



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-103-10**

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 2010 Revenue Requirements
for the PNG-West Service Area

BEFORE: D.A. Cote, Panel Chair/Commissioner June 23, 2010
R.K. Ravelli, Commissioner

O R D E R

WHEREAS:

- A. On October 2, 2009, Pacific Northern Gas Ltd. (PNG) applied to the British Columbia Utilities Commission (Commission) for approval of its PNG-West service area 2010 Revenue Requirements Application (the Application) to amend its rates on an interim basis, effective January 1, 2010, pursuant to sections 89 and 58 of the *Utilities Commission Act* (the Act); and
- B. The Application proposes 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. The Application forecasts a 2010 revenue deficiency of approximately \$7.7 million comprised of a net increase in cost of service of \$7.5 million and a decrease in margin of \$0.2 million; and
- D. Methanex Corporation closed its methanol/ammonia complex in Kitimat in November 2005. PNG's 2010 cost of service includes an increase of \$5.5 million compared to 2009 due to the amortization of the Methanex contract termination payment being completed in October 2009; and
- E. On July 16, 2009, PNG and its wholly owned subsidiary Pacific Northern Gas (N.E.) Ltd., filed with the Commission a Capital Structure and Equity Risk Premium Application (the CAP/ROE Application) and recommended that rates set in the Application remain interim pending the Commission's disposition of the CAP/ROE Application; and

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- F. The Application reflects the changes to PNG's capital structure and ROE as applied for in the CAP/ROE Application and PNG sought Commission approval to increase the delivery charge, on an interim basis, for residential service by \$2.911/GJ from \$8.380/GJ to \$11.291/GJ representing an increase of 34.7 percent compared to the 2009 delivery rates, for small commercial service by \$2.33/GJ from \$7.267/GJ to \$9.597/GJ corresponding to an increase of 32.1 percent compared to 2009 delivery rates, and for Granisle propane service by \$1.753/GJ from \$4.479/GJ to \$6.232/GJ corresponding to an increase of 39.1 percent compared to 2009 delivery rates; and
- G. By Order G-130-09, the Commission approved PNG's interim delivery rates effective January 1, 2010 on the basis of the existing Commission approved common equity thickness of 40 percent and a rate of return on common equity at the existing 65 basis points above the Commission's low risk benchmark utility ROE. This results in a forecasted 2010 revenue deficiency of approximately \$6.87 million comprised of a net increase in cost of service of \$6.67 million and a decrease in margin of \$0.2 million. Interim rates were set as follows:
- The delivery charge for residential service increased by \$2.597/GJ from \$8.380/GJ to \$10.077/GJ, for small commercial service by \$2.078/GJ from \$7.267 to \$9.345/GJ, and for Granisle propane service by \$1.564/GJ from \$4.479/GJ to \$6.043/GJ; and
- H. Order G-130-09 also set the preliminary regulatory timetable for the Application which allowed for: Intervener registration, the preliminary review of the Application, and Interveners to make written submissions on a formal review process; and
- I. On November 30, 2009 by Letter L-108-09, the Commission confirmed the Application to be reviewed through a Negotiated Settlement Process (NSP) with negotiations to commence on January 18, 2010; and
- J. The Commission revised the regulatory timetable in Letter L-111-09 to have negotiations commence on February 8, 2010 in order to accommodate the availability requirements of the participants; and
- K. The NSP discussions were held in Vancouver on February 8 and 9, 2010. An Interim Negotiated Settlement Agreement (NSA) was reached among the participants and circulated to all Registered Interveners and the Commission on February 22, 2010. No comments were received from the Interveners who had not participated in the NSP discussions; and
- L. The participants understood that the potential disposition of the Merrill Lynch option fees deferral account, the return on equity deferral accounts established under Order G-172-09, the level of deferred income taxes draw down in 2010 and PNG's common equity thickness and relative risk premium were to be issues at the upcoming CAP/ROE hearing and agreed that following the disposition of PNG's CAP/ROE Application, the 2010 Revenue Requirements negotiations would resume for the purpose of establishing permanent delivery rates for 2010; and

