



April 27, 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 March 31, 2007**

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 (including AFUDC),

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' third quarterly report, as of March 31, 2007, 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.

Project Planning and Field Coordination

Project Resources & Training

While Terasen Gas have utilized some internal resources to complete this work, 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.

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 are assisting 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 each replacement and obtain 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, Terasen Gas has created a webpage that serves as a reference for affected area customers and residents.

<http://www.terasengas.com/AboutUs/NewAndOngoingProjects/Vancouver/Westside/default.htm>

This website provides an overview of the project. Where service replacements have been scheduled by Planners, the date of planned works is also provided.

Mains & Service Replacement and Upgrades

Activities completed to March 31, 2007

Consistent with the plans described in Section 4, Page 15 of the LP System CPCN, the majority of work carried out to date was in the Dunbar area Vancouver. In addition to these works, a limited amount of works were carried out in other areas in order to meet City of Vancouver's street paving requirements.

As of March 31, 2007, a total of 1,880 services have been replaced. This figure is 591 services below the 2,471 services anticipated to be completed at this time. The shortfall is primarily attributable to the adverse weather conditions and record rainfall experienced in Winter 2006/07.

Upcoming Installation Activities

As of March 31, 2008, 5,220 service replacements have yet to be completed. In response to the installation activity shortfall, Terasen Gas has responded as follows to ensure that the project can be completed by the December 31, 2008 target date:

- 1) The project schedule has been revised to increase the average weekly replacements,
- 2) Activity levels have been rebalanced such that more replacements will occur in the spring, summer and autumn, with fewer planned for the winter,
- 3) Contractor crews will be increased from 1 to 2 crews in May 2007.

Currently, Terasen Gas forecasts that it will be able to replace 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.

Amendments to the schedule have also been made in order to accommodate the City of Vancouver's pre-paving program and to deal with water incursion issues in the SW Marine Drive / South Kerrisdale area. In addition, Terasen Gas have also moved up the scheduled dates from 2008 to Summer 2007 for mains and service replacements in some of the more challenging areas in and around the University of British Columbia.

Terasen Gas anticipates it will remove a number of stations in 2007 as gas mains are replaced on the low pressure system. However, due to the complexity of station abandonments, the majority of these activities will be completed by Terasen Gas crews. Terasen Gas will also be installing a new station at W 23 Avenue and Collingwood in Autumn 2007. This station is required to reinforce the Distribution Pressure system for existing customer load.

Project Expenditures

Total Project Costs

The following table provides an overview of costs to date, a forecast of 2007 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)

	Actual Costs to Mar. 31/07	2007 Forecast	Forecast Total Costs	Project Budget
Project Management	\$139	\$110	\$356	\$356
Mains and Services	\$3,937	\$10,152	\$22,369	\$22,369
Stations	\$8	\$156	\$376	\$376
AFUDC	\$76	\$290	\$645	\$645
Total	\$4,160	\$10,708	\$23,747	\$23,747

For this project, Terasen Gas has not revised the total project from amount approved in its CPCN application. While unit costs to date have been below its original forecast, Terasen Gas is planning to work on more challenging LP areas from April - September 2007 and this is expected to have an offsetting upward impact on unit costs. Once these more complex works are completed, Terasen Gas intends to revise its forecast total cost estimate.

Blended Unit Cost

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 March 31, 2007, 1,880 services were installed at a blended unit cost of \$ 2,212 per service. While this figure is significantly lower than the original cost estimate, please note that time lags associated with contractor invoices, paving and dumping fees is expected to place some upward pressure on the final unit cost.

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