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October 25, 2007

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

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

**Re: Terasen Gas Inc. ("Terasen Gas")
Vancouver Low-Pressure Gas Distribution System Replacement and Upgrade
Quarterly Progress Report – as at September 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' fifth quarterly report, as of September 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 and Service Replacement and Upgrades

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.

Q3 2007 Activities

From July 1, 2007 to September 30, 2007, 916 services were replaced and 7 low pressure stations were removed. As of the end of Q3 2007 3,552 services have been replaced and 3,568 service replacements are pending.

In mid June CUCC deployed a second Low Pressure crew to the Project to assist in production. However, due to the municipal labor dispute in the City of Vancouver, in late August CUCC was asked to scale back their work force to one Low Pressure crew. Since construction work was not being reviewed by the City, the Company was concerned that there would not be enough approved work to keep two crews busy.

Consequently, the production target numbers were missed for the month of September as CUCC only completed 81% of the target. Another contributing factor which resulted in the lower production numbers was that in mid September CUCC was asked to start construction on another challenging area of the Low Pressure Project; Tolmie St. and W 4th Ave. (Spanish Banks),

2007 and 2008 Activities

A 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 project schedule have been made to:

- accommodate the City of Vancouver's pre-paving program;
- deal with water incursion issues in the SW Marine Drive / South Kerrisdale area; and
- advance undertaking of the mains and service replacements in some of the more challenging areas in and around the University of British Columbia.

As a result of the work this year, almost all of the Low Pressure system has been removed from the Kerrisdale, Marpole, Riley Park, and UBC neighbourhoods. This will leave, primarily, the balance of the Dunbar neighborhood for 2008.

Since the beginning of October, Terasen Gas has been experiencing limited forms of job action and labour disruption by employees represented by the Canadian Organization of Professional Employees ("COPE") union. At this time, the job action is not having an immediate effect on the Project as there is approximately 3 months of Low Pressure replacement work planned and ready for the installation crew. The job action by COPE may have a more immediate effect on the amount of routine mains and services work available to company and contract crews and, if this occurs, Terasen Gas may redirect a second CUCC crew to the Project as was done earlier in the year. This would allow Terasen Gas to retain the CUCC crew while establishing a solution to the labour disruption.

If the COPE labour disruption continues for a significant time or becomes more substantive, as with our routine work, Terasen Gas will attempt to replace the planning services provided by the COPE members with other resources in order to ensure sufficient work packages are prepared to maintain production at a reasonable cost.

Terasen Gas currently forecasts that it will be able to replace 3,223 services in 2007, bringing the number of replacements completed by December 31, 2007 to 4,463. This figure is 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 also anticipates being able to remove an additional 3 low pressure stations during 2007 with the remaining 13 to be removed during 2008. Due to the complexity of station abandonments the majority of this work is being carried out by Terasen Gas crews.

Terasen Gas is currently forecasting that the Project will complete by December 31, 2008.

Attached to this report are two drawings, the first indicating the amount of Low Pressure system that existed at the start of the project and the second indicating the amount of Low Pressure system remaining now.

Project Expenditures

Table 1 provides an overview of total project costs to September 30, 2007, a forecast of the 2007 year end project costs, and the project forecast to completion. Terasen Gas has no reason to believe that the forecast costs to completion, based on the results to date, will vary from the project budget set out in the LP System CPCN. While costs incurred to date per service and main replacement have been lower than anticipated, Terasen Gas has not revised the forecast down since more challenging areas planned for completion are expected to have an upward impact on costs. The 2007 forecast has been revised downward however to reflect the decrease in replacement activities due to the reduction in contractor crews during the City of Vancouver municipal strike and because Terasen Gas may encounter difficulties in being able to plan additional work during the COPE job action.

The 2007 year end forecast has been adjusted to reflect the work that has been completed to September 30, 2007, and is our best estimate based on the invoices received to date and known outstanding invoices such as for the City of Vancouver undertaking of permanent pavement repairs due to our excavations.

