i.e., what are now Midstream resources). Please discuss whether the compensation currently paid by transportation customers for the use of Midstream gas supply resources for balancing is adequate.*

Response

Currently, transportation customers served under Rate Schedules 22, 23, 25 and 27 do not pay any charge for use of the Midstream resources. However, the transportation service model is fundamentally different from the Essential Services Model for commodity unbundling. Under the transportation service model, as set out in the approved rate schedules in the Terasen Gas tariff, transportation customers are required to deliver gas to Terasen Gas at the utility interconnect point with the upstream pipeline. This requires the customer, or the customers' agent, to contract for the requisite combination of pipeline and storage resources, as they deem appropriate. In addition, transportation customers are required to nominate daily a quantity that will approximate the daily consumption, and have 3 further nomination cycles each day to more closely match supply and demand, thereby reducing the use of Midstream balancing resources. As a result, it would not be appropriate to charge transportation customers the full Midstream Cost Recovery Charges as paid by bundled sales customers.

As part of the Commodity Unbundling and Customer Choice Program development, a key objective was to ensure there was no impact to the terms of service provided to transportation customers. Transportation customers have seen no changes to their rates as a result of the implementation of the Commodity Unbundling Program. Terasen Gas has not performed comprehensive analysis to determine what Midstream resources are used by transportation customers.

2.0 Reference: Application dated March 17, 2004, Appendix 2, RS 10

- 2.1 *For the 2003/04 gas contract year to date (or to some convenient date like the end of February 2004), please provide the number of customer groups and the cumulative consumption under each of the two RS 10 rate options.*

Response

Year to date (November 1, 2003 through April 13, 2004), 2 customer groups have consumed 115,394 Gjs under the Monthly Index option of Rate Schedule 10. For the same period 8 customer groups have consumed 197,958 Gjs under the Daily Index option of Rate Schedule 10.

- 2.2 *Please explain why Terasen Gas believes that the 3 percent winter discount under the Monthly Index option is necessary for 2004/05. Has Terasen Gas experienced difficulties disposing of surplus core gas supply under RS 10?*

Response

Terasen Gas believes that a 3 percent discount is warranted based on the fact that the Monthly Index option is an interruptible service offering. Terasen Gas has the ability to curtail this offering during periods of high demand. The customer in turn would need to replace this gas from the open market during periods of strong demand, which could lead to a higher pricing environment. The customer also must take the nominated volume whenever it is available.

Terasen Gas has not experienced difficulties in disposing of surplus core gas supply, but the volume consumed under the Monthly Index option has been limited. This may be an indication by the marketplace that the discount (3%) is too low given the interruptible nature of the service offering.

- 2.3 *Would it be appropriate to test the market by reducing the winter discount to 1 or 2 percent for 2004/05? Please discuss.*

Response

Terasen Gas does not believe there would be any value in testing the market by changing the winter discount, since very little volume has been taken up under the current pricing of this option. By reducing the discount from 3% to 1% the actual price to a potential customer would be greater, thereby further reducing the likelihood that the service would be used.

- 2.4 *Sections 1.2 and 1.3 of RS 10 currently provide that customers must elect either the Daily or Monthly Index option five business days before the beginning of a month. If the Monthly Index option is selected, the customer must nominate a Contract Demand, and must take the full Contract Demand Quantity on any day of the month that interruptible gas supply is available. This provision prevents a customer from selectively alternating between whichever of the two options has the lower price at the time. Please confirm that, notwithstanding the replacement of the Customer Term Sheet by WINS, the requirements of Sections 1.2 and 1.3 will continue for 2004/05.*

Response

Terasen Gas confirms that the requirements of Section 1.2 and 1.3 will continue for 2004/05.

3.0 Reference: Application dated March 17, 2004, Appendix 3, RS 14 and 14A

- 3.1 *Please expand the table on page 4 of the Application to separately show the number of customers and the consumption of RS 14 customers that are served by third party marketers who use RS 14 exclusively and those that are served by marketers who use RS 14 as part of their supply portfolio. Please confirm that*

third party marketers do not use RS 14A, or provide details for the foregoing categories of RS 14A customers as well. In the table, please also show the number of customers in each of the foregoing categories that use the Annual Fixed Rate Option and their consumption.

Response

The following table details Rate Schedule 14 participation and annual volumes sorted by rate option for the 2002/03 and 2003/04 Gas Contract Years.

Rate Schedule 14	2002/03 Contract Year		2003/04 Contract Year	
	Transport Customers	Annual Volume (GJs)	Transport Customers	Annual Volume (GJs)*
<u>Exclusive Supply</u>				
Annual Fixed Rate	77	1,243,867	109	1,378,970
Term & Index Rate	0	0	41	428,328
Total Exclusive	77	1,243,867	150	1,807,298
<u>Non-Exclusive Supply</u>				
Term & Index Rate	1	45,154	50	1,606,182
Total Non-Exclusive	1	45,154	50	1,606,182
Total	78	1,289,021	200	3,413,480

* 2003/04 Volumes are estimated

Third party marketers are not permitted to, and do not utilize Rate Schedule 14A. The same three rate options (i.e. Annual Fixed, Term and Index) are available through Rate Schedule 14 & 14A and therefore details on each rate option would be similar with the exception of non-exclusive inventory management which is only applicable to Rate Schedule 14 customers. Communications regarding contracts, purchasing and billing as well as nominations and balancing is handled exclusively by Terasen Gas for Rate Schedule 14A customers.

- 3.2 *In the Commission Workshop on Friday, April 2, 2004 Terasen Gas indicated that through Rate Schedule 14 it was providing a service to all customers by providing a vehicle to allow new marketers to develop in the marketplace. However these third party marketers may be considered to be in reality being trained as sales agents for its product or energy consultants and are paid through a margin over RS 14 charges. Why should a regulated utility perform this "market support" function?*

Response

As was discussed at the Commission Workshop, the structure of the Rate Schedule 14 services provides Terasen Gas with no meaningful profit motivation with respect to maintaining or expanding the customer base using the service.

Terasen Gas has also made clear that it does not consider commodity sales to industrial customers as integral to its business model and value proposition. However, Terasen Gas' success does, in part, rely on a healthy and growing industrial sector that recognizes the value of natural gas as an energy source.

It was within this context that Terasen Gas noted the "unintended benefit" Rate Schedule 14 was having in reducing some of the barriers to entry and allowing for the development of new marketers who based their competitive business proposition on the ability to add value for industrial customers in areas not specifically related to commodity pricing. The provision of Rate Schedule 14 was not motivated in any way by this unintended benefit, nor does Terasen Gas assume it has any responsibility to allow new marketers to develop in the marketplace.

Terasen Gas does not agree with the assertion that third party marketers may be considered in reality being trained as sales agents for its product. Terasen Gas does not pay or otherwise incent any marketer or company to utilize Rate Schedule 14, as Terasen Gas has no incentive itself for such action. While individual players in the market may see benefit or harm from the relative success of competitors, Terasen Gas' success will be determined by the overall health of the markets it serves. Customers have consistently communicated the importance of choice in the perception of value with natural gas, and Terasen Gas notes that choice appears to be enhanced through the existence of Rate Schedule 14. Over time, a sustainable business model for all marketers may require a decreasing reliance on Rate Schedule 14 services. In the interim, no market player other than Terasen Gas is likely to take actions or engage in activities targeted at supporting the market overall.

- 3.3 *Please explain why some marketers find it advantageous to use RS 14 as a gas supply service.*

Response

It's difficult for Terasen to comment on the value proposition presented by marketers, without having conducted any formal survey of the value perceived by customers. Our understanding, however, is that these marketers have been able to justify a margin above the gas commodity based on additional energy administration, audits and overall energy management.

- 3.4 *Please confirm that marketers are permitted to mark up the price of the RS 14 gas that they resell to customers, and explain why this is consistent with normal regulatory practice with respect to the services that a public utility offers to customers in its service area.*

Response

Marketers who enter into a Rate Schedule 14 Sales Agreement are billed directly for all floating and pre-purchased fixed price gas. This gas becomes part of their supply portfolio and therefore they have the ability, if they choose to do so, to

mark-up the cost of this gas when billing their own customers. Both Rate Schedule 14 (Section 3.1b) and Rate Schedule 10 (Section 2.1) include provisions allowing the re-sale of gas to end-use customers.

End-use customers who enter into a Rate Schedule 14 Sales Agreement on the advice of their Shipper Agent are billed directly for all gas commodity sold under this rate schedule. Therefore, their Shipper Agent does not have the ability to directly mark-up the cost of this gas.

- 3.5 *Please outline any restrictions that the Terasen Gas tariff places on the resale of gas delivered under RS 3 and 5 or other rate schedules.*

Response

The General Terms and Conditions Section 3.2 of the Terasen Gas Tariff stipulate that gas sold under its Rate Schedules, with the exception of Rate Schedule 6, Natural Gas Service and Rate Schedules 10 and 14, cannot be resold. In addition Section 2.1 of the Rate Schedule 5 tariff stipulates that gas delivered to the Customer cannot be resold.

“This Rate Schedule applies to the sale of firm Gas, no portion of which may be resold, through one meter station to a Customer.”

- 3.6 *From the customers’ perspective, why is it advantageous to deal with a marketer who uses RS 14 as a supply source, rather than buying RS 14 or 14A gas directly from Terasen Gas?*

Response

As indicated in the response to Question # 3.3 above, Terasen Gas has not conducted any formal survey of the value of Rate Schedule 14 as perceived by the customers and therefore is probably not qualified to speculate on the customers’ perspective on the benefits of dealing with a marketer who uses Rate Schedule 14 as a supply source. However, it is Terasen Gas’ belief that generally speaking, such customers appear to be motivated by value-added services that are not directly related to commodity pricing itself. In addition to the rationale outlined in the response to Question # 3.3 above, in Terasen Gas’ view, there are three key benefits of purchasing through Rate Schedule 14 for the customer:

- 1) transport customers can maintain relationships with their current Shipper Agent and seek their advice on price targets/timing;
- 2) commodity costs are transparent; and
- 3) under most circumstances customers can “lock-in” fixed price contracts at their discretion.

- 3.7 *Is the impact on other Terasen Gas customers any different whether a customer buys RS 14 and 14A gas directly from Terasen Gas or through a marketer? If there is a difference, please explain.*

Response

Whether a customer buys Rate Schedule 14 gas through a marketer or Rate Schedule 14A gas directly from Terasen Gas the impact to other Terasen Gas customers is the same. Any proceeds from the swing premium or market factor premium are applied against the core market costs, whether those proceeds come from Rate Schedule 14 or Rate Schedule 14A.

