



LETTER NO. L-50-04

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VIA E-MAIL

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October 1, 2004

Mr. Scott A. Thomson
Vice President, Finance & Regulatory Affairs
Terasen Gas Inc.
16705 Fraser Highway
Surrey, B.C. V3C 2X7

Dear Mr. Thomson:

Re: Terasen Gas Inc. ("Terasen Gas" or the "Company")
Coastal Facilities Project – Variable Interest Entity Application

On August 16, 2004, Terasen Gas Inc. applied to the Commission for approval to adopt a new accounting guideline AcG-15 for Consolidation of Variable Interest Entities, effective January 1, 2005. By adopting this new guideline, TGI would effectively transfer the Coastal Facilities Assets of \$50.3 million under a Synthetic Lease to rate base. The Application outlined the impact of this accounting change would be an additional \$1.053 million to the 2005 revenue requirement for TGI.

The Commission has reviewed this Application and the appropriate accounting treatment under AcG-15 and has determined that deferral of this Application to Terasen Gas' annual review in November 2004 would be in the best interest of the ratepayers given the significant impact of the cost to be recovered.

In accordance with Order No. G-51-03, which included a "no surprise" term to ensure that any significant changes or restructuring at the utility will have been discussed with interested parties in order to reduce the risk of undesirable outcomes, TGI shall provide in the annual review material the financial impact to the ratepayers and shareholders for the following three scenarios if:

- AcG-15 is adopted,
- AcG-15 is not adopted, or
- Variance from GAAP is ordered for regulatory purposes.

These scenarios will enable the interested parties to review the impact and provide opportunities to evaluate mitigating options for adopting this new accounting treatment.

Yours truly,

Original signed by:

Robert J. Pellatt

RJP/cms

cc: Intervenor/Interested Parties to 2003 Annual Review