BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-25-04

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IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

Terasen Gas Inc.
Cost Allocation Application for Commodity Unbundling
and Customer Choice Phase I dated January 16, 2004

BEFORE: R.H. Hobbs, Chair)
Murray Birch, Commissioner) March 11, 2004

O R D E R

WHEREAS:

A. In response to Commission Letter No. L-49-02 Terasen Gas Inc. ("Terasen Gas") filed its Commodity Unbundling and Customer Choice Report, dated February 28, 2003; and

B. In Letter No. L-14-03 the Commission determined that unbundling would be phased-in. Commercial customers would have an unbundled option for November 1, 2004 and a one-year stable rate option would be available for residential customers; and

C. In Letter No. L-25-03 dated June 5, 2003, the Commission determined the "Business Rules for Commodity Unbundling;" and

D. Commission Order No. G-90-03 approved Rules for Gas Marketers, the Code of Conduct for Gas Marketers, Rate Schedule 36 for Commodity Unbundling Service, the format of Unbundled Commercial Service Rate Schedules 2U and 3U, the format of Stable Commodity Rate Schedule 1S and the Stable Commodity Rate Agreement, and other Tariff changes related to the Commodity Unbundling and Gas Choice Phase 1 program; and

E. On January 16, 2004, Terasen Gas filed a Cost Allocation Application for Commodity Unbundling and Customer Choice Phase 1 (the "Application"); and

F. On January 26, 2004 a Commission-led Workshop was held on the Application; and

G. On January 27, 2004 Terasen Gas filed revised forms of Schedules F and G of the Application; and

H. Commission Order No. G-13-04 dated January 28, 2004 established the Regulatory Timetable for a written public hearing process to examine the Application; and

…/2

I. On February 11, 2004 Terasen Gas responded to information requests from the Commission, Direct Energy Marketing Limited ("Direct Energy"), and CEG Energy Options Inc., and sought clarification on three issues; and

J. Terasen Gas responded to supplemental information requests from the Commission and Direct Energy on February 20, 2004 and February 26, 2004 respectively; and

K. Terasen Gas responded to comments on the Application from Ontario Energy Savings Corp. on February 23, 2004.

NOW THEREFORE the Commission orders that the requests in the Application and the February 11, 2004 letter are approved as follows, with Reasons for Decision regarding Items 1, 6, 11, 13 and 16 attached as Appendix A to this Order.

1. The assignment of existing Gas Cost Reconciliation Account ("GCRA") components to either the Commodity function or the Midstream function, as outlined in Section 2 of the Application, except that Commodity Cost Reconciliation Account ("CCRA") balances will be considered variable costs and the treatment of Midstream Cost Reconciliation Account ("MCRA") balances will be reviewed for the period commencing January 2006 (See Reasons for Decision).

2. The Commodity Cost Recovery Charges for Rate Schedules 1, 2, 3, 4, 5, 6, 6A, 7, 2U and 3U, and a new deferral account, the CCRA, to be effective April 1, 2004 as outlined in Section 2 of the Application.

3. The Midstream Cost Recovery Charges for Rate Schedules 1, 2, 3, 4, 5, 6, 7, 2U and 3U, and a new deferral account, the MCRA, to be effective April 1, 2004 as outlined in Section 2 of the Application.

4. The discontinuation of the use of the GCRA as of March 31, 2004 and the transfer of the balance in that account as at March 31, 2004 to the MCRA, as outlined in Section 2 of the Application.

5. The mechanism used to review the CCRA and MCRA balances and approve future changes to the Commodity rates and the Midstream rates, as outlined in Section 2 of the Application.

6. The GCRA quarterly report (or CCRA and MCRA report) expected for April 1, 2004 should be deferred to an April filing with the expectation that any significant difference in costs should be flowed through effective May 1, 2004 (See Reasons for Decision).