- 3.8 *In its March 16, 2004 letter, CEG Energy Options Inc. proposed that RS 14 should only be eligible for purchase by end users in 2004/05. What changes to RS 14 would be required for this change? What would be the costs and benefits from the perspective of end use customers?*

Response

In order to restrict Rate Schedule 14/14A for use by transportation customers only, Terasen Gas would have to eliminate the Rate Schedule 14 tariff. As well, non-exclusive inventory management would need to be included in the Rate Schedule 14A tariff to allow transportation customers who do not require the services of a Shipper Agent to participate.

As a summary to the responses to Questions #3.3 and # 3.6 above, there are four key benefits of purchasing through Rate Schedule 14:

- 1) assurance of a focus on energy management activities relating to overall energy savings;
- 2) transport customers can maintain relationships with their current Shipper Agent and seek their advice on price targets/timing;
- 3) commodity costs are transparent; and
- 4) under most circumstances customers can "lock-in" fixed price contracts at their discretion.

These four benefits can also be seen as the four major costs/losses if this option is removed for those customers who value them. In addition, if clients currently served under Rate Schedule 14 desire to stay with the utility, based on the last two benefits mentioned above, and purchase through Rate Schedule 14A, a significant increase in administration is to be expected.

Terasen Gas does not see how transport customers would receive any benefits if the option is removed. Any benefit would be to those marketers whose business model allows them to continue and who are able to capture any of the displaced transport customers whose options become more limited.

4.0 Reference: Application dated March 17, 2004, Appendix 3, RS 14 and 14A

- 4.1 *The Application at page 3 states that two additional marketers expressed interest in RS 14. One met the credit requirements and the other did not. What are Terasen Gas' credit requirements for Rate Schedule 14?*

Response

Terasen Gas adheres to an internal credit policy when reviewing applications for Rate Schedule 14/14A. Key factors in assessing customer creditworthiness and credit risk are as follows:

- Rate option selected (floating versus fixed with mark-to-market exposure);
- Industry in which the customer operates;
- Asset base and debt exposure;
- Bond ratings, including recent rating changes (if applicable);
- Payment history; and
- Volume requested.

- 4.2 *The Application at page 4 states that the Annual Fixed Rate Option was introduced in 2001 to fill a gap in the market. To the knowledge of Terasen Gas, do marketers currently offer equivalent products in B.C.?*

Response

While Terasen Gas is not privy to the options third party marketers provide their customers, Terasen Gas has not heard of any of the marketers currently providing an option equivalent to the Annual Fixed Rate option. However, as a result of the Information Requests Terasen Gas received from CEG Energy, Terasen Gas understands that CEG Energy offers the same products in Saskatchewan and by inference will be offering the same products in B.C. For further discussion please refer to CEG Energy Information Request, Question #1.

- 4.3 *The Application at page 5 states that all physical volumes for Annual Fixed Rate Option sales are purchased at Sumas. What was the gas price difference between Sumas and the weighted average under the Essential Services Model for Sumas, Station 2 and AECO for 2002/03 and, using current forward prices, for 2004/05?*

Response

The Sumas price for 2002/2003 was \$6.29 Cdn/GJ. The forward price for Sumas for 2004/2005 is \$6.49 Cdn/GJ as of April 15/2004. Based on the Essential Services Model and using splits of 15% (Sumas), 15% (Aeco-Nit), and 70% (Station #2) for year 2002/2003 the price was \$6.24 Cdn/GJ and for 2004/2005 the price is forecasted to be \$6.33 Cdn/GJ. It should be pointed out that the Essential Service prices for Aeco and Station #2 do not take into account any fuel or transportation charges to deliver gas to Sumas.

- 4.4 *Please explain why only customers belonging to a Monthly Balancing Group can participate in the Annual Fixed Rate Option.*

Response

Terasen Gas has specified that only customers belonging to Monthly Balanced Groups may participate in the Annual Fixed Rate because Daily Balanced customers are required to nominate within 20 percent of their expected consumption. If a Daily Balanced customer consumes in excess of 20 percent of their Authorized quantity they would be subject to balancing charges. This would not be consistent with the Annual Fixed Rate option because balancing charges do not apply to customers participating in this option, and would therefore lead to incompatible rules within the same group.

- 4.5 *The Application at page 7 states that Terasen Gas does not contract additional fixed assets to provide for Annual Fixed Rate Option daily demand swings, but incurs a variable charge based on the Sumas Daily Index to provide supplies of balancing gas. Please explain the resources that are used to physically balance daily demand swings. For clarity, please identify the amount of RS 14 and 14A balancing gas purchased in January 2004, the portion that was obtained from core supply resources and the portion that was obtained via specific purchases.*

Response

As indicated in the response to Question # 4.9 below, balancing gas usage for January 2004 relating to the Annual Fixed Rate groups was 13,189 gigajoules (fixed purchase volume – burn = pack/(draft); $208,847 - 222,036 = (13,189)$).

The Midstream resources utilized to provide the required balancing gas for the Annual Fixed Rate customers include: spot gas purchases, transportation, storage, peaking assets and LNG. Total spot purchases for the month of January 2004 were 767,959 gigajoules.

It is difficult to decipher which resource was utilized on each day to service the Rate Schedule 14/14A Annual Fixed Groups, as spot gas purchases were not made specifically for this customer group. Supply requests for industrial and core customers are pooled and managed on an aggregate basis day-to-day. It should also be noted, that while on some days Rate Schedule 14/14A customers took balancing gas, on other days they effectively provided excess gas to be utilized by other customers on the system.

Although Rate Schedule 14/14A customers make use of core resources, they pay an annual premium for these services unlike other transportation customers who receive similar services when purchasing through a Marketer. Terasen Gas would not make changes to its Annual Contracting Plan in the absence of Rate Schedule 14/14A.

- 4.6 *The Application at page 7 sets out the formula used to calculate the proposed Swing Premium of \$0.93/GJ for 2004/05. Please provide the definition for each term in the formula, and explain how the specified quantity was determined.*

Response

Forecasted Winter Sumas Daily Index:

This is the Sumas forward strip price taken on March 11, 2004. The Sumas forward price is calculated by taking the Henry Hub November 1, 2004 to March 31, 2005 price, converting from MMBtu to GJ, subtracting the Sumas basis from that price and applying the appropriate forward exchange rate.

Sumas Daily Volatility Factor:

The Sumas Daily Volatility Factor is used to measure the daily winter volatility experienced at Sumas. It is calculated as follows:

The Periodic Rate of Return was calculated by using the lognormal expression of continuously compounded returns formula: $\ln (PT/Pt)$ Where: PT is current Gas Settlement, Pt is preceding Gas Settlement.

Sumas Daily Settlements were included from November 2000 to March 2004 period. Weekends and holidays were removed from the observations to ensure the data would not be skewed with the same pricing on more than one day. The standard deviation was then calculated on the periodic rate of return for each winter term.

Finally, the daily volatility in winter was determined using the formula: Std Dev^* the square root of 252 (number of observations in one year). This provided a volatility number for each winter Term.

The volatility numbers for the past five years are outlined in the table below:

Contract Year	Winter	Summer	Annual
1999/2000	0.46	0.61	0.56
2000/2001	2.3	.08	1.68
2001/2002	1.48	1.22	1.33
2002/2003	1.18	0.57	0.87
2003/2004	0.86	N/A	N/A

To be conservative, the highest winter volatility experienced (2.3) was used in our swing premium calculation.

Balancing Gas:

Balancing Gas is any gas taken during a month which is in excess of the Authorized Quantity. Terasen Gas used January 2004 as its base case since this month has proven to be the highest winter peaking supply period since the Annual Fixed Rate option's inception.

Total Annual Fixed Rate Volume Sales:

The Total Annual Fixed Rate Volume Sales is the aggregate consumption of all the Annual Fixed Rate customers. Terasen Gas used January 2004 as the base case to remain consistent with the highest month of Balancing Gas taken.

- 4.7 *Is 13,189 GJ the volume of balancing gas “purchased” for the Annual Fixed Rate groups in January 2004 that is discussed in IR 4.4?*

Response

The 13,189 Gjs is the volume of balancing gas purchased for Annual Fixed Rate groups in January 2004 referenced in Question # 4.5.

- 4.8 *The schedule on page 6 of the Application shows “Average Daily Burns” that are different for each month. For the total of the Annual Fixed Price groups, please describe the amount of supply that Terasen Gas price fixed for the winter of 2003/04, clarifying whether the amount fixed also varied by month or was an average for the period. Specifically, how much supply was price fixed for the Annual Fixed Price groups for January 2004?*

Response

Terasen Gas fixed volumes of 6,737 Gjs a day for the winter term and 3,716 Gjs a day for the summer term for Annual Fixed Rate customers. These volumes are calculated by aggregating all Annual Fixed Rate customers' average burns (calculated by taking an average of the customer's annual burns over the past five years). The average daily burns for both the winter and summer periods from the aggregated volumes are used to fix the quantities for the Annual Fixed Rate customers. For the month of January 2004, 6,737 Gjs a day were fixed for Annual Fixed Rate groups.

- 4.9 *For January 2004, please provide a schedule showing the Fixed Price volume for the Annual Fixed Rate groups, the total nomination for each day for the Annual Fixed Rate groups, the actual daily consumption for the groups and the positive or negative daily balancing volumes. Please reconcile the total with the response to IR 4.4.*

Response

The table below details fixed volume, nomination, burn and daily positive/negative variances on aggregate for the Annual Fixed Rate groups. The supply resources utilized for negative variance on nomination versus consumption are discussed in Question # 4.5.

