



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-37-00

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 2000 Revenue Requirements

BEFORE: P. Ostergaard, Chair)
P.G. Bradley, Commissioner) March 30, 2000
B.L. Clemenhausen, Commissioner)

O R D E R

WHEREAS:

- A. On December 1, 1999, Pacific Northern Gas Ltd. ("PNG-West") filed for Commission approval its 2000 Revenue Requirements Application ("the Application") to increase rates on an interim and final basis, effective January 1, 2000, pursuant to Sections 58 and 91 of the Utilities Commission Act; and
- B. The Commission reviewed the Application and issued Order No. G-137-99 approving an interim rate increase effective January 1, 2000; and
- C. PNG-West included a revenue deficiency for the additional cost associated with the accrual of its Other Post Employment Benefits as required under Generally Accepted Accounting Principles ("GAAP"), effective January 1, 2000, and for the income tax gross-up because the pay-as-you-go/cash basis is used to determine current income tax expense; and
- D. Pursuant to Commission Order No. G-7-00, a Negotiated Settlement Process commenced on February 28, 2000 for PNG-West resulting in a proposed Settlement Agreement which included the comment: "All of the parties agree to a variance from GAAP to allow post-retirement benefits to be recorded on a cash basis." The Settlement Agreement was released to the public and the Commission Panel on March 17, 2000; and
- E. On March 27, 2000, PNG-West responded to the public circulation of the Settlement Agreement, stating PNG-West's auditors have advised that an Order directing PNG-West will be required to permit PNG-West to account for Other Post Employment Benefits on a pay-as-you-go basis, which will be inconsistent with GAAP; and

F. No additional submissions were received from other Intervenor; and

G. The Commission has reviewed the Settlement Agreement and considers that approval is in the public interest.

NOW THEREFORE the Commission orders as follows:

1. The Commission approves for PNG-West the Settlement Agreement attached as Appendix A to this Order.
2. Pursuant to Section 49 of the Utilities Commission Act, the Commission directs PNG-West to follow an interpretation of the Uniform System of Accounts to account for Other Post Employment Benefits on the pay-as-you-go/cash basis.
3. PNG-West is to file permanent Gas Tariff Rate Schedules that are in accordance with the terms of the Settlement Agreement and this Order.
4. PNG-West is to inform all customers of the Settlement Agreement and its effect on rates.
5. Refunds plus interest, calculated at the utility's short-term borrowing rate to the date of refund, are to be credited to customers' accounts based upon actual consumption from January 1, 2000.

DATED at the City of Vancouver, in the Province of British Columbia, this 13th day of April 2000.

BY ORDER



Peter Ostergaard
Chair

Attachment



WILLIAM J. GRANT
EXECUTIVE DIRECTOR,
REGULATORY AFFAIRS & PLANNING
bill.grant@bcuc.com
web site: <http://www.bcuc.com>

APPENDIX A
to Order No. G-37-00
Page 1 of 22

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~~CONFIDENTIAL~~

VIA FACSIMILE

March 2, 2000

Dear Participants:

Re: Proposed Settlement of Issues
Pacific Northern Gas Ltd. (West) ("PNG")
2000 Revenue Requirements

The purpose of this letter is to record the proposed settlements achieved with respect to PNG Revenue Requirements Application filed December 1, 1999. The enclosed proposed settlement remains confidential until it is submitted to the British Columbia Utilities Commission for consideration. I, therefore ask that you provide to me a communication of endorsement for the proposal by Friday, March 10, 2000. At that time, the Settlement Agreement will be made public and provided to the Commission and all interested parties.

PNG has recalculated the revenue requirements schedules to reflect the settlement adjustments

It is recognized by all the parties that the agreement represents a package proposal within which there has been give and take by all parties. No issue is to be severed from the proposed settlement without allowing signatories the opportunity to address other related issues in the package.

In accordance with the NSP Guidelines, the right of parties to dissent from a proposed agreement is explicitly recognized by the Commission. If a party dissents, it can submit a written argument to the Commission panel. If the Commission panel is of the view that the dissent is reasonable and material, it may request written rebuttal argument or, where the settlement review process is to occur at an oral hearing, request argument at the oral hearing. If the dissent is determined to be reasonable and material, the dissenting party retains the right to present evidence and to cross-examine, or to rebut the evidence of others if there is a written hearing.

Yours truly,

W.J. Grant

JJH

Enclosure

cc: Mr. Craig P. Donohue
Director, Regulatory Affairs and Gas Supply
Pacific Northern Gas Ltd.

