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August 29, 2006

British Columbia Utilities Commission
6th Floor, 900 Howe Street
Vancouver, B.C.
V6Z 2N3

Attention: Mr. R.J. Pellatt, Commission Secretary

Dear Sir:

**Re: Terasen Gas Inc. – Revelstoke Service Area Quarterly Gas Costs
2006 Third Quarter Report**

Historically, Terasen Gas Inc. (“Terasen Gas”) used a percentage of Nymex crude oil futures prices as an indicator of future propane prices. The decision to not use Nymex propane futures prices was in part due to the fact that Nymex propane is extremely illiquid and often does not trade more than 2 or 3 contracts per day (2,000 – 3,000 bbls). Crude oil futures on the Nymex, however, trade approximately 80,000 contracts per day just for the front month contract alone (80,000,000 bbls per day). The Nymex crude oil market is also an extremely liquid market for future months, trading out several years whereas propane futures usually do not trade beyond 14 months. Past pricing analysis of propane prices indicate that it maintains a range in its relationship to Nymex crude oil.

In today’s market, given the geopolitical risk with crude oil and storage surplus with natural gas, crude oil and natural gas prices have begun to separate from historic differentials. This has happened for short periods of time in the past. Propane prices in North America are heavily influenced by both crude oil and natural gas markets and with this pricing separation, it appears that Nymex propane prices in the short term may be a closer approximation of propane prices in Alberta, though Nymex crude oil prices are thought to still provide a good indicator over the long term.

Due to the current price separation of crude oil and natural gas in the market, Terasen Gas, at this time, proposes to continue to monitor the future trends of both Nymex propane and Nymex crude oil futures in forecasting propane prices for the purposes of determining gas cost recovery rates.

The attached materials provide the 2006 Third Quarter Gas Cost Report for Terasen Gas Inc. – Revelstoke service area. Two sets of forward prices are being submitted within this report. One strip is based on the Nymex WTI light sweet crude oil futures, and the second is based on the Nymex Mt. Belvieu propane futures. The attached schedules provide a summary of the forecast monthly deferral account balances based on the projected September 30, 2006 deferral balance, the forward propane prices as at August 21, 2006, and the forecast recoveries under each of the two sets of forward prices.

Based on the August 21, 2006 forward Nymex WTI light sweet crude oil prices and current rates (Tab 1), the projected deferral account balance at September 30, 2006 is \$146,707 deficit (pre-tax) (Tab 1, Page 1, Line 4, Column 7), and the forecast deficit at September 30, 2007 is \$445,868 (pre-tax) (Tab 1, Page 1, Line 19, Column 7). The rate change trigger mechanism is calculated to be 88.9% (Tab 1, Page 1, Line 24 & 25, Column 4), which does not fall within the deadband range of 95% and 105%. Therefore, based on crude oil prices, an increase in the propane reference price and customer rates is indicated. The twelve-month recovery of the projected September 30, 2006 deferral account deficit balance adds

\$0.0149/litre to the proposed revised reference price of \$0.3929/litre (Tab 1, Page 2, Line 15, Column 9) for a total of \$0.4078/litre (Tab 1, Page 3, Line 9). The reference price increase of \$0.0454/litre corresponds to a rate increase of \$1.840/GJ (Tab 1, Page 3, Line 20). This equates, based on an average consumption of 80 GJ/year, to a burnertip increase of 9.4% for residential customers (Tab 1, Page 5, Line 16).

Based on the August 21, 2006 forward Nymex Mt. Belvieu propane prices and current rates (Tab 2), the projected deferral account balance at September 30, 2006 is \$140,544 deficit (pre-tax) (Tab 2, Page 1, Line 4, Column 7), and the forecast deficit at September 30, 2007 is \$129,882 (pre-tax) (Tab 2, Page 1, Line 19, Column 7). The rate change trigger mechanism is calculated to be 96.5% (Tab 2, Page 1, Line 24 & 25, Column 4), which does fall within the deadband range of 95% and 105%. Therefore, based on forward propane prices, a change in the propane reference price and customer rates is not indicated.

