

**Pacific Northern Gas Ltd.
(PNG-West)**

**#2550 - 1066 West Hastings Street
Vancouver, B.C. V6E 3X2**

**2016 ANNUAL REPORT
TO THE
BRITISH COLUMBIA UTILITIES COMMISSION**

For the period January 1, 2016 to December 31, 2016

LIST OF SCHEDULES

Title of Schedule	Page	Remarks
General Instructions	1	
Declaration	2	
Directors & Officers	3	
Security Holders and Voting Powers	4, 5	
Control Over Utility	6	
Corporations Controlled by Utility	7, 8	
Important Changes During the Year	9, 10	
Additional Information	11,12,13	
Comparative Balance Sheet – Assets	14	
Comparative Balance Sheet – Equity and Liabilities	15	
Statement of Net Income and Retained Earnings	16	
Unamortized Debt Discount and Expense and Unamortized Premium on Debt	17	
Capital Stock Expense		None
Extraordinary Plant Expense		None
Preliminary Survey and Investigation Charges		None
Unamortized Deferred Charges and Amortization	18	
Lease/Rental Payments Charges to Operating Expenses		None
Gas Plant in Service – Continuity of Cost	19	
Gas Plant in Service – Continuity of Accumulated Depreciation	20	
Gas Plant Held for Future Use		None
Gas Plant Under Construction	21	
Other Plant		None
Gas Operating Revenues	22	
Gas Operating Expenses	23, 24	
Construction Overheads	25	
Gas Account	26	
Pipeline Mileage	27	
Sales of Gas by Communities	28	
Service Interruptions and Property Damage	29	
System Map	30	
Cash Working Capital	31	
Earned Return	32	
Income Taxes	33	
Utility Rate Base and Rate of Return	34	
Return on Capital	35	
Degree Days	36	

GENERAL INSTRUCTIONS

1. Two copies of this report must be filed with the British Columbia Utilities Commission, 6th Floor, 900 Howe St., P.O. Box 250, Vancouver, B.C. V6Z 2N3, no later than the last day of the fourth month following the end of the company's financial year.
2. In addition to filing this form, the utility shall also file with the Commission:
 - a) A copy of its Corporate Income Tax filing when available;
 - b) Immediately upon publication, copies of its latest Annual Report prepared for distribution to stockholders, bondholders, or other security holders.

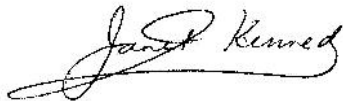
No Annual Report has been prepared since fiscal 2012 when Pacific Northern Gas Ltd. ceased to be a publicly-listed company.

3. Trial balance of actual results according to the Uniform System of Accounts.
4. Major normalization adjustments only should be applied.

DECLARATION

I, Janet P. Kennedy, of North Vancouver, BC do hereby declare:

1. That I am Vice President, Regulatory Affairs & Gas Supply of Pacific Northern Gas Ltd. ("PNG-West") with head office at: #2550 - 1066 West Hastings Street, Vancouver, BC, V6E 3X2.
2. That I have examined the content of this report and the information set out herein is complete and accurate, to the best of my knowledge, information and belief. I have read and understand sections 106 and 109.1 to 109.8 of the Utilities Commission Act.



Janet P. Kennedy

Any questions concerning this report should be addressed to:

J.P. Kennedy
Vice President, Regulatory Affairs & Gas Supply
#2550 - 1066 West Hastings Street
Vancouver, BC, V6E 3X2
Telephone: 604-691-5680
E-mail: jkennedy@png.ca

DIRECTORS AND OFFICERS as at December 31, 2016

Report below the name, title and business address of each director and officer.

NAME	BUSINESS ADDRESS	OFFICE HELD
A. Patterson	AltaGas Ltd. #1700 - 355 - 4th Avenue SW Calgary, AB T2P 0J1	Director
P. Karl	AltaGas Ltd. #1700 - 355 - 4th Avenue SW Calgary, AB T2P 0J1	Director
L.A. Shoji-Lee	Pacific Northern Gas Ltd. #2550 - 1066 West Hastings St. Vancouver, BC V6E 3X2	Director, President
D. Allen	Pacific Northern Gas Ltd. #2550 - 1066 West Hastings St. Vancouver, BC V6E 3X2	Vice President, Finance
J.P. Kennedy	Pacific Northern Gas Ltd. #2550 - 1066 West Hastings St. Vancouver, BC V6E 3X2	Vice President, Regulatory Affairs & Gas Supply

SECURITY HOLDERS AND VOTING POWERS

1. Give the names and addresses of the 10 security holders of the utility who, at the date of the latest closing of transfer books or compilation of lists of stocks or shareholders of the utility, prior to the end of the year, had the highest voting powers in the utility, and state the number of votes which each would have had the right to cast as of that date if a meeting were then in order. If any such holder held in trust, give in footnote the known particulars of the trust (whether voting trust, etc.), duration of trust and principal holders of beneficiary interests in the trust. Arrange the names of the security holders in order of voting power, commencing with the highest. Show in column (a) the titles of officers and directors included in such a list of 10 security holders.

