



**Letter L-64-11**

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**VIA EMAIL**

cdonohue@png.ca

August 11, 2011

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

Dear Mr. Donohue:

Re: Pacific Northern Gas (N.E.) Ltd.  
Tomslake Gas Distribution System CPCN C-3-09  
Final Cost Report and Application for Accounting Treatment

This letter acknowledges receipt of Pacific Northern Gas (N.E.) Ltd's [PNG(N.E.) or the Company] final cost report for the Tomslake Gas Distribution System (the Project) pursuant to section 2 of Commission Order C-3-09. The report indicates a final actual cost for the Project of \$2,980,123 or 15 percent higher than the cost estimate provided when the Commission approved the Certificate of Public Convenience and Necessity (CPCN) by Order C-3-09.

According to the conditions set out in Order C-3-09, section 1 stipulates that:

*"If the final project cost is between 90 and 110 percent of the initial estimated cost (\$2,586,516) then the final cost will be allowed into the rate base unadusted. If however the final cost is less than 90 percent or greater than 110 percent of the initial estimated cost, the savings or costs outside the +/- 10 percent dead band will be shared equally between the ratepayers and the PNG(N.E.) shareholders, and"*

Accordingly, the costs above the 110 percent deadband of \$134,955 will be shared equally between ratepayers and PNG(N.E.)'s shareholders. For administrative efficiency and to simplify the annual revenue requirements filings the Company prefers that the regulatory accounting records remain consistent with records used for tax purposes. For this reason PNG(N.E.) proposes that the \$67,478 (50 percent of \$134,955) of disallowed costs that will be added to the Undepreciated Capital Cost tax pools remain there for rate setting purposes as well. Given that the proposed treatment will result in a tax benefit to ratepayers. PNG (N.E.) proposes that the disallowed rate base addition be reduced from \$67,478 to \$55,689 as a means of keeping the 50/50 sharing.

Given that the present value of the future tax savings are roughly equal to the rate base adjustment the Commission accepts PNG's proposed treatment in this case recognizing the administrative efficiency benefits and the relatively small dollar amount being considered.

Yours truly,

Alanna Gillis

TS/kc