SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, BC V6Z 2N3 CANADA
web site: http://www.bcuc.com

BRITISH COLUMBIA UTILITIES COMMISSION

ORDER NUMBER G-93-11

TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

Applications by Pacific Northern Gas (N.E.) Ltd.
(Fort St. John/Dawson Creek and Tumbler Ridge Divisions)
for Approval of its 2011 Revenue Requirements
for the Pacific Northern Gas (N.E.) Ltd. Service Area

BEFORE: D.A. Cote, Panel Chair/Commissioner
N.E. MacMurchy, Commissioner
D. Morton, Commissioner

May 20, 2011

O R D E R

WHEREAS:

A. Pacific Northern Gas (N.E.) Ltd. [PNG (N.E.)] Fort St. John/Dawson Creek (FSJ/DC) and Tumbler Ridge (TR) Divisions filed on November 30, 2010, with the British Columbia Utilities Commission (Commission) for approval pursuant to sections 58 to 61, 89 and 90 of the *Utilities Commission Act* (the Act), its 2011 Revenue Requirements Application (Application) to, among other things, amend its delivery rates;

B. The Application forecast a revenue deficiency of $2.47 million for PNG (N.E.)'s FSJ/DC Division comprised of a net increase in cost of service of $2.13 million and a decrease in margin of approximately $0.34 million and for PNG (N.E.)'s TR Division a revenue sufficiency of $25,000 comprised of a net decrease in cost of service of $44,000 and a decrease in margin of approximately $19,000;

C. The Application also sought refundable interim rate relief pursuant to sections 58 to 61, 89 and 90 of the Act, to allow PNG (N.E.) to amend its rates on an interim basis, effective January 1, 2011, pending the hearing of the Application and orders subsequent to that hearing, on the basis that on January 1, 2011 PNG (N.E.)'s rates would otherwise no longer be fair, just and not unduly discriminatory;

D. Under Order G-183-10 dated December 7, 2010, the Commission approved for PNG (N.E.) the delivery rates and Rate Stabilization Account Mechanism rider set forth in the Application on an interim basis, effective January 1, 2011 and set out a Preliminary Regulatory Timetable;

E. At the request of PNG (N.E.) the Commission, by Letter L-103-10, suspended the Preliminary Regulatory Timetable pending PNG filing amendments to the Application. On January 17, 2011 PNG (N.E.) filed the amendments to the Application (Amended Application);

F. The Amended Application forecasts a 2011 revenue deficiency for PNG (N.E.)'s FSJ/DC Division of approximately $2.4 million comprised of a net increase in cost of service of $2.1 million and a loss in margin of $.3 million and a 2011 revenue deficiency for PNG (N.E.)'s TR Division of $2 thousand comprised of a net decrease in cost of service of $17 thousand and a loss in margin of $19 thousand;

G. By Order G-9-11 the Commission set the regulatory timetable for the Amended Application;

H. On March 14, 2011 by Letter L-18-11, the Commission confirmed the use of a Negotiated Settlement Process (NSP) for the Amended Application with negotiations to commence on April 26, 2011;

I. On April 15, 2011, PNG(N.E.) filed an update to the Amended Application to reflect a number of adjustments for year end 2010 figures and other corrections that came to light during the information request/response process (Updated Application);

J. The Updated Application forecasts a 2011 revenue deficiency for PNG (N.E.)'s FSJ/DC Division of approximately $2.6 million comprised of a net increase in cost of service of $2.1 million and a loss in margin of $.5 million and a 2011 revenue deficiency for PNG (N.E.)'s TR Division of $46 thousand comprised of a net decrease in cost of service of $20 thousand and a loss in margin of $66 thousand;

K. The NSP discussions were held in Vancouver on April 26 and 27, 2011. A Negotiated Settlement Agreement was reached among the participants and circulated on May 3, 2011 to Registered Interveners for comment;

L. Letters of support for the Negotiated Settlement Agreement have been received from PNG (N.E.) and the Registered Interveners, all of whom participated in the NSP;

M. The Commission has reviewed the Negotiated Settlement Agreement for PNG (N.E.)'s 2011 Revenue Requirements, which will result in a revenue deficiency of $2.2 million in the FSJ/DC Division and a revenue sufficiency of $33,000 in the TR Division, and considers that approval is warranted.

