

PEAKING GAS MANAGEMENT AGREEMENT

THIS AGREEMENT dated as of the 14th day of December, 1995.

AMONG:

VANCOUVER ISLAND GAS JOINT VENTURE, a joint venture comprised of the following corporations and limited partnerships: **Fletcher Challenge Canada Limited, Howe Sound Pulp and Paper Limited, MacMillan Bloedel Limited, Western Pulp Limited Partnership and Harmac Pacific Inc.**, each of which has offices in Vancouver, British Columbia.

(the "Joint Venture")

AND:

CENTRA GAS BRITISH COLUMBIA INC., a corporation having offices in Victoria, British Columbia

("Centra")

AND:

SQUAMISH GAS CO. LTD., a corporation having offices in Vancouver, British Columbia.

("SG")

WHEREAS:

(A) The Joint Venture was formed for the purposes of coordinating the purchase and processing of Gas and the transportation and delivery of Residue Gas to 7 pulp and paper mills within the service area of PCEC;

(B) Each of the pulp and paper mills operated by members of the Joint Venture has alternative heavy fuel oil burning capability economically available which allows the Joint Venture to provide peak shaving capacity for the benefit of the LDU's;

(C) Centra and SG are involved in the purchase and processing of Gas and the transportation and delivery of Residue Gas for core market customers utilizing the PCEC system;

(D) The Joint Venture, Centra and SG are parties to the 1991 Peaking Gas Management Agreement under which the Joint Venture agreed to provide Residue Gas to Centra and SG on the terms and conditions set out in that agreement; and

(E) The Joint Venture, Centra and SG have agreed to terminate the 1991 Peaking Gas Management Agreement and to replace the 1991 Peaking Gas Management Agreement with this Agreement effective the Transition Time.

THIS AGREEMENT WITNESSES that in consideration of the premises and the mutual covenants and agreements herein, the parties hereto agree and covenant as follows:

ARTICLE I - INTERPRETATION

1.1 Definitions

In this Agreement, unless the context otherwise requires, each of the following words, phrases and expressions has the following meaning:

“Agreement Term” means the period commencing at the Transition Time and ending on the date of termination or expiration of the PCEC Transportation Agreement;

“Agreement Year” means each period of 12 consecutive Months during the Agreement Term, beginning at 0800 PST on the first Day of November and ending at 0800 PST on the next succeeding first Day of November, except that the first Agreement Year shall be the period commencing at the Transition Time and ending at 0800 PST on November 1, 1996;

“BC Gas” means BC Gas Utility Ltd.;

“Basic Supply Agreements” means all LDU long-term gas supply and storage contracts and Winter Peaking Supply Contracts but does not include back-up, temporary peaking or emergency supply contracts;

“BCUC” means the British Columbia Utilities Commission;

“Canadian Border Price” means in respect of any Month the first of the Month spot gas price in United States dollars per million British Thermal Units of Residue Gas for “Canadian Border” gas listed for “Northwest Pipeline Corp.” under the “Index” column in the McGraw-Hill publication entitled “Inside F.E.R.C.’s Gas Market Report”, published for each such Month or, if that price is no longer published, an equivalent reference price agreed to by the parties, converted to Canadian dollars per GJ at the Exchange Rate and by using an energy conversion factor of 1.055056 GJ per million British Thermal Units;

“Centra Distribution System” means the property and assets used by Centra and its subsidiaries in the gas distribution business carried on in the areas served by the PCEC pipeline, both as of the date of this Agreement and following any transfer of all such property and assets to PCEC whether by conveyance, assignment, merger, amalgamation or otherwise.

“Core Market” means, subject to §7.13, residential, institutional, commercial and industrial customers who form part of British Columbia’s core market as defined by the British Columbia Ministry of Energy, Mines and Petroleum Resources or the BCUC from time to time provided that, if there is any conflict or inconsistency between those two definitions, that of the Ministry will prevail;

“Curtailment” means a reduction by the Joint Venture in the amount of Residue Gas it would otherwise be entitled to take for the purpose of redirecting the supply of that Residue Gas to an LDU in increments equal to Curtailment Units when requested hereunder by an LDU to maintain firm service to its Core Market customers;

“Curtailment Unit” means one half of the joint Venture’s Firm Daily Contract Demand divided by the number of Joint Venture Participants in an Agreement Year, or part thereof;

“Day” means a period of 24 consecutive hours beginning and ending at 0800 PST and the reference date for any Day will be the calendar date upon which the 24 hour period commences;

“Emergency Gas” has the meaning set forth in §3.8;

“Exchange Rate” means for each calendar month the average of the Bank of Canada daily noon exchange rates for the conversion of U.S. dollars to Canadian dollars;

“Firm Daily Contract Demand” means in respect of each Agreement Year the weighted average Contract Demand for Firm Transportation Service in effect during each such Agreement Year under the PCEC Transportation Agreement, which average Contract Demand shall be that quantity of Residue Gas, in GJ per Day, equal to one-twelfth of the sum of such Contract Demands in effect in each Month in each such Agreement Year;

“Force Majeure” means any event or circumstance beyond the reasonable control of a party, except those caused by its own lack of funds, which prevents, hinders or frustrates the ability of a party to fully perform any obligation hereunder including, without limiting the generality of the foregoing:

