



LETTER NO. L-37-04

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VIA FACSIMILE
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July 20, 2004

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 2004/05
PNG-West, Fort St. John/Dawson Creek, Tumbler Ridge and Granisle

The Commission accepts PNG's Annual Contracting Plan ("ACP") and Price Management Plan ("PMP") for the 2004/05 period subject to the considerations in Appendix A. Appendix A directs PNG to file a number of reports and these should be completed by September 15, 2004 or unless otherwise indicated.

The Commission is concerned that PNG-West residential customers are paying natural gas rates in excess of electricity. PNG has concluded that, in the short term, residential customers will not incur the expense of converting a natural gas system to electric. Attempting to shield natural gas rates from competition with electricity through hedging has the potential risk of embedding these high costs in the portfolio if natural gas prices decline. PNG should be cognizant of this risk as it implements its hedging program.

All individual gas supply contracts and amendments should continue to be filed prior to November 1, 2004 pursuant to Section 71 of the Utilities Commission Act and PNG will continue to report all hedging transactions and results in a timely fashion. The ACP and PMP for 2004/05 will be held as confidential, except for the Executive Summary that was included with the Application.

Yours truly,

Original signed by:

Robert J. Pellatt

RB/cms
Attachment