

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-120-05

SIXTH FLOOR, 900 HOWE STREET, BOX 250
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IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

Pacific Northern Gas Ltd.
Application for Approval of 2005 Revenue Requirements

BEFORE: R.H. Hobbs, Chair November 17, 2005
L.A. Boychuk, Commissioner

O R D E R

WHEREAS:

- A. On December 17, 2004, Pacific Northern Gas Ltd. – West Division (“PNG-West”) filed for approval of its 2005 Revenue Requirements Application (“the RR Application”) to amend its rates on an interim and final basis, effective January 1, 2005, pursuant to Sections 89 and 58 of the Utilities Commission Act (“the Act”); and
- B. The RR Application proposes to increase delivery rates to all customers, except West Fraser Mills and Methanex Corporation, as a result of increases in cost of service and lower gas deliveries to most customer classes; and
- C. The RR Application requests approval to increase its common equity thickness from 36 percent to 51 percent in 2005; and
- D. On December 17, 2004, PNG-West filed an application to convert PNG-West to an income trust structure (the “IT Application”, “Applications”); and
- E. On December 7, 2004 PNG-West filed its Fourth Quarter 2004 Report on gas supply costs and Gas Cost Variance Account (“GCVA”) balances (“the Report”) which requested approval of increases effective January 1, 2005 to Gas Supply Charges based on November 24, 2004 forward natural gas prices and a November 10, 2004 propane price forecast. PNG-West proposed no change be made to the GCVA rate rider; and
- F. The Report projects significant GCVA credit balances for PNG-West Core Market Sales and Company Use Gas at the end of December 2004; and
- G. By Order No. G-114-04, the Commission approved an interim rate increase in the delivery rates for all classes of customers, except West Fraser Mills and Methanex Corporation based on the deemed equity component of 36 percent effective January 1, 2005 subject to refund with interest; and

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- H. By Order No. G-114-04, the Commission also held a Pre-Hearing Conference (“PHC”) in Vancouver on January 20, 2005 to address procedural matters related to the Applications, including the identification of principal issues and the process options for review of the Applications; and
- I. By Order No. G-15-05, the Commission established a second PHC for PNG-West on April 13, 2005 followed by an oral public hearing from May 10, 2005 to May 13, 2005 into the IT Application along with the common equity thickness in the RR Application; and
- J. The Commission in its September 9, 2005 Decision approved for PNG the IT Application and deferred the review of the appropriate 2005 deemed capital structure to a separate process; and
- K. By Letter No. L-84-05, the Commission scheduled a Negotiated Settlement Process for the review of the PNG-West RR Application; and
- L. The Negotiated Settlement discussions were held in Vancouver on October 12 and 13, 2005 and a proposed Settlement Agreement regarding the RR Application was agreed to by PNG-West and the Intervenor; and
- M. The Commission has reviewed the proposed Settlement Agreement for PNG-West and considers that approval is warranted.

NOW THEREFORE the Commission orders as follows:

1. The Commission approves for PNG-West the Settlement Agreement attached as Appendix A, the Terms of Settlement along with supporting schedules showing the effects of the changes arising from the Negotiated Settlement.
2. The interim rates for PNG-West established by Order No. G-114-04 are approved as permanent rates effective January 1, 2005.
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.

DATED at the City of Vancouver, in the Province of British Columbia, this 18th day of November 2005.

BY ORDER

Original signed by:

Robert H. Hobbs
Chair

Attachment



SIXTH FLOOR, 900 HOWE STREET, BOX 250
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VIA E-MAIL

October 19, 2005

Dear Registered Intervenors:

Re: Pacific Northern Gas Ltd. – West Division (“PNG-W”)
Negotiated Settlement
2005 Revenue Requirement Application

Enclosed with this letter is the proposed settlement package for PNG-W 2005 Revenue Requirement Application.

This settlement package is now public and is being submitted to the Commission and all Intervenors. Also enclosed are Letters of Acceptance from the Participants in the negotiated settlement process.

Prior to consideration by the Commission, Intervenors who did not participate in the settlement negotiations are requested to provide to the Commission their comments on the settlement package by Wednesday, October 26, 2005. Thereafter, the Commission will consider the settlement package. A public hearing may not be required unless there is significant opposition to the proposed settlement.

