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March 2, 2007

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
2007 First Quarter Report**

Terasen Gas Inc. ("Terasen Gas") hereby submits the 2007 First Quarter Gas Cost Report for Revelstoke service area based on Nymex 50% WTI light sweet crude oil futures and 50% Mt. Belvieu propane futures. The attached schedules provide a summary of the forecast monthly deferral account balances based on the forward propane prices as at February 28, 2007.

Historically, Terasen Gas used a percentage of Nymex crude oil futures prices as an indicator of future propane prices. In its 2006 Second Quarter Gas Cost Report, dated June 7, 2006, Terasen Gas began providing three sets of forward prices and forecast deferral account balances based on each (one set based on the Nymex WTI light sweet crude oil futures, a second set based on the Nymex Mt. Belvieu propane futures, and a third set based on an average of Nymex 50% WTI light sweet crude oil futures and 50% Mt. Belvieu propane futures), and commodity recovery rates have since been set based on the average of Nymex 50% WTI light sweet crude oil futures and 50% Mt. Belvieu propane futures.

Prior to the June 7, 2006 report Terasen Gas used a percentage of the Nymex WTI light sweet 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.

While the Nymex propane prices may, in the short term, provide a closer approximation of propane prices in Alberta, the Nymex crude oil prices are thought to still provide a good indicator over the longer term. Terasen Gas finds that, due to the differences in the Nymex propane and crude oil futures markets, an average of Nymex 50% WTI light sweet crude oil futures and 50% Mt. Belvieu propane futures provides an appropriate forward price for use in its quarterly gas cost reports. Terasen Gas will utilize the average of Nymex 50% WTI light



sweet crude oil futures and 50% Mt. Belvieu propane futures to calculate forecast deferral balances in its quarterly gas cost reports but will continue to provide the three sets of forward prices (Tab 2, Page 1). Further, Terasen Gas will continue to monitor the trends and evaluate the effectiveness of both the Nymex propane and Nymex crude oil futures in forecasting propane prices for the purposes of determining commodity recovery rates.

Based on the February 28, 2007 forward Nymex 50% WTI light sweet crude oil prices and 50% Mt. Belvieu propane futures and current rates (Tab 1), the projected deferral account balance at March 31, 2007 is \$208,812 surplus (pre-tax) (Tab 1, Page 1, Line 4, Column 7), and the forecast surplus at March 31, 2008 is \$60,413 (pre-tax) (Tab 1, Page 1, Line 19, Column 7). The rate change trigger mechanism is calculated to be 101.9% (Tab 1, Page 1, Line 24 & 25, Column 4), which falls within the deadband range of 95% and 105%. Therefore, based on the Nymex 50% crude oil and 50% propane forward prices, Terasen Gas is not proposing a propane reference price change for Revelstoke service area.

Provided in Tab 3 is the detail of the forecast gas costs for Nymex 50% WTI light sweet crude oil futures and 50% Nymex Mt. Belvieu propane futures. Terasen Gas requests the information contained in Tab 3 be treated as CONFIDENTIAL.

CONFIDENTIALITY

Consistent with past practice and previous discussion and positions on the confidentiality of selected filings (and further emphasized in Terasen Gas Inc.'s January 31, 1994 submission to the Commission), Terasen Gas is requesting that this information be filed on a confidential basis pursuant to Section 71(5) of the Utilities Commission Act and requests that the Commission exercise its discretion under Paragraph 1.3 of the amended rules and allow these documents to remain confidential in accordance with Paragraph 1.2. Terasen Gas believes this will ensure that market sensitive information is protected, and Terasen Gas' ability to obtain favourable commercial terms for future natural gas contracting is not impaired.

