

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



**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-39-09

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

**An Application by Pacific Northern Gas Ltd.
For Approval of its 2009 Revenue Requirements
for the PNG-West Service Area**

BEFORE: L.A. O'Hara, Commissioner April 23, 2009
D.A. Cote, Commissioner

O R D E R

WHEREAS:

- A. On November 27, 2008, Pacific Northern Gas Ltd. ("PNG") applied to the British Columbia Utilities Commission ("Commission") for approval of its PNG-West service area 2009 Revenue Requirements Application (the "Application") to amend its rates on an interim and permanent basis, effective January 1, 2009, pursuant to sections 89 and 58 of the *Utilities Commission Act* (the "Act"); and
- B. The Application proposed to increase delivery rates to all customers, except West Fraser-Kitimat, as a result of increases in cost of service and decreased deliveries to most customer classes. West Fraser-Kitimat delivery rates do not increase in view of a contract in place that provides for fixed delivery rates over the term of the contract; and
- C. Methanex Corporation ("Methanex") closed its methanol/ammonia complex in Kitimat in November 2005. PNG's 2009 revenue requirements were reduced by \$5.5 million by the amortization of the Methanex contract termination payment for the ten months to October 2009; and
- D. Commission Order G-174-08 approved the Term Sheet between PNG and LNG Partners LLC dated September 18, 2008 (the "PNG/LNGP Term Sheet") and directed that the Initial Option Fee and any Option Extension Fee paid by LNG Partners to PNG pursuant to the terms of the PNG/LNGP Term Sheet be recorded in an interest-bearing, non-rate base account for future disposition as directed by the Commission and that once service to LNG Partners commences the revenue received under the firm gas transportation service agreement be included in the PNG Industrial Customer Deliveries Deferral Account; and

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-39-09

2

- E. Under the Application PNG forecast a 2009 revenue deficiency of approximately \$2.53 million which was 64 percent due to the net increase in cost of service and 36 percent due to the decrease in margin; and
- F. The gas supply cost rates and Gas Cost Variance Account (“GCVA”) rate riders set forth in the Application were based on November 24, 2008 forward gas prices and are the same as set forth in PNG’s fourth quarter 2008 gas supply cost report to the Commission, filed on December 4, 2008 (the “Gas Cost Report”); and
- G. The Application sought Commission approval to increase the delivery charge for residential service by \$0.927/GJ from \$7.466/GJ to \$8.393/GJ and for small commercial service by \$0.749/GJ from \$6.492/GJ to \$7.241/GJ; and
- H. Based on the delivery charge rate changes proposed in the Application and the commodity rate changes proposed in the Gas Cost Report, the overall average bundled rate increase, for a residential gas customer consuming an average of 78 GJ per year, was 1.3 percent, an increase of \$18 per year and for a small commercial gas customer consuming an average of 337.2 GJ per year, was 0.4 percent, an increase of \$24 per year; and
- I. An overall bundled rate decrease applied to the Granisle propane customers due to propane commodity price declines offsetting the delivery rate increase. The rate decrease applicable to a typical Granisle propane customer consuming an average of 86 GJ per year, was 11.8 percent, a decrease of \$306 per year; and
- J. This Application includes a reduction of \$900,000 of income taxes to reflect a further draw down of the deferred income tax balance. This is the same amount approved by the Commission for 2008, and PNG is seeking Commission approval to continue with the \$900,000 figure in 2009; and
- K. The Application does not include any proposed changes to PNG’s capital structure or rate of return; and
- L. PNG considered a Negotiated Settlement Process (“NSP”) would be the most efficient process for the review of the Application; and
- M. By Order G-182-08, the Commission approved interim rates at the level sought under the Application effective January 1, 2009 and established a Regulatory Timetable for the registration of Intervenor and for the preliminary review of the Application, and to allow Intervenor to make written submissions on a formal review process; and
- N. The Commission confirmed by letter dated January 21, 2009 that the Application would be reviewed through an NSP and by letter dated March 13, 2009 confirmed that the negotiations would commence on March 23, 2009; and