Yours truly,

A handwritten signature in black ink, appearing to be "WJ Grant".

William J. Grant

FYK/rt

Attachments

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



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VIA E-MAIL

October 17, 2005

Dear Participants:

Re: Pacific Northern Gas Ltd. – West Division (“PNG-W”)
Negotiated Settlement
2005 Revenue Requirement Application

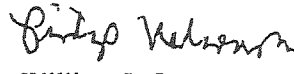
Enclosed is the revised Negotiated Settlement Agreement for PNG-W 2005 Revenue Requirement Application along with supporting documents as per the amendments submitted by PNG on October 17, 2005.

Please review the revised Negotiated Settlement Agreement along with the supporting documents and provide your written correspondence confirming your acceptance of this Settlement by Thursday, October 20, 2005.

By Monday, October 24, 2005, the Negotiated Settlement package and Letters of Comment from the participants will be made public and forwarded to the Commission for its review.

Prior to consideration by the Commission, Intervenor who did not participate in the settlement negotiations will be requested to provide to the Commission their comments on the settlement package by Friday, October 28, 2005. Thereafter, the Commission will consider the settlement package. A public hearing may not be required unless there is significant opposition to the proposed settlement.

Yours truly,


for William J. Grant

FYK/rt

Attachments

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

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

2005 Revenue Requirements Application

NEGOTIATED SETTLEMENT AGREEMENT

October 13, 2005

The following sets out the agreement reached on October 13, 2005 among the parties that participated in the negotiated settlement process in respect of the PNG-West Division 2005 Revenue Requirements Application to the B.C. Utilities Commission dated December 17, 2004 as updated on February 18, 2005 (herein referred to as the "Feb. 18'05 Application").

1. Gas Deliveries Forecast

The 2005 gas deliveries forecast for all customer classes as set out in the Feb. 18'05 Application is accepted by the parties.

2. Operating and Maintenance Expenses

The budgeted operating expenses of \$6.77 million and budgeted maintenance expenses of \$443,000 as set out in the Feb. 18'05 Application are accepted by the parties.

3. Administrative and General Expenses

The budgeted administrative and general expenses of \$6.283 million in the Feb. 18'05 Application have increased to \$6.326 million due to a change in the allocation of insurance cost recoveries from PNG(N.E.) under the Commission's May 5, 2005 decision on PNG(N.E.)'s 2005 revenue requirement application and due to annualizing the actual expenses to August 2005 for life and disability insurance and pension funding. The revised provision of \$6.326 million is accepted by the parties.

4. Expenses Other Than O,M,A and G Expenses

The other cost of service items set forth in the Cost of Service Comparison Table provided at page 3 of the Feb. 18'05 Application in addition to operating, maintenance, administrative and general expenses are accepted by the parties as follows.

Cost of Service Item	\$000's
Transfers to Capital-Operating	(412)
Transfers to Capital-Admin. & General	(615)
Property Taxes	3,250
Depreciation	6,682
Amortization	748
Other Income	(319)
Shared Service Recovery from PNG(N.E.)	(1,313)
Total	\$8,021

5. Propane/Air Plant Deferral Account

PNG filed a letter with the Commission dated January 18, 2005 requesting Commission approval to record the original cost of the propane/air plant less salvage recoveries and the costs to relocate the plant to the West Fraser Kitimat mill ("relocation costs") in an interest bearing deferral account. The requested amortization period was 20 years using depreciation as the determinant of the annual amortization expense. The parties agreed to reduce the requested deferral account by \$165,000 and to transfer to rate base the overhead construction costs allocated to the relocation costs plus associated AFUDC. The parties agreed that the remaining applied for costs, adjusted for the actual salvage value of \$27,000 on the sale of the propane tanks, be recorded in an interest bearing deferral account and be amortized in customer rates over the ten year period commencing with 2005.

6. Capital Expenditures

The 2005 budgeted capital expenditures of \$9.925 million as set out in Utility Rate Base Schedule 2 of the Feb. 18'05 Application are accepted by the parties. The parties acknowledge that the \$9.925 million figure reflects work in progress as of December 31, 2004 plus budgeted 2005 capital additions. Most of the work in progress as of December 31, 2004 was for the Salmon River directional drilling project, which was substantially completed in 2004, but not tied into service until mid 2005. This resulted in the Salmon River crossing 2004 expenditures of approximately \$4.5 million appearing in the budgeted 2005 capital additions.

