



LETTER No. L-37-00

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VIA FACSIMILE

July 21, 2000

Mr. David M. Masuhara
Vice President
Legal, Regulatory & Logistics
BC Gas Utility Ltd.
24th Floor, 1111 West Georgia Street
Vancouver, B.C. V6E 4M4

Dear Mr. Masuhara:

Re: BC Gas Utility Ltd.
1999 Annual NRB Information Report

The Commission thanks BC Gas for its July 10, 2000 response to Commission staff information requests dated March 29 and June 23, 2000 regarding services provided and related cross-charges between BC Gas Inc., BC Gas Utility Ltd. ("BC Gas", "Utility"), and DESCO Distributed Energy Services Co. Ltd. ("DESCO").

In order to further verify to the Commission that BC Gas Utility ratepayers are not cross-subsidizing DESCO activities, the Commission wishes to have the issue of services and cross-charges between the Utility and DESCO explored further.

Therefore, the Commission directs the Utility to have its internal auditor review the following projects for which the Utility provided services to DESCO clients:

- Sun Peaks Project
- Sun Rivers Project
- Shawwood Project
- Project Star
- Abbotsford School District
- Action Construction
- Consumers Glass
- PRT Nursery
- Columbia Greenhouses
- Centra Gas B.C. Inc.

The internal auditor is to report on the services provided by DESCO and whether all of the services provided by the Utility to DESCO were properly accounted for and charged to DESCO in accordance with the BC Gas Code of Conduct and Transfer Pricing Policy. The report is to be provided to the Commission by September 30, 2000 without prior review by senior management of BC Gas Inc., the Utility, DESCO or the audit committee of the Board of Directors. The internal auditor's report should also explain what review procedures were used.

The internal auditor is to undertake a survey of all Utility marketing, distribution, and engineering staff to identify non-Utility projects they worked on in 1999 and if full charging occurred. This survey is to be done in such a way that individual confidentiality is maintained and a final aggregate report is to be provided to the Commission.

Finally, as a result of the Utility's response to BCUC IR question #2, the internal auditor is to report on each non-Utility senior executive located at 1111 West Georgia Street to identify the position and the nature of payments to the Utility for any services (such as office space, benefits etc.) and any charges made to the Utility, directly or by allocation from B.C. Gas Inc., for services rendered in 1999.

Yours truly,

Original signed by:

Robert J. Pellatt

JWF/cms