



**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-172-09

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SIXTH FLOOR, 900 HOWE STREET, BOX 250
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IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

An Application by
Pacific Northern Gas Ltd. (PNG-West Division) and Pacific Northern Gas (N.E.) Ltd.
(Fort St John/Dawson Creek and Tumbler Ridge Divisions), [collectively ("PNG")]
for Capital Structure and Equity Risk Premium

BEFORE: L.F. Kelsey, Commissioner

December 24, 2009

O R D E R

WHEREAS:

- A. By letter dated July 16, 2009, PNG filed with the British Columbia Utilities Commission (the "Commission"), an application for Capital Structure and Equity Risk Premium (the "Application"); and
- B. Specifically, PNG is applying to have the common equity ratio for the PNG-West Division established at 47.5 percent and to have the common equity ratio for both divisions of PNG (N.E.) set at 42.5 percent. PNG is also applying to have the rate of return on common equity set at 75 basis points above the Commission's low-risk benchmark utility return on common equity ("ROE") for all three divisions; and
- C. Commission Order G-174-08 dated November 27, 2008, determined that the Initial Option Fee and Option Extension Fee related to PNG deactivated assets be reviewed by the Commission as part of the 2009 revenue requirements application. PNG is reapplying in this Application to recover from the Option Fee and Option Extension Fee, the foregone return to date as it believes that it is most efficient to consider this matter during the public hearing into the capital structure and equity risk premium issues; and
- D. PNG requests that the Commission approve a deferral account to record the difference between the approved 2009 cost of service used for rate-making purposes and the 2009 cost of service based on the higher common equity thickness and equity risk premium for PNG-West. The Application also states that PNG (N.E.) is not applying for Commission approval of a common equity deferral account but would do so if there are any adjustments to the benchmark utility ROE in 2009; and
- E. By letter dated August 6, 2009, the Commission replied to PNG and indicated that the Commission would not commence a review of the Application until after the submission of written Arguments in the Terasen Utilities ROE and Capital Structure ("ROE/CAP") proceeding then underway; and
- F. On October 20, 2009, PNG filed its Argument in the Terasen Utilities ROE/CAP proceeding with the Commission and submitted that PNG would assess whether any adjustments to the PNG-West Division and

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PNG (N.E.) specific risk premiums are required as a result of the Commission's decision on ROE/CAP and, if adjustments are required, PNG would file an update to its Application; and

- G. By letter dated December 21, 2009, PNG filed its amendments to the Application ("Amended Application") to reflect the impact of the Commission's determinations in the December 16, 2009 Decision on Terasen Utilities' ROE/CAP Application; and
- H. In the Amended Application, PNG-West revises its 2009 cost of service and reiterates its application for approval of a deferred return on common equity deferral account. PNG (N.E.) recalculates the Negotiated Settlement Agreement 2009 cost of service based on the revised ROE for 2009 for Fort St. John/Dawson Creek Division and the Tumbler Ridge Division and seeks Commission approval to record the increase in deferral accounts for the two divisions; and
- I. The Commission Panel has considered the relief sought in the Application and the Amended Application.

NOW THEREFORE the Commission determines as follows:

- 1. PNG is to establish separate common equity deferral accounts for the PNG-West Division, the Fort St. John/Dawson Creek Division and the Tumbler Ridge Division to record potential differences in approved cost of service and 2009 cost of service based on higher equity risk premium and thicker equity.
- 2. A Procedural Conference regarding the regulatory process for the review of the Application and Amended Application will be held on Tuesday, January 19, 2010 commencing at 9:00 a.m. in the Commission Hearing Room on the 12th Floor, 1125 Howe Street, Vancouver, BC. The Procedural Conference will address matters such as:
 - (a) steps and timetable associated with the regulatory review process; and
 - (b) other matters that will assist the Commission to efficiently review the Application.
- 3. PNG is to publish, as soon as possible, in display-ad format, the Notice attached as Appendix A to this Order, in the Vancouver Sun and such other appropriate local news publications as may properly provide adequate notice to customers served in the affected service areas.
- 4. The Application and Amended Application, together with any supporting materials, will be made available for inspection at the public libraries in Prince Rupert, Terrace, Kitimat, Houston, Smithers, Burns Lake, Vanderhoof and Fort St. James, the Head Office of PNG at Suite 950, 1185 West Georgia Street, Vancouver, BC V6E 4E6, and at the Commission Office, Sixth Floor, 900 Howe Street, Vancouver, BC V6Z 2N3, and will also be made available on the PNG and Commission websites.

