

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, B.C. V6Z 2N3 CANADA
web site: <http://www.bcuc.com>



**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-33-10

TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

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

and

**An Application by Pacific Northern Gas Ltd.
for Approval of its 2010 Revenue Requirements
for the PNG-West Service Area**

BEFORE: D.A. Cote, Panel Chair/Commissioner March 4, 2010
R.K. Ravelli, Commissioner

O R D E R

WHEREAS:

- A. On October 2, 2009, Pacific Northern Gas Ltd. (PNG) applied to the British Columbia Utilities Commission (Commission) for approval of its PNG-West service area 2010 Revenue Requirements Application (the Application) to amend its rates on an interim basis, effective January 1, 2010, pursuant to sections 89 and 58 of the *Utilities Commission Act* (the Act); and
- B. The Application proposes to increase delivery rates to all customers, except West Fraser-Kitimat, as a result of increases in cost of service and decreased deliveries to most customer classes. West Fraser-Kitimat delivery rates do not increase in view of a contract in place that provides for fixed delivery rates over the term of the contract; and
- C. The Application forecasts a 2010 revenue deficiency of approximately \$7.7 million comprised of a net increase in cost of service of \$7.5 million and a decrease in margin of \$0.2 million; and
- D. Methanex Corp. closed its methanol/ammonia complex in Kitimat in November 2005. PNG's 2010 cost of service includes an increase of \$5.5 million compared to 2009 due to the amortization of the Methanex contract termination payment being completed in October 2009; and
- E. On July 16, 2009, PNG and its wholly owned subsidiary Pacific Northern Gas (N.E.) Ltd., filed with the Commission a Capital Structure and Equity Risk Premium Application (the CAP/ROE Application) seeking a common equity thickness of 47.5 percent and a rate of return on common equity (ROE) set at 75 basis points above the Commission's low risk benchmark utility ROE. PNG recommended that rates set in the Application remain interim pending the Commission's disposition of the CAP/ROE Application; and

- F. The Application reflects the changes to PNG's capital structure and ROE as applied for in the CAP/ROE Application and PNG sought Commission approval to increase the delivery charge, on an interim basis, for residential service by \$2.911/GJ from \$8.380/GJ to \$11.291/GJ representing an increase of 34.7 percent compared to the 2009 delivery rates, for small commercial service by \$2.33/GJ from \$7.267/GJ to \$9.597/GJ corresponding to an increase of 32.1 percent compared to 2009 delivery rates, and for Granisle propane service by \$1.753/GJ from \$4.479/GJ to \$6.232/GJ corresponding to an increase of 39.1 percent compared to 2009 delivery rates; and
- G. By Order G-130-09 the Commission approved PNG's interim delivery rates effective January 1, 2010 on the basis of the existing Commission approved common equity thickness of 40 percent and a rate of return on common equity at the existing 65 basis points above the Commission's low risk benchmark utility ROE. This results in a forecasted 2010 revenue deficiency of approximately \$6.87 million comprised of a net increase in cost of service of \$6.67 million and a decrease in margin of \$0.2 million. Interim rates were set as follows:
- The delivery charge for residential service increased by \$2.597/GJ from \$8.380/GJ to \$10.977/GJ, for small commercial service by \$2.078/GJ from \$7.267/GJ to \$9.345/GJ, and for Granisle propane service by \$1.564/GJ from \$4.479/GJ to \$6.043/GJ; and
- H. Order G-130-09 also set the preliminary regulatory timetable for the Application which allowed for: Intervener registration, the preliminary review of the Application, and Interveners to make written submissions on a formal review process; and
- I. On November 30, 2009 by Letter L-108-09 the Commission confirmed the Application to be reviewed through a Negotiated Settlement Process (NSP) with negotiations to commence on January 18, 2010; and
- J. The Commission revised the regulatory timetable in Letter L-111-09 to have negotiations commence on February 8, 2010 in order to accommodate the availability requirements of the participants; and
- K. The NSP discussions were held in Vancouver on February 8 and 9, 2010. An Interim Negotiated Settlement Agreement was reached among the participants and circulated to all registered Interveners and the Commission on February 22, 2010. No comments were received from the Interveners who had not participated in the NSP discussions; and
- L. The participants understand that the potential disposition of the Merrill Lynch option fees deferral account, the return on equity deferral accounts established under Order G-172-09, the level of deferred income taxes draw down in 2010 and PNG's common equity thickness and relative risk premium are to be issues at the upcoming CAP/ROE hearing and agree that following the disposition of PNG's CAP/ROE Application, the 2010 Revenue Requirements negotiations would resume for the purpose of establishing permanent delivery rates for 2010; and