- (i) acts of God, including lightning, earthquakes, storms, epidemics, landslides, floods, fires, explosions or washouts;
- (ii) acts of the Queen’s enemies, sabotage, wars, blockades, insurrections, riots, civil disturbances, arrests or restraints;
- (iii) freezing of wells or delivery facilities, well blowouts, craterings, inability to obtain pipe materials or equipment, or pipeline or compressor failure;

- (iv) orders of any court or government authority; and
- (v) failure or refusal for any reason (other than the default of the Joint Venture) by a supplier, processor or transporter (other than PCEC) of Gas or Residue Gas to or for the Joint Venture to supply, process or transport Gas or Residue Gas to or for the Joint Venture;

or any other causes, whether of the kind herein enumerated or otherwise, not within the reasonable control of the party claiming suspension and which, by the exercise of due diligence, such party could not have prevented or is unable to overcome;

“Gas” means raw natural gas which meets Westcoast’s specifications and delivery pressure for raw natural gas;

“Gas Manager” means the person or corporation engaged by the Joint Venture to manage the business of the Joint Venture;

“GJ” means gigajoule;

“Incremental Fuel Cost” has the meaning and shall be determined in accordance with Schedule “A”;

“Incremental Fuel Cost Statement” has the meaning set forth in §5.2;

“Huntingdon” means the point of interconnection between the Westcoast system and the BC Gas system near Huntingdon, British Columbia;

“Joint Venture Participants” means those large industrial customers served by PCEC who are from time to time participants in the Vancouver Island Gas Joint Venture, such customers being as at the date hereof, the 7 pulp and paper mills at Crofton, Elk Falls, Harmac, Port Alberni, Port Mellon, Powell River and Woodfibre.

“Joint Venture Agreement” means the Restated Joint Venture Agreement made effective November 1, 1995 among the Joint Venture Participants;

“LDU” means Centra (or, following the transfer of the Centra Distribution System to PCEC, the Centra Distribution System as distinct from the other business and operations of PCEC) or SG, and LDU’s means both Centra and SG (or, if applicable, the Centra Distribution System);

“Maximum Daily Curtailment” means one half of the Joint Venture’s Firm Daily Contract Demand;

“Month” means the period beginning at 0800 PST on the first Day of each calendar month and ending at 0800 PST on the first Day of the next succeeding calendar month;

“1991 Peaking Gas Management Agreement” means the agreement made effective the 1st day of November, 1991 among the Joint Venture, Centra and SG;

“PCEC” means Pacific Coast Energy Corporation;

“PCEC Transportation Agreement” means the Transportation Service Agreement dated as of December 14, 1995 between PCEC and the Joint Venture;

“PST” means Pacific Standard Time;

“Residue Gas” means the residue remaining after Gas has been processed to meet Westcoast’s specifications for Residue Gas at Huntingdon;

“Service Area” means a geographic area ordinarily served by an LDU with Residue Gas delivered to the LDU through the PCEC pipeline;

“Standard Annual Curtailment” means 5 times the Maximum Daily Curtailment;

“Standard Annual Curtailment Units” means 5 times the number of Joint Venture Participants;

“Supplemental Annual Curtailment” means Residue Gas that may be accessed by the LDU from the Joint Venture, in addition to the Standard Annual Curtailment, in a quantity not to exceed the amount of the Standard Annual Curtailment;

“Supplemental Annual Curtailment Units” means Curtailment Units in addition to the Standard Annual Curtailment up to 5 times the number of Joint Venture Participants;

“Transition and Release Agreement” means the agreement dated as of December 14, 1995 among PCEC, the Joint Venture and Her Majesty the Queen in Right of British Columbia as represented by the Minister of Energy, Mines and Petroleum Resources;

“Transition Time” means the Transition Time as defined in the Transition and Release Agreement;

“Westcoast” means Westcoast Energy Inc.; and

“Winter Peaking Supply Contracts” means contracts of 3 months or greater duration (including consecutive or essentially consecutive shorter term contracts with any one supplier) entered into by an LDU to provide any peaking supplies of Residue Gas between November 1 and April 1 in each Agreement Year.

1.2 Interpretation

In this Agreement, except as otherwise expressly provided or unless the context otherwise requires,

- (a) “this Agreement” means this agreement as from time to time supplemented or amended by one or more agreements entered into pursuant to the applicable provisions of this Agreement;
- (b) the headings are for convenience only and are not intended as a guide to interpretation of this Agreement or any portion thereof;
- (c) the word “including”, when following any general statement or term, is not to be construed as limiting the general statement or term to the specific or similar items or matters set forth, but rather as permitting the general statement or term to refer to all other items or matters that could reasonably fall within its broadest possible scope;
- (d) all accounting terms not otherwise defined herein have the meanings assigned to them, and all calculations to be made hereunder are to be made in accordance with generally accepted accounting principles applied on a consistent basis;
- (e) all references to currency mean Canadian currency unless otherwise expressly stated;
- (f) a reference to a statute includes all regulations made thereunder, all amendments to the statute or regulations in force from time to time, and any statute or regulation that supplements or supersedes such statute or regulation;
- (g) a reference to an entity includes any successor to that entity;
- (h) words importing the masculine gender include the feminine or neuter, and vice versa; words in the singular include the plural, and vice versa; and words importing a corporate entity include individuals, and vice versa;
- (i) a reference to “approval”, “authorization”, “consent” or “notice” means written approval, authorization, consent or notice;
- (j) references herein to words or phrases commonly used in the oil and gas industry not otherwise specifically defined herein, will have the meaning generally accorded thereto by the custom of the trade and usage in the oil and gas industry; and
- (k) the division of this Agreement into articles, paragraphs, clauses and subclauses and the insertion of headings, and any table of contents, are for convenience of reference only and will not affect the construction or interpretation hereof.

