



LETTER NO. L-65-05

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VIA E-MAIL

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August 5, 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 (Whistler) Inc.
Preliminary Expenditures on Natural Gas Supply Strategy
Application for Approval of Deferral Account

By letter dated July 18, 2005, Terasen Whistler requested Commission approval of a rate base deferral account to record current preliminary expenditures relating to the development of a natural gas pipeline to Whistler and the related conversion of the existing propane distribution system in Whistler ("the Application"). The work would include alternative route examination and capital cost updates, environmental updates, public and First Nations consultation, the Ministry of Transportation's permit process and the Commission's Certificate of Public Convenience and Necessity ("CPCN") Application process. Current expenditures are estimated to total \$750,000 to the end of 2005.

The costs that Terasen Whistler proposes to record in the deferral account do not include expenditures by Terasen Inc., under its Memorandum of Understanding with the Resort Municipality of Whistler ("RMOW") to develop a Sustainable Energy Strategy. Also, in recognition that significant costs related to past development work on a gas pipeline to Whistler are held in a deferral account, Terasen Whistler intends to minimize current development spending to items essential to the CPCN application.

In the Application, Terasen Whistler presents a number of reasons why it believes that it should proceed with the development of a natural gas pipeline option, and states that it is essential to conduct consultation and to update past development work. Terasen Whistler's 2004 rate base was \$16.8 million and 2004 Operating and Maintenance ("O & M") Expenditures were \$721,000, and the Utility believes it is prudent to seek Commission approval for deferral account treatment since the proposed expenditures represent a significant addition. Terasen Whistler states that deferral account treatment is appropriate because it cannot fund these expenditures under its approved O & M budget and it is inappropriate for the costs to be paid by Terasen Inc.

The Commission notes the reasons put forward by Terasen Whistler in support of the development of the natural gas pipeline option and the general support of stakeholders for this option. The Commission is also aware of the challenges of justifying the gas option in an environment where RMOW's principles of moving to renewal energy technology may lead to declining load over the longer term. It may be appropriate to ask the parties that are encouraging the development of a natural gas pipeline as part of a Sustainable Energy Strategy for Whistler, to provide material support for Terasen Whistler's efforts to develop the option.

Regulatory accounting provides an established framework for dealing with expenditure on preliminary studies. In the circumstances, the Commission is not persuaded that it should approve special accounting treatment in the form of a deferral account for current expenditures related to a natural gas pipeline option for Whistler, and denies the Application to record current development expenditures in a deferral account.

Yours truly,

Original signed by C.M. Smith

Robert J. Pellatt

JBW/dlf