7. The transfer of any balance in the CCRA at October 31, 2004 to the MCRA, as outlined in Section 2 of the Application.

8. Deferral account treatment and cost recovery methodology, including 3 year amortization period and inclusion of AFUDC, of the program development costs incurred in the implementation of the Commodity Unbundling program, as outlined in Section 3 of the Application.

9. Cost recovery of ongoing Operating and Maintenance costs related to providing the Commodity Unbundling program, as outlined in Section 4 of the Application.

10. Transaction Fee of $30.00 for the Historical Consumption Release service to marketers, to be included in the approved Rate Schedule 36, Appendix B, to be effective April 1, 2004, as outlined in Section 4 of this Application.

11. A zero incremental bad debt factor for unbundled customers for the period beginning November 1, 2004 to October 31, 2005. For the period November 1, 2004 to October 31, 2005, Terasen Gas will record in a deferral account the dollar difference between the actual bad debt of Rate Schedules 2U and 3U customers and 0.30 percent of the gross revenue received from Rate Schedules 2U and 3U customers. The disposition of the amounts in this account and the establishment of an appropriate bad debt factor will be subject to future determination by the Commission (See Reasons for Decision).

12. Deferral account treatment and cost recovery methodology for the implementation costs and annual operating costs of providing the Stable Commodity Rate Service program, as set out in Section 5 of the Application.

13. Operating costs related to scope changes to the Client Services Agreement with CustomerWorks Limited Partnership for the Commodity Unbundling program and the Stable Commodity Rate program as revised in finalized Schedules F and G that Terasen Gas filed on January 27, 2004, effective April 1, 2004, as outlined in Section 6 of the Application (See Reasons for Decision).

14. Post-implementation review process as outlined in Section 7 of this Application.

15. A Commodity Unbundling Standing Committee to review yearly the Midstream Gas Contracting Plan and annual Midstream Cost Recovery Charge Application.

16. Provision of the Receipt Point Fuel Requirement by commodity providers (including Terasen Gas, where the cost would be included in the CCRA) and recording of fuel cost variances related to the Receipt Point Fuel Requirement will be recorded in the MCRA (See Reasons for Decision).

DATED at the City of Vancouver, in the Province of British Columbia, this 12th day of March 2004.

BY ORDER

Original signed by:

Robert H. Hobbs
Chair

Attachments

Terasen Gas Inc.

Commodity Unbundling and Customer Choice Phase 1
Cost Allocation Application dated January 16, 2004

REASONS FOR DECISION

1.0 INTRODUCTION

1.1 Background

The introduction of commodity unbundling for the residential and commercial customer classes in the Terasen Gas Inc. ("Terasen Gas') service area has evolved through a number of stages. The unbundling program began on November 5, 1998 with Letter No. L-79-98 which requested Terasen Gas (then called BC Gas Utility Inc.) to prepare a proforma unbundling tariff to provide both customer classes with the option of transportation service. The development of an appropriate business model delayed the project and the Marketing Unbundling Group ("MUG") was formed as a collaborative stakeholder group to investigate full unbundling. MUG submitted a report in August 1999 that outlined the implementation plan for a November 1, 2001 introduction date but this start-up date was later postponed to the following year when the proposed business model was unacceptable to marketers.

The Commission determined at this point that amendments to the Utilities Commission Act were necessary to provide for better control of marketers in the BC marketplace and legislative changes were proposed. These amendments would require gas marketers that serve low volume customers to be licensed, which would include posting a security deposit or bond before being allowed to participate in the program. The objective was to avert problems encountered in other provinces when misinformation was distributed to consumers and financially unstable marketers failed, leaving their customers without gas supply.

The Commission held a stakeholder meeting on September 20, 2001, where most participants agreed that it was not cost effective to continue with further development without assurances that legislative changes would be made. The proposed business model remained an issue as marketers expressed concern with the supply balancing requirement and the one-year contract limitation with consumers. In their view, these were major hurdles that would prevent marketers from participating in unbundling service. At this point the Commission formally suspended the program by Letter L-36-01 with the provision to revisit the initiative when the Commission had the necessary licensing and enforcement powers.