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-33-10

3

M. The Commission has reviewed the Interim Negotiated Settlement Agreement for PNG's 2010 Revenue Requirements and considers that approval is warranted.

NOW THEREFORE the Commission orders as follows:

1. The Interim Negotiated Settlement Agreement for PNG's 2010 Revenue Requirements Application, as issued on February 22, 2010 and attached as Appendix A to this Order, is approved.
2. PNG's 2010 delivery rates will remain as interim until the PNG Revenue Requirements negotiations have resumed to establish permanent 2010 delivery rates and a further Negotiated Settlement Agreement is provided for Commission approval.

DATED at the City of Vancouver, in the Province of British Columbia, this 4th day of March 2010.

BY ORDER

Original signed by:

D.A. Cote
Panel Chair/Commissioner

Attachment

WILLIAM J. GRANT
Consultant TO BCUC
bill.grant@bcuc.com
web site: <http://www.bcuc.com>



SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, B.C. CANADA V6Z 2N3
TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

Log No. 30899

VIA EMAIL

February 22, 2010

To: Registered Intervenors
(PNG-West 2010 RRA)

Dear Registered Intervenors:

Re: Pacific Northern Gas Ltd. (PNG-West)
Interim Negotiated Settlement Agreement
2010 Revenue Requirements Application

Enclosed with this letter is the proposed interim settlement package for many of the cost and revenue categories of PNG-West's 2010 Revenue Requirements Application. Final rates are to be negotiated following completion of PNG's Return on Equity and Capital Structure proceeding.

This settlement package is now public and is being submitted to the Commission and all Intervenors. Also enclosed are Letters of Support and Comment received to date from the participants in the negotiated settlement process.

Prior to consideration by the Commission, Intervenors who did not participate in the settlement negotiations will be requested to provide to the Commission their comments on the settlement package by March 1, 2010. A public hearing may not be required unless there is significant opposition to the proposed settlement.

Yours truly,

A handwritten signature in dark ink, appearing to read "William J. Grant".
for William J. Grant

CMcM/dg
Attachments

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

Interim NSP 2010
PNG-West
2010 RR Application
Page 1

CONFIDENTIAL
February 12, 2010

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

2010 Revenue Requirements Application

INTERIM NEGOTIATED SETTLEMENT AGREEMENT

Introduction

B.C. Utilities Commission staff, representatives of PNG and BCOAPO met on February 8 and 9, 2010 for the purpose of negotiating an interim settlement of the PNG-West Division 2010 revenue requirements application (the "RR Application"). The following sets out the agreement reached on February 9, 2010 among the parties that participated in the negotiated settlement process ("NSP"). Prior to commencing substantive negotiations, the parties discussed what regulatory process should apply having regard to the fact PNG has two related applications before the Commission at the present time. The RR Application reflects the requested common equity thickness and risk premium increases set forth in the PNG/PNG(N.E.) Capital Structure and Equity Risk Premium Application dated July 16, 2009 (the "CAP/ROE Application"). The regulatory timetable for the CAP/ROE Application was set down by the Commission on January 19, 2010. In view of the fact the findings under the CAP/ROE Application will affect the determination of the 2010 revenue requirements that will underpin the determination of final delivery rates under the RR Application, the parties agreed to the regulatory process set forth below.