Terasen Gas, consistent with past practice, is basing its requested rate change on the Nymex WTI light sweet crude oil forward price strip. Terasen Gas hereby requests the British Columbia Utilities Commission ("Commission") approval of an increase in the propane reference price for use in the Revelstoke Propane Cost Deferral Account from \$0.3624 to \$0.4078/litre (Tab 1, Page 3, Line 9) to be effective October 1, 2006. The reference price increase of \$0.0454/litre corresponds to a rate increase of \$1.840/GJ (Tab 1, Page 3, Line 20). This equates, based on an average consumption of 80 GJ/year, to a burnertip increase of 9.4% for residential customers (Tab 1, Page 5, Line 16).

Terasen Gas will continue to monitor the forward prices of both the Nymex propane and Nymex crude oil futures markets, and will report these results in the 2006 Fourth Quarter Gas Cost Report.

We trust the Commission will find the attached to be in order. However, should any further information be required, please contact Brian Noel at 604-592-7467.

Yours very truly,

TERASEN GAS INC.

Original signed by Tom Loski

For: Scott A. Thomson

Attachment

TERASEN GAS INC.
 REVELSTOKE PROPANE DEFERRAL
 FORECAST BALANCE AS AT SEPTEMBER 30, 2007
 WITH EXISTING PROPANE REFERENCE PRICE (BCUC ORDER NO. G-87-05)
(AUGUST 21, 2006 FORWARD PRICES BASED ON NYMEX WTI LIGHT SWEET CRUDE OIL FUTURES)

Tab 1
 Page 1

Line No.	Particulars	Litres Purchased	Average Price Per Litre	Approved Reference Price	Amount Deferred Per Litre Column (3)-(4)	Amount Deferred Column (2)x(5)	Deferral Balance Total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	June 30, 2006 Balance						\$ 166,948
2	July (Projection)	614,038	\$0.3369	\$0.3624	(\$0.0255)	(\$15,658)	151,290
3	August (Projection)	292,548	\$0.3450	\$0.3624	(\$0.0174)	(\$5,090)	146,200
4	September (Projection)	<u>390,064</u>	\$0.3637	\$0.3624	\$0.0013	<u>\$507</u>	146,707
5	Current Quarter Total	<u><u>1,296,650</u></u>				<u><u>(\$20,241)</u></u>	
6							
7	<u>Forecast Volumes and Forecast Prices</u>						
8	October (Forecast)	830,837	\$0.3913	\$0.3624	\$0.0289	\$24,011	170,718
9	November (Forecast)	1,064,875	\$0.3669	\$0.3624	\$0.0045	\$4,792	175,510
10	December (Forecast)	1,474,443	\$0.4041	\$0.3624	\$0.0417	\$61,484	236,994
11	January 2007 (Forecast)	1,610,965	\$0.3934	\$0.3624	\$0.0310	\$49,940	286,934
12	February (Forecast)	1,361,324	\$0.3851	\$0.3624	\$0.0227	\$30,902	317,836
13	March (Forecast)	1,084,379	\$0.3902	\$0.3624	\$0.0278	\$30,146	347,982
14	April (Forecast)	643,606	\$0.4000	\$0.3624	\$0.0376	\$24,200	372,182
15	May (Forecast)	421,269	\$0.3978	\$0.3624	\$0.0354	\$14,913	387,095
16	June (Forecast)	358,859	\$0.3916	\$0.3624	\$0.0292	\$10,479	397,574
17	July (Forecast)	288,648	\$0.3963	\$0.3624	\$0.0339	\$9,785	407,359
18	August (Forecast)	292,548	\$0.4151	\$0.3624	\$0.0527	\$15,417	422,776
19	September (Forecast)	<u>390,064</u>	\$0.4216	\$0.3624	\$0.0592	<u>\$23,092</u>	445,868
20	Total October 2006 - September 2007	<u><u>9,821,817</u></u>				<u><u>\$299,161</u></u>	
21							
22							
23							
24	Recovered Costs (Line 20 Col.2 x Line 19 Col.4)		<u>\$3,559,426</u>	=	88.9%		
25	Forecast + Deferral Balance (Page 2 Line 13 Col.9 + Page 1 Line 5 Col. 7)		<u>\$4,005,386</u>				