With the introduction of the energy policy in the fall of 2002, a stronger emphasis was placed on commodity unbundling for residential and commercial customers. Policy Action #19 of the November 25, 2002 provincial energy policy "Energy for our Future: A Plan for BC" stated that:

> "For three years, natural gas suppliers, ratepayers and BC Utilities Commission have been working to extend direct sales to residential and small commercial customers. New tracking software will allow customer bills to identify from whom natural gas was purchased and what it cost. Although gas brokers and marketers have successfully shown that they can provide a customized array of low cost services, some jurisdictions (e.g. Ontario and Alberta) have required licensing and bonding to protect consumers from misleading marketing practices.
>
> The Utilities Commission Act will be amended in spring 2003 to allow direct natural gas sales to low volume customers, and to require the licensing of marketers who serve those customers. The commission will establish the rules, including posting of a security deposit, to obtain a gas marketing Licence."

The Commission instructed Terasen Gas in Letter L-49-02 dated December 13, 2002 to resume work on the project with the objective of making the commodity unbundling option available for November, 2004. Terasen Gas issued its report, Commodity Unbundling and Customer Choice Report dated February 28, 2003 that introduced the Essential Services Model and the Stable Rate Option for residential customers. This business model separates midstream resources from the natural gas commodity cost so that commercial customers have choice over the supplier for the commodity component of gas service. The Commission also approved a deferral account in the amount of $1,050,000 with Order Letter L-14-03 dated April 16, 2003 to allow further development of the implementation plan, design and approval phases.

Terasen Gas outlined its proposed Business Rules based on the Essential Services Model in its May 6, 2003 letter to the Commission and conducted consultation sessions with all interested parties. On May 22, 2003 a Commission-led workshop was held with all stakeholders. After receiving comments from this session, the Commission finalized the Business Rules in Letter No. L-25-03 dated June 6, 2003.

Based on this established framework provided by the Essential Services Model and the Business Rules, Terasen Gas developed the Commodity Unbundling and Customer Choice Report dated July 18, 2003 that outlined the next phase of the unbundling program and costs necessary to maintain the November 1, 2004 start-up date. In response to the funding request, Order No. G-57-03 dated September 15, 2003 approved a total deferral account in the amount of $7,150,000 for project development.

In its October 27, 2003 application, Terasen Gas Commodity Unbundling Application, approval was sought for essentially three major elements; tariff amendments (including the Notice of Appointment of Marketer and the Commodity Unbundling Agreement that are components of Rate Schedule 36), the Code of Conduct, and the Customer Education Program. Following a Commission workshop, Order No. G-90-03 dated January 9, 2004 approved the Application, including Terasen Gas' December 4, 2003 revisions to the Application. Order No. G-90-03 also approved the Code of Conduct for Gas Marketers and the Rules for Gas Marketers.

1.2 The Application

In its Commodity Unbundling and Customer Choice Phase 1 Cost Allocation Application dated January 16, 2004 (the "Application"), Terasen Gas sought approval for the following:

1. Midstream and Commodity rates for bundled sales Rate Schedules (1, 2, 3, 4, 5, 6, 6A 7) and Commodity Unbundling Rate Schedules (2U and 3U) to be effective April 1, 2004.
2. Amortization and disposition of deferral accounts related to Commodity Unbundling and the Stable Commodity Rate Residential Service.
3. Costs related to two Scope Changes to the Client Services Agreement with CustomerWorks Limited Partnership.
4. A bad debt factor of 0.3 percent for unbundled commercial commodity deliveries to be effective November 1, 2004.
5. Transaction fee for the Historical Consumption Request set at $30 as set out in Rate Schedule 36.
6. Commodity Unbundling Standing Committee of interested parties to be formed as part of the regular process to review Midstream rates each year.