Voting Securities
Number of Votes as at December 31, 2016

Name and Address of Security Holder (a)	Total Votes (b)	Common (c)	Preferred (d)	Other (e)
AltaGas Utility Holdings (Pacific) Inc. 1700 – 355 4 th Avenue SW Calgary, AB T2P 0J1	5,386,104	5,386,104	-	-

2. Give also the voting powers resulting from ownership of securities of the utility of each officer and director not included in the list of 10 largest security holders.

N/A

3. If any security other than common/ordinary shares/stock carries voting rights, explain the circumstances whereby such security became vested with voting rights.

N/A

4. Furnish particulars concerning any options, warrants or rights outstanding at the end of the year for others to purchase securities of the utility or any securities or other assets owned by the utility including prices, expiration dates and other material information relating to the exercise of the options, warrants or rights. Specify the amount of such securities or assets so entitled to be purchased by any officer, director, associated company, or any of the 10 largest security holders. This instruction is inapplicable to the convertible securities or to any securities substantially all of which are outstanding in the hands of the general public where the options, warrants or rights were issued on a pro rata basis.

N/A

CONTROL OVER UTILITY

If any corporation, business trust, or similar organization or combination of such organizations jointly held control over the utility at end of year, state name of controlling corporation or organization, manner in which control was held and extent of control. If control was in a holding company organization, show the chain of ownership or control to the main parent company or organization. If control was held by a trustee(s), state name of trustee(s), name of beneficiary or beneficiaries for whom trust was maintained, and purpose of the trust.

AltaGas Utility Holdings (Pacific) Inc., a wholly-owned subsidiary of AltaGas Ltd., owns all of the issued and outstanding common shares of Pacific Northern Gas Ltd.

CORPORATIONS CONTROLLED BY UTILITY

1. Report below the names of all corporations, business trusts and similar organizations, controlled directly or indirectly by utility at any time during the year. If control ceased prior to end of year, give particulars in a footnote.
2. If control was by other means than a direct holding of voting rights, state in a footnote the manner in which control was held, naming any intermediaries involved.
3. If control was held jointly with one or more other interests, state the fact in a footnote and name other interest.

Name of Company Controlled	Kind of Business	Percent Voting Stock Owned	Footnote Reference
Pacific Northern Gas (N.E.) Ltd.	Distribution of natural gas	100%	
PNG Marketing Ltd.	Shelf company	100%	

Definitions

1. **Direct control** is that which is exercised without interposition of an intermediary.
2. **Indirect control** is that which is exercised by the interposition of an intermediary which exercises direct control.
3. **Joint control** is that in which neither interest can effectively control or direct action without the consent of the other, as where the voting control is equally divided between two holders, or each party holds a veto power over the other.

IMPORTANT CHANGES DURING THE YEAR

Furnish particulars, including effective dates, concerning the matters indicated below:

1. Changes or additions to franchise rights.

None

2. Acquisition or disposal of ownership in other companies; consolidation, merger or reorganization with other companies.

N/A

3. Acquisition or disposal of an operating unit or system.

None

4. Important leaseholds.

PNG's Vancouver office lease at 950, 1185 West Georgia Street expired on August 31 2016 and was not extended. PNG entered into a sub-lease agreement with AltaGas Ltd. for premises at 2550, 1066 West Hastings Street for a term of three years and two months commencing September 1, 2016 and ending on October 30, 2019.

5. Important extension or reduction in transmission or distribution system.

None

6. Estimated annual effect and nature of important wage scale changes during the year.

Effective October 31, 2016, the contract with the collective bargaining unit expired; negotiations are ongoing as of the filing date of this report.

7. Important legal proceeding pending, in progress, or concluded during the year.

None

ADDITIONAL INFORMATION

Provide following information pursuant to sections 24 and 45 of the Utilities Commission Act.

1. In the years when a Long Term Resource Plan is not filed, the section 45(6) filings of capital budget statements and system plans should be made in the Annual Report to the Commission

Capital budget statements and system plans for 2016 were filed in PNG's two-year Revenue Requirements Application submitted for Test Years 2016 and 2017.

