



**LETTER NO. L-36-04**

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**VIA E-MAIL**

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July 16, 2004

Mr. Scott Thomson  
Vice President, Finance and Regulatory Affairs  
Terasen Gas Inc.  
16705 Fraser Highway  
Surrey, B.C. V3S 2X7

Dear Mr. Thomson:

Re: Terasen Gas Inc. ("Terasen Gas")  
2004/05 Midstream Annual Gas Contracting Plan

On April 27, 2004, Terasen Gas filed its 2004/05 Midstream Annual Gas Contracting Plan ("2004/05 MCP"), which sets out the strategy for acquiring the Midstream resources that are needed for the 2004/05 gas contract year. The Essential Services Model that Terasen Gas developed to implement Commodity Unbundling Service for Commercial Customers requires the separation of the gas supply portfolio into Commodity resources and Midstream resources. Commodity resources for 2004/05 will consist of 330 TJ/day of 12-month baseload supply, and will be the subject of a separate Commodity Annual Gas Contracting Plan that Terasen Gas is expected to file in the near future. Also, on June 30, 2004, Terasen Gas filed its 2004-2006 Price Risk Management Plan that relates to both Commodity and Midstream resources.

The 2004/05 MCP relates to the Midstream resources such as gas storage, transportation and seasonal and peaking supplies that, along with Commodity baseload supplies, are needed to meet peak day demands. It is principally a short-term supply and price risk plan, with the following primary objectives:

- Contracting of cost effective supply resources that ensure safe and reliable natural gas deliveries to meet Core customer design peak day while mitigating against upstream and downstream supply disruptions.
- Portfolio resource mix and price diversity that incorporates contracting flexibility for both the short and longer term.

The 2004/05 MCP also discusses longer term contracting decisions and strategies.

The key contracting decisions and contract changes are identified on pages 26 through 29 of the 2004/05 MCP, and several overall gas buying strategies are listed on pages 29 and 30. The Commission accepts Terasen Gas' proposal to plan for a peak day of 1,260 TJ/day for 2004/05, which is the same as the peak day volume that applies for the current gas year. The Commission also notes that separation of the supply portfolio into Commodity and Midstream resources will reduce the amount of supply shaping for 2004/05, and that Terasen Gas' economic analysis of available storage and seasonal supply options supports this strategy.

The Commission accepts the 2004/05 MCP on the understanding that all individual gas supply contracts and amendments will continue to be filed in a timely fashion pursuant to Section 71 of the Utilities Commission Act. The information, exclusive of the Executive Summary, will be treated as confidential. The 2004/05 MCP identifies target ranges for the categories of supply, while the supply contracts will reflect the outcome of negotiations, current market price factors and security of supply considerations. When the supply contracts are filed, Terasen Gas will be expected to justify that each contract is consistent with meeting the needs of customers at the lowest overall cost.

Yours truly,

*Original signed by:*

Robert J. Pellatt

RJP/cms