



December 1, 2004

Mr. Rob Pellatt, Commission Secretary
British Columbia Utilities Commission
Sixth Floor, 900 Howe Street, Box 250
Vancouver, B.C.
V6Z 2N3

Dear Mr. Pellatt:

**RE: Terasen Gas (Vancouver Island) Inc.
2004 Annual Review - 2005 Revenue Requirements**

After a review of the material provided by Terasen Gas Vancouver Island Inc. ("Terasen") in its Annual Review, we have determined that the current rate structure is at odds with both the Provincial Energy Policy and the recommendations of the Task Force, made in March of 2002.

Specifically, Policy Action No. 19 notes that "natural gas marketers can make direct sales to small customers." Furthermore, the Task Force recommendation number 6.15 is to "support and encourage increased customer choice of provider and offerings for all natural gas customers"

In order to provide customers on Vancouver Island with choice with regards to their natural gas provider, we request that Terasen unbundle its royalty revenues from the cost of gas and instead allocate royalty revenue to the cost of service. Currently, "transportation" rates do exist on Vancouver Island, but the royalty credit allocation issue results in inordinately low commodity rates and extremely high distribution rates. Terasen's customers on Vancouver Island have no choice other than to stay with the utility. To opt for a supplier other than the utility results in a loss of the royalty credit (because it is linked to the commodity, rather than the distribution) and makes it economically unfeasible. A reallocation of royalty revenue would ensure every consumer continues to get their fair share of the royalty credit and is therefore necessary to ensure that customers are not unfairly discriminated against should they decide to purchase their natural gas from a supplier other than Terasen.

Such a reallocation would be revenue neutral for Terasen. And, from the customers' point of view, it would result in a decrease to distribution rates and an increase to commodity rates. Should customers opt to continue purchasing gas supply from Terasen, their net payments to the utility would not change.

In summary, such a modification to the rate structure would allow Terasen to conform to both the Provincial Energy Policy and the recommendations made by the Task Force. And, customers would finally have a competitive choice.

Yours truly,

Mary McCordic
Director, Energy Marketing