TERASEN GAS INC.
 RATE SCHEDULES 7, 10, 14 AND 14A FOR 2004/05 GAS YEAR
 RESPONSE TO BCUC STAFF INFORMATION REQUEST NO. 1

Annual Fixed Rate Groups

Date	Fixed Volume	Nomination	Burn	Pack or (Draft)
1-Jan-04	6,737	6,737	7,755	(1,018)
2-Jan-04	6,737	6,737	8,669	(1,932)
3-Jan-04	6,737	6,737	9,955	(3,218)
4-Jan-04	6,737	6,737	8,124	(1,387)
5-Jan-04	6,737	6,737	7,727	(990)
6-Jan-04	6,737	6,737	9,487	(2,750)
7-Jan-04	6,737	6,737	8,244	(1,507)
8-Jan-04	6,737	6,737	7,241	(504)
9-Jan-04	6,737	6,737	6,578	159
10-Jan-04	6,737	6,737	6,160	577
11-Jan-04	6,737	6,737	6,221	516
12-Jan-04	6,737	6,737	6,434	303
13-Jan-04	6,737	6,737	6,160	577
14-Jan-04	6,737	6,737	5,705	1,032
15-Jan-04	6,737	6,737	6,097	640
16-Jan-04	6,737	6,737	6,403	334
17-Jan-04	6,737	6,737	5,818	919
18-Jan-04	6,737	6,737	5,999	738
19-Jan-04	6,737	6,737	6,679	58
20-Jan-04	6,737	6,737	6,896	(159)
21-Jan-04	6,737	6,737	6,886	(149)
22-Jan-04	6,737	6,737	6,852	(115)
23-Jan-04	6,737	6,737	6,777	(40)
24-Jan-04	6,737	6,737	7,191	(454)
25-Jan-04	6,737	6,737	7,424	(687)
26-Jan-04	6,737	6,737	7,828	(1,091)
27-Jan-04	6,737	6,737	8,412	(1,675)
28-Jan-04	6,737	6,737	7,230	(493)
29-Jan-04	6,737	6,737	7,019	(282)
30-Jan-04	6,737	6,737	7,105	(368)
31-Jan-04	6,737	6,737	6,959	(222)
Totals	208,847	208,847	222,036	(13,189)

4.10 *The current Lower Mainland Midstream charges are \$0.872/GJ for RS 5 and 7, and \$1.031/GJ for RS 3. Similar to bundled sales service under RS 3, 5 and 7, Annual Fixed Rate customers are not liable for high-end charges like Balancing Gas or Unauthorized Overrun Charges. Considering that customer classes like RS 3 and RS 23 (and RS 5 and RS 25) would be expected to have similar balancing requirements, please discuss whether the Midstream Charges of the Essential Services Model could apply as the Swing Premiums under the Annual Fixed Rate Option.*

Response

As discussed in response to Question # 1.8, transportation customers do not use the Midstream resources to the same degree or in the same way as bundled

sales customers. The balancing requirements for transport and bundled sales service are not similar under the Annual Fixed Rate option. Furthermore, Terasen Gas is of the view that the Swing Premium is not comparable to the Midstream charge. The Swing Premium is constructed to compensate the core for the price risk with daily swing volumes under the Annual Fixed Rate option. As a result, it would not be appropriate to charge transportation customers the Midstream Charges of the Essential Services model as the Swing Premiums.

5.0 Reference: Application dated March 12, 2004, Appendix 3, RS 14 and 14A

- 5.1 *Please confirm if, to the knowledge of Terasen Gas, gas marketers offer term firm fixed rate, monthly index rate and daily index rate gas supplies to customers in B.C.*

Response

As stated in Question # 4.2, Terasen Gas is not privy to the options provided to customers by marketers. However, based on general market intelligence, Terasen Gas does believe that gas marketers offer options equivalent to the Term Fixed Rate and Monthly and Daily Index options.

- 5.2 *Please outline the view of Terasen Gas on the benefits that RS 14 and 14A customers obtain when purchasing Term Fixed Rate and Monthly and Daily Index Rate supplies, compared to buying such gas from marketers.*

Response

In Terasen Gas' view, the benefits customers obtain when purchasing Rate Schedules 14 or 14A Term Fixed Rate and/or Monthly and Daily Index Rate supplies compared to buying such supplies from gas marketers include; 1) transparency of billing, 2) comfort and transparency provided by regulatory oversight when purchasing through the utility, 3) a set management fee structure and 4) one monthly bill that includes transport and commodity costs (only applicable if all supplies are purchased through Terasen Gas).

- 5.3 *Can Terasen Gas identify any net benefits that flow to other customers as a result of RS 14 and 14A Term Fixed Rate and Monthly and Daily Index Rate sales?*

Response

Net benefits that flow to core customers as a result of Rate Schedule 14 and Rate Schedule 14A Term Fixed Rate and Monthly and Daily Index Rate sales will be solely attributable to the proceeds from market factor premiums. Under the Rate Schedule 14 and Rate Schedule 14A tariffs, customers must pay the greater of \$0.05 or cost for market factor premiums. Often the premium charged by suppliers to Terasen Gas is less than \$0.05. The core market receives the

benefits associated with the difference between the premium charged by the suppliers and the premium charged to Rate Schedule 14 and 14A customers.

Other transport customers (and probably marketers as well) likely gain some benefit through the mere existence of the options, as they provide transparent and conservative pricing points from which to compare and benchmark alternatives.

- 5.4 *The Application at page 9 states that if a customer consumes in excess of their total nominated quantity, the customer will be subject to charges associated with their transportation agreement including high-end charges such as Balancing Service charge and UOR charges. With the proposed change to inventory management for exclusive groups, please confirm whether both monthly balanced and daily balanced customers will be permitted within the same RS 14 or 14A group.*

Response

The proposed changes to the inventory management will not affect how customers are grouped. As is the case for all marketer groups, monthly and daily balanced customers are permitted within the same groups. High end charges such as UOR can only be allocated to the daily balanced customers with the exception of UOR under a curtailment situation, Rate Schedule 27 customers are also subject to UOR when curtailed.

- 5.5 *With the proposed change to inventory management, please outline the circumstances under which monthly balanced customers would be subject to high-end charges. Please explain why Terasen Gas believes it is not necessary to charge a Swing Premium to such customers.*

Response

With the proposed elimination of the exclusive inventory management option, monthly balanced customers could be charged high-end charges only in times of curtailment. In the case of a supply curtailment, Rate Schedule 23, 25 and 27 customers would be subject to UOR if the group in which they belong burns in excess of their curtailed volumes. In the case of a capacity curtailment, Rate Schedule 27 customers would be subject to UOR charges if the customers burn in excess of their curtailed volumes. Terasen Gas does not feel that a Swing Premium should be charged to monthly balanced customers participating in the Term Fixed Rate and Daily Index Rate options because Terasen Gas has not

guaranteed a fixed price for these customers. They are susceptible to any price fluctuations on all volumes above their locked in quantities.

- 5.6 *With the proposed change to inventory management, please outline the circumstances under which daily balanced customers would be subject to high-end charges. Please explain why Terasen Gas believes it is not necessary to charge a Swing Premium to such customers.*

Response

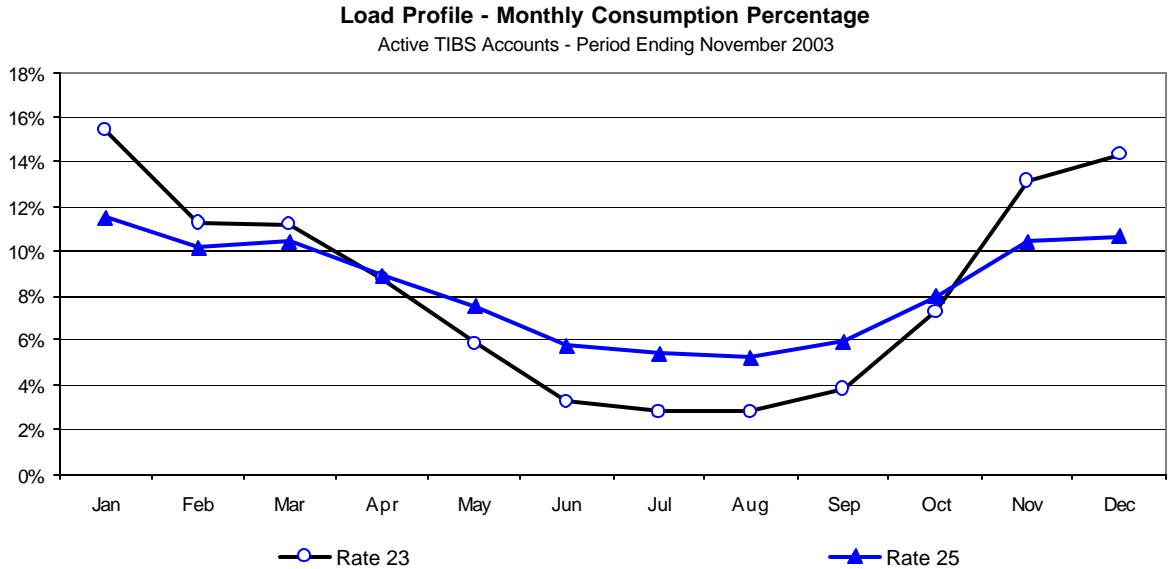
With the proposed elimination of the exclusive inventory management option, daily balanced customers could be charged high-end charges if their daily burn exceeds 20% of their nominated quantity. In such event, the customer will be responsible for any balancing gas charges. In the case of a supply curtailment, Rate Schedule 22 customers would be subject to UOR if the group in which they belong burns in excess of the group's curtailed volumes. In the case of a capacity curtailment, Rate Schedule 22 customers would be subject to UOR charges if the customer burns in excess of the customer's curtailed volumes. Terasen Gas does not feel that a Swing Premium should be charged to daily balanced customers participating in the Term Fixed Rate and Daily Index Rate options because Terasen Gas has not guaranteed a fixed price for these customers. They are susceptible to any price fluctuations on any volumes above their locked in quantities.

- 5.7 *The Term Fixed Rate can apply for up to 85 percent of the customer's expected average daily consumption for the period, and the Term Fixed Rate and the Monthly Index rate in combination can apply for up to 90 percent of the customer's expected average daily consumption. Please provide typical daily load profiles for RS 23 and RS 25 customers over a 12 month period, and explain why the 85 and 90 percent levels prevent the transfer of risk to other customers.*

Response

The 85 percent Term Fixed Rate and 90 percent combination of Term Fixed Rate and Monthly Index Fixed Rate restrictions prevent the transfer of risk to other customers by eliminating the potential of customers taking a speculative position on the fixed price contracts. If Terasen Gas were to allow customers to purchase 100 percent of their expected consumption, customers could potentially pack their inventory accounts in lower consumption months such as November and take Imbalance Return in the higher consumption months, thus exposing the core to price risk.

Typical Rate Schedule 23 and Rate Schedule 25 customer load profiles are outlined below:



- 5.8 *Starting from the proposition that a Midstream Charge or Swing Premium of approximately \$0.90/GJ is necessary and appropriate for RS 3, 5 and 7 customers and Annual Fixed Price option RS 14 and 14A customers, please discuss whether a Swing Premium of about one-quarter to one-half that amount would be appropriate for Term Fixed Rate and Monthly and Daily Index Rate RS 14 and 14A customers.*

Response

As stated in its response to Question # 4.10, Terasen Gas does not view the Swing Premium to be synonymous with the Midstream Charge. Further, Terasen Gas does not feel it is appropriate to charge Term Fixed Rate and Index Rate customers a swing premium of one-quarter to one-half of the Annual Fixed Rate Swing Premium. Customers participating in these options take on price risk on all volumes above their fixed quantities. Rate Schedule 14 and 14A customers are not receiving additional balancing benefits that other transportation customers would otherwise receive. Thus it would be inappropriate to charge these Rate Schedule 14 and 14A customers any level of Swing Premium.