Pacific Northern Gas Ltd.

**2000 RATE APPLICATION
ADR SETTLEMENT TERMS**

Sales Forecast

1. Use 112 GJ use per account for residential customers.
2. Increase small industrial sales customers forecast from 1 628 000 in 2000 rate application to 1 720 000 GJ, an increase of 92 000 GJ.
3. Change industrial customer forecasts to:

Skeena Cellulose	-	3 600 000 GJ
Eurocan	-	3 300 000 GJ
4. Implement a gas deliveries deferral account to record the extent to which net margin received from Methanex, Skeena and Eurocan in 2000 varies from forecast net margin based on the ADR forecast deliveries.

The parties agree that the deferral account is an extraordinary remedy to this year's potential volatility in large industrial volume forecasts, and the approval is limited to calendar year 2000 only. PNG is to provide monthly statements of the financial status of the deferral account, along with a year end report. That report is to be filed by January 31, 2001, detailing the effectiveness of the account. If at any time the deferral account exceeds \$1,000,000 cost to customers, PNG is to immediately advise the Commission and the participants to this Settlement.

The deferral account is intended to record net margin changes to PNG after accounting for offsetting impacts such as company use gas, force majeure situations or any other mitigating circumstances not related to the normal gas consumption of the three customers.

The industrial customers have agreed to the implementation of this deferral account to achieve settlement of the 2000 revenue requirement application and believe the deferral account reduces the business risk of PNG by transferring the large industrial sales volume risk to customers.

Operating, Maintenance, Administrative & General Expenses (“O,M,A&G”)

1. Reduce applied for 2000 gross O,M,A&G expenses from \$15.105 million to the 1999 ADR gross O,M,A&G expenses of \$13.983 million, a reduction of \$1.122 million, as follows:

Operating Expenses – Other (Account #685)	\$ 250,000
Administrative & General Expenses	
- Company Benefits – OPEB’s (Account #725)	339,000
- Other – Business Development (Account #721)	280,000
- Other – General (Account #721)	<u>253,000</u>
	\$ 1,122,000

All of the parties agree to a variance from Generally Accepted Accounting Principles (“GAAP”) to allow post-retirement benefits to be recorded on a cash basis.

2. Forecast 2000 transfers of overhead to capital will be based on the overhead capitalization ratio contained in the 2000 rate application.
3. Business Development costs will be deferred with possible recovery out of future cost savings and revenues attributable to business development activities.

Capital

Generally, only those additions that are mandatory for safe, reliable service or have a simple payback by October 2002 should be undertaken. Defer as many capital expenditures as possible until the future of the Methanex contract is more certain. Delay all, non-vital safety and reliability rehabilitation projects that are related to Methanex’s demand.

1. Reduce forecast capital additions by \$500,000 compared to that contained in the 2000 rate application.
2. Reduce cash working capital by the amount of the projected insurance receivable (i.e. \$2.325 million).

Return on Equity

1. Use 10.25 percent return on equity based on a 75 basis points risk premium relative to the low risk benchmark utility.

Gas Supply Costs

1. Use February 24, 2000 forward gas price strip to determine projected unit gas supply costs.

Rate Design

All parties recognize a need for continued rate re-balancing to better recognize the incidence of cost causation by each rate class. The Commission's last Decision on this issue directed that rate design shifts should be limited to 10% rate increases for the composite of revenue requirements, gas costs and rate design.

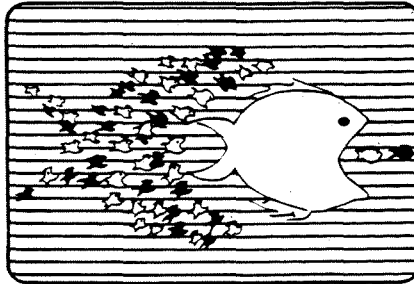
The rapid rise in gas costs has prevented taking any rate design this year. However, if gas costs moderate next year, there may be an opportunity for rate re-balancing within the cap of 10% rate impacts.

Other

1. Remove deficiency volume rate rider as Skeena made up deficiency volumes in December 1999.
2. Reduce hearing costs by \$100,000 pending determination of actual costs.
3. PNG will pay industrial customers their share of the income tax adjustment associated with overheads pursuant to the terms of the 1999 ADR settlement.

