



LETTER L-56-13

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**VIA EMAIL**

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September 24, 2013

Ms. Janet P. Kennedy  
Vice-President, Regulatory Affairs & Gas Supply  
Pacific Northern Gas Ltd.  
1185 West Georgia Street  
Suite 950  
Vancouver, BC V6E 4E6

Dear Ms. Kennedy:

Re: Pacific Northern Gas Ltd.  
2013 Revenue Requirements  
Application Compliance Filing

By Order G-114-13 dated August 1, 2013, the British Columbia Utilities Commission (Commission) issued its Decision on the Pacific Northern Gas Ltd. (PNG) 2013 Revenue Requirements Application and directed PNG to resubmit its financial schedules incorporating all the adjustments outlined in the Decision and all of the adjustments identified by PNG in response to Information Requests, on or before September 3, 2013 (2013 Compliance Filing).

On August 29, 2013, PNG filed the 2013 Compliance Filing with the Commission and on September 19, 2013, PNG filed an Amended 2013 Compliance Filing. The Commission acknowledges receipt of the financial schedules contained in the Amended 2013 Compliance Filing, filed in accordance with Order G-114-13.

This letter provides clarification to PNG regarding interim rates pursuant to Order G-187-12 (General Cost of Capital Interim Order).

Issue

PNG includes the following General Cost of Capital proposal (GCOC Proposal) in both the 2013 Compliance Filing and the Amended Compliance Filing:

"With regards to the return on common equity and capital structure, PNG agrees that the approved cost of capital resulting from Stage 2 of the GCOC should be made effective January 1, 2013 as noted in Commission Order G-187-12 dated December 10, 2013. However, for ease of administration, **PNG proposes that rates as set out in this letter be made permanent and the impacts from Stage 2 of the GCOC be recorded in a deferral account and be amortized over an amortization period of appropriate length.**" [Emphasis added]

Commission Clarification

A similar request to make interim rates permanent was made by FortisBC Energy Utilities (FEU), for FortisBC Energy (Vancouver Island) (FEVI) and FortisBC Energy (Whistler) Inc. (FEW), in its compliance filing pursuant to the Generic Cost of Capital (GCOC) Proceeding – Stage 1 Decision and Order G-75-13 (FEU Request). The FEU Request proposed that a Commission Order be issued to give effect to the existing interim rates as permanent and approve a rate rider to flow through the refund.

In response to the FEU Request, the Commission issued Letter L-31-13A and copied all Registered Parties in Stage 1 and Stage 2 of the GCOC proceeding. Letter L-31-13A states the following:

“Commission Order G-187-12 dated December 10, 2012, clearly sets out the rates for all utilities, with the exception of British Columbia and Hydro Authority, as interim effective January 1, 2013. In addition, Order G-187-12 sets out that any risk premium on the benchmark ROE and capital structure of the regulated utilities that depend on the benchmark utility for rate setting will be determined following the decision in Stage 2. Accordingly, the rates for the benchmark utility, FEI, ceased to be interim when the GCOC – Stage 1 Decision and its accompanying Order G-75-13 were issued.

The Commission’s view is that the interim rates for all other utilities remain interim until a decision is rendered for the Stage 2 of GCOC. The Stage 2 of GCOC will review on the appropriate ROE and capital structure for each utility relative to the benchmark utility.”

Based on Letter L-31-13A, the Commission has not considered the GCOC Proposal in the context of the PNG 2013 Revenue Requirements Application.

Yours truly,

*Original Signed By:*

Erica Hamilton

LR/nd