

ROBERT J. PELLATT
COMMISSION SECRETARY



LETTER NO. L-50-97

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VIA FACSIMILE

August 21, 1997

Mr. D.M. Masuhara
Vice President
Legal and Regulatory Affairs
BC Gas Utility Ltd.
1111 West Georgia Street
Vancouver, B.C.
V6E 4M4

Dear Mr. Masuhara:

Re: BC Gas Utility Ltd.
1997/1998 Gas Price Management Strategy

This is in response to the Gas Price Management Strategy for the winter of 1997/98 which BC gas filed on August 6, 1997. The Strategy recommends that BC Gas use mainly financial instruments to fix the price of about 25 percent of purchases for winter 1997/98 and diversify the pricing basis of a further 25 percent of such purchases from the Sumas monthly index. The use of storage provides further diversity. Hedging associated with on-system industrial sales and off-system sales will be incremental.

BC Gas' price management objectives are to reduce the risk of rate increases for customers while providing an opportunity to participate in price declines, and to diversify the bases for pricing.

The Commission approves BC Gas' 1997/98 Gas Price Management Strategy. It is understood that the Company may adjust its use of individual hedging instruments, including price caps (options), depending on cost and availability. BC Gas will be expected to review the Strategy in the event that gas prices move significantly from currently expected levels.

The Commission expects that BC Gas will continue to report on and justify its hedging actions, and that the burden of justification will become more onerous to the extent that the amount of hedging significantly exceeds that set out in the filed Strategy.

Yours truly,

A handwritten signature in black ink, appearing to read "C. Smith", written over a horizontal line.

Constance M. Smith

for: Robert J. Pellatt

JBW/cms