ARTICLE II - TERM

2.1 Agreement Term

Subject to §7.21, this Agreement will have effect and be binding upon the parties for the Agreement Term unless terminated by one of the parties in accordance with Article VI.

ARTICLE III - CURTAILMENT PROVISIONS

3.1 Notice of Curtailment

- (a) Each LDU seeking to impose a Curtailment by way of Standard Annual Curtailment or Supplemental Annual Curtailment will notify the Gas Manager and
other LDU's by telephone, or by such other method as may be agreed upon from time to time by the parties, not less than 24 hours before the beginning of the Day on which the Curtailment is required and consistent with PCEC operating procedures, and state the number of Curtailment Units required and the Days on which those Curtailment Units will be taken. Under no circumstance, except as provided in §3.8, will the LDU's notify the Gas Manager of a request for a daily Curtailment quantity in excess of the Maximum Daily Curtailment. Except as provided in §3.8, under no circumstance will the Joint Venture be obligated to curtail its take of Residue Gas on more occasions than the number of Standard Annual Curtailment Units plus the number of Supplemental Annual Curtailment Units;
- (b) Each LDU having instituted a Curtailment will immediately notify the Gas Manager when a Curtailment is no longer in effect or if any change to a notice of Curtailment is required;
- (c) If a Curtailment Unit is shared by 2 or more LDU's, the LDU's will advise the Joint Venture of their respective interests in the Curtailment Unit within 48 hours after the Curtailment Unit is received;
- (d) Notwithstanding any other provision of this Agreement, except §3.8, unless the Joint Venture is in default of its obligations under §3.3 or §7.16, it will at all times and under all circumstances have the right to take Residue Gas up to 50% of its Firm Daily Contract Demand; and
- (e) If for any reason other than a default by the Joint Venture of its obligations under §3.3 or §7.16, there is a shortfall in the amount of Residue Gas available to meet the Firm Daily Contract Demand, the number of Curtailment Units available on that Day may, at the option of the Joint Venture, be reduced accordingly.

3.2 Curtailment Obligations of the LDU's

An LDU may invoke a Curtailment only under the following conditions:

- (a) the Curtailment is initiated by the LDU in good faith to satisfy its Core Market requirements for firm Residue Gas; and
- (b) when the LDU, acting reasonably, determines that a Curtailment may be required, the LDU has promptly and diligently exercised all rights to
 - (i) stop the sale or delivery of Residue Gas pursuant to all interruptible contracts with its customers before and during the period of Curtailment and, in addition,
 - (ii) curtail the sale or delivery of Residue Gas to industrial customers under all contracts for the sale or delivery of 100,000 GJ or more per Agreement Year and which allow for curtailment, and curtail the sale or delivery of Residue Gas under all contracts with other customers for the sale or delivery of 100,000 GJ or more per Agreement Year if the terms of the contracts permit curtailments in aggregate of 100,000 GJ or more in any Agreement Year, provided, in any case under this §3.2(b)(ii), that such curtailment of the customers of the LDU and Curtailment of the Joint Venture will have the same priority and the LDU will use all reasonable efforts to apportion such curtailments equitably over the course of each Agreement Year; and
- (c) the LDU has utilized all Residue Gas available to it under its Basic Supply Agreements for its Service Area and no such Residue Gas is diverted to alternative markets,
 - (i) after such time as the LDU, acting reasonably, determines that a Curtailment may be required, and
 - (ii) during the period of Curtailment.

3.3 Curtailment Obligations of Joint Venture

Upon receipt of a notice of Curtailment as provided in §3.1(a), the Joint Venture will:

- (a) provide at Huntingdon the amount of Residue Gas requested in the notice of Curtailment, in increments equal to Curtailment Units, to the LDU requesting Curtailment up to the Maximum Daily Curtailment,

- (b) direct PCEC to deliver Residue Gas in aggregate, up to the Standard Annual Curtailment plus the Supplemental Annual Curtailment as may be requested by the LDU's hereunder and, subject to §3.1 (d), direct PCEC to deliver that Residue Gas to the LDU's in priority to other deliveries to the Joint Venture,
- (c) to the extent necessary to satisfy the Curtailment requested, increase its nomination with Westcoast for delivery at Huntingdon of Residue Gas up to the Firm Daily Contract Demand, and
- (d) provide a copy of the notice of Curtailment to PCEC and authorize PCEC to transport such Residue Gas to the LDU from Huntingdon,

provided that nothing herein will require the Joint Venture to deliver or authorize the transportation of Residue Gas for or to an LDU at times or in quantities other than as specifically provided in this Agreement.

3.4 Force Majeure

In the event of a Force Majeure, all obligations of the Joint Venture under this Agreement will be suspended hereunder in whole or in part as may be appropriate during the period of Force Majeure provided that the Joint Venture provides notice of the Force Majeure event to the LDU's at its first reasonable opportunity.

