



FOR IMMEDIATE RELEASE – JULY 27, 2010

**PACIFIC NORTHERN GAS REPORTS SECOND QUARTER RESULTS
AND DECLARES THIRD QUARTER DIVIDENDS**

VANCOUVER, BRITISH COLUMBIA – Pacific Northern Gas Ltd. announced today that the net loss for the three months ended June 30, 2010 was \$0.1 million, compared with a net loss of \$0.4 million for the corresponding period in 2009. After providing for preferred share dividends, the loss per common share in the three months ended June 30, 2010 was \$0.06 compared with a loss per common share of \$0.13 for the same period in 2009.

Second Quarter 2010 Consolidated Results

The \$0.3 million improvement in earnings can be attributed to a number of factors, including: the higher weighted average ROE earned in the second quarter of 2010 of 10.09 percent compared to 9.07 percent in the second quarter of 2009; the impact of the CAP/ROE Application settlement which resulted in a 5% higher equity component (increased to 45%) for the Company's Western system effective January 1, 2009 and a 4% higher equity component (increased to 40%) for the Company's Northeast system effective January 1, 2010; as well as the inclusion of operating results from the acquisition of the McNair Creek hydro-electricity generation facility ("McNair") in the second quarter of 2010. This increase has been partially offset by transactions costs of \$0.34 million or \$0.10 per share incurred by the Company for the McNair acquisition and reorganization, and higher expenditures for the KSL Project during 2010. Included in the net loss for the three months ended June 30, 2010 are after-tax charges of \$0.18 million or \$0.05 per share relating to the Company's portion of KSL Project development expenditures compared to costs of \$0.03 million or \$0.01 per share for the corresponding period in 2009.

The McNair acquisition costs have been expensed as a result of the Company's decision to early adopt the new accounting standard for business combinations. The new standard results in the expensing of related acquisition costs rather than their deferral and inclusion as part of the cost of the business acquisition. Excluding these acquisition transaction costs, earnings per common share for the three months ended June 30, 2010 would have been \$0.04 instead of a loss per common share of \$0.06.

Net income for the six months ended June 30, 2010 was \$5.3 million, compared to \$4.8 million for the corresponding period in 2009. After providing for preferred share dividends, basic earnings per common share in the six months ended June 30, 2010 were \$1.44 compared to \$1.26 for the same period in 2009.

The \$0.5 million increase in net income is due mainly to the impact of the CAP/ROE Application settlement, offset by the transaction and reorganization costs of \$0.47 million or \$0.13 per share incurred on the McNair acquisition and higher KSL Project development expenditures in 2010. Included in net income for the six months ended June 30, 2010 and 2009 are after-tax charges for the Company's portion of KSL Project development expenditures of \$0.4 million and \$0.1 million, respectively. Excluding the McNair acquisition transaction costs of \$0.47 million, earnings per common share for the six months ended June 30, 2010 would have been \$1.57 instead of \$1.44.

Residential deliveries were approximately 13% lower in the three months ended June 30, 2010 and lower by 17% in the six months ended June 30, 2010 relative to deliveries over the same periods in 2009. Total commercial deliveries were approximately 9% lower in the three months ended June 30, 2010 and lower by 18% in the six months ended June 30, 2010 relative to deliveries over the same periods in 2009. Management believes that weather was a key factor in the decrease in both the residential and the commercial deliveries, as it was approximately 2% warmer for the three month period ended June 30, 2010 and 10% warmer for the six month period ended June 30, 2010 compared to the same periods in 2009. The weather was also 1% warmer than normal for the three month period ended June 30, 2010, and 3% warmer for the six month period ended June 30, 2010, with "normal" based on the average of actual temperatures in the Company's service areas for the preceding 10 years.

Industrial deliveries were lower by approximately 33% for both the three month and six month periods ended June 30, 2010 compared to the same periods in 2009. The decrease in industrial deliveries is comprised of a 54% decrease in large industrial customer deliveries, mainly due to the closure of the West Fraser Timber Co. Ltd. ("West Fraser") Kitimat B.C. paper mill, combined with a 16% decrease in small industrial deliveries. The decrease in small industrial customer deliveries relate primarily to the Northeast system. 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 rate making purposes.

Operating revenues in the three months ended June 30, 2010 increased to \$15.2 million compared with \$14.1 million in the corresponding period in 2009. The increase was primarily due to the recognition of the impact of the CAP/ROE Application settlement in the second quarter of 2010 and the impact of the McNair acquisition offset to some extent by the lower commodity cost of gas embedded in rates as a result of declining gas market prices.

Operating revenues in the six months ended June 30, 2010 decreased to \$55.4 million compared with \$62.5 million in the corresponding period in 2009. The decrease was primarily due to the lower commodity cost of gas embedded in rates as a result of declining gas market prices.

Operating margin in the three months ended June 30, 2010 increased to \$10.5 million, as compared with \$8.8 million in the same period in 2009, mainly due to the impact of the higher ROE and common equity components in the second quarter of 2010 compared to the corresponding quarter of 2009.