2. A detailed comparison between forecast and actual results for all completed or in progress capital projects.

This information has traditionally been reported as part of PNG's annual revenue requirements application process. With PNG's first two-year Revenue Requirements Application for Test Years 2016 and 2017, this reporting has changed. PNG plans to file this information along with its 2016 financial statements and income tax filings in the third quarter of 2017.

3. Copies of income tax assessment and reassessment notices pertaining to utility business.

Copies will be provided on a confidential basis when received from the Canada Revenue Agency and are expected to be filed in the third quarter of 2017.

4. List of topics covered in the management letters.

No management letters were issued.

5. List of topics covered in the internal audit reports with a brief description of each topic.

The following topics were covered in internal audit reports during 2016:

- **Regular annual IT audit testing for 2016 to assess the effectiveness of IT controls that are in place to address key risks that PNG may be exposed to.**

- **Regular annual CSOx (Canadian Sarbanes Oxley Act) testing for 2016 and update of process flowcharts and risk and control matrices for the following areas: Financial Reporting, Payroll, Property, Plant & Equipment, Purchase to Pay, Regulatory, Revenue and Receivables, Tax and Treasury – annual testing to comply with annual CEO and CFO certification on the design and operating effectiveness of internal controls over financial reporting in accordance with National Instrument 52-109.**
 - **Vendor Payment Audit. Objective of audit was to perform data analytics on vendor payment and invoice data for invoices paid from the JDE system to review for irregular transactions and occurrences that may indicate duplication, errors, or misappropriation. The audit testing period covered the first six months of 2016, beginning January 1, 2016 through to June 30, 2016.**
6. Reconciliation of the utility's year-end financial statements to the shareholders compared to the Annual Report to the Commission. Include current year financial schedules indicating actual results for regulatory purposes compared to approved amounts for same period and a description of variances in these two amounts.

Copies of financial statement will be provided on a confidential basis and filed along with the income tax filings in the third quarter of 2017.

7. A report, prepared by the internal auditor that examines the utility's classification of certain expenditures, as specified by the Commission according to a Uniform System of Accounting.

An internal report regarding the utility's classification of certain expenditures was not prepared in 2016 due to lack of internal resources. PNG submits that it continues to use the Uniform System of Accounts as prescribed by the Commission in its financial accounting and reporting processes. Even though PNG is now using a new application software (JDE Enterprise One) that utilizes new general ledger account codes, PNG submits that it continues to use the Uniform System of Accounts as the base for the classification of all expenditures consistent with all prior years. The VP Finance attests to this statement.

8. A report, prepared by the internal auditor that confirms the utility's compliance with the Commission's financial directions contained in Decisions and Orders.

The Company's annual audited financial statements are prepared in accordance with US GAAP, and as a regulated entity must follow the requirements for regulated companies prescribed by US GAAP. Those requirements ensure that the Company complies with the Commission's financial directions. As part of the external audit process, our auditors (Ernst & Young) reviewed the Commission's Decisions and Orders and issued a clean audit opinion. PNG submits that an additional report is not required, as the external auditors need to ensure that the Company is compliant in order to issue an audit opinion on the annual financial statements of the Company.

COMPARATIVE BALANCE SHEET - ASSETS

As at December 31
 \$000's

BCUC Account	2016	2015
ASSETS		
<u>Plant:</u>		
100 Gas plant in service	286,436	283,827
105 Accumulated depreciation	(153,885)	(150,576)
115 Gas plant under construction	613	203
118 Capital supplies inventory	1,102	1,073
Total Plant	134,265	134,527
<u>Current Assets:</u>		
120 Investment in subsidiary	69,748	59,244
121 Other investments	-	-
130 Cash	105	7,772
131 Special deposit	-	-
140 Accounts receivable - Trade	11,420	33,732
141 Conversion loans	-	-
141 Accounts receivable - Other	-	-
142 Accounts receivable - Inter company	(1,040)	2,142
145 Bad Debts	(108)	(63)
150 Inventory - Materials & supplies	122	119
152 Stored Gas	395	545
153 Inventory - Line pack gas	330	458
160 Prepaid expenses	524	508
162 Other Current Assets	-	-
Total Current Assets	81,497	104,459
<u>Deferred Charges:</u>		
170 Unamortized debt discount & expense	233	289
171 Plant losses	1,205	1,121
179 Other	(2,575)	(6,071)
Total Deferred Charges	(1,137)	(4,661)
<u>Other Assets:</u>		
180 Future income taxes	-	-
182 Regulated Asset Future income Tax	15,106	13,593
182 Regulated Asset Non Pension	-	0
182 Future Recovery of other comprehensive income	14,255	13,271
182 Pension and Non Pension Residual	-	0
185 Derivative Financial Instruments	-	-
Total Other Assets	29,361	26,864
TOTAL ASSETS	243,986	261,188

