BRITISH COLUMBIA UTILITIES COMMISSION

ORDER NUMBER G-56-07

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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 (N.E.) Ltd.
(Fort St. John/Dawson Creek and Tumbler Ridge Divisions)
for Approval of 2007 Revenue Requirements and Rates

BEFORE: L.A. Zaozirny, Panel Chair and Commissioner
L.A. O'Hara, Commissioner May 29, 2007

O R D E R

WHEREAS:

A. On October 26, 2006, Pacific Northern Gas (N.E.) Ltd. ["PNG(N.E.)"] Fort St. John/Dawson Creek ("FSJ/DC") and Tumbler Ridge ("TR") Divisions filed for approval of its 2007 Revenue Requirements Application ("the Application"). PNG(N.E.) proposes to amend its rates on an interim and final basis, effective January 1, 2007, pursuant to Sections 89 and 58 of the Utilities Commission Act ("the Act"); and

B. In its Application PNG(N.E.) projected a revenue deficiency of $109,000 (excluding Company Use Gas) for the FSJ/DC Division and a revenue sufficiency of $167,000 (excluding Company Use Gas) for the TR Division; and

C. PNG(N.E.) conducted a detailed analysis of property, plant and equipment cost and retirement records in 2006, as a result of which various assets were identified as retired or disposed of in prior years with no retirement being recorded. PNG(N.E.) has reversed this accumulated depreciation, and requests approval to establish a new depreciation adjustment credit deferral account, for refund to customers. The PNG(N.E.) FSJ/DC Division proposes to amortize the depreciation credit in rates over the 2007/2008 two year period. The PNG(N.E.) TR Division decided to amortize part of this credit deferral in 2006 as an offset related to the extinguishment of the pre-existing Babcock line break and the Tumbler Ridge processing plant upset debit deferral accounts. The PNG(N.E.) TR Division proposes to amortize the 2007 opening balance of the depreciation adjustment credit deferral account in rates over the 2007/2008 two year period; and

D. PNG(N.E.) proposes to amortize the December 31, 2006 Revenue Stabilization Adjustment Mechanism ("RSAM") balances over a three-year period and recover the annual amortization by way of a rate rider. The rider is only applicable to the Residential and Small Commercial sales rate classes. For the PNG(N.E.) FSJ/DC Division the rider amounts to $0.132/GJ, effective January 1, 2007 (an increase of $0.018/GJ over the interim rider of $0.114/GJ in effect on October 1, 2006). For the PNG(N.E.) TR Division the rider amounts to $0.512, effective January 1, 2007 (a decrease of $0.019/GJ from the interim rider of $0.531/GJ in effect on October 1, 2006); and

E. By Commission Order No. G-153-06, the Commission, pursuant to Section 89 and 61(4) of the Act, approved interim refundable rate changes in the Delivery Charges in rates for all classes of customers, and an interim rate change in the RSAM rider for Residential and Small Commercial Sales customers, all as filed in the Application, and interim Company Use Gas Cost rates for the PNG(N.E.) FSJ/DC Division and the PNG(N.E.) TR Division; and

F. Following the Application, PNG(N.E.) Tumbler Ridge Division filed a new Service Agreement between PNG(N.E.) and the Canadian Natural Resources Limited ("CNRL") (the "Agreement"), which provides for a change to the existing rate structure, effective January 1, 2007. The Commission has decided to include a review of the Agreement as part of the PNG(N.E.) Application; and

G. On December 5, 2006, PNG(N.E.) filed its Fourth Quarter 2006 Report (the "Q4 Report") on gas supply costs and Gas Cost Variance Account ("GCVA") balances for Fort St. John/Dawson Creek Division and Tumbler Ridge Division that indicates no changes to current gas commodity rates for core market sales customers for either Division. The Q4 Report proposed that for the Fort St. John/Dawson Creek Division the current GCVA commodity credit rate rider of 0.256/GJ be maintained as well as the current Company Use Gas price and unaccounted for gas (UAF) volume deferral account GCVA credit rate rider of $0.076/GJ. For the Tumbler Ridge Division, the Q4 Report proposed that a GCVA commodity credit rate rider of $0.427/GJ be implemented, based on a two year amortization of the projected credit balance in the GCVA account. The Q4 Report proposed that the Company Use Gas price and UAF volume deferral account GCVA credit rate rider of $0.686/GJ be maintained; and

H. By Commission Order No. G-165-06, the Commission, pursuant to Section 61(4) of the Act, approved for the FSJ/DC Division and the TR Division effective January 1, 2007, the permanent commodity rates recommended in the Q4 Report, except for the Company Use Gas cost rates for either Division that remain interim rates pending review of this Application; and

I. By Commission Order No. G-3-07, the Commission determined that a written regulatory process should be established to review the Application and established a regulatory timetable; and

J. On February 23, 2007, PNG(N.E.) filed an update to its 2007 Revenue Requirements Application ("the Revised Application"), which projects an increase in the revenue deficiency for the FSJ/DC Division and an increase in the revenue sufficiency for the TR Division. The Revised Application forecasts a revenue deficiency of $171,000 for the Fort St. John/Dawson Creek Division and a revenue sufficiency of $200,000, for the Tumbler Ridge Division; and

K. In accordance with the regulatory timetable, PNG(N.E.) filed a Final Argument on March 15, 2007. Intervenors, specifically the Ministry of Energy, Mines and Petroleum Resources and BC Old Age Pensions' Organization et al, filed Final Arguments on March 22, 2007 and PNG(N.E.) filed a Reply Argument on March 30, 2007, to address the issues raised by Intervenors; and

L. The Commission has considered the Application, the Revised Application, the evidence adduced in relation thereto, and written Arguments, all as set forth and discussed in the Reasons attached as Appendix A to this order.

NOW THEREFORE the Commission orders as follows:

1. The Commission approves a 2007 revenue deficiency adjusted from $171,000 to approximately $73,584 for the Fort St. John/Dawson Creek Division, as filed in the schedules accompanying PNG(N.E.) Fort St. John/Dawson Creek Division's Revised Application and adjusted in the Reasons attached as Appendix A to this Order.

2. The Commission approves a Tumbler Ridge Division revenue sufficiency adjusted from $200,000 to approximately $209,915 for the Tumbler Ridge Division, as filed in the schedules accompanying PNG(N.E.) Tumbler Ridge Division's Revised Application and adjusted in the Reasons attached as Appendix A to this Order.

3. The approved rates for the Gas Delivery Charge for the Fort St. John/Dawson Creek Division are less than the interim rates which have been in effect since January 1, 2007. PNG(N.E.) Fort St. John/Dawson Creek Division is to file an amended Summary of Rates and Bill Comparison schedule conforming to the terms of the Reasons attached as Appendix A to this Order, along with a method for refunding excess payments back to customers.

4. The approved rates for the Gas Delivery Charge for the Tumbler Ridge Division are less than the interim rates which have been in effect since January 1, 2007. PNG(N.E.) Tumbler Ridge Division is to file an amended Summary of Rates and Bill Comparison schedule conforming to the terms of the Reasons attached as Appendix A to this Order, along with a method for refunding excess payments back to customers.

5. Commercial firm transportation service tariff for the Fort St. John and Dawson Creek service areas, as approved on an interim basis by Commission Order No. G-126-06, is hereby approved as permanent rates.

6. Pursuant to Section 71(1) of the Act, the Commission accepts as filed and determines that the new PNG(N.E.)/CNRL Service Agreement is in the public interest.

7. PNG(N.E.) is to provide, subject to timely filing, amended Gas Tariff Rate Schedules in accordance with this Order.

8. PNG(N.E.) is to inform all affected customers of the final rates by way of a customer notice.

DATED at the City of Vancouver, in the Province of British Columbia, this 29th day of May 2007.