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-39-09

3

- O. By a Press Release issued on March 9, 2009, PNG announced that it had entered into a Letter Agreement with Merrill Lynch Commodities, Inc. (the "PNG/MLCI Letter Agreement"); and
- P. On March 12, 2009, PNG applied for Commission approval of the PNG/MLCI Letter Agreement noting it contained most of the same terms and conditions as the PNG/LNGP Term Sheet that was approved by the Commission under Order G-174-08 and that the earlier arrangement was terminated due to non-payment of the option fee; and
- Q. On March 13, 2009, PNG filed an update to its Application that reduced the revenue deficiency to approximately \$2.4 million due to reduced expenses which were partly offset by a decrease in forecast deliveries to residential and small commercial customers; and
- R. The Commission advised PNG and the Registered Intervenors that the PNG/MLCI Letter Agreement would be subject to discussion during the NSP and issued a Commission Information Request on the PNG/MLCI Letter Agreement; and
- S. The NSP discussions were held in Vancouver on March 23 and 24, 2009. A Negotiated Settlement Agreement was reached among the participants and circulated to all Registered Intervenors and the Commission on April 15, 2009. No comments were received from the Intervenors who had not participated in the NSP discussions; and
- T. The Commission has reviewed the Negotiated Settlement Agreement for PNG's 2009 Revenue Requirements 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's 2009 Revenue Requirements Application, as issued on April 15, 2009 and attached as Appendix A to this Order, is approved.
2. The Commission finds the PNG/MLCI Letter Agreement to be in the public interest and it is hereby approved.

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-39-09

4

3. PNG is to file an amended Summary of Rates and Bill Comparison schedules based on the Negotiated Settlement Agreement.
4. PNG is to refund to customers the difference between permanent 2009 rates and the interim rates with interest in accordance with Commission Order G-182-08.
5. The Commission will accept, subject to timely filing by PNG, amended permanent Gas Tariff Rate Schedules in accordance with the terms of this Order. PNG 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 23rd day of April 2009.

BY ORDER

Original signed by:

L.A. O'Hara
Commissioner

Attachment

WILLIAM J. GRANT
TRANSITION ADVISOR,
REGULATORY AFFAIRS & PLANNING
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. 28982

VIA E-MAIL

April 15, 2009

Dear Registered Intervenors:

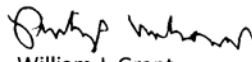
Re: Pacific Northern Gas Ltd. - West ("PNG")
Negotiated Settlement
2009 Revenue Requirements Application

Enclosed with this letter is the proposed Negotiated Settlement Agreement for PNG's 2009 Revenue Requirements Application.

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

Prior to consideration by the Commission, Intervenors who did not participate in the settlement negotiations are requested to provide to the Commission their comments on the settlement package by Wednesday, April 22, 2009. Thereafter, the Commission will consider the settlement package. A public hearing may not be required unless there is significant opposition to the proposed settlement.

Yours truly,


William J. Grant

PWN/cms
Attachments

cc: Mr. C.P. Donahue
Director, Regulatory Affairs & Gas Supply
Pacific Northern Gas Ltd.
cdonahue@png.ca

~~CONFIDENTIAL~~
PACIFIC NORTHERN GAS LTD.
(PNG-West Division)

2009 Revenue Requirements Applications

NEGOTIATED SETTLEMENT AGREEMENT

Dated March 24, 2009

Introduction

Staff of the B.C. Utilities Commission, representatives of PNG and a representative of the B.C. Public Interest Advocacy Centre met on March 23 and 24, 2009 for the purpose of negotiating a settlement of the PNG-West Division 2009 revenue requirements application. The following sets out the agreement reached on March 24, 2009 among the parties that participated in the negotiated settlement process. For reference purposes herein, the original 2009 revenue requirements application dated November 27, 2008, as updated on March 13, 2009, will be referred to as the "Updated Application". The term "NSP 2009" will be used to denote the agreed to settlement terms. This NSP 2009 settlement agreement sets out the agreement reached on each of the items noted below under the heading "Resolution" in each section. Background information on each item is provided under the heading "Issue Description" to put the agreed upon terms in proper context. References to the filed Exhibits pertaining to each item are given under the heading "References".

For ease of reference, appended to this NSP 2009 settlement agreement is a Table comparing the agreed to NSP 2009 cost of service to the Updated Application cost of service. PNG will file a complete set of NSP 2009 regulatory schedules in the same form as the regulatory schedules set forth in the Updated Application immediately upon approval of this NSP 2009 settlement agreement by the Commission.

