



**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-165-07

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

and

**Application by Pacific Northern Gas Ltd.
(PNG-West and Granisle)
for Approval of 2008 Revenue Requirements and Rates**

BEFORE: L.A. O'Hara, Commissioner December 19, 2007

O R D E R

WHEREAS:

- A. On October 9, 2007, Pacific Northern Gas Ltd. ("PNG", "PNG-West" and "Granisle") filed for approval of its 2008 Revenue Requirements Application ("the Application") to amend its rates on a permanent basis, effective January 1, 2008, pursuant to Section 58 of the Utilities Commission Act ("the Act"); and
- B. PNG forecasts a revenue deficiency of approximately \$583,000 for the 2008 test year primarily due to a reduction in forecast margin recovery from customers due to lower projected gas deliveries. This revenue reduction is partly offset by the forecast lower cost of service in 2008. PNG estimates the average delivery charge rate increase for residential customers and small commercial customers is 2.2 percent; and
- C. By Order No. G-127-07 dated October 17, 2007 the Commission established a Preliminary Regulatory Timetable and allowed for Intervenor's written submission on the review process; and
- D. The Commission by Order No. G-133-07 dated November 6, 2007 confirmed the Preliminary Regulatory Timetable as permanent and established a Negotiated Settlement Process for the Application; and
- E. By Letter No. L-93-07 dated November 22, 2007 the Commission established the return on common equity ("ROE") for a low-risk benchmark utility for the year 2008; and
- F. On November 23, 2007 PNG provided an update to its Application that revised the revenue deficiency to \$1,474,000. The higher revenue deficiency was mainly from an increase in the ROE from the original forecast of 9.02 percent to the approved of 9.27 percent and from a reduction in the 2008 gas deliveries forecast, in particular to the small industrial customer class; and
- G. The Negotiated Settlement discussions were held in Vancouver on November 27 and 28, 2007. A Negotiated Settlement Agreement was reached among the participants and circulated to all Registered Intervenor's and the Commission on December 7, 2007. No comments were received from the Intervenor's who had not participated in the Negotiated Settlement discussions; and

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H. The Commission has reviewed the Negotiated Settlement Agreement for PNG's 2008 Revenue Requirements and considers that approval is warranted.

NOW THEREFORE pursuant to Section 58 of the Act the Commission orders as follows:

1. The Negotiated Settlement Agreement for PNG's 2008 Revenue Requirements as issued on December 7, 2007 and attached as Appendix A to this Order is approved.
2. PNG is to file an amended Summary of Rates and Bill Comparison schedule based on the Negotiated Settlement Agreement.
3. The Commission will accept, subject to timely filing, amended permanent Gas Tariff Rate Schedules in accordance with this Order.

DATED at the City of Vancouver, in the Province of British Columbia, this 19th day of December 2007.

BY ORDER

Original signed by:

L.A. O'Hara
Commissioner

Attachment



WILLIAM J. GRANT
TRANSITION ADVISOR,
REGULATORY AFFAIRS & PLANNING
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Log No. 22350

VIA E-MAIL

December 7, 2007

Dear Participants and Registered Intervenors:

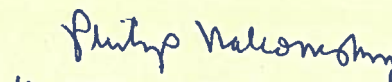
Re: Pacific Northern Gas Ltd. ("PNG")
(PNG-West Division)
Negotiated Settlement
2008 Revenue Requirements Application

Enclosed is the Negotiated Settlement Agreement (the "Agreement") for PNG's 2008 Revenue Requirements Application.

Letters of Comment from the Participants in the negotiated settlement process are enclosed with this settlement package which is now public and is being submitted to the Commission and all Intervenors.

Prior to consideration by the Commission, Intervenors who did not participate in the settlement negotiations are requested to provide to the Commission their comments on the settlement package by December 14, 2007. Thereafter, the Commission will consider the settlement package. A public hearing may not be required unless there is significant opposition to the proposed settlement.