BY ORDER

Original signed by:

L.A. Zaozirny
Panel Chair and Commissioner

Attachment

PACIFIC NORTHERN GAS (N.E.) LTD.
2007 REVENUE REQUIREMENTS APPLICATION

REASONS FOR DECISION

1.0 INTRODUCTION

1.1 Background

Pacific Northern Gas (N.E.) Ltd. [“PNG(N.E.)”, “Utility”] is a wholly owned subsidiary of Pacific Northern Gas Ltd. (“PNG”) and serves customers in the Fort St. John, Taylor, Dawson Creek, Pouce Coupe, and Tumbler Ridge areas of northeastern British Columbia. The Fort St. John/Dawson Creek (“FSJ/DC”) Division receives natural gas from the Spectra Energy (formerly Duke Energy) Gas Transmission pipeline system and the Canadian Natural Resources Limited (“CNRL”) pipeline. The Tumbler Ridge (“TR”) Division obtains all its raw gas supply from CNRL and operates its own small gas processing plant.

The parent company, PNG, delivers natural gas to customers, including large industrial operations, in a region west of Prince George to tidewater at Kitimat and Prince Rupert. PNG’s head office is in Vancouver. Customer service and administrative functions for both PNG and PNG(N.E.) are supported from a regional office in Terrace. Although PNG(N.E.) has construction, operation, and maintenance staff located in its service territory, PNG provides PNG(N.E.) with most of its administrative, support, and gas supply services.

1.2 The Application

In its 2007 Revenue Requirements Application dated October 26, 2006 (“the Application”), PNG(N.E.) applied for approval to amend rate schedules for its Fort St. John/Dawson Creek and Tumbler Ridge Divisions, effective January 1, 2007, on an interim basis pursuant to Section 89 of the Utilities Commission Act (“the Act”) and on a permanent basis pursuant to Section 58 of the Act.

PNG(N.E.) FSJ/DC Division projects a revenue deficiency of $109,000 (excluding Company Use Gas) for the 2007 test year, primarily driven by increases in the 2007 cost of service. On the other hand, PNG(N.E.) TR Division projects a revenue surplus of $167,000 (excluding Company Use Gas) for the 2007 test year, primarily due to a reduction in the cost of service and an increased margin revenue forecast. As a result, the Application proposes to increase the delivery rates to all customers of the FSJ/DC Division and decrease the delivery rates to all customers of the TR Division.

The Application also seeks Commission approval of the amortization of depreciation adjustment credits over a two-year period (2007 and 2008), as a result of a detailed analysis of property, plant and equipment cost and retirement records in 2006. This analysis identified various assets as retired or disposed of in prior years with no retirement being recorded. Both the FSJ/DC Division and the TR Division have reversed accumulated depreciations for these assets and transferred the balance to a new credit deferral account for refund to customers. The FSJ/DC Division proposes to amortize the depreciation adjustment credit in rates ($300,000 per annum) over the 2007 and 2008 two-year period. TR Division decided to amortize part of its depreciation adjustment credit deferral in 2006 as an offset related to the extinguishment of the pre-existing Babcock line break and the Tumbler Ridge processing plant upset debit deferral accounts. The PNG(N.E.) TR Division proposes to amortize the 2007 opening balance of the depreciation adjustment credit deferral account in rates over the 2007/2008 two year period.

By Order No. G-153-06 dated November 30, 2006, the Commission approved for the PNG(N.E.) FSJ/DC and TR Divisions, interim changes in the Delivery Charges in rates for all classes of customers, an interim rate change in the RSAM rider for the Residential and Small Commercial sales customers, and interim Company Use Gas cost rates, as filed in the Application, effective January 1, 2007.

On December 5, 2006, PNG(N.E.) filed its Fourth Quarter 2006 Report (the "Q4 Report") on gas supply costs and Gas Cost Variance Account ("GCVA") balances for Fort St. John/Dawson Creek Division and Tumbler Ridge Division that indicates no changes to current gas commodity rates for core market sales customers for either Division. The Q4 Report proposes that for the Fort St. John/Dawson Creek Division the current GCVA commodity credit rate rider of $0.256/GJ be maintained as well as the current Company use gas price and Unaccounted for Gas ("UAF") volume deferral account GCVA credit rate rider of $0.076/GJ. For the Tumbler Ridge Division, the Q4 Report proposes that a GCVA commodity credit rate rider of $0.427/GJ be implemented, based on a two year amortization of the projected credit balance in the GCVA account. The Q4 Report proposes that the Company use gas price and UAF volume deferral account GCVA credit rate rider of $0.686/GJ be maintained.

Commission Order No. G-165-06 dated December 15, 2006 approved for the FSJ/DC Division and the TR Division effective January 1, 2007, the permanent commodity rates that are recommended in the Report, including a GCVA commodity credit rate rider of $0.427/GJ for the TR Division.

On February 23, 2007, PNG(N.E.) filed an update to its 2007 Revenue Requirements Application ("the Revised Application"), which projects an increase in the revenue deficiency for the FSJ/DC Division and an increase in the revenue sufficiency for the TR Division. The Revised Application forecasts a revenue deficiency of $171,000, up from $109,000 in the original Application, for the Fort St. John/Dawson Creek Division and a revenue sufficiency of $200,000, up from $167,000 in the original Application, for the Tumbler Ridge Division.

PNG(N.E.) was directed by Commission Order No. G-42-05 to "provide a comprehensive application section in each future application outlining all approvals sought from the Commission" and was further requested by the Commission (Exhibit B-4, BCUC 1.1.1, p. 1) to "provide a concise list of all approvals sought" in this Application. The Commission is disappointed that the Utility failed to summarize a list of approvals sought from the Commission and would suggest that clear itemization of the approvals or orders sought from the Commission in a summary section would assist in focusing regulatory review on key issues and enhance the efficiency in the processing of an application. An "Orders Sought" section, filed by the BC Transmission Corporation ("BCTC") in its Transmission Revenue Requirements Application dated 26 May 2006 (Exhibit B-1B, 1.0 Application, 1.3.5 Orders Sought, p. 16), provides a good example for future reference.

In the view of the Commission Panel, the following three approval requests, for example, should have been contained in the "Orders Sought" section in the revenue requirements application for the Tumbler Ridge Division.

(1) An order ratifying the new PNG(N.E.)/CNRL Services Agreement;

(2) An order approving the establishment of a new depreciation adjustment credit deferral account for the Tumbler Ridge Division; and

(3) An order approving the establishment of a new depreciation adjustment credit deferral account to offset $131,000 of the credit balance in this account with the 2006 debit deferral account balances in the Babcock line break and Tumbler Ridge processing plant upset debit deferral accounts.

The Commission Panel reiterates the direction in Commission Order No. G-42-05 and requires that PNG(N.E.) provide, in each future application, a summary section, which lists and clearly and explicitly outlines the approvals sought from the Commission.

1.3 The Written Hearing Process

Interventions were received from the British Columbia Public Interest Advocacy Centre on behalf of the BC Old Age Pensioners' Organization, Council of Senior Citizens' Organizations of B.C., Federated Anti-Poverty Groups of B.C., Senior Citizen's Association of B.C., End Legislated Poverty, and the Tenants Rights Action Coalition (collectively known as "BCOAPO"). The B.C. Ministry of Energy, Mines and Petroleum Resources ("MEMPR", "the Ministry") and the Peace River Regional District ("the District") also intervened.

Both BCOAPO and the District submitted that a Negotiated Settlement Process ("NSP"), similar to that concluded in August 2006 for the PNG(N.E.) 2006 Revenue Requirements Application, would be appropriate for this Application. The Commission considered the submissions received, and by Commission Order No. G-3-07, determined that a written regulatory process should be established to review the 2007 Application.

2.0 LOAD FORECAST

PNG(N.E.) submitted updated load forecast numbers as part of its Revised Application, for the FSJ/DC (Exhibit B-10, Tab Rates, FSJ/DC, p. 11) and TR (Exhibit B-11, Tab Rates, Tumbler Ridge, p. 5) Divisions. The methodology for the updated load forecast values appears to have remained the same as that used in the original Application and also further explained in information request ("IR") responses. The Revised Application incorporated 2006 year end actual rather than projected deliveries.