The
British Columbia
Public Interest
Advocacy Centre

815 - 815 West Hastings Street
Vancouver, B.C. V6C 1B4
Tel: (604) 687-3063 Fax: (604) 682-7896
email: bcpiac@bcpiac.com
http://www.bcpiac.com

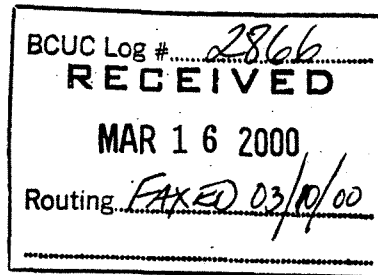


Michael P. Doherty	687-3034
R.J. Gathercole	687-3006
Sarah Khan	687-4134
Patricia MacDonald	687-3017
Susan Prosser (articled student)	687-3063
Barristers & Solicitors	

Via fax and mail: 660-1102

March 10, 2000

Robert J. Pellatt
Commission Secretary
BC UTILITIES COMMISSION
6th Floor - 900 Howe Street
Vancouver, BC V6Z 2V3



Dear Mr. Pellatt:

Re: Pacific Northern Gas Ltd. Settlement Agreement

CAC(BC) *et al.* agrees with the draft settlement agreement as circulated and as amended by Mr. Hague's March 7, 2000 fax.

Yours sincerely,

BC PUBLIC INTEREST ADVOCACY CENTRE

Richard J. Gathercole
Counsel for CAC(BC) *et al.*

cc: Craig Donahue, PNG

RJG:ll

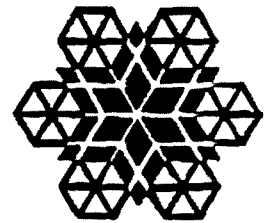
p:\msoffice\dick\energy\7174\pellsettlement.let

File: 5.6.14.

Via Fax: (604)660-1102

March 9, 2000

Mr. William J. Grant
Executive Director
Regulatory Affairs & Planning
British Columbia Utilities Commission
6th Floor, 900 Howe Street, Box 250
Vancouver, B.C.
V6Z 2N3



KITIMAT

DISTRICT OF KITIMAT
270 City Centre
Kitimat, British Columbia
Canada V8C 2H7

Phone (250) 632-2161
Fax (250) 632-4995

Dear Mr. Grant:

**Re: Proposed Settlement of Issues
Pacific Northern Gas Ltd. (West)
2000 Revenue Requirements**

Kitimat Municipal Council has had an opportunity to review the settlement arrived at among the attendees at the B.C.U.C. Alternative Dispute Resolution for P.N.G.'s year 2000 rate application. Council agrees the terms are fair and reasonable and as such endorses the settlement.

Further to the fax of March 7, 2000 from your Mr. John Hague, Senior Financial Analyst, the District of Kitimat has no comment.

If you have any further questions please give me a call.

Yours truly,

Trafford Hall
Municipal Manager

TH:ml

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<u>JH; ORIG - CMS</u>

BURNS LAKE SPECIALTY WOOD LTD.

Box 1229, BURNS LAKE, B.C. CANADA V0J 1E0

PHONE: 250-698-7391 FAX: 250-698-7682



Fax Transmission

To: John Hague

From: Barry Metzner

Re: PNG - Draft Settlement Agreement

Pages: 1

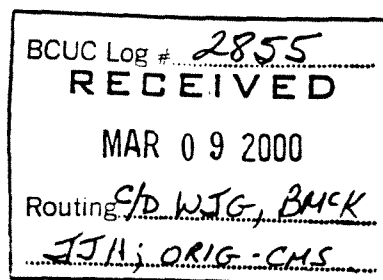
From: (250) 698-7682

Date: March 09, 2000 at 13:41

● **Comments:**

The agreement is acceptable to us.

Barry Metzner



Avista Energy Canada, Ltd.
1006-1186 Alberni St.
Vancouver, BC, Canada V6E 3Z3
Telephone 604-682-6440
Facsimile 604-682-6447

APPENDIX A
to Order No. G-37-00
Page 8 of 22



March 15, 1999

Mr. Bill Grant
British Columbia Utilities Commission
Sixth Floor, 900 Howe Street
Vancouver, B.C. V6Z 2N3
Fax No: 660-1102

Dear Mr. Grant:

RE: Pacific Northern Gas Ltd. - 2000 Revenue Requirements Application

On behalf of Alcan Smelters and Chemicals Ltd. and our other industrial and commercial customers on the PNG system, Avista Energy would like to endorse the proposed settlement dated March 2nd, 2000.

In addition, we support the wording change to the last paragraph under the Sales Forecast section as suggested by Fred Weisberg.