Yours truly,


for William J. Grant

PWN/rt

Attachments

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

**Pacific Northern Gas Ltd.
(PNG-West Division)**

2008 Revenue Requirements Application

NEGOTIATED SETTLEMENT AGREEMENT

November 28, 2007

Introduction

PNG representatives, Commission Staff and registered intervenors met on November 27 and 28, 2007 for the purpose of negotiating a settlement of PNG's 2008 revenue requirements application. The following sets out the agreement reached on November 28, 2007 among the parties that participated in the negotiated settlement process. For reference purposes herein, the original 2008 revenue requirements application dated October 9, 2007, as updated on November 23, 2007, will be referred to as the "Updated Application". The term "NSP 2008" will be used to denote the agreed to settlement terms. This NSP 2008 settlement agreement sets out the agreement reached on each of the items noted below under the heading "Resolution" in each section. Background information on each item is provided under the heading "Issue Description" to put the agreed upon terms in proper context. References to the filed Exhibits pertaining to each item are given under the heading "Reference".

For ease of reference, appended to this settlement agreement is a Table comparing the agreed to NSP 2008 cost of service to the Updated Application cost service. PNG will file a complete set of NSP 2008 regulatory schedules in the same form as the regulatory schedules set forth in the Updated Application immediately upon approval of this NSP 2008 settlement agreement by the Commission.

1. Lump Sum Settlement Allowance

Resolution

A lump sum settlement allowance reduction of \$10,000 is accepted by the parties.

Issue Description

The parties discussed some specific cost of service reductions and decided to make a lump sum adjustment in consideration of those discussions.

Reference

There are no specific Exhibits related to this item.

2. Salaries, Wages and Benefits

Resolution

The applied for provision for wages, salaries, benefits and incentive pay for all employees as set forth in the Updated Application is accepted by the parties.

Issue Description

Commission Staff proposed reductions of \$60,203 to the provision for wages, salaries and incentive pay in 2008 based on calculations that limited increases to two percent compared to comparable figures approved by the Commission under Decision 2007. The parties took notice of the fact that 2007 wage settlements in B.C. have actually been in the range of 3 to 3.5 percent and a one percent adjustment to PNG's labour costs amounted to almost \$60,000.

Reference

Exhibit B-6, BCUC IR No. 1, Question 3.6 Revised

3. Executive Bonuses Included in Pensionable Earnings

Resolution

Consistent with the Commission's Decision on the 2007 revenue requirements application PNG will include only one third of the cost of including executive bonuses in pensionable earnings in the 2008 cost of service.

Issue Description

PNG's 2008 revenue requirements application requested Commission approval to recover 100 percent of the cost of including executive bonuses in pensionable earnings. The Commission allowed the recovery of only one-third of this cost under Decision 2007. The issue was therefore whether the parties could reach agreement on changing the Commission's treatment of this cost under Decision 2007.

Reference

- Decision 2007, Order G-55-07, Appendix A, Pages 14 to 16
- Exhibit B-1, Tab Application, Page 11
- Exhibit B-2, BCUC IR No. 1, Questions 4.1.1, 4.2, 4.3.2 and 4.4

4. Asset Retirement Obligations in Depreciation Rates

Resolution

PNG confirms that its depreciation rates do not include a provision for asset retirement obligations (“ARO”) and no ARO liabilities are carried on PNG’s balance sheet. If and when PNG determines it has ARO’s which must be provided for, PNG will provide the legal or contractual basis for such provision and make a proposal for funding the obligation in its next following revenue requirements application.

Issue Description

The issue concerned the applicability of CICA Handbook Section 3110 Asset Retirement Obligations to PNG.

Reference

Exhibit B-2, BCUC IR No. 1, Question 5.2

5. Stress Corrosion Cracking (“SCC”)

Resolution

The parties accept PNG’s proposal to commence amortizing the existing SCC deferral account in 2008 on a declining balance basis at ten percent per annum rather than building up the amortization based on each separate year’s deferral. PNG confirms that the 2007 SCC amortization expense would be corrected to \$54,000 as provided for under Decision 2007.