1. Lump Sum Settlement Allowance

Resolution:

A lump sum settlement allowance reduction of \$120,000 is accepted by the parties with a portion allocated to PNG(N.E.) under section 13 of this settlement agreement.

Issue Description:

There are numerous cost of service items (such as labour costs, audit fees, director's fees and consulting fees) that could have been addressed on a line by line basis but were grouped under a global reduction to facilitate the settlement discussions.

Reference:

There are no specific Exhibits related to this item.

~~CONFIDENTIAL~~

2. Executive Bonuses Included in Pensionable Earnings

Resolution:

Consistent with the Commission's Decision on the 2007 revenue requirements application PNG will include only one third of the cost of including executive bonuses in pensionable earnings in the 2009 cost of service. The reduction to the 2009 cost of service amounts to just under \$25,000 being two thirds of the estimated pension cost of approximately \$37,000.

Issue Description:

PNG's 2009 revenue requirements application requested Commission approval to recover 100 percent of the cost of including executive bonuses in pensionable earnings. The Commission allowed the recovery of only one-third of this cost under Decision 2007. The issue was therefore whether the parties could reach agreement on changing the Commission's treatment of this cost under Decision 2007.

References:

- Appendix A to Order G-55-07, Page 16, Par. 1
- Appendix A to Order No. G-165-07, Item 3
- Exhibit B-1, p.11
- Exhibit B-3, BCUC IR 1.10.1, 1.10.2, 1.10.3
- Exhibit B-6, BCUC IR 2.45.1, 2.60.1

3. Reduction to Estimated Pension and Non-Pension Post Retirement Benefit Costs for 2009

Resolution:

In the course of confirming the estimated 2009 pension cost of including executive bonuses in pensionable earnings, PNG discovered it had inadvertently not reflected the actuary's revised estimate of overall 2009 pension and non-pension post retirement benefit costs in the Updated Application. The original estimated cost figures were received in September 2008 and the revised estimates were provided by the actuary in January 2009. PNG has reduced the budgeted 2009 cost of Company benefits by \$118,000 to reflect the revised pension expense estimates, which are lower than the original estimates. The \$37,000 estimated cost of including executive bonuses in pensionable earnings shown in the preceding section reflects the revised cost estimates received in January 2009.

~~CONFIDENTIAL~~

Issue Description:

This reduction was not at issue as PNG volunteered the need for the adjustment.

References:

There are no specific Exhibits related to this item.

4. Travel Expenses and Employee Expenses

Resolution:

PNG agrees to reduce Account 721 – Administration budgeted costs by \$30,580 for Travel Expenses and by \$29,745 for Employee Expenses for a total reduction to Account 721 of \$60,325 for 2009.

Issue Description:

The budgets for travel and employee expenses were significantly higher for 2009 compared to the actual expense incurred for 2008 and compared to the historical average.

References:

- Exhibit B-1, p. 9
- Exhibit B-3, BCUC IR 1.7.1
- Exhibit B-6, BCUC IRs 2.50.1 and 2.51.1

5. Audit Fees

Resolution:

PNG noted a correction was required to the budgeted 2009 Audit Fees under Account 722 to reflect the fact that regular audit fees for 2009 were now expected not to escalate in 2009 compared to 2008. The total estimated reduction is \$18,000 with approximately \$13,000 of this total reduction applying to the PNG-West division and the remainder applying to PNG(N.E.).

Issue Description:

This reduction was not at issue as PNG volunteered the need for the adjustment.

References:

There are no specific Exhibits related to this item.

~~CONFIDENTIAL~~

6. Automotive Fuel Expense

Resolution:

PNG agrees to reduce the budgeted 2009 gasoline price from \$1.426/litre to \$1.10/litre.

Issue Description:

Vehicle fuel costs in the 2009 budget are based on higher fuel prices experienced in 2008. Currently, expectations are for gas prices in 2009 to be lower than originally budgeted.