Regulatory Process

The parties agreed to negotiate an interim settlement of all the cost of service matters under the RR Application that can be addressed in the absence of having a final decision on the issues set forth in the CAP/ROE Application. This interim settlement agreement and the letters of support will be distributed to the non-participating intervenors for review and comment and to the Commission for approval. It is expected the main issues to be addressed through the CAP/ROE Application review process will be common equity thickness, relative risk premium, the potential disposition of the Merrill Lynch option fees deferral account, the return on equity deferral accounts established under Order No. G-172-09 and the level of deferred income taxes draw down in 2010. PNG's gas delivery rates will remain interim pending the final disposition of the CAP/ROE Application. The CAP/ROE Application regulatory timetable provides for an information request/response process that concludes by March 29, 2010 and provides for the opportunity to negotiate a settlement on April 8/9, 2010. This time frame will enable the Commission to formally approve the interim NSP 2010 revenue requirements agreement within sufficient time to reflect the agreed to cost of service adjustments in the regulatory schedules being considered by the Commission under the CAP/ROE Application review process. The updated regulatory schedules would become an exhibit under the CAP/ROE Application proceeding.

Interim NSP 2010
PNG-West
2010 RR Application
Page 2

CONFIDENTIAL
February 12, 2010

Assuming a settlement is negotiated in respect of the CAP/ROE Application, PNG would update its regulatory schedules to reflect both the terms set forth in the interim NSP 2010 revenue requirements settlement agreement and those agreed to under the CAP/ROE Application NSP process. The parties would then meet to ensure there is agreement on the resulting rates for 2010 having regard to the terms agreed to through both NSP processes. If required, the parties would discuss at this meeting the level of deferred income taxes draw down in 2010 and the disposition of the Merrill Lynch option fees deferral account. In addition, other revenue requirements matters of a housekeeping nature primarily resulting from the impact of year end 2009 balances on the 2010 revenue requirements calculation would be confirmed at this final NSP meeting.

The interim NSP 2010 revenue requirements settlement agreement would then be updated to address all items agreed to for the purpose of setting 2010 rates. The final comprehensive agreed to NSP 2010 settlement agreement document would be distributed by Commission staff to the parties for review and comment. The draft NSP 2010 settlement agreement would then be finalized and made available for public comment and review by the RR Application Commission panel. Upon Commission approval of the final NSP 2010 revenue requirements settlement agreement, PNG would file the tariff sheets required to document the agreed to permanent rates effective January 1, 2010.

Interim NSP 2010
PNG-West
2010 RR Application
Page 3

~~CONFIDENTIAL~~
February 12, 2010

Summary of Terms of Settlement

The parties agreed to the following reductions to be applied for 2010 cost of service:

Lump Sum Settlement Allowance	(\$110,000)
Account 721 – Reduce contractor fees ⁽¹⁾	(\$135,660)
Account 722 – Reduce consultant fees ⁽²⁾	(\$69,350)
Total Reduction	(\$315,010)

1. This reduction is equal to 95 percent of a contract employee's budgeted 2010 fees of \$142,800. It is expected this person will spend 95 percent of their time working on non-regulated business ("NRB") activities in 2010. A portion of this reduction will flow through to Pacific Northern Gas (N.E.) Ltd. ("PNG(N.E.)") under the shared services cost allocation model due to the reduction in the Account 721 cost pool.
2. The reduction is equal to 50 percent of a consultant's budgeted 2010 fees of \$138,700 as this person is expected to work 50 percent of the time on NRB activities.

The 2010 budget for SCC/Investigative Digs is reduced from \$334,000 to \$200,000.

Detailed Terms of Settlement

1.0 Removing and Resetting Meters (Account 673)

References:

Exhibit B-1; p. 7: Tab 1, p. 3
Exhibit B-2; IR 1.4.1: IR 1.6.1
Exhibit B-3; IR 1.3.2: IR 1.3.4-5

Issue:

Account 673 forecast balance of \$359,000 in Test Year 2010 appears to be too high as it is 15 percent higher than the NSP 2009 balance of \$313,000 (B-1, Tab 1, p. 3) and 18 percent greater than the average cost of \$305,250 in the 2005 to 2008 period (B-2, IR 1.6.1).