Issue Description

The idea of including budgeted SCC costs as part of the annual maintenance budget was discussed. PNG noted that the budgeted SCC costs under Decision 2007 were \$189,000 before tax and the corresponding figure for 2008 was \$146,000. Actual 2007 costs are currently forecast at approximately \$20,000 before tax as set forth in the Updated Application at Tab 2, page 10, line 4. The parties noted that the actual amount of SCC work carried out each year can vary significantly from budgeted work primarily due to the uncertainty around what PNG will discover when investigating potential SCC problem areas based on the in-line inspection results. In particular, PNG’s response to BCUC IR No., Question 6.2.2 showed that SCC costs have varied from a high of \$232,600 net of tax in 1996 to a low of \$8,358 net of tax in 2006. This high degree of variability between budgeted and actual costs supported the agreement to continue the SCC deferral account.

In addition, it was noted that including the budgeted SCC costs in annual maintenance expenses would have increased the 2008 revenue deficiency by approximately \$250,000 (i.e. \$146,000 budgeted SCC costs plus the reduction in transfers to capital of approximately \$103,000). This was considered to be an excessive rate impact and it was noted the SCC deferral account would minimize year to year rate variability. The ten percent per year amortization provision was considered reasonable having regard to the fact that other deferral accounts of a capital nature (i.e. line break, extraordinary plant loss, propane air plant and deactivated facilities) are amortized over ten years.

Reference

Exhibit B-2, BCUC IR No. 1, Questions 6.2.1, 6.2.2, 6.2.3 and 6.3.1

6. Rate Base versus Non-Rate Base Deferral Accounts

Resolution

PNG concurs with Commission Staff's recommended guidelines to determine whether a new deferral account should be in rate base (i.e. expenditures leading to the potential for capital/plant additions) or should be non-rate base attracting return equivalent to AFUDC (i.e. expenditures that require multi-year amortization) or should be non-rate base attracting interest at PNG's borrowing cost (i.e. expenditures that are short term and recovered within the following 12 months). The parties agree there could be exceptions to these guidelines which would be dealt with on a case by case basis.

Issue Description

Commission Staff identified the guidelines summarized in the resolution section above for determining whether a new deferral account should be in rate or be non-rate base attracting either AFUDC or interest. The overall objective is to establish consistency on a go forward basis with respect to determining what treatment to apply to new deferral accounts.

Reference

Exhibit B-2, BCUC IR No. 1, Questions 6.6, 6.7 and 6.8

7. Shared Services Cost Recovery from PNG(N.E.)

Resolution

The shared service costs set forth under NSP 2008 (see attached cost of service comparison table) are accepted by the parties. In particular, the cost allocators and cost pools applied for by PNG are accepted by the parties.

Issue Description

Commission Staff noted their concerns regarding the rate at which shared service costs have escalated over the last five years and the Commission's need to have a more thorough understanding of the services provided by PNG to PNG(N.E.). Consequently, PNG and Commission Staff have undertaken to work together to develop the information on shared services to be included in the next revenue requirements application.

Given the fact shared service cost recovery by PNG from PNG(N.E.) is a significant credit to the PNG-West annual cost of service and at the same time a significant component of PNG(N.E.)'s annual cost of service, the parties considered it was important to include in this NSP 2008 settlement agreement supplemental information on shared services that was provided by PNG during the settlement discussions. This information is provided immediately below.

Supplemental Information on Shared Services

PNG submits it has clearly established that the Coordinator Marketing and Lands and the Coordinator Records Administrator provides services to PNG(N.E.). Therefore, PNG-West should recover appropriate compensation from PNG(N.E.) for those services. In this regard, PNG notes the following with respect to each position:

Coordinator Marketing and Lands

At Tab Application, page 33 PNG set out the services that the Coordinator Marketing and Lands provides to PNG(N.E.). For ease of reference those services are reproduced below as follows:

- Sales and marketing services including the distribution of all print material, advertising and large customer gas requirements surveys.
- Lands and rights of way services include administering and maintaining all existing and new lands files. Prepares and registers all new rights of way, licenses of occupation, surface leases and easement documents. Controls and administers the preparation, signing and filing of all pipeline crossing agreements.