- 5.9 *Considering the growth in RS 14 and 14A sales over the past three years, what would be the advantages and disadvantages of capping total RS 14 and 14A sales at 20,000 GJ/d?*

Response

Terasen can see several advantages in capping total Rate Schedule 14 and 14A sales. First of all, this type of cap would discourage any marketer from relying too heavily on Rate Schedule 14 and 14A sales to expand its business. Secondly, a limit could help to ensure that resources required to serve Rate Schedules 14 and 14A customers do not exceed those currently available. While Terasen Gas' lack

of incentive to expand the customer base for Rate Schedules 14 and 14A puts a natural limit on its size, an official cap or restriction might put to rest concerns that Terasen Gas could use Rate Schedule 14 and 14A to capture market and displace marketers.

On the negative side, limits, if pressed, can lead to exclusivity. This, in turn, can lead some customers to attribute value to rights, and retain use of the service beyond when they otherwise might do. Fear over the loss of the option might overshadow the current economics respecting the use of the option.

- 5.10 *A possible use of RS 14 and 14A would be for the short term supply of gas to a transportation customer that had not been buying gas commodity from Terasen Gas, and whose gas supply failed unexpectedly. Please discuss whether the Daily Index Rate option or some other tariff option could be used to maintain gas deliveries to the customer, and whether any tariff changes are needed for this purpose.*

Response

In the past, Terasen Gas has used the Rate Schedule 14A Daily Index Rate option to serve customers whose gas supply has failed for some reason. In the opinion of Terasen Gas, the tariff does not require any changes to accommodate such a situation. Rate Schedule 14A has proven to provide an efficient mechanism to customers who have been released from their marketer and have been unable to find another supply source. It is important to note, however, that each customer must meet Terasen Gas' credit requirements before gas deliveries can begin under Rate Schedule 14A.

6.0 Reference: Application dated March 17, 2004, Appendix 3, RS 14 and 14A

- 6.1 *Terasen Gas proposes that the RS 14 and 14A Customer Term Sheet be replaced with a Hedging Agreement. Please confirm that the legal obligations with regard to fixed price purchases as set out in the Hedging Agreement reiterate provisions in the Rate Schedules, or identify any new obligations that are included.*

Response

The Rate Schedule 14/14A Sales Agreements specify Terasen Gas and the customer's respective terms, conditions and obligations regarding fixed price transactions. The applicable Hedging Agreement (Annual Fixed or Term Fixed) provides specifics on each term, condition or obligation. For example, section 2.5, a), iii) of the Rate Schedule 14A Sales Agreement states, "Customers electing the Term Fixed Rate are subject to any costs incurred by Terasen Gas in connection with the purchase, swap or re-sale of Gas." The fourth and sixth paragraphs of the Hedging Agreement provide information on actual costs such as physical premiums and swing premiums.

All provisions in the Sales Agreement are reiterated in the applicable Hedging Agreement.

- 6.2 *As the Hedging Agreement appears to authorize Terasen Gas to execute a fixed price swap arrangement on behalf of the customer, please explain the significance of the Fixed Prices in the table on the second page. Will these Fixed Prices be updated after the fixed price swaps are executed?*

Response

The table imported into the sample Hedging Agreement should have contained take-or-pay volumes only. The table provided was taken from a sample Price Confirmation Letter in error. A revised sample Hedging Agreement is attached as Appendix 1 to correct this error.

- 6.3 *The Application at page 13 refers to an Industrial Bad Debt Allowance account that has been created to capture the cost of any bad debt incurred by RS 14 and 14A sales. Please confirm that the account will commence November 1, 2004, that transactions in the account will only relate to RS 14 and 14A and that Terasen Gas is requesting Commission approval of this account.*

Response

Terasen Gas is requesting that the Commission approve the establishment of a Bad Debt Allowance deferral account that will commence November 1, 2004. As proposed, this account has been created to capture the cost of any bad debt incurred relating to Rate Schedules 14 and 14A only and will include an allowance amount collected from customers as part of the Management Fee.

- 6.4 *Please confirm that Terasen Gas will annually provide a schedule showing the transactions into and out of the account, and the account balance at the end of each calendar year.*

Response

Terasen Gas confirms that it will annually provide such a schedule at the end of each calendar year.

- 6.5 *Does Terasen Gas propose that the account be interest bearing, included in rate base or accumulate AFUDC?*

Response

Terasen Gas proposes that the Bad Deb Allowance account be included in rate base. This treatment is consistent with that presently used for Company's overall provision for Bad Debt Allowance account.

6.6 *Please confirm that, as 0.3 percent of \$6.00/GJ, the bad debt charge on RS 14 and 14A revenue that is recorded on the account would be approximately \$0.02/GJ. Would it be more convenient and transparent to include a \$0.02/GJ bad debt allowance as part of the Gas Management Fee?*

Response

For billing purposes, it is more convenient to provide one line item relating to Gas Management Fees. However, Terasen Gas could make note of the inclusion of a bad debt provision as part of the applicable Gas Management Fee in Section 2.6 a) of the Sales Agreement. Setting the bad debt provision at \$0.02/Gj for all customers, regardless as to the rate option elected, may not be appropriate as Terasen Gas is exposed to less bad debt by Index Rate customers, as no term mark-to-market exposure exists.

7.0 Reference: Application dated March 17, 2004, Appendix 3, RS 14 and 14A

7.1 *The Application at page 14 states that the RS 14 and 14A management fees recover all administrative costs associated with the service. For calendar 2003 (or the 2002/03 gas contract year), please provide as much detail as possible on each of the fully allocated administrative costs for RS14 and 14A, covering labour, offices, facilities, overhead and other expenses. If the allocated cost would be different if it were based on the Transfer Pricing Policy for Provision of Utility Resources and Services, please provide that cost allocation as well.*

Response

The following table outlines the management fees recovered from Rate Schedules 14 and 14A customers in 2002/03 and shows how these fees relate to the costs associated with providing these services. The portion of the Key Account Managers' salaries that is allocated to Rate Schedules 14 and 14A is in accordance with the Terasen Gas Transfer Pricing Policy. The policy accounts for: general overhead, a facilities charge, concessions, benefits, equipment and supervision.

Cost Item	Total Cost	Comments
Credit Reviews Financial & Physical Purchases	7020	(78 cust * 3 hrs @ \$30/hr)
Billing	225	(10 hrs @ \$45/hr)
Personnel and overhead	720	(2 hrs * 12 cycles @ \$30/hr)
Miscellaneous Expenses	91,099	Full Cost based on Transfer Pricing Policy
	11,173	Various, including, travel and entertainment
Total Cost	\$110,237	

- 7.2 *A fully allocated cost of service study would normally allocate a portion of return on rate base across all rate schedules including RS 14 and 14A. If the Management Fee includes return on rate base, please identify how much is included. If no return on rate base is included, should the Management Fee include a return on rate base for these schedules? If so, what should the appropriate allocation be?*

Response

A fully allocated cost of service study would not allocate a portion of return on rate base to Rate Schedules 10, 14 or 14A. The Rate Base / Revenue Requirement is allocated to the customers under their Transportation Rate Schedule, whether it be Rate Schedules 23, 25, 27 or 22, based on the customers contribution to capacity requirement, annual volumes and customer-related characteristics. The firm volume sales under Rate Schedule 14 / 14A would be covered by the capacity requirements under the delivery service. Therefore, Terasen Gas believes it is not necessary or appropriate to recover a portion of the rate base costs under Rate Schedule 14 / 14A or through the management fee.

- 7.3 *For the period used in the response to IR 7.1, please provide the total management fees that were collected, and identify the portion that was considered bad debt allowance. What was the average fee in \$/GJ and the \$/GJ range for the period?*

Response

Terasen Gas did not specifically allocate a portion of the fees collected in 2002/03 to bad debt. However, if one were to assume that 0.3% of revenues recovered related to the risk associated with bad debt, then the appropriate cost allowance would be \$46,425. In 2002/03, there was no account to specifically capture this amount, and there was no bad debt incurred through customers utilizing Rate Schedule 14 and 14A.

The average management fee charged to RS 14 customers' \$0.03/GJ, with a fee range of between \$0.02/GJ and \$0.03/GJ. The average management fee charged to Rate Schedule 14A customers was \$0.06/GJ, with a fee range of between \$0.04/GJ and \$0.08/GJ.

- 7.4 *Please repeat IR 7.1 for the 2004/05 gas year, and estimate the forecast average cost in \$/GJ. Should a \$0.02/GJ bad debt allowance be added to this amount?*

Response

The following table provides the information requested estimates for the 2004/05 gas year:

Cost Item	Total Cost	Comments
Bad Debt	\$98,550	0.3% of Revenues
Credit Reviews	18,000	(200 cust * 3 hrs @ \$30/hr)
Financial & Physical Purchases	450	(10 hrs @ \$45/hr)
Billing	720	(2 hrs * 12 cycles @ \$30/hr)
Personnel and overhead	93,505	Full Cost based on Transfer Pricing Policy
Miscellaneous Expenses	11,173	Various, including, travel and entertainment
Total Cost	\$222,398	

These estimates are based in large part on the forecast for 2003/04 assuming little change in the number of customers utilizing the options. The average fee expected for 2004/05 is \$0.04/GJ from Rate Schedule 14 customers and \$0.065 from Rate Schedule 14A.

Terasen Gas does not believe that a flat per GJ fee is the proper way to collect the bad debt allowance. Bad debt exposure is related to the overall revenues owing, and the relative risk is different between customers and not necessarily related to the level of gas use. For example, the risk exposure associated with a public institution using gas as a heat source will be different from that of a user in a competitive industry with significant debt exposure. While bad debt risk overall might be valued at about \$0.02/GJ, it should in no way be assumed to be uniform across all users.

To date Rate Schedules 14/14A has not experienced any bad debt. The bad debt experienced for all transportation customers for 2002 and 2003 was 0.07% and 0.19% respectively.

- 7.5 *To cover the costs of annual credit reviews, Terasen Gas proposes to increase Gas Management Fees from \$0.02–0.80/GJ to \$0.03-0.08/GJ for RS 14 customers and from \$0.04-0.08/GJ to \$0.04-0.09/GJ for RS 14A customers. The \$0.02/GJ difference between the minimum fees for the two rate schedules recognized that Terasen Gas provides nominating service under RS 14A. Please provide an estimate of the fully allocated cost of the additional service provided under RS 14A, Terasen Gas' views on the cost of obtaining such services from marketers and otherwise justify why a differential of less than \$0.02/GJ is considered appropriate.*

Response

Although the differential in the management fee range has narrowed, in practice the average management fee charged to Rate Schedule 14A customers is \$0.06/Gj while Rate Schedule 14 customers are charged is \$0.03. This equates to a difference of \$0.03/Gj. Terasen Gas feels that a narrower differential on the low end of the management fee range is appropriate as the lower fees are typically charged to large volume customers who tend to be more sophisticated and require much less administration and oversight. As Rate Schedule 14 had a much greater take-up for the 2003/2004 contract year, Terasen Gas found that the bulk of the time required surrounded the contract administration, credit reviews, and purchase volume verification. The nomination and balancing function has required much less of the Key Account Managers' time than the above noted functions.