Yours truly,

A handwritten signature in cursive script, appearing to read "Mary M. C.", followed by a horizontal line.

Mary McCordic

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BMCK ORE-CMS	



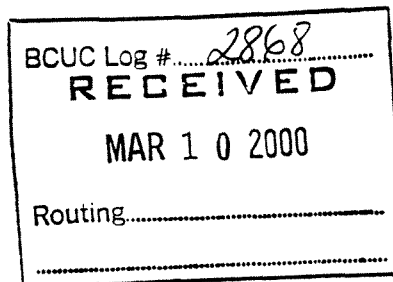
W E I S B E R G L A W
C O R P O R A T I O N

2730 Ailsa Crescent
North Vancouver, B.C.
Canada V7K 2B2
Tel: 604 980 4069
Fax: 604 980 6357
fjw@bc.sympatico.ca

March 10, 2000

BY FAX

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



Dear Sirs/Mesdames:

Re: Pacific Northern Gas (West)
2000 Revenue Requirement Application
Proposed Settlement of Issues
Our File: 600.1

Canfor Corporation ("Canfor"), Eurocan Pulp and Paper Co. ("Eurocan") and Skeena Cellulose Inc. ("Skeena"), collectively referred to as the IGI Resources, Inc. Industrial Customers Group, have reviewed the "PNG 2000 Rate Application ADR Settlement Terms" document circulated by Commission staff on March 2, and the amending letter dated March 7, 2000.

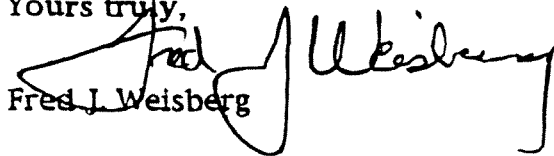
With regard to the final sentence of paragraph 4 under the heading "Sales Forecast", we suggest that it should read "... the deferral account reduces the business risk of PNG by transferring the *large industrial* sales volume risk to customers." In our view, this suggested wording accurately reflects the understanding and agreement of the ADR participants, and precludes any potential controversy regarding the meaning of "some" or "a large part" of the sales volume risk.

In light of the fact that PNG's business risk has been significantly reduced by the establishment of a deferral account for large industrial volumes, the IGI Resources, Inc. Industrial Customers Group harbours some concern as to whether a 75 basis point risk premium remains appropriate. However, given the nature of the ADR negotiations, we are prepared to accept that level of return on equity for the one year term of the 2000 ADR Settlement and the large industrial volumes deferral account.

British Columbia Utilities Commission
March 10, 2000
...page 2

With the change suggested above, and subject to our review of any changes proposed by other participants, the IGI Resources, Inc. Industrial Customers Group accepts and supports the ADR Settlement Terms.

Yours truly,


Fred J. Weisberg

encs.

Copy to C. Donohue
D. Bursey
R. Gathercole
J. Langley
J. Lutes

BULL, HOUSSER & TUPPER

BARRISTERS & SOLICITORS
Patent & Trade-Mark Agents

3000 ROYAL CENTRE • P.O. BOX 11130 • 1055 WEST GEORGIA STREET • VANCOUVER, BRITISH COLUMBIA • CANADA V6E 3R3
TELEPHONE (604) 687-6575 • FAX (604) 641-4949 • WEB SITE: WWW.BHT.COM

BCUC Log # <u>2884</u>
RECEIVED
MAR 14 2000
Routing <u>G/D JH: BMK</u>
<u>WJG DRIG-CMS</u>

Reply Attention of: David Bursey
Direct Line: 641-4969
e-mail: dwb@bht.com
Our File No.: 99-6084
Date: March 14, 2000

British Columbia Utilities Commission
Sixth Floor, 900 Howe Street, Box 250
Vancouver, BC
V6Z 2N3

Attention: W. J. Grant, Executive Director,
Regulatory Affairs & Planning

Dear Sirs/Mesdames:

**Re: Proposed Settlement of Issues
Pacific Northern Gas Ltd. (West) ("PNG")
2000 Revenue Requirements**

Methanex Corporation submits the following comments on the Settlement proposal attached to the Commission's letter dated March 2, 2000.

Methanex has two points of clarification, as follows:

1. Large Industrial Sales Forecast Deferral Account

Methanex has read the comments submitted by Canfor, Eurocan and Skeena in Mr. Weisberg's letter dated March 10 and agrees that the wording suggested by Mr. Weisberg best captures the view of the large industrial customers on the business risk issue. Specifically, Methanex agrees that the last paragraph of item 4 of the Settlement Terms should be re-written to read as follows:

...the Deferral Account reduces the business risk of PNG by transferring the *large industrial* sales volume risk to customers.