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- M. On March 4, 2010, the Commission approved the Interim Negotiated Settlement Agreement in respect of the Application under Order G-33-10; and
- N. On May 20, 2010, the Commission approved the Negotiated Settlement Agreement reached in respect of the CAP/ROE Application under Order G-84-10; and
- O. On May 26, 2010, PNG distributed to the Commission and Registered Interveners the regulatory schedules that reflected the terms set forth in both the Interim Negotiated Settlement Agreement in respect of the Application and the CAP/ROE Application Negotiated Settlement Agreement; and
- P. On June 3, 2010, the NSP participants agreed to accept PNG's regulatory schedules as filed and a final settlement was reached. The Final Negotiated Settlement Agreement was circulated to all registered Interveners and the Commission on June 11, 2010. No comments were received from the Registered Interveners who had not participated in the NSP discussions; and
- Q. The Commission has reviewed the Final Negotiated Settlement Agreement for PNG's 2010 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 Final Negotiated Settlement Agreement for PNG's 2010 Revenue Requirements Application, as issued on June 11, 2010 and attached as Appendix A to this Order is approved.
2. Interim delivery rates as approved under Order G-130-09 are set as permanent effective January 1, 2010.
3. The Commission will accept, subject to timely filing by PNG, Gas Tariff Rate Schedules amended to reflect the permanent rates approved in accordance with the terms of this Order. PNG is to advise its customers via a bill message that the interim rates have been made permanent.

DATED at the City of Vancouver, in the Province of British Columbia, this 23rd day of June 2010.

BY ORDER

Original signed by:

D.A. Cote
Panel Chair/Commissioner

Attachment

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



SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, BC CANADA V6Z 2N3
TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1302

Log No. 30899

VIA EMAIL

June 11, 2010

To: Registered Interveners

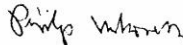
Re: Pacific Northern Gas Ltd.
Final Negotiated Settlement Agreement
2010 Revenue Requirements Application

Enclosed with this letter is the proposed settlement package for Pacific Northern Gas Ltd's 2010 Revenue Requirements Application.

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

Prior to consideration by the Commission, Interveners who did not participate in the settlement negotiations will be requested to provide to the Commission their comments on the settlement package by Friday, June 18, 2010. Thereafter, the Commission will consider the settlement package and set permanent delivery rates. A public hearing may not be required unless there is significant opposition to the proposed settlement.

Yours truly,


William J. Grant

CM/ac
Enclosure

cc: Mr. Craig Donohue
Director, Regulatory Affairs and Gas Supply
Pacific Northern Gas Ltd.
(Via email: cdonohue@png.ca)

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Pacific Northern Gas Ltd.
(PNG-West Division)

2010 Revenue Requirements Application

FINAL NEGOTIATED SETTLEMENT AGREEMENT

Dated June 11, 2010

Introduction

On March 4, 2010 the Commission approved the interim PNG-West NSP 2010 revenue requirements application negotiated settlement agreement under Order G-33-10 (RRA Interim NSA) which settled all the cost of service matters under the 2010 Revenue Requirements Application Negotiated Settlement Process (2010 RRA NSP) that could be addressed in the absence of a final decision on the issues set forth in the PNG/PNG(N.E.) Capital Structure and Equity Risk Premium Application (CAP/ROE Application). The parties to the 2010 RRA NSP agreed that a Final RRA Negotiated Settlement Agreement (RRA Final NSA) was to be negotiated after a settlement was agreed to in respect of the CAP/ROE Application.

On March 5, 2010, PNG filed with the Commission revised 2010 regulatory schedules to reflect the impact of increasing the low risk benchmark utility ROE to 9.5 percent and the implementation of the terms of the RRA Interim NSA including the impact of 2009 year end deferral account balances and actual 2009 capital expenditures. These schedules were marked as Exhibit B-3 under the CAP/ROE Application process. On May 20, 2010 the Commission approved the negotiated settlement agreement reached in respect of the CAP/ROE Application (the CAP/ROE NSA) under Order G-84-10. The CAP/ROE NSA required the following items to be confirmed by the parties that participated in the 2010 RRA NSP:

1. The interim rates effective January 1, 2010 would be made permanent for 2010.
2. Adjustments to be made to the 2009 and 2010 additions to the common equity deferral account approved by the Commission under Order G-172-09 to reflect the agreed to common equity ratio and relative risk premium for 2009 and 2010 and to reflect the result of making the January 1, 2010 interim rates permanent for 2010.
3. The criteria to be applied with respect to the disposition of the MLCI option fees deferral account.
4. Confirmation of the level of draw down of deferred income taxes in 2010.