1.3 The Written Hearing Process

Commission Order No. G-13-04 directed that the Application be examined in a written Public Hearing Process and set out a Regulatory Agenda. The latter allowed for Information Requests and Responses, Written Submissions from Intervenors and Final Argument from Terasen Gas. Terasen Gas responded to Information Requests from the Commission, Direct Energy Marketing Limited ("Direct Energy") and CEG Energy Options Inc. ("CEG") on February 11, 2004. It further replied to supplementary Information Requests from the Commission and Direct Energy on February 20, 2004 and February 26, 2004 respectively. Terasen Gas filed a written response to comments from Ontario Energy Savings Corp. ("OESC") on February 23, 2004. The List of Exhibits is Appendix B to the accompanying Order.

2.0 ISSUES

In the Application, Terasen Gas requested Commission approval of a number of matters that are set out on pages 2 and 3 and elsewhere in the filing. In its February 11, 2004 letter, Terasen Gas requested clarification of the Commission's position on three additional matters. These Reasons for Decision will only address the three matters that Terasen Gas raised in its February 11, 2004 letter and those matters, which are identified in the accompanying Order, where significant issues have been raised.

2.1 Identification and Allocation of Gas Cost Components

The Application requested approval of:

> "the assignment of existing Gas Cost Reconciliation Account ("GCRA") components to either the Commodity function or the Midstream function, as outlined in Section 2 of the Application."

When allocating gas costs, Terasen Gas proposes that Commodity Cost Reconciliation Account ("CCRA") and Midstream Cost Reconciliation Account ("MCRA") year-end balances would be considered fixed costs in the calculation of the Commodity and Midstream Cost Recovery Charges and recovered or repaid over a one year period, consistent with the current calculation of GCRA riders (Exhibit B-7, BCUC IR 1.2, 1.3, 1.4).

Commission Letter No. L-25-03 determined the Business Rules for Commercial Unbundling. Appendix A, Article 13, of the Letter stated:

> "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."

The current methodology for allocating gas costs to the various rate classes was established by the Commission's February 21, 1992, BC Gas Inc. Phase A Rate Design Decision. As Section 2.2 of the Application states, gas costs are broken down into fixed costs and variable costs. Fixed costs are allocated to the rate classes based on coincident peak loads, where the coincident peak load is the result of dividing the forecast sales demand for the rate class by the load factor for that class. Variable costs are allocated based on annual load, as the average cost over the forecast sales for the period.

When the GCRA is split into the CCRA and the MCRA, gas costs must be separated between commodity and midstream, as well as identified as fixed or variable. Appendices 1 and 2 in the Application show the gas cost allocation that Terasen Gas used to split the current Gas Cost Recovery Charges (gas commodity rates) into the Commodity and Midstream Cost Recovery Charges that it proposes will take effect April 1, 2004.

Direct Energy stated that it believed that a comprehensive review of the gas cost allocation methodology should be undertaken as part of the unbundling process (Exhibit No. C3-2). Terasen Gas responded that Commission Letter No. L-25-03 dealt with this matter (Exhibit No. B-9, p. 1). No other interested party commented on the gas cost allocation methodology as proposed by Terasen Gas.

Although the allocation principles are straightforward, the Commission Panel considers that it is appropriate to give consideration to the identification and grouping of costs in the context of current gas market practices and the gas supply resources that are involved. The Commission Panel observes that the costs to be recorded in the CCRA are almost entirely variable in nature (Exhibit No. B-7, BCUC IR 1.2). The two exceptions are the relatively small fixed core market administration cost and the 30 percent demand component of the old-style baseload contracts that are being phased out. Since CCRA balances appear likely to result from variances between forecast and actual costs that are themselves variable, the Commission Panel concludes that such balances should be treated as variable costs.

The costs to be recorded in the MCRA have significant fixed and variable components, and so MCRA account balances are likely to result from variances in both fixed or variable costs. Terasen Gas proposes to establish a Commodity Unbundling Standing Committee, and the Commission Panel believes that it may be helpful to have a report from such a committee on whether future MCRA balances should be considered to be fixed or variable costs.