2. Transfers of Overhead to Capital

Methanex read the comments submitted by PNG in Mr. Donohue's letter dated March 10. Methanex accepts the clarification suggested by PNG to include the word *forecast*.

The discussion on the adjustment for the 2000 projected capitalization ratio and the reduction in the forecast transfer of overhead to capital raises a general concern. Methanex is concerned that the rate-setting model creates an incentive for PNG to capitalize more overhead costs than forecast.

Since the 2000 rates will be based on a forecast amount of overhead cost transferred to capital, there is potential for the actual overhead cost that is capitalized in 2000 to vary significantly from the forecast. If PNG capitalizes more overhead cost than the forecast embedded in the rates, those additional costs will be deferred for recovery in future years. Additionally, PNG's actual expenses in 2000 in this category may be lower as a result of the greater capitalization of overhead. In that case, PNG will benefit since the forecast overhead expense embedded in the rates and recovered from customers will be higher than the actual amount expensed.

The overhead adjustment in rate-setting has extra importance in the context of this Settlement because of how the 2000 O, M, A & G budget was reduced to the 1999 ADR level and how the overall gross reduction of \$1.122 million in forecast O, M, A & G expenses is offset by overhead adjustment. Apart from the reductions to *Company Benefits* (for OPEB) and to *Other* (for Business Development) which were specific reductions directed by the Settlement, the balance of the Settlement reduction is achieved by reducing accounts 685 by \$250,000 and 721 by \$253,000. The choice of accounts 685 and 721 is significant because those two accounts are subject to the overhead transfer adjustment. Lowering the gross amounts in 685 and 721 reduces the forecast transfer of overhead to capital since the projected capitalization ratio is applied to the reduced account total. This adjustment, in turn, reduces the net effect of the gross reduction of \$1.122 million to the O, M, A & G budget - an effect that would not occur if other cost accounts were reduced instead of 685 and 721.

Methanex is not proposing any change to the Settlement, but is giving notice of an issue that should be examined in next year's application. Methanex submits there should be careful accounting in next year's application of overhead cost that is actually transferred to capital to ensure the actual cost are justified before being allowed in rate base.

BULL, HOUSSEY & TUPPER

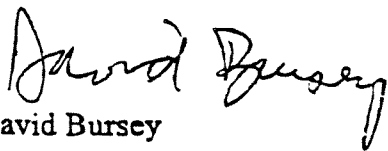
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Subject to these two qualifications, Methanex accepts the proposed Settlement.

I would be pleased to answer any questions to elaborate further on these points.

Yours truly,

BULL, HOUSSEY & TUPPER

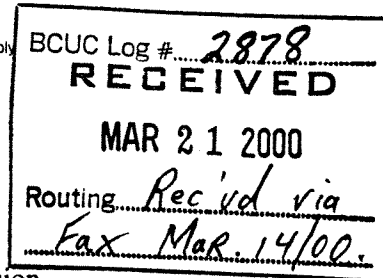

David Bursey

DWB/cal/824052
Copy to ADR Participants



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Vancouver, British Columbia
V6E 4E6
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Fax: (604) 691-5863

Craig P. Donohue
Director, Regulatory Affairs & Gas Supply



Via Fax and Mail

March 14, 2000

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

File No.: 4.2.7(2000)

Attention: R.J. Pellatt
Commission Secretary

Dear Sir:

Re: Proposed Settlement of Issues for PNG's 2000 Revenue Requirement

PNG wishes to comment on the wording change to the settlement document suggested by the Industrial Customers Group in Fred J. Weisberg's letter to the Commission dated March 10, 2000. The wording change would result in the last paragraph under the Sales Forecast section of the settlement agreement reading as follows:

The industrial customers have agreed to the implementation of this deferral account to achieve settlement of the 2000 revenue requirement application and believe the deferral account reduces the business risk of PNG by transferring the large industrial sales volume risk to customers.

Mr. Weisberg states in his letter that the "suggested wording accurately reflects the understanding and agreement of the ADR participants". PNG emphasizes the wording of this paragraph is presented in the context of what the industrial customers believe to be the case and therefore does not reflect the agreement of all the ADR participants. PNG's views on the impact of the deferral account on sales volume risk would be characterized differently than what is believed to be the case by the industrial customers. PNG is in agreement with allowing the industrial customers to state their opinion in the settlement agreement but is not in agreement with the statement itself.