NOW THEREFORE pursuant to sections 89 and 58 of the Act, the Commission orders as follows:

1. The Negotiated Settlement Agreement for PNG (N.E.)'s 2011 Revenue Requirements Application, as issued on May 10, 2011 is approved and attached as Appendix A to this Order.

2. PNG (N.E.) is to file amended Summaries of Rates and Bill Comparison schedules based on the Negotiated Settlement Agreement Wednesday, June 1, 2011.

3. PNG (N.E.) is to refund to customers, with interest, the difference between the permanent 2011 rates and interim rates approved by Order G-183-10.

4. The Commission will accept, subject to timely filing by PNG (N.E.), Gas Tariff Rate Schedules to reflect the permanent rates approved in accordance with the terms of this Order. PNG (N.E.) is to provide notice of the permanent rates to customers via a bill message, to be reviewed in advance by Commission Staff to confirm compliance with this Order.

DATED at the City of Vancouver, in the Province of British Columbia, this 20th day of May 2011.

BY ORDER

Original signed by:

D. A. Cote
Panel Chair/Commissioner

Attachment

BRITISH COLUMBIA UTILITIES COMMISSION

WILLIAM J. GRANT
Consultant TO BCUC
bill.grant@bcuc.com
web site: http://www.bcuc.com

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

Log No. 35194

VIA EMAIL

May 10, 2011

To: Registered Interveners [PNG (N.E.)]

Re: Pacific Northern (N.E.) Gas Ltd. [PNG (N.E.)]
Negotiated Settlement Agreement
2011 Revenue Requirements Application

Enclosed with this letter is the proposed settlement package for PNG (N.E.)'s 2011 Revenue Requirements Application.

This settlement package is now public and is being submitted to the Commission. Also enclosed are Letters of Support and Comment received to date from the participants in the negotiated settlement process.

The Commission will consider the settlement package to set final rates.

Yours truly,

on behalf of:
William J. Grant

CM/cms
Attachments
cc: Mr. Craig Donohue
Director, Regulatory Affairs and Gas Supply
Pacific Northern Gas Ltd.
cdonohue@png.ca

~~CONFIDENTIAL~~

Pacific Northern Gas (N.E.) Ltd. ("PNG(N.E.)")
[Fort St. John/Dawson Creek ("FSJ/DC") and Tumbler Ridge ("TR") Divisions]

2011 Revenue Requirements Application

NEGOTIATED SETTLEMENT AGREEMENT

Introduction

B.C. Utilities Commission staff (Commission staff), representatives of PNG(N.E.), the B.C. Old Age Pensioners Organization (BCOAPO) and the Peace River Regional District (PRRD) met on April 26 and 27, 2011 for the purpose of negotiating a settlement of the PNG(N.E.) 2011 revenue requirements application (Application) for its FSJ/DC and TR Divisions. The settlement discussions were facilitated by a third party. Agreement was reached on April 27, 2011 among the parties that participated in the negotiated settlement process (NSP 2011). The result of NSP 2011 is to reduce the applied for Test Year 2011 revenue deficiency by $0.4 million, from approximately $2.6 million to $2.2 million for the FSJ/DC Division and by $79,000, from approximately $46,000 to a revenue sufficiency of $33,000 in the TR Division. The following tables summarize the NSP 2011 adjustments to the Application.

	(000's)		
Items	**FSJ/DC NSP 2011 Adjustments to the Application**		
1.0	Reductions to 2011 O,M,A&G Budget	$	(66)
2.0	NSP Settlement Allowance	$	(138)
3.0	Pension Asset Removal from Rate Base	$	(22)
4.0	Deferred Income Tax Drawdown	$	(130)
5.0	Forecast Margin Recovery Increase	$	(38)
	Total	**$**	**(394)**

Under NSP 2011 the gas delivery rate increase for the FSJ/DC residential customers effective January 1, 2011 compared to the corresponding delivery rate as of October 1, 2010, is $0. 74/GJ. This represents an annual bill increase of $79.46 or 8 percent for the average residential customer consuming 108 GJ/year. With the approved gas commodity rate decrease as of April 1, 2011 and the NSP 2011 delivery rate, the annual gas bill for a typical residential customer is now virtually equal to the annual bill using October 1, 2010 rates.