The Commission Panel accepts the assignment of existing GCRA components to the Commodity function and the Midstream function as set out in the Application, except that CCRA balances will be considered variable costs and the treatment of MCRA balances will be reviewed for the period commencing January 2006. When Terasen Gas applies for approval of Midstream Cost Recovery Charges to take effect January 2006, it is requested to include a report that reviews and makes a recommendation on the fixed versus variable treatment of MCRA balances.

2.2 Gas Cost Reconciliation Account Quarterly Reporting

The Application requested approval of:

> "the deferral of any potential Gas Cost flow-through rate change determined for April 1, 2004 to July 1, 2004 resulting from the application of the existing quarterly GCRA review mechanism, as outlined in Section 2 of this Application."

Terasen Gas indicated that the results of the Gas Cost Reconciliation Account ("GCRA") review from the quarterly gas cost flow-through mechanism that will be submitted to the Commission in March (for a possible rate change April 1, 2004) will be well within the +/-5 percent deadband at 100.8 percent. The May 1, 2004 results estimate is not expected to be significantly different and therefore Terasen Gas believes there is no benefit to adjusting commodity rates on May 1, 2004 if the revenue to cost ratio is within the deadband limits (Exhibit B-5, BCUC IR 1.3, page 2; CEG IR 1.0, page 1).

It was the view of OESC that as of May 1, 2004 the commodity rates should reflect as closely as possible the actual costs of acquiring gas supplies. This was to ensure that customers are able to make a reasonable comparison between a marketer's offering and the Terasen Gas commodity rate (Exhibit C2-3).

The Commission Panel determines that the GCRA quarterly report (in future the CCRA and the MCRA quarterly reports) expected for April 1, 2004 should be deferred to an April filing with the expectation that any significant difference between gas commodity costs and revenue should be flowed through effective May 1, 2004. The Commodity Cost Recovery Charges and the CCRA would then reflect actual gas costs and be on a similar cost structure with the marketers at the time marketers begin to solicit customers.

Terasen Gas is directed to file in early April 2004 a report that is generally in the form of a quarterly GCRA report regarding CCRA and MCRA balances and that compares gas Commodity costs and revenue for the 12 months commencing May 1, 2004. The April report should identify the Commodity rate changes that would be needed to eliminate any differences between Commodity costs and revenue, and the Commission will determine if a rate change is needed after reviewing the report.

2.3 Bad Debt Factor

The Application requested approval of:

> "…a Bad Debt Factor of 0.3%, to be effective November 1, 2004, as outlined in Section 2 of this Application."

This issue deals with how Terasen Gas should handle bad debt expenses that are likely to occur from distributing gas to the marketer's customers. Terasen Gas' position is that charging marketers a bad debt deduction on their sales revenue from customers is appropriate as the bad debt expense incurred relates directly to the marketers' customers. As marketers must build their operating costs and a profit margin into their pricing, higher gross billings are likely to result from unbundling. Terasen Gas believes the expense for bad debt will also be proportionately higher as a result. Finally, Terasen Gas believes it is inappropriate for its Core (firm utility sales) commercial customers or its shareholders to be exposed to the risk of increased bad debts on the marketers' costs and profit margins.

Terasen Gas proposes that marketers be charged a percentage bad debt deduction (Bad Debt Factor) on gross sales to their customers. The Bad Debt Factor would be fixed effective November 1 each year based on the overall bad debt recovery forecast used for the purposes of the Terasen Gas annual budget for the calendar year that includes such November 1. For calendar year 2004, Terasen Gas seeks approval for the Bad Debt Factor to be set at 0.30 percent.

Terasen Gas proposes that the proceeds of the bad debt deduction will be credited to the deferral account utilized for the recovery of the unbundling capital implementation costs. Where the overall bad debt experience increases significantly as a result of unbundling, Terasen Gas proposes that a portion of these proceeds be allocated to offset the additional bad debt exposure.

