



**FOR IMMEDIATE RELEASE – FEBRUARY 8, 2010**

**PACIFIC NORTHERN GAS RAISES QUARTERLY DIVIDEND 12 PERCENT ON STRENGTH OF 13 PERCENT GAIN IN Q4 2009 EARNINGS PER SHARE**

**VANCOUVER, BRITISH COLUMBIA** - Pacific Northern Gas Ltd. (TSX:PNG/PNG.PR.A) announced today that the Board of Directors increased the first quarter 2010 dividend on common shares by 12 percent to \$0.28 per share, up from \$0.25 per share in the fourth quarter of 2009. PNG also announced earnings per common share (basic) of \$0.95 for the fourth quarter ended December 31, 2009, up 13 percent from \$0.84 a year earlier.

The first quarter 2010 dividend is payable March 22, 2010 to shareholders of record at the close of business on March 8, 2010. This latest rise in dividends follows increases in the first quarter of 2008, the first quarter of 2009, and the third quarter of 2009, now totaling 40 percent over this period.

“The increased dividend reflects the Board’s confidence in the strength of our natural gas distribution business and the solid prospects for the liquefied natural gas (LNG) export project and associated KSL Project pipeline,” said Roy Dyce, President and Chief Executive Officer. “Given a growing natural gas surplus in northern British Columbia and declining natural gas prices across North America, the economics of exporting LNG continue to improve and we continue to work towards achieving significant project milestones as the year progresses.”

**Fourth quarter 2009 results**

Net income for the fourth quarter of 2009 was \$3.4 million, up 8.8 percent from \$3.2 million a year earlier. The increase was mainly due to a higher regulated return on equity (ROE), lower expenditures incurred on the KSL Project, and lower financing expenses. As a partial offset to these factors, in the fourth quarter of 2009 PNG had only one month of amortization of a 2006 termination payment from Methanex Corporation, compared with three months of amortization a year earlier. The \$23.3 million termination payment was recorded as an interest-bearing credit deferral and was amortized between March 1, 2006 and October 31, 2009. The higher ROE reflects the impact of a decision by the BC Utilities Commission (“Commission”) in December 2009 to increase the ROE for the benchmark low-risk utility in British Columbia to 9.50 percent from 8.47 percent effective July 1, 2009, an effective annual rate of 8.98 percent for 2009. This increase in ROE has been booked in the fourth quarter of 2009.

The basic earnings per common share are calculated after deducting preferred dividends of \$0.1 million in the fourth quarter of 2009, unchanged from a year earlier, and are based on an average of 3.55 million common shares outstanding in the fourth quarter of 2009, down 3 percent from 3.66 million common shares a year earlier. The decrease in common shares was mainly due to a 2009 normal course issuer bid share buyback program.

Revenue for the fourth quarter of 2009 was \$31.2 million, down 24.2 percent from \$41.1 million a year earlier. The decline was mainly attributable to the lower commodity cost of natural gas as

a result of the decrease in market prices during 2009. Natural gas commodity prices in the Company's service area, which are passed through to customers without mark-up, averaged \$4.20 per gigajoule in the fourth quarter of 2009, down 38 percent from \$6.81 per gigajoule a year earlier.

### **Full year 2009 results**

Net income for 2009 was \$6.5 million, up 10.0 percent from \$5.9 million for 2008. The improvement was attributable to lower expenses for the KSL Project and higher allowed rates of return on common equity, partially offset by higher administrative and general expenses incurred on strategic initiatives.

After providing for preferred share dividends of \$0.3 million, unchanged from a year earlier, basic earnings per common share for 2009 were \$1.72, up 12.4 percent from \$1.53 for 2008. Common shares outstanding averaged 3.59 million for 2009, down 2 percent from 3.66 million a year earlier. The decline was attributable to the 2009 normal course issuer bid, under which PNG purchased and cancelled 122,416 shares.

The allowed weighted average return on deemed common equity increased to 9.58 percent in 2009 from 9.22 percent in 2008 and reflects the increased ROE for the benchmark low-risk utility which has been effectively calculated to be 8.98 percent for 2009.

Revenue for the full year 2009 was \$104.1 million, down 21.6 percent from \$132.8 million in 2008. Similar to the fourth quarter, the decline was mainly attributable to the lower commodity cost of natural gas embedded in rates as a result of the decrease in market prices during 2009. Natural gas commodity costs incurred by the Company averaged \$6.43 per gigajoule in 2009, down 18 percent from \$7.84 per gigajoule a year earlier.

### **LNG export and KSL project update**

The LNG export project consists of two related facilities proposed to be operational in 2014: a gas liquefaction and export terminal at Kitimat with an estimated cost of \$3 billion and the KSL Project 463-kilometre pipeline with an estimated cost of \$1.2 billion, to transport natural gas to the terminal. Planned terminal capacity is approximately 750 terajoules per day or 5 million tonnes per year of LNG.