~~CONFIDENTIAL~~

Items	TR NSP 2011 Adjustments to the Application		
1.0	Reductions to 2011 O,M,A&G Budget	$	(5)
3.0	Pension Asset Removal from Rate Base	$	(1)
4.0	Deferred Income Tax Drawdown	$	(56)
5.0	Forecast Margin Recovery Increase	$	(17)
	Total	**$**	**(79)**

Under NSP 2011 the gas delivery rate increase for the TR residential customers effective January 1, 2011 compared to the corresponding delivery rate as of October 1, 2010, is $0.06/GJ. This represents an annual bill increase of $4.76 or 0.7 percent for the average residential customer consuming 85.7 GJ/year. With the approved gas commodity rate decrease as of April 1, 2011 and the NSP 2011 delivery rate, the annual gas bill for a typical residential customer is now 3.1 percent lower compared to the annual bill using October 1, 2010 rates.

The details underpinning the above noted figures and a number of other matters agreed to by the parties that did not directly result in adjustments to the Test Year 2011 cost of service set forth in the Application are provided in the following pages.

~~CONFIDENTIAL~~

1.0 FSJ/DC and TR – Shared Service Cost Recovery by PNG-West

References:

Exhibit B-1 (FSJ/DC), p. 10
Exhibit B-1 (TR), p. 9, Order G-165-07
Exhibit B-6, IR 1.11, Order G-40-09

Issue:

Should the parties accept the cost allocators and level of shared service cost recovery by PNG-West from PNG (N.E.) during Test Year 2011 as set forth in the PNG-West 2011 revenue requirements application (PNG-West Application)?

Discussion:

It was noted that the basis of the calculation of the shared service costs had not been reviewed by a third party for many years. In particular, the time study allocator had not been reviewed in detail since completion by PNG of an internal study in 2003 to document and record time spent by PNG-West employees on PNG(N.E.) matters. The major reasons for the significant cost increases in 2011 were discussed.

Settlement:

The cost allocators and level of shared service cost recovery by PNG-West from PNG (N.E.) during Test Year 2011 as set forth in the PNG-West Application are accepted. The adjustments to cost pools agreed to under the PNG-West NSP 2011 result in the FSJ/DC and TR operating, administrative and general shared service costs decreasing by $66,000 and $5,000, respectively.

PNG-West will file with the Commission a Cost Allocators and Level of Shared Service Cost Recovery Application as a standalone application in the Fall of 2012. The application will be based on a shared services cost study prepared by a third party consultant (Shared Services Study). The Shared Services Study will incorporate a time study commencing in July 2011 that will run for one year to collect data on time spent by PNG-West personnel on PNG(N.E.) matters. Given the increasing number of customers in the PNG(N.E.) service area and the reduction of customers in the PNG-West service area, the Shared Services Study will specifically evaluate if the customer count allocator remains the best allocator for Customer Care Center Costs. In addition, the Shared Services Study will include an analysis of whether Customer Care Center services provided to PNG(N.E.) from the PNG-West Terrace office could be provided more economically on a standalone basis from a dedicated Customer Care Centre in the PNG(N.E.) service area. PNG will issue requests for proposals for the Shared Services Study and will review the bids with Commission Staff, BCOAPO and the PRRD prior to awarding the contract for the Shared Services Study.

~~CONFIDENTIAL~~

2.0 FSJ/DC and TR - Overhead Capitalization Rates

References:

Exhibit B-1, FSJ/DC, p.11
Exhibit B-1, TR, p. 10
Exhibit B-6, p. 14-17
Exhibit B-1 (PNG-West), Tab 6

Issue:

Should the Commission give approval for PNG(N.E.) to commence in the Test Year 2011 to calculate overhead capitalization in accordance with the methodology set forth in the 2010 Overhead Capitalization Study (OHC Study) provided under Tab 6 of the PNG-West Application?

Discussion:

The OHC Study was prepared internally by PNG. Consequently, PNG engaged KPMG to conduct an independent evaluation of the OHC Study for validation purposes. KPMG found the PNG overhead capitalization methodology to be a reasonable basis for the allocation of costs and its methodology is within the range of practice established by the external guidance and observable capitalization allocation practices applied by Canadian utilities and utilities subject to the jurisdiction of the Commission.

