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BRITISH COLUMBIA UTILITIES COMMISSION

ORDER NUMBER G-146-06

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IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

Application by Pacific Northern Gas Ltd.
(PNG-West and Granisle)
for Approval of 2007 Revenue Requirements and Rates

BEFORE: L.A. Zaozirny, Panel Chair and Commissioner
L.A. O'Hara, Commissioner

November 23, 2006

O R D E R

WHEREAS:

A. On October 26, 2006, Pacific Northern Gas Ltd. ("PNG", "PNG-West" and "Granisle") filed for approval of its 2007 Revenue Requirements Application ("the Application") to amend its rates for the Delivery Charge, Company Use Gas Cost ("CUGC") (not applicable to Granisle) and Revenue Stabilization Adjustment Mechanism ("RSAM") Rider (not applicable to Granisle) on an interim and permanent basis, effective January 1, 2007, pursuant to Sections 89 and 58 of the Utilities Commission Act ("the Act"); and

B. Methanex Corporation ("Methanex") closed its methanol/ammonia complex in Kitimat in November 2005 and the Methanex contract was terminated effective March 1, 2006. As a result, PNG's 2007 margin revenue forecast does not include any fixed demand charges from Methanex; and

C. PNG forecasts a 2007 revenue deficiency of approximately $1.415 million before a proposed deferred tax drawdown. This revenue deficiency is primarily due to a reduction in forecast margin revenue recovery from customers. This margin revenue reduction is offset by PNG crediting to its cost of service $6.752 million from the contract termination payment of $23.3 million that Methanex paid to PNG on February 28, 2006; and

D. PNG proposes to draw down the deferred income tax balance of $14.462 million by $600,000 in the 2007 test year to further mitigate the impact of the forecast 2007 margin revenue reduction. This drawdown would reduce the 2007 revenue deficiency from $1.415 million to $527,000; and

E. As a consequence of the aforementioned, PNG proposes to increase the rate for the Delivery Charge for all natural gas and Granisle propane service customers, except West Fraser Mills-Kitimat ("West Fraser") who has a contract in place that provides for fixed demand charges over the term of the contract and, therefore, any rate change would not apply to this customer; and

F. PNG also proposes to amortize the projected September 30, 2006 RSAM balance over a three year period and recover the annual amortization by way of a rate rider. The rider is only applicable to the Residential and Small Commercial Sales rate classes for natural gas customers, and amounts to $0.458/GJ effective January 1, 2007(an increase of $0.157/GJ over the rider of $0.301/GJ in effect on October 1, 2006); and

G. PNG forecasts a reduction in the volume of company use gas for the 2007 test year. As a result, PNG proposes to reduce the rate for CUGC by $0.057/GJ for all natural gas customers, except West Fraser; and

H. PNG has shown, for illustrative purposes only, changes to gas supply cost recovery rates and no changes to the Gas Cost Variance Account riders. PNG's fourth quarter 2006 gas supply cost report to the Commission, to be filed in early December 2006, will contain PNG's proposed gas supply cost recovery rates and Gas Cost Variance Account riders effective January 1, 2007 based on the forward gas prices prevailing at that time; and

I. The Commission requires that interim rates and a regulatory process to deal with the Application be established.

NOW THEREFORE the Commission orders as follows:

1. The Commission, pursuant to Section 89 of the Act, approves for PNG an interim rate increase in the rates for the Delivery Charge for all classes of customers, except West Fraser, and an interim rate increase in the RSAM rider for Residential (not applicable to Granisle propane service customers) and Small Commercial Sales customers, all as filed in the Application, effective January 1, 2007.

2. The Commission, pursuant to Sections 61(4) and 89 of the Act approves the Company Use Gas Cost rate of $0.128/GJ as an interim rate effective January 1, 2007.

3. The differences between the 2007 interim and permanent rates for the Delivery Charge, CUGC, and the RSAM rider that are determined by the Commission following consideration of this Application are subject to refund with interest at the average prime rate of PNG's principal bank as set out in a Commission Order that establishes permanent rates for PNG or, as appropriate, a rider to recover any additional revenue deficiency if PNG's proposal to draw down the deferred income tax balance is not approved.

4. The Commission will accept, subject to timely filing by PNG, amended Gas Tariff Rate Schedules in accordance with the terms of this Order. PNG is to provide all affected customers with a Customer Notice notification of the interim rates, to be reviewed by the Commission in advance of its release.

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5. PNG will publish, as soon as possible, in display-ad format, the Notice of Public Review Process, attached as Appendix A, in such appropriate local news publications as may properly provide adequate notice to the public in its service areas.

6. The Application and supporting material will be made available for inspection at public libraries in Prince Rupert, Terrace, Kitimat, Houston, Smithers, Burns Lake, Vanderhoof and Fort St. James, and at the Head Office of PNG at Suite 950, 1185 West Georgia Street, Vancouver, B.C., V6E 4E6 and at the British Columbia Utilities Commission, Sixth Floor, 900 Howe Street, Vancouver, B.C., V6Z 2N3.

7. PNG is to provide a copy of this Order, by facsimile if possible, to all Intervenors and Interested Parties registered in the PNG 2006 Revenue Requirements Application proceedings, as well as all large industrial customers, as soon as possible.

