



LETTER NO. L-46-04

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Log No. 6850

VIA E-MAIL

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August 27, 2004

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

Dear Mr. Thomson:

Re: Terasen Gas (Squamish) Inc.
Main Extensions Review - 2003

The Commission has examined the July 16, 2004 filing of the 2003 Squamish Main Extensions Review ("Main Extensions Review") in accordance with the approach described in Letter No. L-46-94. The Main Extensions Review compares the projected and actual Rate Stabilization Fund ("RSF") impact of construction costs, customer additions and volume additions. Terasen Gas (Squamish) Inc. ("TGS") uses the per unit rates of revenue, cost of gas, O&M / customer, income taxes and property taxes from the approved extension in determining the actual RSF impact.

TGS requests approval to discontinue reporting on the Gambier Street, Diamond Willow, and Westway Avenue main extensions as set out in Letter No. L-46-94.

Five or more years of information has been provided for Gambier Street and Westway Avenue main extensions. However, both of these main extensions have unpaid RSF draw balances at the end of 2003 and have not established a consistent pattern of profitability. Letter No. L-46-94 states that settlement of the RSF draw variance is expected to be made at the end of five years for small extensions. Since five years of reporting has been completed, these two main extensions may be removed from further reporting if settlements for the current unpaid RSF draw variances are made to the Province as was expected in Letter No. L-46-94.

Diamond Willow main extension has completed three years of actual results and has an unpaid RSF draw balance at the end of 2003. The main extension has not established a consistent pattern of profitability. Letter No. L-46-94 states that small main extensions must be included in the yearly main extension review report for a period of five years and that settlement of the RSF draw variance is expected to be made at the end of five years. This main

extension may not be removed from further reporting since five years of actual information has not been completed and the main extension has not shown a consistent pattern of profitability.

The Brackendale / Garibaldi Highlands main extension has significantly underperformed from forecast, accumulating an RSF draw of \$1,627,256 at the end of 2003. Considerable annual draws have occurred over the last five years including an RSF draw of \$372,393 in 2003. TGS indicated in its filing that a formal proposal to resolve the matter would be filed with the Province by early August. At the present time, the proposal has not been filed. Instead, TGS plans to file a formal proposal by mid-September.

Yours truly,

Original signed by:

Robert J. Pellatt

DC/cms

cc: Mr. Stirling M. Bates, Director, Regulatory Policy
Oil and Gas Policy Branch / Oil and Gas Division
Ministry of Energy and Mines
Mr. Paul Wieringa, Director
Electricity Policy Branch
Ministry of Energy and Mines