The main reason PNG decided to carry out the OHC Study was the pending transition by PNG from Canadian GAAP (CGAPP) to International Financial Reporting Standards (IFRS). When the OHC Study was initiated it was anticipated PNG would transition to IFRS effective January 1, 2011. However, in the intervening period the Canadian Accounting Standards Board announced an optional one-year deferral for regulated entities, postponing the transition to IFRS to January 1, 2012. PNG made the decision to take the one-year deferral on this transition. However, PNG will still need to prepare 2011 comparative figures in accordance with IFRS. The findings in the OHC Study are in accordance with CGAPP and in compliance with IFRS. As noted earlier, KPMG has concluded that the rates are in line with what other Canadian utilities and utilities regulated by the Commission are applying.

Settlement:

The overhead capitalization rates recommended in the OHC Study are accepted for use in Test Year 2011 and PNG(N.E.) will apply the same capitalization overhead rates for rate setting purposes as it does for external financial reporting purposes once IFRS is adopted.

~~CONFIDENTIAL~~

3.0 FSJ/DC and TR - Depreciation Rates

References:

Exhibit B-1 (FSJ/DC), p. 13
Exhibit B-1 (TR), p. 12
Exhibit B-6: IR 18.0 (FSJ/DC); IR 1.12(TR)
Exhibit B-10, IR 2.7
Exhibit B-11, IR 2.7

Issue:

Should the Commission give approval for PNG(N.E.) to commence in the Test Year 2011 to apply a straight-line depreciation methodology where depreciation will be calculated to reflect the use of an asset over its estimated economic useful life and to commence depreciation when the asset is available for use?

Discussion:

In 2010, Gannett Fleming prepared a deprecation study for PNG primarily to determine what depreciation rates should be applied by PNG having regard to IFRS requirements (Depreciation Study). The last depreciation study was done in 1995 for the PNG-West system. The new Depreciation Study is set forth under Tab 7 of the PNG-West Application. A major finding of the Depreciation Study was the extension of the useful life of significant pipeline assets, resulting in reduced depreciation expense.

Gannett Fleming advised that the Equal Life Group (ELG) procedure is superior to the Average Service Life (ASL) procedure in matching depreciation expense and consumption of service value but also confirmed that the ASL procedure is appropriate is used by the majority of utilities in North America and conforms to past practice. PNG used ASL to determine depreciation expense in Test Year 2011. The assumptions in the underlying recommended depreciation rates in the Depreciation Study were reviewed and confirmed by management.

PNG(N.E.) determined the Test Year 2011 depreciation rates per the Depreciation Study using the remaining useful lives and average service lives provided in the Depreciation Study. No third party review was completed in respect of management decision not to use some of the recommendations in the Depreciation Study. For Test Year 2011 applying all of the Gannett Fleming recommendations would result in projected depreciation expense higher than the depreciation expense determined by PNG(N.E.) applying most of the recommendations in the Depreciation Study.

~~**CONFIDENTIAL**~~

Settlement:

Depreciation expense will be determined on the basis proposed in the Application for Test Year 2011 only. PNG(N.E.) will obtain an independent review of the reasonableness of the areas where PNG(N.E.) management decided to vary from the Depreciation Study recommendations including the depreciation expense calculation, the decision to use the specifically identified assets methodology rather than the recommended group methodology for asset classes 484, 485, and 479 and the decision to adopt the ASL procedure rather than ELG. Gannett Fleming is an acceptable third party to carry out this review. The results of the review will be included with PNG(N.E.)'s 2012 revenue requirements application.

PNG(N.E.)'s next revenue requirements application will use the same depreciation rates for rate setting purposes as it does for financial reporting.

~~**CONFIDENTIAL**~~

4.0 FSJ/DC and TR - IFRS – Property, Plant and Equipment

References:

Exhibit B-1, p. 16-17
Exhibit B-6, p. 29

Issue:

Should PNG(N.E.) be permitted to adopt certain accounting changes for regulatory purposes for Test Year 2011 to enable it to align with its financial reporting requirements under IFRS even though PNG(N.E.) will not be using IFRS for external financial reporting purposes until 2012?

Discussion:

The parties discussed the pros and cons of the accounting changes proposed by PNG(N.E.) in the Application. The changes are very technical in nature and customer rates in Test Year 2011 will not be negatively impacted by the proposed changes. PNG(N.E.) noted that applying the requested accounting changes in Test Year 2011 will not require the Commission to make any IFRS policy determinations given the accounting changes are consistent with CGAAP.

