



FOR IMMEDIATE RELEASE – OCTOBER 29, 2009

**PACIFIC NORTHERN GAS REPORTS THIRD QUARTER EARNINGS
AND DECLARES FOURTH QUARTER DIVIDENDS**

VANCOUVER, BRITISH COLUMBIA - Pacific Northern Gas Ltd. announced today that net loss for the three months ended September 30, 2009 was \$1.66 million, compared with a net loss of \$1.53 million for the corresponding period in 2008. After providing for preferred share dividends, the loss per common share in the three months ended September 30, 2009 was \$0.49 compared with a loss per common share of \$0.44 for the same period in 2008. The Company's natural gas distribution business is very seasonal, with higher sales in the colder winter months and lower sales in warmer months. Given that a substantial portion of its gas sales are used for space heating purposes, the Company earns in excess of its annual net income in the first and fourth quarters of its fiscal year and generally realizes losses in the other two quarters.

Net income for the nine months ended September 30, 2009 was \$3.1 million, compared to \$2.8 million for the corresponding period in 2008. After providing for preferred share dividends, earnings per common share in the nine months ended September 30, 2009 were \$0.79 compared to \$0.69 for the same period in 2008. Net income for the nine months ended September 30, 2009 was higher by \$0.3 million compared to 2008 due mainly to lower Kitimat to Summit Lake Pipeline Looping Project ("KSL Project") development expenditures incurred by Pacific Trail Pipelines Limited Partnership ("PTP") on the project to loop the Company's mainline transmission system from Kitimat to Summit Lake and higher than anticipated deliveries to small industrial customers on a year to date basis, partially offset by the lower return on equity ("ROE") rates in 2009 compared to 2008. Included in net income for the nine months ended September 30, 2009 and 2008 are charges, net of income taxes of \$0.1 million and \$0.4 million, respectively for the Company's share of KSL Project development expenditures. The increase in earnings per share also reflects the reduced number of common shares outstanding over the period due to the 122,416 shares purchased and cancelled by the Company under its normal course issuer bid.

The net loss for the quarter was higher in 2009 compared to 2008 by \$0.13 million due mainly to the lower allowed ROE rate of 9.12 percent in 2009 compared to 9.27 percent in 2008 in the Western system and the Tumbler Ridge division of the Northeast system and the lower ROE of 8.87 percent in 2009 compared to 9.02 percent in 2008 in the Fort St. John/Dawson Creek division of the Northeast system. In addition, the Company had a lower number of residential customer additions compared to the 2009 anticipated additions, and lower than anticipated deliveries to large commercial customers and small industrial customers in the Western system.

Included in the net loss for the three month periods ended September 30, 2009 and 2008 are charges, net of income taxes, of \$16,000 and \$84,000, respectively for the Company's share of expenditures on the KSL Project. The Company's share of planned development expenditures for the KSL Project in the three months ending December 31, 2009 is \$75,000 before income taxes (\$0.01 per share, net of income taxes). The Company's share of further KSL Project development expenditures will continue to be expensed until suitable commercial arrangements for firm gas transportation services by PTP are in place.

Residential deliveries were at similar levels in the three month period ended September 30, 2009 compared to the same period in 2008 and slightly lower by 0.4 percent in the nine months ended September 30, 2009 compared to deliveries over the same period in 2008. Total commercial deliveries were lower by 6 percent and higher by 1 percent in the three month and nine month periods ended September 30, 2009, respectively, relative to deliveries over the same periods in 2008. Management believes that weather was a factor in the change in commercial deliveries as the weather was approximately 4 percent warmer in degree days in the three month period ended September 30, 2009, and weather was approximately 2 percent colder for the nine months ended September 30, 2009 compared to the same periods in 2008. There was little change in residential deliveries even though the weather was warmer during the three month period ended September 30, 2009 as consumption levels for residential customers are very low during these summer months and there is a minimal level of natural gas that is consumed by each household.

Total industrial deliveries were lower by 9 percent and 7 percent for the three month and nine month periods ended September 30, 2009, respectively, compared to the same periods in 2008 primarily due to lower deliveries to large industrial customers. Specifically, deliveries to large industrial customers were lower by 13 percent and by 18 percent for the three and nine month period ended September 30, 2009, respectively, compared to the same period in 2008, mainly due to lower deliveries to West Fraser Mills Ltd. as the company underwent a planned maintenance shutdown during 2009. Deliveries to small industrial customers were lower by 5 percent and higher by 4 percent for the three and nine month periods ended September 30, 2009, respectively, compared to the same periods in 2008 reflecting lower deliveries to customers during the summer months of 2009 due to some companies scheduling planned shutdowns during this time and higher year to date deliveries mainly due to consumption by a new customer in the Fort St. John service area. Deferral accounts are in place that recover or refund margin differences resulting from deliveries to large industrial customers and to some small industrial customers varying from the forecast approved for ratemaking purposes.