Resolution:

The lump sum settlement allowance takes into account the proposed reduction of \$37,236 to the 2010 budget figure of \$359,000 for Account 673.

Interim NSP 2010
PNG-West
2010 RR Application
Page 4

~~CONFIDENTIAL~~
February 12, 2010

2.0 Account 713 – Customer Billing – Interface Project Budget

References:

Exhibit B-1, p. 5
Exhibit B-2; IR 1.3.0; IR 1.3.2
Exhibit B-5, IR 2.2.0

Issue:

Whether the 2010 budget for Account 713 should be reduced by \$34,000 because the Banner/Great Plains Interface Project was not carried out as budgeted under NSP 2009.

Resolution:

The lump sum settlement allowance takes into account the proposed reduction of \$34,000 to budgeted 2010 expenses for Account 713.

3.0 Meters Expense – Meters (Account 878)

References:

Exhibit B-1, Tab Application, p. 7
Exhibit B-2, IR 1.9.1
Exhibit B-4, IR 2.9.1, 2.9.2

Issue:

Meters are initially tested after seven years and depending on the accuracy of the sample, are either given an extension of two to six years or fail and the whole population of that test must be recalled and repaired. It appeared to Commission staff that PNG had assigned a 67 percent failure rate when a 50 percent failure rate appeared to be more appropriate.

Resolution:

The lump sum settlement allowance takes into account the recommendation that the 2010 budget for Account 878 be lowered by \$55,700 to \$163,300.

Interim NSP 2010
PNG-West
2010 RR Application
Page 5

CONFIDENTIAL
February 12, 2010

4.0 Executive Compensation

References:

Exhibit B-1, p. 9
Exhibit B-2, IR 1.13.1
Exhibit B-4, BCOAPO IRs 2.4.1 and 2.6.0
Exhibit B-5, IR 2.6.1

Issue:

Cumulative increases in executive compensation.

Resolution:

The lump sum settlement allowance takes into account the recommendation that executive compensation remain at the Projected 2009 level of \$1,565,447, a reduction of \$38,662 compared to the budget for Test Year 2010.

5.0 Account 725 – Exclusion of 2/3 of Pension Costs for Executive Bonuses

References:

Exhibit B-1, p. 10
Order G-55-07 (2007 RRA)
Order G-39-09

Issue:

Has two thirds of the cost of including executive bonuses and incentives in pensionable earnings been eliminated from the 2010 cost of service?

Resolution:

The parties noted that the RR Application provides for this cost of service reduction at Tab 1, Page 5, Line 30.

Interim NSP 2010
PNG-West
2010 RR Application
Page 6

CONFIDENTIAL
February 12, 2010

6.0 Non-regulated Business Costs

References:

PNG Management Discussion and Analysis ("MD&A") for the Year Ended December 31, 2008
PNG MD&A for the Three and Nine Months Ended September 30, 2009 (Q3)
PNG New Release, January 13, 2010
PNG Investor Presentation June 2009
Exhibit B-2, IR 1.60.1
Exhibit B-1, Tab 1, p. 5, line 5
Exhibit B-5, IR, 2.5.1
Exhibit B-4, IR 2.11.1, 2.11.3

Issue:

What is the extent of PNG's non-regulated business activities and should PNG be allowed to recover any costs related to non-regulated business from its utility customers?

Should consultant and contractor charges relating to non-utility business development be included in the Test Year 2010 cost of service?

Is the KSL Project a regulated or a non-regulated business activity?

Resolution:

The issue of costing between the utility and its NRB's will be reviewed at the next revenue requirements proceeding. Commencing effective March 1, 2010 PNG staff will maintain time sheets that identify time and/or other utility resources spent on NRB projects such as electricity generation IPP's. In particular, PNG will identify any third party IFRS conversion costs incurred for the benefit of its NRB's.