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7. Income Tax Calculation

The 2005 provision for income tax was adjusted to reflect the impact of the July 1, 2005 decrease of 1.5 percent in the provincial corporate income tax rate. This adjustment effectively reduced the annual income tax rate by 0.75 percent. The cost of service in the attached settlement regulatory schedules reflects this change.

8. Capital Structure – Common Equity Thickness

PNG applied to increase its deemed common equity thickness from 36 percent to its actual common equity thickness of 51 percent. The Commission considered the common equity thickness evidence filed by PNG in its 2005 revenue requirements application at the hearing into PNG's application for approval to convert to an income trust. The Commission stated the following at page 13 of the Income Trust Decision:

“Commission Panel Determinations

The Commission Panel accepts that PNG simply cannot raise sufficient debt to balance its capital structure at a deemed common equity of 36 percent. Equally, PNG has 51 percent common equity in its 2005 actual capital structure and would, therefore, not have to raise debt this year if that actual capital were accepted for ratemaking purposes. However, it is not clear to the Commission Panel whether some other deemed capital structure with a common equity percentage between 36 percent and 51 percent would not allow PNG to borrow the remaining debt on reasonable terms, based on the improved cash flow of the higher deemed equity ratio. PNG did not lead compelling evidence in these circumstances to assist the Commission Panel to specify an optimal capital structure for 2005, or until an income trust structure can be put in place.

In the event that PNG's rates for 2005 are to be resolved by a Negotiated Settlement Process (“NSP”), the Commission Panel will allow the participants in that process to consider the most appropriate deemed capital structure to be approved for 2005. Commission Panel Determinations in Section 7.3 also address an NSP.

The Commission accepts PNG's request that the 2005 ROE for PNG-West be established at 65 basis points above the benchmark utility ROE (i.e. 9.68%).”

The parties were unable to reach agreement on what common equity thickness should be deemed for rate making purposes in 2005. PNG continues to submit that its filed expert evidence supports its application for approval of a 51 percent common equity thickness to ensure that PNG earns a fair and reasonable return. The intervenors that participated in the settlement discussions disagree with this position. While they agree that the deemed common equity thickness for rate making purposes should be

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greater than 36 percent, they are of the opinion that the appropriate deemed common equity thickness would be in the lower end of the range of 40 to 45 percent and on this basis that PNG would have access to additional long term debt as a result of the cash flow generated by the higher common equity thickness.

To reach a settlement the parties have agreed to not specify a deemed common equity thickness in the attached settlement regulatory schedules. In addition, the parties have agreed that the interim rates effective January 1, 2005 will be made permanent for 2005. The interim rates are based on a revenue deficiency of \$1.204 million compared to the applied for revenue deficiency of \$2.631 million. All of the adjustments to the Feb 18'05 Application set forth in this settlement agreement together with the return on equity less settlement allowance figure in the attached settlement regulatory schedules generates the agreed to 2005 revenue deficiency of \$1.190 million. The \$14,000 difference between the interim rates and the settlement revenue deficiency figures reflects the impact of applying to the interim rates the different gas deliveries forecasts set forth in the original 2005 revenue requirements application dated December 17, 2004 and in the updated Feb. 18'05 Application.

9. **Methanex Contract Termination Payment Deferral Account**

The Methanex contract termination payment deferral account is accepted by the parties on the basis set forth in PNG's letter to the Commission dated October 4, 2005. The parties acknowledge that the 2006 revenue requirements application will provide for crediting part of the Methanex contract termination payment to the 2006 cost of service subject to approval of the Commission in its review of the 2006 revenue requirements application.

10. **Commission Staff Issues List Settlement**

The Commission Staff prepared an issues list to facilitate the settlement negotiations. The parties agree that the attached Commission Staff Issues List Settlement accurately documents the parties' settlement of the issues identified by the Commission Staff.

