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Craig P. Donohue
Director, Regulatory Affairs & Gas Supply

Via Courier

PNG 2008 Term Sheet Between PNG & LNG Partners LLC – **Exhibit** B-1

September 25, 2008

B.C. Utilities Commission
6th Floor - 900 Howe Street
Vancouver, B.C.
V6Z 2N3

File No.: 4.2

Attention: Erica M. Hamilton
Commission Secretary

Dear Ms. Hamilton:

Re: Term Sheet between Pacific Northern Gas Ltd. ("PNG") and LNG Partners, LLC. ("LNG Partners") dated September 18, 2008

INTRODUCTION

PNG hereby applies for Commission approval of the enclosed Term Sheet that was entered into between PNG and LNG Partners on September 18, 2008. Section 8 of the Term Sheet provides that it "is subject to PNG obtaining approval of its Board of Directors and the B.C. Utilities Commission." On September 18, 2008, PNG's Board of Directors approved the Term Sheet. LNG Partners will pay PNG a non-refundable option fee of $1.5 million within ten days of Commission approval of the Term Sheet. This application sets out the reasons why PNG considers the Commission should find the Term Sheet to be in the public interest.

BACKGROUND INFORMATION

On August 21, 2008 PNG was approached by a representative of Maverick LNG Holdings Ltd. ("Maverick") to secure an option to contract PNG's uncontracted firm pipeline capacity (approximately 75 MMcf/day) to transport gas sourced from Northeast B.C. to Kitimat. The gas would then be cooled to LNG on a offshore floating liquefied natural gas production ("FLNG") vessel moored in the Douglas Channel and stored on board for eventual offloading to an LNG carrier for export to Asian LNG markets. Maverick advised of their plan to commence their FLNG operations in the fourth quarter of 2010 or first quarter of 2011.

Maverick requested PNG to prepare toll proposals assuming a 3 to 5 year term and potential contract demands of 75 MMcf/day, 120 MMcf/day and 180 MMcf/day. PNG advised Maverick that the latter two expansion scenarios would require hydraulics studies to determine the new pipeline facilities required to meet the higher contract demands. It was subsequently acknowledged that the capital additions for the expansion scenarios would be significant in terms of both cost and scope having regard to the anticipated contract term of only 3 to 5 years. Therefore, PNG and Maverick decided to focus on negotiating the terms under which PNG could provide 75 MMcf/day of firm gas transportation service to Maverick. In slightly less than a month, the parties were able to reach agreement on the Term Sheet. At Maverick's request, the Term Sheet was entered into with LNG Partners, one of the partial owners of Maverick. Background information on LNG Partners and Maverick is provided in the next few paragraphs.

LNG Partners, LLC, a Delaware limited liability company, was formed in late 2000 by Thomas P. Tatham and Frank C. Wade for the purpose of applying developing LNG technology to the monetization or commercialization of "stranded" or undervalued natural gas resources. The two principal owners have been involved in many grass roots oil and gas projects historically and were responsible for developing a good part of the deepwater pipeline infrastructure in the Gulf of Mexico through Leviathan Gas Pipeline Partners, LP and Offshore Pipelines, Inc. respectively.

LNG Partners initial focus was on opportunities in Eastern Canada and Newfoundland and Labrador in particular. It was responsible for developing a multi-purpose LNG terminal and gas to wire strategy for Newfoundland and Labrador Hydro in the 2000-2003 time frame. While the initial proposed facility at Holyrood, Newfoundland was not built, an alternate site at Grassy Point, Placentia Bay, Newfoundland was obtained in 2005 by Newfoundland LNG Ltd., a partially owned LNG Partners subsidiary which has recently received (August 2008) all provincial and federal environmental approvals to construct a multi-purpose LNG terminal with up to 3 berths, 8 LNG storage tanks, a tug basin and up to 200 MW of local power generation.