- 7.6 *With reference to the table of proposed Gas Management Fees on page 14 of the Application, please provide Terasen Gas' views on whether the proposed fees are higher, lower or about the same as the fees charged by marketers for the equivalent services.*

Response

Terasen Gas has no specific information related to the fees charged by any of the marketers, but understands that its fee schedule falls within a reasonable range of what customers would expect to have to pay marketers for equivalent services.

8.0 Reference: Application dated March 17, 2004

- 8.1 *Letters from Avista Energy Canada, Ltd. dated February 4, 2004 and Direct Energy Business Services dated March 18, 2004 raise several concerns about the role of Terasen Gas' Customer Account Managers with respect to RS 14 and 14A, including the following:*
- *The cost of RS 14 and 14A marketing activities may be subsidized by transportation-related resources.*
 - *Customer Account Managers may have access to distribution customer lists, including detailed information about customers who are served by marketers.*
 - *Customer Account Managers deal both with transportation service matters (including the allocation of high-end charges like Balancing Charges and sales RS 14 and 14A gas), which may result in a conflict of interest.*
 - *Customer Account Managers, as part of operations staff, may be the first to know about problems on the pipeline and may be able to react first to arrange alternative supplies.*

Please respond to each of the foregoing concerns.

Response

There are virtually no “marketing” activities related to Rate Schedules 14 and 14A, as Terasen Gas has no profit motivations through which the marketing of Rate Schedule 14 and 14A can be justified. As is shown clearly through the responses to Question # 7 above, the fees charged to Rate Schedules 14 and 14A customers completely recover all costs associated with serving these customers, and thereby provide a positive contribution by deriving some efficiencies out of core assets and personnel that would otherwise be lost. In the absence of Rate Schedule 14 and 14A this “subsidy” to the core would be lost completely.

With respect to the information that Key Account Managers may have access to, no marketer to Terasen Gas’ knowledge is making a claim that such information has ever been used to persuade customers to switch from marketers to Terasen Gas. In fact, this alleged “advantage” is also made moot by the complete lack of profit motive in capturing customers from marketers. As Terasen Gas stated during the workshop, its business model (especially for the industrial market) is focused on operational excellence with respect to facilities, gas transmission and distribution. Terasen Gas has no ambition with respect to capturing commodity share from marketers once an industrial customer has decided to opt for transportation service, and instead sees its role as a type of a partnership with the marketers to ensure the continuing viability of gas service for all industrial customers. However, Terasen Gas’ responsibility to its customers, includes ensuring that customers have as many options as possible as they venture toward increasing control of their own commodity decisions. While all market participants should share an interest in the overall health of the industrial marketplace, the only company whose revenues are certain to be negatively impacted, should the elimination of options lead to a reduction in industrial demand in B.C., is Terasen Gas.

With respect to the potential for a conflict of interest due to Key Account Managers dealing with matters related to both transportation and commodity, the tariff rules associated with unauthorized overrun (UOR) are no different for Rate Schedules 14 and 14A customers than they are for other transport customers. During the January/04 curtailment period, Rate Schedule 14 customers were subjected to UOR.

Finally, Key Account Managers do not have advance knowledge of when a curtailment will be implemented or lifted. It is not the Key Account Managers that make this decision rather it is Gas Supply and/or Gas Control. Once Key Account Managers are notified their task is to contact the marketers immediately as was the case during the January 04 curtailment. After the Key Account Managers have contacted all the marketers they can deal with their supply requirements related to Rate Schedules 14 and 14A. If Terasen Gas were indeed interested in competing with the marketers, this would put the company at a

distinct disadvantage to the marketers as the Key Account Managers' time is spent notifying the appropriate parties of the situation.

- 8.2 *Please clarify if the "Customer Account Managers" are the Key Account Managers that report to the Director, Large Commercial/Industrial Markets.*

Response

Yes, the Customer Account Managers are the Key Account Managers reporting to the Director, Large Commercial/Industrial Accounts. These titles were changed in December of 2003 as part of the Utilities Strategies Project.

- 8.3 *Please provide a copy of the Job Description for Key Account Managers (or other positions having prime responsibility for administering RS 14 and 14A), and outline the responsibilities of the position with regard to each of:*

- *transportation service (RS 22, 23, 25, 27)*
- *bundled sales service (RS 3, 5, 7)*
- *RS 14 and 14A*
- *RS 10*

Response

The following Job Description was arrived at through the Utilities Strategies Project in the latter part of 2003:

Title: Key Account Manager - Industrial

Duties:

- Manages key industrial and marketer relationships
- Solves customer problems – i.e. billing, metering, engineering/facilities
- Provides input on new opportunities for Terasen revenue/rate structures/tariff changes
- Manages key billing determinants for special contracts
- Ensures major stakeholders receive annual contact
- Assesses credit issues and intervenes in collection process
- Project manages issues with other Terasen groups when issues arise
- Is responsible for the annual rate 14 design updates and administers the service
- Provides regulatory support for tariff changes and applications
- Provides periodic assessment of volumes and does customer follow-up
- Maintains high customer satisfaction by assessing needs and providing information related to transportation service options
- Provides on-call back-up for the nominations processes
- Engages in analysis of issues when required

Qualifications:

- Demonstrated ability to work with customers and manage high and diverse work-load concurrently
- Business Degree preferably with a marketing focus
- Knowledge of commodity markets and financial structures
- Strong communication skills with the ability to understand technical information

For industrial transportation customers (Rate Schedules 22, 25, and 27) and for Rate Schedule 7 these Key Account Managers are responsible for all customer service related activities, and for customer liaison and contact around issues such as credit, changes in facility requirements or requested changes in service levels or tariffs. While the Key Account Managers may provide some backup support with respect to other transport customers (Rate Schedule 23), these customers are effectively handled by customer representatives in the Large Commercial Markets group (which also reports to the Director, Large Commercial/Industrial Markets). This group also handles the bundled sales groups (Rate Schedule 3, and 5).

With respect to the Rate Schedule 10, 14 and 14A customers and marketers, the Industrial Key Account Managers are responsible for all administrative activities relating to these commodity options, including daily nominations. The Key Account Managers negotiate the terms of the various options where necessary, administer the contracts, manage all customer contact associated with credit checks, and place the orders with Gas Supply related to the service.

8.4 *What documentation can Terasen Gas provide to confirm that Key Account Managers do not and will not market RS 14 and 14A service to customers?*

Response

In addition to the Job Descriptions provided in response to Question # 8.3 above, Terasen Gas provides a sample below of the 2004 performance plans for the Key Account Managers as they relate to their responsibilities concerning Rate Schedule 14 and 14A. Performance against these plans is used, in part, to determine compensation and bonuses for the employees. Key Account Managers are provided no reward incentive related to growth or market share retention for Rate Schedule 14 and 14A.

TERASEN GAS INC.
 RATE SCHEDULES 7, 10, 14 AND 14A FOR 2004/05 GAS YEAR
 RESPONSE TO BCUC STAFF INFORMATION REQUEST NO. 1

Strategic Activities	%	Performance Measures	Performance Targets
Rate Schedule 14/14A Management <ul style="list-style-type: none"> Revise current rate options to meet customer/marketer concerns Maintain open communication with BCUC re: proposed enhancements Maintain same time horizon for application approval as 2003 Communicate changes to Rate 14/14A offering to existing customers in a timely manner after approval Seek the optimal value outcome for Terasen's overall customer base, and for Rate 14 customers in particular Ensure customer contracts and hedging forms received before purchase of physical volume & futures Execute purchase of physical gas volumes and forward contracts for the 2004/05 gas year Eliminate F/X risk Periodically meet with members of RS14/14A group Develop & provide monthly gas commodity billing sheets to Billing 	40%	<ul style="list-style-type: none"> Adjust RS14/14A services to help address some of the issues raised by marketers and the BCUC Discuss enhancements with BCUC staff prior to submission File RS14/14A application before end of March Include sufficient info in filing to facilitate discussion and support a workshop, written or oral hearing if desired by the Commission Answer IRs within 2 wks of submission and communicate offering within 1 wk of approval Ensure maximum customer satisfaction through the offering Transport agmts up to date, RS 14/14A agmts signed and returned and hedging consent forms complete Purchase physical volume (winter & summer) and overwrite purchases with forward contracts at an optimal buying time. Hedge US exchange rate risk Become acquainted with RS14/14A 	<ul style="list-style-type: none"> Maintain Inventory, collect appropriate Mgmt Fees, revise methodology for swing premium Incorporate BCUC's comments / suggestions into the tariff Receive approval by end of May if workshop necessary Provide Workshop Materials to Regulatory IRs answered on-time Communicate decision within one week. Overall industrial demand forecast achieved All contracts received prior to hedging date Physical and forward contract volumes are the same Purchase USD within 2 bus days of fixed purchs Meet with 60% of current RS14/14A customers (some out

8.5 *It would appear that having RS 14 and 14A sales handled by an individual reporting to the Director, Large Commercial/Industrial Markets, but who is not directly involved with transportation service might resolve many of the perceived concerns that have been raised, and would also facilitate auditing the cost of administering RS 14 and 14A. Please discuss.*

Response

Terasen Gas does not believe that establishing and defining a role for the sole purpose of handling Rate Schedules 14 and 14A sales and administering all aspects of the service will resolve the concerns of all marketers. If marketers believe or perceive that Terasen Gas has some vested interest in having Rate Schedule 14 service capture market share, then the dedication of resources can hardly be viewed as a positive development toward their concern. The reality is, and was stated in the workshop, that Terasen Gas has no incentive to capture industrial commodity market share and therefore has no incentive to compete or market Rate Schedule 14 services in the first place. Therefore, any potential to do so is mitigated by the lack of incentive to do so.

Furthermore, since this is not a key line of business from Terasen Gas' perspective, the company would see no value in adding an additional role, isolated from the rest of our business, with limited cross-training and developmental opportunities. It is difficult to envision how one would handle weekends, illness and holidays, let alone employment transitions.

- 8.6 *If an individual who is not involved with transportation service were responsible for administering RS 14 and 14A, could the Code of Conduct for Provision of Utility Resources and Services provisions such as Provision of Information by BC Gas Utility Ltd. (now Terasen Gas), Preferential Treatment and Equitable Access to Services apply with respect to this individual? Should a separate Code of Conduct be developed for RS 14 and 14A activities?*

Response

Terasen Gas does not believe the provisions in the Code of Conduct for Provision of Utility Resources and Services ("Code of Conduct") could be applicable to any Terasen Gas employees responsible for administering Rate Schedules 14 and 14A. The Code of Conduct governs the relationships between the Terasen Gas and Non-Regulated Affiliates of Terasen Inc., and therefore is not appropriate for the purpose suggested. Terasen Gas does not believe a separate Code of Conduct for Rate Schedule 14 and 14A is necessary. As discussed in response to Question #8.5 above, Terasen Gas has no incentive to compete for industrial commodity market share, and therefore an additional Code of Conduct would lack relevance.

