



LETTER NO. L-56-05

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VIA E-MAIL

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July 15, 2005

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

Dear Mr. Thomson:

Re: Terasen Gas Inc.
2005/06 Midstream Annual Gas Contracting Plan

On June 2, 2005, Terasen Gas Inc. ("Terasen Gas" or "TGI") filed its 2005/06 Midstream Annual Contracting Plan ("2005/06 ACP") based on the Essential Services Model. The Commission generally accepts the 2005/06 ACP and items listed on pages 2 to 4 that will be effective November 1, 2005. The major portfolio changes from last year's plan affecting the 2005/06 ACP are as follows:

1. Optimization of the utilization of SCP capacity put back from BC Hydro, and formulating cost saving strategies to manage the asset portfolio.
2. Replacement of the peaking supply left void by the termination of the BC Hydro SCP Peaking Agreement.
3. Replacement of the loss of firm Huntingdon delivered supply associated with the release of T-South Long-Haul capacity.

The Commission accepts the proposed portfolio and gas procurement strategy that accommodates the utilization of BC Hydro SCP capacity and replacement of BC Hydro peaking. This is subject to a Commission determination on the Application for Approval of Transactions with respect to Southern Crossing Pipeline ("SCP") and Inland Pacific Connector ("IPC") dated June 1, 2005 which is of a separate review process.

The total delivery requirement supplied by Commodity Providers to the Midstream will increase marginally from 330 TJ/d to 333 TJ/d to be in effect November 1, 2005 to October 31, 2006. The Fuel Percentage Allocation will be 3.0% at Station 2 and 1.0% at Alberta.

Terasen Gas Midstream recommends holding the peak day demand for 2005/06 at the same level as last year or 1260 TJ/d. The recommended peak day is about 105% of the theoretical value calculated for the 2005/06 while providing a margin to accommodate unanticipated demand. The Commission accepts this demand level however the peak day determination in the Midstream ACP for 2006/07 is to be presented in a form that is suitable for a detailed review including reliability and cost impacts of various peak day demand scenarios.

The Commission is not persuaded that incremental downstream storage (i.e. the additional Mist capacity) is less expensive or has material ancillary benefits relative to supply at Huntingdon. The Commission recognizes that current negotiations for Mist and Jackson Prairie Storage for 2005/06 may be too far advanced at this point to enter into a bidding process. However the Commission will expect Terasen Gas to undertake an open tendering procedure the next time it proposes to obtain additional or renewed downstream storage services.

The Commission is concerned that the benefits of a viable trading and supply point at Huntingdon should not be lost. The "Service Quality Indicators and Gas Cost and Marketing Information Report" dated May 30, 2005 indicated that several utilities in the Pacific Northwest use Huntingdon/Sumas as a location to purchase substantial portions of their commodity portfolio (see Table No. 4). This would indicate that Huntingdon has sufficient liquidity to be part of a gas procurement strategy. Therefore TGI will be expected to justify its choice among Huntingdon, Kingsgate, Stanfield and downstream storage when it files its supply contracts.

TGI suggests that decontracting Westcoast T-South Long-Term firm capacity and replacing it with T-South Short-Term Firm capacity is a more cost effective alternative. In view of this, TGI anticipates decontracting a significant portion of its annual T-South capacity that expires on November 1, 2006 and 2007 and replacing it with Short-Term Firm service (2005/06 ACP, page E-20). However before this action is taken and by September 1, 2005, TGI is requested to present a justification to the Commission that outlines the benefits and costs of its strategy with respect to T-South capacity that expires November 1, 2006.

Yours truly,

Original signed by:

Robert J. Pellatt

RB/dlf