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5. Intervenors or Interested Parties should register with the Commission, in writing or electronic submission, by Friday, January 15, 2010, and advise whether they intend to attend the Procedural Conference. Intervenors should specifically state the nature of their interest in the Application and identify generally the nature of the issues that they may intend to pursue during the proceeding and the nature and extent of their anticipated involvement in the review process.

DATED at the City of Vancouver, In the Province of British Columbia, this 24th day of December 2009.

BY ORDER

Original signed by:

L.F. Kelsey
Commissioner

Attachment



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Pacific Northern Gas Ltd. (PNG-West Division) and Pacific Northern Gas (N.E.) Ltd.
(Fort St. John/Dawson Creek and Tumbler Ridge Divisions), [collectively ("PNG")]
For Capital Structure and Equity Risk Premium**

NOTICE OF PROCEDURAL CONFERENCE

Date:	Tuesday, January 19, 2010
Time:	9:00 a.m.
Location:	B.C. Utilities Commission Hearing Room 12 th Floor, 1125 Howe Street, Vancouver, B.C.

THE APPLICATION

On July 16, 2009, PNG filed the Capital Structure and Equity Risk Premium Application ("Application") to have the common equity ratio for the PNG-West Division established at 47.5 percent from 40 percent, and to have the common equity ratio for both divisions of PNG (N.E.) set at 42.5 percent from 36 percent. In the Application, PNG also applies to have the rate of return on common equity set at 75 basis points above the British Columbia Utilities Commission's ("Commission") low-risk benchmark utility return on common equity for all three divisions.

In the 2009 Negotiated Settlement Agreement, PNG and its customers were unable to reach an agreement on the treatment of the Merrill Lunch option fees. Therefore, PNG is also applying for Commission approval so that PNG-West can recover from option fees paid to PNG-West by Merrill Lunch Commodities Inc. ("MLCI") and eventually from any annual firm revenue from MLCI the foregone return on facilities previously deactivated.

By letter dated August 16, 2009, the Commission informed PNG that it would not commence review of the Application until after the filing of written submissions in the proceeding on Terasen Utilities' Application on Return on Equity and Capital Structure ("Terasen ROE Application") then underway.

The Commission rendered its decision on the Terasen ROE Application on December 16, 2009 and PNG filed amendments with the Commission to its July 16, 2009 Application ("Amended Application"). In the Amended Application, PNG requests: (a) approval of a deferred return on common equity deferral account to record the revised difference of \$1.571 million for future recovery from customers in the PNG-West Division; (b) approval to record \$96,000 in a deferred 2009 return on common equity deferral account for future recovery from customers for the Fort St. John/Dawson Creek Division; and (c) approval to record \$4,000 in a deferred 2009 return on common equity deferral account for future recovery from customers in the Tumbler Ridge Division.

PUBLIC INSPECTION OF THE APPLICATION

The Application, Amended Application and supporting material will be made available for inspection at the public libraries in Prince Rupert, Terrace, Kitimat, Houston, Smithers, Burns Lake, Vanderhoof and Fort St. James, the Head Office of PNG at Suite 950, 1185 West Georgia Street, Vancouver, BC V6E 4E6, and at the British Columbia Utilities Commission, Sixth Floor, 900 Howe Street, Vancouver, BC V6Z 2N3.

The Application will also be available for viewing on the PNG website at www.png.ca, and on the Commission's website at www.bcuc.com, which also contains detailed materials related to the Application and Amended Application.

REGISTERING TO PARTICIPATE

Persons who expect to actively participate in this proceeding are required to register as Intervenors with the Commission, in writing or electronic submission, by January 15, 2010, identifying their interest in the Application, the issues they intend to pursue and the nature and extent of their anticipated involvement in the review process. They should also advise the Commission whether they intend to attend the Procedural Conference.

Persons not expecting to actively participate, but who have an interest in the proceeding should register as Interested Parties with the Commission, in writing or electronic submission, by January 15, 2010, identifying their interest in the Application.

All submissions and/or correspondence received from active participants or the public relating to the Application will be placed on the public record and posted to the Commission's web site.

FURTHER INFORMATION

For further information, please contact Ms. Erica M. Hamilton, Commission Secretary, as follows:

Telephone: 604-660-4700 or (B.C. Toll Free) 1-800-663-1385

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E-Mail: commission.secretary@bcuc.com