In late 2005, LNG Partners initiated a second LNG project to develop small scale LNG production on board existing LNG carriers. Based on the results of conceptual engineering studies conducted with Hamworthy Gas Systems AS (Asker, Norway) and SNC-Lavalin (Canada) in early 2006, Maverick was formed in July 2006 and Maverick contracted to purchase its first LNG vessel, the Hoegh Galleon, which was delivered in October 2007 and renamed the Margaret Hill. Current plans are to modify the Margaret Hill to include the latest Hamworthy gas liquefaction technology for FLNG use. Maverick's current plans are to complete the conversion of the vessel and obtain all requisite classification society permits for FLNG use by the fourth quarter of 2010. If this timetable is met, it is likely that the Margaret Hill will become the world's first FLNG vessel to be placed in service with the intention that it be deployed to the Kitimat area. Evaluation of alternative mooring locations, related costs and permitting issues are currently in progress for the Kitimat operation. Maverick is in the process of acquiring 3 additional LNG carriers for prospective conversion to FLNG service and is also in the process of evaluating a number of prospective sites for initial production activities.

TERM SHEET IS IN THE PUBLIC INTEREST

PNG explains below why the Commission should find the Term Sheet and the gas transportation service agreement contemplated under the Term Sheet, to be in the public interest. For ease of Commission review, all of the section headings of the Term Sheet are provided below followed by a discussion by PNG of the basis for each provision.

1. Receipt Point

All of PNG's gas transportation service customers are required to deliver gas to PNG at the interconnection of PNG's and Spectra Energy Transmission's gas pipelines near Summit Lake, British Columbia. LNG Partners will deliver gas to PNG in accordance with PNG's standard gas nomination and delivery provisions.

2. Delivery Point and Pressure

The firm transportation service rate of \$0.50/GJ set out in section 4 of the Term Sheet and LNG Partners' requirement to supply four percent of its gas requirements for PNG's Company use, as set out in section 6 of the Term Sheet, are based on PNG delivering gas to LNG Partners in the vicinity of the Methanex marine terminal. PNG will be able to deliver gas to that delivery point using existing pipeline facilities. PNG has agreed to deliver gas to LNG Partners at a pressure of 450 psi based on PNG's understanding of what pressure LNG Partners requires having regard to the gas liquefaction equipment that will be utilized on their FLNG vessel. This compares to the average 600 psi delivery pressure at which PNG formerly delivered gas to Methanex's methanol/ammonia complex in Kitimat.

Alternate delivery points have been identified in the Term Sheet to provide flexibility should it be difficult to obtain permits for the required facilities near the Methanex marine terminal. If LNG Partners is required to locate at Bish Cove or Emsley Cove, then PNG will need to extend its existing pipeline system. PNG would design a toll for the expansion to ensure full cost recovery over the term of the gas transportation service agreement. The incremental toll would need to be negotiated with LNG Partners and filed with the Commission for approval.

3. Contract Demand

PNG has agreed to provide LNG Partners with at least 75 MMcf/day of firm gas transportation service capacity. At the current Spectra Summit Lake interconnection heat content factor of 38.25 GJ/10^3m^3, the 75 MMcf/day contract demand is equivalent to 81,265 GJ/day. PNG is reviewing its historical gas delivery records and performance to ascertain whether it could provide 80 MMcf/day of firm capacity to LNG Partners. PNG will increase the contract demand to 80 MMcf/day provided it is first satisfied that firm gas service to existing customers would be sustainable. PNG will confirm within the six month option period noted in section 9 of the Term Sheet whether 80 MMcf/day of firm capacity can be contracted to LNG Partners.