References:

- PNG(N.E.) Exhibit B-1, FSJ/DC, p. 6
- PNG(N.E.) Exhibit B-2, BCUC IR 1.5.1 Explains that PNG bases the budgeted fuel cost on the forward price of gasoline.
- StatsCan, <http://www40.statcan.gc.ca/l01/cst01/econ152m-eng.htm>, Feb. 20, 2009

7. Load Forecast – Impact of Conifex Saw Mill Re-Opening

Resolution:

PNG agreed to increase its 2009 forecast of gas deliveries to the Conifex saw mill in Fort St. James (formerly owned by Pope & Talbot) from 38,120 GJ in the Updated Application to 100,000 GJ under NSP 2009. This is due to the fact the saw mill commenced operating at the beginning of March 2009 and is continuing to operate with one shift. Gas deliveries to Conifex will be accounted for under the existing Industrial Customer Deliveries Deferral Account.

Issue Description:

The 2009 load forecast in the Updated Application was based on the Conifex saw mill not operating in 2009 and only using gas for a heat load and not for kiln drying.

References:

- Exhibit B-1, Tab Application, Pages 21 to 39
- Exhibit B-2, BCUC IR No. 1, Questions 7.3.1 and 7.4
- Exhibit B-3, BCOAPO IR No. 1, Question 5.1

~~CONFIDENTIAL~~

8. Capital Additions

Resolution:

The applied for 2009 capital additions budget is accepted by the parties. PNG will comply with the following undertakings respecting two specific capital projects planned for 2009:

Porpoise Harbour Crossing Replacement

PNG is obligated to provide service to customers connected to the Porpoise Harbour Crossing and PNG has a responsibility to maintain reliable, secure and safe service to its customers at reasonable cost. The Commission has a responsibility under Section 59 of the Utilities Commission Act to ensure rates are just, reasonable and fair to all customers of a utility. PNG is to provide to the Commission, within three months following Commission approval of this NSP 2009 settlement agreement, sufficient financial information to understand the net economic cost of the Porpoise Harbour Crossing Replacement.

Maintenance Management System

Commission staff expressed a concern that computer systems can have a tendency to grow over time and take on a life of their own. Given this concern PNG agreed to provide to the Commission, within three months following Commission approval of this NSP 2009 settlement agreement, an overview of the maintenance management system to be installed, the costs, the benefits, and how the benefits will be realized and tracked.

Issue Description:

PNG has proposed capital additions of \$5.398 million in the Updated Application.

References:

- Exhibit B-1, pp. 25-28
- Exhibit B-3, BCUC IRs 1.21.1, 1.22.2-.4, 1.24.2, and 1.25.1-2
- Exhibit B-6, BCUC IRs 2.67.1, 2.68.1, and 2.70.1

~~CONFIDENTIAL~~

9. **Transfer to Capital Rate:**

Resolution:

The parties accept the use of the forecast transfer to capital rate as may be adjusted upon the filing of the final NSP 2009 regulatory schedules. PNG will identify the transfer to capital rate when filing the NSP 2009 regulatory schedules.

Issue Description:

PNG's capitalized overhead as a percentage of gross O,M,A and G is calculated to be 19.04% for 2009 under the Updated Application.

References:

- Exhibit B-1, pp. 11-12
- Exhibit B-4, BCOAPO IR 1.6.1
- Exhibit B-7, p. 2

10. **Deferred Income Tax Drawdown**

Resolution:

The parties accept PNG's recommendation to draw down \$900,000 of deferred income taxes as a credit to income taxes payable in 2009.

Issue Description:

The Commission approved the draw down of \$900,000 of deferred income taxes under Decision 2007 and under NSP 2008. The parties discussed whether the same \$900,000 amount should be drawn down in 2009, as recommended by PNG.

References:

- Exhibit B-1, p. 39
- Exhibit B-3, BCUC IR 1.34.1
- Exhibit B-6, Schedule 3, Income Taxes

~~CONFIDENTIAL~~

11. Demand Side Management

Resolution:

It was acknowledged by the parties that PNG's relatively small customer base made it difficult to be at the forefront of implementing DSM programs in its service area. However, PNG will continue to actively participate in provincial government and industry working groups that are focusing on what DSM programs to implement throughout the province. PNG has been attending a number of workshops and other forums to ensure PNG is well aware of the ambit of DSM programs potentially usable by PNG. In this way, PNG is hopeful it will identify DSM programs that can be successfully implemented by a relatively small utility at reasonable cost.

