



LETTER NO. L-56-04

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VIA E-MAIL

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November 25, 2004

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

Dear Mr. Thomson:

Re: Terasen Gas (Vancouver Island) Inc. ("TGVI")
BCUC Order No. G-69-03 and Letter No. L-21-04
Preliminary Expenditures on Gas Supply to Vancouver Island
Deferral Account – September 2004 Update Report

On November 9, 2004, TGVI filed its September 2004 Update Report ("Report") on the deferral account related to preliminary expenditures on gas supply to Vancouver Island. Actual expenditures to the end of September 2004 were \$1,249,000. Commission Letters No. L-27-03 and L-21-04 approved the recording of certain expenditures in the account, up to a maximum of \$2,074,000. At the time of the July 2004 Update Report, this maximum amount was expected to approximately cover expenditures through November 2004, at which time TGVI expected to obtain a firm EPC contractor price for a liquefied natural gas ("LNG") storage facility.

The Report indicates the timeline for the development of the proposed LNG project has expanded, with the firm EPC price now expected January 27, 2005. The Report also indicates the expectation of significant cost increases over TGVI estimates related to the EPC Bidder, CPCN Application and Project Development. TGVI estimates that expenditures to the end of January 2005 will be \$2,975,000.

The Commission notes that TGVI has not yet executed a long-term firm transportation service agreement (including curtailment rights and access to the shipper's gas supply) to serve thermal generation on Vancouver Island. In addition, during the oral public hearing regarding the proposed LNG storage facility that was established by Order No. G-83-04, British Columbia Hydro and Power Authority and other Intervenor have questioned the urgency of the need for the LNG facility.

Considering all these circumstances, the Commission confirms that TGVI is to limit the amount of expenditures that it records in the deferral account to the current maximum of \$2,074,000, in the absence of further Commission approvals. In the meantime, TGVI should continue to file Update Reports at two month intervals.

Yours truly,

Original signed by:

Robert J. Pellatt

JBW/dlf