Settlement:

The accounting changes requested by PNG(N.E.) in the Application with regard to plant, property and equipment and which are in accordance with CGAAP, are accepted.

~~**CONFIDENTIAL**~~

PNG(N.E)'s plant, property and equipment regulatory schedules will be presented on a gross basis for Test Year 2011 and not on a net book value basis as applied for by PNG.

PNG(N.E.) requested Commission approval to establish a new Plant Gains and Losses rate base deferral account set forth in Exhibit B-1 at Tab Application, at Page 17 of the FSJ/DC section and at Page 16 of the TR section of the Application. The December 31, 2009 credit balances (i.e. $264,000 in FSJ/DC and $30,000 in TR) were recorded to this rate base deferral account to reflect the over depreciation of assets that had been retired and remained in plant, property and equipment. However, the request was withdrawn in the amendments to the Application filed as Exhibits B-1-2 and B-1-3 and during negotiations the request was restored. The parties agreed to PNG(N.E.)'s restored request provided that no amortization could be taken in Test Year 2011. Furthermore, the parties did not consider PNG(N.E.)'s ability to refund the balance in a future period nor did they discuss whether the dollar values were properly determined. The parties agreed that the recoverability, amortization period and dollar value of the deferral account balances would be addressed as part of PNG(N.E.)'s next revenue requirements application.

~~**CONFIDENTIAL**~~

5.0 FSJ/DC and TR - Deferred Income Tax on Regulatory Accounts

References:

Exhibit B-1(FSJ/DC), p. 14
Exhibit B-1 (TR), p. 13

Issue:

Is it appropriate to change the presentation of deferral accounts from a net of tax to a gross tax basis with future income tax amortization as an offset to reflect net of tax amortization for rate making purposes?

Discussion:

There is no change in either the net balance of a rate base deferral account included in the rate base calculation nor the cost of service with this presentation change. The impact on the cost of service also remains the same as the amortization of the deferred charge is shown on a gross basis with a related future income tax expense when previously the amortization was shown on a net-of-tax basis.

Settlement:

The change from a net-of-tax basis presentation to a gross tax basis, with a related future income tax expense, is accepted.

~~CONFIDENTIAL~~

6.0 FSJ/DC and TR - Level of Deferred Income Taxes Draw Down

References:

B-14 (FSJ/DC), Tab 2, p. 1, line 16
B-15 (TR), Tab 2, p. 1, line 15

Issue:

Should PNG(N.E.) draw down a portion of the deferred income taxes balances in both the FSJ/DC and TR Divisions to reduce the Test Year 2011 cost of service, and if so by how much?

Discussion:

The parties decided to discuss the level of deferred income taxes draw down after agreement had been reached on all other matters. The parties had agreed to reductions in the applied for revenue deficiencies by almost $260,000 and $20,000 in FSJ/DC and TR, respectively when the parties turned their minds to the appropriate level of deferred income taxes draw down. The discussion focused on the overall level of bundled rates that PNG(N.E.)'s customers would be facing without any further decrease in the applied for Test Year 2011 costs of service. The impact on PNG's cash flows and financial metrics were also addressed.

Settlement:

The level of deferred income taxes draw down will be $100,000 in the FSJ/DC Division which is approximately 20 percent of the deferred income taxes balance of $553,000 shown at Tab 2, Page 1, Line 16 of the FSJ/DC section of the Application. For the TR Division, the deferred income taxes draw down will be $41,500 which is 10 percent of the deferred income taxes balance of $415,000 shown at Tab 2, Page 2, Line 15 of the TR section of the Application. The difference in draw down rates between the two divisions recognizes the fact the Test Year 2011 revenue deficiency in the FSJ/DC Division is significantly greater compared to the TR Division Test Year 2011 revenue deficiency set forth under the Application.

