



LETTER NO. L-55-03

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VIA FACSIMILE

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December 5, 2003

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

Dear Mr. Thomson:

Re: Terasen Gas Inc.
Lease-In Lease-Out ("LILO") Arrangements
Between Terasen Gas Inc. and Interior Municipalities

The Commission has approved the LILO arrangements between Terasen Gas Inc. and the City of Kelowna and the City of Vernon, and understands that Terasen Gas Inc. will be entering into similar arrangements with other Interior Municipalities where the existing agreements have buyout options. As part of the municipal review and approval process, the Commission also understands that each municipality had approved the agreements in principle, carried out a public communication process, including open house meetings, and provided a counter-petition opportunity for municipality ratepayers. In addition, as the municipality must borrow through the Municipal Financing Authority, the proposal was approved by the Inspector of Municipalities. Once the counter-petition process was completed, each municipality submitted the bylaws and the approvals of the Inspector of Municipalities to the Commission.

In addition to the municipal review and approval process, Terasen Gas Inc. must also apply to the Commission for approval to enter into the LILO arrangements and to establish the mode of regulation under which rates will be set to take these arrangements into account. The Commission notes that the LILO arrangements are arrived at after negotiations between sophisticated parties and that through the municipal process, there appears to be a sharing of benefits between the municipality, the utility's customers and the utility's shareholders. The Commission considers that, in most circumstances, the municipal review and approval process discussed above, could negate the need for a long, adversarial process. In the normal course of events, therefore, the Commission would not require a separate public proceeding to deal with these applications unless there is substantive opposition to the arrangements in the municipal public review and approval process.

In these circumstances, it would be appropriate for Terasen Gas Inc. to file its application with the Commission after that process has been completed, together with the supporting documentation provided by the municipality.

Yours truly,

Original signed by:

Robert J. Pellatt

BMcK/cms