Operating revenues in the three months ended September 30, 2009 decreased to \$10.5 million, as compared with \$13.8 million in the corresponding period in 2008. The decrease in operating revenues was primarily due to lower natural gas cost recoveries from customers in 2009 compared to 2008, a decrease of \$0.8 million in revenues from the sale of gas surplus to the needs of the Company's sales customers ("off system gas sales"), lower revenues from industrial customers compared with the corresponding period in 2008, offset by a higher cost of service in 2009. Any profit or loss realized on off system gas sales is deferred for future recovery from, or refund to, the Company's sales customers. The decrease in off system gas sales in the third quarter of 2009 reflects the impact of a decrease in the quantity of gas supply purchased on a committed basis in 2009 compared to 2008. Natural gas commodity prices, which are passed through to the Company's sales customers without mark-up, can be very volatile and result in significant variability of the Company's reported operating revenues, but do not affect net income.

Operating revenues in the first nine months of 2009 decreased to \$73.0 million as compared with \$91.7 million in the first nine months of 2008. The decrease in operating revenues was primarily due to the lower off system sales of \$9.6 million in the first nine months of 2009 compared to \$25.2 million during the corresponding period in 2008, lower natural gas commodity prices reflected in customer rates during the first nine months of 2009 compared to 2008, and lower deliveries to transportation service customers in the current economic conditions.

Operating margin in the three months ended September 30, 2009 remained unchanged at \$7.1 million compared to the same period in 2008. This was primarily the result of the higher cost of service for 2009 offset by the lower allowed ROE rates in 2009 compared to 2008.

Operating margin in the nine months ended September 30, 2009 increased slightly to \$33.0 million, as compared with \$32.4 million in the same period in 2008. The higher operating margin in the first nine months of 2009 is primarily the result of the increase in the cost of service in 2009 compared to 2008 and higher than anticipated deliveries to small industrial customers.

The Company continued its focus on reducing the \$20 million of common equity on its balance sheet that is in excess of the common equity that is currently allowed by the British Columbia Utilities Commission (the "Commission") for the purpose of determining rates. The normal course issuer bid commenced by the Company in March this year, in combination with the increased common dividends declared by the Company, are to stabilize its common equity capitalization ratio this year. To further address this situation the Company has sought relief from the Commission through a Capital Structure and Equity Risk Premium Application ("CAP/ROE Application") filed on July 16, 2009. The Company is seeking approval to increase the Company's deemed common equity from 40 to 47.5 percent and to increase its risk premium relative to the benchmark utility ROE by 10 basis points from 65 to 75 basis points. Its wholly owned subsidiary, Pacific Northern Gas (N.E.) Ltd. ["PNG(N.E.)"] also applied under the CAP/ROE Application to increase its deemed common equity from 36 to 42.5 percent and to increase its risk premium relative to the benchmark ROE by 35 basis points from 40 to 75 basis points for the Fort St. John/Dawson Creek division and from 65 to 75 basis points for the Tumbler Ridge division. The Commission is expected to set a regulatory timetable for review of the CAP/ROE Application in December 2009. The Company is recommending the Commission conduct an oral public hearing. The requested changes are reflected in the 2010 revenue requirements applications for all divisions. While the Company is confident in the merits of its application as filed, it can give no assurances that the applied for capital structure and equity risk premium increases from current levels will be approved by the Commission.

In early October 2009, the Company filed its 2010 revenue requirements applications for both its PNG-West and PNG(N.E.) divisions. The applications seek approval to increase rates on an interim basis effective January 1, 2010 pending the Commission's review of the CAP/ROE Application. The Western system is projecting a 2010 revenue deficiency of approximately \$7.7 million of which \$5.5 million is due to the Methanex contract termination payment credit amortization ending in October 2009. PNG(N.E.)'s Fort St. John/Dawson Creek division has a forecast revenue deficiency of close to \$0.9 million while the Tumbler Ridge division 2010 revenue deficiency is approximately \$0.1 million. The applied for delivery charge increases compared to October 2009 delivery rates for an average residential customer in each service area are 28.5 percent for the Western system (\$213 per year), 8.9 percent for the Fort St. John/Dawson Creek division (\$32 per year) and 7.8 percent for the Tumbler Ridge division (\$37 per year). However, compared to rates effective January 2009, when gas supply recovery rates were much higher than current rates, the annual bill increase for a typical residential customer in the Western system is only \$66 per year. The Fort St. John/Dawson Creek and Tumbler Ridge average residential customer annual bills in 2010 are projected to be lower by \$240 and \$213, respectively, compared to annual bills based on January 2009 rates.

The Board of Directors declared a semi-annual dividend of 84.375 cents per share on the Company's 6-3/4 percent cumulative, redeemable, preferred shares, payable January 1, 2010 to the shareholders of record at the close of business on December 17, 2009.

