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COMMISSION SECRETARY

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VIA FACSIMILE

May 2, 1997

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

Re: Pacific Northern Gas Ltd., Pacific Northern Gas (N.E.) Ltd. and
Centra Gas Fort St. John Inc. - 1997/98 Gas Contracting Plan

Further to your April 8, 1997 filing, the Commission approves PNG's 1997/98 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. It proposes to implement a single supply pool for PNG West, Dawson Creek and Fort St. John, and favours supplies which are shaped to customer demand profiles over additional term supply. It is a generally acceptable strategy for acquiring gas supplies needed for the 1997/98 gas contract year.

1. Although the results for 1997/98 from its restructured demand forecast model are not yet available, PNG indicates a significant increase in peak day for PNG West. The company considers demand side alternatives as part of its resource planning process, but does not expect them to have a significant impact on supply requirements for 1997/98. Supply from curtailments of PNG's three large industrial customers, and line pack, will be used to meet needle peaks on the PNG West system.

The Commission accepts the following design day requirements for the purpose of supply contracting:

	<u>PNG West</u>	<u>Dawson Creek</u>	<u>Fort St. John</u>	<u>Total</u>
Design Day, GJ/d	41,828	12,773	19,500	74,101
Net of Line Pack, GJ/d	38,828	11,773	17,500	69,101

PNG will be expected to adjust its supply contracting in response to the results from its reworked demand model.

The total amount of Westcoast Energy Inc. zone 4 capacity should be consistent with contracted supply for PNG West.

2. The Commission accepts PNG's recommendation to amalgamate PNG West, Dawson Creek and Fort St. John into one demand and supply pool. As the company observes, pooled gas supply costs will need to be allocated to the customers in the three service areas. PNG is hereby directed to include a gas cost allocation methodology for this purpose as part of the Rate Design application which it is to file by September 1, 1997. The filing should also evaluate whether balances in the gas cost deferral account should be amortized over periods longer than one year.
3. The Commission accepts in principal PNG's proposed portfolio, which consists of the existing 24,667 GJ/d baseload contract, 25,000 GJ/d of Aitken Creek storage and 19,500 GJ/d of seasonal/peaking gas, for a total supply of 69,167 GJ/d. When it files individual supply contracts for approval, the company will be expected to justify the cost effectiveness of the supply alternatives which it has selected, relative to the needs of its customers.
4. The company will need to justify, on the basis of the value received relative to the market index on which the prices are based, any market premiums in pricing under its baseload contract for 1997/98.
5. PNG anticipates that Westcoast offline service will continue for 1997/98, and the company will be expected to make optimal use of this low cost service for the benefit of its customers.
6. PNG states that in early May it will file a gas price risk management plan "in order to lock in favourable pricing and provide price stability". These are two quite different objectives, and the company will be expected to clearly identify which objective is served by each recommended risk management action. PNG's price risk management plan should be a broadly based strategy which addresses fixed price purchases, storage gas, diversification of bases for indexed prices and hedging of currency exchange rates, as well as the use of financial instruments to fix indexed prices.
7. When PNG files an agreement to extend or replace for its supply contract for Tumbler Ridge, the company is directed to demonstrate that gas is available with satisfactory deliverability and quality for at least two years to provide adequate supply security for the customers in this area.

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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