2.1 Fort St. John

Residential

PNG(N.E.) forecasts deliveries of 1,074,381 GJ to its residential customers in Fort St. John. This is the product of the test year weighted average customer count and the test year average use per account (Exhibit B-10, Tab Rates, FSJ/DC, p. 11, Exhibit B-13, BCUC 3.4.1, p. 4).

The weighted average customer count for the 2007 test year is 8,809. This equals the residential customer count at December 31, 2006 plus the forecast test year net customer additions multiplied by a 35 percent equivalence factor (Exhibit B-10, Tab Rates, FSJ/DC, p. 11; Exhibit B-5, BCUC 2.2.1, p. 1). The test year average use per residential account is 122.0 GJs and is calculated as the mid-point between the normalized 2006 actual use per account and the linear trend 2007 figure (Exhibit B-1, Tab Application, FSJ/DC, p. 18; Exhibit B-10, Tab Rates, FSJ/DC, p. 4).

The approach used to establish both the weighted average customer count and the average use per account is the same as that approved by the Commission for the 2005 test year when the most recent written hearing process was held. The approach was deemed appropriate in light of the marked change in residential use per account in recent years and the establishment of a Rate Stabilization Adjustment Mechanism ("RSAM") account for PNG(N.E.).

The Commission Panel accepts PNG(N.E.)'s 2007 deliveries forecast of 1,074,381 GJ for PNG(N.E.)'s residential customers in Fort St. John.

<u>Small Commercial</u>

PNG(N.E.) forecasts deliveries of 757,812 GJ to its small commercial customers in Fort St. John. This is the product of the test year weighted average customer count and the test year average use per account (Exhibit B-10, Tab Rates, FSJ/DC, p. 11).

The weighted average customer count for the 2007 test year is 1,435. This equals the small commercial customer count at December 31, 2006 plus the forecast test year net customer additions multiplied by a 35 percent equivalence factor (Exhibit B-10, Tab Rates, FSJ/DC, p. 11; Exhibit B-5, BCUC 2.2.1, p. 1). PNG(N.E.) noted that several small commercial customers converted to commercial transportation service in late 2006 and others have converted in 2007.

The test year average use per account is 527.9 GJ and is lower than the mid-point between the normalized 2006 actual use per account and the linear trend 2007 figure. PNG(N.E.) has reduced the forecast of the small commercial customer use per account figure in 2007 in its revised Application from the mid-point to reflect the impact of small commercial customers converting to commercial transportation service. PNG(N.E.) explained that the downward adjustment is necessary as the small commercial customers converting to commercial transportation service have been customers with above average gas consumption levels in the small commercial customer class (Exhibit B-13, BCUC 3.4.1, p. 4).

The approach used to establish both weighted average customer count and average use per account is consistent with that used for the 2005 residential forecast deliveries accepted by the Commission as described above, and is based on the same methodology approved for the small commercial forecast deliveries by the Commission for the 2005 test year.

The Commission Panel accepts PNG(N.E.)'s 2007 deliveries forecast of 757,812 GJ for PNG(N.E.)'s small commercial customers in Fort St. John.

<u>Large Commercial</u>

PNG(N.E.) forecasts deliveries of 136,000 GJ to its large commercial customers in Fort St. John (Exhibit B-10, Tab Rates, FSJ/DC, p. 11). The forecast is based on a review of historical deliveries and expected use in 2007 based on discussions with these customers. PNG(N.E.) considers that this is an appropriate methodology given how few customers are in this class (Exhibit B-1, Tab Application, FSJ/DC, p. 22).

The Commission Panel accepts the 2007 deliveries forecast of 136,000 GJ for PNG(N.E.)'s large commercial customers in Fort St. John.

<u>Small Industrial</u>

PNG(N.E.) forecasts deliveries of 162,000 GJ to its small industrial sales customers and 1,243,502 GJ to its small industrial transportation service customers. PNG(N.E.) bases its small industrial load forecast on a review of historical deliveries and expected use in 2007 based on discussions with these customers (Exhibit B-1, Tab Application, FSJ/DC, p. 22), which is the same approach applied in respect of the large commercial customer forecast, described above. The actual small industrial sales figure has included gas sales to a customer that converted to (commercial) transportation service in mid-2006. Hence, the test year 2007 figures reflect the impact of this change with lower small industrial sales and higher industrial transportation service compared to actual 2006 figures (Exhibit B-13, BCUC 3.4.1, p. 5).

The Commission Panel accepts the 2007 deliveries forecast of 162,000 GJ and 1,243,502 GJ for PNG(N.E.)'s small industrial sales and small industrial transportation service customers, respectively in Fort St. John.

Commercial Transportation Services

On September 26, 2006, PNG(N.E.) filed a new commercial transportation service tariff, effective November 1, 2006, . By Order No. G-126-06, the Commission approved the new tariff on an interim basis pending review under this Application.

PNG(N.E.) forecasts deliveries of 59,100 GJ to its commercial transportation service customers. Given 23 customers forecast in this class (Exhibit B-13, BCUC 3.5.1, p. 8), PNG(N.E.) bases its 2007 forecast on discussions with each of the customers (Exhibit B-1, Tab Application, FSJ/DC, p. 22).

The Commission Panel accepts the 2007 deliveries forecast of 59,100 GJ for PNG(N.E.)'s commercial transportation service customers in Fort St. John.

2.2 Dawson Creek

Residential

PNG(N.E.) forecasts deliveries of 626,359 GJ to its residential customers in Dawson Creek. This is the product of the test year weighted average customer count and the test year average use per account (Exhibit B-1, Tab Application, FSJ/DC, p. 20-21; Exhibit B-10, Tab Rates, FSJ/DC, p. 11).

The weighted average customer count for the 2007 test year is 5,200 (Exhibit B-10, Tab Rates, FSJ/DC, p. 11). This equals the residential customer count at December 31, 2006 plus the forecast test year net customer additions multiplied by a 35 percent equivalence factor. The test year average use per account is 120.4 GJ and is calculated as the mid-point between the normalized 2006 actual use per account and the linear trend 2007 figure (Exhibit B-1, Tab Application, FSJ/DC, p. 20; Exhibit B-10, Tab Rates, FSJ/DC, p. 7).

The approach used by PNG(N.E.) for the Dawson Creek residential 2007 deliveries forecast is the same as that accepted by the Commission for the Fort St. John residential forecast as noted above.

The Commission Panel accepts PNG(N.E.)'s 2007 deliveries forecast of 626,359 GJ for PNG(N.E.)'s residential customers in Dawson Creek.

Small Commercial

PNG(N.E.) forecasts deliveries of 467,125 GJ to its small commercial customers in Dawson Creek. This is the product of the test year weighted average customer count and the test year average use per account (Exhibit B-1, Tab Application, FSJ/DC, p. 20-21; Exhibit B-10, Tab Rates, FSJ/DC, p. 11).

The weighted average customer count for the 2007 test year is 732. This equals the small commercial customer count at December 31, 2006 plus the forecast test year net customer additions multiplied by a 35 percent equivalence factor (Exhibit B-1, Tab Application, FSJ/DC, pp. 20-21; Exhibit B-5, BCUC 2.2.0; Exhibit B-10, Tab Rates, FSJ/DC, p. 11). The test year average use per account is 638.1 GJ and is calculated as the mid-point between the normalized 2006 actual use per account and the linear trend 2007 figure, with a downward adjustment as explained below (Exhibit B-1, Tab Application, FSJ/DC, pp. 20-21; Exhibit B-10, Tab Rates, FSJ/DC, p. 7). The approach used by PNG(N.E.) for the Dawson Creek small commercial 2007 deliveries forecast is the same as that accepted by the Commission for the Fort St. John small commercial forecast as noted above.

