



LETTER NO. L-43-06

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Log No. 15195

VIA E-MAIL

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July 27, 2006

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. ("Terasen Gas")
Application for a Certificate of Public Convenience and Necessity
Mission Intermediate Pressure System Upgrade

This is in response to Terasen Gas' June 20, 2006 application (the "CPCN Application") for a Certificate of Public Convenience and Necessity ("CPCN") for seismic upgrading of the Mission Intermediate Pressure System (the "Project").

The Commission has reviewed the CPCN Application and the responses dated July 14 and 19, 2006 to Commission Information Request No.1, particularly the responses to BCUC IR 2.1, 5.1, 5.2, 5.3, 5.4 and 5.5. The Commission does not agree with Terasen Gas' position that there is an urgent need to expeditiously review and make a determination on the CPCN Application (At this time, the Commission takes no view with respect to the urgency for the Project itself).

The Commission concludes that it would be premature to attempt to review the CPCN Application in the absence of the results of the technical work that Terasen Gas is carrying out to confirm that the horizontal directionally drilled option is feasible, and to provide a reasonably reliable cost estimate for the project. Terasen Gas states that the cost estimate in the CPCN Application should be accurate within plus or minus ten percent, but is not prepared to accept a project cost cap based on this estimate. Moreover, as illustrated by the questions in Commission Information Request No. 2, additional information is needed to determine which upgrade option is the most cost-effective and appropriate.

Terasen Gas states that the results of the feasibility assessment and the updated cost estimate are expected to be available by October 1, 2006. The Commission hereby suspends the review of the CPCN Application until Terasen Gas files a report on the results of its Construction Feasibility assessment and updates the cost estimate for the project and the CPCN Application as necessary. After it receives the report, the Commission intends to resume the review of the CPCN Application and to issue a Regulatory Timetable for the review.

The Commission determination to suspend the review of the CPCN Application means that a decision on the CPCN Application will not be available by August 1, 2006, but this may not necessarily affect the schedule for the Project. On page 3 of its July 14, 2006 filing, Terasen Gas indicates that in this situation it will continue with the

feasibility study. Terasen Gas states that if the Commission subsequently finds that a CPCN for the Project is not in the public interest, it believes it would be reasonable to recover the feasibility study costs from customers. The Commission expects that normal regulatory accounting rules will apply with respect to these costs.

Commission Information Request No. 2 is enclosed. Please respond to this Information Request at your convenience, and in any case no later than when the report on the feasibility work is filed.

Yours truly,

Original signed by

Robert J. Pellatt

JBW/yl

Enclosure

cc: Terasen Gas Inc 2005 Annual Review – Intervenors and Interested Parties (*TGI-2005 Ann Rev*)
Parties listed on page 25 of the CPCN Application