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BRITISH COLUMBIA UTILITIES COMMISSION

LETTER NO. L-6-05

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VIA E-MAIL
cdonohue@png.ca

January 25, 2005

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

Dear Mr. Donohue:

Re: Pacific Northern Gas Ltd.
Section 6.3.6 Commission Directive in the
July 29, 2004 Decision – PNG 2004 Revenue Requirements

PNG wrote to the Commission on November 24, 2004 in respect of the Commission's direction to PNG under Section 6.3.6 of the Commission's July 29, 2004 Decision on PNG's 2004 Revenue Requirements Application. Section 6.3.6 dealt with the accounting for the cost of non-pension post-retirement benefits (OPEB), given PNG's request for the Commission to approve moving from its "pay as you go" practice for funding OPEB for current retirees to a "partial accrual" methodology for OPEB liabilities for future retirees.

In its letter, PNG requested clarification with respect to certain aspects of the Commission's determination, discussed options for compliance with the determination, and requested an amendment of the Decision, failing which, PNG proposed one of its described options as its preferred avenue to achieve compliance with the Commission's Direction.

The matters raised by PNG have been referred to the Decision panel which dealt with PNG's 2004 Revenue Requirements Application.

The Decision Panel has considered the matters raised by PNG, reviewed the relevant record of the proceedings, and determined that:

1. The Commission will not amend or otherwise vary its direction in the Decision of July 29, 2004.

2. The Commission can confirm that, in principle, the creation of a Retirement Compensation Arrangement ("RCA") account into which the funds in excess of those necessary to pay current benefits to existing retirees, net of tax, are deposited and invested in trust for the benefit of future retirees is in accordance with the Commission's direction in its Decision of July 29, 2004.

3. The Commission can further confirm that the option proposed by PNG whereby the RCA is not funded by cash, but rather the obligations are to be secured by a letter of credit issued to the trustee on behalf of PNG ("the third option") is not, in principle, in accordance with the Commission's direction in its Decision of July 29, 2004.

Yours truly,

Original signed by:

Constance M. Smith
for: Robert J. Pellatt

PWN/yl