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On May 26, 2010, PNG distributed to the Commission and registered interveners the regulatory schedules that reflected the terms set forth in both the RRA Interim NSA and the CAP/ROE NSA (the 2010 RRA Final NSP Regulatory Schedules).

This RRA Final NSA documents the parties' agreement with respect to the 2010 RRA Final NSP 2010 Regulatory Schedules and other matters referred to in the CAP/ROE NSA that were subject to confirmation under this RRA Final NSA.

1.0 2010 RRA Final NSP Regulatory Schedules

The parties hereby agree under this RRA Final NSA that the attached Final NSP 2010 Regulatory Schedules accurately reflect the agreements set forth in the Commission approved RRA Interim NSA and CAP/ROE NSA.

2.0 Interim Rates Effective January 1, 2010 to be Permanent for 2010

The parties agree under this RRA Final NSA that the interim rates approved by the Commission effective January 1, 2010 will be made permanent for 2010 and that making the 2010 interim rates permanent is not to be deemed a precedent for rate making purposes. The parties acknowledge that the Commission has the ultimate authority to set rates and the utilization of the common equity deferral account and deferred income taxes, as set out below, to enable the interim rates to be made permanent is at the discretion of the Commission.

3.0 Common Equity Deferral Account

The parties agree under this RRA Final NSA that the 2009 addition to the common equity deferral account is \$1.153 million before tax to reflect the common equity ratio and relative risk premium agreed to under the CAP/ROE NSA. The parties further agree that the 2010 addition to the common equity deferral account is equal to a debit of \$0.869 million before tax to reflect the deferred revenue in 2010 as a result of agreeing to make the January 1, 2010 interim rates permanent for 2010.

4.0 MLCI Option Fees Deferral Account

The parties agree under this RRA Final NSA that any recovery of PNG's legal fees from the MLCI option fees deferral account is subject to PNG providing material in confidence to the parties to the CAP/ROE Application negotiated settlement discussions that:

- a) Shows PNG used reasonable efforts to recover the legal fees from the parties to the Maverick lawsuit provided that any recovery from these efforts would be credited to the legal fees before recovering the balance from the MLCI option fees deferral account; and
- b) Establishes the legal fees were incurred prudently and are reasonable having regard to the legal services provided to PNG.

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The parties further agree herein that PNG may offset the balance in the common equity deferral account with the MLCI option fees principal balance at an appropriate time depending on the status of the arrangements between PNG and MLCI. PNG will advise the parties to the 2010 RRA NSP settlement discussions and the Commission when PNG decides to do so. The parties acknowledge that this event will be accounted for differently than it would have in the absence of rate regulation. PNG confirms that it will continue to disclose on its financial statements any additional information about this event as currently required under The Canadian Institute of Chartered Accountants Handbook AuG-19 'disclosure by entities subject to rate regulation' paragraph 8 and in the absence of the foregoing requirement, in conformity with accounting principles generally accepted in Canada.

5.0 Level of PNG-West Drawdown of Deferred Income Taxes

The parties agree under this RRA Final NSA that it is appropriate for PNG to draw down \$900,000 of deferred income taxes as a credit to the income tax expense component of the 2010 cost of service.

