



**LETTER NO. L-20-06**

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Log No. 14540

**VIA E-MAIL**

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May 18, 2006

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. ("Terasen Gas")  
2006 Price Risk Management Plan (November 2006 – October 2009)

On April 25, 2006 Terasen Gas filed its Price Risk Management Plan ("2006 PRMP") Application for the period November, 2006 to October 2009. The 2006 PRMP is based on a 36 month rolling term with the same objectives as last year's strategy, as follows:

1. Focus price risk management activities on remaining competitive with other energy sources primarily electricity.
2. Dampen impacts of commodity price volatility on customer rates.
3. Reduce the risk of regional price disconnects.

The Commission generally accepts these PRMP objectives, but also notes that in the 2005 Midstream Annual Contracting Plan, Terasen Gas recognized that customers and regulators expect it to procure and deliver natural gas in the most cost effective manner possible which also considers price reliability and price risk management. While the most cost effective solution may not result in the absolute lowest cost gas supply arrangements, the Commission considers that the results of the Annual Contracting Plan and the PRMP have on customer bills are a significant consideration. Several aspects of Terasen Gas' proposed 2006 PRMP relate to the cost effectiveness of the plan.

The key hedging decisions that require Commission acceptance to support the objectives are outlined on page 4 of the 2006 PRMP. The 2006 PRMP outlines that with the reduced difference between gas and electric prices and increasing price volatility in the gas sector since the last PRMP, Terasen Gas proposes to apply minor changes to satisfy the objectives. The amount of fixed price hedging for the closest winter period is to be increased while continuing with the same percentage of summer and winter option hedging.

The Commission has reviewed the Application and the responses to an information request dated April 28, 2006. Terasen Gas is directed to implement the components as identified in the confidential Appendix A (attached).

Yours truly,

Robert J. Pellatt

RB/yl  
Attachment