



LETTER NO. L-33-04

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VIA E-MAIL

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July 5, 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.
Application to Discontinue External Audit

This letter responds to the Terasen Gas Inc. ("Terasen Gas", "TGI") letter dated June 22, 2004. In that letter TGI applied to discontinue the requirement for a review by its external auditor of TGI's compliance with the Transfer Pricing Policy ("TPP") and Code of Conduct ("CoC").

The TGI application is based on the section of the Multi-Year Performance Based Rate Settlement Agreement for setting rates for the period 2004 - 2008, approved by Commission Order No. G-51-03, which states that:

"... before the first Annual Review, Terasen Gas' independent external auditor will review the work performed by Terasen Gas' Internal Audit Services and at the first Annual Review, consistent with Section 8600 of the CICA handbook "Review of Compliance with Agreements and Regulations", will provide a report of Terasen Gas' compliance with the Code of Conduct and Transfer Pricing Policy. Subsequent to the first Annual Review, Stakeholders and Terasen Gas may make submissions to the Commission regarding whether or not such a review and report by the independent external auditor of Terasen Gas should be continued for other Annual Reviews."

TGI cites three reasons in support of its request to discontinue the need for an external auditor's review of TGI's compliance with the CoC and the TPP.

- (1) Results of reviews by TGI Internal Audit Services ("IAS") and the external auditor, KPMG, both provided at the first Annual Review, found no evidence of non-compliance;
- (2) The cost of the external auditor's review is \$14,980; and
- (3) The Commission concluded, following its review of the complaint by the Heating Ventilating and Cooling Industry Association of British Columbia ("HVCI"), that with recent steps taken by TGI, the HVCI complaint with respect to non-compliance with the TPP and CoC had been satisfied.

TGI has circulated copies of its letter to participants in the 2004-2008 Negotiated Settlement Process. Avista Energy, by letter dated June 24, 2004, has responded to the TGI application and submitted that the services of an independent external auditor as they relate to the CoC and TPP should be continued. By letter dated June 30, 2004, the Lower Mainland Large Gas Users Association also submitted that the services of an independent external auditor were warranted and should be continued.

The Commission has reviewed the TGI application and the responses from Avista and the Lower Mainland Large Gas Users Association. The Commission notes that although the IAS review did not find any instances where TGI was not in compliance with the CoC or TPP, it did make some recommendations for business process improvements that would "...increase awareness and compliance with BCUC Policies".

The Commission concludes that the external auditor should carry out another review of TGI's compliance with the CoC and the TPP prior to TGI's next Annual Review. The results of the reviews by both IAS and the external auditor should be provided at the next Annual Review. TGI may canvass parties at the Annual Review about the need for further reviews by the external auditor and, if there is sufficient support for the idea by the participants in the Annual Review, TGI may apply to the Commission to have the requirement removed in subsequent years covered by the Negotiated Settlement.

Yours truly,

Original signed by:

R.J. Pellatt

JWF/dlf

cc: TGI-PBR-NSP Participants