

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



LETTER No. L-27-03

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. 3400

VIA FACSIMILE

June 13, 2003

Mr. Geoff Higgins
Manager, Regulatory Affairs
Terasen Gas (Vancouver Island) Inc.
1675 Douglas Street
P.O. Box 3777
Victoria, B.C. V8W 3V3

Dear Mr. Higgins:

Re: Terasen Gas (Vancouver Island) Inc. ("Terasen")
Supply of Gas for Thermal Generation on Vancouver Island
Application for Deferral Account for Preliminary Survey and Investigation Costs

This is in response to the June 5, 2003 letter from Terasen requesting approval to record up to \$225,000 of preliminary survey and investigation costs in a non-rate base deferral account that would attract interest at Terasen's short-term interest rate. The investigation relates to expanding the Terasen system to provide natural gas to the Vancouver Island Generation Project ("VIGP") or to NorskeCanada generation on Vancouver Island. The costs are for third-party consulting, legal advice and representation, and miscellaneous employee travel. Employee salaries and wages are not included, and the Commission will expect that this will apply to employees of all members of the Terasen Inc. group of companies.

Terasen and its customers have an interest in the proposal to deliver gas to thermal generation on Vancouver Island, and in the Commission's proceeding to review the VIGP application. However, to be prudent recognizing the proximity of the VIGP hearing, the Commission expects that Terasen will keep its investigations at a preliminary level until a determination has been made with respect to VIGP. Similar concerns apply when reviewing Terasen's forecast expenditure for Legal, which largely seems to be for participation in the VIGP hearing, and Travel and Miscellaneous costs.

Considering the study work that Terasen has presented to date and the schedule for the VIGP hearing, the Commission does not see value in conducting Phase 3 site selection work at this time. The LNG consultant should not need to do more than prepare the LNG Preliminary Plan, unless the consultant is required to appear in the hearing as an expert witness. A reasonable provision for the LNG consultant, Legal, Travel, and other miscellaneous costs would appear to be approximately one-half of the amounts proposed by Terasen. Consequently, the Commission approves deferral account treatment for Vancouver Island thermal generation preliminary survey and investigation costs, up to a limit of \$125,000.

Yours truly,

Original signed by:

Robert J. Pellatt

JBW/rt