PNG expects to file an application with the Commission in the second quarter of 2010 for a Certificate of Public Convenience and Necessity ("CPCN") for the KSL Project pipeline. The CPCN application will address the regulated versus NRB issues and will identify the benefits of the KSL Project pipeline to existing customers of PNG. Given the advanced state of the KSL Project, PNG will begin recording staff time and/or other utility resources devoted to the KSL Project.

Interim NSP 2010
PNG-West
2010 RR Application
Page 7

~~CONFIDENTIAL~~
February 12, 2010

7.0 Account 721 – Travel Expenses

References:

Exhibit B-1, pp. 8-9
Exhibit B-2, IR 1.10.1
Exhibit B-3, BCOAPO IR 1.4.2
Exhibit B-5, IR 2.6.3

Issues:

Whether forecast travel expenses in Test Year 2010 should be reduced by \$9,667 plus a provision for travel expenses related to NRB activity.

Resolution:

The lump sum settlement allowance takes into account the recommendation that the 2010 budget in Account 721 for travel expenses be reduced by \$9,997 plus a provision relating to investor presentations in Test Year 2010.

8.0 Shared Service Cost Recovery from PNG (N.E.)

References:

Exhibit B-1, pp. 3, 5, 16-17
Exhibit B-2, IR 1.21.1
Exhibit B-5, IR 2.9.0

Issue:

What cost allocators and level of shared service cost recovery by PNG from PNG (N.E.) during Test Year 2010 is acceptable?

Resolution:

The parties agreed with the cost allocators and level of shared service cost recovery by PNG from PNG(N.E.) during Test Year 2010 as set forth in the RR Application for the purposes of determining the level of such costs to be recovered by PNG (N.E.) in its customer rates, subject to modification of the underlying cost pools and cost allocators, (i.e. rate base and customer count allocators) as may be result from other agreed to NSP cost of service and/or CAP/ROE Application adjustments and due to reflecting actual year end 2009 figures in the RR Application.

Interim NSP 2010
PNG-West
2010 RR Application
Page 8

CONFIDENTIAL
February 12, 2010

9.0 Depreciation includes Negative Salvage, Realized Gains/ Losses

References:

Exhibit B-1, p. 12
Exhibit B-2, IR 1.61.1
Exhibit B-5, IR 2.21.4

Issue:

PNG is not able to quantify the salvage rate included in accumulated depreciation with the actual salvage costs incurred, nor are they able to quantify the total realized gains/losses included in accumulated depreciation.

Resolution:

PNG has engaged a consultant to conduct a depreciation study. PNG will advise its consultant of Commission staff and BCOAPO concerns that any proposed negative salvage should be clearly identified and the rationale for negative salvage articulated in the depreciation study. Commission staff will write to PNG, with a copy to BCOAPO, to state its expectations for information regarding the depreciation study and the identification of negative salvage.

10.0 SCC/Investigative Digs

References:

Exhibit B-1, p. 14
Exhibit B-2; IR 1.16.1, IR 1.16.7-9
Exhibit B-3, IR 1.5.3
Exhibit B-4; IR 2.7.3-5, IR 2.12.1
Exhibit B-5, IR 2.1.2 2.17.2

Issue:

Is \$334,000 of spending on SCC/Investigative Digs in Test Year 2010 warranted?

Resolution:

The 2010 budget for SCC/Investigative Digs is reduced from \$334,000 to \$200,000.

Interim NSP 2010
PNG-West
2010 RR Application
Page 9

CONFIDENTIAL
February 12, 2010

11.0 Industrial Customer Deliveries Deferral Account (“ICDDA”)

References:

Exhibit B-1, p. 14
Exhibit B-2, IR 1.16.11
Exhibit B-5, IR 2.11.1

Issue:

Should PNG’s request to amortize the ICDDA balance at year end 2009 over a two year period with the ICDDA 2010 recording the 2010 difference between forecast and actual margin recovery from Conifex, West Fraser Mills-Kitimat, Rio Tinto Alcan and BC Hydro be accepted as requested by PNG?

