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Regulatory Affairs Correspondence
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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 Second Quarter Report**

Terasen Gas Inc. ("Terasen Gas") hereby submits to the British Columbia Utilities Commission (the "Commission") the 2007 Second Quarter Gas Cost Report for the Revelstoke Service Area ("Revelstoke") utilizing a propane price forecast based on an average of 50% NYMEX West Texas Intermediate ("WTI") Light Sweet Crude Oil futures and 50% NYMEX 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 June 1, 2007.

Based on the June 1, 2007 forward prices, average of 50% NYMEX WTI Light Sweet Crude Oil prices and 50% NYMEX Mt. Belvieu Propane futures, and based on the current rates, the projected deferral account balance at June 30, 2007 is \$124,250 surplus (pre-tax) (Tab 1, Page 1, Column 7, Line 6), and the forecast balance at June 30, 2008 is \$286,200 deficit (pre-tax) (Tab 1, Page 1, Column 7, Line 21). The rate change trigger mechanism is calculated to be 91.8% (Tab 1, Page 1, Column 4, Line 24/25), which falls outside the deadband range of 95% and 105%. Therefore, an increase in the propane reference price and customer rates is indicated. The twelve-month amortization of the projected June 30, 2007 deferral account surplus balance reduces the forecast average propane cost of \$0.3668/litre (Tab 1, Page 2, Column 9, Line 15) by \$0.0126/litre, for a total revised reference price of \$0.3542/litre (Tab 1, Page 3, Line 10). The reference price increase of \$0.0290/litre corresponds to a rate increase of \$1.180/GJ (Tab 1, Page 3, Line 20). This equates to a burnertip increase of approximately \$94 or 6.6% for a typical residential customer (Tab 1, Page 5, Line 16) with an average annual consumption of 80 GJ.

Terasen Gas hereby requests Commission approval for an increase in the propane reference price for use in the Revelstoke Propane Cost Deferral Account from \$0.3252/litre to \$0.3542/litre which corresponds to a rate increase of \$1.180/GJ to be effective July 1, 2007.

For information purpose, Terasen Gas provides in Tab 2, Page 1, three sets of forward prices as at June 1, 2007. One set is 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 50% NYMEX WTI Light Sweet Crude Oil futures and 50% NYMEX Mt. Belvieu Propane futures. 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.

Provided in Tab 3 are the details of the forecast gas costs for Revelstoke. 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' 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 propane and natural gas contracting is not impaired.

Terasen Gas will continue to monitor the forward prices and will report these results in the 2007 Third 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 JUNE 30, 2008