<p>Unaccounted for Gas</p> <ul style="list-style-type: none"> The UAFG was in fact a small gain in the last two years and PNG has taken steps to investigate and reduce the magnitude of the UAFG gains. 		<ul style="list-style-type: none"> Accept as filed – UAFG factor set to 0% for 2005 No dead band for deferral. UAFG gains to continue to be reflected as credit in GCVA 	
<p>Stress Corrosion Cracking Deferral Account</p>	<p align="center">\$188</p>	<p>Reduce by \$60K to after tax addition of \$128K</p>	<p>Rev Appl'n Tab 2 p.6</p>
<p>Capital Additions</p> <ul style="list-style-type: none"> 2005 budget 	<p align="center">\$9,925</p>	<p>Accept as filed</p>	<p>Revised Appl'n Tab 2 p.2</p>
<p>GCVA Deferral Account Summary Report</p> <ul style="list-style-type: none"> 2005 opening balance reconciliation 		<p>Accept as filed</p>	<p>BCUC IR#2 p.13</p>
<p>Customer Care Cost</p> <ul style="list-style-type: none"> Accounts (711 / 713 / 714) increase due primarily to anticipated activity for these accounts 	<p align="center">\$1,329</p>	<p>Accept as filed</p>	<p>BCOAPO IR #1 Q.2 p.1 BCUC IR #1 Q.3 p.3</p>
<p>Administrative and General Expenses</p> <ul style="list-style-type: none"> Life and disability insurance – more expensive on a stand-alone basis from Duke since Dec 2003. 	<p align="center">\$385</p>	<p>Update to reflect actuals to August 2005 results in budget of \$364K</p>	<p>Revised Tab 1 p.5 Acct 725 IR 7.0</p>
<ul style="list-style-type: none"> Pension expense per 2005 Actuary calculation 	<p align="center">\$724</p>	<p>Update to reflect actuals to August 2005 results in budget of \$760K</p>	<p>Acct 725</p>
<ul style="list-style-type: none"> Directors' Fee 	<p align="center">\$193</p>	<p>Accept as filed</p>	<p>Appl'n p.15 Acct 728</p>
<ul style="list-style-type: none"> Captive Insurance company – pending Income Trust decision \$50k for start up and \$25k annual administrative costs 		<p>Pending IT Decision No impact</p>	<p>Acct 723</p>

<p>Post Retirement Benefit</p> <ul style="list-style-type: none"> Compliance with Commission Directives for 2004 Revenue Requirement and Letter L-6-05 	\$105	Accept as filed	BCUC IR #1 Q7.5.4
<p>Insurance Deferral Account – Terrorist Acts</p> <ul style="list-style-type: none"> To capture any costs incurred to repair damages caused by a terrorist act. This treatment was approved by the Commission in 2004 		Accept as filed	Appl'n p.15
<p>BCUC Proceedings Deferral Account</p> <ul style="list-style-type: none"> Budgeted regulatory proceeding cost for 2005 of \$299,000 net of taxes (\$456k gross) includes the Revenue Requirement and IT Applications. 	\$193	<ul style="list-style-type: none"> Reduce 2005 amortization to \$80K IT regulatory cost deferred until resolution of IT conversion 	Revised Appl'n Tab 2 p.7
<p>Property Taxes</p> <ul style="list-style-type: none"> The 2004 over assessment was put to a deferral account and the reduced 2005 assessment offset the 2004 overpayment. 	\$3,250	Accept as filed	Tab 1 p. 1 BCUC IR#1 Q12
<p>Depreciation</p> <ul style="list-style-type: none"> 2005 increased by \$227,000 in transmission and general plant assets 	\$6,675	Require future filing of plant and depreciation continuity schedules.	BCUC IR#1 p.21
<p>Capital Taxes Reassessment and Deferral Account</p> <ul style="list-style-type: none"> Additional \$47k net of taxes amortize over 3 years as per the revised Notice of Reassessment issued by the Ministry of Provincial Revenue. 	\$16	Accept as filed	Tab 2 p.7 BCUC IR #1. Q.13
<p>Shared Service Recovery for PNG(NE)</p> <ul style="list-style-type: none"> There is an increase of 3.2% from 2004 Decision to 2005 Test year 	\$1,311	Accept as filed subject to adjustments from NSP settlement	BCUC IR #1 Q.15 pp.23 - 24
<p>Insurance Receivable – cash working capital</p> <ul style="list-style-type: none"> The insurance receivable relates to the Copper River pipeline break in 2002. The amount was received in January 2005 and has been removed from working capital in February 18, 2005 updated schedules. 	0	Confirmed that the insurance is applied to reduce the Copper River pipeline break.	BCUC IR #1, Q.29

