



ROBERT J. PELLATT
COMMISSION SECRETARY

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VIA FACSIMILE

October 31, 1997

Mr. David Bursey
Bull, Housser and Tupper
3000 Royal Centre, P.O. Box 11130
1055 West Georgia Street
Vancouver, B.C.
V6E 3R3

Dear Mr. Bursey:

Re: Pacific Northern Gas Ltd.
Disposition of Skeena Deferral Account Balance

Further to your September 19, 1997 letter regarding the disposition by PNG of the Skeena Cellulose Inc. deferral account that was approved-in-principle by Commission Letter No. L-14-97, we wish to comment as follows.

While Skeena was idle, other customers on the PNG system had the opportunity to seek to profitably use any of the idle capacity created by the mill. Following resumption of the Skeena operations, the balance in the Skeena deferral account will be known, the amortization of which will become part of the 1998 Revenue Requirements process for the utility. The account will reflect the lost revenue from Skeena and all offsets, including revenue from use of the idle capacity and operating cost savings resulting from the mill closure.

In Letter No. L-53-97 the Commission determined that the net cost recorded in the deferral account is the result of an extraordinary event that was not foreseeable at the time of setting 1997 rates for PNG, and that the utility took reasonable action as mill closure became evident. When PNG applies for recovery, all interested parties will be given an opportunity to make submissions. Any credits will then be available to reduce the costs to all customers, as requested by BCPIAC.

The Methanex request that payment be credited against any future interruptible service in excess of the forecast would effectively change the nature of regulation of PNG, but may be explored as part of the 1998 Revenue Requirements process.

By copy of this letter to PNG, we ask the utility to keep the Commission and all interested parties informed of the Skeena deferral account and the proposed recovery and amortization that will be included in its 1998 Revenue Requirements.

Yours truly,

A handwritten signature in black ink, appearing to read 'R. Pellatt', with a stylized flourish at the end.

Robert J. Pellatt

RJP/ssc

cc: Mr. C.P. Donohue
Manager of Regulatory Affairs
Pacific Northern Gas Ltd.
British Columbia Public Interest
Advocacy Centre