



LETTER NO. L-14-00

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VIA FACSIMILE

May 4, 2000

Mr. David M. Masuhara
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BC Gas Utility Ltd.
24 Fl, 1111 West Georgia Street
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Mr. C.P. Donohue
Director
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Pacific Northern Gas Ltd.
1400-1185 West Georgia Street
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Mr. Geoffrey Higgins
Manager, Regulatory Affairs
Centra Gas British Columbia Inc.
1675 Douglas Street
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Dear Sirs:

Re: Natural Gas Commodity Costs

The Commission is concerned about the increasing liability of core market customers resulting from the continued increase in natural gas commodity prices that are not being recovered in rates. The Commission recently received a Cost of Product Pass-through Application from Pacific Northern Gas Ltd. which it is reviewing.

In considering rate changes for natural gas commodity prices it was customary prior to 1999 to have an annual price setting with any actual cost differences carried in deferral accounts for future recovery or return to customers. This system worked well and satisfied the desire of minimizing rate changes to customers. The increases and decreases in commodity prices often tended to offset each other so that the deferral accounts did not become large.

However, as you well know, the rapid escalation in natural gas prices during 1999 led to significant rate increases for customers in January 1999 and the necessity to have a second significant increase in rates in September/October 1999. Even with those rate increases the deferral accounts recorded additional obligations to be recovered from customers in future years. The natural gas commodity price increases put in place for each of your utilities effective in January 2000, have proved to be significantly below the market prices that are now expected. We are left in the unenviable position of having passed through large overall rate increases during 1999 and January 2000 which do not fully recover the commodity costs, so that customers' liabilities are continuing to mount. The forward price expectations for the remainder of this year are very high, and the high prices are expected to continue into 2001.

The Commission now believes that it has no choice but to allow utilities to revise their commodity costs expectations and apply for pass-throughs which reflect the expected prices for the remainder of this year. The Commission would prefer that this were done in an orderly way rather than considering applications every few months to reflect the volatility of the current market place. Our preference would be to receive applications for a commodity cost adjustment, effective mid-year, based on the expected commodity cost for the period from July to December 2000. Setting gas cost recovery rates based on this shorter forecast period is expected to reduce the risk of rates and costs becoming seriously out of balance in the current volatile gas market.

We would appreciate receiving your views on this proposal by May 17, 2000. If you do not agree with the Commission's proposal, or if you have an alternative plan potentially including more frequent adjustments to rates, please explain how your utility will manage cost variances during the year to better reflect actual costs, while also minimizing the number of rate increases faced by core market customers.

Yours truly,

Original signed by:

Robert J. Pellatt

WJG/cms