



LETTER NO. L-111-05

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Log No. 12322

VIA EMAIL

cdonohue@png.ca

December 13, 2005

Mr. C.P. Donohue
Director, Regulatory Affairs & Gas Supply
Pacific Northern Gas Ltd.
950 - 1185 West Georgia Street
Vancouver, B.C. V6E 4E6

Dear Mr. Donohue:

Re: Pacific Northern Gas Ltd.
Kitimat to Summit Lake Pipeline Looping ("KSL") Project
KSL Project Deferral Account for Preliminary Costs

This is in response to PNG's October 26, 2005 application for Commission approval to establish a KSL Project Deferral Account for preliminary costs for the KSL Project, and for confirmation of the Commission's practice for the treatment of preliminary costs. On November 21, 2005, PNG responded to a Commission Information Request and requested that portions of the response should be held confidential due to commercial sensitivity. The Commission will hold the referenced information confidential at this time.

By letter dated December 1, 2005, PNG clarified that its request is limited to confirmation that it is correct from a regulatory accounting point of view for PNG to record the KSL Project preliminary costs under Account 172 Preliminary Survey and Investigation Charges of the Uniform System of Accounts.

The KSL Project is proposed to transport gas from the liquefied natural gas ("LNG") gasification terminal that Kitimat LNG Inc. proposes to build near Kitimat, BC. The costs that PNG proposes to record in the deferral account are the preliminary investigation, environmental and other related costs to develop the KSL Project to the time when a decision is made regarding whether the Kitimat LNG Inc. facility is to proceed.

The Commission believes that, generally, a prospective customer should be responsible for material preliminary investigative costs related to providing utility service to a proposed project. This is particularly the case where the proponent is currently not a utility customer, the project scope and costs are large and the outcome of the project requiring the utility service is uncertain. In this case, there appear to be questions whether the Kitimat LNG Inc.

project or the KSL Project will proceed. In this circumstance, the Commission believes that the interests of PNG and its customers would be well served if Kitimat LNG Inc. were responsible for at least one-half of PNG's preliminary costs on the KSL Project.

Nevertheless, the Commission hereby confirms that it is consistent with past Commission practice and acceptable from a regulatory accounting point of view for PNG to record the net PNG share of KSL Project preliminary costs under Account 172 of the Uniform System of Accounts. The Commission notes that PNG expects these costs to be approximately \$2.2 million. This confirmation in no way addresses whether the costs recorded in the account are prudent, beneficial to customers, or recoverable by PNG in its rates, all of which will be determined by the Commission at a future time.

On another related matter, in its November 21, 2005 response to Information Requests, PNG commented on the nature of the transportation service agreements for service on its system with the KSL Project, and the rates for this service. The Commission considers that the timely filing of fully-executed service agreements for Commission approval is essential, but believes that it would be premature to respond to PNG's comments until it has had an opportunity to review the agreements.

Yours truly,

Original signed by:

Robert J. Pellatt

RJP/cms

cc: Registered Intervenors (*PNGW-2005RR-RI*)