1.1 Reference: NSOCSF letter dated June 12, 2003

Request: "The NSOCSF requests that EnCana Pipeline Inc. provide detailed analysis of the out-of-province leakage that will result in routing B.C. gas out of the province for processing and distribution. The analysis must include the loss of revenue to local, regional and provincial governments, the direct, indirect and induced job losses and associated taxation that would be generated if the gas was fully processed and distributed through B.C. The analysis must take into account the impact the above factors will have over the projected life expectancy of the proposed projected."

Response:

1.1 EnCana Ekwan is not totally clear as to what analysis the NSOCSF is requesting that it carry out.

If "out-of-province leakage" refers to the forecasted distribution between various areas of the estimated capital cost expenditures associated with the Ekwan Pipeline, then EnCana Ekwan would refer the NSOCSF to Table 11.6-3 in Volume 1 of the Application at page 11-19. The actual distribution of these capital cost expenditures will, of course, depend on the particular entities which are awarded the contracts for the required services, equipment, materials and supplies associated with the Ekwan Pipeline. The focus of Section 11.6.1, "Effects on Employment, Business and the Economy" in Volume 1 of the Application also provides a description of the scope and magnitude of the employment and business opportunities that could occur in the various areas as a result of the construction and operation of the Ekwan Pipeline.

If "out-of-province leakage" refers to a comparison between the Ekwan Pipeline and some hypothetical "all B.C." project which would see all of EnCana Gas Marketing's gas processed, transported, and distributed within British Columbia, then EnCana Ekwan is not in a position to provide any detailed analysis of this scenario. EnCana Ekwan can only speculate that an "all B.C." project would involve EnCana Gas Marketing's gas being transported from the EnCana Sierra Gas Plant on the Duke Energy Gas Transmission ("**DEGT**") Fort Nelson raw gas transmission system, processed at the DEGT Fort Nelson Plant, transported to the DEGT Compressor Station No. 2 utilizing DEGT's Transportation-North, transported from the DEGT Compressor Station No. 2 to the lower mainland utilizing DEGT's Transportation-South, and finally distributed on Terasen Gas Inc.'s ("**Terasen**") system to consumers located in the lower mainland.

As indicated in Section 3.1 in Volume 1 of the Application, EnCana Gas Marketing has the right to transport 2.8 10^6m^3/d (100 Mmcf/d) on the Ekwan Pipeline commencing on April 1, 2004 for a period of 10 years. This initial volume can be ramped up to 5.7 10^6m^3/d (200 Mmcf/d) commencing on April 1, 2005 and up to 8.5 10^6m^3/d (300 Mmcf/d) commencing on April 1, 2006. The NSOCSF's "all B.C." project would have to be capable of transporting these volumes. It is EnCana Ekwan's general understanding that each of the DEGT Fort Nelson raw gas transmission system, Fort Nelson Plant, Transportation-North and Transportation-South currently has limited available capacity and that significant capital investments would have to made for DEGT to be in a position to handle all of the EnCana Gas Marketing volumes. EnCana Ekwan anticipates that significant capital investments would also be required on the Terasen gas distribution system in order to handle the EnCana Gas Marketing volumes.

While EnCana Ekwan does not have an estimate of the capital costs associated with implementing an "all B.C." project, it is prepared to concede that the required capital expenditures are likely to be several magnitudes of the $55 million estimated capital cost of the Ekwan Pipeline. In its June 12, 2003 letter, the NSOCSF seems to imply that employment, business and tax revenues associated with an "all B.C." project would exceed those associated with the Ekwan Pipeline. It would appear obvious that the higher the capital costs the greater the employment, business and tax revenues are likely to be. However, if an "all B.C." project has little or no possibility of ever occurring, the benefits associated with it are zero.

EnCana Ekwan believes that it is important for it to indicate to the NSOCSF why an "all B.C." project will not occur. First, as indicated in Section 2.1 in Volume 1 of the Application, EnCana O&G has chosen to have its incremental gas from the Greater Sierra region transported through the Alberta NOVA Gas Transmission Ltd. system. Existing EnCana O&G production under contract to DEGT will continue to flow through British Columbia on the DEGT system pursuant to existing contractual arrangements. The Ekwan Pipeline will diversify EnCana O&G's transportation portfolio and allow it the opportunity to manage the risk of production losses attributable to any outages on the DEGT system due to maintenance or curtailments. Secondly, an "all B.C." project would involve capital costs significantly higher than the capital costs of the Ekwan Pipeline. Someone has to be prepared to pay these incremental costs. It is unlikely that EnCana O&G, DEGT, the shippers on the DEGT system, Terasen or Terasen's customers would be willing to do so. Thirdly, as an at-risk pipeline, the Ekwan Pipeline provides EnCana with strategic flexibility to size its pipeline so that it can be readily expanded and thus EnCana can potentially benefit from economies of scale. DEGT and Terasen, being cost of service regulated pipelines, have to be more cautious in their facilities design as they have to balance the interests of their existing shippers and customers with the interest of any shipper who is requesting the new capacity to be built. Fourthly, an "all B.C." project makes major assumptions about the market - that EnCana Gas

Marketing would want to sell its incremental gas into the British Columbia market, that Terasen's market is capable of taking all of the EnCana Gas Marketing volumes and that Terasen would want to purchase additional volumes of British Columbia production off of the DEGT system. EnCana Ekwan notes that Terasen has recently taken steps to diversify its gas supply portfolio away from British Columbia production off of the DEGT system as indicated by the Southern Crossing pipeline which is capable of bringing Alberta sourced gas into Terasen's market. Finally, an "all B.C." project would appear to be somewhat inconsistent with recent actions taken by the British Columbia government to simplify the procedures for removing gas from British Columbia. In February of 2003, the Energy Resources Removal Exemption Regulations were amended in order that an energy removal certificate under the Utilities Commission Act is no longer required in respect of natural gas. This action facilitates the movement of British Columbia produced gas out of British Columbia. The importance of non-British Columbia markets is illustrated by the statistic that in 2002 the quantity of British Columbia produced gas exported from British Columbia was over 2.5 times the quantity of British Columbia produced gas which was delivered in British Columbia.

EnCana Ekwan would also point out that any assessment of an "all B.C." project should not be limited to an examination of any perceived benefits to the downstream sector of the industry. The upstream exploration and production sector has a far greater impact on jobs and local spending than does the downstream sector. EnCana Corporation has been one of the most active oil and gas investors in British Columbia with over $2.2 billion invested since 1999. EnCana O&G's forecasted investment in British Columbia in 2003 is expected to be over $700 million - most of which will be spent on the exploration and production side. EnCana O&G has announced an extensive summer drilling program in northeastern British Columbia with each well estimated to cost $1.8 million of which over $800,000 is typically estimated to be retained by B.C. oilfield contractors and service related business. If an "all B.C." project was to restrict EnCana's ability to move its gas to its preferred markets or result in any delay in its ability to bring newly drilled wells on stream in an expeditious manner, the potential negative impacts on the upstream sector would have to be factored in. EnCana Ekwan believes that the potential negative impacts on the upstream activities and local business would be far in excess of any perceived downstream benefits resulting from an "all B.C." project.

In summary, the economic benefits outlined in Section 11.6.1 of the Application are real benefits that will accrue to residents and businesses of British Columbia assuming that the Ekwan Pipeline is approved. Any perceived benefits of an "all B.C." project are illusionary given that an "all B.C." project has little or no possibility of ever occurring. Even if it was to occur, any perceived downstream benefits of an "all B.C." project are likely to be more than offset by the potential negative impacts in the upstream sector.