Should the year end ICDDA 2009 balance be used for determination of the ICDDA amortization expense in 2010?

Resolution:

The actual ICDDA balance at year end 2009 will be amortized over a two year period with the ICDDA 2010 recording the difference between forecast and actual margin recovery in 2010 from Conifex, West Fraser Mills-Kitimat, Rio Tinto Alcan and BC Hydro as it is consistent with the previously approved treatment regarding ICDDA amortization as well as being consistent with matching and rate stability and predictability regulatory principals.

Interim NSP 2010
PNG-West
2010 RR Application
Page 10

~~CONFIDENTIAL~~
February 12, 2010

12.0 Rate Stabilization Adjustment Mechanism ("RSAM") - Opening Balance Gross Up

References:

Exhibit B-1, Tab Rates, p. 14
Exhibit B-1, Tab 2, p. 10, line 7

Issue:

Should the 2010 substantially enacted tax rate be applied when grossing up the estimated 2009 RSAM year end balance used to calculate the Test Year 2010 RSAM rate rider?

Resolution:

PNG's accounting group will communicate with Commission staff to ensure the year end 2009 RSAM balance is calculated correctly having regard to what income tax rates should apply to this determination based on applicable regulatory accounting principles. The 2010 RSAM rate rider will be adjusted to reflect the actual year end 2009 balance accordingly.

Interim NSP 2010
PNG-West
2010 RR Application
Page 11

CONFIDENTIAL
February 12, 2010

13.0 International Financial Reporting Standards (“IFRS”) Deferral Account

References:

Exhibit B-1; p. 15, Tab 2, p. 12, line 7
Order G-39-09 (NSP 2009)
Exhibit B-2, IR 1.16.1

Issue:

Should PNG be allowed the continuation of the deferral account approved under NSP 2009 to record PNG’s costs incurred in 2009 and forecast to be incurred in 2010 to convert to IFRS in 2011 with amortization to commence subsequent to 2010 based on a future application by PNG?

Resolution:

PNG may continue to record third party costs incurred in 2009 and to be incurred in 2010 to convert to IFRS in 2011, in the IFRS costs deferral account approved under NSP 2009. Amortization of the year end 2010 balance in this deferral account to commence subsequent to 2010 based on a future application by PNG.

Interim NSP 2010
PNG-West
2010 RR Application
Page 12

CONFIDENTIAL
February 12, 2010

14.0 Unaccounted for Gas Volume Deferral Account

References:

Order G-39-09 (NSP 2009)
Exhibit B-1, p. 37

Issue:

Whether the current unaccounted for ("UAF") gas volume deferral account should continue on the basis that the UAF gas volume forecast for Test Year 2010 is set at zero with PNG being permitted to record the variance between zero percent and a loss of up to 1.0 percent without having to seek further Commission approval of the deferral.

Resolution:

PNG is to continue the UAF gas volume deferral account on the basis that the UAF gas volume forecast for Test Year 2010 is set at zero with PNG being permitted to record the variance between zero percent and a loss of up to 1.0 percent without having to seek further Commission approval of the deferral.

15.0 Merrill Lynch Commodities, Inc. ("MLCI") Option Fee – Legal Fees

References

Exhibit B-1, p. 15
Exhibit B-2, IR 1.19.1
Exhibit B-5, IR 2.14.1
Order G-39-09, item 16

Issue:

Should the Commission grant approval for PNG to recover from the \$1.5 million MLCI option fees an estimated \$80 thousand of unbudgeted legal fees incurred in 2009 associated with a lawsuit filed against MLCI by LNG Partners?

Resolution:

The issue of the recovery by PNG of legal fees from the MLCI option fees deferral account will be dealt with under the CAP/ROE Application review process.