PNG expects the rapidly developing Montney and Horn River gas basins in northeast British Columbia would supply the gas for the LNG export project. Preliminary estimates suggest shipping costs from these fields to China would be the same as from these fields to New York City. Initial producer interest exceeds planned capacity. Kogas of Korea and Gas Natural of Spain have signed memorandums of understanding to purchase approximately 70 percent of planned output for 20 years. A decision on whether to proceed to construction of the terminal and the KSL Project pipeline is expected in early 2011.

Last month the LNG export project gained significant momentum with the decision of a Canadian subsidiary of Houston-based Apache Corp., to acquire a 51 percent interest in the gas liquefaction and export terminal project from Calgary-based Kitimat LNG Inc. Kitimat LNG Inc., a subsidiary of Galveston LNG Inc., retained a 49 percent ownership position.

Apache, one of the largest US independent oil and gas producers and one of the most active explorers in the Horn River gas basin, was appointed operator of the terminal development. Apache also reserved 51 percent of the terminal's capacity.

Apache last month also acquired from Galveston a 25.5 percent interest in Pacific Trail Pipelines Limited Partnership, ("PTP") which plans to build the KSL Project pipeline. Galveston retains a 24.5 percent interest in PTP and PNG owns the remaining 50 percent interest. Subject to a number of remaining conditions, PTP plans to begin construction of the KSL Project pipeline in 2012.

Following environmental certification in March 2009, PTP has minimized expenditures on the KSL Project. PNG will continue to expense its share of these expenditures until suitable commercial arrangements for firm gas transportation services are in place, at which point PNG would capitalize development costs.

In the fourth quarter of 2009 PNG's share of PTP expenditures, net of income taxes, were \$40,000, or \$0.01 per share, compared with \$182,000, or \$0.05 per share a year earlier. For the year 2009 PNG's share of PTP expenditures, net of income taxes, were \$127,000, or \$0.04 per share, compared with \$600,000, or \$0.16 per share for 2008.

### **Potential Pipeline Capacity Utilization**

On March 6, 2009, PNG and Merrill Lynch Commodities Inc. ("Merrill Lynch") entered into a Letter Agreement setting out the terms of an option to secure existing available firm capacity on the Western pipeline system for 75 million cubic feet per day. A \$1.5 million non-refundable option fee was paid by Merrill Lynch to PNG to secure the option until December 31, 2009. Subsequently, a \$1.0 million non-refundable option extension fee was paid by Merrill Lynch to extend the option period to June 30, 2010 to contract for firm gas transportation capacity for a 2 to 5 year primary term, with a right to renew for an additional 2 to 5 year term. Merrill Lynch may extend the option period by up to three further six month periods, with payment of \$1 million for each extension. If Merrill Lynch exercises its option, the PNG pipeline system would be at close to full capacity utilization, generating almost \$15 million per year of incremental revenue for the benefit of PNG and its customers. If the option is exercised, the commencement date for the transportation service is expected to be between January 1, 2012 and January 1, 2013. PNG can provide no assurances that Merrill Lynch will exercise their option or further extend the option period.

### **Natural gas deliveries**

PNG's deliveries of natural gas totaled 12,145 terajoules in 2009, down 3.2 percent from 12,542 terajoules a year earlier. The main reason for the decline was lower deliveries to two large industrial customers with operations in Kitimat: West Fraser Mills Ltd., which operated the Eurocan Paper Mill, and Rio Tinto Alcan Inc., which operates an aluminum smelter. Smaller industrial customers, mainly in the forestry sector, also reduced gas consumption as mills scheduled shutdowns and reduced lumber production.

Deliveries to West Fraser declined due to planned maintenance in 2009 and preparations for the permanent closure of Eurocan. The closure decision was announced in October 2009 and the mill closed at the end of January 2010. Under West Fraser's service agreement with PNG, West Fraser is obligated to continue to pay an annual demand charge of approximately \$2.1

million until December 31, 2013. West Fraser is also entitled to cancel the obligation by providing PNG with six months prior notice and making a termination payment that would recover almost 80 percent of the lost revenues under the remaining term of the agreement. West Fraser has not provided notice of cancellation to PNG.

Partially offsetting the decline to industrial customers was a 1.4 percent increase in deliveries to residential and commercial customers in 2009 compared with 2008. This increase was attributable primarily to colder weather in 2009 compared to 2008, especially in the northeast region. These deliveries also exceeded the forecast used for rate making purposes but this did not significantly impact net income due to the existence of the rate stabilization adjustment mechanism deferral account that captured the after-tax value of the revenue variance, amounting to nearly \$1 million in 2009 and \$0.3 million in 2008.

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. PNG'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, PNG 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.

### **Operating margins**

Operating margin in the fourth quarter of 2009 was \$13.9 million, down 2.6 percent from \$14.3 million a year earlier, due mainly to the completion of amortization of the Methanex termination payment in October 2009. The recovery of this lost amortization was collected in customer rates throughout the year. This decrease was offset by the recognition of the higher ROE for 2009 of 9.58 percent compared to 9.22 percent in 2008, as noted above.

