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BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-65-95

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AN ORDER IN THE MATTER OF the Utilities Commission
Act, S.B.C. 1980, c. 60, as amended

and

An Application by Pacific Northern Gas Ltd.
Reference Price Factors for Buy/Sell Energy Supply Contracts

BEFORE: M.K. Jaccard, Chairperson; and)
L.R. Barr, Deputy Chairperson) August 24, 1995

O R D E R

WHEREAS:

- A. The Commission's July 7, 1995 Decision regarding the Review of Buy/Sell Deliveries of Natural Gas to the Core Market directed each Local Distribution Company ("LDC") to file for Commission approval its reference price calculation methodology and a preliminary price forecast as soon as possible after August 1, 1995, but not later than August 15, 1995; and
- B. On August 1, 1995 Pacific Northern Gas Ltd. ("PNG", "PNG-West"), filed for Commission approval its buy/sell reference price methodology and forecast of reference price factors for the 1995/96 gas contract year; and
- C. The PNG filing did not include the results (gains or losses) of any active gas price hedging activity in the calculation of reference prices; and
- D. Actual reference price factors may differ from the forecast due to the market sensitive pricing provisions included in a significant portion of PNG's system baseload contracts; and
- E. The Commission has reviewed the filing and finds that approval is required.

NOW THEREFORE the Commission orders as follows:

- 1. For PNG-West, the reference price forecast and the 100 percent load factor reference price calculation methodology as set out in PNG's letter dated August 1, 1995, which is attached as Appendix A, are approved, subject to review with respect to the exclusion from the calculation of the results of active gas price hedging activities.
- 2. Interested parties are invited to comment and provide evidence in support of their position by September 15, 1995 regarding whether or not the results of any active price hedging should be included in PNG's reference price calculation.
- 3. PNG is directed to calculate actual monthly demand and commodity reference price factors at 100 percent load factor using its approved methodology and to report the factors to the Commission within 20 days after the end of each month.

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4. For PNG(N.E.), the Commission acknowledges the filed reference prices which are based on 1994/95 prices and directs that, in the event the utility receives a written request from an interested party to do so, PNG will file within 20 days a price forecast that is based on the expected system baseload pricing for 1995/96.

DATED at the City of Vancouver, in the Province of British Columbia, this 29th day of August 1995.

BY ORDER



Dr. Mark K. Jaccard
Chairperson

Pacific Northern Gas Ltd.

Forecast of Buy/Sell Reference Prices

November 1, 1995 to October 31, 1996

The following is PNG's forecast of Buy/Sell reference prices for the PNG-West and PNG(NE) systems. The forecast is for the period November 1, 1995 to October 31, 1996.

PNG - West

The PNG-West system extends from Prince Rupert to Summit Lake. The delivery point for core market direct purchase gas supply will be Station 2. Given the location of PNG's system on the Westcoast pipeline the Company believes that deliveries at Station 2 of buy/sell supply is the least burdensome option for A/B/M's.

Methodology

PNG's projected baseload gas supply portfolio for the 1995/1996 Contract Year ("Contract Year") will contain 100 % variable pricing. Consequently, the Company has provided a monthly forecast of the Reference Price for the Contract Year. The forecast is based upon PNG's current projection of demand.

The forecast of the reference price for each month is the weighted average cost of gas for baseload contracts. The calculation of the weighted average cost of baseload gas is the total monthly cost of baseload gas supply at Station 2 divided by total monthly purchases of baseload gas supply. The major price assumptions underpinning the forecast are presented in Attachment One.

Reference Price Forecast

PNG has prepared two forecasts of reference prices. The first forecast (Attachment One) is based upon the forecast level of demand for the upcoming Contract Year. The expected load factor for baseload contracts in Table One is 95%. The second forecast (Attachment Two) of reference prices is based upon 100% load factor.

PNG(NE)

The PNG(NE) system distributes gas to the communities of Tumbler Ridge and Dawson Creek. The delivery point for core market direct purchase gas supply for Dawson Creek will be the inlet to the Peace River Transmission System. It will be necessary to transport the gas on the Westcoast pipeline to access the Peace River system. The delivery point for core market direct purchase gas supply for Tumbler Ridge will be the inlet to the PNG(NE) distribution system at Tumbler Ridge.

Under current supply contracts gas supply is provided daily as needed. Neither supply contract has a DCQ or minimum annual take obligations. PNG(NE) is unable to provide load balancing.

Consequently, PNG(NE) will be able to only to purchase core market direct purchase gas supply on the same basis as existing gas supply, day to day, as needed.