- 8.7 *Avista notes that the administrative cost for RS 14 and 14A includes 80 percent of a marketing representative's time, implying that the additional cost to have a separate individual handle RS 14 and 14A sales may not be large. Please provide an estimate of the administrative costs for RS 14 and 14A in 2004/05 if handled by an individual who is not involved with transportation.*

Response

As stated in the response to Question # 8.5 above, Terasen Gas would not support this as a reasonable solution to the issues raised. Terasen Gas is not quite sure how to estimate the total costs associated if the role were handled exclusively by an individual not involved with transportation. Certainly, some sort of back-up would be required to account for holidays, sick days and any employee turnover. In the table below, Terasen Gas has assumed a 20% premium in personnel related costs to account for this problem.

TERASEN GAS INC.
RATE SCHEDULES 7, 10, 14 AND 14A FOR 2004/05 GAS YEAR
RESPONSE TO BCUC STAFF INFORMATION REQUEST NO. 1

Cost Item	Total Cost	Comments
Bad Debt	\$98,550	0.3% of Revenues
Credit Reviews	18,000	(215 cust * 3 hrs @ \$30/hr)
Financial & Physical Purchases	450	(10 hrs @ \$45/hr)
Billing	720	(2 hrs * 12 cycles @ \$30/hr)
Personnel and overhead	112,206	Full Cost based on Transfer Pricing Policy Various, including, travel, promotions and entertainment
Miscellaneous Expenses	11,173	
Total Cost	\$241,049	

- 8.8 *Please describe how off-system sales are currently handled, including the positions responsible for the activity and their chain of command. Please provide the same information for RS 10 interruptible on-system sales.*

Response

Off-System and On-System sales are currently administered by the Midstream group within Gas Supply. The Midstream Group is continually balancing the supply-and-demand equation and uses the selling and purchasing of gas to help in this activity. On a daily basis, the Midstream Group will make decisions dependent on the availability of excess gas supply. If excess gas is available sales to the open market will take place as well as authorization of all Rate Schedule 10 requests. The Rate Schedule 10 requests come in the form of nominations through WINS. The current responsibility for this activity falls to the Manager, Midstream who reports directly to the Vice President of Gas Supply and Transmission.

- 8.9 *Please outline how billing is currently handled for off-system and RS 10 sales. Are RS 10 sales shown on the same customer bills as transportation charges? Please compare and contrast RS 14 and 14A billing with RS 10 billing from a customer perspective.*

Response

Off-System billing currently falls within the Midstream Group. Off-System billing uses the Deal Capture System to generate the sales invoices. It also validates the purchase, storage and transportation invoices. Rate Schedule 10 billing is handled by Accenture Business Solutions. At the end of each month marketers must allocate Rate Schedule 10 purchases to customers. Only customers who have signed Rate Schedule 10 agreements and have met Terasen Gas' credit requirements to purchase commodity may be allocated Rate Schedule 10 gas.

From a customer's perspective Rate Schedule 14 & Rate Schedule 14A are billed virtually identical to Rate Schedule 10. Both appear as separate line items on the customer's Terasen Gas invoice.

- 8.10 *As well as resolving many of the perceived concerns that have been raised about Customer Account Managers and RS 14 and 14A, it would appear that individuals handling off-system sales may be more informed about market conditions that affect RS 14 and 14A fixed and indexed rates. Please discuss the pros and cons of having these positions also handle RS 14 and 14A sales.*

Response

While it could be argued that Gas Supply personnel are more informed with respect to the day to day market conditions that affect fixed and index rates, it's certainly unclear as to the benefits that might be derived by Rate Schedules 14 and 14A customers if Gas Supply personnel were to handle sales to them. First of all, Gas Supply personnel's expertise lies in securing supply, and managing midstream assets, not in dealing with the specific considerations and market requirements of industrial gas users. It is easier to communicate the information required to allow the customer to make informed decisions with respect to market conditions affecting fixed and index rates, than it is to communicate the information required for individualized customer service. The Gas Supply group would have to staff up in order to accommodate the Rate Schedule 14 and 14A sales role, with limited cross-over into its other responsibilities, suggesting significant inefficiencies with implementing such a proposal.

While such a move could potentially accomplish greater separation of responsibilities between transportation sales and commodity sales, some of the other concerns raised by marketers would not be addressed, and might even be considered more poorly handled. For example, there would be less separation between the individual doing the daily nominations and those securing the supply. There would also likely be less separation from those with knowledge concerning supply conditions and curtailments, with the ability and incentive for the individual(s) handling Rate Schedule 14 and 14A customers to act on that knowledge without having to first advise transport customers, their suppliers and marketers.

Finally, such a structure would likely result in some confusion for the customer. Since all Rate Schedule 14 and 14A customers are also transport customers, the proposed structure would result in two Terasen Gas representatives and therefore two separate points of contact.

APPENDIX 1

RESPONSE TO QUESTION # 6.2

July 24, 2004

John Smith
Customer X
1- ABC Avenue
Vancouver, BC
V6Y 1G2

Dear Mr. Smith:

Re: Rate 14A Annual Fixed Rate Option - Hedging Agreement

Terasen Gas confirms that Customer X has elected to purchase gas for the November 1, 2004 to October 31, 2005 Gas Contract Year under Rate Schedule 14A – Annual Fixed Rate Option in accordance with the terms of the Rate Schedule 14A Term and Spot Gas Sales Agreement (the “Agreement”) and the terms and conditions outlined in Rate Schedule 14A.

Terasen Gas will base the physical gas purchases for the Gas Contract Year on Customer X’s average daily consumption for each month over the previous 5-year period as set out in the table below. Terasen Gas may adjust the historic average if the figures in the table below are not representative of Customer X’s future consumption.

Average Daily Consumption

	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sen	Oct
Customer X	62	64	72	73	69	76	70	63	68	73	62	66

It is Customer X’s responsibility to review the average daily consumption quantities set for each month in the table above. If the figures do not accurately represent Customer X’s average daily consumption level for each month over the previous 5-year period, please notify Terasen Gas immediately so that we can review the figures and amend them if necessary.

The price for the physical gas varies in accordance with the applicable daily and monthly gas indices. In addition, a premium is charged on the price for physical gas purchases to secure a firm gas supply for the Gas Contract Year. In order to ensure a fixed price for the gas for the duration of the Gas Contract Year, Terasen Gas will try to purchase a financial forward contract to swap the contract price with the physical purchase price (a “Fixed Price Swap”).

Terasen Gas will use commercially reasonable efforts to purchase a Fixed Price Swap. However, it is sometimes difficult to execute a Fixed Price Swap with a counterparty if the quantity required is relatively small or of an odd lot size. Therefore, Terasen Gas will try to aggregate customer quantities to a minimum of 1,000 Gjs per day during winter (November to March) to allow ease in purchasing activities and to reduce the premium associated with purchasing small lot sizes. Please note the price for the Fixed Price Swap will not include any premium associated with securing the physical gas, the swing premium or applicable gas management fees.

The swing premium covers incremental costs associated with the use of peaking assets, such as storage gas. Cost of the swing premium has been set at CAD\$0.93 per Gj. The swing premium will be added to the Fixed Price Swap and physical premium for each month.

If a Fixed Price Swap on Customer X's behalf has been executed, Terasen Gas will provide Customer X with confirmation in writing setting out the weighted average Fixed Price per GJ for the year, which includes: 1) the Fixed Price Swap price, 2) the physical premium, and 3) swing premium.

Customer X agrees that, if it participates in a Fixed Price Swap arrangement, it shall be responsible for all obligations associated with its portion of the quantity of gas that is the subject matter of the Fixed Price Swap. Customer X shall indemnify and save Terasen Gas harmless from and against any loss or expenses incurred by Terasen Gas as a result of the failure or refusal by Customer X to comply with this provision and, in particular but without limiting the generality of the foregoing, its failure or refusal to pay any amounts owing in respect of Customer X's portion of the quantity of gas that is the subject matter of the Fixed Price Swap.

As set out in Appendix "A" of the Agreement, Customer X will be subject to a take-or-pay volume of gas for each month of the Gas Contract Year. Customer X's take-or-pay volume for each month of the Gas Contract Year has been set by Terasen Gas based Customer X's historic consumption.

The take-or-pay volume represents Customer X's average minimum daily consumption level for each month over the previous 5-year period. For example, the minimum daily consumption for the month of January would be the lowest consumption in any month of January during the previous 5-year period divided by 31. In months where the minimum consumption level does not appear to be representative, the figures have been adjusted.

If Customer X's cumulative gas consumption in any month is less than the take-or-pay volume, and the average of the Sumas daily prices during that month is less than the fixed price Customer X will be required to pay the difference between the fixed price and the average of the daily prices on the unused quantities for the month.

Customer X's take-or-pay volume for the November 1, 2004 to October 31, 2005 Gas Contract Year is set out in the table below. Terasen Gas may adjust the take-or-pay volume identified below if Customer X's anticipated usage for the 2004/05 Gas Contract Year varies significantly from historical levels due to various factors including production process changes, addition or removal of equipment, expansion, etc.

Monthly Take-or-Pay Volume

	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Customer X	1,700	1,900	1,800	1,650	1,703	1,700	1,700	1,520	1,679	1,700	1,478	1,670

It is Customer X's responsibility to review the take-or-pay volumes set for each month during the 2004/05 Gas Contract Year. If the figures set out in the table above do not accurately represent Customer X's average minimum daily consumption level for each month over the previous 5-year period, please notify Terasen Gas immediately so that we can review the figures and amend them if necessary.

The one-year fixed price (assuming a 100 percent load factor) is the Fixed Price Swap and physical premium (converted to CAD per GJ) plus the swing premium (CAD per GJ), weighted by the average daily quantity in each month.

Please indicate in the space provided below the maximum fixed price (CAD/GJ) Customer X agrees to pay for gas for the 2004/05 Gas Contract Year (includes Fixed Price Swap contract price, physical and swing premiums).

Customer X hereby consents to the execution of a Fixed Price Swap in accordance with the provisions of this hedging agreement.

Maximum Fixed Price (CAD/GJ): _____

Customer Name: _____

Authorized Signatory: _____

Date: _____

This consent form must be signed and submitted to Terasen Gas before Customer X may participate in any Fixed Price Swap transaction for the 2004/05 Gas Contract Year. All Fixed Price Swaps must be completed no later than Friday October 22, 2004.