PNG(N.E.) has reduced the forecast of the small commercial customer use per account figure in 2007 in its revised Application to reflect the impact of small commercial customers converting to commercial transportation service. PNG(N.E.) explained that the downward adjustment is necessary as the small commercial customers converting to commercial transportation service have been customers with above average gas consumption levels in the small commercial customer class (Exhibit B-13, BCUC 3.4.1, p. 6).

The Commission Panel accepts PNG(N.E.)'s 2007 deliveries forecast of 467,125 GJ for PNG(N.E.)'s small commercial customers in Dawson Creek.

Large Commercial

PNG(N.E.) forecasts deliveries of 128,600 GJ to its large commercial customers in Dawson Creek. The forecast is based on a review of historical deliveries and expected use in 2007 based on discussions with these customers. PNG(N.E.) considers that this is an appropriate methodology given that only 12 customers are in this class in 2006 (Exhibit B-1, Tab Application, FSJ/DC, p. 22; Exhibit B-10, Tab Rates, FSJ/DC, p. 11; Exhibit B-13, BCUC 3.5.1, p. 8). This is the same approach accepted by the Commission with respect to the large commercial customer forecast for Fort St. John, described above.

The Commission notes that there is a significant decrease in forecast deliveries for this customer class in the Revised FSJ/DC Application relative to the original Application, which forecast 161,599 GJ for this rate class (Exhibit B-1, Tab Application, FSJ/DC, p. 22). The Revised FSJ/DC Application provided no explanation or confirmation as to whether the decline is due to customer reclassifications or forecasting errors in the original Application.

As required in Commission Order No. G-42-05 in respect of PNG(N.E.)'s 2005 Rate Application, the Commission Panel again directs PNG in future applications to explicitly identify the cause of any significant data variations between application years and between application iterations.

Based on the Revised Application, the Commission Panel accepts the 2007 deliveries forecast of 128,600 GJ for PNG(N.E.)'s large commercial customers in Dawson Creek.

Small Industrial

PNG(N.E.) forecasts deliveries of 50,498 GJ to its small industrial customer in Dawson Creek, based on a review of historical deliveries and expected use in 2007 based on discussions with the customers (Exhibit B-10, Tab Rates, FSJ/DC, p. 11). The forecast of deliveries to the small industrial customer in Dawson Creek is subject to a deliveries deferral account in view of the year to year volatility of deliveries to this customer.

The Commission Panel accepts the 2007 deliveries forecast of 50,498 GJ for PNG(N.E.)'s small industrial customers in Dawson Creek.

Commercial Transportation Services

PNG(N.E.) filed a new commercial transportation service tariff, effective November 1, 2006, with the Commission on September 26, 2006. By Order No. G-126-06, the Commission approved the new tariff on an interim basis pending review under this Application.

PNG(N.E.) forecasts deliveries of 63,900 GJ to its commercial transportation service customers. Given 23 customers forecast in this class (Exhibit B-13, BCUC 3.5.1, p. 12), PNG(N.E.) bases its 2007 forecast on discussions with each of the customers (Exhibit B-1, Tab Application, FSJ/DC, p. 22).

The Commission Panel accepts the 2007 deliveries forecast of 63,900 GJ for PNG(N.E.)'s commercial transportation service customers in Dawson Creek.

2.3 Tumbler Ridge

Residential

PNG(N.E.) forecasts deliveries of 81,971 GJ to its residential customers in Tumbler Ridge. This value is the product of the test year weighted average customer count and the test year average use per account (Exhibit B-11, Tab Rates, TR, p. 5).

The weighted average customer count for the 2007 test year is 1,076. This equals the residential customer count at December 31, 2006 plus the forecast test year net customer additions multiplied by a 35 percent equivalence factor (Exhibit B-5, BCUC 2.2.1, p. 1). The test year average use per account is 76.2 GJ and is calculated as the mid-point between the normalized 2006 actual use per account and the linear trend 2007 figure (Exhibit B-10, Tab Rates, TR, p. 5, Exhibit B-13, BCUC 3.7.1, p. 15).

The approach used by PNG(N.E.) for the Tumbler Ridge residential 2007 deliveries forecast is the same as that accepted by the Commission for the Fort St. John and Dawson Creek residential forecasts as noted above.

The Commission Panel accepts PNG(N.E.)'s 2007 deliveries forecast of 81,971 GJ for PNG(N.E.)'s residential customers in Tumbler Ridge.

Small Commercial

PNG(N.E.) forecasts deliveries of 41,307 GJ to its small commercial customers in Tumbler Ridge. This value is the product of the test year weighted average customer count and the test year average use per account (Exhibit B-11, Tab Rates, TR, p. 5).

The weighted average customer count for the 2007 test year is 67. This equals the small commercial customer count at December 31, 2006 plus the forecast test year net customer additions multiplied by a 35 percent equivalence factor (Exhibit B-5, BCUC 2.2.1). The test year average use per account is 616.5 GJ and is calculated as the mid-point between the normalized 2006 actual use per account and the linear trend 2007 figure (Exhibit B-10, Tab Rates, TR, p. 5).

The approach used by PNG(N.E.) for the Tumbler Ridge small commercial 2007 deliveries forecast is the same as that accepted by the Commission for the Fort St. John and Dawson Creek small commercial forecasts as noted above.

The Commission Panel accepts PNG(N.E.)'s 2007 deliveries forecast of 41,307 GJ for PNG(N.E.)'s small commercial customers in Tumbler Ridge.

Large Commercial

PNG(N.E.) forecasts deliveries of 19,000 GJ to its large commercial customers in Tumbler Ridge (Exhibit B-11, Tab Rates, TR, p. 5). The forecast is based on a review of historical deliveries and expected use in 2007 based on discussions with these customers (Exhibit B-1, Tab Application, TR, p. 18). This is generally the same forecasting approach accepted by the Commission with respect to the large commercial customer forecast for Fort St. John and Dawson Creek, described above.

The Commission Panel accepts the 2007 deliveries forecast of 19,000 GJ for PNG(N.E.)'s large commercial customers in Tumbler Ridge.

<u>Industrial Transportation Service</u>

PNG(N.E.) forecasts deliveries of 650,000 GJ to CNRL, the only customer in the industrial transportation service customer class in Tumbler Ridge (Exhibit B-13, BCUC 3.5.1, p. 13).

CNRL's actual consumption in 2006 was 674,953 GJ (Exhibit B-13, BCUC 3.7.1, p. 15), surpassing the 2006 NSP budget of 533,700 GJ. CNRL advised PNG(N.E.) that an additional compressor has been operating at their wellhead facilities since May 2006, and that forecast gas deliveries for 2007 would exceed 850,000 GJ. Given the uncertainty of the volume of deliveries to CNRL based on the impact of the new compressor, PNG(N.E.) requests Commission approval of a gas deliveries deferral account in 2007 to record the difference between actual deliveries and forecast deliveries of 650,000 GJ for test year 2007.

In light of the 2006 actual volume of gas deliveries, the Commission Panel determines that the appropriate forecast is 700,000 GJ for the industrial transportation service deliveries in Tumbler Ridge. The increase of 50,000 GJ in the forecast delivery to CNRL will result in an increase in revenue sufficiency by approximately $4,000 (50,000 GJ x $0.08 margin = $4,000, Exhibit B-10, Tab Rates, Tumbler Ridge, p. 3). The Commission Panel also approves a gas deliveries deferral account, as requested in the Application.

3.0 RATE BASE AND CAPITAL EXPENDITURES

3.1 Fort St. John/Dawson Creek

Total capital additions in 2007 are forecast to be $2,642,000 (Exhibit B-10, Tab 2, FSJ/DC, p. 3). The increase in capital additions for 2007 compared to 2006 is mainly due to additions of the following new projects in 2007 (Exhibit B-1, Tab Application, FSJ/DC, p. 17; Exhibit B-4, BCUC 1.15.1, p. 34).

