



LETTER No. L-42-10

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VIA EMAIL

cdonohue@png.ca

May 28, 2010

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

Dear Mr. Donohue:

Re: Pacific Northern Gas Ltd.
Price Risk Management Plan dated April 2010

The British Columbia Utilities Commission (Commission) accepts the Price Risk Management Plan (PRMP) dated April 2010 but questions the PRMP objectives and justification. One key objective area which is missing is the recognition of prices from competing alternate sources of energy such as electricity. Pacific Northern Gas Ltd. (PNG) also indicated on page 10, section 3.2 that it has an objective to "*levelize gas prices by hedging out over two gas contract years*". Although reducing short term price volatility is an acceptable objective and is noted as the first item in this section, hedging out over two years is not an objective but a strategy component. Therefore, in the next PRMP, the Commission expects that the foundation of the PRMP will be built on more clearly defined objectives. The strategies or methods of achieving these objectives should then be explained and justified.

Accelerated hedging triggers are accepted as shown on Table 13, page 17. PNG indicates that it would consider further hedging if prices fall below the second trigger prices and provided such prices continue to lower the Average Seasonally Adjusted Commodity Charge. If prices fall to a level where the second block of accelerated hedges for the winter period are triggered and the pricing environment is considered favourable, the Commission requests that PNG provide a letter discussing the advisability of further hedging.

It is also noted that the total hedge volume as a percentage of core market sales is 71.2% for the winter 2011/12 period and 42.6% for summer 2012. Storage for the winter is about 37%, so in effect there is more financial hedging in the summer than the winter. In the next PRMP, PNG should discuss whether financial hedging for summer should be decreased.

Yours truly,

Original signed by:

Erica M. Hamilton

RB/ac