This consent will expire on Friday, October 22, 2004. If Terasen Gas is unable to purchase a Fixed Price Swap by the expiration date, a new consent form may be resent for signature.

Yours truly,

Gordon Doyle
Key Account Manager
Terasen Gas Inc.

TERASEN GAS INC.

**RATE SCHEDULES 7, 10, 14 AND 14A FOR 2004/05 GAS YEAR
RESPONSE TO CEG INFORMATION REQUESTS**

1. *A number of marketers including CEG Energy offer the same products as the Schedule 14 options. CEG has been offering these same products to customers in Saskatchewan for 17 years and currently has over 6,000 customers many of whom have remained with CEG for the majority of this period. Why does Terasen believe there is currently a need in the market to offer these options both directly and indirectly through certain marketers in competition with CEG and other established marketers?*

Response

Terasen Gas is pleased to hear that CEG will offer identical products to Rate Schedule 14 options. Since Terasen Gas' Rate Schedule 14 services are in response to the market and are not actively marketed, Terasen Gas does not believe that the Rate Schedule 14 options in any way limit CEG's or other marketers' ability to reach and add value for customers and thereby increase market share. There will likely always be some customers who will want the transparency of the regulated utility option to lend comfort to their decisions. Terasen Gas does not see the value in arbitrarily reducing the options available to customers in order to artificially create an opportunity for some marketers by limiting the scope of competitive alternatives.

2. *Terasen has about 16 gas marketers listed in BC. Terasen indicates 3 marketers are using the schedule 14 products. Please confirm that the remaining 13 gas marketers and any new marketers entering BC to become licensed commercial unbundling participants object or would object to the schedule 14 program if questioned. If Terasen is uncertain of some of the other marketer's positions would it consider polling this group?*

Response

Because the Rate Schedule 14 options are regulated and subject to public annual review, marketers who object have the ability to voice any and all objections. Terasen Gas sees no value in further polling the marketers on this issue.

Terasen Gas observes that the views and positions least understood or voiced with respect to the Rate Schedule 14 offerings are those of the transportation customers, who rarely have the resources to participate directly in the regulatory process. It would seem to Terasen Gas, that given the structure of the services, and the lack of related marketing, the level of interest in Rate Schedule 14 is more a bellwether of the success marketers are having in adding value to the market and communicating that value to customers. Terasen Gas does not survey customers respecting their positions or valuation of the Rate Schedule 14 options, as this activity is generally related to marketing.

3. *Please confirm to Terasen's knowledge if any other regulated Utilities in North America are offering Schedule 14 products similar to Terasen.*

Response

As Terasen Gas stated in response to this question during the workshop, the company has not conducted a thorough search, but is not aware of other utilities that have addressed their customers' needs through a response identical to the Rate Schedule 14 options. However, as was also stated, Terasen Gas' customers would likely consider it an unreasonable response to say that we can and will not offer options until or unless they are offered in other jurisdictions. In Terasen Gas' view, this type of argument lacks a focus on the customer and on the particular regional considerations and is therefore misguided and inhibits growth and innovation in the industry.

4. *CEG believes that marketers signing up customers on schedule 14 have been aggressively marketing this product. This would explain the rapid growth of the program. Is this Terasen's understanding as well.*

Response

Terasen Gas is not really in a position to comment on the validity of or basis for CEG's belief or the conclusion drawn as a result of that belief. Terasen Gas notes, however, that if aggressive marketing were the key to success in this market, and marketers offer the same service options as those available through Rate Schedule 14, then Terasen Gas would expect that marketers would have been most successful at capturing market with or without Rate Schedule 14. Intuitively, therefore, the conclusion that is drawn as a result of CEG's belief seems unwarranted and is not one that Terasen Gas shares.

5. *Please explain why Terasen believes that it has a responsibility to "nurture" or develop new marketers into this region by offering schedule 14 directly to marketers. Does Terasen believe there is insufficient marketer participation in BC that is a risk to its transport customers?*

Response

Please see the response to BCUC Staff Information Request No. 1, Question # 3.2.

6. *Terasen indicates it has "stringent" credit requirements for allowing marketers to resell schedule 14. Please indicate what these credit requirements are. Please confirm that the current marketers using schedule 14 have met these requirements.*

Response

Please see the response to BCUC Staff Information Request No. 1, Question # 4.1. All Rate Schedule 14 customers have met these requirements.

7. *Please provide a list of each customer contract entered into under RS 14 and 14A for the current contract year including the volumes, management fee and marketer.*

Response:

Terasen Gas does not publicly divulge specific customer contract information, and notes that absent specific customer consent, it would be inappropriate to do so given the enactment of the B.C. Personal Information Protection Act.

- 8 *Please indicate what the total management fee revenue is for the 2003/04 contract year for managing the 325 customers and 5,500 TJ/year. Please list out all the services those customers are receiving from Terasen and what those service costs are to Terasen.*

The table below summarizes the total management fees collected in 2003/04, with an attribution of those fees against relevant costs:

Cost Item	Total Cost	Comments
Bad Debt Allowance	\$98,550	0.3% of Expected Revenues
Credit Reviews	18,000	200 customers * 3 hrs @ \$30/hr
Financial & Physical Purchases	450	(10 hrs @ \$45/hr)
Billing	720	(2 hrs * 12 cycles @ \$30/hr)
Personnel and overhead	91,100	Full Cost based on Transfer Pricing Policy
Miscellaneous Expenses	11,173	Various, including, travel and entertainment
Total Cost	\$219,993	

9. *Terasen management fees suggest that the fixed rate option incurs an additional \$0.01/GJ cost over the index pricing options. Please explain how the \$0.01/GJ is appropriately costed for implementing a financial fixed price based on an analysis of monthly load profile information for a rate 23 or 25 customer.*

Response:

The \$0.01 additional cost for the Term Fixed Rate option above the Index Rate option is not to account for extra work associated with determining monthly load profiles. Terasen Gas analyzes all customers' load profiles so the customer has adequate information required to make an informed choice as to which Rate Schedule 14 or Rate Schedule 14A rate option best fits the customer's particular needs. The \$0.01 additional cost is in place to account for additional credit risk that Terasen Gas incurs by purchasing fixed price contracts for the customer.

10. *Please provide the analysis Terasen has undertaken to determine that a rate 23 or 25 customer management fee should be \$0.05/GJ to \$0.08/GJ. How does Terasen apply the range to each customer? In addition please justify the incremental fee of \$ 0.01/GJ covers Terasen costs if Terasen is the shipper agent.*

Response:

Please see the response to BCUC Staff Information Request No. 1, Question # 7.5.

11. *Please explain how it is equitable that a rate 22 customer (400,000 GJ/yr) may be charged a \$0.04/GJ management fee recovering \$16,000/yr while a rate 23 customer (3,000 GJ/yr) may be charged \$0.05/GJ or \$150/yr. Is the level of management that much different for these two customers? How is it possible to justify only \$150?*

Response:

Terasen Gas does not recommend that Rate Schedule 23 customers with volumes of 3000 GJs per year enter into the Rate Schedule 14 or Rate Schedule 14A option. A Rate Schedule 22 customer using 400,000 GJ/Year is a much greater credit risk than a customer using 3000 GJ/year. If this were to be ignored, Terasen Gas would be undertaking an undue risk with respect to bad debt. In justifying the \$150, many of the Rate Schedule 23 customers participating under Rate Schedule 14A have multiple facilities. This reduces the administration required for these customers as economies of scale are realized through credit reviews, communications, and billing.

12. *If a single Rate 23 customer with a typical annual load of 3,000 GJ/yr requested a term pricing arrangement of 80% fixed please explain what management fee you would charge them and how this fee will cover the costs to contract this customer. If Terasen were the shipper agent please justify that \$0.01/GJ is a sufficient incremental fee and that all these charges are market based.*

Response:

As stated in the response to Question # 11 above, Terasen Gas does not recommend the Rate Schedule 14 option for customers with volumes of 3000 GJs per year. However, if the customer with a typical annual load wishing to fix 80% of their volumes were to insist on participating in the Rate Schedule 14A option, Terasen Gas would charge the customer a management fee of \$0.08. As stated in the response to BCUC Staff Information Request No. 1, Question # 7.5, Terasen Gas found that the bulk of the time required surrounded the contract administration, credit reviews, and purchase volume verification. The nomination and balancing function has required much less of the Key Account Managers' time relatively speaking. Thus, Terasen Gas believes that the \$0.01 incremental fee is reasonable for customers using Terasen Gas as their appointed Shipper Agent.

13. *Please confirm that marketers who purchase Schedule 14 supply directly from Terasen can mark-up the price it charges for this supply to customers at margins higher than the management fee charged by Terasen. Is this appropriate?*

Response:

Please see the response to BCUC Staff Information Request No. 1, Question # 3.4.

14. *CEG believes the Schedule 14 has evolved well past the point of being appropriate to be offered in a regulated matter. The current complexity of the offerings cannot be appropriately balanced on costs and market fairness. Terasen used to have an unregulated subsidiary that offered the same products as the schedule 14. Has Terasen considered setting up another non-regulated gas marketing subsidiary to rectify the concerns of unregulated marketers and eliminate the regulatory burden this program has evolved into? If Terasen believes there is a lack of gas marketer activity in BC and that its gas management fees are appropriate and in fact generate profit margins in the marketplace then this subsidiary should be prosperous. If Terasen has no plans to set up a non-regulated gas marketing company what are the reasons?*

Response:

Terasen Gas has no plans to set up a non-regulated gas marketing company, as such activities do not meet with the company's core business strategies.

15. *Does Terasen believe the Schedule 14 product is required in the market indefinitely? If not, please indicate what the conditions would be when Terasen would stop providing this product to market.*

Response:

Terasen Gas believes that the market will make clear when the Rate Schedule 14 options are no longer considered necessary. Terasen Gas is not able to predict the conditions that will lead the market to conclude the Rate Schedule 14 options add no value.

16. *Please provide the average and peak daily volumes this past winter on the combined schedule 14 products.*

Response:

The average daily and peak day volumes during the November 2003 to February 2004 period for all Rate Schedule 14/14A rate options (Annual Fixed, Term Fixed and Index Rate) are as follows:

Average Daily Volume:	17,600 gigajoules/day
Peak Day Volume:	27,442 gigajoules/day

17. *Terasen has expanded the schedule 14 program and increased its customer base to a stated 325 customers. Based on the March 17 submission and information given in the workshop Terasen appears intent on rapidly expanding this program towards or past its currently stated volume limitations. Has Terasen considered how it will manage a situation where it will need to cut off customers if it wants to keep the limitations in place? Would Terasen consider eliminating the volume limitations? Please explain any consideration Terasen has given to this situation.*

Response:

Please see the response to BCUC Staff Information Request No. 1, Question # 5.9.