~~**CONFIDENTIAL**~~

7.0 FSJ/DC and TR - Administrative & General - Account 725 – Employee Benefits - Pension

References:

FSJ/DC
Exhibit B-1, p. 9 & 10
Exhibit B-1-2, p. 4
Exhibit B-6, IR 1.20-1.23
Exhibit B-10, IR 2.9, 2.10
Exhibit B-14, Tab 2, p. 17 & 18

TR
Exhibit B-1, p. 7-8 & 20-21
Exhibit B-1-3, p. 3
Exhibit B-6, IR 1.14, 1.15, 1.16, 1.17, 1.18
Exhibit B-11, IR 2.9, 2.10
Exhibit B-15, Tab 1, p. 5
Exhibit B-15, Tab 2, p. 17 & 18

Issue:

Should PNG(N.E.)'s requested accounting change in 2011 with regard to its non-pension post retirement benefit (NPPRB) plan be accepted? Should PNG(N.E.) be allowed to include any funding differences in pension and NPPRB plans in rate base?

Discussion:

The parties discussed PNG(N.E.)'s request in the Application for approval to adopt the full accrual method of accounting for its NPPRB plan. It was noted this would be consistent with the treatment accorded to other utilities. It was also noted that two new regulatory schedules were included in Exhibit B-1 at Tab 2, Pages 17 and 18 in both the FSJ/DC and TR sections of the Application to show the impact on rate base of accounting for the funding differences for PNG(N.E.)'s NPPRB and pension plans.

Settlement:

The parties agreed to the full accrual method for accounting for PNG(N.E.)'s NPPRB plan. The inclusion in rate base of the funding differences for PNG(N.E.)'s NPPRB and pension plans was not accepted and therefore the applied for adjustment to the calculation of PNG(N.E.)'s rate base was also not accepted.

~~CONFIDENTIAL~~

8.0 FSJ/DC - Margin Adjustment

References:

Exhibit B-1-2
Exhibit B-14
Exhibit B-16

Issue:

Should forecast 2011 gas deliveries to the residential and small commercial sales customers be increased compared to the forecasts contained in Exhibit B-14?

Discussion:

The parties reviewed and discussed the 2011 gas deliveries forecasts to the residential and small commercial sales customer classes that had been filed by PNG(N.E.) culminating with the forecasts contained in Exhibit B-14. PNG(N.E.) provided the parties with a detailed explanation of how 2011 forecast sales to the small commercial sales customers was determined having regard to their historical gas use.

Settlement:

The normalized 2010 uses per account for the FSJ/DC residential customers of 109.5 GJ/year and 106.4 GJ/year for FSJ and DC, respectively, will be used to forecast 2011 deliveries to these customers. This increases the 2011 margin forecast by approximately $38,000 under NSP 2011 compared to the margin forecast in Exhibit B-14. The uses per account for small commercial sales customers in Exhibit B-14 are confirmed together with all of the other forecast deliveries contained in Exhibit B-14.

~~CONFIDENTIAL~~

9.0 TR - Margin Adjustment

References:

Exhibit B-1-3
Exhibit B-15
Exhibit B-17

Issue:

Should forecast 2011 gas deliveries to the residential and small commercial sales customers be increased compared to the forecasts contained in Exhibit B-15?

Discussion:

The parties reviewed and discussed the 2011 gas deliveries forecasts to the residential and small commercial sales customer classes that had been filed by PNG culminating with the forecasts contained in Exhibit B-15. PNG(N.E.) provided the parties with a detailed explanation of how 2011 forecast sales to the small commercial sales customers was determined having regard to their historical gas use and proposed a modest increase in the forecast 2011 use per account for small commercial customers.

Settlement:

The use per account for residential customers will be set at 85.7 GJ/year to forecast Test Year 2011 deliveries, an increase from the 83.0 GJ/year figure used in Exhibit B-15. The use per account for small commercial customers will be set at 450.1 GJ/year an increase from the 438.0 GJ/year figure used in Exhibit B-15. These changes increase the 2011 margin forecast by approximately $17,000 under NSP 2011 compared to the margin forecast in Exhibit B-15.

~~**CONFIDENTIAL**~~

10.0 FSJ/DC Operating and Maintenance Expenses and Other Revenue

References:

Exhibit B-1, p.5-7
Exhibit B-6, p. 1-7
Exhibit B-11, p. 1

Issue:

Should the FSJ/DC Division Test Year 2011 operating and maintenance expense budget be reduced in recognition of historical expenses being less than applied for expenses in some BCUC Accounts? Should the other revenue forecast be increased to be more in line with recent historical figures?