Pacific Northern Gas Ltd.
(PNG-West Division)
NSP'10 to Mar. 5'10 Update
COST OF SERVICE COMPARISON
(\$000)

EXPENSES	NSP'10	Mar. 5'10	Difference	
	Test Year 2010	Test Year 2010	Total	Subtotal
Operating				
Labour	4,346	4,346	0	
Other	3,819	3,819	0	
Sub-total	<u>7,965</u>	<u>7,965</u>	<u>0</u>	
Maintenance				
Labour	213	213	0	
Other	339	339	0	
Sub-total	<u>552</u>	<u>552</u>	<u>0</u>	
Administrative and General				
Labour	2,336	2,336	0	
Total Company Benefits	2,056	2,056	0	
Other	2,879	2,879	0	
Sub-total	<u>7,071</u>	<u>7,071</u>	<u>0</u>	
Total (O, M, A & G) Excluding Co. Use	15,588	15,588	0	0
Transfers to Capital Operating	(507)	(507)	0	
Transfers to Capital Admin. & Gen.	(784)	(784)	0	
Property Taxes	3,560	3,560	0	
Depreciation	6,795	6,795	0	
Amortization	715	711	4	
Other Income	(285)	(285)	0	
Shared Services Recovery from PNG (N.E.)	(2,032)	(2,032)	(0)	
Methanex Termination Payment	0	0	0	
CAP/ROE Deferred Revenue	(869)	0	(869)	
NSP Settlement Allowance	(110)	(110)	0	(865)
Total Expenses Excluding Co. Use	22,092	22,957	(864)	(864)
Income Taxes	1,733 ⁽¹⁾	1,888 ⁽¹⁾	(155)	
Return on Common Equity	5,946 ⁽²⁾	6,338 ⁽²⁾	(392)	
Short Term Debt	245	259	(15)	
Long Term Debt	4,682	4,555	127	
Preferred Shares	351	351	0	(435)
Total Cost of Service Excluding Co. Use	35,049	36,348	(1,299)	(1,299)
Company Use Gas Cost	696	696		
Total Cost of Service Including Co. Use Cost	35,744	37,044		
2009 to 2010 Cost of Service Increase	6,520	7,819	(1,299)	
2009 to 2010 Margin (Increase) Decrease	(6,520) ⁽⁴⁾	319	(6,839)	
2010 Revenue Deficiency	(0)	8,139	(8,139)	

1. Deferred income tax drawdown of \$ 900
2. Deemed common equity of 45%
3. Deemed common equity of 47.5%
4. Forecast 2010 margin based on interim rates effective January 1, 2010

NSP 2010
Tab Application
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Page 3

Pacific Northern Gas Ltd.
(PNG-West Division)
NSP 2010 vs. NSP 2009
COST OF SERVICE COMPARISON
(\$000)

EXPENSES	NSP		Difference	
	2010	2009	Total	Subtotal
Operating				
Labour	4,346	4,054	292	
Other	3,619	3,629	(10)	
Sub-total	<u>7,965</u>	<u>7,683</u>	<u>282</u>	
Maintenance				
Labour	213	212	1	
Other	339	314	25	
Sub-total	<u>552</u>	<u>525</u>	<u>26</u>	
Administrative and General				
Labour	2,336	2,180	176	
Total Company Benefits	2,056	2,014	41	
Other	2,679	2,776	(97)	
Sub-total	<u>7,071</u>	<u>6,950</u>	<u>121</u>	
Total (O, M, A & G) Excluding Co. Use	15,588	15,168	430	430
Transfers to Capital Operating	(507)	(519)	13	
Transfers to Capital Admin. & Gen.	(784)	(825)	41	
Property Taxes	3,560	3,527	33	
Depreciation	6,795	6,875	120	
Amortization	715	722	(7)	
Other Income	(265)	(268)	1	
Shared Services Recovery from PNG (N.E.)	(2,032)	(1,957)	(75)	
Shared Services NSP Reduction to PNG(N.E.)	0	25	(25)	
Methanex Termination Payment	0	(5,466)	5,466	
CAP/ROE Deferred Revenue	(869)	0	(869)	
NSP Settlement Allowance	(110)	(120)	10	4,709
Total Expenses Excluding Co. Use	22,092	16,954	5,139	5,139
Income Taxes	1,733 ⁽¹⁾	1,332 ⁽¹⁾	401	
Return on Common Equity	5,946 ⁽²⁾	4,792 ⁽²⁾	1,154	
Short Term Debt	245	259	(14)	
Long Term Debt	4,682	4,842	(160)	
Preferred Shares	351	351	0	1,381
Total Cost of Service Excluding Co. Use	35,049	28,529	6,520	6,520
Company Use Gas Cost	896	718		
Total Cost of Service Including Co. Use Cost	35,744	29,245		
2009 to 2010 Cost of Service Increase (Decrease)				6,520
2009 to 2010 Margin Decrease (Increase)				(6,520) ⁽⁴⁾
2010 Revenue Deficiency (Sufficiency)				(0)