Interim NSP 2010
PNG-West
2010 RR Application
Page 13

CONFIDENTIAL
February 12, 2010

16.0 Merrill Lynch Commodities, Inc. ("MLCI") Option Fee-Imputed interest

References:

Order G-39-09
PNG New Release; April 30, 2009; January 6, 2010
Exhibit B-2; IR 1.16.1: R 1.18.1-3
Exhibit B-1; Tab 1, p. 7: Tab 2, p. 10 & 12
PNG (N.E.) Exhibit B-2, IR FSJ/DC 1.20.2

Issue:

Imputed interest was not accrued in the MLCI option fees interest deferral account in 2009 nor shown as an addition in Test Year 2010.

In what year should the interest benefit relating to the MLCI deferral account be credited to cost of service?

Resolution:

PNG will correct the MLCI option fees deferral account to ensure imputed interest is properly calculated and recorded. The imputed interest in 2009 and the forecast imputed interest addition in 2010 will be credited to 2010 amortization expense. The year end 2009 principal balance in this deferral account will be increased by the \$ 1 million option extension fee paid by MLCI to PNG on December 31, 2009. The issue of applying the principal balance of the MLCI option fees as a credit to the 2010 cost of service will be addressed under the CAP/ROE Application review process.

Interim NSP 2010
PNG-West
2010 RR Application
Page 14

CONFIDENTIAL
February 12, 2010

17.0 Overhead Capitalization Rate

References:

Exhibit B-1, pp. 3, 8 & 11
Exhibit B-2, IR 1.23.1
Exhibit B-5, IR 2.8.0
Order G-39-09

Issue:

Should the overhead capitalization rate of 17.65 percent for Test Year 2010 (19.04 percent in 2009) set forth in the RR Application be used to determine the level of transfers to capital in 2010?

Resolution:

The overhead capitalization rate of 17.65 percent is accepted subject to modification upon filing of the 2010 revenue requirements regulatory schedules following the Commission's final disposition of both the RR Application and the CAP/ROE Application.

18.0 Capital Additions

References:

Exhibit B-1, p. 22-25
Exhibit B-2, IR 1.26.1

Issue:

Whether the 2010 budget for unspecified mainland repairs of \$134,000 are substantiated.

Resolution:

The 2010 budget of \$134,000 for unspecified mainland repairs is accepted.

Interim NSP 2010
PNG-West
2010 RR Application
Page 15

CONFIDENTIAL
February 12, 2010

19.0 Utility Rate Base – Provision for Work in Progress

References:

Exhibit B-1, Tab 2, p. 9
Exhibit B-2, IR 1.31.2

Issue:

Should the provision of \$100,000 for work in progress be used in determining the Test Year 2010 rate base?

Resolution:

The parties accept using a provision of \$100,000 for work in progress in determining the Test Year 2010 rate base.

20.0 Level of Draw Down of Deferred Income Taxes

References:

Order G-55-07 (2007 RRA)
Exhibit B-1, p. 19
Exhibit B-2; IR 1.22.1-2; IR 1.48.2
Exhibit B-5; IR 2.30.2; IR 2.33.1 (DBRS rating article)
Exhibit B-5, PNG (N.E.) FSJ/DC, IR 2.20.1
PNG investor presentation June 2009

Issue:

Should PNG increase the draw down of deferred income taxes from the \$900,000 provision in the RR Application for the purpose of reducing the Test Year 2010 cost of service and if so, by how much?

Resolution:

The issue of the level of the deferred income taxes draw down in 2010 will be discussed in the context of the CAP/ROE Application process and as may be required following the Commission's disposition of the CAP/ROE Application.