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 2007 Second 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 MARCH 31, 2008
 WITH EXISTING PROPANE REFERENCE PRICE (BCUC ORDER NO. G-169-06)
(FEBRUARY 28, 2007 FORWARD PRICES BASED ON NYMEX 50% WTI SWEET CRUDE OIL & 50% MT. BELVIEU PROPANE FUTURES)

Line No.	Particulars	Litres Purchased	Average Price Per Litre	Approved Reference Price	Amount Deferred Per Litre	Amount Deferred	Pre-Tax Deferral Balance
	(1)	(2)	(3)	(4)	Column (3)-(4)	Column (2)x(5)	(7)
1	December 31, 2006 Balance						(\$140,736)
2	January 2007 (Projection)	1,265,845	\$0.2990	\$0.3473 ⁽¹⁾	(\$0.0483)	(\$61,140)	(\$201,876)
3	February (Projection)	1,273,736	\$0.3313	\$0.3252 ⁽²⁾	\$0.0061	\$7,770	(\$194,106)
4	March (Projection)	1,195,593	\$0.3129	\$0.3252	(\$0.0123)	(\$14,706)	(\$208,812)
5	Current Quarter Total	<u>3,735,174</u>				<u>(\$68,076)</u>	
6							
7	<u>Forecast Volumes and Forecast Prices</u>						
8	April (Forecast)	621,239	\$0.3192	\$0.3252	(\$0.0060)	(\$3,727)	(\$212,539)
9	May (Forecast)	488,396	\$0.3268	\$0.3252	\$0.0016	\$781	(\$211,758)
10	June (Forecast)	355,552	\$0.3177	\$0.3252	(\$0.0075)	(\$2,667)	(\$214,425)
11	July (Forecast)	312,573	\$0.3184	\$0.3252	(\$0.0068)	(\$2,125)	(\$216,550)
12	August (Forecast)	308,666	\$0.3149	\$0.3252	(\$0.0103)	(\$3,179)	(\$219,729)
13	September (Forecast)	429,788	\$0.3429	\$0.3252	\$0.0177	\$7,607	(\$212,122)
14	October (Forecast)	746,269	\$0.3633	\$0.3252	\$0.0381	\$28,433	(\$183,689)
15	November (Forecast)	1,078,378	\$0.3454	\$0.3252	\$0.0202	\$21,783	(\$161,906)
16	December (Forecast)	1,414,394	\$0.3562	\$0.3252	\$0.0310	\$43,846	(\$118,060)
17	January 2008 (Forecast)	1,527,702	\$0.3418	\$0.3252	\$0.0166	\$25,360	(\$92,700)
18	February (Forecast)	1,304,993	\$0.3396	\$0.3252	\$0.0144	\$18,792	(\$73,908)
19	March (Forecast)	1,226,850	\$0.3362	\$0.3252	\$0.0110	\$13,495	(\$60,413)
20	Total April 2007 - March 2008	<u>9,814,800</u>				<u>\$148,399</u>	
21							
22							
23							
24	Recovered Costs (Line 20 Col.2 x Line 19 Col.4)		<u>\$3,191,773</u>				
25	Forecast + Deferral Balance (Page 2 Line 13 Col.9 + Page 1 Line 5 Col. 7)		<u>\$3,131,264</u>	=	101.9%		

Note (1) Blended existing \$0.3252/litre and previous \$0.3917/litre propane reference price effective January 1, 2007 (BCUC Order No.G-169-06) and October 1, 2006 (BCUC Order No.G-109-06) respectively.

Note (2) Approved propane reference price effective January 1, 2007 (BCUC Order No.G-169-06).

TERASEN GAS INC.
 REVELSTOKE FORECAST AVERAGE COST OF PROPANE
 FOR THE YEAR ENDED MARCH 31, 2008

(FEBRUARY 28, 2007 FORWARD PRICES BASED ON NYMEX 50% WTI SWEET CRUDE OIL & 50% MT. BELVIEU PROPANE FUTURES)