Nothing in this Agreement shall be deemed to limit any right that PCEC may have in the event of a "Force Majeure" as defined in PCEC's General Terms and Conditions for Gas Transportation Service.

3.5 Obligations Non-cumulative

The obligations of the Joint Venture under this Article III are not cumulative and will not be carried forward from Agreement Year to Agreement Year.

3.6 Notice of Size of Curtailment Units

The Joint Venture will use reasonable efforts to notify the LDU's as to the number of GJ's available in each Curtailment Unit by April 15th in the Agreement Year immediately preceding the Agreement Year for which such Curtailment Unit is to be in effect. If a final figure as to the number of GJ's per Curtailment Unit is not available by April 15th, the Joint Venture will by September 10th in the Agreement Year provide to the LDU's its best reasonable estimate of that number and will provide the final number to be in effect during an Agreement Year before the start of that Agreement Year.

3.7 Notice of Remaining Curtailments

The Joint Venture will keep a record of the number of Curtailment Units utilized in each Agreement Year by each of the LDU's and will, upon request, notify the LDU's as to the number of Standard Annual Curtailments and Supplemental Annual Curtailments remaining available during an Agreement Year.

3.8 Emergency Assistance

Notwithstanding any other condition herein, whenever, for reasons beyond the control of the LDU, the supply of Residue Gas available to an LDU is insufficient to meet the total demands of all Core Market customers in its Service Area, the Joint Venture will, subject to §3.9, cooperate reasonably with the LDU to deliver to the LDU such Residue Gas ("Emergency Gas") as is necessary to meet the essential requirements of those customers up to the Firm Daily Contract Demand, provided the LDU has first

- (a) utilized all Curtailment Units otherwise available to it under this Agreement on that Day,
- (b) curtailed or interrupted all non-essential use by other customers in its Service Area in accordance with an emergency priority list filed with and approved by the BCUC, and
- (c) requested that PCEC confirm to the Joint Venture that, to the best of PCEC's knowledge, the LDU has insufficient Residue Gas to meet the requirements of its Core Market customers and that confirmation has been received by the Joint Venture.

To request Emergency Gas, the LDU will give notice to the Joint Venture regarding the cause and expected duration of the emergency, and the amount of Emergency Gas requested and will confirm that the conditions set out in §3.8 (a), (b) and (c) have all been satisfied.

If the LDU determines reasonably that the shortfall in the supply of Residue Gas for Core Market customers in its Service Area is likely to continue over 2 or more successive Days, it may declare a continuing emergency by giving notice thereof to the Joint Venture and it will not be required, on any Day other than the first Day and after such notice is given, during the period of that continuing emergency, to first utilize Curtailment Units otherwise available each Day as required by §3.8(a), provided that the LDU must issue a general appeal to the public advising of the problems being experienced and urging immediate reduction in the use of Residue Gas and must, throughout the continuing emergency, fulfil the requirements of §3.8(b).

3.9 Limitation of Emergency Gas

Nothing in this Agreement will be construed to require the Joint Venture to deliver Emergency Gas, if and to the extent, in the absolute discretion of the Joint Venture, such Emergency Gas is required to preserve safety in, or to prevent damage to, any of the plant, equipment or facilities of any of the Joint Venture Participants.

3.10 Report of Interruptions and Curtailments

Within 30 days following the end of each Agreement Year, each LDU having exercised a right of Curtailment in that Agreement Year will deliver to the Joint Venture a written report to set forth in reasonable detail, including relevant dates, amounts and customers involved, for all

- (i) interruptions of sales or deliveries of Residue Gas required pursuant to §3.2(b)(i), and
- (ii) curtailments of the sale or delivery of Residue Gas required pursuant to §3.2(b)(ii).

3.11 Report Regarding Emergency Gas

In each instance when an LDU requests Emergency Gas it will, as soon as practicable following the request, provide an explanation, in reasonable detail and in writing, to the Joint Venture of the circumstances giving rise to the request and, as appropriate, the plans and measures to be taken by the LDU to ensure that circumstances will not occur again.

ARTICLE IV - PRICE

4.1 Standard Annual Curtailment

The price to be paid by an LDU to the Joint Venture for Residue Gas taken as Standard Annual Curtailments in any Month in the Agreement Term shall be an amount, per GJ of Residue Gas delivered, equal to the Canadian Border Price, plus \$5.26 per GJ.

4.2 Supplemental Annual Curtailment

The price to be paid by an LDU to the Joint Venture for Residue Gas taken as Supplemental Annual Curtailments in any Month in the Agreement Term shall be an amount, per GJ of Residue Gas delivered, equal to the Canadian Border Price, plus \$18.42 per GJ.

4.3 Emergency Gas

The price to be paid by an LDU to the Joint Venture for Residue Gas taken as Emergency Gas in any Month in the Agreement Term shall be an amount, per GJ of Residue Gas delivered, equal to 5 times the sum of

- (a) the Incremental Fuel Cost plus
- (b) the Canadian Border Price.

4.4 Not Divisible

For purposes of administering this Agreement, a Curtailment Unit will not be divisible. Any amount of Residue Gas that is supplied as Standard Annual Curtailment or Supplemental Annual Curtailment that is less than a Curtailment Unit will be rounded up to the next whole number and will be deemed to be a full Curtailment Unit. For greater certainty, this Section will not apply with regard to the supply of Emergency Gas.

