LETTER NO. L-25-96

ROBERT J. PELLATT
COMMISSION SECRETARY

BRITISH COLUMBIA UTILITIES COMMISSION

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VIA FACSIMILE

July 17, 1996

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. and Pacific Northern Gas (N.E.) Ltd.
1996/97 Gas Contracting Plan

Further to your filing dated June 7, 1996, the Commission approves PNG's 1996/97 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 is based on a comparison of the several supply alternatives that PNG has available to it, and favors purchases which are shaped to customer demand profiles over additional term supply. It is a generally acceptable strategy for acquiring gas supplies needed for the 1996/97 gas contract year.

1. The Commission accepts the forecast of firm PNG-West requirements at the -20^{0}C design temperature of 38,106 GJ/d. However, PNG should not contract for more than 10,600 GJ/d of seasonal or other additional supply until it has justified to the Commission that it can no longer rely on line pack and buy/sell gas as part of its portfolio to meet design day requirements. The total amount of Westcoast Energy Inc. Zone 4 capacity should be consistent with contracted supply.

   The Commission notes that PNG is re-structuring its demand forecasting model into several sub-regions that reflect different climatic zones. Future gas contracting plans will be expected to provide a more comprehensive analysis of peak day firm gas requirements for PNG-West and Dawson Creek.

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2. The Commission notes that PNG proposes to contract for the incremental supply as seasonal gas and directs that PNG evaluate the use of seasonal contracts with flexible load factor provisions and of shorter term peaking contracts, to the extent such arrangement are available from suppliers.

3. PNG indicates that it will re-negotiate pricing under several baseload contracts for 1996/97. The Utility will be expected to justify, on the basis of the value received relative to the market index on which the prices are based, any increase in market premiums over those agreed to in 1995/96.

4. The Utility proposes to use active price hedging instruments to fix prices for a significant portion of baseload purchases. 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 50 percent of purchases for firm requirements, that the fixed price approaches the historical average for the particular index, or that prices beyond the 1996/97 contract year are fixed. Hedging that is undertaken to minimize price volatility will need to be fully explained and supported.

5. PNG's supply contracting strategy for the Dawson Creek Division, which seeks to acquire baseload, storage and peaking/seasonal gas in proportions that minimize total gas costs, is acceptable. The Utility is encouraged to incorporate provisions in these contracts which will facilitate the integration of supplies and supply management for Dawson Creek and PNG-West.

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 individual energy supply contracts.

Yours truly,

Robert J. Pellatt

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