Major Projects in the Capital Additions for 2007 (Exhibit B-4, BCUC 1.15.1, p. 34)	Budgeted Cost
Fort St. John – Station Relocation	$174,000
Secondary Odorant Containment	$72,000
Upgrades Station Relief Valves	$21,000
Measurement Upgrades	$11,000
Dawson Creek – Station Relocation	$26,000
Other Minor items	$37,000
Total	**$341,000**

The Application does not provide a breakdown of major capital projects that comprise the forecast capital expenditures of $2.6 million for 2007. Only new capital additions for 2007 compared to 2006 ($341,000, reproduced in the table above) are listed. It appears that the rest of 2007 capital expenditures are due to customer growth.

The Commission Panel has reviewed the further justification for these new capital projects as contained in the Utility's response to BCUC 1.15.1 and hereby accepts the capital additions forecast for the Fort St John/Dawson Division. However, the Commission Panel requires PNG(N.E.), in the next revenue requirements application, to include a list of major capital projects that comprise the total forecast capital expenditure for the test year, along with a brief project description for each of them, and to break out these capital projects in three categories: new additions, customer growth (i.e. capital additions required for customer growth), and sustainment (i.e. capital additions required for sustainment of operations).

3.2 Tumbler Ridge

Total capital additions in 2007 are forecast to be $181,000 (Exhibit B-11, Tab 2, TR, p. 3), including the replacement of a half-ton pickup truck that will reach the end of its useful life in 2007.

Major Projects in the Capital Additions Budget of $181,000 (Exhibit B-4, BCUC 1.31.1, p. 54)	Budgeted Cost
Annual Gas Processing Plant Turnaround	$50,000
Secondary odorant containment	$23,000
Heat tracing upgrade	$32,000
Replacement of one vehicle	$41,000
Measurement upgrades	$8,000
Other minor items	$27,000
Total	**$181,000**

The Application does not provide a breakdown of major capital projects that comprise the forecast capital expenditures for 2007. Only the incremental capital additions in 2007 compared to 2006 are briefly explained. Nonetheless, the Company's response to BCUC IR No. 1, Question 31.1 provides a breakdown of significant forecast capital additions for 2007 ($181,000, shown in the table above), which explains virtually all 2007 additions (Exhibit B-4, BCUC 1.31.1, p. 54).

The Commission Panel has reviewed the justification for the capital projects as contained in the Utility's response to the Commission's information request and hereby accepts the capital additions forecast for the Tumbler Ridge Division. However, the Commission Panel requires PNG(N.E.), in the next revenue requirements application, to include a list of major capital projects that comprise the total forecast capital expenditure for the test year, along with a brief project description for each of them.

3.3 Transfers to Capital

PNG(N.E.) proposes that 19.12 percent of overhead should be allocated to capital projects for Fort St. John/Dawson Creek Division (Exhibit B-1, Tab Application, FSJ/DC, p. 10; Exhibit B-4, BCUC 1.7.1, p. 15) and 4.68 percent for Tumbler Ridge Division (Exhibit B-1, Tab Application, TR, p. 8). The percentage of overheads allocated to capital projects is based on the budgeted component of direct labour in capital projects expected to be completed during the test year divided by total labour. PNG(N.E.) requests Commission approval to fix the transfer rates as a percentage of actual overhead expenses, regardless of the actual component of direct labour in capital projects completed in 2007.

The Commission Panel accepts the overhead capitalization rate of 19.12 percent for the Fort St. John/Dawson Creek Division and 4.68 percent for the Tumbler Ridge Division. While the Commission Panel considers that using a pre-determined fixed overhead capitalization rate to compute actual transfers to capital could be subject to large variances, compared to actual direct labour spent on capital projects, it will accept, for the purposes of this Application, PNG(N.E.)'s methodology.

3.4 Cash Working Capital

PNG(N.E.) proposes to remove customer deposits as a credit to cash working capital as it pays interest on the customer deposits. PNG(N.E.) noted this was an "oversight for many years" (Exhibit B-1, Tab Application, FSJ/DC, p. 13). This change would cause an increase in the rate base. To mitigate the incremental impact on the rate base, PNG(N.E.) further proposes to adopt a methodology utilized by Terasen Gas Inc. i.e., to use the customer deposit funds as a source of short-term debt with a rate equal to the rate paid on the deposits, which is lower than the Utility's short-term borrowing rate allocated by PNG (Exhibit B-4, BCUC 1.11.1, p. 26; Exhibit B-10, Tab 5, FSJ/DC, p. 2).

PNG(N.E.) acknowledged a technical error in the calculation of the Budget Billing Plan, an input to the cash working capital, with respect to the FSJ/DC division in its Revised Application (Exhibit B-13, BCUC 3.2.3, p. 2). The correction would reduce the revenue deficiency, as set forth in the Revised Application, by $14,000 for the FSJ/DC Division. PNG(N.E.) agrees to correct this error when it files its final regulatory schedules following the release of the Commission's decision on this Application.

The Commission Panel accepts the removal of customer security deposits as a credit to cash working capital. Further, the Commission Panel agrees with the proposal to use customer security deposits as a source of short-term debt with the financing rate equal to the rate of interest that PNG(N.E.) pays on the customer deposits. The revenue deficiency for the FSJ/DC Division, as set forth in the Revised Application, will be reduced by $14,000.

3.5 Rate Base

The combined rate base for the FSJ/DC Division and TR Division is set to increase from $31.2 million under NSP 2006 to $33.5 million in the 2007 test year (Exhibit B-10, Tab 2, FSJ/DC, p. 1, Exhibit B-11, Tab 2, TR, p. 1). Besides capital additions, main contributing factors are credit adjustments to accumulated depreciation as a result of a detailed and extensive analysis of asset retirement records conducted in 2006 (addressed in Section 4.7 later), and adjustments to cash working capital by removing customer deposits as a credit to cash working capital, as noted and discussed above.

4.0 EXPENSES

4.1 Company Use Gas: Fort St. John/Dawson Creek

The Company Use Gas component is made up of blowdowns and losses, line heater consumption, and UAF. PNG(N.E.) agreed to follow the same methodology under the 2006 NSP to set its test year Company Gas requirement at 1.11 percent of forecast gas deliveries. The Utility seeks Commission approval to continue its use of the UAF volume deferral account, established under the NSP 2006, in the test year to record the difference of actual and forecast UAF volumes. The UAF volume is calculated as the difference between the total Company Use Gas requirement, multiplied by 1.11 percent factor, and the forecast requirements for line heaters, blowdowns and losses based on average actual figures for the 2002-2006 five-year period (Exhibit B-4, BCUC 1.14.3, p. 33).

With the forecast total gas deliveries of 4,769,277 GJ in 2007, the Company Use Gas requirement is set to 52,940 GJ, or 1.11 percent of deliveries (Exhibit B-10, Tab Rates, FSJ/DC, p. 16). The 2007 projected cost of Company Use Gas is based on the forecast of gas prices using the February 16, 2007 forward gas strip and the projection of the quantity of gas PNG(N.E.) expects to purchase for company use. Assuming that forecast gas usage for lineheaters and blowdowns remain unchanged from the original Application, the UAF loss in 2007 is forecast to be 0.68 percent of the overall revised gas deliveries (52,940 GJ – 15,239 GJ – 5,036 GJ)/(52,940 GJ ÷ 1.11%) (Exhibit B-4, BCUC 1.14.3, p. 33).

The Commission Panel approves the unit Company Use Gas cost rate of $0.091/GJ, effective January 1, 2007 (an increase of $0.005/GJ over the interim 2007 rate of $0.086/GJ approved by Commission Order No. G-153-06) and accepts the budgeted level of Company Use Gas and its components, including the UAF which is within reasonable limits considering past years, for the Fort St. John/Dawson Creek Division. Further, the Commission Panel agrees to extend the use of the UAF deferral account in test year 2007.

4.2 Company Use Gas: Tumbler Ridge

The amount of Company Use Gas is forecast to be about 12,334 GJ or 8.67 percent of total gas deliveries in 2007 for the Tumbler Ridge Division (Exhibit B-11, Tab Rates, TR, p. 8).

