



**LETTER NO. L-74-05**

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**VIA E-MAIL**

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September 6, 2005

Mr. Scott Thomson  
Vice President, Finance and Regulatory Affairs  
Terasen Gas Inc.  
16705 Fraser Highway  
Surrey, B.C. V3S2X7

Dear Mr. Scott Thomson:

Re: Terasen Gas (Vancouver Island) Inc.  
2005/06 Annual Gas Contracting Plan

On August 10, 2005, Terasen Gas (Vancouver Island) Inc. ("TGVI") filed its 2005/06 Annual Gas Contracting Plan ("AGCP"), that develops the strategy for acquiring gas supplies that are required for the 2005/06 gas contract year. It outlines the implementation strategy over the next year and discusses longer term contracting issues. The key contracting decisions for 2004/05 are identified on page 2 to 4, Sections 2.1 to 2.3.

The Commission accepts the primary objectives outlined on page 1 of Section 2 and the key contracting decisions. There are several significant changes from the 2004/05 AGCP and these are as follows:

1. The peak day will increase by 8.4% based primarily on an increase in the customer base.
2. The transportation service requirements for the Vancouver Island Gas Joint Venture will decrease effective January 1, 2006 and TGVI will therefore have additional firm transportation capacity to service the load on Vancouver Island. The Peaking Gas Purchase Agreement with VIGJV will decrease effective January 1, 2006. However this resource will only be used as a last alternative to meet the peak-day demand.
3. The BC Hydro Peaking Agreement that allows TGVI to divert gas from the Elk Falls cogeneration plant will have to be renegotiated.

The Commission accepts the 2005/06 AGCP subject to the understanding that all individual gas supply contracts and amendments will continue to be filed in a timely manner pursuant to Section 71 of the Utilities Commission Act. The information exclusive of the Executive Summary will be treated as confidential. As the contracts are filed, TGVI will be expected to justify that each contract is consistent with meeting the needs of the core customers at the lowest overall cost.

Yours truly,

*Original signed by:*

RB/df

Robert J. Pellatt