ARTICLE V - STATEMENTS

5.1 Statements and Payments

The Joint Venture shall within 15 days following the end of each Month in which a Curtailment was in effect or in which Emergency Gas was supplied by the Joint Venture, deliver to each LDU a statement setting out the number of Curtailment Units provided to the LDU and, if applicable, the quantity of Emergency Gas supplied and the amount payable therefor in accordance with §4.1, §4.2 and §4.3. The LDU shall within 10 days of the receipt of the statement for any Month pursuant to this Section or within 25 days following the end of such Month, whichever is the later, pay the amount specified therein to the Joint Venture. If the Curtailment has been divided between the two LDU's, the notice of Curtailment setting forth the respective shares of the LDU's will be used as the basis for calculating the amount to be paid by each of the LDU's. Payments not made by the due date provided herein will bear interest in each Month at the prime annual interest rate in effect on the first day of each calendar month charged by the Royal Bank of Canada for Canadian dollar loans plus 2% from the due date until paid in full.

5.2 Incremental Fuel Costs

The Joint Venture will deliver to the LDU's a statement (the "Incremental Fuel Cost Statement") setting forth the calculation of the Incremental Fuel Cost to be utilized in calculating all payments due under §4.3. The Incremental Fuel Cost Statement will remain in effect until amended by the Joint Venture upon not less than 30 days' notice to the LDU's as provided in Schedule "A".

5.3 Revisions to Incremental Fuel Cost

Upon receipt of a revised Incremental Fuel Cost Statement as provided in §5.2, any LDU objecting to the calculation of the Incremental Fuel Cost will, within 15 days of the receipt of the revised Incremental Fuel Cost Statement, deliver a written notice of objection to the Joint Venture. The Joint Venture will, within 15 days of its receipt of a notice of objection, provide such additional information as may be reasonable and appropriate to justify the calculation but under no circumstances will the Joint Venture be obligated to disclose information

that it considers to be confidential. If the parties fail to agree upon a mutually acceptable revision of the Incremental Fuel Cost within 30 days of the delivery of the revised Incremental Fuel Cost Statement, the dispute will be referred to an arbitrator for determination pursuant to §7.13. Pending the decision of the arbitrator, the existing Incremental Fuel Cost will remain in effect.

5.4 Correction of Errors

If any error is discovered in a statement rendered by the Joint Venture pursuant to §5.1, such error shall be corrected within 60 days of the discovery of the error provided, however, that no adjustment shall be made for any error in a statement which is discovered more than 24 months after the receipt of that statement by the LDU's.

ARTICLE VI- TERMINATION

6.1 Automatic Termination

Notwithstanding any other provision herein, this Agreement will automatically terminate upon the expiration or termination of the PCEC Transportation Agreement.

6.2 LDU Right to Cancel

Each LDU may at its election, subject to §6.7, cancel its participation under this Agreement provided that this Agreement will remain in effect between the Joint Venture and any remaining LDU.

6.3 Joint Venture Right to Cancel for Cause

If an LDU breaches any material provision of §3.2, §3.8 or §5.1 of this Agreement and fails, after receiving notice thereof to immediately commence and diligently seek to remedy such breach, the Joint Venture may by notice in writing suspend all its obligations hereunder to the LDU in breach until the breach is remedied. If the breach relates to the payment of a money obligation and is not remedied within 10 business days of the delivery of the notice of breach, the Joint Venture may upon a further 5 business days notice specifically setting forth its intention, cancel the right of the LDU to participate in this Agreement. If the LDU, commits a breach of the same provision of this Agreement on more than 2 occasions in an Agreement Year in respect of which notice of such breach has been given, the Joint Venture

may elect, upon notice to the LDU to suspend all rights of the LDU hereunder until such time as the LDU provides evidences or assurances to the reasonable satisfaction of the Joint Venture that the breach will not occur again.

6.4 Joint Venture Right to Reduce Curtailment

If following the date of this Agreement there is a material change in circumstances such that it becomes impracticable or uneconomic for a Joint Venture Participant to purchase, transport, store or utilize heavy fuel oil at its facilities in substantially the same manner as it does at the date of this Agreement, the Joint Venture may, upon not less than 12 months' notice to the LDU's, such notice not to be effective before the expiration of the last day of any Agreement Year, reduce the number of Curtailment Units to be available hereunder. The notice will provide reasonable particulars regarding the reasons for the reduction and the calculation of the amount of the reduction. If a notice is given under this provision, the Joint Venture will, upon request by the LDU's, cooperate reasonably with the LDU's to examine and develop alternatives whereby it becomes reasonably practicable and economic for the Joint Venture to minimize or avoid a reduction in the Curtailment Units available to the LDU's. Nothing herein will be construed to require the expenditure of funds by any Joint Venture Participant to provide Curtailment Units to the LDU's other than such expenditures as would be made by such participant prudently in the ordinary course of conducting its business.