PNG will focus its efforts on targeting DSM programs that can help its lower income customers to reduce their energy use and costs. This is in recognition of the unique circumstances faced by customers that may not be able to afford to purchase higher efficiency natural gas appliances but at the same time may have the greatest need to reduce their energy use to achieve corresponding cost savings.

Issue Description:

The lack of Demand Side Management (DSM) programs by PNG.

References:

- Exhibit B-1, p. 41
- Exhibit B-3, BCUC IR 1.38.1
- Exhibit B-4, BCOAPO IR 1.14.1

~~CONFIDENTIAL~~

12. IFRS Deferral Account

Resolution:

The parties agreed a new deferral account should be implemented to record the costs incurred by PNG to implement International Financial Reporting Standards (“IFRS”) and agreed it should be set up as a rate base deferral account.

Issue:

PNG stated the expected cost of implementing IFRS is difficult to forecast and requested approval of a deferral account to record its costs for future disposition. PNG submitted that a rate base deferral account should be used given the carrying cost is virtually the same as a non-rate base deferral account attracting AFUDC. In addition, it is much more efficient for PNG to administer a rate base deferral account.

References:

- Exhibit B-1, p. 15
- Exhibit B-3, BCUC IR 1.14.5
- Exhibit B-4, BCOAPO IRs 1.7.1-3

13. Shared Service Cost Recovery from PNG(N.E.)

Resolution:

The parties acknowledged that increasing costs in the PNG-West division is having a corresponding impact on the level of shared services cost recovery by PNG-West from its wholly owned subsidiary PNG(N.E.). The parties however continue to recognize the value to PNG(N.E.) of the economies of scale with a larger parent Company providing a number of different services that would be more costly to PNG(N.E.) if these services were obtained by PNG(N.E.) on a standalone basis. PNG emphasized that it continues to seek opportunities to spread its overhead costs over other business ventures which would lessen the burden on PNG(N.E.). The pools of costs subject to allocation and the allocators were carefully reviewed again this year by Commission Staff. The parties agreed that a portion of the PNG-West NSP 2009 lump sum settlement allowance reduction would be passed through to PNG(N.E.) as a shared services cost reduction. The rationale is that it could be assumed that much of the global PNG-West settlement allowance related to components of the administrative costs pool subject to the time study allocator. Consequently, PNG’s shared service cost recoveries from PNG(N.E.) in 2009 will be reduced by 20.84 percent of the \$120,000 PNG-West NSP 2009 lump sum reduction. The PNG(N.E.) 2009 cost of service will be reduced accordingly.

~~CONFIDENTIAL~~

Issue:

The level of charges and cost allocators used by PNG-West to recover the cost of various services provided to PNG(N.E).

References:

- Exhibit B-1, pp. 16-20

14. Unaccounted for Gas (“UAF”) Volume Deferral Account

Resolution:

The parties agreed to the continuation of the UAF volume deferral account. PNG is permitted to record all gas gains and the variance between zero percent and a loss of up to 1.0 percent in the UAF volume deferral account without seeking further Commission approval of the deferral. PNG will be required to file an application with the Commission to obtain approval to record UAF losses above 1.0 percent in the UAF volume deferral account. PNG’s UAF volume forecast of zero percent for 2009 was accepted for the purposes of setting the Company use gas cost recovery rate effective January 1, 2009.

Issue Description:

The UAF volumes have fluctuated from year to year. More recently annual losses and gains have resulted in an average of close to zero percent. However, the UAF loss in 2008 was 0.933 percent and under NSP 2008, PNG was required to apply for Commission approval to record any losses above 0.7 percent in the UAF volume deferral account. PNG’s application to the Commission in this regard and information filed in response to Commission Staff information requests supported increasing the 0.7 percent application threshold to 1.0 percent for 2009.

References:

- Order G-165-07, NSP 2008, Item 11
- Exhibit B-1, pp. 35 and 42
- Exhibit B-6, BCUC IR 2.72.2

~~CONFIDENTIAL~~

15. PNG's Emergency Calls Statistics

Resolution:

PNG will include in each annual revenue requirements application a summary of the number of emergency calls it made during the current year to the date of the application. The summary shall specify the average response time, the number of calls with a response time greater than 40 minutes and any other information PNG considers would be useful to parties reviewing these statistics.

