



LETTER L-41-13

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VIA EMAIL

jkennedy@png.ca

July 4, 2013

Ms. Janet P. Kennedy
Vice-President, Regulatory Affairs & Gas Supply
Pacific Northern Gas Ltd.
1185 West Georgia Street
Suite 950
Vancouver, BC V6E 4E6

Dear Ms. Kennedy:

Re: Pacific Northern Gas Ltd.
2013-2014 Annual Gas Contracting Plan (November 2013 – October 2014)

On May 31, 2013, Pacific Northern Gas Ltd. (PNG) filed on a confidential basis its 2013-2014 Annual Gas Contracting Plan (ACP). The ACP describes the physical gas supply resources PNG intends to secure to meet the projected peak day and average daily gas demand of PNG's gas sales customers over the November 2013 to October 2014 gas year. PNG also provided a non-confidential executive summary of the ACP.

The British Columbia Utilities Commission (Commission) has reviewed the ACP and accepts the ACP with respect to the PNG-West, Fort St. John, Dawson Creek and Pink Mountain Service Areas and the partial ACP filed in respect to the Tumbler Ridge Service Area, as in the public interest. However, with respect to the Tumbler Ridge Service Area, the Commission does not consider the ACP to be complete as filed.

The Commission understands that PNG intends to file an application for a Certificate of Public Convenience and Necessity in regard to the future supply arrangements for the Tumbler Ridge Service Area. The Commission requires that PNG file a full and complete annual contracting plan for Tumbler Ridge for the 2013-2014 contract year by August 1, 2013, either as part of the CPCN application or as a separate filing.

The Commission agrees to hold the ACP confidential as requested by PNG as the filing contains market sensitive information. A copy of the non-confidential executive summary of the ACP is attached to this Letter.

Yours truly,

Erica Hamilton

EXECUTIVE SUMMARY

Pacific Northern Gas Ltd.'s ("PNG") hereby submits and seeks acceptance from the the British Columbia Utilities Commission (the "Commission") of its Annual Gas Contracting Plan, dated May 2013 and covering the period of November 2013 to October 2014 ("ACP 2013"). ACP 2013 encompasses PNG's plan to meet the natural gas requirements for all of PNG's service areas, including PNG-West (west of Summit Lake) and PNG(N.E.), which includes Fort St. John and Dawson Creek ("FSJ/DC"), Tumbler Ridge, and Pink Mountain.

The objectives of ACP 2013 are consistent with those of the ACP 2012 that were accepted by the Commission and are as follows:

- 1) To provide cost-effective gas supply resources that ensure secure and reliable gas deliveries to customers;
- 2) To provide daily- and monthly-priced supply to achieve a balanced mix of price diversity and cost effectiveness in the portfolio; and
- 3) To diversify PNG's supply portfolio and transportation capacity contracts to incorporate longer and shorter terms to allow for contracting flexibility.

Previous ACPs have been successful in meeting these objectives in the past and PNG believes that the ACP 2013 will enable PNG to continue to meet these objectives in the best interests of customers for the upcoming gas year and going forward.

Demand Forecast – Peak Day Demand

The forecast aggregate peak day demand for the 2013/14 gas year is 57,127 GJs, which is an increase of 2,011 GJs from the peak day forecast for the 2012/13 gas year of 55,116 GJs. The peak day has increased mainly due to growth in residential and commercial demand in the FSJ/DC areas of PNG's service area. Some growth in residential and commercial demand is forecast for the PNG-West region as well for the 2013/14 gas year.

Gas Supply Resource Portfolio

PNG will meet its gas demand requirements using a balanced approach taking into consideration cost effectiveness, security, diversity, and reliability of gas supply. In order to achieve this, PNG will contract for supply from different counterparties and contract for both daily priced and monthly priced supply. The higher peak day requirement of 2,011 GJ/d will be sourced by increasing firm seasonal supply by

7,000 GJ/d and reducing firm seasonal peaking supply by 4,989 GJ/d. This will provide more balance between monthly and daily priced supply in the peak day portfolio and reduce exposure to daily prices.

Gas Storage

As noted in ACP 2012, PNG allowed its synthetic storage agreement to expire in 2012. Historically, PNG was limited to using its synthetic storage as a base load supply similar to a winter term physical supply purchase. However, the true value of storage lies in the ability to manage daily swings and to provide cost certainty. PNG believes there are benefits to be realized from holding storage and is evaluating storage alternatives that may provide more flexibility than its previous synthetic storage arrangement.

Transportation Service

PNG is required to contract for firm transportation service on the Spectra system to move gas supply to its load centres and pipeline transmission system. PNG's transportation service agreements with Spectra remain unchanged from ACP 2012. Increased transportation requirements to meet increased peak day demand will be met through interruptible service arrangements.

Conclusion

The primary objectives of PNG's ACP 2013 is to contract for a gas supply portfolio with a balanced mix of cost effectiveness and price and term diversity that will ensure safe, secure and reliable gas deliveries to its customers.

PNG has proposed a supply portfolio that meets these objectives, including additional resources necessary to meet the forecast increase in peak demand from the prior year. In addition, to further diversify its supply portfolio, PNG will continue to assess storage opportunities as an alternative to seasonal and peaking supply.