6.5 Unavailability of Heavy Fuel Oil

The parties expressly acknowledge that this Agreement and the ability of the Joint Venture to curtail its consumption of Residue Gas is based upon the capability of the Joint Venture Participants to continue to purchase, transport, store and utilize heavy fuel oil on reasonably practicable and economic terms. If and to the extent any of the Joint Venture Participants is unable for any reason beyond its reasonable control to purchase, transport, store or utilize heavy fuel oil, the obligations of the Joint Venture hereunder related to Curtailment will be suspended or reduced as appropriate to reflect these circumstances. The Joint Venture will endeavour to provide as much notice as may be practicable of any suspension or reduction of Curtailment rights under this Section but will in any event provide not less than 12 months' notice thereof. Nothing herein will relieve the Joint Venture Participants of any obligation to exercise reasonable diligence and prudent financial judgement in purchasing, transporting, storing or utilizing heavy fuel oil. Nothing in this Agreement will be interpreted to impose upon any of the Joint Venture Participants any obligation to make any capital investment in facilities or equipment for the storage, transportation or use of any alternate fuel.

6.6 Notice of Termination

The Joint Venture will give to the LDU's as much notice as is reasonably possible if this Agreement is to be terminated pursuant to §6.1. Each LDU wishing to cancel its participation under this Agreement will give notice thereof to the Joint Venture and to each other LDU not less than one month in advance of the effective date of such cancellation.

6.7 Accrued Rights

The termination of this Agreement and the cancellation by any LDU of its participation hereunder will be without prejudice to any rights that may accrue hereunder before the effective date of such termination or cancellation.

6.8 Replacement Agreement

If this Agreement is to be cancelled or is terminated for any reason other than as provided in §6.2 or §6.3, the parties will, if requested by one of the parties before effective date of the cancellation or termination, negotiate in good faith the basis upon which this Agreement might be replaced by a new agreement to provide Residue Gas by way of Curtailment to one or more of the LDU's. Nothing herein will be interpreted to impose upon the parties an obligation to enter into any such replacement agreement.

6.9 Ramp Down

If this Agreement is to be cancelled or terminated for any reason other than as provided in §6.2 or §6.3, and the parties fail to agree upon a replacement agreement pursuant to §6.8, the parties will negotiate in good faith the basis upon which the availability of Curtailments may be reduced in stages, to the extent practicable and upon terms which fairly compensates the Joint Venture for any related loss or cost.

ARTICLE VII- MISCELLANEOUS

7.1 Enurement

This Agreement will enure to the benefit of and be binding upon the respective successors and permitted assigns of the parties.

7.2 Notices

Any notice with respect to this Agreement, except Curtailment notices under §3.1(a) and except for requests for Emergency Gas under §3.8, must be in writing and shall be deemed validly given to and received by the addressee if served personally on the date of personal service or, if delivered by facsimile copier, when received as follows:

If to the Joint Venture, to:

Vancouver Island Gas Joint Venture
c/o Inland Pacific Energy Services Ltd.
Suite 1600, 1095 West Pender Street
Vancouver, British Columbia V6E 2M6

Attention: Gas Manager
Telecopier: (604) 895-3524

with a copy to:

Fletcher Challenge Canada Limited
9th Floor, Toronto Dominion Bank Tower
700 West Georgia Street
Vancouver, British Columbia V7H 1J7

Attention: General Counsel
Telecopier: (604) 6544132

to:

Howe Sound Pulp and Paper Limited
30th Floor - 1055 Dunsmuir Street
Vancouver, British Columbia V7X 1B5

Attention: Vice President, Environment and Energy
Telecopier: (604) 661-5464

to:

MacMillan Bloedel Limited
22nd Floor - 925 West Georgia Street
Vancouver, British Columbia V6C 3L2

Attention: General Counsel
Telecopier: (604) 687-2314

to:

Western Pulp Limited Partnership
c/o Western Pulp Inc.
Suite 2300, 1111 West Georgia Street
Vancouver, British Columbia V6E 4M3

Attention: Secretary-Treasurer
Telecopier: (604) 665-8806

and to:

Harmac Pacific Inc.
980 MacMillan Road
P.O. Box 1800
Nanaimo, British Columbia V9R 5M5

Attention: Vice-President, Manufacturing
Telecopier: (604) 722-4310

If to the LDU's, to:

Squamish Gas Co. Ltd.
1111 West Georgia Street
Vancouver, British Columbia V6E 4M6

Attention: Vice-President, Gas Supply
Telecopier: (604) 443-6476

and to:

Centra Gas British Columbia Inc.
1675 Douglas Street
Victoria, British Columbia V8W 3V3

Attention: President
Telecopier: (604) 480-4450

or to such other address in British Columbia as may be specified from time to time by the particular party by notice to the others.

7.3 Entire Agreement

As of the date hereof, this Agreement constitutes the entire agreement among the parties and supersedes every previous agreement, communication, expectation, negotiation, representation or understanding, whether oral or written, express or implied, statutory or otherwise, among the parties with respect to the subject matter of this Agreement.

7.4 Records and Audit

The LDU's and the Joint Venture will keep and maintain at all times, true and accurate books, records and accounts in accordance with good industry practices, distinguishable from all other books and records, in respect of all Residue Gas curtailed and accounts will be preserved by the parties for a period of at not less than 36 months after the termination or expiration of the Agreement Term.

During normal business hours and through to the expiration of 24 months following the termination or expiration of the Agreement Term, the parties to this Agreement have the right, at their sole cost, to have a third party auditor, who will be a member of a national Canadian chartered accounting firm audit on such party's behalf, the relevant accounts, books, records and charts of the other party to the extent necessary in order to verify the accuracy of any statement, charge, computation or demand made under or pursuant to any of the provisions of this Agreement.

