



**LETTER No. L-14-03**

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April 16, 2003

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

Dear Mr. Thomson:

Re: Commodity Unbundling and Customer Choice  
Agency, Billing and Collection for Transportation Service Program

Commencing in 1998, the British Columbia Utilities Commission ("the Commission"), BC Gas Utility Ltd. ("BC Gas"), marketers, customer representatives and other stakeholders worked to develop an unbundled service option for residential and small commercial gas customers. After obtaining and considering the views of the participants at the time, in late 2001 the Commission formally deferred the unbundling program until the Utilities Commission Act was amended to provide the Commission with the necessary power to protect consumers from the default of a marketer's gas supply or any unacceptable marketing practices. The Commission expects this licensing and bonding legislation will be enacted later this spring.

In response to Commission Letter No. L-49-02, BC Gas filed its "Commodity Unbundling and Customer Choice Report" dated February 28, 2003 ("the Report"). The Report outlines the steps to provide unbundling for both residential (RS-1) and commercial (RS-2 and RS-3) customers for November 1, 2004. On March 28, 2003, BC Gas responded to Commission Letter No. L-12-03, providing an overview analysis of a phased introduction of gas sales unbundling that would initially limit unbundling and choice of supplier to commercial customers. Both unbundling alternatives use the Essential Services Model described in the Report.

The Commission conducted a Commodity Unbundling Workshop on April 1, 2003 to give BC Gas, marketers, customer representatives and others a forum to discuss the two unbundling proposals to provide natural gas supply options to low volume customers. After the Workshop, the following parties wrote to the Commission outlining their views:

- Avista Energy Canada Ltd.
- Consumers' Association of Canada (B.C. Branch) et al
- Counsel for Inland Industrials
- Direct Energy Marketing Limited
- Hollyburn Group of Companies
- Ontario Energy Savings Corp.
- Lower Mainland Large Gas Users Association
- B.C. Ministry of Energy and Mines
- BC Gas

The Commission has carefully examined the positions of each interested party that participated in the Workshop and filed comments. The national marketers, Ontario Energy Savings Corp. and Direct Energy Marketing Limited, strongly preferred full unbundling for the residential and commercial classes, but

suggested some changes were needed to the proposal in the Report for them to participate. Other parties expressed concern about the cost of full unbundling, the risks of permitting contract terms longer than one year for residential customers and the uncertainty about the number of consumers who may choose an unbundled option. These parties generally favoured a phased approach that initially would limit choice of supplier to commercial customers. There was broad support for the Essential Services Model proposed by BC Gas.

Having weighed the views of all stakeholders, the Commission is concerned about the tight schedule to implement full unbundling for November 2004, especially given the desire to consider changes to the proposal in the Report prior to developing the business system rules. The Commission concludes that unbundling for small volume customers should be phased, with commercial customers having an unbundled option for November 2004 and choice of supplier provided to residential customers in the second phase of unbundling. BC Gas will offer a one-year stable rate option for residential customers to provide some residential gas price choice for November 2004, in anticipation of the phase two implementation. Therefore, the Commission directs BC Gas to proceed with commercial unbundling generally as described in the March 28, 2003 filing, and with the provision of a stable rate option for residential customers effective November 2004. In one departure from the proposal in the Report, the Commission expects that marketers will be permitted to sign multi-year contracts with commercial customers.

The Commission is concerned about the potential cost of the unbundling program, but expects that with diligent attention to cost containment, BC Gas will be able to implement it in a cost-effective manner. BC Gas will be expected to deliver on its commitment to minimize expenditures on manual solutions that are not scalable and to maximize the development of processes that are scalable to all small volume customers, in order to keep phase two (residential) costs manageable.

Further to the request by BC Gas dated April 4, 2003, the Commission approves a deferral account in the amount of \$1,050,000 to permit the continuation of work on the Design and Approval Phase that is necessary to meet the November 1, 2004 implementation date.

The business model and rules for unbundling need to be finalized in June 2003, in order to meet the November 2004 target date. The Commission will lead a stakeholder consultation process that is expected to lead to a report by BC Gas by mid-June. The Commission directs staff to proceed immediately with the necessary workshops and other consultation.

Yours truly

*Original signed by:*

Robert J. Pellatt

JBW/rt

cc: Ms. Mary McCordic, Avista Energy Canada Ltd.  
Mr. Pete Learoyd, B.C. Housing Management Commission  
Mr. Richard Gathercole, BC Public Interest Advocacy Centre  
Mr. John Barnes, Central Heat Distribution Ltd.  
Mr. Lyle J. Oliver, Direct Energy Marketing Ltd.  
Mr. John Wallace, Direct Energy Marketing Ltd.  
Mr. Bill Harper, Econalysis Consulting Service Inc.  
Mr. Jim Langley, IGI Resources, Inc.  
Mr. David Bursey, Inland Industrials  
Mr. J. David V. Newlands, Fording Coal Ltd.  
Ms. Karen Koncohrada, Ministry of Energy & Mines  
Mr. Peter Whitfield, Ontario Energy Savings Corp.  
Mr. Craig P. Donohue, Pacific Northern Gas Ltd. & Pacific Northern Gas (N.E.) Ltd.  
Mr. Steve Yallouz, Premstar Pacific  
Mr. Richard T. O'Callaghan, RT O'Callaghan & Associates Inc.  
Mr. Doug Allen, Union of British Columbia Municipalities  
Mr. Bruce Nagel, Columbia Fuels Inc.