The reference price forecast for PNG(NE) is presented in Table One it represents the current prices being paid by PNG(NE). The prices being paid for the gas purchased under these contracts will be negotiated later this year. PNG(NE) will update the Reference Price once negotiations have been completed and BCUC approval has been granted.

Table One
Forecast Buy/Sell Reference Price for PNG(NE)
for the Period November 1/95 - October 31/96

Rate Class	Reference Price
Residential	\$ 1.94/GJ
Commercial	\$ 1.90/GJ
Small Industrial	\$ 1.80/GJ

Other Matters

In 2 of 3 long term gas supply contracts PNG has the right to reduce the DCQ, on a pro-rata basis, when direct purchase occurs. In the remaining contract(which accounts for 80% of the firm gas that PNG purchases) PNG does not have that right. PNG is continuing efforts to obtain a similar provision in the remaining contract. If PNG is unable to do so and is unsuccessful in it's effort to mitigate these unabsorbed demand charges then PNG will collect these charges and bring them forward to the BCUC for disposition. This issue was addressed in the recent decision on core market direct purchase by the BCUC.

Attachment Two - PNG - West
Forecast of Buy/Sell Reference Price @ 100 % Baseload Gas Supply Load Factor
For the Period November 1/95 - October 31/96

**Buy/Sell Reference Price for PNG - West
For the Period November/95 to October/96**

	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>June</u>	<u>Jul</u>	<u>Aug</u>	<u>Sept</u>	<u>Oct</u>
Reference Price	1.43	1.57	1.58	1.51	1.41	1.32	1.15	1.12	1.11	1.16	1.46	1.56
Demand Price	0.57	0.59	0.59	0.59	0.55	0.54	0.50	0.50	0.49	0.50	0.57	0.58
Commodity Price	0.87	0.99	1.00	0.92	0.85	0.78	0.65	0.62	0.62	0.65	0.89	0.98
Baseload Gas Load Factor	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<u>Portfolio Composition(GJ's)</u>												
Total Purchases	744060	768862	768862	719258	768862	744060	768862	744060	768862	768862	744060	768862
Fixed Price Purchases												
Variable Price Purchases	744060	768862	768862	719258	768862	744060	768862	744060	768862	768862	744060	768862
<u>Variable Price Composition(GJ's)</u>												
Sumas^{**1}	636060	657262	657262	614858	657262	636060	657262	636060	657262	657262	636060	657262
NYMEX	108000	111600	111600	104400	111600	108000	111600	108000	111600	111600	108000	111600

Notes:

****1 - based on beginning of the month index published by Inside FERC Gas Market Report**

****Calc - please note that numbers may not add exactly due rounding in calculations.**

Buy/Sell Reference Price for PNG - West
Additional Information
For the Period November/95 to October/96

	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>June</u>	<u>Jul</u>	<u>Aug</u>	<u>Sept</u>	<u>Oct</u>
Total Demand Costs^{**1}	422323	449990	451624	424584	424786	405267	386505	375393	379497	386560	424967	448243
Total Commodity Costs^{**1}	644904	759002	766806	660566	656214	576930	500429	458384	474128	502897	658752	751184
Total Costs	1067227	1208992	1218430	1085149	1081000	982197	886934	833777	853625	889456	1083719	1199427
<u>Index Forecast</u>												
Sumas^{**2}	1.340	1.460	1.490	1.390	1.320	1.240	1.090	1.050	1.030	1.070	1.330	1.430
NYMEX^{**3}	1.638	1.770	1.820	1.783	1.738	1.698	1.708	1.723	1.735	1.748	1.760	1.800
Foreign Exchange Forecast^{**4}	1.363	1.363	1.345	1.345	1.345	1.337	1.337	1.337	1.355	1.355	1.355	1.354
Basis Differential Forecast^{**5}	0.52	0.52	0.52	0.52	0.52	0.47	0.47	0.47	0.47	0.47	0.47	0.45

- Notes:**
- **1** - Total demand and commodity costs are for purchases of baseload gas
- **2** - Forecast of spot gas prices(US \$/mmbtu) at Sumas as prepared by PNG
- **3** - Closing prices(US \$/mmbtu) of NYMEX futures contracts - July 21/95
- **4** - Forecast of Canada/U.S. exchange rate the average of Scotia McLeod, Wood Gundy, RBC/Dominion
- **5** - Forecast of basis differential the average of BT Bank, Bank Paribas, PIRA, WGS

****Calc** - please note that numbers may not add exactly due rounding in calculations.