Tab 1
Page 1

WITH EXISTING PROPANE REFERENCE PRICE (BCUC ORDER NO. G-169-06)
(JUNE 1, 2007 FORWARD PRICES BASED ON NYMEX 50% WTI LIGHT SWEET CRUDE OIL AND 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)	(5)	Column (3)-(4)	Column (2)x(5)	(7)
1	March 31, 2007 Balance						(\$235,669)
2	April (Projection-Commodity)	1,788,478 ⁽¹⁾	\$0.3402	\$0.3252	\$0.0150	\$26,827	(\$208,842)
3	April (Recorded-Hedging loss and Storage) ⁽²⁾					\$135,110	(\$73,732)
4	May (Projection-Commodity)	488,396	\$0.3612	\$0.3252	\$0.0360	\$17,582	(\$56,150)
5	May (Recorded-Hedging loss and Storage) ⁽³⁾					(\$82,251)	(\$138,401)
6	June (Projection)	355,552	\$0.3650	\$0.3252	\$0.0398	\$14,151	(\$124,250)
7	Current Quarter Total	<u>2,632,426</u>				<u>\$111,419</u>	
8							
9	<u>Forecast Volumes and Forecast Prices</u>						
10	July (Forecast)	312,573	\$0.3454	\$0.3252	\$0.0202	\$6,314	(\$117,936)
11	August (Forecast)	308,666	\$0.3560	\$0.3252	\$0.0308	\$9,507	(\$108,429)
12	September (Forecast)	429,788	\$0.3613	\$0.3252	\$0.0361	\$15,515	(\$92,914)
13	October (Forecast)	746,269	\$0.3771	\$0.3252	\$0.0519	\$38,731	(\$54,183)
14	November (Forecast)	1,078,378	\$0.3709	\$0.3252	\$0.0457	\$49,282	(\$4,901)
15	December (Forecast)	1,414,394	\$0.3759	\$0.3252	\$0.0507	\$71,710	\$66,809
16	January 2008 (Forecast)	1,527,702	\$0.3736	\$0.3252	\$0.0484	\$73,941	\$140,750
17	February (Forecast)	1,304,993	\$0.3708	\$0.3252	\$0.0456	\$59,508	\$200,258
18	March (Forecast)	1,226,850	\$0.3645	\$0.3252	\$0.0393	\$48,215	\$248,473
19	April (Forecast)	640,775	\$0.3531	\$0.3252	\$0.0279	\$17,878	\$266,351
20	May (Forecast)	504,024	\$0.3511	\$0.3252	\$0.0259	\$13,054	\$279,405
21	June (Forecast)	367,274	\$0.3437	\$0.3252	\$0.0185	\$6,795	\$286,200
22	Total July 2007 - June 2008	<u>9,861,686</u>				<u>\$410,450</u>	
23							
24	Recovered Costs (Line 22 Col.2 x Line 21 Col.4)		\$3,207,020	=			
25	Forecast + Deferral Balance (Page 2 Line 13 Col. 9 + Page 1 Line 6 Col. 7)		<u>\$3,493,310</u>	=	91.8%		

Note (1) Purchase volume was higher than forecast due to 842,960 litres of Feb/Mar purchases were paid in April. The net purchase for April was 945,518 litres.

Note (2) Recorded \$24K of hedging loss from Nov 2006 to Jan 2007, and \$111K of storage withdrawal price variance and fees from Dec 2006 to Mar 2007.

Note (3) Recorded \$13K of hedging loss from Feb to Mar 2007, \$11K of storage withdrawal price variance adjustment for Nov to Dec 2006, and a correction of \$106K credit for storage withdrawal fees from Nov 2006 to Mar 2007.

TERASEN GAS INC.
 REVELSTOKE PROPANE
 CALCULATION OF PROPANE COST INCREASE FLOWTHROUGH
 FOR THE PERIOD JULY 1, 2007 TO JUNE 30, 2008

Tab 1
 Page 3

(JUNE 1, 2007 FORWARD PRICES BASED ON NYMEX 50% WTI LIGHT SWEET CRUDE OIL AND 50% MT. BELVIEU PROPANE FUTURES)

Line No.	Particulars	\$/Litre	\$/GJ	
1	Calculation of New Propane Reference Price			
2				
3	i. Forecast average Cost of Propane (Tab 1, Page 2, Line 15, Col.9)			
4	July 1, 2007 to June 30, 2008	\$0.3668	\$14.331	
5				
6	ii. Twelve months amortization of Deferral Account	(0.0126)	(\$0.492)	
7				
8				
9				
10	New Reference Price	<u>\$0.3542</u>	<u>\$13.839</u>	
11				
12	Existing Propane Reference Price (BCUC Order No. G-169-06)	<u>\$0.3252</u>	<u>\$12.706</u>	
13	(Conversion factor 1 Litre = 0.025594 GJ)			
14				
15				
16	Increase in Propane Reference Price to be flowed through in customers' rates	\$0.0290	\$1.133	
17				
18	Add: Unaccounted For/Company Use/Vaporizer Use Adjustment (3.99%) ⁽¹⁾	<u>0.0012</u>	<u>\$0.047</u>	
19				
20	Total Propane Cost Flowthrough	<u>\$0.0302</u>	<u>\$1.180</u>	
21	(Conversion factor 1 Litre = 0.025594 GJ)			
22				
23				
24				
25				
26	Note: (1) The Unaccounted For/Company Use/Vaporizer Use Adjustment of 3.99% is based on 2004, 2005 and 2006 data.			
27		Litres	%	
28	Sales	26,173,800		
29				
30	Less: Propane Used for Vaporizer	288,520	1.10%	
31	Company Use	5,723	0.02%	
32	Unaccounted For	<u>751,699</u>	<u>2.87%</u>	
33	Total	<u>1,045,942</u>	<u>3.99%</u>	