The Board of Directors also declared a quarterly dividend of 25 cents per share on the Company's common shares, payable December 23, 2009 to shareholders of record at the close of business on December 8, 2009.

Pacific Northern Gas Ltd., for purposes of the Income Tax Act (Canada), and any similar provincial or territorial legislation, designates all dividends paid by Pacific Northern Gas Ltd. after December 31, 2005 to be "eligible dividends" unless otherwise notified by the Company. An eligible dividend paid to a Canadian resident is entitled to the enhanced dividend tax credit.

Forward-Looking Statements

This news release includes forward-looking statements. Forward-looking statements relate to, among other things, anticipated financial performance, business prospects, strategies, regulatory developments, new services, market forces, commitments and technological developments. Many of these statements can be identified by words such as “believe”, “expects”, “expected”, “will”, “intends”, “projects”, “anticipates”, “estimates”, “continues” or similar words. Pacific Northern Gas (“the Company”) believes the expectations reflected in such statements are reasonable but no assurance is given that such expectations will be correct. All forward-looking statements are based on management’s beliefs and assumptions based on information available at the time the assumption was made and on its experience and perception of historical trends, current conditions and expected further developments as well as other factors deemed appropriate in the circumstances.

By its nature, such forward-looking information is subject to various risks and uncertainties that are known and unknown, including those material risks discussed in the Company’s 2009 Annual Information Form under “Risk Factors” which could cause the Company’s actual results and experience to differ materially from the anticipated results or other expectations expressed. Such risks and uncertainties include but are not limited to: general economic conditions and markets; gas supply and availability; gas commodity price volatility; competition; decisions by regulators; seasonal weather patterns; federal and provincial climate change initiatives; financing of investments as well as the value of such investments; the cost and availability of capital; the impact on the Company’s liquidity if it were to go offside of the covenants in its debt facilities; successful execution of strategic initiatives; the ability of the Company to attract and retain quality employees and the impact of accounting changes including the transition to International Financial Reporting Standards. Readers are cautioned not to place undue reliance on this forward-looking information, which is given as of the date it is expressed in this news release or otherwise, and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.

Headquartered in Vancouver, British Columbia, Pacific Northern Gas Ltd. (TSX: PNG/PNG.PR.A) owns and operates natural gas transmission and distribution systems. The Company’s western transmission line extends from the Spectra Energy (formerly Duke Energy) gas transmission system north of Prince George to tidewater at Kitimat and Prince Rupert, and provides service to 12 communities and a number of industrial facilities. In the northeast, Pacific Northern’s subsidiary Pacific Northern Gas (N.E.) Ltd. provides gas distribution service in the Dawson Creek, Fort St. John and Tumbler Ridge areas. Further information is available on the Company’s website at: www.png.ca.

**Third Quarter Consolidated Results
For the Three Month Period Ended
September 30, 2009 (\$ thousand, except for per share data)**

	2009	2008
Operating revenues	\$10,500	\$13,834
Cost of sales	<u>3,392</u>	<u>6,698</u>
Operating margin	7,108	7,136
Net loss applicable to common shares	(\$1,744)	(\$1,612)
Loss per common share – basic	(\$0.49)	(\$0.44)
Loss per common share – diluted	(\$0.49)	(\$0.44)
Operating cash flow	\$(1,360)	\$(797)
Additions to plant, property and equipment	(2,094)	(3,529)
Decrease (increase) in deferred charges	91	(143)
Repayment of long term debt	(500)	(500)
Issue of long term debt, net of transaction costs	—	—
Increase in bank indebtedness	—	2,992
Share repurchase under normal course issuer bid	(646)	—
Dividends paid	(892)	(806)

**Third Quarter Consolidated Results
For the Nine Month Period Ended
September 30, 2009 (\$ thousand, except for per share data)**

	2009	2008
Operating revenues	\$72,959	\$91,695
Cost of sales	<u>39,983</u>	<u>59,265</u>
Operating margin	32,976	32,430
Net income applicable to common shares	\$2,843	\$2,525
Earnings per common share – basic	\$0.79	\$0.69
Earnings per common share – diluted	\$0.78	\$0.68
Operating cash flow	\$3,745	\$4,484
Additions to plant, property and equipment	(5,246)	(7,743)
Decrease in deferred charges	2,281	594
Repayment of long term debt	(3,500)	(500)
Issue of long term debt, net of transaction costs	3,000	—
Decrease in bank indebtedness	(2,998)	(4,478)
Share repurchase under normal course issuer bid	(1,813)	—
Dividends paid	(2,731)	(2,587)

Third Quarter Consolidated Results
As at
(\$ thousand, except for per share data)

	September 30	December 31
	2009	2008
Cash, cash equivalents and short term investments	\$4,090	\$577
Common Shareholders' Equity	82,532	83,724
Book Value per Common Share	\$23.30	\$22.88

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