TERASEN GAS INC.
REVELSTOKE FORECAST AVERAGE COST OF PROPANE
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Tab 1
Page 2

(AUGUST 21, 2006 FORWARD PRICES BASED ON NYMEX WTI LIGHT SWEET CRUDE OIL FUTURES)

Line No.	Particulars (1)	2006/07 Volume (Litres) (2)	Fixed Price Volume (Litres) (3)	Variable Volume (Litres) (4)	Fixed Price (\$/litre) (5)	Variable Price (\$/litre) (6)	Fixed Charges (\$) (7)	Variable Charges (\$) (8)	Total (\$) (9)
1	October 2006	830,837	-	830,837	\$ -	\$ 0.3913	\$ -	\$ 325,104	\$ 325,104
2	November	1,064,875	787,500	277,375	\$ 0.3519	\$ 0.4096	\$ 277,131	\$ 113,606	\$ 390,737
3	December	1,474,443	487,500	986,943	\$ 0.3559	\$ 0.4278	\$ 173,518	\$ 422,260	\$ 595,778
4	January 2007	1,610,965	487,500	1,123,465	\$ 0.3559	\$ 0.4097	\$ 173,518	\$ 460,305	\$ 633,823
5	February	1,361,324	487,500	873,824	\$ 0.3559	\$ 0.4014	\$ 173,518	\$ 350,766	\$ 524,284
6	March	1,084,379	-	1,084,379	\$ -	\$ 0.3902	\$ -	\$ 423,080	\$ 423,080
7	April	643,606	-	643,606	\$ -	\$ 0.4000	\$ -	\$ 257,474	\$ 257,474
8	May	421,269	-	421,269	\$ -	\$ 0.3978	\$ -	\$ 167,574	\$ 167,574
9	June	358,859	-	358,859	\$ -	\$ 0.3916	\$ -	\$ 140,539	\$ 140,539
10	July	288,648	-	288,648	\$ -	\$ 0.3963	\$ -	\$ 114,395	\$ 114,395
11	August	292,548	-	292,548	\$ -	\$ 0.4151	\$ -	\$ 121,433	\$ 121,433
12	September	390,064	-	390,064	\$ -	\$ 0.4216	\$ -	\$ 164,458	\$ 164,458
13	Total - Oct 2006 to Sept 2007	9,821,817	2,250,000	7,571,817			\$ 797,685	\$ 3,060,994	\$ 3,858,679
14									
15	Forecast Average Cost of Propane (\$/Litre)								<u>\$ 0.3929</u>

TERASEN GAS INC.
REVELSTOKE PROPANE
CALCULATION OF PROPANE COST INCREASE FLOWTHROUGH
FOR THE PERIOD OCTOBER 1, 2006 TO SEPTEMBER 30, 2007
(AUGUST 21, 2006 FORWARD PRICES BASED ON NYMEX WTI LIGHT SWEET CRUDE OIL FUTURES)

Tab 1
Page 3

Line No.	Particulars	\$/Litre	\$/GJ
1	Calculation of New Propane Reference Price		
2			
3	i. Forecast Average Cost of Propane		
4	October 1, 2006 to September 30, 2007	\$0.3929	\$15.351
5			
6	ii. Twelve months amortization of Deferral Account	<u>0.0149</u>	<u>\$0.582</u>
7			
8			
9	New Reference Price	<u>\$0.4078</u>	<u>\$15.933</u>
10			
11			
12	Existing Propane Reference Price (BCUC Order No. G-87-05)	<u>\$0.3624</u>	<u>\$14.160</u>
13	(Conversion factor 1 Litre = 0.025594 GJ)		
14			
15			
16	Increase in Propane Reference Price to be flowed through in customers' rates	\$0.0454	\$1.774
17			
18	Add: Unaccounted For/Company Use/Vaporizer Use Adjustment (3.85%) ⁽¹⁾	<u>0.0017</u>	<u>\$0.066</u>
19			
20	Total Propane Cost Flowthrough	<u>\$0.0471</u>	<u>\$1.840</u>
21	(Conversion factor 1 Litre = 0.025594 GJ)		

Note: (1) The Unaccounted For/Company Use/Vaporizer Use Adjustment of 3.85% is based on 2003, 2004 and 2005 data.