4. Firm Transportation Service Rate

PNG and LNG Partners agreed to a unit demand charge of $0.50/GJ for the primary term (3 to 5 years commencing in late 2010 to early 2011) and to be increased by an inflation factor should LNG Partners exercise its option to renew at the expiration of the primary term. In addition to the firm unit toll, as noted earlier, LNG Partners would supply PNG in kind four percent of gas deliveries for PNG's use in the operation of its pipeline system. PNG considers the $0.50/GJ rate to be just and reasonable primarily because LNG Partners is willing to contract on a firm basis for substantially all of PNG's uncontracted firm pipeline capacity. Further, the Commission found the $0.50/GJ rate to be just and reasonable in the context of the 7 year transportation service agreement entered into with Methanex effective November 1, 2002. However, the Methanex contract demand was only 57 MMcf/day compared to the minimum 75 MMcf/day contract demand required by LNG Partners.

At a contract demand of 75 MMcf/day and a unit demand charge of $0.50/GJ the firm annual revenue is equal to $14,830,863. This compares to the forecast 2005 Methanex annual revenue of $12,182,347 used to set 2005 gas delivery rates under PNG's 2005 revenue requirements application. If LNG Partners exercises its option to secure firm gas transportation service from PNG, then PNG will make a submission for Commission approval on how the incremental revenue from LNG Partners should be reflected in customer rates. At this time, PNG foresees amortizing the annual revenue from LNG Partners over a number of years, similar to how the Methanex contract termination payment was amortized in rates. This would ensure stability of rates over a longer period of time rather than flowing through the total impact of one year of revenue and then possibly in three years having to substantially increase rates back up to levels existing prior to LNG Partners becoming a PNG large industrial customer. PNG considers that the Commission can determine whether the Term Sheet is in the public interest without having to decide on the rate treatment applicable to the potential revenue to be received from LNG Partners.

The Term Sheet provides for an option for a second 3 to 5 year term based on a firm rate that would be adjusted by an inflation factor. The definitive gas transportation service agreement would detail the terms of the inflation factor.

5. Quality of Service

PNG has been able to provide a high level of reliable firm service to its customers. Firm service to LNG Partners would only be curtailed or interrupted under emergency or force majeure circumstances. This description of the quality of firm service and the contract demand credits provision is consistent with that provided for in PNG's other firm gas transportation service agreements.

6. **Supply of Company Use Gas**

LNG Partners will supply in kind to PNG four percent of daily gas deliveries to LNG Partners. The four percent figure was sufficient when the pipeline was operating at almost full capacity when Methanex was in operation. In other words, based on historical experience with a fully utilized pipeline, PNG is confident the quantity of Company use gas to be used by PNG to deliver gas to LNG Partners will average approximately four percent of the total volume of gas delivered by PNG to LNG Partners. Carbon tax is now payable by PNG on the gas it purchases for its own use. PNG expects that carbon tax will be payable by LNG Partners on the gas it purchases to satisfy its Company use gas supply obligation to PNG. However, in case PNG is found liable for such carbon taxes, then LNG Partners would have to reimburse PNG accordingly for the carbon tax paid on the Company use gas supplied by LNG Partners to PNG.

7. **Service Term**

PNG considers that locking in its uncontracted firm service capacity for a minimum of 3 years and a potential maximum of 10 years, if LNG Partners nominates a primary term of 5 years and a renewal term of 5 years, to be reasonable. The Methanex contract that was terminated in February 2006 was for a term of 7 years from November 2002 to October 2009. The uncontracted firm capacity that came available upon the methanol/ammonia plant closure in November 2005 has remained idle. The potential 10 year commitment to LNG Partners is not seen as an obstacle to attracting other firm transportation service customers. LNG Partners have the advantage of being able to start up relatively quickly. It is expected a project that would require similar volumes would take much longer than just over two years to commence operations. If a large volume project materializes then PNG will be in a position to determine whether it can economically justify expansion facilities having regard to the cost of the required incremental facilities and the new customer's ability to pay the required toll.

A two year renewal notice period has been provided to establish revenue certainty and provide PNG with sufficient time to properly reflect the impact on customer rates in an orderly fashion of either the termination of the arrangements with LNG Partners or a renewal for a second term.