Interim NSP 2010
PNG-West
2010 RR Application
Page 16

CONFIDENTIAL
February 12, 2010

21.0 Other Matters

PNG will update the RR Application regulatory schedules to reflect a number of matters, including the following:

- actual 2009 additions to the SCC/Investigative Digs deferral account and the agreed to reduction of the 2010 addition from \$334,000 to \$200,000;
- the year end 2009 ICDDA deferral account balance will be used in the determination of 2010 amortization expense;
- imputed interest for 2009 and 2010 in the MLCI option fees deferral account will be credited to 2010 amortization expense;
- the addition in late 2009 of the return on equity deferral account approved under Commission Order No. G-172-09 and the unamortized debt issue costs deferral account approved under Commission Order No. G-145-09;
- the most recent forecast short and long term debt interest rates;
- forecast pension expense for Test Year 2010 will be updated to reflect the lower forecast cost received in late 2009 from PNG's actuaries;
- insurance premiums for Test Year 2010 will be reduced to reflect PNG's confirmed cost for 2010;
- the 2010 gas deliveries forecast will be updated to reflect year end 2009 customer counts; and
- the Test Year 2010 RSAM rate rider will be recalculated based on the year end 2009 RSAM balance which will include adjustments as may be required to reflect the use of the correct income tax rate.

It is understood the above list is representative of the majority of the anticipated adjustments. However, other changes to the Test Year 2010 cost of service may occur in the ordinary course as a result of reflecting year end 2009 figures in the RR Application regulatory schedules. PNG will provide a detailed explanation of the changes when it files the updated regulatory schedules as an exhibit under the CAP/ROE Application review process.



Craig P. Donohue
Director, Regulatory Affairs & Gas Supply

Pacific Northern Gas Ltd.
Suite 950
1185 West Georgia Street
Vancouver, BC V6E 4E6
Tel: (604) 691-5673
Tel: (604) 697-6210
Email: cdonohue@png.ca

Via E-Mail

February 17, 2010

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

File No.: 4.2.7(2010)

Attention: William J Grant
Consultant to BCUC

Dear Sir:

**Re: Interim Negotiated Settlement Agreement dated February 12, 2010
for PNG-West Division 2010 Revenue Requirements Application
Project No. 3698578**

Further to your letter dated February 16, 2010 enclosing the PNG-West Division Interim Negotiated Settlement Agreement for the PNG-West 2010 revenue requirements application, Pacific Northern Gas Ltd. hereby confirms its acceptance of the Interim NSP 2010 Agreement.

Please direct any questions regarding this letter to my attention.

Yours truly,

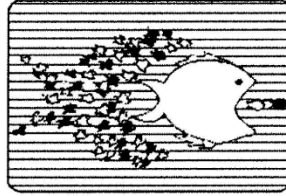
A handwritten signature in dark ink, appearing to read 'C.P. Donohue', is written over a light blue horizontal line.

C.P. Donohue

cc. Philip Nakoneshny

**The
British Columbia
Public Interest
Advocacy Centre**

208-1090 West Pender Street
Vancouver, BC V6E 2N7
Coast Salish Territory
Tel: (604) 687-3063 Fax: (604) 682-7896
email: bcpiac@bcpiac.com
<http://www.bcpiac.com>



Valerie Conrad	687-3017
Sarah Khan	687-4134
Eugene Kung	687-3006
James L. Quail	687-3034
Ros Salvador	488-1315
Leigha Worth	687-3044

Barristers & Solicitors

Peggy Lee
Article Student

Our file: 7441

February 17, 2010

VIA EMAIL

Erica M. Hamilton
Commission Secretary
BC Utilities Commission
6th Floor, 900 Howe Street
Vancouver, BC V6Z 2N3

**Re: Pacific Northern Gas Ltd. ("PNG-West")
Interim Negotiated Settlement Agreement
2010 Revenue Requirements Application**

Further to your letter of February 16, 2009 enclosing the Interim Negotiate Settlement Agreement for the PNG(W) 2010 revenue requirements application, BCOAPO writes to confirm its acceptance of the interim agreement.

Please contact the undersigned should you have any further questions.

Yours truly,

BC PUBLIC INTEREST ADVOCACY CENTRE

Original in file signed by:

Eugene Kung
Barrister & Solicitor