Issue Description:

Commission Staff wish to monitor PNG's emergency call response statistics on an annual basis. Over the last five years 234 of 2,643 emergency calls had a response time greater than 40 minutes. PNG outlined reasonable actions it has taken to respond to emergency calls efficiently and effectively reflecting PNG's focus on the importance of public safety.

References:

- Exhibit B-6, BCUC IRs 2.46.1 and 2.46.2

16. PNG/Merrill Lynch Commodities, Inc. ("MLCI") Letter Agreement

Resolution:

On March 12, 2009 PNG applied to the Commission for approval of a Letter Agreement between PNG and MLCI (the "Letter Agreement") that reflected most of the same terms and conditions of a similar arrangement that was approved by the Commission under Order G-174-08. The similar arrangement was terminated by PNG due to the failure of the other party to pay PNG a \$1.5 million option fee.

PNG gave a detailed review of the terms and conditions of the Letter Agreement at the beginning of the NSP 2009 settlement discussions. The parties agreed that the Letter Agreement provided an arrangement that could be very beneficial to PNG and its customers over both the short and long term.

~~CONFIDENTIAL~~

The parties hereby support a finding by the Commission that the Letter Agreement is in the public interest and that a formal hearing is not required to review the Letter Agreement given the terms and conditions thereof are the same in all material respects as those set out in the Term Sheet approved under Order G-174-08. The parties agreed that Commission approval of this NSP 2009 settlement agreement could represent formal approval of the Letter Agreement without the need for a separate standalone order. The parties' support of the Letter Agreement is predicated on the following conditions:

- The initial option fee of \$1.5 million payable by MLCI to PNG and any option extension fees paid by MLCI being recorded in an interest bearing, non-rate base deferral account for crediting to cost of service in future years as directed by the Commission's future determinations commencing with respect to PNG's 2010 Revenue Requirements Application, subject to and without prejudice to PNG's right to apply in the future for Commission approval to recover the foregone return on the facilities deactivated as result of the closure of the Methanex Corporation methanol/ammonia plant in November 2005.
- The Commission accepting for filing a fully executed copy of the definitive gas transportation service agreement between PNG and MLCI provided it is materially the same as the agreement contemplated under the Letter Agreement.
- The recovery of PNG's cost of reactivating pipeline facilities to provide service to MLCI being deferred and recovered during the first year of providing transportation service to MLCI under the principle of matching costs and revenues.
- When service to MLCI commences, the revenue received under the gas transportation service agreement will be subject to the PNG Industrial Customer Deliveries Deferral Account.

Issue Description:

Whether the Letter Agreement is beneficial to PNG and its customers and should therefore be found by the Commission to be in the public interest.

References:

- Exhibit B-8, BCUC IR No. 1 on Letter Agreement
- Exhibit B-9, PNG March 12, 2009 Application for Approval of Letter Agreement

CONFIDENTIAL

Pacific Northern Gas Ltd.
(PNG-West Division)

Updated Mar. 13'09 to NSP Mar. 24'09
COST OF SERVICE COMPARISON
(\$000)

EXPENSES	NSP 2009 Mar. 24'09	Updated 2009 App. Mar. 13'09	Difference
Operating			
Labour	4,054	4,054	0
Other	3,629	3,636	(7)
Sub-total	<u>7,683</u>	<u>7,689</u>	<u>(7)</u>
Maintenance			
Labour	212	212	0
Other	314	314	0
Sub-total	<u>525</u>	<u>525</u>	<u>0</u>
Administrative and General			
Labour	2,160	2,160	0
Total Company Benefits	2,014	2,157	(143)
Other	2,776	2,850	(73)
Sub-total	<u>6,950</u>	<u>7,167</u>	<u>(217)</u>
Total (O, M, A & G) Excluding Co. Use	15,158	15,382	(223)
Transfers to Capital Operating	(519)	(519)	(0)
Transfers to Capital Admin. & Gen.	(825)	(859)	35
Property Taxes	3,527	3,527	0
Depreciation	6,675	6,675	0
Amortization	722	722	0
Other Income	(266)	(266)	0
Shared Services Recovery from PNG(N.E.)	(1,957)	(1,992)	35
Shared Services NSP Reduction to PNG(N.E.)	25		25
Methanex Termination Payment	(5,466)	(5,466)	0
NSP Settlement Allowance	(120)	0	(120)
Total Expenses Excluding Co. Use	<u>16,954</u>	<u>17,203</u>	<u>(249)</u>
Income Taxes	1,332 ⁽¹⁾	1,319 ⁽²⁾	13
Return on Common Equity	4,792 ⁽¹⁾	4,792 ⁽²⁾	0
Short Term Debt	259	259	0
Long Term Debt	4,842	4,842	0
Preferred Shares	351	351	0
Total Cost of Service Excluding Co. Use	<u>28,529</u>	<u>28,764</u>	<u>(235)</u>
Company Use Gas Cost	716	710	
Total Cost of Service Including Co. Use Cost	<u>29,245</u>	<u>29,474</u>	
2008 to 2009 Cost of Service Increase	800	1,036	(235)
2008 to 2009 Margin Decrease	1,236	1,367	(131)
2009 Revenue Deficiency (Sufficiency)	<u>2,037</u>	<u>2,403</u>	<u>(366)</u>