- Pipeline public awareness services include providing information to all stakeholders on pipeline damage prevention.

The main area of responsibility for this position is lands administration. As noted above he prepares and registers all new rights of way, licenses of occupation, surface leases and easement documents. In addition, he controls and administers the preparation, signing and filing of all pipeline crossing agreements. He has a great deal of experience and expertise in these matters. The PNG(N.E.) pipeline rights of way affect 400 to 500 private landowners compared to approximately 90 private landowners in the PNG-West system.

The person in this position estimates that 40 percent of his time is spent on PNG(N.E.) matters compared to the 44.66 percent customer count allocator used to allocate a portion of his costs to PNG(N.E.). PNG submits that the customer count allocator is a fair and equitable way of calculating an appropriate charge for these services. PNG's response to BCUC IR No. 1, Question 7.4.1 identifies that the charge to PNG(N.E.) for the services provided by Coordinator Marketing and Lands is \$46,058 per year for labour and benefits. This figure does not include any charges for rent, telephone and other office overhead charges. The management of lands is an essential service for a gas distribution company and clearly PNG(N.E.) would need to engage another employee to obtain these services on a stand alone basis if not for the availability of PNG's Terrace employee.

Coordinator Records Administration

The Coordinator Records Administration provides to both the PNG-West and PNG(N.E.) divisions the services described at Tab Application, Page 35. For ease of reference those services are described below as follows:

- Administers Trident safety program, maintains safety statistics and records and EH&S Committee records.
- Reviews property tax and assessment notices and coordinates property tax payments.
- Maintains vacation entitlement and seniority records.
- Administers employee service award program based on years of service and the Performance Compensation Sharing employee incentive program generally referred to as the PERCs program.
- Coordinates scheduling of training and keeps records of employee training.
- Oversees fleet acquisitions/disposals, insurance renewals and licensing, PHH administration and maintains fleet records.

Many of the services described above are related to employees. The property tax and assessment notice review and coordination of property tax payments is not. Again PNG submits that if some one is providing services to another company, then the other company needs to pay for those services. PNG thoroughly reviewed the scope of services provided by this position to determine what the appropriate charge should be. Using employee count as the allocator results in a modest charge of \$22,330 per year for these services. PNG submits that it must be compensated for the provision of these services and that it has established a reasonable charge through the employee count allocator (i.e. 24.27 percent compared to the employee's estimated time of 21 percent).

BCOAPO stated that the information provided at Tab Application from page 21 to 39 inclusive (i.e. 19 pages) did not respond to the following directions of the Commission in Decision 2007:

“In the Commission Panel’s view, a review is required of the components of the overall shared service cost pool, including what should be included and how the costs are determined.”
(pages 17/18, Appendix A to Order No. G-55-07)

“Consequently, the Commission Panel directs PNG, in the next revenue requirements application, to provide a detailed justification for corporate expense items recorded in Account 728 and administrative cost items recorded in Account 721 and explain why they should be included in the cost pool. In addition, PNG is required to submit a detailed analysis of the Terrace management cost pool by position, indicating the list of services and associated benefits these positions provide to PNG(N.E.) to be qualified as a shared services cost item and how much these services would cost if they were outsourced.”
(page 18, Appendix A to Order No. G-55-07)

PNG submits that in addition to fully addressing the Commission’s specific directions to justify the corporate expense items in Account 728, the Account 721 cost items and the Terrace cost pool, that PNG also addressed all other components of the shared service costs. The shared service charges by PNG have been reviewed and approved by the Commission for several years. PNG has established year in and year out that the applied for 2008 shared service costs are reasonable having regard to the level and quality of service being provided by PNG’s employees. PNG(N.E.) simply could not obtain these required services on a stand alone basis at less cost than what PNG is charging.