If any error is discovered in any statement rendered hereunder, such error will be adjusted within 60 days from the date of discovery, but no adjustment will be made for any error discovered more than 24 months after delivery and receipt of such statements.

7.5 Modification

There will be no modification of the terms and provisions of this Agreement except by the agreement of all the parties in writing.

7.6 Governing Laws

This Agreement will be interpreted and construed in accordance with the laws of the Province of British Columbia and the parties irrevocably attorn to the jurisdiction of the Courts of British Columbia.

7.7 Compliance With Laws

This Agreement and the respective obligations of the parties hereunder are subject to present and future valid laws and valid orders, rules, and regulations of duly constituted authorities having jurisdiction.

7.8 Confidentiality

Except as required by law in the event of litigation in respect of this Agreement, and except as may be required by a valid order or direction of the British Columbia Utilities Commission or other regulatory body having jurisdiction, the parties hereto, and their officers, directors, employees and co-venturers will hold in confidence during the Agreement Term and after its termination, and will not use to the detriment of any other party hereto, all information contained hereunder and all matters concerning the transactions herein contemplated.

7.9 Cumulative Remedies

Unless specifically provided herein, the rights, powers and remedies of each of the parties provided herein are cumulative and do not affect any right, power or remedy that may be available to either party at law or in equity.

7.10 Not Assignable

None of the parties may transfer, convey or assign this Agreement or any right, benefit or interest in this Agreement without the prior written consent of the others (such consent not to be unreasonably withhold or delayed), and any such transfer, conveyance or assignment made without such consent will be void. Notwithstanding the foregoing, if Centra transfers to PCEC all the property and assets used by Centra and its subsidiaries in the gas distribution business carried on in the areas served by the PCEC pipeline, Centra may, upon notice in writing to the other parties without the prior consent of any other party to this Agreement, transfer, convey and assign this Agreement to PCEC. Upon the assumption by PCEC of:

- (a) the obligations and liabilities of Centra under the 1991 Peaking Gas Management Agreement which have accrued under the that agreement prior to the Transition Time; and
- (b) the covenants, obligations and any liabilities of Centra under and pursuant to this Agreement, including any obligations and liabilities which have occurred prior to the effective date of such assumption by PCEC,

Centra shall, without further act or formality, be absolutely released and forever discharged by the Joint Venture of and from all of the covenants, obligations and any liabilities whatsoever of Centra under and pursuant to both this Agreement and the 1991 Peaking Gas Management Agreement, and the Joint Venture shall, without further act or formality, be absolutely released and forever discharged by Centra of and from all of the covenants, obligations and any liabilities whatsoever of Centra under and pursuant to both this Agreement and the 1991 Peaking Management Agreement.

7.11 Termination of 1991 Peaking Gas Management Agreement

Effective the Transition Time, and without act or formality, the 1991 Peaking Gas Management Agreement shall be terminated and, subject to §6.7 of the 1991 Peaking Gas Management Agreement:

- (a) the Joint Venture and each of the Joint Venture Participants shall be released and forever discharged by Centra and by SG, respectively, of and from all of the covenants, obligations and any liability whatsoever of the Joint Venture under and pursuant to the 1991 Peaking Gas Management Agreement; and
- (b) Centra and SG, respectively, shall be released and forever discharged by the Joint Venture of and from all of the covenants, obligations and any liability whatsoever of Centra and of SG, respectively, under and pursuant to the 1991 Peaking Gas Management Agreement.

7.12 Several Liability

The parties acknowledge and agree that for all purposes the obligations of the Joint Venture and the Joint Venture Participants hereunder are not joint but are several only in accordance with the respective interests of each of the Joint Venture Participants from time to time pursuant to the Joint Venture Agreement.

7.13 Core Market Exceptions

If the Joint Venture believes reasonably that its interests are or may be unfairly prejudiced by the inclusion of any particular customer of an LDU as a Core Market customer or that the treatment of a particular customer as a Core Market customer confers an unfair advantage or undue preference to that customer, the Joint Venture will have the right to complain to the BCUC. If the BCUC determines that there is an unfair advantage or undue preference or that the interests of the Joint Venture are unfairly prejudiced, that customer will, for all purposes of this Agreement, be excluded from the Core Market.

7.14 Arbitration

Any dispute between the Joint Venture and one or more LDU regarding the calculation of the Incremental Fuel Cost will be determined by a single arbitrator appointed, if the parties fail to agree upon an arbitrator within 10 days of the date of a demand for arbitration, pursuant to the provisions of the Commercial Arbitration Act (British Columbia). The arbitrator will, depending on the nature of the dispute, be a chartered accountant or a professional engineer having appropriate experience and expertise and the arbitration will be held in Vancouver, British Columbia with all proceedings governed by the Commercial Arbitration Act (British Columbia). The arbitrator's decision will be made effective retroactive to the date 30 days from the date of delivery of the revised Incremental Fuel Cost Statement.

7.15 Exchange of Information

The parties will, upon request, provide such additional information as may be reasonably required to allow the parties to efficiently and effectively carry out their respective obligations hereunder and to determine and enforce individual or collective rights under this Agreement.