Please direct any questions regarding this letter to my attention.

Yours truly,

A handwritten signature in black ink, appearing to read 'C. Donohue'.

C.P. Donohue

CPD:sl
Attach.

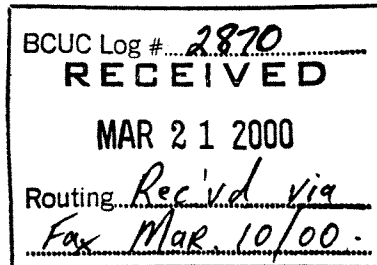


Pacific Northern Gas Ltd.
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Fax: (604) 691-5863

Craig P. Donohue
Director, Regulatory Affairs & Gas Supply

Via Fax & Mail

March 10, 2000



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

File No.: 4.2.7(2000)

Attention: W.J. Grant

Dear Sir:

Re: Proposed Settlement of Issues for PNG 2000 Revenue Requirement

PNG hereby endorses the proposed settlement distributed by you under cover of letter dated March 2, 2000 subject to the following:

1. Under the heading "Operating, Maintenance, Administrative & General Expenses ("O,M,A&G")" a reduction of \$339,000 in O,M,A&G is made to reflect the continuation of accounting for other post employment benefits ("OPEB's") on a cash basis rather than on an accrual basis as directed by the Canadian Institute of Charter Accountants. This reduction was made on the understanding the Commission would issue an Order to PNG directing it to account for OPEB's on a cash basis. Therefore the settlement document needs to reflect this understanding. PNG recommends a sentence be added to section 1 stating something like the following: "The above reduction of \$339,000 for OPEB's is conditional upon the B.C. Utilities Commission directing PNG to continue to account for OPEB costs on a pay as you go basis."
2. Statement 2 under the O,M,A&G heading states that "Transfers of overhead to capital will be based on the overhead capitalization ratio contained in the 2000 application". This statement is intended to ensure the parties acknowledge that when adjustments are made to the applied for level of O,M,A&G expenses the forecast transfers to capital will change as a result of the projected 2000 overhead capitalization ratio applying to the new O,M,A&G figures. To clarify this point the words "Forecast 2000" should be added so that statement 2 reads as follows: "Forecast 2000 transfers of overhead to capital will be based on the overhead capitalization ratio contained in the 2000 application".

Please direct any questions regarding this letter to my attention.

Yours truly,

A handwritten signature in black ink, appearing to read 'C.P. Donohue'.

C.P. Donohue



Pacific Northern Gas Ltd.
Suite 1400
1185 West Georgia Street
Vancouver, British Columbia
V6E 4E6
(604) 691-5882
Fax: (604) 691-5863

Craig P. Donohue
Director, Regulatory Affairs & Gas Supply

Via Courier

March 2, 2000

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

File No.: 4.2.7(2000)

Attention: R.J. Pellatt
Commission Secretary

Dear Sir:

Re: 2000 ADR Settlement Regulatory Schedules 1 to 5

Enclosed are 10 copies of the above noted regulatory schedules 1 to 5. Also enclosed are 10 copies of the Table at Tab Application, Page 6 revised to consistent with the enclosed regulatory schedules.

Please direct any questions regarding this letter to my attention.

Yours truly,

A handwritten signature in black ink, appearing to read 'C. Donohue', written over a horizontal line.

C.P. Donohue

CPD:sl
Attach.

BCUC Log # 2806
RECEIVED
MAR 02 2000
Routing.....

Pacific Northern Gas Ltd.

UTILITY INCOME & RETURN

SCHEDULE 1 (000's)

