



LETTER No. L-25-03

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Log No. 3136

VIA FACSIMILE

June 6, 2003

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

Dear Mr. Thompson:

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

In Letter No. L-14-03 the Commission decided to proceed with the Commercial Unbundling program based on the Essential Services Model along with a stable rate alternative for the residential class. This is viewed as an intermediary step to assess customer response with the intention of proceeding to full unbundling for the residential class at a later date. The next stage in the development of this program is the establishment of Business Rules to support the Design and Analysis phase of the project.

Terasen Gas Inc. ("Terasen Gas") outlined its proposed Business Rules in its May 6, 2003 letter to the Commission and then conducted consultation sessions with interested parties. The May 22, 2003 Commission workshop provided an open forum for all stakeholders to present their opinions and the Commission encouraged written submissions as well. Terasen Gas then filed with the Commission its response and comments on May 30, 2003 based on the collective information. This information was relied on by the Commission to develop the Business Rules.

The Commission has assessed the submissions of all parties, and the interests of customers and costs, to determine suitable parameters for this phase. This framework accommodates the marketers' business plans and remains within the cost structure originally developed for the Commercial Unbundling program. Changes may be made as the program evolves over time and market demand becomes more clearly known; however, at this point the Commission has determined the Business Rules as set out in the attachment.

Yours truly,

Original signed by:

Robert J. Pellatt

RB/ssc
cc: ABC-T Phase 1 Participants
Attachment

Business Rules for Commodity Unbundling dated June 5, 2003

1. The Essential Services Model Overview

The Essential Services Model (“ESM”) will serve as the foundation for the Agency Billing and Collection for Transportation T service (“ABC-T service”) that will be implemented effective November 1, 2004 for commercial customers. This transportation service option will provide customers with the opportunity to purchase natural gas as a commodity from parties other than the utility.

Currently, Terasen Gas purchases natural gas at the Station No. 2, the Alberta Energy Company Ltd. (“AECO”) and Sumas regional supply/market hubs in British Columbia and Alberta to serve its sales customers. It contracts with third parties for transmission pipeline capacity to move the gas commodity to its distribution system, or to transfer it into and out of contracted storage facilities. The transmission pipeline and storage capacity contracts are referred to as “midstream assets” or “midstream resources”. The gas is then transported via the distribution system to customers’ premises. Midstream resources also include contracts for gas supply for balancing purposes and to meet peaking requirements. Together, the utility’s distribution assets and the midstream resources it contracts for are considered “essential services”, as these assets are utilized collectively to move the gas commodity, regardless of the supplier, from the supply/market hub to the customers’ premises.

Terasen Gas performs an essential service by utilizing the midstream resources together with its distribution system assets to move commodity from regional supply/market hubs to customers’ premises. In consideration of this, Terasen Gas has developed the “Essential Services Model” for commodity unbundling. In this model, Terasen Gas will continue to contract for and manage midstream resources including pipeline and storage capacity, and will provide balancing and peaking gas services. Marketers will deliver gas to Terasen Gas at supply/market hubs.

2. Consumer Protection and Marketer Eligibility

The Commission will be responsible for licensing. In order to participate, marketers must hold a license from the Commission and will likely be required to post a performance bond. A marketer’s license may be suspended or revoked for non-compliance with the Code of Conduct and other licensing criteria as issued or amended by the Commission.

3. Independent Dispute Resolution Mechanism

If a dispute relates to the business practices of a marketer relative to the general form of the marketer/customer commodity or agency agreement, which relies on the Code of Conduct or licence conditions, the Commission may initiate a review. The result may be the suspension of the marketer/customer contract, amendment of terms and conditions or suspension of the gas marketer licence. Otherwise, when a dispute is between a marketer and a commercial customer that is likely of a contractual nature where the marketer acts as an agent on behalf of the commercial customer, it will be the responsibility of the two parties to resolve their differences or to refer the dispute to the courts.

A marketer will enter into an ABC-T agreement directly with Terasen Gas and these parties will be responsible to resolve their contract interpretation differences, or to refer the dispute to the courts.

4. Customer Education

The development and delivery of a commercial customer education campaign will start by February 2004. The new bill format showing the separate midstream charge will be presented to commercial customers starting April

2004. Marketers may sign up customers beginning May 2004 and Terasen will start processing enrollments as early as May 1, 2004 if systems to do so can be developed in time.

5. Licensing Criteria

The Commission will decide the licensing criteria with input from stakeholders at a later date.

6. Customer Eligibility and Mobility

All commercial bundled sales customers (Rate Schedules 2 and 3) in all Terasen Gas Service Areas, except for Fort Nelson, and Revelstoke, will be eligible for the proposed ABC-T service. In its July 18, 2003 Report, Terasen Gas will address the pros and cons of permitting Rate Schedule 23 customers to elect ABC-T service. Customers must be a Terasen Gas customer at the time they are enrolled in the service. Contract terms of up to five years.