7.16 Contracting for Gas Supply

Each party will contract prudently for Gas supply consistent with good business practices in their respective business activities. Without limiting the generality of the foregoing, each of the LDU's will contract for Gas supply on a basis that, utilizing a forecast peak demand based on the coldest winter over the past 20 years, or such other period of time as the BCUC may approve, it will not require access to Supplemental Curtailment Units or Emergency Gas. If any LDU seeks to change the period of time upon which its peak demand forecast is based from the 20 years contemplated herein, it will give notice in advance to the Joint Venture of the proposed change and the reasons therefor. Each party will provide on a confidential basis,

copies of its proposed Gas supply contracts for each gas year with the BCUC for approval. Acceptance by the BCUC of such contracts will be deemed conclusively to evidence prudent contracting as required by this §7.16.

7.17 Approval of BCUC

This Agreement will not become effective unless and until it is approved by an order of the BCUC. Nothing in this Agreement will be deemed to confer jurisdiction or authority upon the BCUC to vary or amend this Agreement, and any such purported variation or amendment by the BCUC without the consent of the parties will automatically terminate this Agreement.

7.18 Joint Venture Not a Public Utility

Nothing in this Agreement, and no delivery of Residue Gas by the Joint Venture or any Joint Venture Participant by virtue of this Agreement, will be construed to constitute the Joint Venture or any of the Joint Venture Participants, jointly or severally, as a public utility within the meaning of the Utilities Commission Act (British Columbia) or otherwise by operation of law.

7.19 Counterpart Execution

This Agreement may be executed in any number of counterparts, and all of those counterparts shall, for all purposes, constitute one agreement binding upon the parties notwithstanding that all parties are not signatory to the same counterpart.

7.20 First Agreement Year

For the first Agreement Year, the LDU's shall be entitled to that number of Curtailment Units and Supplemental Annual Curtailment Units equal to those available under this Agreement in any other Agreement Year less the number of such units utilized by the LDU's under the 1991 Peaking Gas Management Agreement during the period from 0800 PST on November 1, 1995 until the Transition Time.

7.21 Condition Precedent

This Agreement shall not come into force and effect unless Her Majesty the Queen in Right of the Province of British Columbia and PCEC have delivered written notice to the Joint Venture pursuant to paragraph 2 of the Transition and Release Agreement.

IN WITNESS WHEREOF authorized representatives of each of the parties hereto have executed this Agreement effective as of the day and year first above written.

**FLETCHER CHALLENGE CANADA
LIMITED**

**HOWE SOUND PULP AND PAPER
LIMITED**

Per:

Per:

MACMILLAN BLOEDEL LIMITED

**WESTERN PULP INC. as General
Partner of WESTERN PULP LIMITED
PARTNERSHIP**

Per:

Per:

HARMAC PACIFIC INC.

Per:

Per:

For the LDU's:

SQUAMISH GAS CO. LTD.

**CENTRA GAS BRITISH COLUMBIA
INC.**

Per:

Per:

This is page 22 of the Peaking Gas Management Agreement dated as of December 14, 1995 between the Vancouver Island Gas Joint Venture, Centra Gas British Columbia Inc. and Squamish Gas Co. Ltd.

SCHEDULE "A"

Incremental Fuel Cost

"Incremental Fuel Cost" means, on a comparative burner-tip basis in dollars per GJ, the difference between:

- (a) the cost of Residue Gas to the Joint Venture for the current month of billing in Canadian dollars per GJ at the Huntingdon delivery point on the Westcoast System, and
- (b) the Canadian dollar per GJ equivalent for the current month of billing of the weighted monthly average price of one month forward prices for WTI (West Texas Intermediate) and ANS (Alaska North Slope) crude oil spot prices CFI, U.S. dollars per barrel (the "Crude Oil Reference Price") plus \$1.00 U.S. per barrel in respect of all ancillary costs related to the acquisition, storage, handling and use of the amount of fuel oil used to replace Residue Gas subject to Curtailment (the "Administration Fee"), plus
- (c) all other adjustments as may be appropriate to fairly compensate the Joint Venture for any consequent increase in the unit cost it incurs for uncurtailed Residue Gas service (including, without limitation, odourant, fuel gas and lost and unaccounted for gas charges). and for any other incremental costs or expenses incurred by the Joint Venture as a consequence of Curtailments as set forth from time to time in the Incremental Fuel Cost Statement.

If at any time the Crude Oil Reference Price (or any alternative index or reference price in effect hereunder) is not adequate as a proxy for the actual costs incurred by the Joint Venture Participants in purchasing fuel oil to replace Residue Gas subject to Curtailment, the Joint Venture may, upon not less than 30 days' notice and subject to the consent of the LDU's (such consent not to be unreasonably withheld or delayed) , substitute an alternative index or reference price for that purpose.

If the Joint Venture at any time wishes to increase the Administration Fee, or if following an increase in the Administration Fee the LDU's wish to reduce the Administration Fee, the Joint Venture or the LDU's, as the case may be, will give at least 30 days' notice of the proposed change together with such reasonable information as may be required to justify the change.

At no time will the Administration Fee be less than the Canadian dollar per GJ equivalent of \$1.00 U.S. per barrel.

At no time will the Incremental Fuel Cost be less than the Canadian dollar .per GJ equivalent of \$1.00 U.S. per barrel.

For purposes of classification, the Canadian dollar per GJ equivalent of U.S. dollars per barrel shall be calculated by multiplying the value in U.S. dollars per barrel by the current Exchange Rate and dividing by 6.838.