1. Deferred income tax drawdown of \$ 900
2. Deemed common equity of 45%
3. Deemed common equity of 40%
4. Forecast 2010 margin based on interim rates effective January 1, 2010

Pacific Northern Gas Ltd.
(PNG-West Division)

UTILITY INCOME & RETURN

SCHEDULE 1
(000's)

Line No		NSP 2010	NSP 2009	Source
1	Energy sales (TJ)	3 003	3 128	Tab Rates, page 8
2	Average rate per GJ	\$16.19	\$15.74	
3				
4	Transportation service (TJ)	3 531	3 463	Tab Rates, page 8
5	Average rate per GJ	1.88	1.59	
6				
7	Total deliveries (TJ)	6 534	6 591	Tab Rates, page 8
8				
9	Utility revenue			
10	Energy sales	\$48,613	\$47,443	Tab Rates, page 7
11	Interim rates - sales	(0)	1,783	Tab Rates, page 6
12	Transportation service	6,624	5,255	Tab Rates, page 7
13	Interim rates - transportation	(0)	255	Tab Rates, page 6
14				
15		55,237	54,735	
16	Cost of sales	19,493	25,490	Tab Rates, page 10
17				
18	Gross margin	35,744	29,245	
19				
20	Operating expenses	8,154	7,880	Tab 1, page 2, line 6
21	Maintenance expenses	552	525	Tab 1, page 2, line 10
22	Admin. & general expenses	6,287	6,125	Tab 1, page 2, line 16
23	Property taxes	3,560	3,527	Tab 1, page 6, line 4
24	Depreciation	6,795	6,675	Tab 2, page 6, line 45
25	Amortization	715	722	Tab 2, page 11, line 18
26	CAP/ROE deferred revenue	(869)	0	Tab 2, page 11, line 5
27	Investment income, other revenue	(2,297)	(2,224)	Tab 1, page 7, line 10
28	Shared Services NSP Reduction to PNG(N.E.)	0	25	
29	Methanex Termination Pmt. Amort. & Interest	0	(5,466)	Tab 2, page 12, line 20
30	Settlement Allowance	(110)	(120)	
31		0	0	
32		22,788	17,670	
33				
34	Earned return before income taxes	12,956	11,576	
35	Income taxes	1,733	1,333	Tab 3, page 1, line 14
36				
37	Earned return	\$11,223	\$10,243	
38				
39	Utility rate base	\$130,173	\$131,361	Tab 2, page 1, line 22
40				
41	Return on rate base	8.62%	7.80%	Tab 5, page 1, line 23

Pacific Northern Gas Ltd.
(PNG-West Division)

UTILITY RATE BASE

SCHEDULE 2
(000'S)

Line No.		NSP 2010	NSP 2009	Source
1	Plant in service beginning of year	\$258,089	\$253,515	Tab 2, page 4, line 1
2	Additions	\$4,478	\$5,405	Tab 2, page 4, line 7
3	Disposals (at cost)	(6)	(1,269)	Tab 2, page 4, line 11
4				
5	Plant in service end of year	262,561	\$257,651	
6	Accumulated depreciation	123,338	\$115,763	Tab 2, page 6, line 39
7				
8	Net plant in service end of year	139,223	\$141,888	
9				
10	Net plant beginning of year	142,009	143,641	Tab 2, pg 3 & 6, lines 46 & 39
11				
12	Net plant in service midyear	140,616	142,764	
13	Adjustment - expenditure/disposal timing	(49)	(99)	
14	Contributions in aid of construction	(4,874)	(5,125)	Tab 2, page 8, line 17
15	Construction advances	0	0	
16	Deferred income taxes	(11,312)	(12,212)	
17	Work in progress, no AFUDC	100	100	Tab 2, page 9, line 5
18	Unamortized deferred charges	1,808	1,200	Tab 2, page 11, line 10
19	Cash working capital	2,008	2,101	Tab 2, page 13, line 9
20	Other working capital	1,876	2,624	Tab 2, page 19, line 15
21				
22	Utility rate base, midyear	<u>\$130,173</u>	<u>\$131,353</u>	