8. **Required Approvals**

The Term Sheet specifies that it is subject to approval of PNG's Board of Directors and the Commission. As noted earlier the PNG Board approved the Term Sheet on September 18, 2008. The Commission approved Memorandums of Agreement for similar large volume firm transportation service agreements with Methanex in 2002 and West Fraser Mills for their Kitimat mill in 2004 subject to PNG filing fully executed copies of the definitive firm service agreements. Those processes were efficient and effective from both the customers' and PNG's point of view. It can sometimes take much longer to finalize detailed definitive transportation service agreements compared to agreeing to the major terms under an memorandum of agreement or in the current case, under a Term Sheet. As was done in respect of the Methanex and West Fraser agreements, PNG is requesting the Commission to approve the Term Sheet on the condition that if LNG Partners exercises it option to contract for firm gas service, PNG will file a fully executed definitive firm gas transportation service agreement that is materially the same as the agreement contemplated under the Term Sheet.

9./10. <u>Option to Contract for Firm Pipeline Capacity and Option Extension</u>

In consideration of the payment of a non-refundable Option Fee of $1.5 million, PNG is granting LNG Partners the option to contract for firm pipeline capacity of at least 75 MMcf/day. The Option Fee is payable within ten days following Commission approval of the Term Sheet and the option can be exercised within a six month period following Commission approval of the Term Sheet. If the option is exercised, the Option Fee will be credited to the first year of transportation service demand charges, prorated over 12 months. Should LNG Partners not be ready within the initial six month Option Period to make a commitment to PNG, the Term Sheet provides for a six month option extension period in consideration of another payment of $1.5 million. If the option is exercised during the extension period the initial Option Fee and 50 percent of the Option Extension Fee would be applied to the first year of firm transportation service demand charges. Upon exercise of the option, LNG Partners will post a letter of credit with PNG for one year of transportation service demand charges.

PNG considers the 12 month potential option period to be reasonable having regard to the level of the Option Fee to be paid by LNG Partners to reserve essentially all of PNG's uncontracted firm transportation service capacity. Since the Option Fee is non-refundable, it would be immediately available for use by PNG and its customers. PNG is seeking Commission approval to share the Option Fee and potential Option Extension Fee between customers and shareholders based on the foregone return proposal set forth by PNG in its 2006 revenue requirements application and as further detailed below.

The Commission approved PNG's request in its 2006 revenue requirements application to deactivate compressor stations R2 and R4, four 10 inch loops totaling 52.8 miles, a 6 inch lateral to Kitimat of 32.97 miles and the Methanex meter and regulating station. This was one of several initiatives taken by PNG to minimize the impact on customers of the Methanex closure in late 2005. For rate making purposes the deactivated facilities (with a net book value of $5.05 million) were removed from rate base and accounted for in a non-rate base short term interest bearing deferral account for recovery through rates over the ten year period commencing in January 2006 instead of continuing to earn PNG's allowed return on rate base. PNG's 2006 revenue requirements application sought Commission approval to account for the difference between the short term interest rate and the allowed return on rate base that would have applied to the deactivated facilities had they remained in active service plus an adjustment for the risk the facilities would not be returned to service. If LNG Partners exercise its option to contract for firm gas transportation service, the deactivated facilities would be returned to service.

PNG further proposed in its 2006 revenue requirements application that if any of the deactivated facilities were returned to service, the unamortized cost of the facilities plus the accumulated risk-weighted foregone return would be added back to plant in service. The Commission stated at page 31 of its decision on PNG's 2006 revenue requirements application that "PNG's foregone return proposal is not accepted at this time, however, PNG may apply for Commission approval to record the foregone return should the deactivated facilities be reactivated and the merits of that application will be considered at that time."