As support for its position, Terasen Gas researched other jurisdictions that have unbundled gas sales. In Alberta and Georgia, billing of customers is performed by the marketer instead of the utility. As a result, marketers are directly responsible for the collection of customers' bills including the management of bad debts. Terasen Gas is not proposing that marketers become responsible for billing of customers nor handling bad debts in this way. In Ontario, the gas utilities continue to be responsible for the billing function. One utility recovers a bad debt allowance from the marketers through the administration fee that is levied.

Intervenors generally do not question their obligation to reimburse Terasen Gas for bad debts. CEG prefers a fixed debt factor but acknowledges that it increases Terasen Gas' risk of unforeseen shortfalls. CEG argues against paying a disproportionately higher debt factor than the average customer class. OESC believes that the recovery of bad debt expense should be consistent for all customers eligible for the unbundling process. It is OESC's view that bad debt expense should be collected in the commodity rate for either Terasen Gas or marketer-supplied gas so as to match costs and their recovery and contribute to the development of a level playing field.

The Commission Panel accepts the position taken by Terasen Gas that neither its Core customers nor its shareholders should be exposed to the bad debt risk of the marketers' unbundled customers. The marketers, unbeknownst to Terasen Gas, can choose whether they target higher or lower risk customers from a credit perspective.

The Panel is not, however, persuaded by the arguments Terasen Gas presents for the Bad Debt Factor methodology that it proposes. As Terasen Gas states, under the existing Terasen Gas rate structure, bad debt is accounted for as part of the delivery margin requirements (Exhibit No. B-7, CEG IR 7a). While bad debt risk can theoretically increase with the increased value of a transaction, as Terasen Gas argues, it is more likely that the credit of the customer will dictate bad debt expense. Terasen Gas provides no evidence in this regard.

While the new gas marketers will choose which customers to sell to, Terasen Gas remains responsible for collections. Terasen Gas and the marketers need to be aware of the credit risk of their respective customer pools in order to minimize bad debt expense and fairly allocate credit exposure. Providing it is cost-effective to do so, Terasen Gas' tracking system for bad debts should be enhanced to provide credit feedback to the marketers as well as improve the data base of information for the Commission in determining the future bad debt factor for Terasen Gas.

The Commission Panel concludes that if a higher bad debt expense for unbundled gas customers can be demonstrated by Terasen Gas, the Commission should grant a higher bad debt allowance and compensation from the marketers to cover the increased bad debt amount to keep Terasen Gas whole. **Nevertheless, there is no evidence that unbundling will change the amount of bad debts, and so the Commission Panel directs that there be no incremental Bad Debt Factor allocated to marketers until it can be demonstrated that a higher (or lower) payment risk is present.**

However, if the realigned marketplace demonstrates that an incremental increase in bad debt expense is in fact warranted, the Core customers and Terasen Gas shareholders are to be kept whole. **Therefore, for the period November 1, 2004 to October 31, 2005, Terasen Gas will record in a deferral account the dollar difference between the actual bad debt of Rate Schedules 2U and 3U customers and 0.30 percent of the gross revenue received from Rate Schedules 2U and 3U customers. The disposition of the amounts in this account and the establishment of an appropriate bad debt factor will be subject to future determination by the Commission.**

2.4 Scope Changes to the CustomerWorks Agreement

The Application requested approval of:

> "…the operating costs related to scope changes to the Client Services Agreement with CustomerWorks Limited Partnership for the Commodity Unbundling program and the Stable Commodity Rate program, effective April 1, 2004, as outlined in Section 6 of this Application."

Terasen Gas filed finalized Schedules F and G on January 27, 2004 which revised the draft Schedules F and G that were in the Application.