BCOAPO commented that the time study allocator percentage of 20.84 percent is based on a 2003 study completed by the head office employees and that intuitively PNG must be spending much more time on PNG-West matters to deal with the loss of industrial customers and declining gas loads. The time study was completed during 2003 when PNG was focusing on a number of matters including renegotiating a long term firm transportation service agreement with West Fraser Mills – Kitimat. PNG does not agree that another time study is required at this time. Moreover, PNG's intuition is that it is more likely than not that more time is now expended on PNG(N.E.) matters than in 2003 given the high level of customer activity in the PNG(N.E.) system.

BCOAPO also questioned whether the Customer Care Centre estimates of time spent on PNG(N.E.) matters of over 50 percent was reasonable given the lower number of customers in the northeast. The Customer Care Centre went into operation in late 2000 and six of the ten current customer service representatives have been there since the beginning. Hence, they have the experience to make informed estimates of the relative amount of time spent dealing with PNG-West customer matters compared to PNG(N.E.) customer matters. The main reason for the additional work load is the number of new customers being added having regard to the level of new home construction in the northeast. In addition, the customer service representatives have noted that the PNG(N.E.) customers require more attention because of the number of complaints regarding gas supply costs. This apparently stems from being located in a gas producing area.

BCOAPO noted that the Manager of Technical Services has estimated that 12 percent of his time is spent on PNG(N.E.) matters while the customer count allocator of 44.66 percent is used to allocate his costs. Obviously there is no perfect way of assessing the exact amount of time spent by each employee. The Terrace draftsman, the Manager of Customer Care and the customer service representatives are estimated to spend more time on PNG(N.E.) matters than the applicable cost allocators.

PNG considers that the overall allocation of shared service costs to PNG(N.E.) is fair and reasonable when looking at the allocation as a whole.

Reference

- Exhibit B-1, Tab Application, Pages 21 to 39
- Exhibit B-2, BCUC IR No. 1, Questions 7.3.1 and 7.4
- Exhibit B-3, BCOAPO IR No. 1, Question 5.1

8. Capital Additions

Resolution

The applied for 2008 capital additions budget is accepted by the parties. PNG will file with the Commission and registered intervenors an updated project description for the MP 302 Skeena River crossing project scheduled for completion in early 2008. PNG acknowledges Commission Staff's agreement with PNG's proposal to accrue AFUDC on costs in excess of the original budget for MP 302 if PNG is not able to use the trenching methodology on which the budget was predicated.

Issue Description

The issue concerned PNG's request in its revenue requirements application to accrue AFUDC on costs in excess of the original budget for the MP 302 Skeena River crossing project should the trenching methodology not be used since the budgeted cost was based on this construction method.

Reference

- Exhibit B-1, Tab Application, Pages 48 to 49
- Exhibit B-2, BCUC IR No. 1, Question 14.2.3

9. Deferred Return on Equity Deferral Account

Resolution

In order to obtain a negotiated settlement of the PNG-West 2008 revenue requirements application, PNG will base the NSP 2008 regulatory schedules on a 40 percent common equity ratio and not the applied for ratio of 47.5 percent with an offsetting deferred return on common equity deferral account.

Issue Description

The issue was whether it was appropriate to attempt to negotiate a settlement of PNG's request for a thicker common equity thickness of 47.5 percent offset by a new deferred return on common equity deferral account. It was acknowledged by the parties that it was more appropriate for the common equity issue to be dealt with by the Commission through a public hearing process and not under a negotiated settlement process.