TERASEN GAS INC.

Tab 1

REVELSTOKE PROPANE DEFERRAL

Page 4

FORECAST BALANCE AS AT JUNE 30, 2008

WITH PROPOSED REFERENCE PRICE EFFECTIVE JULY 1, 2007

(JUNE 1, 2007 FORWARD PRICES BASED ON NYMEX 50% WTI LIGHT SWEET CRUDE OIL AND 50% 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)	Pre-Tax Deferral Balance
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	March 31, 2007 Balance						(\$235,669)
2	April (Projection-Commodity)	1,788,478	\$0.3402	\$0.3252	\$0.0150	\$26,827	(\$208,842)
3	April (Recorded-Hedging loss and Storage)					\$135,110	(\$73,732)
4	May (Projection-Commodity)	488,396	\$0.3612	\$0.3252	\$0.0360	\$17,582	(\$56,150)
5	May (Recorded-Hedging loss and Storage)					(\$82,251)	(\$138,401)
6	June (Projection)	355,552	\$0.3650	\$0.3252	\$0.0398	\$14,151	(\$124,250)
7	Current Quarter Total	<u>2,632,426</u>				<u>\$111,419</u>	
8							
9				Proposed			
10				Reference			
11				Price			
12	<u>Forecast Volumes and Forecast Prices</u>						
13	July (Forecast)	312,573	\$0.3454	\$0.3542	(\$0.0088)	(\$2,751)	(\$127,001)
14	August (Forecast)	308,666	\$0.3560	\$0.3542	\$0.0018	\$556	(\$126,445)
15	September (Forecast)	429,788	\$0.3613	\$0.3542	\$0.0071	\$3,051	(\$123,394)
16	October (Forecast)	746,269	\$0.3771	\$0.3542	\$0.0229	\$17,090	(\$106,304)
17	November (Forecast)	1,078,378	\$0.3709	\$0.3542	\$0.0167	\$18,009	(\$88,295)
18	December (Forecast)	1,414,394	\$0.3759	\$0.3542	\$0.0217	\$30,692	(\$57,603)
19	January 2008 (Forecast)	1,527,702	\$0.3736	\$0.3542	\$0.0194	\$29,637	(\$27,966)
20	February (Forecast)	1,304,993	\$0.3708	\$0.3542	\$0.0166	\$21,663	(\$6,303)
21	March (Forecast)	1,226,850	\$0.3645	\$0.3542	\$0.0103	\$12,637	\$6,334
22	April (Forecast)	640,775	\$0.3531	\$0.3542	(\$0.0011)	(\$705)	\$5,629
23	May (Forecast)	504,024	\$0.3511	\$0.3542	(\$0.0031)	(\$1,562)	\$4,067
24	June (Forecast)	367,274	\$0.3437	\$0.3542	(\$0.0105)	(\$3,856)	\$211
25	Total July 2007 - June 2008	<u>9,861,686</u>				<u>\$124,461</u>	

TERASEN GAS INC.
 PROPOSED JULY 1, 2007 PROPANE COST INCREASE
 TYPICAL ANNUAL CONSUMPTION

(JUNE 1, 2007 FORWARD PRICES BASED ON NYMEX 50% WTI LIGHT SWEET CRUDE OIL AND 50% MT. BELVIEU PROPANE FUTURES)