The Commission Panel approves the unit Company Use Gas cost rate of $0.611/GJ, effective January 1, 2007 (an increase of $0.124/GJ above the interim rate of $0.487/GJ approved by Commission Order No. G-153-06) and accepts the budgeted level of Company Use Gas for the Tumbler Ridge Division. Further, the Commission Panel agrees to extend the use of the UAF deferral account in test year 2007.

4.3 Operating, Maintenance, and Administrative and General ("OMA&G") Costs

Operating Expenses for Fort St. John/Dawson Creek

PNG(N.E.) FSJ/DC Division projects a total operating expense of $3.15 million (excluding company gas cost, net of transfers to capital) in 2007, an increase of $119,000, or 3.9 percent higher than the NSP 2006 target of $3.03 million (Exhibit B-10, Tab Application, FSJ/DC, p. 3). PNG(N.E.) noted a policy change for 2007 and onward regarding charging hand tools costing under $1,000 to the distribution supervision account 670, an operating expense account, instead of a capital account in the past. The overall impact of this policy change is a shift of $28,000 from capital accounts to the expense account 670.

In addition, Shared Services costs allocated by PNG are forecast to increase from $830,000 in NSP 2006 to $928,000 in 2007 test year, or an increase of 11.8 percent. Shared Services costs will be addressed in Section 4.4 later in these Reasons for Decision.

The Commission Panel accepts the proposed operating expenses for the Fort St John/Dawson Creek Division for test year 2007.

Maintenance Expense for Fort St. John/Dawson Creek

PNG(N.E.) FSJ/DC Division projects a total maintenance expense of $270,000 in 2007 test year, an increase of $29,000 or 12 percent over NSP 2006. Most of the variance is due to a $27,000 increase in Account 875 – Mains and Services. PNG(N.E.) attributed increased maintenance on existing mains and services to continued high level of general construction activity in the FSJ/DC service area (Exhibit B-4, BCUC 1.17.1, p. 35).

The Commission Panel is very concerned about the low level of actual 2006 maintenance spending which is $92,000, or 38 percent, below the budget of $241,000 under NSP 2006. The Commission Panel is of the view that adequate maintenance is essential to maintain asset conditions, and ensure safe and reliable services to customers.

The Commission Panel accepts the proposed maintenance expenses for test year 2007, however, is very concerned about the actual low maintenance spending in 2006 and, therefore, directs the Utility to provide a more comprehensive and deliverable maintenance plan in its next revenue requirements application.

Administration and General Expense for Fort St. John/Dawson Creek

PNG(N.E.) FSJ/DC Division forecasts a total administration and general expense of $1,209,000 (before transfers to capital) in the 2007 test year, an increase of $32,000 or 2.7 percent over NSP 2006. Excluding shared service costs allocated by PNG, which is covered in Section 4.4 below, the total administration and general expense for the FSJ/DC Division is forecast to decline from the NSP 2006 cost provision of $700,000 (Exhibit B-10, Tab 1, FSJ/DC, p. 5) to $693,000 (Exhibit B-10, Tab 1, FSJ/DC, p. 5) in 2007.

Over the last seven years since the introduction of centralized shared service, the total administration and general expense, excluding the shared service costs, has risen from $565,000 in 2000 ($1,010 – ($385 + $60) = $565, PNG(N.E.) 2005 Revenue Requirements Application, Exhibit B-1, Tab Application, FSJ/DC, pp. 8-10) to $693,000 in 2007, or at an annualized rate of 3.0 percent.

The Commission Panel accepts the proposed administration and general expenses (excluding shared service charges) for test year 2007 and finds the historical trend of such expenses is reasonable.

4.4 Shared Service Charges for Fort St. John/Dawson Creek and Tumbler Ridge

PNG(N.E.) receives allocated costs from PNG for shared services such as customer care, engineering, administration, and corporate services. The allocation is based on time spent, customer count, employee count or rate base. In 2007, a 36.6 percent fringe benefit surcharge is attached to any labour included in the cost pool (Exhibit B-1, Tab Application, FSJ/DC, p. 9).

The shared service charges budgeted for the FSJ/DC Division amount to $1.66 million in 2007, an increase of $155,000, or 10.3 percent over the NSP 2006 target. PNG(N.E.) explained that $203,951 new expenses are included in the Terrace management cost pool that is allocated based on customer counts (Exhibit B-4, BCUC 1.6.5.3, p. 14). The addition of two management labour (from "two plus 0.35 of one other" in the 2006 PNG(N.E.) FSJ/DC Division Revenue Requirements Application to "four plus 0.35 of one other" in the current Application) to the cost pool and the related benefits surcharge for services cover the provision of lands and rights of way administration, marketing/customer messages, vehicle fleet management and safety program administration. As these services were provided by PNG for the past few years, the Utility acknowledged that it was an "inadvertent oversight" by PNG to not allocate these costs to FSJ/DC and TR divisions in prior years (Exhibit B-4, BCUC 1.6.5.1, p. 14). Applying the 2007 customer count allocation percentage of 40.9 percent proposed for the FSJ/DC Division, $83,416 is now allocated to the Fort St. John/Dawson Creek area. Likewise, applying the proposed 2007 customer count allocation percentage of 2.9 percent for the TR Division, $5,915 is allocated to the Tumbler Ridge area.

The allocation percentage on the basis of customer count has increased for the FSJ/DC Division, reflecting an increase in the number of customers in the area compared to the total number of all PNG customers. The allocation based on customer count increases from 39.9 percent in 2006 to 40.9 percent in the test year. Applying the one percent increase to the 2007 pool of costs subject to customer count allocation generates an increase of $19,000 in the shared services expenses (Exhibit B-4, BCUC 1.6.4, p. 13). For the same reason, PNG(N.E.) requests an increase of customer count allocation percentage from 2.8 percent in 2006 to 2.9 percent in 2007 for the Tumbler Ridge Division.

A shared services cost allocation methodology has been in existence since 2000 as a result of a restructuring, which terminated regional over-the-counter services and created a Customer Care Centre in Terrace. Shared services costs allocated to the FSJ/DC Division have risen from $874,000 in 2000 to $1.66 million forecast in

2007, or 90 percent over the last seven years (PNG (N.E.) 2005 Revenue Requirements Application, Tab Application, FSJ/DC, p. 10, Exhibit B-1. Tab Application, FSJ/DC, p. 8).

BCOAPO, in its Final Argument, submitted that overall cost control mechanisms implemented by PNG (West) are important to ratepayers of PNG(N.E.).

The Commission Panel is surprised by PNG's "inadvertent oversight" and is concerned with the rapid increase in shared services cost allocation from PNG to PNG (N.E.), significantly surpassing the customer growth in the region and general inflation rates in the same period.

Having considered PNG's submission in the Application and the Utility's response to information requests, the Commission Panel is not convinced of the appropriateness of the proposed addition to the shared services cost pool in respect of Terrace management. In this regard, the Commission Panel shares BCOAPO's concerns about the cost allocation between PNG (West) and PNG(N.E.) and that, given the relative situation of two utilities, the costs being allocated from PNG (West) to PNG(N.E.) are fair and appropriate.

The Commission Panel approves the proposed changes to customer count allocation percentages. However, the Commission Panel does not accept PNG's request to include the $203,951 new expenses in the shared services cost pool that is allocated based on customer counts. Therefore, the Commission Panel reduces the FSJ/DC revenue deficiency by $83,416 and increases the TR revenue sufficiency by $5,915.

4.5 Property Tax

For the FSJ/DC Division, property taxes in 2007 are projected to be $887,000, an increase of $72,000, or 8.8 percent over the provision set under the NSP 2006, based on expected increases in assessed values and mill rates, the new police tax and a 15 percent increase in the 1 percent in lieu remittance (Exhibit B-4, BCUC 1.8.1, p. 16).