PNG is hereby applying for Commission approval to recover foregone return to date on the deactivated facilities from the potential Option Fee and Option Extension Fee and eventually from the annual firm revenue from LNG Partners should they commence operation of their FLNG facilities. The methodology for determining the risk-weighted foregone return was described by PNG in its response to Commission IR No. 16.4 from the 2006 revenue requirements application proceeding. That information request asked PNG to "provide a calculation of the proposed notional account by return component for 2006 that tracks the risk-weighted foregone return on the deactivated facilities. Please explain how the adjustment for the risk of facilities not returning to service was determined." PNG's response detailed the mathematical methodology used to calculate the foregone return based on a 60 percent probability of reactivation of the deactivated facilities. The Table below sets out the calculated foregone returns to the end of 2008, 2009 and 2010 using that methodology and assuming various probabilities of reactivation.

Foregone Return to end of:	**Foregone Return at Various Probabilities of Reactivation**			
	100%	**75%**	**60%**	**50%**
2008	$480,594	$640,792	$800,990	$961,188
2009	$643,216	$857,621	$1,072,026	$1,286,431
2010	$800,100	$1,066,801	$1,333,501	$1,600,201

The 2008 figures are based on the foregone return over the period January 2006 to December 2008. The 2009 and 2010 figures are cumulative in that they include the foregone return from the preceding year.

PNG is requesting Commission approval to allocate the initial Option Fee of $1.5 million between customers and shareholders assuming the 100 percent probability of reactivation figure shown in the above Table through to end of 2008. This means $1,019,406 would be credited to the 2009 cost of service for the benefit of customers and the remaining $480,594 would be taken into income as foregone return on the deactivated facilities. If the option is extended, the Option Extension Fee of $1.5 million would be payable to PNG in 2009. PNG is requesting the Commission to record the Option Extension Fee in a deferral account for future disposition between customers and shareholders consistent with PNG's foregone return proposal in 2006. Similarly, if LNG Partners exercises its option to contract for firm gas transportation service, PNG would file a copy of the definitive agreement with the Commission for final approval and make submissions regarding the allocation of the demand charges payable under the agreement between customers and shareholders.

SUMMARY AND COMMISSION ORDER SOUGHT

PNG respectfully submits that approval of the Term Sheet by the Commission would be in the public interest and in the best interests of PNG's customers. The Option Fee will be available as a credit to the 2009 cost of service. The option will provide LNG Partners with sufficient time to decide on whether to make a significant commitment to PNG which would result in meaningful rate decreases for PNG's customers commencing in late 2010 to early 2011. PNG will be able to continue to provide highly reliable and safe service to its customers and also meet LNG Partners firm service requirements.

Attached is a draft Commission Order approving the Term Sheet and containing directions regarding the accounting for the Option Fee and the filing of the firm transportation service agreement contemplated under the Term Sheet.

PNG is sending a copy of this application to: the B.C. Public Interest Advocacy Centre, the representative of PNG's low gas volume users; West Fraser Mills and Rio Tinto Alcan, PNG's two current largest industrial customers; and Shell Energy North America (Canada), the marketer for several commercial and small industrial transportation customers served by PNG's pipeline system. PNG will be requesting those parties to send the Commission any comments or concerns they have with respect to this application.

In closing, LNG Partners has emphasized the need for a prompt review of this Application as they are endeavoring to obtain commitments from various parties to make their project a success. In this regard, PNG is prepared to quickly address any questions the Commission may have in respect of these arrangements and welcomes comments and questions from the parties copied by this letter.

Yours truly,

C.P. Donohue

cc. B.C. Public Interest Advocacy Centre – J. Quail, Executive Director
West Fraser Mills Inc. – E.R. Seraphim, Vice President Pulp & Paper
Rio Tinto Alcan – D. Cloutier, Specialist- Sourcing (Gas, Hydrocarbons & Energy)
Shell Energy North America (Canada) Inc. – M. McCordic, Marketing Director
LNG Partners, LLC – T. Tatham, Managing Director

TERM SHEET

September 18, 2008

The following sets forth the terms pursuant to which Pacific Northern Gas Ltd ("PNG") would provide certain firm natural gas transportation services to LNG Partners, LLC, or its nominee ("LNG Partners"):

1. Receipt Point

LNG Partners to deliver gas to PNG at the interconnection of PNG's and Spectra Energy Transmission's ("Spectra") gas pipelines near Summit Lake, British Columbia.