Marketers will be responsible for enrolling and de-enrolling customers and for communicating that information to the Utility. Once enrolled in a marketer's group, the customer will remain with that marketer until the election of a new supplier, which could be either another marketer, or a return to Terasen Gas' standard system supply. A notice period of 60 days prior to the entry date will apply to ensure marketers have sufficient notice of delivery requirements for their group.

Terasen Gas will inform marketers of the customers in each of their groups, so that marketers can identify (by their absence) customers who have elected a new supplier. Terasen Gas will plan to accommodate entry dates of November and April at a minimum, providing the cost to do so is not unreasonable. In its July 18, 2003 Report, Terasen Gas will identify the additional systems and costs that would be needed relative to entry dates of November only, November and April, and by quarter.

Currently the number of commercial customers eligible for the program is to be capped at 10,000 customers. Please provide in the July 18, 2003 report the incremental costs if there was no limitation on customer attachments.

7. Marketer Delivery Requirements

Terasen Gas will be responsible for contracting and managing the midstream resources, including transmission pipeline and storage capacity, and will provide balancing and peaking gas services. Terasen Gas will provide balancing to the extent required to support annual load shaping (i.e. marketer delivers at 100 percent load factor for the year and Terasen Gas provides load shaping using the midstream resources). No daily measurement devices will be required for customer participation and meter reading will continue to be bi-monthly.

Terasen Gas will determine the marketer delivery requirements on a group basis using historical consumption information and other forecasting parameters. Marketers will be required to deliver commodity to Terasen Gas at the regional supply/market hubs in proportions similar to the overall portfolio requirement of Terasen Gas, as determined in Terasen Gas' Annual Contracting Plan (approved by the Commission). Marketers will also deliver fuel-in-kind equal to Terasen Gas' average off-system fuel requirements.

All midstream resource costs (including balancing resources, UAF and on-system fuel) will be managed as a separate gas cost account and charged to all customers except those on the current transportation service (Rate Schedules 22, 23, 25 and 27). The midstream costs will be recovered from customers rather than from marketers.

8. Terasen Gas System Supply and Supplier of Last Resort Role

Terasen Gas will continue its merchant function role and customers who do not choose to be supplied by a marketer under the ABC-T Service will continue to be supplied by the Utility under the standard system rate. Terasen Gas will be the Supplier of Last Resort (in accordance with the rules proposed in the Terasen Gas May 6, 2003 submission). It will also be responsible for the longer term infrastructure planning and for emergency response.

9. Marketer Failure

The Commission will determine whether a marketer supply failure has occurred. In the event of longer term marketer failure, the customers would return to Terasen Gas as Supplier of Last Resort if the customers were not assigned to another licensed marketer. These customers would return to Terasen Gas at the standard system supply rate, although incremental costs may be recovered from the customer involved.

Supply failure may either be the result of a marketer exiting the marketplace completely or a demonstrated pattern of supply unreliability. The shortfall for short-term marketer supply failure will be supplied by Terasen Gas and the marketer will be charged for the backstopping service.

10. Customer Billing and Collections

Terasen Gas will provide the agency billing and collections service for marketers on a mandatory basis. Customers who choose to be supplied by a marketer will continue to have all of the billing options that are available to customers who remain on the utility standard supply rate. Terasen Gas will continue to follow the credit and collections policies it has in effect today and Terasen Gas will retain the sole right to lock-off customers for non-payment.

11. Marketer Remittances and Billing

Marketer remittances will be based on the monthly quantities of gas delivered to Terasen Gas, and will be remitted consistent with other supplier arrangements. The overall average utility bad debt ratio for the rate class will be used as a holdback on marketer remittances to cover the cost of bad debt and collections costs.

12. Program Cost Recovery

The implementation and maintenance costs will be recovered from customers in those rate classes that are eligible for the service. Annual operating costs (transactional related costs) should be recovered, to the extent possible, from marketers. Terasen Gas shareholders will not be at risk for the costs of implementing and maintaining the service, or for any assets stranded by unbundling.

In its July 18, 2003 Report, Terasen Gas will propose the amount of ABC-T costs to be recovered annually, how this amount will be allocated to the rates of customer classes, and a process to obtain Commission approval of the proposal.

13. Midstream Cost Recovery and Gas Cost Recovery

The current Gas Cost Reconciliation Account ("GCRA") will be split into two accounts, one for the standard system commodity offering and one for the midstream resources. All customers currently paying the existing commodity charge would pay for the midstream resources, while only sales customers would pay for the

commodity costs. The existing methodology for allocating both the commodity costs and the midstream costs from the various rate classes will apply for the first year of the program, but may be re-evaluated at a future date.

14. Balancing Provisions

The balancing provisions of the existing transportation service for industrial and large commercial customers will remain unchanged.