For the TR Division, property taxes are projected to increase from $38,000 under the 2006 NSP to $69,000 in 2007. Actual property taxes paid in 2006, including 1 percent in lieu, were $64,000 (Exhibit B-4, BCUC 1.27.1, p. 49). The Utility noted that the difference between the forecast 2006 property taxes and the actual 2006 property taxes was a correction of the allocation of taxes on certain property in the Dawson Creek Rural assessment jurisdiction which has been identified as property of the Tumbler Ridge Division rather than the

FSJ/DC Division. Higher property taxes in 2007, compared to actual property taxes paid in 2006, are due to expected increases in assessed values and mill rates, the new police tax and a 7 percent increase in the 1 percent in lieu remittance.

The Commission Panel accepts the budgeted increases in property taxes for 2007.

4.6 Inclusion of Bonus in Pensionable Earnings

In the Application PNG(N.E.) explained that in accepting under the NSP 2006 to not include bonuses in pensionable earnings, resulting in a reduction of administrative expenses by $2,000, PNG had considered this to be a “one-off initiative” to reach agreement on the revenue sufficiency for that year. PNG(N.E.) submits that bonuses are a key and normal component of the compensation payable to salaried employees. As there is only one non-union operations manager (Exhibit B-4, BCUC 1.5.1.1, p.8), the Utility proposes to include his bonus payments in pensionable earnings when determining the pension expense recoverable in customer rates. Given the size of the bonus for one employee, PNG(N.E.) notes that there is no impact on 2007 pension expense if his bonus is excluded from pensionable earnings (Exhibit B-4, BCUC 1.5.1.2, p. 9).

In the Decision related to PNG West 2007 Revenue Requirements Application, issued concurrently with this Decision, the Commission Panel allowed one-third of the executive short-term bonuses and all of the non-executive short-term bonuses under the Annual Incentive Plan in pensionable earnings. Therefore, PNG(N.E.) is allowed to include the non-union operations manager’s bonus payment in pensionable earnings for recovery from customers.

4.7 Depreciation Adjustment Credit Deferral Account

As a result of a detailed analysis of property, plant and equipment cost and retirement records conducted in 2006, various assets were identified with which adjustments to accumulated depreciation are made. PNG(N.E.), in its response to the Commission’s information request (Exhibit B-4, BCUC 1.10.3, p. 20), provided the following situations, which required adjustments:

> (1) Assets were identified where accumulated depreciation recorded exceeded the original cost. For these assets, accumulated depreciation was debited and the depreciation adjustment deferral was credited.

(2) Assets were identified where the asset was classed to the wrong class at acquisition. For these assets, the original cost was reclassified to the correct asset class and the accumulated depreciation was recalculated assuming the depreciation rate for the correct class had been applied from the date of acquisition. These corrections resulted in both increases and decreases to accumulated depreciation.

(3) Assets were identified where the asset had been disposed, but no retirement had been recorded. For these assets, the retirement was recorded to reflect the disposal in the appropriate year, if known. The over-depreciated amount was debited with an equivalent credit to the depreciation credit adjustment deferral.

(4) Assets were identified where the asset had been disposed and a retirement recorded but the retirement entry was incorrect (e.g. original cost amount used for the retirement was an estimate). For these assets, the correction to the retirement was recorded and the accumulated depreciation was adjusted as necessary, with an equivalent entry to the depreciation adjustment credit deferral.

For the FSJ/DC Division, the overall adjustments to the accumulated depreciation amounted to $525,000 in 2006. PNG(N.E.) proposes to set up a new credit deferral account for depreciation adjustment and amortize the depreciation credit in rates over the 2007/2008 two-year period, consistent with the effective two-year amortization period that applied to a similar deferred account applicable in the PNG-West Division in 2006 and 2007 (Exhibit B-1, Tab Application, FSJ/DC, p. 12). The proposed amortization in test year 2007 for depreciation adjustment is $294,000 (Exhibit B-10, Tab 2, FSJ/DC, p. 9)

For the TR Division, the overall adjustments to the accumulated depreciation amounted to $288,000 in 2006. PNG(N.E.) proposes to establish a new depreciation adjustment credit deferral account for the Tumbler Ridge Division to amortize part of this credit deferral for 2006 to offset the balance of two debit deferral accounts - the Babcock line break and Tumbler Ridge processing plant upset which have a combined total of $131,000 at the end of 2006. The Babcock line break costs were being amortized over ten years as applied for in PNG (N.E.)'s 2003 revenue requirements application and approved by Commission Order No. G-22-03. The Tumbler Ridge processing plant upset costs were also being amortized over ten years as applied for in PNG (N.E.)'s 2006 revenue requirements application and approved by Commission Orders No. G-122-05 and G-100-06. PNG proposes that the net balance of the new credit deferral account ($157,000) be amortized over a 2007/2008 two-year period. The Commission agrees that the proposed offset with the two debit deferral accounts and two-year amortization period for the net credit balance is reasonable and appropriate.

The Commission Panel approves for PNG(N.E.) a Depreciation Adjustment Credit Deferral Account to amortize the 2006 year-end balance of $525,000 over the 2007 and 2008 two-year period for the FSJ/DC Division.

For the TR Division, the Commission Panel approves the Utility's proposal to establish a new depreciation adjustment credit deferral account and to offset $131,000 of the credit balance in this account with the 2006 debit deferral account balances in the Babcock line break and Tumbler Ridge processing plant upset debit deferral accounts. The Commission Panel approves a two-year (2007/2008) amortization period for the net balance of $157,000 in the new depreciation adjustment credit deferral account.

4.8 Separation of Bank Fees and Expenses from Interest Expenses

PNG(N.E.) proposes a change to the methodology for accounting for bank fees and expenses that are comprised of service/transaction fees, stand-by fees, and renewal fees & expenses (Exhibit B-1, Tab Application, FSJ/DC, p. 15; Exhibit B-1, Tab Application, TR, p. 14). Currently none of the bank fees and expenses incurred by PNG are directly allocated to PNG(N.E.) (Exhibit B-4, BCUC 1.13.1, p. 28). Although PNG charges PNG(N.E.) for interest expenses at prime rates on the PNG(N.E.)'s actual short-term borrowings, the Utility's forecast short-term interest rate includes a premium over the forecast prime rate to recover bank fees and expenses. The premium implied under the NSP 2006 was 1.16 percent (Exhibit B-4, BCUC 1.13.4, p. 30). Actual fees and expenses, along with interest expense variances between actual and forecast interest rates, are recorded in the short-term interest deferral account. PNG(N.E.) noted that the current methodology did not allow for a very accurate allocation of fees and expenses to the PNG(N.E.) operating divisions.

The proposed methodology for test year 2007 separates bank fees and non-interest expenses from interest expenses or income. Bank fees and expenses are treated in the same way as the Commission hearing costs, and are budgeted and allocated to each operating division accordingly. The short-term interest deferral account is used to track the following categories of differences:

(1) the difference between actual and forecast bank fees and expenses; and

(2) the difference between the actual prime and forecast prime rate applied to the Utility's actual short-term debt balance.

The Commission Panel accepts the proposed separation of bank fees and expenses from interest expenses and incomes for the purposes of forecasting and tracking, and approves the proposed methodology for deferral of the difference between actual and forecast bank fees and expenses in the short-term interest deferral account.

4.9 Long-Term Debt Interest Expense Deferral

PNG(N.E.) FSJ/DC Division presently uses a short-term interest deferral account to capture variances of actual and forecast interest expenses on the two RoyNat loans (Series 2010 and Series 2012) that are long-term indebtedness bearing floating interest rates (Exhibit B-4, BCUC 1.12.1, p. 28).

PNG plans to raise $12.5 million new long-term debt, of which $7.5 million will be loaned to PNG(N.E.), by the end of the first quarter in 2007. Of the $7.5 million loan to PNG(N.E.), $7.2 million is proposed for the Fort St. John/Dawson Creek Division, with the remainder allocated to the Tumbler Ridge Division (Exhibit B-1, Tab Application, FSJ/DC, p. 14). The new debt facility will have a term to maturity of 20 years and its credit spread is comparable to existing long-term debt series. PNG(N.E.) proposes to capture the difference of actual interest rate and the forecast interest rate on this anticipated long-term debt issue in a new long-term interest deferral account (Exhibit B-4, BCUC 1.12.1, p. 28).