Line No.	Particulars	Rate 1 - Residential				Rate 2 - Small Commercial				Rate 3 - Large Commercial			
		Use per Customer (GJ)	Unit Revenue (\$/GJ) or (\$/mo.)	Revenue (\$)	% Increase	Use per Customer (GJ)	Unit Revenue (\$/GJ) or (\$/mo.)	Revenue (\$)	% Increase	Use per Customer (GJ)	Unit Revenue (\$/GJ) or (\$/mo.)	Revenue (\$)	% Increase
1	REVELSTOKE PROPANE												
2	- INLAND SERVICE AREA												
3													
4	Delivery Margin Related Charges												
5	Basic Charge		\$10.94	\$131.28			\$22.96	\$275.52			\$122.48	\$1,469.76	
6	Delivery Charge + Rider 3 + Rider 5	80.0	\$2.773	221.84		350.0	\$2.352	823.20		5,700.0	\$2.054	11,707.80	
7													
8	Commodity Related Charges												
9	Commodity Cost+Midstream Cost+Rider 1	80.0	\$13.559	1,084.72		350.0	\$12.468	4,363.80		5,700.0	\$12.468	71,067.60	
10													
11	Typical Annual Bill at current rates (excluding any applicable PST or GST)	80.0		1,437.84		350.0		5,462.52		5,700.0		84,245.16	
12													
13													
14													
15	July 1, 2007 Propane Cost Flowthrough												
16	Propane Price Increase		\$1.180	94.40	6.6%		\$1.180	413.00	7.6%		\$1.180	6,726.00	8.0%
17	Typical Annual Bill after Propane Price Change			\$1,532.24				\$5,875.52				\$90,971.16	

REVELSTOKE PROPANE FLOATING PRICES

Forward Prices: June 1, 2007

Tab 2

Page 1

CRUDE OIL		
Month	Crude Oil Future Prices (US \$ per Barrel)	Weighted Average Unit Cost (including transportation) (Cdn \$ per Litre)
Jul-07	\$65.0800	\$0.3383
Aug-07	\$66.1200	\$0.3569
Sep-07	\$66.9900	\$0.3659
Oct-07	\$67.6500	\$0.3902
Nov-07	\$68.1800	\$0.3722
Dec-07	\$68.6500	\$0.3826
Jan-08	\$69.0500	\$0.3742
Feb-08	\$69.4000	\$0.3697
Mar-08	\$69.6800	\$0.3644
Apr-08	\$69.9100	\$0.3682
May-08	\$70.1100	\$0.3737
Jun-08	\$70.3000	\$0.3605

PROPANE FUTURES		
Month	Propane Futures Prices (US \$ per Gallon)	Weighted Average Unit Cost (including transportation) (Cdn \$ per Litre)
Jul-07	\$1.1350	\$0.3526
Aug-07	\$1.1375	\$0.3551
Sep-07	\$1.1425	\$0.3567
Oct-07	\$1.1475	\$0.3640
Nov-07	\$1.1525	\$0.3697
Dec-07	\$1.1575	\$0.3692
Jan-08	\$1.1625	\$0.3731
Feb-08	\$1.1475	\$0.3719
Mar-08	\$1.1175	\$0.3646
Apr-08	\$1.0675	\$0.3381
May-08	\$1.0475	\$0.3285
Jun-08	\$1.0475	\$0.3268

50% CRUDE OIL & 50% PROPANE FUTURES	
Month	Weighted Average Unit Cost (including transportation) (Cdn \$ per Litre)
Jul-07	\$0.3454
Aug-07	\$0.3560
Sep-07	\$0.3613
Oct-07	\$0.3771
Nov-07	\$0.3709
Dec-07	\$0.3759
Jan-08	\$0.3736
Feb-08	\$0.3708
Mar-08	\$0.3645
Apr-08	\$0.3531
May-08	\$0.3511
Jun-08	\$0.3437