Terasen Gas has outsourced to CustomerWorks Limited Partnership ("CustomerWorks") specific activities related to customer enrollment and bill presentation for midstream and marketer charges. The pricing structure that had been negotiated based on fixed and variable components had base fees of $28,996 for 2004 and $31,632 for 2005 and 2006 (Exhibit B-3, Section 5.1, pp. 26 and 27). The cost of the information technology support function had yet to be negotiated when the Application was filed but was expected to be $60,000 for the first year and $90,000 for subsequent years. The actual pricing structure as filed on January 27th was actually 28.8 percent higher for the first year ($77,329) and 35.1 percent higher ($121,632) for the following periods.

The Commission Panel is concerned that the unbundling project stay within the defined budget especially when CustomerWorks is providing the service and prices are not tested with bids from several suppliers. Since CustomerWorks is a non-regulated business subsidiary of Terasen Inc. it is essential that its pricing structure for this project be very competitive with outside unaffiliated suppliers. **The Commission Panel approves the scope changes set out in revised Schedules F and G.**

2.5 Receipt Point Fuel Requirement

Article X of Rate Schedule 36 requires the marketers to provide fuel-in-kind from the receipt points to the interconnections with the Terasen Gas System. In the Application at page 8 and in responding to CEG, Terasen Gas proposed that the Receipt Point Fuel Requirement would be supplied by commodity providers (including Terasen Gas) and any related variances will be captured in the MCRA (Exhibit No. B-8, p.2). The cost of Receipt Point Fuel Requirement supplied by Terasen Gas for its bundled sales customers will be recorded in the CCRA.

It is Terasen Gas' position that the fuel gas allocation is embedded in commodity purchases that are captured by the CCRA account. The commodity purchases will incorporate an incremental volume that reflects the estimated fuel gas requirement (Exhibit B-5, CEG IR 4, p. 2). The fuel gas variance (the difference between the estimated annual fuel gas requirement requested from the commodity providers including Terasen Gas and the actual fuel charges incurred) is recorded in the MCRA (Exhibit B-5, BCUC IR 5.1, p. 9).

OESC was concerned that fuel costs for commodity gas supplied by Terasen Gas would be recovered in the Midstream Cost Recovery Charge. This would place the marketers at a disadvantage since they are supplying the Receipt Point Fuel Requirement and will recover these costs in the commodity charge to customers. OESC felt that Terasen Gas should be recovering the cost of fuel gas in the same way as marketers, and Terasen Gas confirmed that this would be the case (Exhibit C2-3; Exhibit No. B-8, p. 2). OESC felt it is appropriate that fuel cost related variances would be recovered in the MCRA. OESC does not appear to have an issue with respect to “Company own use fuel” which is fuel used within the distribution system for the provision of distribution services.

The Commission accepts that the cost of the Receipt Point Fuel Requirement provided by Terasen Gas will be included in the CCRA. Cost variances resulting from differences in the estimated and actual consumption of the Receipt Point Fuel Requirement from both Terasen Gas and marketers will be included in MCRA.

2.6 Marketer Commodity Pricing

By letter dated February 11, 2004, Terasen Gas is seeking clarification with respect to whether or not index related or flexible pricing arrangements between a marketer and its customers will be allowed. Terasen is seeking clarification because the issue was raised by a participant during the November 2003 workshop. Intervenor submissions did not address this issue.

Commission Letter No. L-25-03 dated June 6, 2003 approved Business Rules in which the Essential Services Model was adopted. Section 7 of the Business Rules establish the marketers requirements for delivery of the commodity to Terasen and section 10 of the Business Rules establish Terasen's obligation to provide billing and collection services.

The Commission notes that the Code of Conduct and Rate Schedule 36 provide clarity with respect to the issue raised by Terasen Gas. The Code of Conduct for Gas Marketers was approved by Order No. G-90-03, and Article 2 states:

> "The Gas supply price must be a fixed price for 12 month intervals expressed in Canadian dollars per gigajoule. This price shall only apply to the sale of Gas and shall not include provision of other services."