The Commission Panel approves a new long-term interest deferral account to capture the interest rate differentials between the actual and forecast interest rates on the planned new long-term debt issue in 2007. Further, the Commission Panel requires PNG(N.E.) to capture interest deferrals on the two RoyNat loans in the new long-term interest deferral account and transfer the existing interest deferrals on the RoyNat loans from the short-term interest deferral account to the new long-term interest deferral account.

5.0 PNG(N.E.) /CNRL SERVICE AGREEMENT

PNG(N.E.) advises that it has entered into a new Service Agreement with CNRL effective January 1, 2007. The modified rate structure under the new agreement is reflected in this Application for the Tumbler Ridge Division. The Utility requests that the Commission approve the new Service Agreement as part of its decision on the 2007 Tumbler Ridge revenue requirements application.

The Service Agreement replaces the contract between PNG(N.E.) and CNRL dated October 14, 1994 ("1994 Agreement"). At the end of 2006, PNG(N.E.) received a termination notice from CNRL in accordance with Section 2.1 of the 1994 Agreement. The majority of the terms and conditions under the 1994 Agreement are the same under the new Service Agreement. The major differences are as follows:

1. Article 2.1 - Term – The term clause has been changed to provide for two year evergreen extensions which allow the three year term ending January 1, 2010 to extend by two years to January 1, 2012 if either party does not provide the other with at least one calendar year's notice of termination before January 1, 2009. Therefore if notice of termination is not provided in one calendar year before January 1, 2009 then the agreement is extended by two years to January 2012.

   This has the effect of providing for a termination notice every two years after January 1, 2010. Since CNRL is the sole gas supplier to Tumbler Ridge customers, the longer the evergreen renewal term the greater is the security of supply.

2. Article 2.4 - Shipper Service – CNRL is both a shipper of its own gas on PNG(N.E.)'s pipeline system and also the sole supplier of gas to Tumbler Ridge customers. Therefore CNRL's gas supply obligations are set out to clarify its responsibilities.

3. Article 3 – Curtailment of gas service – PNG(N.E.) supplies interruptible gas up to a maximum of 20,000 GJ/year to only one customer, CNRL and as an interruptible customer its service will be curtailed before firm service to other customers. Under this Article, PNG(N.E.) agrees that any new or existing customer that takes more than 20,000 GJ/year must be an interruptible customer and subject to curtailment. Therefore, CNRL's priority of service is protected.

4. Article 4.1 – Tolls – Under the proposed Service Agreement, CNRL pays $10,000 per month as a monthly fixed charge and as of January 1, 2007 the unit fee will be $.301/GJ for all deliveries during the year.

   This rate structure is more consistent with PNG(N.E.)'s industrial transportation service customers in the Fort St. John Division and simplifies the billing process as the 400,000 GJ threshold does not require tracking.

5. Article 4.6 – Interconnection and Metering Facility Costs – PNG(N.E.) will be installing metering equipment at the interconnection of PNG(N.E.)'s transmission pipeline and CNRL's fuel gas lines. CNRL will pay PNG(N.E.)'s metering equipment installation costs while PNG(N.E.) will own and operate the metering facilities.

6. Article 5.2 – Source of Raw Gas – The carbon dioxide and sulphur content in raw gas supplied by CNRL to PNG(N.E.) is specified.

7. Article 6 – Statement and Payments – CNRL is required to pay the invoice by the 25th day of the month in which the invoice is received rather than 30 days after receipt of the invoice.

8. Article 10.4 – Gas Reserves Study – CNRL has agreed to provide PNG(N.E.) with updated gas reserve studies on a confidential basis every year by July 1 to confirm CNRL has sufficient supplies of gas to satisfy three calendar year's amount of gas requirements for Tumbler Ridge customers.

The Commission Panel, pursuant to Section 71(1) of the Act, accepts for filing the PNG(N.E.)/CNRL Service Agreement effective January 1, 2007, and determines that this Agreement is in the public interest.

6.0 DEMAND SIDE MANAGEMENT

In its response to MEMPR Information Request No. 1, PNG(N.E.) discussed, by reference to a PNG West response to MEMPR Information Request No. 1, question 3.1, its actions and plans to address the need for new customers. In that response PNG(N.E.) identified that it is currently working in conjunction with the B.C. Ministry of Energy, Mines and Petroleum Resources and BC Hydro to assist its customers in reducing their energy consumption through a series of rebate programs. Such programs are commonly called Demand-Side Management ("DSM") programs.

In its Final Submission dated March 22, 2007, MEMPR identified that the Province's February 2007 Energy Plan encourages utilities to develop cost-effective DSM programs and rate designs that encourage efficiency and conservation. MEMPR submitted that PNG(N.E.) should submit a DSM program for review and approval by the Commission, and should address DSM in conjunction with other utilities to identify barriers to the implementation of reasonable and cost effective programs and to identify potential solutions.

PNG(N.E.) in its Reply Argument dated March 30, 2007 stated that PNG(N.E.) would be prepared to establish DSM programs in its service area "…when appropriate price signals for other fuels are in place, particularly for electricity, to ensure gas is used in all applications where it is the most economically efficient fuel choice".

The Commission Panel notes that the Energy Plan encourages the identification of barriers to DSM. In PNG(N.E.)'s case one of these barriers may be the high cost of gas driving customers to alternative fuel sources. Another potential barrier is the impact of lost revenues on PNG(N.E.)'s rates. Such lost revenues would tend to increase the rates for all customers and potentially, in the circumstance of PNG(N.E.), drive more customers off the system. The use per account statistics provided for the residential and small commercial customer classes show reductions in average annual use per account ranging from approximately 11 percent to 26 percent over the last ten or eleven years (Exhibit B-4, BCUC 1.35.2, pp. 62-68). As this was an issue raised late in the hearing, it is unclear to what extent the reduction in use per account for several customer classes is a result of DSM programs or of the relative price of gas to alternative fuel, which may cause fuel switching or conservation by customers.

PNG(N.E.) is directed to address DSM and the barriers to DSM in its next Revenue Requirements Application. PNG(N.E.) should discuss the extent to which additional DSM activity is appropriate in the context of the relative level of consumer energy rates in the PNG(N.E.) service area. PNG(N.E.) is also directed to advise the Commission by June 30, 2007 of the status of PNG(N.E.)'s efforts with MEMPR to assist customers in reducing their energy consumption and of the status of any new programs or extensions to existing programs that expired on March 31, 2007.

7.0 RETURN ON EQUITY AND CAPITAL STRUCTURE

PNG(N.E.)'s rate of return on equity is based on a Commission approved rate of return for a low-risk benchmark utility plus an approved risk premium, 40 basis points for the FSJ/DC Division and 65 basis points for the TR Division. As the allowed return on equity for a low-risk benchmark utility in 2007 is 8.37 percent, the allowed return on equity is 8.77 percent for the FSJ/DC Division and 9.02 percent for the TR Division. PNG(N.E.) has applied to maintain a deemed common equity component of 36 percent for both the FSJ/DC Division and TR Division, unchanged from the 2005 rate setting decision and the NSP 2006 provision.

With the amortization of existing long-term loans from PNG, a new loan facility of $7.5 million is proposed by the end of the first quarter 2007. With the addition of this proposed new long-term debt facility, FSJ/DC Division's long-term debt is projected to increase to 54.7 percent of the total capitalization in 2007 (Exhibit B-10, Tab 5, FSJ/DC, p. 1), up from 44.7 percent in 2006. Likewise, TR Division's long-term debt will account for 56.0 percent of the total capitalization in 2007 (Exhibit B-11, Tab 5, TR, p. 1), up from 50.8 percent in 2006.

The Commission Panel accepts the common equity component of 36 percent and the proposed capital structure, including the percentage mix of the short-term borrowings and long-term debt.