2. Delivery Point and Pressure

PNG will deliver LNG Partners' gas to Kitimat, British Columbia at a minimum pressure of 450 psi. The delivery point to be in the vicinity of the marine terminal owned and operated by Methanex Corporation.

LNG Partners may nominate an alternate delivery point such as: (i) at or near Bish Cove in the vicinity of the proposed Kitimat LNG Inc. LNG importation and regasification terminal or (ii) at or near Emsley Cove in the vicinity of the proposed deep water facilities, subject to PNG and LNG Partners negotiating tolls that reflect recovery by PNG of the costs of any incremental pipeline facilities required by PNG to deliver gas to the alternate delivery point.

3. Contract Demand

PNG will provide 75 MMcf/day of firm gas transportation service to LNG Partners (80 MMcf/day subject to PNG confirming its current available firm pipeline capacity) converted to GJ/day based on Spectra's annual heat content factor used for daily nomination purposes.

4. Firm Transportation Service Rate

Unit demand charge of CDN$0.50/GJ to be fixed for the primary term of the firm transportation service agreement and increased by an inflation factor for any renewal term.

5. Quality of Service

PNG will not curtail or interrupt firm transportation service to LNG Partners unless required to do so in response to an emergency or force majeure event. In such event, contract demand credits will be provided by PNG to LNG Partners equal to the curtailed firm service volume times the unit demand charge.

6. **Supply of Company Use Gas**

LNG Partners or its assignee to deliver each day at the Receipt Point 4 percent of the daily quantity of gas authorized for delivery at the Delivery Point for use by PNG in providing the transportation services. LNG Partners will be responsible for any carbon taxes payable by PNG on such gas.

7. **Service Term**

The primary term will be 3 to 5 years commencing on or about January 1, 2011 or earlier with the term to be nominated by LNG Partners upon exercise of the Option set out in section 9 of this Term Sheet. LNG Partners will provide PNG with at least 90 days prior written notice of the commencement date for service which date would be no later than April 1, 2011. LNG Partners to have the option to renew for an additional term of 3 to 5 years by giving PNG a minimum of 2 years prior written notice with the term to be nominated by LNG Partners upon exercise of the renewal option.

8. **Required Approvals**

This Term Sheet is subject to PNG obtaining approval of its Board of Directors and the B.C. Utilities Commission. PNG will file this Term Sheet with the BCUC for approval as soon as possible after full execution and both parties will actively support the application through to a decision. Once the Option (described below) is exercised, the parties will negotiate and support the filing with the BCUC for approval of a service agreement incorporating the terms of this Term Sheet.

9. **Option to Contract for Firm Pipeline Capacity**

LNG Partners to have the option ("Option") for a period of six months commencing from the date of BCUC approval of this Term Sheet (the "Option Period") to contract for firm pipeline capacity equal to the Contract Demand on terms and conditions of service described in this Term Sheet. LNG Partners may exercise this Option by delivering written notice of exercise to PNG during the Option Period. During the Option Period, PNG will reserve for LNG Partner's use and will not contract out any of the pipeline capacity subject to this Option. LNG Partners will pay PNG a non-refundable option fee equal to CDN$1.5 million ("Option Fee") within 10 days of approval of this Term Sheet by the B.C. Utilities Commission. If LNG Partners exercises the Option to contract for firm transportation service, the Option Fee will be applied by PNG to the first year of transportation service demand charges, prorated over 12 months. LNG Partners will post a letter of credit for one year of demand charges to be in place from the Option exercise date until termination of the firm transportation service agreement.