NSP 2010
Tab 3
PNG-West
2010 Rate App.
Page 1

Pacific Northern Gas Ltd.
(PNG-West Division)

INCOME TAXES

SCHEDULE 3
(000'S)

Line No.		NSP 2010	NSP 2009	Source
1	Calculation of Taxable Income			
2	Earned return before income taxes	\$12,956	\$11,576	Tab 1, page 1, line 32
3	Interest	(4,927)	(5,101)	Tab 5, page 1, lines 1, 3, 6 & 8
4	Permanent differences	71	81	
5	Timing differences	1,139	886	Tab 3, page 1, line 24
6				
7	Taxable income	<u>\$9,239</u>	<u>\$7,442</u>	
8				
9	Calculation of Income Tax Expense			
10	Income taxes payable	2,633	2,233	
11	Income Tax Rate Deferral	0	0	
12	Deferred income tax drawdown	(900)	(900)	
13				
14	Income tax expense	<u>\$1,733</u>	<u>\$1,333</u>	
15				
16	Particulars of Timing Differences			
17	A. Tax Effects Subject To Flowthrough			
18	Depreciation	6,795	6,675	Tab 2, page 6, line 45
19	Amortization	715	722	Tab 2, page 11, line 18
20	Capital cost allowance	(5,186)	(5,271)	
21	Overheads capitalized	(1,185)	(1,240)	
22	Other	(0)	(0)	
23				
24	Timing differences	\$1,139	886	
25	B. Tax Effects Subject To Deferral			
26	Deferred Tax Drawdown	<u>3,158</u>	<u>3,000</u>	
27				
28	Timing and Other differences	<u>\$4,297</u>	<u>3,886</u>	
29				
30	Tax rate	28.50%	30.00%	
31	Surtax rate	0.00%	0.00%	

Pacific Northern Gas Ltd.
(PNG-West Division)

COMMON EQUITY

SCHEDULE 4
(000's)

Line No.		NSP 2010	NSP 2009	Source
1	Opening balance			
2	Share capital	\$9,161	\$9,161	
3	Contributed surplus	\$3,680	\$3,610	
4	Retained earnings	\$73,144	\$71,839	
5				
6		85,985	84,611	
7				
8	Net income	8,301	6,174	
9	Shares issued (redeemed), contributed surplus	90	(2,590)	
10	Preferred dividends	(338)	(338)	
11	Common dividends	(4,104)	(3,371)	
12				
13	Closing balance	\$89,934	\$84,485	
14				
15				
16	Midyear common equity	87,960	84,548	
17	Investment in Non Utility	0	0	
18	less: acquisition premiums	(1,355)	(1,410)	
19	less: investment in subsidiary company	(7,724)	(6,826)	
20				
21				
22		\$78,880	\$76,312	
23				
24	Deemed utility common equity	\$58,578	\$52,541	Tab 5, page 1, line 16
25				
26	Equity required for KSL work in progress	\$36	\$140	
27				
28	Unused Equity	\$20,266	\$23,631	

NSP 2010
Tab 5
PNG-West
2010 Rate App.
Page 1

Pacific Northern Gas Ltd.
(PNG-West Division)

RETURN ON CAPITAL

SCHEDULE 5
(000's)