<p>Load Forecast – 2005 Deliveries Forecast (Feb 18/05)</p> <ul style="list-style-type: none"> • Residential – 1,641,263 GJ • Small Commercial – 1,011,670 GJ • Granisle – 13,896 GJ • Other Core Market – 309,000 GJ • Small Industrial – 504,150 GJ • Transportation Service – 927,000 GJ • Large Industrial – 28,827,082 GJ <p>Gas deliveries are forecast to be lower in 2005 compared to the forecast approved in Decision 2004 which accounts for the projected margin reduction.</p>		<p>Accept as filed</p>	<p>Appl'n p.32</p>
<p>RSAM</p> <ul style="list-style-type: none"> • 2005 opening balance reconciliation 		<p>Accept as filed</p>	<p>Appl'n p.42 BCUC IR #1 Q.27</p>
<p>Equity Thickness/Return on Equity</p> <ul style="list-style-type: none"> • As per Order G-84-05 p.13 - 65 basis points above the benchmark utility ROE 	<p>51%</p>	<ul style="list-style-type: none"> • For settlement purposes common equity thickness to be unidentified. • Return less settlement allowance to result in no increase to interim rates revenue deficiency 	
<p>Methanex Contract Termination Payment (Oct, 4, 2005 Letter to Commission from PNG)</p> <ul style="list-style-type: none"> • Record the net after tax amount of \$15 million including interest into a credit deferral account to be amortized over the period ending October 31, 2009 subject to Commission approval of annual amortization upon review of annual revenue requirement applications. 		<p>Accepted</p>	<p>PNG Letter Oct 4, 2005</p>

Pacific Northern Gas Ltd.
(PNG-West Division)

Test Year 2005 vs. Decision 2004
COST OF SERVICE COMPARISON
(\$000)

EXPENSES	NSP 2005	Decision 2004	Difference Total	Subtotal
Operating				
Labour	3,623	3,480	143	
Other	3,147	3,505	(358)	
Sub-total	<u>6,770</u>	<u>6,985</u>	<u>(215)</u>	
Maintenance				
Labour	167	182	(15)	
Other	276	382	(106)	
Sub-total	<u>443</u>	<u>564</u>	<u>(121)</u>	
Administrative and General				
Labour	1,375	1,173	202	
Total Company Benefits	1,818	1,598	220	
Other	3,132	3,539	(407)	
Sub-total	<u>6,326</u>	<u>6,310</u>	<u>16</u>	
Total (O, M, A & G) Excluding Co. Use	13,539	13,859	(320)	(320)
Transfers to Capital Operating	(412)	(411)	(1)	
Transfers to Capital Admin. & Gen.	(615)	(676)	61	
Property Taxes	3,250	3,149	101	
Depreciation	6,682	6,448	234	
Amortization	748	768	(20)	
Other Income	(319)	(329)	10	
Shared Service Recovery from PNG (N.E.)	(1,313)	(1,271)	(42)	343
Total Expenses Excluding Co. Use	<u>21,560</u>	<u>21,537</u>	<u>23</u>	<u>23</u>
Income Taxes	4,235	3,889	346	
Return on Common Equity Less Settlement Allowance	5,857	4,779	1,078	
Short Term Debt	(85)	448	(533)	
Long Term Debt	5,515	6,396	(881)	
Preferred Shares	351	351	(1)	9
Total Cost of Service Excluding Co. Use	<u>37,432</u>	<u>37,399</u>	<u>33</u>	<u>33</u>
Company Use Gas Cost	1,235	1,187		
Total Cost of Service Including Co. Use Cost	<u>38,667</u>	<u>38,586</u>		
2004 to 2005 Cost of Service Increase (Decrease)			33	
2004 to 2005 Margin Decrease			1,157	
2005 Revenue Deficiency			<u>1,190</u>	

Pacific Northern Gas Ltd.
(PNG-West Division)

UTILITY INCOME & RETURN

SCHEDULE 1
(000's)

