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LETTER NO. L-43-05

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VIA E-MAIL
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June 22, 2005

Mr. C.P. Donohue
Director, Regulatory Affairs & Gas Supply
Pacific Northern Gas Ltd.
950 - 1185 West Georgia Street
Vancouver, B.C. V6E 4E6

Dear Mr. Donohue:

Re: Pacific Northern Gas Ltd. ("PNG")
Annual Gas Contracting and Price Management Plan for 2005/06
PNG-West, Fort St. John/Dawson Creek and Tumbler Ridge

The Commission accepts PNG's Annual Gas Contracting Plan ("ACP") and Price Management Plan ("PMP") as amended in the June 8, 2005 letter for the 2005/06 gas contracting year subject to directions as outlined in the confidential attachment, Appendix A.

The Commission remains concerned that PNG-West and Tumbler Ridge residential customers are paying natural gas rates in excess of electricity even though PNG continues to suggest that the marginal difference between gas and electric rates will not cause residential gas customers to convert their natural gas systems or appliances to electricity.

In order to protect customers from further increases at a time when natural gas price movements have been extreme, PNG proposes a more measured winter hedging program in its June 8, 2005 revision to its PMP. PNG's objective is to shield customers from further exposure to even higher gas prices that may occur as the year unfolds. There must be a balance in the portfolio between the risk of embedding high gas prices through hedging if the market price of gas should decline and the prospect of taking advantage of lower prices if this event should occur.

PNG states that avoiding exposure to short term price volatility is a higher priority than maintaining competitiveness with electricity but it does not provide support for this position. The Gas Cost Variance Account will dampen the impact on rates from extreme changes in gas prices in the short term. PNG provided limited information about the rates that would result from current gas prices or the demand response that would be the product of these rate levels. The Commission believes that when PNG is executing its PMP it should be cautious about the impact this plan may have on customer's bills and consumption.

As in past years, all individual gas supply contracts and amendments should continue to be filed prior to November 1, 2005 pursuant to Section 71 of the Utilities Commission Act. The ACP and GCP for 2005/06 will be held confidential, except for the Executive Summary.

Yours truly,

Original signed by:

Robert J. Pellatt

RB/yl

PNG/Cor/APC and PRMP 2005-06

Pacific Northern Gas Ltd

EXECUTIVE SUMMARY

Annual Gas Contracting and Price Management Plan

November 2005 to October 2006

Introduction

Pacific Northern Gas Ltd.'s ("PNG") 2005/06 Annual Gas Contracting and Price Management Plan (the "2005/06 Plan") describes the physical gas supply resources PNG intends to secure to meet the projected average and peak day gas demand of PNG's gas sales customers over the November 2005 to October 2006 period. The 2005/06 Plan also sets out PNG's gas price management strategies.

Gas Supply Contracting Objectives

PNG's gas supply resource portfolio, as set forth in detail in the 2005/06 Plan, is designed to satisfy the following overall objectives:

Security of Supply:

- Contract resources which ensure secure and reliable natural gas deliveries to firm service customers;
- Diversify portfolio asset mix which incorporates contracting flexibility for short and longer term; and
- Arrange gas supply for the PNG-West and Fort St. John/Dawson Creek service areas on a combined basis to achieve operational efficiencies.

Cost/Price Management:

- Develop a gas price management strategy which focuses on managing and reducing short-term gas price volatility;
- Maintain the competitiveness of natural gas to alternate fuel sources - primarily electricity;
- Ensure price diversity by contracting through various supply resources;
- Aggregate demand and supply pools in order to minimize costs;
- Reduce the volume of off-system sales of fixed price supply; and
- Execute gas price management activities within the limits of PNG's hedge line of credit.

Gas Price Management Objectives

PNG's overall gas price management objectives are to manage the volatility of the gas prices paid by PNG with a focus on reducing PNG's exposure to gas price spikes and at the same time, strive to keep gas prices within a range that maintains the competitiveness of PNG's bundled gas sales rates to alternative energy sources.

Hedging instruments, such as: physical fixed price contracts, financial fixed price contracts, call options and costless collars are evaluated by PNG on an ongoing basis having regard to PNG's gas price management objectives.

PNG plans to hedge an estimated 64 percent of forecast gas deliveries to PNG's sales customers over the November 2005 to October 2006 twelve month period. A higher percentage of forecast sales is to be hedged over the November 2005 to March 2006 winter period (i.e. 76 percent of forecast sales) compared to the April to October 2006 summer period (i.e. 42 percent of forecast sales).

June 2005