1. Deferred income tax drawdown of \$ 900

2. Deemed common equity of 40%



Craig P. Donohue
Director, Regulatory Affairs & Gas Supply

Pacific Northern Gas Ltd.
Suite 950
1185 West Georgia Street
Vancouver, BC V6E 4E6
Tel: (604) 691-5673
Tel: (604) 697-6210
Email: cdonohue@png.ca

Via E-Mail

April 15, 2009

B.C. Utilities Commission
6th Floor - 900 Howe Street
Vancouver, B.C.
V6Z 2N3

File No.: 4.2.7(2009)

Attention: Philip Nakoneshny
Director Rates and Finance

Dear Sir:

**Re: Negotiated Settlement Agreement dated March 24, 2009 for
PNG-West Division 2009 Revenue Requirements Application
Project No. 3698540**

Pacific Northern Gas Ltd. hereby confirms its acceptance of the PNG-West Division NSP 2009 Settlement Agreement dated March 24, 2009 that was e-mailed by the Commission Secretary to BCPIAC and PNG on April 8, 2009.

Please direct any questions regarding this letter to my attention.

Yours truly,

A handwritten signature in black ink, appearing to read 'C.P. Donohue', is written over a light blue horizontal line.

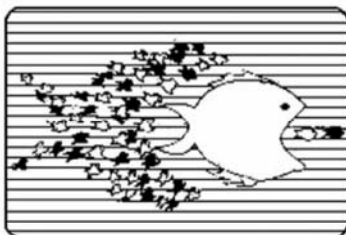
C.P. Donohue

cc. BCPIAC – Jim Quail

March 24, 2009

The
British Columbia
Public Interest
Advocacy Centre

208-1090 West Pender Street
Vancouver, BC V6E 2N7
Coast Salish Territory
Tel: (604) 687-3063 Fax: (604) 682-7896
email: bcpiac@bcpiac.com
<http://www.bcpiac.com>



Valerie Conrad	687-3017
Pawanjit Joshi	687-3063
Sarah Khan	687-4134
Eugene Kung	687-3006
James L. Quail	687-3034
Ros Salvador	488-1315
Leigha Worth	687-3044

Barristers & Solicitors

April 14, 2009

Our File: 7414

VIA EMAIL

Philip Nakoneshny, Director
BC Utilities Commission
6th Floor 900 Howe Street
Box 250
Vancouver, BC V6Z 2N3

Dear Mesdames/Sirs:

**Re: Pacific Northern Gas Ltd. – West
Negotiated Settlement, 2009 Revenue Requirements Application**

This is to confirm that our clients have instructed us to consent to the Negotiated Settlement Agreement dated March 24, 2009 being made an Order of the Commission.

We are also instructed that our clients consent to an Order approving the letter agreement between PNG and Merrill Lynch Commodities Inc. Our clients are satisfied that if the export arrangements envisaged by the Agreement are subject to the terms and conditions of the letter agreement, that would be in the financial interests of PNG's core customers. They take no position in this proceeding as to whether the impact of the proposed export activities meets acceptable environmental and other standards, which issues are beyond the scope of this Settlement, and should not necessarily be taken to endorse the project in those aspects.

Yours truly,

Jim Quail
Barrister & Solicitor

cc: PNG Inc, attention Craig Donohue

March 24, 2009