Line No.		NSP 2010	NSP 2009	Source
1	Short Term Debt	\$6,963	\$7,664	
2	proportion	5.35%	5.83%	
3	rate of return	3.52%	3.37%	Tab 5, page 2, line 11
4	return component	0.19%	0.20%	
5				
6	Long term debt	\$59,633	\$66,148	Tab 5, page 4, line 70
7	proportion	45.81%	50.36%	
8	rate of return	7.85%	7.32%	Tab 5, page 4, line 72
9	return component	3.60%	3.69%	
10				
11	Preferred shares	\$5,000	\$5,000	
12	proportion	3.84%	3.81%	
13	rate of return	7.01%	7.01%	
14	return component	0.27%	0.27%	
15				
16	Common equity	\$58,578	\$52,541	
17	proportion	45.00%	40.00%	
18	rate of return	10.15%	9.12%	
19	return component	4.57%	3.65%	
20				
21	Total capitalization	<u>\$130,173</u>	<u>\$131,353</u>	
22				
23	Return on rate base	<u>8.62%</u>	<u>7.80%</u>	
24				
25	Utility rate base	<u>\$130,173</u>	<u>\$131,353</u>	Tab 2, page 1, line 22

Pacific Northern Gas Ltd.
(PNG-West Division)

CONTINUITY OF
DEFERRED CHARGES

ACTUALS FOR THE YEAR 2009

(000's)

Line	Description	Actual Balance '08	Additions	Tax	Amortization	Actual Balance '09
1	INCLUDED IN RATE BASE					
2	Line break costs	669	5	(1)	115	557
3	Extraordinary Plant Loss	17	232		4	245
4	SCC / Investigative Digs	106	92	(28)	11	160
5	Common Equity		1,153	(346)		807
6	Industrial Customer Deliveries	223	55	(17)	111	150
7	RSAM	256	(1,307)	392		(659)
8	Other	(34)	42	(13)	(62)	57
9	Sub-total: Deferrals Included in Rate Base	1,238	272	(12)	180	1,318
10	MID - YEAR RATE BASE					51,278
11	NOT INCLUDED IN RATE BASE:					
12	In-Line Inspection	(74)	(236)	71	(74)	(165)
13	GCVAs	355	(586)	176		(55)
14	Deactivated Facilities	3,824	134		621	3,337
15	Depreciation Adjustment					0
16	Other Interest Bearing Deferrals	116	(2,408)	725	(6)	(1,561)
17	Sub-Total: Interest Bearing Deferrals	4,221	(3,095)	972	542	1,556
18	Deferrals, excluding Debt Issue Costs &	5,459	(2,824)	960	722	2,873
19	Methanex Termination Payment (after tax)	(3,781)		(1,620)	(5,401)	
20	Debt issue costs	465	51		66	451

NSP 2010
Tab 2
PNG-West
2010 Rate App.
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Pacific Northern Gas Ltd.
(PNG-West Division)

**CONTINUITY OF
DEFERRED CHARGES**

NSP 2010

(000's)

Line	Description	Actual Balance '09	Additions	Tax	Amortization	Forecast Balance '10
1	INCLUDED IN RATE BASE					
2	Line break costs	557			116	441
3	Extraordinary Plant Loss	245			27	218
4	SCC / Investigative Digs	160	200	(57)	16	287
5	Common Equity	807	869	(248)		1,428
6	Industrial Customer Deliveries	150			75	75
7	RSAM	(639)	299	(85)		(445)
8	Other	57	379	(69)	73	294
9	Sub-total: Deferrals Included in Rate Base	1,318	1,747	(459)	307	2,298
10	MID - YEAR RATE BASE					\$1,808
11	NOT INCLUDED IN RATE BASE:					
12	In-Line Inspection	(165)	(4)		(165)	(4)
13	GCVA	(55)	668	(190)		422
14	Deactivated Facilities	3,337	122		625	2,834
15	Depreciation Adjustment	0				0
16	Other Interest Bearing Deferrals	(1,561)	7	(20)	(53)	(1,521)
17	Subtotal: Interest Bearing Deferrals	1,556	793	(210)	408	1,732
18	Deferrals, excluding Debt Issue Costs &	2,873	2,540	(669)	715	4,030
19	Methanex Termination Payment (After Tax)	0	0	0	0	0
20	Debt issue costs	451	(104)	0	48	299

* Other than debt issue costs and studies, these items are recorded on a net after tax basis.