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

	Project Costs to Sept 30/07	2007 Cost Forecast YE	Project Cost Forecast Total	Project Budget
Project Management	\$223	\$115	\$356	\$356
Mains and Services	\$8,001	\$7,147	\$22,369	\$22,369
Stations	\$38	\$150	\$376	\$376
AFUDC	\$181	\$137	\$645	\$645
Total	\$8,442	\$7,549	\$23,747	\$23,747

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

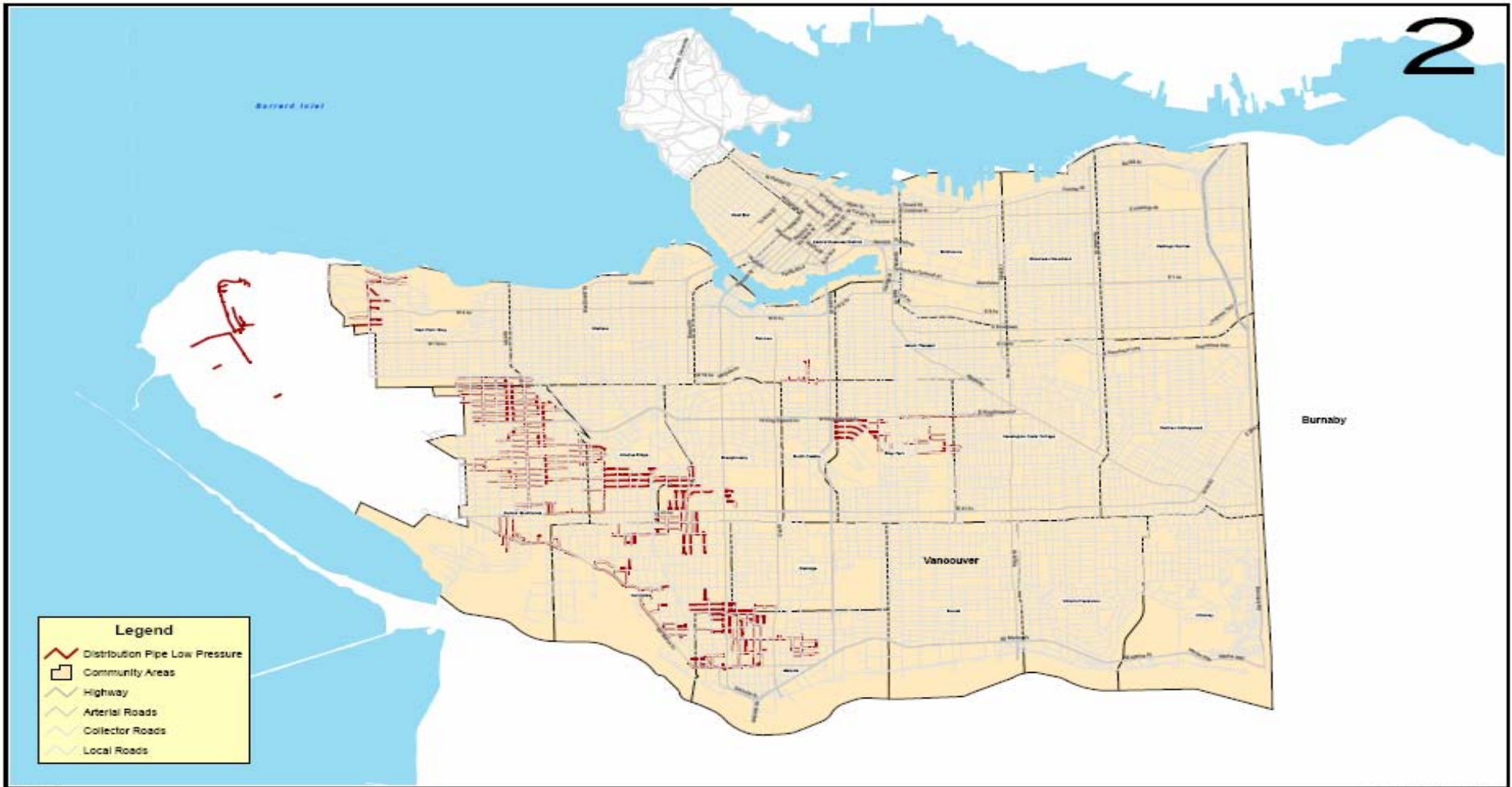
Attachment

At the start of the project:

Low Pressure System - Vancouver



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At the end of the 3rd Quarter 2007:

Low Pressure System - Vancouver