10. Option Extension

Prior to the end of the initial Option Period and in the event applications for requisite permits for FLNG operations have been made and are pending, LNG Partners may extend the initial Option Period for another six months by paying PNG a non-refundable fee of CDN$1.5 million ("Option Extension Fee"). If the Option period is extended and if LNG Partners exercises the Option to contract for firm transportation service, the initial Option Fee and 50 percent of the Option Extension Fee will be applied by PNG to the first year of transportation service demand charges, prorated over 12 months. LNG Partners will post a letter of credit for one year of demand charges to be in place from the second Option exercise date until termination of the firm transportation service agreement.

This Term Sheet accepted and agreed to this 18th day of September 2008.

PACIFIC NORTHERN GAS LTD.	LNG PARTNERS, LLC
______________________	______________________
______________________	______________________

DRAFT

BRITISH COLUMBIA UTILITIES COMMISSION

ORDER NUMBER G-??-08

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IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

An Application by Pacific Northern Gas Ltd.
Regarding a Term Sheet between PNG and LNG Partners, LLC

BEFORE: -------------, Commissioner
-------------, Commissioner

October --, 2008

O R D E R

WHEREAS:

A. On September 25, 2008, Pacific Northern Gas Ltd. ("PNG") filed with the Commission a copy of a Term Sheet between PNG and LNG Partners, LLC ("LNG Partners") dated September 18, 2008 (the "Term Sheet") together with PNG's submission in support of obtaining Commission approval of the Term Sheet; and

B. The Term Sheet sets out the terms and conditions under which LNG Partners will pay PNG a non-refundable fee of $1.5 million ("Initial Option Fee") to obtain an option for a period of six months commencing from date of Commission approval of the Term Sheet (the "Option Period") to contract for firm pipeline capacity on PNG's pipeline system for at least 75 MMcf/day on the terms and conditions set forth in the Term Sheet; and

C. The initial option period may be extended for a further six month period in consideration of the payment by LNG Partners to PNG of an additional non-refundable fee of $1.5 million ("Option Extension Fee"); and

D. If LNG Partners exercises the option, a firm gas transportation service agreement will be entered into between PNG and LNG Partners on the terms and conditions of service set out in the Term Sheet, including a unit demand charge of $0.50/GJ to apply during the initial 3 to 5 year term and escalated by inflation for an optional second term and the requirement for LNG Partners to supply four percent of their gas requirements to PNG for pipeline operations; and

E. Written comments on the Term Sheet were received from (names of customers to be inserted); and

F. The Commission has concluded that the Term Sheet and firm gas transportation service agreement contemplated under the Term Sheet would be beneficial to PNG's other customers and are in the public interest.

DRAFT

NOW THEREFORE pursuant to Section ____ of the Act the Commission orders the following:

1. The Commission approves the Term Sheet between PNG and LNG Partners dated September 18, 2008.

2. PNG is to credit $1,019,406 of the Initial Option Fee of $1.5 million to its 2009 cost of service and is authorized to retain $480,594 of the Initial Option Fee as compensation for the reduced return it has earned on the facilities deactivated from service in 2006 in response to the closure of the Methanex Corporation methanol/ammonia plant.

3. If LNG Partners extends the option period by a further six months, the Option Extension Fee is to be recorded by PNG in a deferral account for future disposition between PNG's customers and shareholders consistent with the foregone return proposal set forth in PNG's 2006 revenue requirements application.

4. If LNG Partners exercises its option to contract for firm pipeline capacity, PNG is required to submit an executed firm gas transportation service agreement for approval by the Commission to ensure it is materially the same as the agreement contemplated by the Term Sheet.

5. The treatment of revenue to be received by PNG from LNG Partners under the firm gas transportation service agreement for rate making purposes will be determined by the Commission in the context of PNG's 2010 or 2011 revenue requirements application depending on the service commencement date.

DATED at the City of Vancouver, in the Province of British Columbia, this ____ day of October 2008.

BY ORDER

Original signed by

Commissioner