Discussion:

The parties reviewed and discussed a number of different operating and maintenance expense Accounts. Comments were exchanged regarding the differences between historical and Test Year 2011 budgeted expenses. Similarly, historical other revenue figures were compared to the Test Year 2011 forecast to consider whether other revenue should be higher than currently forecast.

Settlement:

The NSP 2011 Settlement Allowance figure of $138,000 reflects the parties' discussions on these matters and the agreement not to adjust the Test Year 2011 budget on a line by line basis.

~~**CONFIDENTIAL**~~

11.0 FSJ/DC and TR – Deferral Accounts

References:

Exhibit B-11, IR 2.11

Issue:

Should the changes to the deferral accounts requested by PNG(N.E.) in the Application be accepted?

Discussion:

The various changes to the deferral accounts requested by PNG(N.E.) in the Application were reviewed by the parties.

Settlement:

The terms agreed to by the parties in respect of the deferral accounts are set forth in the tables below.

Fort St. John/Dawson Creek	Deferral Account Type			Amortization Expense
Deferral Accounts	**Rate Base**	**Interest Bearing**	**Amortization Period**	**Test Year 2011 ($000's)**
Property Tax Variance		X	calendar year 2011	25
BCUC Hearing[1] & CAP/ROE App.		X	calendar year 2011	45
DC Industrial Deliveries		X	calendar year 2011	16
IFRS	X		amortization to be set in 2012	0
Common Equity		X	calendar year 2011	395
Old Revolving Debt Issue Costs		X	calendar year 2011	30
BCUC Fees		X	calendar year 2011	4
Short Term Interest		X	calendar year 2011	4
Long Term Interest		X	calendar year 2011	(134)
Plant Gains and Losses	X		to be determined	0
Reserve for Damages		X	calendar year 2011	(71)
			Gross Amortization	**314**
			Future Income Taxes	(102)
			Net Amortization	**212**

NSP 2011
PNG(N.E.)
2011 RR Application
Page 16

~~**CONFIDENTIAL**~~

Tumbler Ridge	Deferral Account Type			Amortization Expense
Deferral Accounts	**Rate Base**	**Interest Bearing**	**Amortization Period**	**Test Year 2011 ($000's)**
Industrial Customer Deliveries		X	calendar year 2011	(3)
BCUC Hearing[(1)] & CAP/ROE App.		X	calendar year 2011	1
Property Tax		X	calendar year 2011	(2)
IFRS	X		amortization to be set in 2012	0
Common Equity		X	calendar year 2011	(11)
Old Revolving Debt Issue Costs		X	calendar year 2011	1
BCUC Fees		X	calendar year 2011	2
Short Term Interest		X	calendar year 2011	2
Long Term Interest		X	calendar year 2011	(1)
Plant Gains and Losses	X		to be determined	0
Reserve for Damages		X	calendar year 2011	(158)
			Gross Amortization	**($170)**
			Future Income Taxes	5
			Net Amortization	**($165)**

1. BCUC Hearing deferral account to record budgeted to actual expenses difference.

~~**CONFIDENTIAL**~~

12.0 FSJ/DC - Unaccounted for Gas (UAF) Volume Deferral Account

References:

Order G-34-10 (NSP 2010)
Order G-43-11 (Application for approval of 2010 UAF above 1.5%)
BCUC IR No. 1, PNG N.E. FSJ/DC Application for 2010 UAF Loss
Exhibit B-1, p. 31

Issue:

Whether the current UAF gas volume deferral account for the FSJ/DC Division should continue on the basis that the UAF gas volume forecast for Test Year 2011 is set at 1.0 percent with PNG(N.E.) being permitted to record the variance between 1.0 percent and a loss of up to 1.5 percent without having to seek further Commission approval of the deferral.

Discussion:

Actual reported UAF % continues to fluctuate in both positive and negative directions as shown in the following table:

FSJ / DC	
Year	**Actual UAF%**
2010	2.32%
2009	-0.80%
2008	-0.84%
2007	1.53%
2006	0.26%

Settlement:

PNG(N.E.) can continue the FSJ/DC UAF gas volume deferral account to record the difference between forecast and actual UAF volumes in Test Year 2011 based on using a 1 percent of deliveries UAF loss factor for 2011. PNG(N.E.) to apply for Commission approval to record actual 2011 UAF losses in FSJ/DC above 1.5 percent in the deferral account.