Line No.	Particulars (1)	2007/2008 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	April 2007	621,239	-	621,239	\$ -	\$ 0.3192	\$ -	\$ 198,273	\$ 198,273
2	May	488,396	-	488,396	\$ -	\$ 0.3268	\$ -	\$ 159,630	\$ 159,630
3	June	355,552	-	355,552	\$ -	\$ 0.3177	\$ -	\$ 112,948	\$ 112,948
4	July	312,573	-	312,573	\$ -	\$ 0.3184	\$ -	\$ 99,518	\$ 99,518
5	August	308,666	-	308,666	\$ -	\$ 0.3149	\$ -	\$ 97,204	\$ 97,204
6	September	429,788	-	429,788	\$ -	\$ 0.3429	\$ -	\$ 147,387	\$ 147,387
7	October	746,269	-	746,269	\$ -	\$ 0.3633	\$ -	\$ 271,105	\$ 271,105
8	November	1,078,378	787,500	290,878	\$ 0.3430	\$ 0.3517	\$ 270,118	\$ 102,313	\$ 372,430
9	December	1,414,394	487,500	926,894	\$ 0.3408	\$ 0.3643	\$ 166,144	\$ 337,632	\$ 503,776
10	January 2008	1,527,702	487,500	1,040,202	\$ 0.3408	\$ 0.3423	\$ 166,144	\$ 356,086	\$ 522,230
11	February	1,304,993	487,500	817,493	\$ 0.3408	\$ 0.3388	\$ 166,144	\$ 276,998	\$ 443,142
12	March	1,226,850	-	1,226,850	\$ -	\$ 0.3362	\$ -	\$ 412,434	\$ 412,434
13	Total - Apr 2007 to Mar 2008	9,814,800	2,250,000	7,564,800			\$ 768,550	\$ 2,571,526	\$ 3,340,076
14									
15	Forecast Average Cost of Propane (\$/Litre)								\$ 0.3403

REVELSTOKE PROPANE FLOATING PRICES

Forward Prices: Wednesday, February 28, 2007

Tab 2

Page 1

CRUDE OIL		
Month	Crude Oil Future Prices (US \$ per Barrel)	Weighted Average Unit Cost (including transportation) (Cdn \$ per Litre)
Apr-07	\$61.7900	\$0.3152
May-07	\$63.0600	\$0.3316
Jun-07	\$63.9700	\$0.3137
Jul-07	\$64.7000	\$0.3138
Aug-07	\$65.3000	\$0.3102
Sep-07	\$65.8000	\$0.3589
Oct-07	\$66.2200	\$0.3950
Nov-07	\$66.5800	\$0.3442
Dec-07	\$66.8900	\$0.3727
Jan-08	\$67.1600	\$0.3357
Feb-08	\$67.3600	\$0.3301
Mar-08	\$67.5300	\$0.3314

PROPANE FUTURES		
Month	Propane Futures Prices (US \$ per Gallon)	Weighted Average Unit Cost (including transportation) (Cdn \$ per Litre)
Apr-07	\$0.9900	\$0.3231
May-07	\$0.9900	\$0.3221
Jun-07	\$0.9950	\$0.3216
Jul-07	\$1.0000	\$0.3230
Aug-07	\$1.0050	\$0.3196
Sep-07	\$1.0100	\$0.3269
Oct-07	\$1.0150	\$0.3315
Nov-07	\$1.0200	\$0.3347
Dec-07	\$1.0250	\$0.3341
Jan-08	\$1.0250	\$0.3428
Feb-08	\$1.0200	\$0.3429
Mar-08	\$1.0150	\$0.3409

50% CRUDE OIL & 50% PROPANE FUTURES		
Month	Forecast 50% Crude Oil and 50% Propane Future Prices (Cdn \$ per Litre)	Weighted Average Unit Cost (including transportation) (Cdn \$ per Litre)
Apr-07	\$0.2842	\$0.3192
May-07	\$0.2918	\$0.3268
Jun-07	\$0.2827	\$0.3177
Jul-07	\$0.2834	\$0.3184
Aug-07	\$0.2799	\$0.3149
Sep-07	\$0.3079	\$0.3429
Oct-07	\$0.3283	\$0.3633
Nov-07	\$0.3167	\$0.3454
Dec-07	\$0.3293	\$0.3562
Jan-08	\$0.3073	\$0.3418
Feb-08	\$0.3038	\$0.3396
Mar-08	\$0.3012	\$0.3362