	Litres	%
28 Sales	<u>27,345,635</u>	
29		
30 Less: Propane Used for Vaporizer	323,513	1.18%
31 Company Use	4,311	0.02%
32 Unaccounted For	<u>725,920</u>	<u>2.65%</u>
33 Total	<u><u>1,053,744</u></u>	<u><u>3.85%</u></u>

TERASEN GAS INC.
REVELSTOKE PROPANE DEFERRAL
FORECAST BALANCE AS AT SEPTEMBER 30, 2007
WITH PROPOSED REFERENCE PRICE EFFECTIVE OCTOBER 1, 2006
(AUGUST 21, 2006 FORWARD PRICES BASED ON NYMEX WTI LIGHT SWEET CRUDE OIL FUTURES)

Line No.	Particulars	Litres Purchased	Average Price Per Litre	Approved Reference Price	Amount Deferred Per Litre Column (3)-(4)	Amount Deferred Column (2)x(5)	Deferral Balance Total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	June 30, 2006 Balance						\$ 166,948
2	July (Projection)	614,038	\$0.3369	\$0.3624	(\$0.0255)	(\$15,658)	151,290
3	August (Projection)	292,548	\$0.3450	\$0.3624	(\$0.0174)	(\$5,090)	146,200
4	September (Projection)	390,064	\$0.3637	\$0.3624	\$0.0013	\$507	146,707
5	Current Quarter Total	<u>1,296,650</u>				<u>(\$20,241)</u>	
6							
7				Proposed			
8				Reference			
9				Price			
10	<u>Forecast Volumes and Forecast Prices</u>						
11	October (Forecast)	830,837	\$0.3913	\$0.4078	(\$0.0165)	(\$13,709)	132,998
12	November (Forecast)	1,064,875	\$0.3669	\$0.4078	(\$0.0409)	(\$43,553)	89,445
13	December (Forecast)	1,474,443	\$0.4041	\$0.4078	(\$0.0037)	(\$5,455)	83,990
14	January 2007 (Forecast)	1,610,965	\$0.3934	\$0.4078	(\$0.0144)	(\$23,198)	60,792
15	February (Forecast)	1,361,324	\$0.3851	\$0.4078	(\$0.0227)	(\$30,902)	29,890
16	March (Forecast)	1,084,379	\$0.3902	\$0.4078	(\$0.0176)	(\$19,085)	10,805
17	April (Forecast)	643,606	\$0.4000	\$0.4078	(\$0.0078)	(\$5,020)	5,785
18	May (Forecast)	421,269	\$0.3978	\$0.4078	(\$0.0100)	(\$4,213)	1,572
19	June (Forecast)	358,859	\$0.3916	\$0.4078	(\$0.0162)	(\$5,814)	(4,242)
20	July (Forecast)	288,648	\$0.3963	\$0.4078	(\$0.0115)	(\$3,319)	(7,561)
21	August (Forecast)	292,548	\$0.4151	\$0.4078	\$0.0073	\$2,136	(5,425)
22	September (Forecast)	390,064	\$0.4216	\$0.4078	\$0.0138	\$5,383	(42)
23	Total October 2006 - September 2007	<u>9,821,817</u>				<u>(\$146,749)</u>	

TERASEN GAS INC.
 PROPOSED OCTOBER 1, 2006 PROPANE COST INCREASE
 TYPICAL ANNUAL CONSUMPTION

(AUGUST 21, 2006 FORWARD PRICES BASED ON NYMEX WTI LIGHT SWEET CRUDE OIL FUTURES)