Line No.		NSP 2005	Feb. 18'05 Application	Actual 2004	Difference	Source
1	Energy sales (TJ)	4 018	4 018	3 943	75	Tab Rates, page 9
2	Average rate per GJ	\$13.31	\$13.63	\$11.38	\$1.93	
3						
4	Transportation service (TJ)	29 217	29 217	29 789	(573)	Tab Rates, page 9
5	Average rate per GJ	\$0.58	\$0.59	\$0.59	(\$0.01)	
6						
7	Total deliveries (TJ)	33 234	33 234	33 732	(498)	Tab Rates, page 9
8						
9	Utility revenue					
10	Energy sales	\$52,404	\$52,405	\$44,870	\$7,533	
11	Interim rates - sales	1,052	2,338	0	1,052	Tab Rates, page 7
12	Transportation service	16,834	16,834	17,481	(648)	
13	Interim rates - transportation	138	293	0	138	Tab Rates, page 7
14						
15		70,427	71,869	62,352	8,075	
16	Cost of sales	31,760	31,762	23,870	7,890	Tab Rates, page 8
17						
18	Gross margin	38,667	40,107	38,482	185	
19						
20	Operating expenses	7,593	7,593	7,733	(139)	Tab 1, page 2, line 6
21	Maintenance expenses	443	443	514	(71)	Tab 1, page 2, line 10
22	Admin. & general expenses	5,711	5,668	6,000	(288)	Tab 1, page 2, line 16
23	Property taxes	3,250	3,250	3,149	101	Tab 1, page 6, line 5
24	Depreciation	6,682	6,675	6,440	241	Tab 2, page 3, line 45
25	Amortization	748	875	752	(4)	Tab 2, page 6, line 20
26	Unusual deductions	0	0	0	0	
29	Investment income, other revenue	(1,632)	(1,630)	(1,607)	(25)	Tab 1, page 8, line 5
30	2003 Settlement Allowance	0	0	0	0	
31		22,795	22,875	22,980	(185)	
32						
33	Earned return before income taxes	15,872	17,232	15,502	370	
34	Income taxes	4,235	4,880	4,148	87	Tab 3, page 1, line 14
35						
36	Earned return	\$11,637	\$12,352	\$11,354	\$283	
37						
38	Utility rate base	\$133,450	\$133,197	\$133,473	(\$23)	Tab 2, page 1, line 23
39						
40	Return on rate base	8.72%	9.27%	8.51%	0.21%	Tab 5, page 1, line 23

Pacific Northern Gas Ltd.
(PNG-West Division)

UTILITY RATE BASE

SCHEDULE 2
(000'S)

Line No.		NSP 2005	Feb. 18'05 Application	Actual 2004	Difference	Source
1	Plant in service beginning of year	\$245,094	\$244,853	\$242,023	\$3,071	Tab 2, page 2, line 46
2	Additions	9,908	9,925	4,221	5,687	Tab 2, page 2, line 46
3	Disposals (at cost)	(174)	(174)	(1,391)	1,217	Tab 2, page 2, line 46
4						
5	Plant in service end of year	254,828	254,604	244,853	9,976	
6	Accumulated depreciation	105,222	105,215	98,425	6,797	Tab 2, page 3, line 39
7						
8	Net plant in service end of year	149,606	149,388	146,428	3,178	
9						
10	Net plant beginning of year	146,805	146,563	149,502	(2,697)	Tab 2, pages 2 & 3, lines 46 & 39
11						
12	Net plant in service midyear	148,206	147,976	147,965	241	
13	Adjustment - expenditure timing	(575)	(577)	(253)	(322)	
14	Contributions for construction	(5,798)	(5,798)	(6,022)	224	Tab 2, page 4, line 17
15	Construction advances	0	0	0	0	
16	Deferred income taxes	(14,462)	(14,462)	(14,462)	0	
17	Work in progress, no AFUDC	100	100	100	0	Tab 2, page 5, line 5
18	Unamortized deferred charges	3,001	2,970	3,256	(255)	Tab 2, page 6, line 14
19	Cash working capital	1,228	1,237	1,477	(249)	Tab 2, page 9, line 10
20	Other working capital	1,751	1,751	1,412	339	Tab 2, page 14, line 15
21						
22	Utility rate base, midyear	<u>\$133,450</u>	<u>\$133,197</u>	<u>\$133,473</u>	<u>(\$23)</u>	

Pacific Northern Gas Ltd.
(PNG-West Division)

INCOME TAXES

SCHEDULE 3
(000'S)