Reference

- Exhibit B-1, Tab Application, Pages 41 to 42
- Exhibit B-2, BCUC IR No. 1, Questions 10.2, 10.3, 10.4.1 and 10.4.2

10. Confidential Filing of 5-Year Revenue Requirements without KSL Project

Resolution

If the Commission requests PNG to file on a confidential basis a 5-year projection of revenue requirements and rate schedules for delivery charges to residential and small commercial customers assuming no KSL Project, PNG will seek legal advice on whether or not PNG is legally bound to provide such information to the Commission. If PNG is legally obliged to do so, PNG will file the requested information, subject to the appropriate confidential undertakings by the Commission. If PNG receives legal advice that it is not compelled to file the requested information, then PNG acknowledges that BCOAPO has the right to make submissions to the Commission on the issue of whether or not PNG has a legal obligation to do so.

Issue Description

The Commission directed PNG at page 7 of Decision 2007 to file in its 2008 revenue requirements application “a 5-year projection of revenue requirements and concomitant rate schedules for delivery charges to residential and small commercial customers assuming a scenario without the KSL Project.” PNG did not file this projection as part of its 2008 revenue requirements application. PNG submits that the Commission does not require five year revenue requirements forecasts to carry out its mandate under the Utilities Commission Act to set just and reasonable rates.

Reference

- Exhibit B-1, Tab Application, Page 61
- Exhibit B-2, BCUC IR No. 1, Question 27.1

11. Unaccounted for Gas (“UAF”) Volume Deferral Account

Resolution

The parties agree to the set up of a revised UAF volume deferral account that allows PNG to record all gas gains and the variance between zero percent and a loss of up to 0.7 percent in the UAF volume deferral account without seeking further Commission approval of the deferral. PNG will be required to file an application with the Commission to obtain approval to record UAF losses above 0.7 percent in the UAF volume deferral account. PNG’s UAF volume forecast of zero percent for 2008 was accepted for the purposes of setting the Company use gas cost recovery rate effective January 1, 2008.

Issue Description

The parameters approved by the Commission for the UAF volume deferral account have varied over the years. Originally a band of 0.2 to 0.7 percent loss was approved by the Commission and PNG was required to apply to the Commission for approval to record in a deferral account the UAF losses or gains outside of this band. More recently, the Commission approved a UAF volume deferral account without any band with variations around zero percent being recorded in the deferral account. The issue was whether new parameters should be set for the UAF volume deferral account.

Reference

Exhibit B-2, BCUC IR No. 1, Questions 12.0 and 13.0

12. Small Industrial Customer Deliveries Deferral Account

Resolution

The parties accept PNG's proposal in the Updated Application for a 2008 gas deliveries deferral account in respect of Stuart Lake Lumber, Pope & Talbot and the West Fraser sawmill in Terrace based on the revised 2008 gas deliveries forecasts to these customers in the Updated Application. The deferral account will be non-rate base and will attract AFUDC or interest at PNG's borrowing cost depending on the applicable amortization period which will be determined when the size of the deferral account is known with more certainty near the end of 2008.

Issue Description

Subsequent to the filing of PNG's 2008 revenue requirements application, Stuart Lake Lumber and West Fraser's Terrace sawmills shut down indefinitely due to low lumber prices and the high Canadian dollar. Similarly, Pope & Talbot obtained an order under the Companies Creditors Arrangement Act effective October 29, 2007. These events necessarily required PNG to reduce the 2008 gas deliveries forecasts to these customers and to seek approval of a 2008 deliveries deferral account given the uncertainty regarding the operations of these customers.

Reference

Exhibit B-7, Updated Application, Page 6 of covering letter to Commission

13. Demand Side Management

Resolution

PNG will continue to participate in DSM coordination activities and provide a report to the Commission no later than its next revenue requirements application on its efforts in this regard.

Issue Description

The Commission is required under the Utilities Commission Act to monitor the DSM activities of the utilities it regulates.

Reference

Exhibit B-2, BCUC IR No. 1, Question 23.1.1

14. New Rate Design for Small and Large Commercial Firm Sales and Transportation Service Customers

Resolution

PNG agrees with Commission Staff's proposal to assign Exhibit numbers to PNG's July 27, 2007 application to the Commission for approval of redesigned rates for small and large commercial firm sales and transportation service customers and PNG's October 5, 2007 information response to the Commission's information request in respect of the application. PNG acknowledges Commission Staff's proposal to accept the application as filed.

