

ROBERT J. PELLATT
COMMISSION SECRETARY



LETTER NO. L-49-97

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VIA FACSIMILE

August 21, 1997

Mr. J.N. Oosterbann
Manager, Gas Supply Special Projects
Pacific Northern Gas Ltd.
1400 - 1185 West Georgia Street
Vancouver, B.C.
V6E 4E6

Dear Mr. Oosterbann:

Re: Pacific Northern Gas Ltd.
1997/1998 Gas Supply Risk Management Program ("RMP")

This is in response to the RMP which PNG filed on June 6, 1997 and the information which you subsequently provided. The principle recommendation is that PNG fix the price of 15,000 GJ/d of Sumas index-based purchases for 1997/98.

PNG's risk management objective is to obtain the optimal balance between market-responsive pricing and stable, predictable pricing, and to do so with little or no increase in gas costs to customers.

Considering the use of storage and indices other than Sumas, prices in PNG's supply portfolio prior to hedging appear to be reasonably well diversified.

The Commission approves PNG's 1997/98 RMP, but has some concern about the level of hedging that is proposed for the 1998 summer period. It would appear that there is less risk of a large price excursion at that time. The Commission expects PNG to continue to report on and justify its hedging actions, and that the burden of justification will become more onerous to the extent that summer hedging exceeds approximately 10,000 GJ/d or winter hedging exceeds approximately 15,000 GJ/d.

The Commission endorses the recommendations at page 23 of the RMP that PNG seek authorization to use options. This risk management instrument may not be appropriate currently, but the situation may change in the future.

Yours truly,

A handwritten signature in dark ink, appearing to read "Constance M. Smith".

for: Constance M. Smith
Robert J. Pellatt

JBW/cms