



January 31, 2007

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

Attention: Mr. Robert J. Pellatt, Commission Secretary

Dear Sir:

**Re: Terasen Gas Inc. ("Terasen Gas")
Vancouver Low-Pressure Gas Distribution System Replacement and
Upgrade
Quarterly Progress Report – as at December 31, 2006**

On May 11, 2006, Terasen Gas filed an application with the British Columbia Utilities Commission (the "Commission") requesting approval of a Certificate of Public Convenience and Necessity ("CPCN") for the replacement and upgrading of the Vancouver Low-Pressure Gas Distribution System ("LP System CPCN" or the "Project"). In its LP System CPCN application, Terasen Gas stated its intention to commence with the replacement and upgrading of 95 kilometers of gas mains and 7,100 gas service lines between 2006 and 2008 at an estimated total cost of \$23,747,000.

On June 23, 2006, the Commission issued Order No. C-2-06 approving the LP System CPCN Application. By Commission Order No. C-2-06, Terasen Gas is directed to submit quarterly progress reports and a final report upon Project completion.

This submission constitutes Terasen Gas' second quarterly report, as of December 31, 2006, for this Project. In this progress report, Terasen Gas has outlined Project detail that relates to the scheduling and budget tracking of replacement work completed thus far.

Pre-Project Planning and Field Coordination

Project Resources & Training

As outlined in the LP System CPCN and its initial quarterly report, Terasen Gas has utilized some internal resources to complete this work, however, given the size and scope of the Project, most work is being conducted by external contractors. In July 2006, Canadian Utility Construction Corporation ("CUCC") was chosen to provide contract resources for this Project.

A training program has been developed for Contractor personnel working on this Project. Following the training program, Terasen Gas instructors also visited the worksite to provide follow up and technical assistance to CUCC staff. The BC Safety Authority has assigned a Provincial Gas Inspector to periodically review the installation progress.

Scott A. Thomson
VP, Finance & Regulatory Affairs and
Chief Financial Officer

16705 Fraser Highway
Surrey, B.C. V4N 0E8
Tel: (604) 592-7784
Fax: (604) 576-7074
Email: scott.thomson@terasengas.com
www.terasengas.com

Regulatory Affairs Correspondence
Email: regulatory.affairs@terasengas.com

Planning and Field Coordination

Terasen Gas staff, experienced in Low-Pressure installation techniques, have been assigned to assist CUCC in organizing work, to ensure the quality of installation with respect to the specialized insertion procedures being employed, and to assist with all aspects of the work from the regulator downstream (regulator, meter, house-lines and appliances).

Terasen Gas staff schedule and confirm the replacement works locations and obtains all required permits and approvals. Arrangements are then made for each directly affected resident to be visited by a Terasen Gas Planner approximately one month ahead of the date that construction is planned to commence. If the resident is at home, they are personally notified of upcoming work that may affect their gas service. The extent of local replacement and upgrading works is provided along with an estimate of the duration of the construction works. If the resident is not at home, a letter is left at the residence explaining the work. A direct contact number to the Terasen Gas Planner is also provided.

In addition, communications with the public also included a link to a Terasen Gas webpage that serves as a reference for affected customers and residents of this area. This website provides a detailed schedule of all upgrade and replacement activities. Where scheduled by Planners, the date of planned works is also provided. Please see:

<http://www.terasengas.com/AboutTerasenGas/WorksProjects/DunbarKerrisdaleMarpoleUBCandRileyPark/default.htm>

Mains & Service Replacement and Upgrades

Consistent with the plans described in Section 4, Page 15 of the LP System CPCN, the majority of work carried out in 2006 has been in the Dunbar area of Vancouver. In addition to these works, a limited amount of works have been carried out in other areas in order to meet City of Vancouver's street paving requirements. The vast majority of costs associated with this Project relate to Mains and Services Replacements. As a result, reporting activities have focused upon presentation and measurement of these activities.

2006 Activities

As of December 31, 2006, a total of 1,240 services have been replaced. In the previous quarterly report submitted to the BCUC on October 30, 2006, Terasen Gas had forecast replacement of 1,300 services by the end of 2006 versus the target of 1,763 service completions as outlined in the LP System CPCN. The 1,240 services replaced is slightly below the previous forecast and is attributable primarily to the adverse weather conditions and record rainfall experienced in late November.

2007 and 2008 Forecasts

Terasen Gas has met with the primary contractor chosen for this project and has revised its scheduled activities for 2007 to compensate for the lower than originally anticipated mains and service replacements completed in 2006.

In light of experience gained in 2006, the revised schedule has reduced the number of services which can be replaced during winter months and has increased the number of replacements to be completed in the remaining months. Scheduling activities have also been amended to accommodate the City of Vancouver's pre-paving program and to deal with water incursion issues in the SW Marine Drive area (South Kerrisdale). In addition, Terasen Gas intends to complete mains and service replacements in some of the more challenging areas in and around the University of British Columbia.

Currently, Terasen Gas forecasts that it will be able to attach 3,223 services in 2007, bringing the number of attachments completed by December 31, 2007 to 4,463. This figure is 132 or 3% less than the 4,595 services that were originally projected to be completed by December 31, 2007, in the LP System CPCN. Terasen Gas is currently forecasting that the project will complete by December 31, 2008.

Project Expenditures

The following table provides an overview of costs to date, a forecast of 2006 Project costs and the Project forecast to completion. At this stage in the Project, Terasen Gas has no reason to believe that the forecast costs to completion, based on the actual results to date, will vary from the Project budget set out in the LP System CPCN.

Table 1 – Low-Pressure Replacement Project Costs (\$'000's)

	2006 Actuals	2006 Forecast	Forecast Total Costs	Project Budget
Project Management	\$113	\$100	\$356	\$356
Mains and Services	\$2,762	\$3,500	\$22,369	\$22,369
Stations	\$4	\$3	\$376	\$376
AFUDC	\$67	\$40	\$645	\$645
Total	\$2,946	\$3,643	\$23,747	\$23,747

As outlined in its initial project report to the Commission, approximately \$22.369 million or 94% of total Project costs relate to mains and service replacements. In an effort to provide a useful metric by which Project costs can be gauged, these costs are being monitored on a blended unit cost basis. Terasen Gas believes this is an appropriate metric as both service and main replacement activities are carried out in a synchronized manner.

Based upon the estimated mains and service replacement costs of \$22.369 million divided by 7,100 services, the estimated blended unit costs is \$3,150 per service. As of December 31, 2006, 1,240 services were installed at a blended unit cost of \$ 2,227 per service. Please note that given the time lag associated with receipt of certain costs such

as primary contractor invoices, paving repair invoices and dumping fees from the City of Vancouver, actual blended unit costs for these jobs are anticipated to be slightly higher than those provided. In addition, in order to provide the contractor with experience in this new type of work, Terasen Gas has initially commenced with less complicated replacement and upgrade works.

Over the course of the Project, the impact of these lagging costs will be reduced as the number of services completed increases.

We trust the enclosed is satisfactory. It is the intention that subsequent quarterly reports will generally follow the format of this report. Should you have any questions or comments, please contact Tom Loski at (604) 592-7464.

Yours truly,

TERASEN GAS INC.

Original signed by Tom Loski

For: Scott A. Thomson