Issue Description

The issue was whether it was necessary to separate the application by PNG for new rates for the small and large commercial sales and transportation service customers from its revenue requirements application. By assigning specific exhibit numbers to the new commercial rates application, parties that access the record for the 2008 revenue requirements application in the future will be properly advised of the new rates accordingly.

Reference

Exhibit B-1, Tab 6

15. B.C. Energy Plan

Resolution

PNG will continue to consider the B.C. Energy Plan in its 2008 projects and applications.

Issue Description

The B.C. Energy Plan contains many references to what may apply to utilities in the future, primarily in the area of DSM. Consequently, it is important for utilities to keep apprised of the goals and objectives of the Energy Plan.

Reference

Exhibit B-4, L. Bertsch/Horizon IR No. 1, Question 1.1.2

16. Deferred Income Tax Drawdown

Resolution

The parties accept PNG's recommendation to draw down \$900,000 of deferred income taxes as a credit to the income taxes payable in 2008.

Issue Description

The Commission approved the draw down of \$900,000 of deferred income taxes under Decision 2007 and the parties discussed whether the same amount should be drawn down in 2008 as applied for by PNG.

Reference

- Exhibit B-1, Tab Application, Pages 59 and 63
- Exhibit B-2, BCUC IR No. 1, Question 9.1

17. Short Term Debt Interest Deferral Account

Resolution

The parties accept PNG's methodology for the short term debt interest deferral account implemented in 2007 (i.e. applying the difference between forecast and actual short term debt interest rates against the forecast short term debt balance in the capital structure used for rate making purposes).

Issue Description

There appeared to be a misunderstanding concerning how to calculate the amounts to be recorded in the short term debt interest deferral account.

Reference

Exhibit B-1, Tab Application, Pages 44 to 45

18. Transfer to Capital Rate

Resolution

The parties accept the use of the forecast transfer to capital rate as may be adjusted upon the filing of the final NSP 2008 regulatory schedules. PNG will identify the transfer to capital rate when filing the NSP 2008 regulatory schedules.

Issue Description

The Commission directed PNG under Decision 2007 to provide certain information regarding the use of a forecast transfer to capital rate compared to historical actual capital labour to total labour ratios.

Reference

Exhibit B-1, Tab Application, Pages 12 to 16

CONFIDENTIAL

Pacific Northern Gas Ltd.
(PNG-West Division)

Updated Nov. 23'07 to NSP Nov. 28'07
COST OF SERVICE COMPARISON
(\$000)

EXPENSES	NSP 2008 Nov. 28'07	Updated 2008 App. Nov. 23'07	Difference
Operating			
Labour	4,071	4,071	0
Other	<u>3,302</u>	<u>3,302</u>	<u>0</u>
Sub-total	<u>7,373</u>	<u>7,373</u>	<u>0</u>
Maintenance			
Labour	168	168	0
Other	<u>230</u>	<u>230</u>	<u>0</u>
Sub-total	<u>398</u>	<u>398</u>	<u>0</u>
Administrative and General			
Labour	1,971	1,971	0
Total Company Benefits	2,156	2,183	(27)
Other	<u>2,444</u>	<u>2,447</u>	<u>(3)</u>
Sub-total	<u>6,571</u>	<u>6,601</u>	<u>(30)</u>
Total (O, M, A & G) Excluding Co. Use	14,342	14,372	(30)
Transfers to Capital Operating	(606)	(606)	0
Transfers to Capital Admin. & Gen.	(995)	(1,001)	6
Property Taxes	3,672	3,672	0
Depreciation	6,516	6,516	0
Amortization	825	826	(1)
Other Income	(262)	(262)	0
Shared Service Recovery from PNG (N.E.)	(1,808)	(1,812)	4
Methanex Termination Payment	(6,637)	(6,637)	0
Settlement Allowance	(10)	0	(10)
Total Expenses Excluding Co. Use	15,036	15,067	(31)
Income Taxes	1,403 ⁽¹⁾	1,827 ⁽²⁾	(424)
Return on Common Equity	4,930 ⁽³⁾	5,856 ⁽⁴⁾	(927)
Return on Equity Deferral	0	(735)	735
Short Term Debt	385	384	1
Long Term Debt	5,624	5,006	618
Preferred Shares	351	351	0
Total Cost of Service Excluding Co. Use	27,729	27,757	(28)
Company Use Gas Cost	540	540	
Total Cost of Service Including Co. Use Cost	28,269	28,297	
2007 to 2008 Cost of Service Increase	157	185	(28)
2007 to 2008 Margin Decrease	1,289	1,289	(0)
2008 Revenue Deficiency	1,446	1,474	(28)