Line No.		Test Year <u>2000</u>	Normalized <u>1999</u>	Forecast <u>1999</u>	ADR <u>1999</u>
1	Energy sales (TJ)	6 026	7 552	7 576	8 371
2	Average rate per GJ	\$6.31	\$3.92	\$3.93	\$3.48
3	Per cent increase in rates	60.92%	12.70%	12.92%	-16.70%
4					
5	Transportation service (TJ)	33 240	29 477	29 477	29 397
6	Average rate per GJ	\$0.85	\$0.88	\$0.88	\$0.92
7	Per cent increase in rates	-4.15%	-3.62%	-3.62%	-11.64%
8					
9	Total deliveries (TJ)	39 266	37 029	37 053	37 768
10					
11	Utility revenue				
12	Energy sales	\$38,244	29,631	\$29,783	29,142
13	Interim rates - sales	(198)			
14	Transportation service	28,478	26,055	26,055	26,960
15	Interim rates - transportation	(317)			
16					
17		66,207	55,686	55,838	56,102
18	Cost of sales	20,415	12,743	12,812	12,901
19					
20	Gross margin	45,792	42,943	43,026	43,201
21					
22	Operating expenses	11,003	9,521	9,521	9,605
23	Maintenance expenses	752	977	977	1,002
24	Admin. & general expenses	5,220	4,988	4,988	4,796
25	Property taxes, BC capital tax	3,237	3,238	3,238	3,215
26	Depreciation	6,258	6,041	6,041	6,095
27	Amortization	926	822	822	803
28	Investment income, other revenue	(1,314)	(1,270)	(1,270)	(1,300)
29					
30		26,082	24,317	24,317	24,216
31					
32	Earned return before income taxes	19,710	18,626	18,709	18,985
33	Income taxes	5,914	5,106	5,143	5,210
34					
35	Earned return	\$13,796	13,520	\$13,566	13,775
36					
37	Utility rate base	\$146,460	146,830	\$146,830	\$145,947
38					
39	Return on rate base	9.42%	9.21%	9.24%	9.44%

PNG 2000 ADR Settlement

01-03-00

4:02 PM

Pacific Northern Gas Ltd.

UTILITY RATE BASE

SCHEDULE 2
(000's)

Line No.		Test Year <u>2000</u>	Normalized <u>1999</u>	Forecast <u>1999</u>	ADR <u>1999</u>
1	Plant in service beginning of year	\$227,615	219,940	\$219,940	220,742
2	Additions	5,761	9,137	9,137	6,155
3	Disposals	(475)	(1,464)	(1,464)	(1,882)
4					
5	Plant in service end of year	232,901	227,613	227,613	225,015
6	Accumulated depreciation	73,260	67,088	67,088	66,886
7					
8	Net plant in service end of year	159,641	160,525	160,525	158,129
9					
10	Net plant beginning of year	160,527	158,388	158,388	158,991
11					
12	Net plant in service midyear	160,084	159,457	159,457	158,560
13	Adjustment - expenditure timing	(85)	635	635	124
14	Contributions for construction	(6,439)	(6,487)	(6,487)	(5,317)
15	Construction advances	(510)	(530)	(530)	(517)
16	Deferred income taxes	(14,915)	(14,915)	(14,915)	(14,915)
17	Work in progress, no AFUDC	1,650	1,650	1,650	550
18	Unamortized deferred charges	3,877	4,364	4,364	4,407
19	Conversion loans	850	878	878	1,250
20	Cash working capital	1,528	1,358	1,358	1,385
21	Other working capital	420	420	420	420
22					
23	Utility rate base, midyear	\$146,460	146,830	\$146,830	145,947

Pacific Northern Gas Ltd.

INCOME TAXES

SCHEDULE 3
(000's)

Line No.		Test Year 2000	Normalized 1999	Forecast 1999	ADR 1999
1	Calculation of Taxable Income				
2	Earned return before income taxes	\$19,710	18,626	\$18,709	18,985
3	Interest	(8,042)	(8,198)	(8,198)	(8,172)
4	Permanent differences	12	12	12	12
5	Timing differences	201	(2,622)	(2,622)	(926)
6					
7	Taxable income	\$11,881	7,818	\$7,901	9,899
8					
9	Calculation of Income Tax Expense				
10	Income taxes payable	\$5,287	3,479	\$3,516	4,405
11	Part I.3 tax	377	401	401	384
12	Deferred income tax	250	1,226	1,226	421
13					
14	Income tax expense	\$5,914	5,106	\$5,143	5,210
15					
16	Particulars of Timing Differences				
17	A. Tax Effects Subject To Flowthrough				
18	Depreciation	\$6,258	6,041	\$6,041	6,095
19	Amortization	926	822	822	803
20	Capital cost allowance	(5,447)	(5,345)	(5,345)	(5,312)
21	Overheads capitalized	(812)	(1,221)	(1,221)	(1,402)
22	Other	(163)	(165)	(165)	(165)
23					
24		\$762	132	\$132	19
25	B. Tax Effects Subject To Deferral				
26	Deferred charges	(561)	(2,754)	(2,754)	(945)
27					
28	Timing differences	\$201	(2,622)	(\$2,622)	(926)

Pacific Northern Gas Ltd.

