ERICA M. HAMILTON
COMMISSION SECRETARY
Commission.Secretary@bcuc.com
web site: http://www.bcuc.com

BRITISH COLUMBIA UTILITIES COMMISSION

LETTER NO. L-27-08

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, BC CANADA V6Z 2N3
TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

Log No. 25550

VIA E-MAIL
regulatory.affairs@terasengas.com

June 16, 2008

Mr. Tom Loski
Chief Regulatory Officer
Terasen Gas Inc.
16705 Fraser Highway
Surrey, BC V3S 2X7

Dear Mr. Loski:

Re: Terasen Gas Inc.
2008/09 Midstream Annual Gas Contracting Plan (November 2008 – October 2009)

On June 2, 2008, Terasen Gas Inc. ("Terasen Gas" or "TGI") filed on a confidential basis its 2008/09 Midstream Annual Contracting Plan ("2008/09 ACP"). The Commission generally accepts the 2008/09 ACP and items listed on pages 45 to 46. The major portfolio changes affecting the 2008/09 ACP are as follows:

1. Terasen Midstream recommends a peak day value for 2008/09 of 1,279 TJ/d, a slight increase of 0.3% from the 2007/08 value of 1,275 TJ/d.

2. For 2008/09, supply from Commodity Providers will be based on a normalized annual demand of 319 TJ/d, plus fuel.

3. The Receipt Point Allocation Percentages remain consistent with the current year's delivery requirements: 70% at Station 2, 15% at Alberta and 15% at Huntingdon.

4. Commencing November 1, 2008, Commodity Providers (Commercial and Residential Unbundling Marketers and Terasen Gas) will be required to deliver - excluding fuel - 223 TJ/d at Station 2, 48 TJ/d at Huntingdon and 48 TJ/d at AECO (Alberta).

5. Commodity Providers' fuel requirements for the period November 1, 2008 to October 31, 2009 are projected to be the same as for the previous year: 2.2% at Station 2 and 1.0% at Alberta. This information is subject to updates over the course of the summer months and will be communicated to the Commodity Providers before Oct 1/2008 if required.

6. Terasen Midstream recommends the renewal of storage contracts and third party redelivery service that expire or require notice to extend prior to the submission of the 2009/10 Midstream Annual Contracting Plan.

7. Terasen Gas may decide to purchase winter seasonal supply at Station 2 or Huntingdon if it's unable to renew or acquire any new downstream storage contracts with firm redelivery to replace those contracts that have expired after the 2007/08 winter season.

8. Station 2, Alberta, Huntingdon, Stanfield and Kingsgate supply will be negotiated as outlined in greater detail within the confidential sections of the 2008/09 ACP.

Appendix A requires Terasen Gas to complete two reports and the content of each report is outlined in this section. An Executive Summary is also attached and provides Terasen Gas' non-confidential 2007/08 Midstream Resources Annual Gas Contracting Plan that is available for public dissemination.

Yours truly,

Original signed by:

Erica M. Hamilton

RB/emh
Attachment

Future Reports on Issues Presented in the 2008 Midstream Annual Contracting Plan

The 2008 Midstream Annual Contracting Plan highlighted a number of issues and concerns for Terasen Gas customers. Two major themes identified involve Westcoast T-North and Long Term Contracting. Please follow the instructions outlined for each topic.

1. WESTCOAST T-NORTH

On page 2 of the submission, Terasen Gas states that:

> "*Lack of contracting on T-North continues to increase supply concerns at Station 2 as producers are flowing gas on interruptible contracts to avoid firm annual tolls. This further provides them with the option to transport gas to the higher of the Station 2 or AECO priced marketplace after recovery of interruptible tolls. This raises costs for Terasen Gas' customers and reduces reliability of supply.*"

As the changing market dynamics on the Westcoast pipeline system are of concern, the Commission requests that Terasen Gas provide it with a report on T-North issues and options by September 2, 2008. The report should include discussion of the following subjects:

- A description of T-North and Westcoast tolls for service on the T-North pipeline component of the system. How T-North is currently used by producers, marketers, utility gas buyers like Terasen Gas and others.

- A description of the Station 2 trading hub, its relationship to the AECO trading point, and the change liquidity and other factors at this location.

- Other trading points in the T-North area, including plant outlets, the Westcoast/Aitken/Alliance pipeline interconnect and Gordondale/NOVA. If these are not commonly recognized trading points, please confirm that Terasen Gas could negotiate bi-lateral supply agreement with individual producers at these locations.

- On page 30, Terasen Gas refers to possibly acquiring additional T-South capacity with Station 2 supply. For the amount of possible supply under consideration, please compare the use of Station 2 supply to contracting for this amount of supply at Fort Nelson, McMahon or Pine River plant outlets, the Westcoast/Aitken/Alliance interconnect and Gordondale/NOVA, along with an equivalent amount of T-North. Please address both cost and reliability considerations.

- Please identify the discussions that Terasen Gas has held with Westcoast, producers, producer groups and others with regard to moving its gas purchase locations upstream of Station 2, their reactions, and other steps that Terasen Gas could take in this regard.

2. LONG TERM CONTRACTING

On page 2 of the 2008/09 Midstream Annual Contracting Plan, Terasen Gas refers to concerns about the long term reliability of the Westcoast pipeline in the context of Terasen Gas' heavy reliance on it, and states it will continue to monitor infrastructure developments in the Pacific North West and to evaluate its transportation options. The Commission supports Terasen Gas' plans to monitor infrastructure developments and its transportation options. At the same time, it is not clear that a strategy that relies on accessing significant quantities of gas from the Rocky Mountain Basin or Alberta is likely to be cost-effective compared to the Westcoast option, given the supply potential in Northeastern British Columbia, the general movement of gas from this area to the Pacific Northwest, Eastern markets and California, and the under-contracting on the Westcoast pipeline.

In its next Midstream Annual Contracting Plan, the Commission requests that Terasen Gas provide a report that assesses pipeline options for the delivery of gas to its service area. The report should include discussion of the following subjects:

- An overview forecast of peak day and annual gas demands in BC and the Pacific Northwest.
- Forecast supply capability from Northeastern BC, Alberta, the Rockies and other areas that supply British Columbia and the Pacific Northwest, in the context of the total availability of these supplies and the ability of current pipeline systems to deliver gas to the BC/Pacific Northwest area.
- A description of the Westcoast pipeline and processing plants, including a comparison of their age and condition to other major pipelines from the Western Canada Sedimentary Basin, the reasons why Terasen Gas has "concerns about the long term reliability", and the extent to which such concerns have increased or decreased over recent years.
- The extent to which Terasen Gas and others have made such concerns about long term reliability known to the National Energy Board ("NEB") as the regulatory authority, and the response of the NEB.
- A discussion of the benefits of moving gas from Northeast BC into Alberta, across TCPL BC and perhaps TCPL GTN and then back to Huntingdon, perhaps across Northwest Pipeline, as compared to moving the gas on the Westcoast pipeline.
- A discussion of the benefits of holding pipeline capacity from the Rocky Mountain Basin more or less to Stanfield, and the likelihood that recent price differentially will be maintained over the longer term.
- A discussion of the benefits of addition supply from storage or pipeline on Northwest pipeline in the vicinity of Mist, given the issues related to the redelivery of such gas to Sumas.