Rate Schedule 36 was approved by Order No. G-90-03, and Section 5.06 states:

> "The price established in the contract between the Marketer and the Customer must be a Fixed Price for 12 Months and may only be changed once per Year on the anniversary of the Entry Date…"

and:

> "Such price shall not include amounts payable by the Customer to the Marketer for services other than the Gas commodity cost."

Fixed Price is defined as follows:

> "Fixed Price" shall mean a gas purchase price which is a single, non-tiered price per Gigajoule that does not change for the time period specified."

Rate Schedule 36, Section 7.05, requires Terasen Gas to purchase all gas being supplied by the marketer on behalf of a group of customers, even though some of the customers may leave the group through attrition.

Section 8.01 establishes the price for the purchase of such gas. The risk of gas purchases by Terasen Gas from marketers will be borne by all eligible customers through the MCRA. The Commission Panel confirms that the Code of Conduct and Rate Schedule 36 require that contracts between marketers and their customers have prices that are fixed for 12 month (or longer) intervals and not include the provision of other services.

Indexed or flexible pricing arrangements between the marketer and the customer are not permitted. Nevertheless, the Commission Panel recognizes that imposing such constraints on commercial terms between marketers and their customers may reduce opportunities for marketers. The Commission will revisit this determination if marketers can establish that the requirement for fixed prices is an unnecessary constraint on the commercial terms between marketers and customers.

2.7 Marketer Call Centre Operation

Marketers will provide a toll free number available on a 24 hours per day and seven days per week basis and customer service representatives will be available to respond to inquiries during normal business hours (as defined in Schedule 36). Callers outside normal business hours will be directed to contact Terasen Gas regarding an emergency, and otherwise the calls will be returned on the next business day.

2.8 Marketer Enrollment for November 2004

The enrollment limitation of 10,000 for Commercial Unbundling customers only applies for the November, 2004 initial entry date and after this time there will not be a cap. Enrollment is generally on a first come first served basis.

LIST OF EXHIBITS

	Exhibit No.
Commission Information Request No. 1 to Terasen Gas Inc. dated February 4, 2004	A-1
Code of Conduct for Gas Marketers (attachments)	A-2
Commission Order No. G-13-04 dated January 27, 2004	A-3
Letter dated January 27, 2004 to Ontario Energy Savings Corporation requesting interested Parties written comments by January 28, 2004	A-4
Commission Order No. G-90-03 dated December 23, 2003 with Commission letter dated January 9, 2004 to Terasen Gas Inc.	A-5
Commission Order No. G-19-04 approving a net Core Market Administration Expense of $1.6 million for 2004	A-6
Terasen Gas Inc. Customer Choice Phase 1 Cost Allocation Application dated January 16, 2004	B-1
Corrected pages within Appendix 2 of Customer Choice Phase 1 Cost Allocation Application dated January 19, 2004	B-2
Terasen Gas Inc.'s finalized submission of revised Schedules F and G dated January 27, 2004	B-3
Terasen Gas Inc.'s comments on proposed Regulatory Timetable dated January 28, 2004	B-4
Terasen Gas Inc.'s response to information requests from Commission staff, Direct Energy and CEG Energy Options Inc. dated February 11, 2004	B-5
E-Mail dated January 27, 2004 from Terasen Gas Inc. to the Commission	B-6
Terasen Gas Inc. Responses to BCUC Information Request No. 2	B-7
Response to Application by CEG Energy Options Inc. dated January20, 2004	C1-1
Information Request from CEG Energy Options Inc. received February 5, 2004	C1-2
Response on Stakeholders concerns by CEG Energy Options Inc. dated January 8, 2004	C1-3
Ontario Energy Savings Corp. letter dated January 29, 2004 concurs with written regulatory process	C2-1
Response to Application by Ontario Energy Savings Corp. dated February 4, 2004	C2-2
Letter from Ontario Energy Savings Corp. dated February 18, 2004 commenting on Terasen Gas' Responses to Information Request	C2-3
Direct Energy Information Request dated February 3, 2004	C3-1