LETTER NO. L-41-95

BRITISH COLUMBIA UTILITIES COMMISSION

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VIA FACSIMILE

August 29, 1995

Mr. C.P. Donohue
Manager of Regulatory Affairs
Pacific Northern Gas Ltd.
1400 - 1185 West Georgia Street
Vancouver, B.C.
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Dear Mr. Donohue:

Re: Pacific Northern Gas Ltd.
<u>1995/96 Gas Contracting Plan</u>

Further to your filing dated July 28, 1995, the Commission approves PNG's 1995/96 Gas Contracting Plan, subject to the following specific directions and on the understanding that all individual supply contracts will continue to be filed in a timely fashion for Commission approval. The Plan, based on a comparison of the several supply alternatives that PNG has available to it, favors seasonal gas over additional term supply and is a generally acceptable strategy for acquiring gas supplies needed for the 1995/96 gas contract year.

1. The contracting of an additional 8,000 GJ/d of peak day supply, for a total of 32,802 GJ/d is approved, in the expectation that PNG will use line pack and industrial curtailments and spot gas if available to meet its firm requirements at a -20^{o}C design temperature (37,009 GJ/d) and to handle higher needle peaks. The Commission notes that PNG's IRP Supplement dated February, 1995, states an intention to structure its demand forecasts into several sub-regions that reflect different climatic zones. Also, a more comprehensive treatment of supply-side issues is expected to be a major objective of future IRP's. Future gas contracting plans will therefore be expected to provide a more comprehensive analysis of peak day firm gas requirements, including an assessment of industrial curtailment and the role of this supply resource in meeting the demands of PNG's customers.

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2. The Commission notes that PNG proposes to contract for the incremental 8000 GJ/d of supply as seasonal gas and directs that PNG evaluate the use of shorter term peaking contracts for part of this supply.

3. The Commission notes that PNG currently prices interruptible sales gas at its variable cost, and directs that the total cost of gas purchases for firm sales and company use (i.e., excluding interruptible sales) be used to evaluate cost impacts when PNG compares offers of incremental supply for 1995/96.

4. The Commission notes that PNG expects to negotiate market sensitive pricing under baseload contracts and that the utility proposes to use active price hedging instruments to fix prices for a significant portion (and potentially all during the winter period) of baseload purchases for firm sales and company use. The Commission directs that PNG not hedge more gas in any month than it expects to purchase for firm sales and company use. PNG is directed to include in its gas cost pass-through application for 1996 a proposal for allocating the dollar results (gains or losses) of hedging to the firm sales and company use categories.

5. Within 30 days after a month in which PNG executes a hedging transaction, the utility is directed to file a report with the Commission that describes and justifies the transaction. The Commission expects the burden of justification will become more onerous to the extent that prices are fixed for volumes in excess of 70 percent of baseload purchases for firm requirements.

The Commission has accepted the Plan on a "confidential" basis, at the request of PNG, based on the understanding that it contains commercially sensitive information related to energy supply contracts.

Yours truly,

Robert J. Pellatt

JBW/ssc