



LETTER NO. L-40-04

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, B.C. CANADA V6Z 2N3
TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

ROBERT J. PELLATT
COMMISSION SECRETARY
Commission.Secretary@bcuc.com
web site: <http://www.bcuc.com>

Log No. 6906

VIA E-MAIL

regulatory.affairs@terasengas.com

July 29, 2004

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

Dear Mr. Thomson:

Re: Terasen Gas Inc. ("Terasen Gas")
Rate Schedules 7, 10, 14 and 14A
Market Based Commodity Rates for the 2004-2005 Gas Year
BCUC Order No. G-64-04

This is to acknowledge receipt of the enclosed submission from Terasen Gas dated July 22, 2004 responding to the Commission's July 15, 2004 letter regarding the letters dated July 12, 2004 that Terasen Gas sent to industrial and transportation customers. The Commission has also received the enclosed letters from Direct Energy Business Services and Atlin Energy Management Inc. dated July 21 and July 23, 2004 respectively on this matter.

The Commission accepts that Terasen Gas' July 12th letters were intended to inform all large commercial and industrial customers of the Rate Schedules 14 and 14A commodity options that would be available for 2004/05, and that the letters are generally similar to letters sent out in previous years. At the same time, the mass mailing to Terasen Gas customers that do not currently use Rate Schedules 14 and 14A could be viewed as inconsistent with Terasen Gas' statements that it does not market this service. The Letter of Intent that was attached to the June 12th letters seems particularly problematic, as it appears to have the potential to confuse and mislead some customers. In order to minimize such concerns going forward, the Commission requests that Terasen Gas obtain Commission approval of any such mass communications in the future regarding Rate Schedules 14 and 14A prior to sending it out to customers who are not currently using Rate Schedule 14 and 14A service.

In its July 22nd letter, Terasen Gas repeats that it has no profit incentive for the provision of Rate Schedules 14 and 14A service. To confirm the statement, the Commission requests Terasen Gas to file a report that details how and where the revenue from each charge under Rate Schedules 14 and 14A is currently recorded. The treatment of revenue from each of the Annual Fixed Rate, Term Fixed Rate, Monthly Index Rate, Daily Index Rate, Swing Premium, Market Factor Premium and Gas Management Fee should be detailed, including whether the revenue is recorded in the Commodity Cost Deferral Account, the Midstream Cost Deferral Account, the Bad Debt Allowance Deferral Account that was approved by Order No. G-64-04, or elsewhere. Also, Terasen Gas should confirm that no portion of each revenue stream flows to utility shareholders under the 2004-2007 PBR Settlement, the Gas Supply Mitigation Incentive Program, the treatment of excess Energy Management Services revenue relative to the net Core Market Administration Expense of \$1.6 million for 2004 that was approved by Order No. G-19-04 or any other mechanism. In the event that any portion of Rate Schedules 14 and 14A revenue currently goes to utility shareholders, please discuss whether such revenue for 2004/05 should be placed in a deferral

account for future disposition. Terasen Gas should file this report by Friday, September 17, 2004.

The July 23rd letter also states that Terasen Gas is re-evaluating whether it will continue to offer Rate Schedules 14 and 14A service beyond 2004/05. Terasen Gas is reminded that it will require Commission approval of plans to continue or discontinue the provision of Rate Schedules 14 and 14A service. The Commission supports the full recovery of related costs in Rate Schedules 14 and 14A rates, and it appears that competing gas marketers do as well.

Yours truly,

*Original signed by;
C.M. Smith*

Robert J. Pellatt

JBW/cms
Enclosure

cc: Intervenor in RS 7, 10, 14, 14A proceeding