



ROBERT J. PELLATT  
COMMISSION SECRETARY

SIXTH FLOOR, 900 HOWE STREET, BOX 250  
VANCOUVER, B.C. CANADA V6Z 2N3  
TELEPHONE: (604) 660-4700  
BC TOLL FREE: 1-800-663-1385  
FACSIMILE: (604) 660-1102

July 2, 1997

Mr. David 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.  
1997/98 Gas Contracting Plan

Further to your letter dated June 10, 1997 which filed BC Gas' 1997/98 Gas Contracting Plan ("1997/98 GCP" or "Plan"), the Plan is approved by the Commission, on the understanding that all individual supply contracts will continue to be filed in a timely fashion for Commission approval. The Plan assesses events which may impact the natural gas industry over the next three to five years, and sets out a strategy for acquiring the gas supplies that are needed for the 1997/98 gas contract year. Supply alternatives will be evaluated based primarily on cost, and also with the objective of obtaining greater flexibility and a better fit with the company's demand profile.

The Plan includes a five-year perspective, and anticipates that a Southern Crossing Pipeline will be in service by 1999 or 2000, an assumption which potentially may need to be revisited depending on the outcome of the CPCN proceeding for the project. Also, any major change in the system sales (gas merchant) role of BC Gas would significantly impact the supply portfolio, and this consideration should receive explicit treatment in future plans.

The Commission has the following specific comments on the 1997/98 GCP:

1. The Commission considers that it is approving a strategy to guide the contracting activity in a flexible manner. This approval supports the further approval of supply contracts and amendments which are consistent with the Plan, but does not supersede the need to demonstrate that each new agreement is in the public interest.

The 1997/98 GCP represents that it is consistent with the Company's Integrated Resource Plan, but does not provide any economic analysis to support its recommendations. This is an area for improvement in the future, and the company is directed to work with Commission staff to determine an acceptable approach and format for the analysis.

Meanwhile, data setting out the impact of the agreement on total gas costs, relative to other supply alternatives, should be included as part of the justification when a supply contract is filed for approval. This is a particular concern for storage, peaking and some seasonal gas contracts, which tend to be one-of-a-kind. Specifically, BC Gas should not view approval of the 1997/98 GCP as acceptance of the exercising of SOCAL options, or any particular realignment of Aitken Creek supply.

2. The Commission accepts a total peak day requirement including firm backstopping, trim and fuel requirements of 1260 TJ/d for 1997/98.
3. The contracting of 25 TJ/d for firm backstopping and the continued reliance on 25 TJ/d of spot backstopping are accepted. The reservation of 20 TJ/d for trim is accepted for 1997/98, with the amount of trim for subsequent years to be justified in future gas contracting plans.
4. The 1997/98 GCP anticipates that 28 TJ/d (approximately half) of the current buy/sell supply will be renewed. BC Gas is directed to file by July 15, 1997 a report on the July 1, 1997 preliminary notification from ABM's and any consequential revisions to its gas contracting strategy.
5. The use of 80 TJ/d more storage is accepted in principle, as is the contracting of sufficient peaking and seasonal supplies to meet total peak day requirements. Reliance on up to 33 TJ/d of spot market purchases in Alberta is accepted, and any such purchases should be included in the spot purchase reporting mechanism that was initiated under Order No. E-20-96.
6. BC Gas' proposal to elect Westcoast Energy Inc. Option A for 5-year transportation service is accepted. The Westcoast 5-year settlement may require changes to the baseload contracts, and the company will be expected to deal with any such restructuring in a timely fashion.
7. BC Gas' proposal to maintain its present level of ANG/NOVA capacity is accepted, but the company will be expected to use the capacity to move additional Alberta supply to its service area when required and feasible.
8. BC Gas will be re-negotiating prices for 1997/98 under several of its baseload contracts, and under some seasonal and peaking contracts, and expects that most prices for 1997/98 will be Sumas index based. The Commission anticipates that the company will shortly file a price risk management proposal with respect to 1997/98 gas purchases.

The Commission has accepted the 1997/98 GCP, except for the Executive Summary, on a "confidential" basis, at the request of BC Gas, under the understanding that it contains commercially sensitive information related to energy supply contracts.

Yours truly,



Robert J. Pellatt

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