18. *The Swing premium should be designed to cover the costs of providing this service to customers over the long term. Terasen continue to indicate that the actual margin each year on the swing premium is a net benefit for core customers. Please indicate if it is possible that the swing premium may not cover the full costs to actual deliver on this product in any given year and that core customers would then end up subsidizing the swing premium charge in any given year. If yes, provide an analysis of the worst case scenario in regards to spot pricing and design day demands on the system. Please indicate why you would not use the design day demand volumes applied against the highest priced historical prices such as experienced in December 2000. Please confirm that Terasen believes that the Sumas market may not have sufficient resources to meet a design winter and that the spot prices we experienced in December 2000 could possibly occur once again.*

Response:

Terasen Gas agrees it is possible that the Swing Premium may not cover the total actual costs on any given day, but concludes that the probability of under recovery over the year is extremely remote. The Swing Premium is charged 365 days per year, and on the entire contract. Therefore, only if the cost of swing gas exceeded \$0.93/GJ multiplied by 365 and divided by the number of days that actual demand exceeded the seasonal expected average would the premium be insufficient. Terasen Gas does not think it likely that the variance in annual actual costs could be in excess of \$0.93/Gj on average for the entire year, and therefore considers the Swing Premium proposed to be adequate.

Terasen Gas manages the risk/reward of Rate Schedule 14 as it does for any off-system transaction by:

- ensuring that based on Terasen Gas' forecasted design peak day load with no disruption in resources or capacity the purchasing of physical daily Sumas supply is not required.
- charging a fair and reasonable premium that not only incorporates potential pricing scenarios in a design year but also takes into account probable normal year pricing.

Terasen Gas does believe that the Sumas market may not have sufficient resources to meet a design winter, and as such Terasen Gas manages its potential physical exposure to Rate Schedule 14 customers on a peak day by purposely ensuring that forecasted

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LML firm Rate Schedule 14 peak requirements are offset with interruptible LML Rate Schedule 14 volumes. As well, Terasen Gas utilizes forecasted design day demand volumes (see table 2 below), and incorporates Sumas volatility from 2000/01 to conservatively calculate the swing premium.

This year in the Lower Mainland Terasen Gas purchased approximately 6,127 GJ/d of LML Rate Schedule 14 for annual fixed customers. 2,010 GJ/d of this volume is supplied to LML interruptible Rate Schedule 14 customers who on a peak day are curtailed by on-system capacity constraints.

Table 1 below illustrates that on a peak day Rate Schedule 14 firm customer requirements are offset by the on-system capacity curtailment of interruptible Rate Schedule 14 customers. An example has been outlined below utilizing this past year's peak day volumes. On Jan 3rd all Rate Schedule 14 customers in the Lower Mainland were burning, requiring a total of 8,987 GJ. By January 5th, which was the peak day, the interruptible Rate Schedule 14 customers were curtailed and the total burn for Rate Schedule 14 customers was 6,197 GJ. As you can see on the peak day the total Rate Schedule 14 burn was pretty much offset with the 6,127 GJ of total Rate Schedule 14 purchased volume.

The other days in a design year would be supplied by Terasen Gas' portfolio of contracted resources.

Table 1

	LML-Purchased	LML-Forecasted Peak Day
Interruptible Annual Fixed Sch 14	2,010	On-system curtailed
Firm Annual Fixed Sch 14	4,117	6,197
Total Requirement	6,127	6,197

Table 2

Lower Mainland S14/14A Annual Fixed Groups

	Fixed Volumes			Burn
	Firm	Interruptible	Total	
1-Jan-04	4,117	2,010	6,127	7,085
2-Jan-04	4,117	2,010	6,127	7,858
3-Jan-04	4,117	2,010	6,127	8,987
4-Jan-04	4,117	2,010	6,127	6,940
5-Jan-04	4,117	2,010	6,127	6,197
6-Jan-04	4,117	2,010	6,127	8,070
7-Jan-04	4,117	2,010	6,127	7,160
8-Jan-04	4,117	2,010	6,127	6,317
9-Jan-04	4,117	2,010	6,127	5,858
10-Jan-04	4,117	2,010	6,127	5,701
11-Jan-04	4,117	2,010	6,127	5,677

19. *Please list the benefits of the schedule 14 program to core customers after eliminating the revenue surplus achieved from the swing premium revenues.*

Response:

Please see the response to BCUC Staff Information Request No. 1, Question # 5.3.

20. *In its application Terasen has indicated it will reduce the requirement to aggregate 1,000 GJ/day of load before fixing a group price. Is this consideration in response to customer requests or from marketers? Please indicate how many times Terasen believes it will be developing a fixed price product for customers in a contract year? Please indicate why it is necessary for Terasen to offer fixed pricing more than once per year.*

Response:

Terasen Gas did not indicate it will reduce the requirement to aggregate volumes to a minimum of 1,000 gigajoules per day before entering into a fixed price contract. Clause iv) in section 2.5 of the Rate Schedule 14/14A Sales Agreement stipulates that aggregated volumes less than 1,000 gigajoules per day may be converted into a fixed price at the sole discretion of Terasen Gas. This clause has been part of the Rate Schedule 14/14A Sales Agreement since November of 2002 and therefore is not a new requirement.

Terasen Gas' Hedging Agreement restates this minimum aggregated volume requirement to ensure that Terasen Gas is under no obligation to transact a fixed price if it is not commercially possible. The intent of this clause is to eliminate liability to the utility if a fixed price cannot be transacted on behalf of customers.

As the requirement for fixed price transactions is driven by customer demand and market conditions, it is difficult to predict the number of transactions that will occur in any contract year. There are a number of reasons why transport customers choose to purchase commodity through the utility: 1) transparency of billing, 2) budgetary requirements, 3) company policy/mandate to purchase through local utility, etc. Terasen Gas is simply responding to customer demand for varying fixed pricing.

21. *Terasen indicates it "now has the ability" to implement less than 1,000 GJ/day of fixed price. The financial markets have not changed; in fact fixing less than 1,000 GJ/day in one volume has been available for years. Please explain what this change in Terasen ability is in the last year.*

Response:

Terasen Gas has always had the ability to transact for volumes less than 1,000 gigajoules per day. The increase in customer participation over the 2003/04 Gas Contract Year, has enabled Terasen Gas to facilitate a larger number of fixed price transactions without the concern that some smaller volume customers who sign up in early fall will be without a group of sufficient volume to transact a fixed price.

22. *Does Terasen deliver schedule 14 to the Interior? If yes what assets are used to get the supplies into the Interior? Are they core assets?*

Response:

Yes. As indicated in the March 17, 2004 Application, all physical volumes are delivered at Sumas and therefore the cost of transportation is imbedded in the Sumas Price. In fact, Interior customers generally pay a slight premium on Sumas purchases in relation to the STN 2 price plus Westcoast Energy System demand short-haul tolls. Gas supply required above the Rate Schedule 14/14A pre-purchased fixed volumes and index nominations are provided through the customer's transportation service through the use of Balancing Gas. Balancing Gas is provided through the midstream resources, such as storage and LNG, and spot purchases. This supply is available to all transportation customers on the system.

23. *Terasen indicates that "schedule 14 and 14A have not incurred any bad debt to date". Does this mean that Terasen has never incurred bad debt under the schedule 14 program.*

Response:

Yes, Terasen Gas has never incurred bad debt under Rate Schedule 14 and 14A.

24. *Does Terasen plan to manage the Schedule 14 deliveries isolated from the core market activities? If yes, specifically how will this be accomplished?*

Response:

Please see the responses to BCUC Staff Information Request No. 1, Questions #8.1, #8.5, and #8.6.

TERASEN GAS INC.

**RATE SCHEDULES 7, 10, 14 AND 14A FOR 2004/05 GAS YEAR
RESPONSE TO AVISTA INFORMATION REQUESTS**

1. *In information request 4.1, the B.C.U.C. asked for clarification regarding “credit requirements for Rate Schedule 14.” Could Terasen please explain under what circumstance, if ever, a twelve-month prepayment would be required?*

Response

As indicated in BCUC Staff Information Request No. 1, Question # 4.1, Terasen Gas assesses customer credit worthiness and Terasen Gas’ credit exposure inline with its internal credit policy. A 12-month prepayment may be required if customers do not meet the standard credit requirements or the fixed price volume requested significantly increases the utility’s mark-to-market exposure.

2. *During the curtailment of interruptible customers in January 2004, were interruptible Rate Schedule 14 customers reimbursed for the cost of their gas for the entire period over which they were curtailed? If the answer is yes, given the fact that other transportation customers are unable to resell their gas in a capacity curtailment situation because the utility cannot predict the curtailment’s timing or duration, please explain why interruptible transportation customers do not receive the same benefit?*

Response

In Terasen Gas’ post-mortem following the January 2004 curtailment, the ability of Rate Schedule 14 and Rate Schedule 14A customers to sell off their fixed contracts during a curtailment was identified as a practice that would not be possible for other marketers. In turn it was a contributing factor to the elimination of the Exclusive inventory management option. Going forward all fixed volumes under the Term Fixed Rate option will be treated as take-or-pay. If interruptible customers are curtailed, fixed volumes not consumed will be allocated to their inventory account. Customers under the Annual Fixed Rate option do not receive proceeds from the sale of their volumes, thus no change was required for this option.

- 3, *Could Terasen please explain the continued provision of both monthly and daily balanced groups? Specifically, why are individual or grouped Rate 22 large volume industrial customers daily balanced, when groups of smaller customers, which in aggregate have as high or higher daily volumes than a Rate 22 large industrial, are monthly balanced?*

TERASEN GAS INC.
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RESPONSE TO AVISTA INFORMATION REQUESTS

Response

Terasen Gas accepts that daily balanced groups of smaller volume customers may in aggregate have as high or higher daily volumes than those that a Rate Schedule 22 large volume industrial customer or group of customers may have. Generally, however, the consumption characteristics of large volume consumption customers can vary significantly from a group of monthly balanced customers. A significant portion of monthly balanced customers (i.e. Rate Schedules 23 & 25) are space heating in nature and therefore experience less significant day-over-day swings whereas Rate Schedule 22 large volume industrials are typically process-load and consume significantly larger volumes. In addition, the large volume industrial customers have the ability to shut-down altogether as a result of a plant trip, or significantly increase their consumption within a very short period of time within a day for various reasons. As a result, the variability of daily consumption is much greater in a daily balanced group than in a large monthly balanced group. For example, the impact of one large industrial customer, in a group of two or three customers, decreasing its consumption by 50% will have a much greater impact than if one Rate Schedule 23 customer in a group of 100 customers were to decrease its load by 50%. This potential variability is the key justification for the different balancing regimes.