



LETTER NO. L-4-05

ROBERT J. PELLATT
COMMISSION SECRETARY
Commission.Secretary@bcuc.com
web site: <http://www.bcuc.com>

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, B.C. CANADA V6Z 2N3
TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

Log No. 8377

Via E-Mail

regulatory.affairs@terasengas.com

January 13, 2005

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 (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 – November 2004 Update Report

On December 22, 2004, TGVI filed its November 2004 Update Report ("Report") on the deferral account related to preliminary expenditures on gas supply to Vancouver Island. Actual expenditures to the end of November 2004 were \$1,538,000. 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, and that the contract award date could be deferred to February 28, 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 February 2005, will be \$2,973,000, and requested approval of the \$2,973,000 estimated costs.

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 Intervenors have questioned the urgency of the need for the LNG facility.

Commission Letter No. L-56-04 stated 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. The Commission recognizes that TGVI is continuing with the development of the LNG storage facility option. Nevertheless, considering all the circumstances, the Commission denies TGVI's request for approval to record more than \$2,074,000 in the deferral account.

Yours truly,

Original signed by:

Robert J. Pellatt

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