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Regulatory Affairs Correspondence
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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, 2008**

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' Ninth quarterly report, as of September 30, 2008, 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.

As the project nears completion, Terasen Gas is pleased that the anticipated total project costs will be lower than the costs approved by the Commission and completed sooner than initially planned. This was partially achieved by adapting a more aggressive schedule and performing a majority of the work in boulevards rather than roads resulting in cost savings from materials and paving. Other cost savings were realized from using new regulator equipment that eliminated the need to move gas meters and service pipe risers for clearance reasons.

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 the 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 work 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 work is provided along with an estimate of the duration of the construction. 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 work 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 2008 Activities

After completing the work in the Dunbar area, the crews proceeded to the Kerrisdale area where they have completed replacing all of the remaining low pressure services.

From July 1 to September 30, 2008, 933 services were replaced and 3 low pressure stations have been removed. The total number of services replaced on the Low Pressure Project is 6,981.

2008 Activities

All of the low pressure services have been replaced at the end of Q3. The remaining 2 Low Pressure Stations will be removed in Q4 2008 by Terasen Gas crews.

Project Expenditures

Table 1 provides an overview of total project costs to September 30, 2008, actual project costs incurred during the third quarter, and the project forecast to completion. Based on the results to date, Terasen Gas has revised the forecast costs to completion to be lower than the figures stated in the LP System CPCN application.

Construction work has been completed by the end of third quarter but the associated permanent paving invoices from the City of Vancouver have not all been received. Additional paving invoices are anticipated to be submitted by the City of Vancouver.

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

	Project Costs to Sept 30/08	Q3 2008 Actual Costs	Project Cost Forecast Total	Project Budget
Project Management	\$223	0	\$280	\$356
Mains and Services	\$16,611	\$2,299	\$17,000	\$22,369
Stations	\$228	\$64	\$260	\$376
AFUDC	\$448	\$92	\$460	\$645
Total	\$17,510	\$2,455	\$18,000	\$23,747

We trust the enclosed is satisfactory. Should you have any questions or comments, please contact the undersigned.

Yours truly,

TERASEN GAS INC.

Original signed:

Tom A. Loski