Line No.		NSP 2005	Feb.18'05 Application	Actual 2004	Difference	Source
1	Calculation of Taxable Income					
2	Earned return before income taxes	\$15,872	\$17,232	\$15,502	\$370	Tab 1, page 1, line 33
3	Interest	(5,430)	(5,426)	(5,850)	420	Tab 5, page 1, lines 4, 9 & 21
4	Permanent differences	71	71	46	25	
5	Timing differences	1,549	1,793	1,732	(183)	Tab 3, page 1, line 28
6						
7	Taxable income	<u>\$12,062</u>	<u>\$13,670</u>	<u>\$11,430</u>	<u>\$632</u>	
8						
9	Calculation of Income Tax Expense					
10	Income taxes payable	4,071	4,716	3,943	128	
11	Part 1.3 tax	164	164	204	(41)	
12	Deferred income tax	0	0	0	0	
13						
14	Income tax expense	<u>\$4,235</u>	<u>\$4,880</u>	<u>\$4,148</u>	<u>\$87</u>	
15						
16	Particulars of Timing Differences					
17	A. Tax Effects Subject To Flowthrough					
18	Depreciation	\$6,682	\$6,675	\$6,440	\$241	Tab 1, page 1, line 24
19	Amortization	748	875	752	(4)	Tab 1, page 1, line 25
20	Capital cost allowance	(4,902)	(4,828)	(4,627)	(275)	
21	Overheads capitalized	(869)	(821)	(1,011)	143	
22	Other	(109)	(108)	179	(288)	
23						
24		<u>\$1,549</u>	<u>\$1,793</u>	<u>\$1,732</u>	<u>(\$183)</u>	
25	B. Tax Effects Subject To Deferral					
26	Deferred charges	0	0	0	0	
27						
28	Timing differences	<u>\$1,549</u>	<u>\$1,793</u>	<u>\$1,732</u>	<u>(\$183)</u>	
29						
30	Tax rate	33.75%	34.50%	34.50%		
31	Surtax rate	1.12%	1.12%	1.12%		

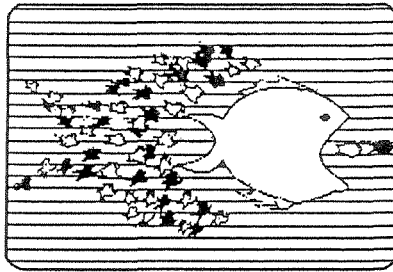
Pacific Northern Gas Ltd.
(PNG-West Division)

COMPARISON OF REVENUE DEFICIENCIES USING INTERIM RATES AND OCT.13, 2005 NSP RATES
EFFECTIVE JANUARY 1, 2005

Customer Classification	Feb. 18'05 App. 2005 Test Year Deliveries (GJ)	2005 Gross Margin (\$)	2005 Normalized Gross Margin (\$)	Allocation of Revenue Deficiency (\$)	Rate Changes for Oct.13'05 NSP Rev. Def. (\$/GJ)	Interim Rate Changes (\$/GJ)	Rev. Def. Using Interim Rates & Feb, 18'05 App. Volumes (\$)	Rev. Def. Difference Between Oct. 13'05 NSP & Revised Oct. 17'05 NSP (\$)
Residential (Rate 1)	1,641,263	11,410,450	11,410,450	589,268	0.359	0.354	581,007	8,261
Granisle (Rate 1 - Propane)	13,896	58,741	58,741	3,034	0.218	0.208	2,890	143
Commercial								
Small Commercial Firm (Rate 2)	1,011,670	6,024,727	6,024,727	311,134	0.306	0.303	306,536	4,598
Large Commercial Firm (Rate 3)	126,038	708,542	708,542	36,591	0.306	0.303	38,190	(1,598)
Commercial Transport (Rate 23)	64,502	217,098	217,098	11,212	0.174	0.172	11,094	117
Large Commercial Interr (Rate 4)	68,648	177,982	177,982	9,191	0.134	0.132	9,062	130
Total Commercial	1,270,858	7,128,349						
Seasonal Off-Peak (Rate 6)	24,402	82,336	82,336	4,252	0.174	0.171	4,173	79
NGV (Rate 7)	25,397	49,407	49,407	2,552	0.100	0.099	2,514	37
Small Industrial								
Sales (Rate 5)	504,152	1,059,041	1,059,041	54,692	0.098	0.097	48,903	5,789
Transport	939,543	1,674,244	1,674,244	86,463	0.098	0.097	91,136	(4,673)
Deficiency Incurred	(71,678)	0	0	0	0.000	0.000		
Deficiency Make-Up	59,135	13,246						
Total Small Industrial	1,431,152	2,746,531						
Large Industrial								
Methanex								
Firm Transportation	22,524,150	11,262,075			0.0000	0.0000		
Interruptible	2,875,850	920,272			0.0000	0.0000		
Sub-total	25,400,000	12,182,347						
West Fraser - Kitimat								
Firm Transportation	2,371,405	2,015,697			0.0000	0.0000		
Interruptible	0	0			0.0000	0.0000		
Sub-total	2,371,405	2,015,697						
Alcan Smelters & Chemicals								
Firm Transportation	429,609	700,653	700,653	36,184	0.0842	0.0833	35,786	397
Interruptible	602,069	1,072,225	1,072,225	55,373	0.0920	0.0910	54,788	584
Sub-total	1,031,678	1,772,878						
B.C. Hydro - Interruptible	24,000	70,624	70,624	3,647	0.1520	0.1505	3,612	35
Total Large Industrial	28,827,083	16,041,546						
TOTAL	33,234,051	37,517,360	23,306,070	1,203,592			1,189,691	13,901

