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Mr. Marcel Reghelini
Regulatory Affairs
Union Gas Limited
50 Keil Drive
Chatham, Ontario, N7M 5M1

Dear Mr. Reghelini,

You have asked me to identify the potential economic impacts of section 8.3 of the February 6, 2001, "Proposed Gas Distribution Access Rule." Section 8.3 allows for the introduction of gas vendor consolidated billing and split billing. My understanding is that at present Union Gas provides consolidated billing for all retail gas customers (as opposed to high volume industrial customers) within its franchise. In my opinion there are at least two, potentially significant, cost impacts of this regulatory initiative.

First, if the major gas vendors choose to provide consolidated billing this will result in a substantial reduction in Union Gas' billing activity. Given that there are scale economies in the billing function, this reduction in volume will increase per unit costs that ultimately will be passed on to customers. It should be noted that distributor provided billing service has facilitated the entry of marketers in that they have been spared significant investments in billing capabilities. To the extent that the distributors pass on cost increases to vendors opting for ABC-T service, this will impede new entry.

Second, since the distributor will remain the "backstop" provider of both the gas commodity and the billing service it will have to maintain slack capacity in the billing function in order to accommodate any substantial returns to the system. This is different from the distributor's role as a backstop commodity supplier in that the distributor need not maintain inventories of the commodity in order to discharge that responsibility. In the event that a vendor fails to supply its customers with the commodity, the distributor can access gas markets for the commodity, and use extant transportation capacity. However,