



ROBERT J. PELLATT  
COMMISSION SECRETARY

SIXTH FLOOR, 900 HOWE STREET, BOX 250  
VANCOUVER, B.C. CANADA V6Z 2N3  
TELEPHONE: (604) 660-4700  
BC TOLL FREE: 1-800-663-1385  
FACSIMILE: (604) 660-1102

June 27, 1996

Mr. David M. Masuhara  
Vice President,  
Legal and Regulatory Affairs  
BC Gas Utility Ltd.  
1111 West Georgia Street  
Vancouver, B.C.  
V6E 4M4

Dear Mr. Masuhara:

Re: BC Gas Utility Ltd.  
1996/97 Gas Contracting Plan

Further to your letter dated May 31, 1996 which filed BC Gas' 1996/97 Gas Contracting Plan ("1996/97 GCP"), the Plan is approved by the Commission, on the understanding that all individual supply contracts will continue to be filed in a timely fashion for Commission approval. Considering the current uncertainty about long-term supply resources, the Plan sets out a strategy that is generally acceptable for acquiring the gas supplies that are needed for the 1996/97 gas contract year and for making a transition to major supply portfolio changes which may occur in the future.

BC Gas requested approval of several specific aspects of the 1996/97 GCP, and the Commission has the following comments on these matters:

1. The Commission considers that it is approving a strategy to guide the contracting activity in a flexible manner. This approval supports the further approval of supply contracts and amendments which are consistent with the Plan, but does not supersede the need to demonstrate that each new agreement is in the public interest.
2. The use of a peak day forecasting methodology which extrapolates the growth trend in peak day over the past five heating periods, as determined by a regression analysis, is accepted. This results in a total supply requirement for peak day of 1228 TJ/d for 1996/97.
3. The proposals that Canadian baseload supply not be increased from last year, and that options for limited decontracting be pursued, are accepted.
4. The proposals to terminate 16 TJ/d of US long-term supply, and to aggressively negotiate prices under the remaining US supply, are accepted.

5. The contracting of 25 TJ/d of firm backstopping and the continued reliance on 25 TJ/d of spot backstopping are accepted. The reservation of 20 TJ/d for trim is accepted, with any greater requirements which may be determined by BC Gas' current evaluation to be justified at the time the contracts are filed.
6. The short term contracting of more underground storage capacity relative to seasonal supply, which will provide a transition to major supply additions which may be required in the future, is accepted. The Commission will also expect BC Gas to contract shorter term peaking supply in preference to seasonal supply where such supply fits better with the utility's demand profile and is available under favorable economic terms.
7. The restructuring of seasonal and storage contracts to provide greater flexibility and to shape these supplies to provide a better fit with the utility's demand profile is accepted.
8. The release or resale of higher priced supply resources, where they can be replaced by more economical alternatives, is accepted.
9. The proposed pilot program to buy up to 20 TJ/d of firm 30 day spot gas, primarily to deal with uncertainty in the amount of buy/sell gas that will be available, is accepted. However, it may not be possible for the individual contracts for this gas to be filed for prior Commission approval in the normal manner. BC Gas is directed to file a proposed procedure by September 3, 1996 which details how the utility will survey potential suppliers to ensure the best prices, and how it will report these spot purchases to the Commission on a regular basis.
10. BC Gas will be renegotiating prices for 1996/97 under its baseload contracts, and anticipates that most of these prices will be Sumas index based. It proposes to use fixed price contracts and financial hedging instruments to establish a total fixed price baseload component in the 50 percent to 70 percent range. BC Gas will be required to justify any extensive use of fixed prices rather than market sensitive prices when fixed price agreements are filed for approval. The Commission expects that the burden of justification will become more onerous to the extent the fixed price component exceeds 50 percent.
11. BC Gas notes that the average value which the marketplace currently assigns to Westcoast transportation-south is less than its cost, and indicates that this capacity is no longer a barrier to access to the marketplace. The utility requests a temporary stay to the Commission's direction that it acquire sufficient transportation-south to meet the needs of system sales and buy/sell customers. The Commission continues to consider that the utility has an ongoing obligation to provide access to sufficient transportation-south for its core market customers, but, considering that the 1996/97 GCP shows no increase in total supply, accepts that additional capacity need not be acquired for 1996/97.

The Commission has accepted the 1996/97 GCP on a "confidential" basis, at the request of BC Gas, under the understanding that it contains commercially sensitive information related to energy supply contracts. When preparing future gas contracting plans, BC Gas is requested to attempt to include a non-confidential summary which sets out the objectives of the utility and lists the significant items for which approval is sought.

Yours truly,



Robert J. Pellatt

JBW/cms