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August 17, 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 June 30, 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' fourth quarterly report, as of June 30, 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

As outlined in the LP System CPCN and its previous quarterly reports, 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.

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 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, communications with the public also include a link to a Terasen Gas webpage that serves as a reference for affected customers and residents of this area.

<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

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.

Q2 2007 Activities

From April 1, 2007 to June 30, 2007, 753 services have been replaced. To date 2,633 services have been replaced and 4,467 service replacements are pending.

As mentioned on the previous report, CUCC has added a second Low Pressure crew to work on the project. Both crews have been working continuously on the project since mid May 2007 in two of the more challenging areas of the Low Pressure system (SW Marine Dr and University Endowment Lands). Full construction production for the second Low Pressure crew is anticipated wrap up as more experience is gained. North Point Grey is another challenging area of the Low Pressure system. Terasen Gas plans to work in this area in Fall 2007.

2007 and 2008 Activities

The revised project schedule has rebalanced monthly activity expectations by reducing the number of planned service replacements taking place over the winter months and increased replacement activities over the spring, summer and autumn months.

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.

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 has removed one station and anticipates removing 9 additional 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.

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 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 June 30/07	2007 Forecast	Forecast Total Costs	Project Budget
Project Management	\$221	\$110	\$356	\$356
Mains and Services	\$5,790	\$9,836	\$22,369	\$22,369
Stations	\$12	\$320	\$376	\$376
AFUDC	\$111	\$44	\$645	\$645
Total	\$6,134	\$10,310	\$23,747	\$23,747

At this time the forecast of total project costs have not be adjusted. While costs incurred to date per service and main replacement have been lower than anticipated, Terasen Gas has not revised the forecast down for 2007 as more challenging areas planned for completion from April - September 2007 are expected to have an upward impact on costs. The 2007 forecast has been revised to reflect the increased replacement activities. Terasen Gas intends to revise its forecast total cost estimate once these more complex works have been completed.

The 2007 year end forecast has been adjusted to reflect the work that has been completed to date. Although work in more challenging areas was completed in April, May, and June, 2007, not all costs have been submitted. Permanent repair and associated invoices have not been received.

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