COMMON EQUITY

SCHEDULE 4
(000's)

Line No.		Test Year <u>2000</u>	Normalized <u>1999</u>	Forecast <u>1999</u>	ADR <u>1999</u>
1	Opening balance				
2	Share capital	\$8,839	8,836	\$8,836	8,835
3	Contributed surplus	2,046	2,026	2,026	2,018
4	Retained earnings	53,006	50,597	50,597	51,364
5					
6		63,891	61,459	61,459	62,217
7					
8	Net income	7,020	6,662	6,707	7,051
9	Shares issued	0	24	24	0
10	Preferred dividends	(338)	(338)	(338)	(338)
11	Common dividends	(3,960)	(3,960)	(3,960)	(3,958)
12					
13	Closing balance	\$66,613	63,847	\$63,892	64,972
14					
15					
16	Midyear common equity	\$65,252	\$62,653	\$62,676	63,595
17	less: acquisition premiums	(1,918)	(1,918)	(1,918)	(1,918)
18	less: investment in subsidiary companies	(4,939)	(4,634)	(4,634)	(4,653)
19					
20		\$58,396	56,101	\$56,124	57,024

Pacific Northern Gas Ltd.

RETURN ON CAPITAL

SCHEDULE 5
(000's)

Line No.		Test Year 2000	Normalized 1999	Forecast 1999	ADR 1999
1	Short term borrowings	\$5,174	2,270	2,270	1,705
2	proportion	3.53%	1.55%	1.55%	1.17%
3	rate of return	5.50%	4.50%	4.50%	4.50%
4	return component	0.19%	0.07%	0.07%	0.05%
5					
6	Long term debt	\$83,560	86,701	86,701	86,701
7	proportion	57.05%	59.05%	59.05%	59.41%
8	rate of return	9.28%	9.337%	9.337%	9.34%
9	return component	5.30%	5.51%	5.51%	5.55%
10					
11	Preferred shares	\$5,000	5,000	5,000	5,000
12	proportion	3.41%	3.41%	3.41%	3.43%
13	rate of return	7.01%	7.01%	7.01%	7.01%
14	return component	0.24%	0.24%	0.24%	0.24%
15					
16	Common equity	\$52,726	52,859	52,859	52,541
17	proportion	36.00%	36.00%	36.00%	36.00%
18	rate of return	10.25%	9.40%	9.49%	10.00%
19	return component	3.69%	3.39%	3.42%	3.60%
20					
21	Total capitalization	146,460	146,830	146,830	145,947
22					
23	Return on rate base	9.42%	9.21%	9.24%	9.44%
24					
25	Utility rate base	\$146,460	\$146,830	\$146,830	\$145,947

**PNG-West Division
DERIVATION OF 2000
REVENUE DEFICIENCY (SUFFICIENCY)**

APPENDIX A
to Order No. G-37-00
Page 22 of 22

	Test Year	ADR	Difference
	2000	1999	
<u>EXPENSES</u>	(\$000)	(\$000)	(\$000)
Operating			
Labour	4,295	4,348	(53)
Other	2,853	2,815	38
Company Use Gas	4,548	3,302	1,246
Transfers to Capital	(693)	(860)	167
Total	<u>11,003</u>	<u>9,605</u>	<u>1,398</u>
Maintenance			
Labour	265	285	(20)
Other	487	717	(230)
Total	<u>752</u>	<u>1,002</u>	<u>(250)</u>
Administrative and General			
Labour	1,628	1,621	7
Total Company Benefits	1,472	1,462	10
Other	2,983	2,735	248
Transfers to Capital	(863)	(1,022)	159
Total	<u>5,220</u>	<u>4,796</u>	<u>424</u>
Property Taxes, BC Capital tax	3,237	3,215	22
Depreciation	6,258	6,095	163
Amortization	926	803	123
Other Income	(1,314)	(1,300)	(14)
<u>TOTAL EXPENSES</u>	<u>26,082</u>	<u>24,216</u>	<u>1,866</u>
Income Taxes	5,914	5,210	704
Return on Common Equity	5,404	5,252	152
Short Term Debt	285	77	208
Long Term Debt	7,758	8,096	(338)
Preferred Shares	351	351	0
<u>TOTAL COST OF SERVICE</u>	<u>45,793</u>	<u>43,201</u>	<u>2,592</u>
Revenue increase due to higher deliveries in 2000 compared to 1999		1,861	
Revenue increase to flow through higher company use costs in 2000 compared to 1999		<u>1,246</u>	
<u>REVENUE INCREASE IN 2000 COMPARED TO 1999</u>			<u>3,107</u>
<u>2000 REVENUE DEFICIENCY (SUFFICIENCY)</u>			<u>(515)</u>