Line No.	Particulars	Rate 1 - Residential				Rate 2 - Small Commercial				Rate 3 - Large Commercial			
		Unit Use per Customer	Revenue (\$/GJ) or (\$/mo.)	Revenue (\$)	% Increase	Unit Use per Customer	Revenue (\$/GJ) or (\$/mo.)	Revenue (\$)	% Increase	Unit Use per Customer	Revenue (\$/GJ) or (\$/mo.)	Revenue (\$)	% Increase
1	REVELSTOKE PROPANE												
2	- INLAND SERVICE AREA												
3													
4	Delivery Margin Related Charges												
5	Basic Charge		\$11.16	\$133.92			\$23.42	\$281.04			\$124.95	\$1,499.40	
6	Delivery Charge + Rider 2 + Rider 3 + Rider 5	80.0	\$2.904	232.32		350.0	\$2.462	861.70		5,700.0	\$2.148	12,243.60	
7													
8	Commodity Related Charges												
9	Commodity Cost+Midstream Cost+Rider 1+Rider 6	80.0	\$15.071	1,205.68		350.0	\$13.980	4,893.00		5,700.0	\$13.980	79,686.00	
10													
11	Typical Annual Bill at current rates (excluding												
12	any applicable PST or GST)	80.0		1,571.92		350.0		6,035.74		5,700.0		93,429.00	
13													
14													
15	October 1, 2006 Propane Cost Flowthrough												
16	Propane Price Increase		\$1.840	147.20	9.4%		\$1.840	644.00	10.7%		\$1.840	10,488.00	11.2%
17	Typical Annual Bill after Propane Price Change			<u>\$1,719.12</u>				<u>\$6,679.74</u>				<u>\$103,917.00</u>	

TERASEN GAS INC.
REVELSTOKE PROPANE DEFERRAL
FORECAST BALANCE AS AT SEPTEMBER 30, 2007
WITH EXISTING PROPANE REFERENCE PRICE (BCUC ORDER NO. G-87-05)
(AUGUST 21, 2006 FORWARD PRICES BASED ON NYMEX MT. BELVIEU PROPANE FUTURES)

Line No.	Particulars	Litres Purchased	Average Price Per Litre	Approved Reference Price	Amount Deferred Per Litre Column (3)-(4)	Amount Deferred Column (2)x(5)	Deferral Balance Total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	June 30, 2006 Balance						\$ 166,948
2	July (Projection)	614,038	\$0.3369	\$0.3624	(\$0.0255)	(\$15,658)	151,290
3	August (Projection)	292,548	\$0.3450	\$0.3624	(\$0.0174)	(\$5,090)	146,200
4	September (Projection)	<u>390,064</u>	\$0.3479	\$0.3624	(\$0.0145)	<u>(\$5,656)</u>	140,544
5	Current Quarter Total	<u>1,296,650</u>				<u>(\$26,404)</u>	
6							
7	<u>Forecast Volumes and Forecast Prices</u>						
8	October (Forecast)	830,837	\$0.3487	\$0.3624	(\$0.0137)	(\$11,382)	129,162
9	November (Forecast)	1,064,875	\$0.3508	\$0.3624	(\$0.0116)	(\$12,353)	116,809
10	December (Forecast)	1,474,443	\$0.3522	\$0.3624	(\$0.0102)	(\$15,039)	101,770
11	January 2007 (Forecast)	1,610,965	\$0.3671	\$0.3624	\$0.0047	\$7,572	109,342
12	February (Forecast)	1,361,324	\$0.3695	\$0.3624	\$0.0071	\$9,665	119,007
13	March (Forecast)	1,084,379	\$0.3709	\$0.3624	\$0.0085	\$9,217	128,224
14	April (Forecast)	643,606	\$0.3649	\$0.3624	\$0.0025	\$1,609	129,833
15	May (Forecast)	421,269	\$0.3624	\$0.3624	\$0.0000	\$0	129,833
16	June (Forecast)	358,859	\$0.3680	\$0.3624	\$0.0056	\$2,010	131,843
17	July (Forecast)	288,648	\$0.3651	\$0.3624	\$0.0027	\$779	132,622
18	August (Forecast)	292,548	\$0.3593	\$0.3624	(\$0.0031)	(\$907)	131,715
19	September (Forecast)	<u>390,064</u>	\$0.3577	\$0.3624	(\$0.0047)	<u>(\$1,833)</u>	129,882
20	Total October 2006 - September 2007	<u>9,821,817</u>				<u>(\$10,662)</u>	
21							
22							
23							
24	Recovered Costs (Line 20 Col.2 x Line 19 Col.4)		<u>\$3,559,426</u>	=			96.5%
25	Forecast + Deferral Balance (Page 2 Line 13 Col.9 + Page 1 Line 5 Col. 7)		<u>\$3,689,376</u>				