Pacific Northern Gas Ltd.
(PNG-West Division)

Details of Other Rate Base Deferral Accounts
(000's)

Line		09				10				
		Dec 08	Additions	09 Tax	09 Amort	Dec 09	Additions	10 Tax	10 Amort	Dec 10
1	Property Tax Variance	(112)	(54)	16	(112)	(37)			(37)	(0)
2	BCUC Proceedings	(20)	28	(8)	3	(3)	33	(9)	20	0
3	Appliance grants	0				0				0
4	CAP/ROE Hearing	0	32	(10)		22	94	(27)		89
5	Resource Plans	8	1	(1)	8	1			1	(0)
6	Bill 198 Compliance Costs	79			40	40			40	(0)
7	IFRS	11	35	(10)		35	117	(33)		119
8	Old Revolving Debt Issue Costs	0				0	136		50	86
9	Other Rate Base Deferrals	(34)	42	(13)	(62)	57	379	(69)	73	294

Details of Interest Bearing non Rate Base Deferral Accounts
(000's)

	Dec 08	09			Dec 09	10			Dec 10
		Additions	09 Tax	09 Amort		Additions	10 Tax	10 Amort	
10 BCUC Fees	(15)	(15)	4	(15)	(10)	0		(10)	(0)
11 Short term interest	(61)	80	(24)	4	(9)	68	(20)	45	(5)
12 Long term interest	(92)	(52)	16	(46)	(82)	(3)		(41)	(44)
13 Heating Insurance Prog.	0				0				0
14 Propane Air Plant	288	10		55	243	9		54	198
15 MLCI Option Fee Payment	(0)	(2,431)	729		(1,702)	(67)		(99)	(1,670)
16 Carbon / Income Tax	(4)			(4)	0			(1)	0
16 Non-Rate Base Deferrals	116	(2,408)	725	(6)	(1,561)	7	(20)	(53)	(1,521)

Details of Methanex Termination Payment Deferral Account
(000's)

	Dec 08	09			Dec 09	10			Dec 10
		Additions	09 Tax	09 Amort		Additions	10 Tax	10 Amort	
17 Termination Payment Principal	(3,781)		(1,620)	(5,401)	0	0	0	0	0
18 Add Interest at ST debt rate		(65)		(65)	0	0	0	0	0
19 Deferral net of Tax	(3,781)	(65)	(1,620)	(5,466)	0	0	0	0	0
20 Amortization included in Revenue (before tax)				(5,466)				0	



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

June 9, 2010

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

File No.: 4.2.7(2010)

Attention: William J Grant
Consultant to BCUC

Dear Sir:

**Re: Final Negotiated Settlement Agreement dated June 3 2010
for the PNG-West Division 2010 Revenue Requirements Application
Project No. 3698578**

Further to your letter dated June 8, 2010 enclosing the Final Negotiated Settlement Agreement ("NSA") for the PNG-West 2010 revenue requirements application, Pacific Northern Gas Ltd. hereby confirms its acceptance of the Final NSA.

Please direct any questions regarding this letter to my attention.

Yours truly,

C.P. Donohue

cc. BCOAPO – Jim Quail
Commission Staff - Claudia McMahon

BCUC Log # 33907

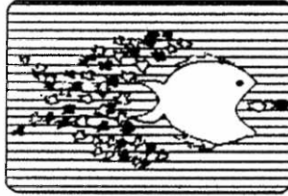
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JUN 10 2010

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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>



Sarah Khan 687-4134
Eugene Kung 687-3006
James L. Quail 687-3034
Ros Salvador 488-1315
Leigha Worth 687-3044

Barristers & Solicitors

Jodie Gauthier
Articled Student

Our file: 7441

June 10, 2010

VIA EMAIL

Erica M. Hamilton
Commission Secretary
BC Utilities Commission
6th Floor - 900 Howe Street
Vancouver, BC V6Z 2N3

**Re: Final Negotiated Settlement Agreement dated June 3 2010
for the PNG-West Division 2010 Revenue Requirements Application
Project No. 3698578**

This is to confirm that we endorse the terms of the Negotiated Settlement Agreement in this matter on behalf of our clients, BCOAPO et al., and that we consent to the terms being incorporated into an Order of the Commission resolving this Application.

Yours truly,

BC PUBLIC INTEREST ADVOCACY CENTRE

Original in file signed by:

Jim Quail
Executive Director

cc: parties of record

BCUC Log # 33921
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JUN 11 2010

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