



LETTER L-37-08

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VIA EMAIL

cdonohue@png.ca

July 31, 2008

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

Dear Mr. Donohue:

Re: Pacific Northern Gas Ltd. ("PNG")
Carbon Tax and Provincial Tax Rate Treatment

Further to your June 27, 2008 letter summarizing how PNG intends to treat the impact on its 2008 cost of service of the carbon tax and reduction in BC corporate income tax rate that take effect on July 1, 2008, this letter acknowledges that PNG is not applying for Commission approval to record these cost impacts in any deferral accounts. PNG has stated that the one percent reduction in the provincial income tax rate is estimated to reduce 2008 income taxes by approximately \$9,000 in the PNG-West division and \$6,000 in the PNG(N.E.) division and the carbon tax will increase the cost of service by a total of \$5,000 for all divisions for a net reduction in 2008 cost of service of \$10,000 for all divisions.

The Commission has considered PNG's proposal but the Commission has determined that 2008 rates have been set for the PNG-West division and PNG(N.E.) division that allow PNG to recover its forecast cost of service and its allowed return on equity. Accordingly, any net savings (which PNG has estimated to be approximately \$10,000) are to be returned to customers through a deferral account with a one-year amortization in 2009.

The Commission requires PNG to set up separate deferral accounts, Carbon Tax/BC Tax Rate Deferral Account – PNG-West and Carbon Tax/B.C. Tax Rate Deferral Account – PNG(N.E.), to record the respective impact for each division. Also, PNG is to allocate the projected carbon tax increase for fuel consumed in transportation equipment between the respective PNG-West and PNG(N.E.) deferral accounts.

Yours truly,

Original signed by

Erica M. Hamilton

SM/emh