8. Intervenors and Interested Parties should register with the Commission, via the BCUC website or in writing, by Thursday, December 14, 2006, of their intention to intervene. Intervenors are invited to make submissions with respect to the type of process (e.g. oral public hearing, written hearing or negotiated settlement process) they view as being appropriate for the review of the Application.

9. Intervenors intending to apply for Participant Assistance under Section 118 of the Act are requested to submit their Budget Estimates to the Commission by no later than Friday, January 5, 2007.

DATED at the City of Vancouver, in the Province of British Columbia, this 23rd day of November 2006.

BY ORDER

Original signed by:

Lori Ann Zaozirny
Panel Chair and Commissioner

Attachment

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PACIFIC NORTHERN GAS LTD.
(PNG-West and Granisle)
Application for Approval of 2007 Revenue Requirements and Rates

NOTICE OF PUBLIC REVIEW PROCESS

THE APPLICATION

Pacific Northern Gas Ltd. ("PNG") has applied to the British Columbia Utilities Commission ("the Commission") for approval of its 2007 Revenue Requirements and to adjust rates, effective January 1, 2007. The Application seeks to recover increased revenue requirements associated with delivering natural gas and propane.

PNG forecasts a 2007 revenue deficiency of approximately $1.415 million which is mainly due to a reduction in forecast margin revenue recovery from customers. This margin revenue reduction is substantially offset by PNG crediting to its cost of service $6.752 million from the contract termination payment of $23.3 million that Methanex Corporation paid to PNG on February 28, 2006. Without this credit, the revenue deficiency would have been significantly higher. To further mitigate the impact of the forecast 2007 margin revenue reduction, PNG proposes to draw down the deferred income tax balance of $14.462 million by $600,000 in the 2007 test year. This proposed drawdown would reduce the 2007 revenue deficiency from $1.415 million to $527,000. In the course of its review of PNG's Application, the Commission will consider whether and to what extent PNG's proposal is appropriate in the circumstances.

PNG proposes to increase the Delivery Charge for natural gas and the Revenue Stabilization Adjustment Mechanism ("RSAM") rider for Residential and Small Commercial Sales customer rate classes, effective January 1, 2007. PNG also proposes to decrease, for the same customer rate classes, the Company Use Gas Cost, effective January 1, 2007. The resulting net increase in rates will increase the annual natural gas bills for these customer rate classes by approximately 3.1 and 3.3 percent, respectively.

PNG proposes to increase the propane Delivery Charge in rates for Granisle residential customers, effective January 1, 2007. The increase in rates will increase annual propane bills for these customers by approximately 2 percent.

APPROVAL OF INTERIM RATES

By Order No. G-146-06, the Commission approved interim rate increases in natural gas and propane delivery charges, and the RSAM rider, effective January 1, 2007. In the same Order the Commission also approved interim decreases for Company Use Gas Cost, effective January 1, 2007. The differences between the 2007 interim and permanent rates that are determined by the Commission following consideration of the Application are subject to refund with interest at the average prime rate of PNG's principal bank as set out in a Commission

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Order that establishes permanent rates for PNG or, as appropriate, a rider to recover any additional revenue deficiency that may result if PNG's proposal is not accepted.

INTERVENTIONS/REGISTRATIONS AND REGULATORY PROCESS

Persons who expect to actively participate in the PNG proceeding should register as Intervenors with the Commission, via the BCUC website or in writing, by Thursday, December 14, 2006. Intervenors will receive copies of the Application, all correspondence and filed documentation.

Intervenors are invited in their registrations to make submissions with respect to the type of process (e.g. oral public hearing, written hearing or negotiated settlement process) they view as being appropriate for the review of the Application.

Persons not expecting to actively participate, but who have an interest in the PNG proceeding should register as Interested Parties with the Commission, via the BCUC website or in writing, by Thursday, December 14, 2006. Interested Parties will receive a copy of the Application's Executive Summary and all Orders issued.

Once Intervenors and Interested Parties have registered, the Commission will consider the comments received and will provide further direction concerning the appropriate process to review PNG's Application and the regulatory process steps and timelines.

PARTICIPANT ASSISTANCE

Intervenors who intend to actively participate and apply for Participant Assistance must submit a budget estimate by Friday, January 5, 2007 consistent with the Commission's Participant Assistance/Cost Award Guidelines as outlined in Order No. G-15-04. Copies of the Guidelines are available upon request or on the Commission's web site: *www.bcuc.com>Guidelines & Resources>Guidelines.*

PUBLIC INSPECTION OF THE DOCUMENTS

The PNG Application and supporting material will be made available for inspection at public libraries in Prince Rupert, Terrace, Kitimat, Houston, Smithers, Burns Lake, Vanderhoof, Fort St. James, at the Head Office of PNG at Suite 950, 1185 West Georgia Street, Vancouver, B.C. V6E 4E6 and at the British Columbia Utilities Commission, Sixth Floor, 900 Howe Street, Vancouver, B.C., V6Z 2N3

All submissions and/or correspondence received from active participants or the public relating to the Application will be placed on the public record and posted to the Commission's web site.

FURTHER INFORMATION

For further information, please contact Mr. Robert J. Pellatt, Commission Secretary or Mr. Philip Nakoneshny, Director, Rates and Finance as follows:

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