1. Deferred income tax drawdown of \$ 900

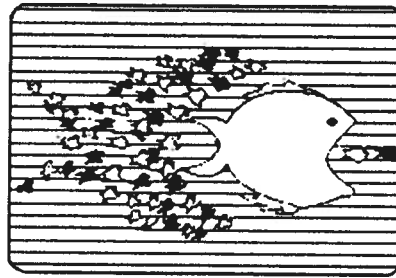
2. Deferred income tax drawdown of \$ 900

3. Deemed common equity of 40%

4. Deemed common equity of 47.5%

**The
British Columbia
Public Interest
Advocacy Centre**

208-1090 West Pender Street
Vancouver, BC V6E 2N7
Tel: (604) 687-3063 Fax: (604) 682-7896
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Sarah Khan	687-4134
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Ros Salvador	488-1315
Leigha Worth	687-3044

Barristers & Solicitors

Eugene Kung
Articled Student

December 7, 2007

Via E-Mail

Erica Hamilton
Commission Secretary
BC UTILITIES COMMISSION
Box 250, Sixth Floor, 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Mesdames/Sirs:

Re: Pacific Northern Gas (West) Ltd 2008 Revenue Requirements Application

This is to confirm that BCOAPO is fully satisfied with the Negotiated Settlement Process settlement document in this matter and consent to it becoming a consent Order of the Commission.

Yours truly,
BC PUBLIC INTEREST ADVOCACY CENTRE

Jim Quail, Barrister & Solicitor
Executive Director

C: Parties of record, BC PNG (West) 2008 Revenue Requirements Application

BCUC 23147
RUC 23147
2007
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Pacific Northern Gas Ltd.
Suite 950
1185 West Georgia Street
Vancouver, British Columbia
V6E 4E6
Tel: (604) 691-5673
Fax: (604) 697-6210
Email: cdonohue@png.ca

Craig P. Donohue
Director, Regulatory Affairs & Gas Supply

Via Courier

December 5, 2007

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

File No.: 4.2.7(2008)

Attention: William J. Grant
Transition Advisor
Regulatory Affairs & Planning

Dear Sir:

**Re: Pacific Northern Gas Ltd. ("PNG")
Negotiated Settlement Agreement for
PNG-West Division 2008 Revenue Requirements Application**

PNG hereby confirms its acceptance of the PNG-West Division NSP 2008 settlement agreement forwarded by you to PNG under cover of letter dated December 4, 2007 with the following typographical corrections:

1. Introduction, second paragraph, second line - Insert the word "of" after the word "cost".
2. Item 5, Issue Description, ninth line - Insert the number "1" after "BCUC IR No.".
3. Item 6, Issue Description, second line - Insert the word "base" after "rate".
4. Page 6, second full paragraph, line 6 - Insert the word "the" after the word "by" to read "by the Coordinator Marketing and Lands".

Please direct any questions respecting this letter to my attention.

Yours truly,

C.P. Donohue

cc. Philip Nakoneshny and NSP Participants by e-mail

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