The
British Columbia
Public Interest
Advocacy Centre

208-1090 West Pender Street
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Richard J. Gathercole 687-3006
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James L. Quail 687-3034
Articled Student 687-3044

Barristers & Solicitors

October 18, 2005

VIA E-MAIL

William J. Grant
BC Utilities Commission
Sixth Floor - 900 Howe Street
Vancouver, BC V6Z 2N3

**Re: Pacific Northern Gas Ltd. – West Division (“PNG-W”) Negotiated Settlement
2005 Revenue Requirements Application**

I have now had an opportunity to review the Revised Negotiated Settlement Agreement along with the supporting documents. This will confirm BCOAPO’s acceptance of this Settlement.

Yours sincerely,

BC PUBLIC INTEREST ADVOCACY CENTRE

ORIGINA IN FILE SIGNED BY:

Richard J. Gathercole
Executive Director

c: Craig Donohue
Director, Regulatory Affairs and Gas Supply
Pacific Northern Gas Ltd.

Grant Bierlmeier
Senior Policy Advisor
Ministry of Energy, Mines and Petroleum Resources



October 18, 2005

Via E-Mail
bill.grant@bcuc.com

Mr. William J. Grant
British Columbia Utilities Commission
Sixth Floor, 900 Howe Street, Box 250
Vancouver, BC V6Z 2N3

Dear Mr. Grant:

**Re: Pacific Northern Gas Ltd. – West Division (“PNG West”)
2005 Revenue Requirements Application
Negotiated Settlement**

This letter is to inform you that the Ministry of Energy, Mines and Petroleum Resources (“the Ministry”) confirms that it accepts the revised Negotiated Settlement Agreement provided on October 17, 2005.

Sincerely,

Original signed by:

Grant Bierlmeier
Senior Policy Advisor

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

Richard J. Gathercole
Executive Director
BC Public Interest Advocacy Centre



Craig P. Donohue
Director, Regulatory Affairs & Gas Supply

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V6E 4E6
Tel: (604) 691-5673
Tel: (604) 697-6210
Email: cdonohue@png.ca

Via E-Mail and Mail

October 19, 2005

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

Attention: Robert J. Pellatt
Commission Secretary

Dear Sir;

**Re: Pacific Northern Gas Ltd.-West Division ("PNG-W")
Negotiated Settlement of 2005 Revenue Requirements Application**

PNG confirms its acceptance of the Negotiated Settlement Agreement (the "Agreement") for the PNG-W 2005 Revenue Requirements Application enclosed with the Commission's October 17, 2005 letter to the participants to the negotiated settlement process.

It is my understanding that the Agreement will now be made public and forwarded to intervenors that did not participate in the negotiated settlement process to obtain their comments on the Agreement. I also understand that the Commission will consider the Agreement after it receives comments from the other intervenors. Please advise when the Agreement is distributed to the other intervenors as PNG would like to know when the Agreement has been made public.

Yours truly,

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

C.P. Donohue

cc. R.J. Gathercole
G. Bierlmeier