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BRITISH COLUMBIA UTILITIES COMMISSION

LETTER NO. L-6-04

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VIA FACSIMILE

January 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.
Clean Energy Fueling Services Corp. – Tariff Supplement No. I-8
Interruptible Liquefied Natural Gas Sale and Dispensing Services Agreement

On December 19, 2003 Terasen Gas requested approval of an Interruptible Liquefied Natural Gas ("LNG") Sale and Dispensing Services Agreement with Clean Energy Fueling Services Corp. ("Clean Energy") dated December 5, 2003, as Tariff Supplement No. I-8 (the "Application"). Clean Energy is owned in part by Terasen Inc. Clean Energy would buy the LNG for resale, and would pay a price of $2.22/GJ plus the Sumas Monthly Index during November through March and $2.07/GJ plus the Sumas Monthly Index during April through October. The agreement does not specify the amount of LNG to be sold to Clean Energy, and annual sales are forecast at 91.2 TJ. Terasen Gas requested approval of the Tariff Supplement for the period December 5, 2003 to October 31, 2004 pursuant to Sections 61 and 63 of the Utilities Commission Act. On January 16, 2003 Terasen Gas responded to an Information Request.

The Application states that the Terasen Gas Tilbury LNG facility has 595 TJ of useable storage capacity, and an annual liquefaction capacity of approximately 1,550 TJ. The vaporization capacity is 156 TJ per day. In addition to the needs of utility gas sales (core) customers, the Tilbury LNG facility is used to provide 140 TJ per year of LNG on an interruptible basis to International Forest Products Ltd. for its Adams Lake operation, under Tariff Supplement No. I-5.

The Commission has reviewed the assessment in the Application of available LNG capacity and the assurances that Terasen Gas provided that sales customers would not be disadvantaged by LNG sales to Clean Energy. Nevertheless, the Tilbury LNG facility has finite capacity and its importance in Terasen Gas' supply portfolio was illustrated by the cold period in early January 2004. The Commission is not persuaded that the sale of LNG to Clean Energy is acceptable due to the increased supply and supply cost risk to sales customers.

Furthermore, as the Application notes, the Terasen Gas Transfer Pricing Policy provides that the

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Transfer Price will be set at either the full cost or the competitive market price, whichever is greater. The Application contains information about the cost of liquefaction at the Tilbury LNG facility that Terasen Gas presented in support of the proposed charges to Clean Energy. Terasen Gas also responded to a request for a recalculation of average Tilbury LNG costs based on "normalized" annual liquefaction volumes, and included the cost of LNG Storage as well as liquefaction facilities. Costs according to the two calculations for the November through March period are as follows:

Costs in Dollars per Gigajoules

	Application	**Information Request Recalculation**
Tilbury O&M Costs	$ 0.602	$ 1.255
Tilbury Capital Charges	0.275	1.716
Gas Risk Premium	0.707	0.707
Transportation to Tilbury	0.490	0.490
November-March cost	$ 2.074	$ 4.168

These costs can be compared to the proposed Clean Energy charge in November through March of $2.22/GJ.

Terasen Gas also estimated $3.98/GJ plus the Sumas cost of gas as one measure of the competitive value of LNG delivered to Vancouver in the winter.

In conclusion, the Commission considers that the proposed sale of LNG to Clean Energy may adversely affect the supply security of utility gas sales customers, and that the proposed rate for service is insufficient in comparison to the cost of providing the service and the market value of the product. Therefore, the Commission denies the Application for approval of the agreement with Clean Energy as Tariff Supplement No. I-8.

Yours truly,

Original signed by:

Robert J. Pellatt

JBW/mmc