Operating margin in the six months ended June 30, 2010 increased to \$28.4 million, as compared with \$25.9 million in the same period in 2009, mainly due to the impacts of the higher ROE and higher common equity components and the inclusion of the McNair acquisition in the second quarter of 2010.

Included in project development expenditures and other income deductions for the three month and six month periods ended June 30, 2010 are the Company's pre-tax share of KSL Project development expenditures amounting to \$0.3 million and \$0.5 million, respectively.

Final Negotiated Settlement Agreements for the 2010 Revenue Requirements Applications and the Capital Structure and Equity Risk Premium Application (the "CAP/ROE Application")

A negotiated settlement process ("NSP") was conducted over the February 8 to 10, 2010 period in respect of the 2010 revenue requirements applications for all of the Company's operating divisions.

On March 4, 2010 the B.C. Utilities Commission (“Commission”) approved the interim negotiated settlement agreements reached by the parties in February. The agreements are interim pending review of the Company’s CAP/ROE Application which is described in more detail below.

On June 23, 2010 the Commission approved the final negotiated settlement agreements in respect of the 2010 revenue requirements applications for the Western system and Northeast system and the CAP/ROE Application (the “final settlement agreements”). The key matters agreed to under the final settlement agreements are summarized as follows:

- The parties agreed the common equity capitalization and risk premiums relative to the benchmark utility return on equity (“ROE”) for the Western system division (effective January 1, 2009) and the Fort St. John/Dawson Creek and Tumbler Ridge divisions (effective January 1, 2010) would be as follows:

	Western System Division	Fort St. John/Dawson Creek Division	Tumbler Ridge Division
Common Equity Capitalization	45%	40%	40%
Equity Risk Premiums	65 basis points	40 basis points	65 basis points

On a consolidated basis, this provided the Company with the opportunity to increase overall earnings in 2010 by approximately \$0.6 million or \$0.17 per share of which over \$0.3 million has been recorded to date. Further, an additional \$0.5 million of net income was included in the second quarter to reflect the January 1, 2009 effective date for the Western system common equity capitalization ratio adjustment.

The equity risk premiums are relative to the benchmark utility ROE of 9.50% that became effective July 1, 2009 resulting in the following ROE’s in 2009 and 2010 for each division:

Year	Western System Division	Fort St. John/Dawson Creek Division	Tumbler Ridge Division
2009	9.63%	9.38%	9.63%
2010	10.15%	9.90%	10.15%

The 2009 ROE’s are lower than applicable in 2010 to account for the fact the benchmark ROE of 9.50% was made effective July 1, 2009.

- The interim rates effective January 1, 2010 were made permanent for 2010. Having regard to the fact the interim rates were based on forecast 2010 costs of service using common equity capitalization and ROE figures that were less than the agreed to figures, the parties agreed the difference between: (i) the 2010 gross margins using the interim rates; and (ii) the costs of service based on the parameters agreed to under the final settlement agreements would be recorded, for future disposition, in the common equity deferral accounts approved by the Commission under Order G-172-09.

Renewable Energy Business

In April 2010, the Company entered into a joint development and operating agreement with Skookum Power Corp. ("Skookum Power") gaining access to extensive expertise in hydrology, engineering and commercial development to support the Company's new renewable energy business platform. The principals of Skookum Power are former power company executives with collectively more than 50 years experience in the hydro-electricity and energy sectors.

On April 19, 2010, the Company in partnership with Skookum Power closed the acquisition of the 9.8 megawatt McNair facility from Kiewit Hydropower Investors Inc. and Renewable Power Corp. with the Company holding a 97% share. The McNair facility is located on B.C.'s Sunshine Coast and has been in operation for more than 5 years. The facility's generation is committed for sale under a long-term contract to BC Hydro.

The total purchase price was approximately \$17.4 million and has been funded in part by the assumption of \$9.4 million in non-recourse debt and the remainder in cash payments. The Company's cash purchase obligations were met through drawings on its existing credit facilities. The Company's debt to capitalization will now be approximately 48 percent after the transaction. The transaction is expected to be cash flow positive for 2010 and is expected to be EPS accretive in 2011.

For the period from the acquisition date to June 30, 2010, the Company recorded after-tax earnings of approximately \$216,000 related to the McNair facility before acquisition and reorganization costs. These transactions costs amounted to approximately \$465,000 after-tax for the six month period ended June 30, 2010.

The investment in the McNair facility represents the launch of the Company's renewable energy business as part of its business diversification strategy. The key elements of this strategy are to diversify the Company's risk profile, grow its asset base and enhance its cash flows.

KSL Project

The Company continues to pursue a project to loop its mainline transmission system from Kitimat to Summit Lake (the "KSL Project") through its 50% ownership of Pacific Trail Pipelines Limited Partnership ("PTP"). The KSL Project would provide gas transportation services for up to 1.0 billion cubic feet per day, primarily for Kitimat LNG Inc.'s proposed LNG export terminal ("Terminal") to be located approximately 15 kilometers southwest of Kitimat. The KSL Project entails the construction of approximately 470 kilometers of up to 36 inch diameter pipeline and associated compression facilities, at a cost of \$1.2 billion based on estimates made in 2006.