For 2009 as a whole, operating margin increased slightly to \$46.9 million from \$46.7 million in 2008. This increase was mainly due to the higher weighted average allowed return on deemed common equity of 9.58 percent in 2009 compared to 9.22 percent in 2008 and higher than anticipated deliveries to some small industrial customers, offset by lower than anticipated net customer additions in 2009.

### **Excess common equity**

PNG 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 Commission for the purpose of determining rates. PNG's normal course issuer bid, commenced in March 2009, in combination with a 6.9 percent increase in common share dividends paid in 2009 compared with 2008, helped to moderate the increase in its common equity capitalization ratio.

To further address this situation PNG has sought relief from the Commission through a Capital Structure and Equity Risk Premium Application ("CAP/ROE Application") filed on July 16, 2009. PNG is seeking approval to increase its 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.

### **Other regulatory matters**

On December 16, 2009 the Commission issued a decision that resulted in the benchmark ROE for 2009 being increased from 8.47 percent to 9.50 percent effective July 1, 2009. This resulted in an average annual benchmark ROE of 8.98 percent for 2009. The Western system and Tumbler Ridge division 2009 ROE increased from 9.12 to 9.63 percent and the Fort St. John/Dawson Creek division ROE for 2009 increased from 8.87 to 9.38 percent. PNG amended its CAP/ROE Application on December 21, 2009 to reflect the impact of the higher 2009 benchmark ROE. The 2009 financial results reflect only the impact of the higher benchmark ROE assuming the currently approved lower common equity thicknesses and equity risk premiums.

The Commission established a regulatory timetable for review of the CAP/ROE Application which provides an opportunity for the parties to attempt a negotiated settlement process. If the process is not successful, then the Commission is expected to render a decision in June 2010 following a written hearing. While PNG is confident in the merits of its CAP/ROE Application as filed and amended, 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, PNG filed its 2010 revenue requirements applications for all divisions. The applications sought 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.

On October 30, 2009 the Commission approved interim rates effective January 1, 2010 based on currently approved 2009 common equity thicknesses and ROE's for each division and not the higher figures set forth in the CAP/ROE Application and which were also used to calculate forecast 2010 revenue requirements. A negotiated settlement process is being conducted with respect to the 2010 revenue requirements applications on the understanding that gas delivery rates will remain interim effective January 1, 2010 until completion of the CAP/ROE Application review process.

### **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. PNG 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 PNG's 2009 Annual Information Form under "Risk Factors" which could cause PNG'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 PNG's liquidity if it were to go offside of the covenants in its debt facilities; successful execution of strategic initiatives; the ability of PNG 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 PNG 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.

## About Pacific Northern Gas

Headquartered in Vancouver, British Columbia, Pacific Northern Gas Ltd. (TSX: PNG/PNG.PR.A) owns and operates natural gas transmission and distribution systems and is currently in the advanced stages of developing the \$1.2 billion Kitimat to Summit Lake Pipeline Looping Project. PNG'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 at: [www.png.ca](http://www.png.ca).

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

### Fourth Quarter Consolidated Results For the Three Month Period Ended December 31, 2009 (\$ thousand, except for per share data)

	<b>2009</b>	<b>2008</b>
Revenues	\$31,172	\$41,144
Cost of gas	<u>17,256</u>	<u>26,859</u>
Operating margin	13,916	14,285
Net income applicable to common shares	\$3,352	\$3,075
Earnings per common share – basic	\$0.95	\$0.84
Earnings per common share – diluted	\$0.93	\$0.84
Net cash provided from operating activities	\$2,074	\$2,922
Additions to plant, property and equipment	(4,291)	(2,619)
Repayment of long term debt	(1,900)	(1,800)
Issue of long term debt, net of transaction costs	(61)	4,000
Increase (decrease) in bank indebtedness	2,579	(1,471)
Share repurchase under normal course issuer bid	—	—
Dividends paid	(1,054)	(975)

**Consolidated Results**  
**For the Year Ended**  
**December 31, 2009 (\$ thousand, except for per share data)**

	<b>2009</b>	<b>2008</b>
Revenues	\$104,131	\$132,839
Cost of gas	<u>57,239</u>	<u>86,124</u>
Operating margin	46,892	46,715
Net income applicable to common shares	\$6,195	\$5,600
Earnings per common share – basic	\$1.72	\$1.53
Earnings per common share – diluted	\$1.71	\$1.52
Net cash provided from operating activities	\$18,876	\$17,959
Additions to plant, property and equipment	(9,538)	(10,361)
Repayment of long term debt	(5,400)	(2,300)
Issue of long term debt, net of transaction costs	2,939	4,000
Repayment of bank indebtedness	(419)	(5,949)
Share repurchase under normal course issuer bid	(1,806)	—
Dividends paid	(3,785)	(3,562)
Cash and cash equivalents	\$1,511	\$577
Common Shareholders' Equity	85,436	83,724
Book Value per Common Share	\$24.03	\$22.85

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Contact: Janet Kennedy  
Vice President, Finance  
(604) 691-5684