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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-163-08

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

and

Pacific Northern Gas Ltd. ("PNG") Application
for Approval of a Term Sheet between PNG and LNG Partners LLC ("LNG Partners")

BEFORE: P.E. Vivian, Commissioner
A.A. Rhodes, Commissioner November 6, 2008

O R D E R

WHEREAS:

- A. On September 25, 2008, PNG filed with the British Columbia Utilities Commission (the "Commission"), a Term Sheet between PNG and LNG Partners LLC ("LNG Partners") dated September 18, 2008 (the "Term Sheet") together with PNG's submission (the "Submission") in support of obtaining Commission approval of the Term Sheet; and
- B. The Term Sheet sets out the terms and conditions under which LNG Partners will pay PNG a non-refundable fee of \$1.5 million ("Initial Option Fee") to obtain transportation services over the PNG network. These services involve currently unused PNG capacity. The option allows LNG Partners a period of six months, commencing from the date of Commission approval of the Term Sheet (the "Option Period"), to contract for firm pipeline capacity on PNG's pipeline system, for at least 75 MMcf/day under the terms and conditions set forth in the Term Sheet. The Option Period may be extended for a further six-month period in consideration of the payment by LNG Partners to PNG of an additional non-refundable fee of \$1.5 million ("Option Extension Fee"); and
- C. If LNG Partners exercises the option, a firm gas transportation service agreement will be entered into between PNG and LNG Partners on the terms and conditions of service set out in the Term Sheet, including a unit demand charge of \$0.50/GJ to apply during the initial three to five year term and escalated by inflation for an optional second term and the requirement for LNG Partners to supply four percent of their gas requirements to PNG for pipeline operations; and
- D. The Term Sheet includes the proposal that if LNG Partners exercises its option to contract for firm gas service, PNG will file a fully executed definitive firm gas transportation service agreement that is materially the same as the agreement contemplated under the Term Sheet; and

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-163-08

2

- E. In its Submission PNG proposes that the Commission approve recovery from the Option Fee and Option Extension Fee, and eventually from any annual firm revenue from LNG Partners, the foregone return to date on facilities previously deactivated as a result of the loss of load and revenue due to the closure of the Methanex methanol/ammonia plant in November 2005; and
- F. By Order G-149-08 the Commission established that the initial regulatory review process would include a round of Information Requests from the Commission and registered Intervenors. Order G-149-08 also requested Interested Parties to make written submissions as to the subsequent regulatory review process, and in particular whether the issue of the allocation of revenues from LNG Partners should be severed from the request for Commission approval of the Term Sheet, and instead considered as part of the proceeding to review PNG's next revenue requirements application; and
- G. By letter dated October 7, 2008, PNG submitted that, in its view, the Commission's preliminary regulatory timetable would provide more than enough time for all interested parties to fully address the revenue allocation between customers and shareholders based on the foregone return proposal that was initially proposed by PNG in its 2006 revenue requirements application. PNG also proposed a timetable for the balance of the regulatory proceedings; and
- H. By letter of October 9, 2008, the British Columbia Old Age Pensioners' Organization et al. ("BCOAPO") registered as an Intervenor, and submitted that the term sheet should be considered first, with any revenue allocations left to a subsequent rates proceeding. BCOAPO also expressed concerns regarding the treatment of both depreciation and proposed returns related to PNG assets that are currently idle; and
- I. On October 9, 2008 the Commission submitted an Information Request to PNG; and
- J. On October 20, 2008 BCOAPO submitted an Information Request to PNG; and
- K. On October 29, 2008 PNG responded to the Information Requests of BCOAPO and the Commission; and
- L. The Commission has considered the Term Sheet, the Submission, the letters from PNG and BCOAPO, and the PNG responses to the Information Requests posed by the Intervenors.

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-163-08

3

NOW THEREFORE the Commission orders as follows:

1. PNG's request for approval of the Term Sheet between PNG and LNG Partners will be dealt with by way of written submissions. Intervenor submissions are due by Friday, November 14, 2008. PNG is to submit its final written submission by Friday, November 21, 2008.
2. The treatment of option fees to be received by PNG from LNG Partners, and any cost matters with respect to PNG assets that were deactivated as the outcome of Commission Order G-99-06, will be reviewed by the Commission as part of the next PNG revenue requirements proceeding.

DATED at the City of Vancouver, in the Province of British Columbia, this 6th day of November 2008.

BY ORDER

Original signed by:

A.A. Rhodes
Commissioner