On January 13, 2010 Apache Corporation's subsidiary Apache Canada Ltd. ("Apache") acquired 51% of the Terminal. Apache also acquired a 25.5% interest in PTP from Galveston LNG Inc., the parent company of Kitimat LNG Inc.

On May 18, 2010 EOG Resources Inc.'s Canadian subsidiary EOG Resources Canada Inc. ("EOG") agreed to acquire the shares of Galveston LNG Inc. Through the acquisition, EOG will acquire 49% of the Terminal and a 24.5 percent interest in PTP.

Subject to a number of conditions, construction of the KSL Project by PTP is planned to commence in 2012 for completion in 2014 when the Terminal is planned to begin operation. Conditions to construction include the securing of contracts for use of PTP's transportation capacity, financing for construction of the KSL Project, and additional regulatory approvals for the KSL Project such as a Certificate of Public Convenience and Necessity ("CPCN") from the Commission and other permits from the B.C. Oil and Gas Commission. The Company will continue working to finalize

transportation reservation agreements for the KSL Project in the second half of 2010 at which point it would file its CPCN application with the Commission. The Company can give no assurances that such agreements will be signed or other conditions will be satisfied or that construction of the KSL Project by PTP will proceed.

The Company's share of development expenditures for the KSL Project in the second quarter of 2010 were approximately \$253,000 bringing the total incurred in 2010 to \$529,000 (\$378,000 after income taxes). Subject to the receipt of acceptable financial support from prospective shippers wanting to contract KSL Project gas transportation services, the Company's 50 percent share of KSL Project development costs in the last half of 2010 will total approximately \$2.4 million. These costs would primarily relate to additional engineering and technical studies for the KSL Project pipeline.

Closure of West Fraser Kitimat B.C. Paper Mill

West Fraser permanently closed its paper mill in Kitimat, B.C at the end of January 2010. PNG has a transportation service agreement with West Fraser which specifies a daily contract demand volume of 6.0 MMcf (million cubic feet) per day that expires on December 31, 2013. Under the terms of the transportation agreement, West Fraser pays the Company an annual demand charge of approximately \$2.1 million and is entitled to cancel its obligations by providing the Company with a termination payment that would recover almost 80 percent of the lost revenues under the remaining term of the agreement.

On May 31, 2010 West Fraser provided the Company with the required six months cancellation notice. West Fraser will continue to pay the monthly demand charge due under the transportation agreement until November 2010. The termination payment of just over \$5 million is due on December 1, 2010. The Company expects that the termination payment would be amortized over the remaining life of the agreement, the same regulatory treatment accorded the Methanex Corporation ("Methanex") termination payment made in 2006. In addition, as was the case with the closure of the Methanex plant, the Company will mitigate the impact of lower margin recovery by reducing costs and expects to recover the future loss of margin through standard rate applications to the Commission. If this is the case, the Company anticipates limited impact on future earnings.

Dividends

The Board of Directors also declared a quarterly dividend of 28 cents per share on the Company's common shares, payable September 20, 2010 to shareholders of record at the close of business on September 7, 2010.

The Company, for purposes of the Income Tax Act (Canada), and any similar provincial or territorial legislation, designates all dividends paid 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. 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. The Company's western transmission line extends from the Spectra 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.

**Second Quarter Consolidated Results
Three Month Period Ended
June 30 (\$ thousand, except for per share data)**

	2010	2009
Operating revenues	\$15,166	\$14,141
Cost of gas	<u>4,630</u>	<u>5,303</u>
Operating margin	10,536	8,838
Net loss applicable to common shares	(\$231)	(\$484)
Loss per common share – basic	(\$0.06)	(\$0.13)
Loss per common share – diluted	(\$0.06)	(\$0.13)
Net cash provided from operating activities	\$7,067	\$11,178
Additions to plant, property and equipment	(1,646)	(1,904)
Acquisitions, net of cash acquired	(7,329)	—
Issuance of long term debt	6,000	—
Repayment of long term debt	(60)	(3,000)
Decrease in bank indebtedness	(2,461)	—
Dividends paid	(1,176)	(997)

**Second Quarter Consolidated Results
Six Month Period Ended June 30
(\$ thousand, except for per share data)**

	2010	2009
Operating revenues	\$55,401	\$62,459
Cost of gas	<u>26,968</u>	<u>36,591</u>
Operating margin	28,433	25,868
Net income applicable to common shares	\$5,173	\$4,587
Earnings per common share – basic	\$1.44	\$1.26
Earnings per common share – diluted	\$1.41	\$1.26
Net cash provided from operating activities	\$8,179	\$18,171
Additions to plant, property and equipment	(2,561)	(3,152)
Acquisitions, net of cash acquired	(7,329)	—
Issuance of long term debt	6,000	3,000
Repayment of long term debt	(60)	(3,000)
Decrease in bank indebtedness	(2,579)	(2,998)
Dividends paid	(2,181)	(1,839)

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

	June 30 2010	December 31 2009
Cash, cash equivalents and short term investments	\$1,736	1,511
Common Shareholders' Equity	89,299	85,436
Book Value per Common Share	\$24.79	\$24.03

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