~~**CONFIDENTIAL**~~

13.0 TR - Unaccounted for Gas (UAF) Volume Deferral Account

References:

Order G-34-10 (NSP 2010)
Exhibit B-1(TR), p. 28

Issue:

Whether the current UAF gas volume deferral account should continue on the basis that the UAF gas volume forecast for Test Year 2011 is set at zero percent with PNG(N.E.) being permitted to record the variance between zero and a loss of up to 1.0 percent without having to seek further Commission approval of the deferral.

Discussion:

UAF volumes have fluctuated from year to year. Under the Application, PNG(N.E.) is applying to maintain the same treatment regarding the TR UAF gas volume deferral account that was agreed to under NSP 2009 and NSP 2010.

Settlement:

PNG(N.E.) can continue the TR UAF gas volume deferral account to record the difference between forecast and actual UAF gas volumes in Test Year 2011 based on using a zero percent of deliveries UAF loss factor for 2011. PNG(N.E.) to apply for Commission approval to record actual 2011 UAF losses in TR above 1.0 percent in the deferral account.

~~CONFIDENTIAL~~

14.0 FSJ/DC and TR - Other Matters

Issue:

Should there be a review of PNG(N.E.)'s capital structure and ROE in 2012?
What should the process be for review of PNG(N.E.)'s 2012 revenue requirements application?
What additional regulatory schedules should PNG(N.E.) file as part of its 2012 revenue requirements application?

Discussion:

A negotiated settlement of PNG(N.E.)'s Capital Structure and Equity Risk Premium application was reached in May 2010. The issue of when to have another review of capital structure and ROE issues was addressed in the settlement agreement attached to Order G-84-10. Item 1.0 of the settlement agreement stated in part that "The above parameters are intended to reflect current business, financial and regulatory risks in each service area and should circumstances change, any party may request the Commission to make adjustments accordingly. In this regard, PNG agreed to review the reasonableness of the deemed common equity thicknesses and equity risk premiums no later than 2013." The settlement agreement covered both the PNG-West and PNG(N.E.) divisions. It was noted that current business circumstances are expected to be relatively unchanged in 2012 and that by 2013 a number of matters may have changed that are relevant to capital structure and ROE matters as they relate to PNG(N.E.).

The parties noted that PNG(N.E.)'s revenue requirements applications had been settled for the last three years and settlement of the 2011 revenue requirements application would add another year. The merits of having a public hearing process from time to time were discussed.

Some of the schedules prepared for information responses were reviewed to determine if similar schedules should be incorporated into the 2012 revenue requirements application for the purpose of providing more fulsome information.

~~**CONFIDENTIAL**~~

Settlement:

PNG(N.E.) will file capital structure and ROE evidence as part of its 2013 revenue requirements application.

PNG(N.E.) will prepare its 2012 revenue requirements application assuming the Commission will be reviewing the application through a public hearing process. The parties acknowledged that the Commission will decide on whether a written or oral hearing will be appropriate and any other details concerning the process.

PNG(N.E.) will present its full IFRS conversion plan as part of its 2012 revenue requirements application including a proposal to address each retained earnings adjustment and a list of each IFRS election it plans to take.

PNG(N.E.)'s 2012 revenue requirements application regulatory schedules will include the Test Year 2012 forecast, the NSP 2011 figures and the 2008 to 2010 three year period actual figures. The parties acknowledge that it may not be practical to produce this level of detail for all regulatory schedules.

The following schedules will also be incorporated into PNG(N.E.)'s 2012 revenue requirements application to facilitate the understanding of capital additions:

- A plant continuity schedule in the format of the table produced in Exhibit B-8, IR 24.1 from the PNG-West 2011 revenue requirements application proceeding. The schedule will separate plant accounts by pre 2011 and post 2011 additions and the depreciation expense calculation will be shown separately for pre and post additions.
- A schedule showing PNG(N.E.)'s forecast plant additions in the prior year compared to actual additions including information on all material differences. The information will be in the same format as the table provided in Exhibit B-8, IR 1.22.1 from the PNG-West 2011 revenue requirements application proceeding.
- A schedule showing the Test Year 2012 plant additions, by project, including overhead and excluding overhead allocation and the relevant plant in service account in the same format as the table provided in Exhibit B-8, IR 1.22.3 from the PNG-West 2011 revenue requirements application proceeding.