COMPARATIVE BALANCE SHEET - EQUITY AND LIABILITIES

As at December 31
 \$000's

BCUC Account	2016	2015
SHAREHOLDERS' EQUITY		
<u>Capital Stock & Surplus:</u>		
200 Preferred stock	-	-
205 Common stock	13,465	13,465
210 Contributed surplus	3,853	3,853
212 Retained earnings	78,479	95,969
Total Capital Stock & Surplus	95,797	113,287
LIABILITIES		
211 Contribution & grants	5,978	6,073
220 Long term debt	92,400	92,600
250 Loans & notes payable	3,791	5,000
251 Accounts payable - other	9,421	7,213
252 Accounts payable - Affiliated Companies	11,816	714
253 Dividends payable	-	-
254 Customers' security deposits	924	911
255 Customers' advances for construction	-	-
256 Taxes accrued	(2,423)	4,468
257 Interest payable & accrued	776	810
259 Other Accrued Liabilities	10,282	8,939
265 Derivative Financial Instruments (Current)	-	-
276 Deferred income taxes	-	-
279 West Fraser Termination Deferral	-	-
280 Future income taxes	15,224	21,173
Total Liabilities	148,189	147,901
TOTAL EQUITY AND LIABILITIES	243,986	261,188

STATEMENT OF NET INCOME & RETAINED EARNINGS

For the Years Ended December 31
\$000's

<u>BCUC</u> <u>Account</u>	2016	2015
NET INCOME		
<u>Operating Revenue:</u>		
300 Sales (520-523)	46,471	50,095
300 Amortization of Deferred Charges	1,949	1,958
300 Miscellaneous (560-579)	3,779	3,605
Total Operating Revenue	52,199	55,659
<u>Operating Expenses:</u>		
301 Cost of Sales (623 & 629)	9,835	13,168
301 Operating (660-718)	10,879	10,434
301 Administrative & General (721-730)	11,183	10,736
301 Non-regulated business (750-752)	-	0
302 Maintenance (864-885)	388	382
303 Depreciation	5,010	5,058
304 Amortization	847	1,310
305 Municipal & Other Taxes	3,684	3,670
306 Income Taxes	1,306	1,409
Total Operating Expenses	43,132	46,167
Net Utility Income	9,067	9,492
<u>Other Income:</u>		
314 Investment and Other Income	3,433	3,337
331 Gain on sale of affiliate - non-regulated business	-	-
Total Other Income	3,433	3,337
<u>Income Deductions:</u>		
317 Gain on Foreign Exchange	0	(1)
320 Interest on Long Term Debt	4,602	4,981
321 Amortization of Debt Discount, Premium and Expense	56	57
323 Other Interest Expense	211	312
324 AFUDC and Imputed Interest on Deferrals	120	292
329 Other Income Deductions	-	-
Total Income Deductions	4,989	5,642
Net Income	7,510	7,187
<u>Non-regulatory Items:</u>		
301 Non-regulated business (750-752)	-	-
331 Gain on sale of affiliate - non-regulated business	-	-
306 Income Taxes - non-regulated business	-	-
Net Income	7,510	7,187
RETAINED EARNINGS		
212 Retained Earnings, Beginning of Year	95,969	88,782
350 Balance Transferred from Net Income	7,510	7,187
357 Dividends Declared	(25,000)	-
359 Adjustments	-	-
Retained Earnings, End of Year	78,480	95,969

UNAMORTIZED DEBT DISCOUNT AND EXPENSE AND UNAMORTIZED PREMIUM ON DEBT

For the year ended December 31, 2016
 (Accounts 170 and 270)
 \$000's

Designation of long-term debt	Principal amount to which expense relates	Total discount and expense	Amortization period		Balance beginning of year	Debits during year	Credits during year (amortization)	Balance end of year
			From	To				
2018 AG Debenture	38,200	147	6/7/2013	6/7/2018	76	0	(28)	48
2017 Debenture RoyNat	4,000	57	7/25/2007	7/25/2017	5	0	(3)	2
2018 Debenture	16,925	223	11/15/1993	11/15/2018	24	0	(9)	15
2025 Debenture	20,000	265	7/18/1995	7/18/2025	96	0	(9)	87
2027 Debenture	20,000	208	12/2/1997	12/2/2027	88	0	(7)	81
	99,125	900			289	0	(56)	233

UNAMORTIZED DEFERRED CHARGES AND AMORTIZATION

Particulars	\$000's					
	BCUC A/C	Balance 2015	2016 Additions	2016 Imputed Interest	2016 Amortization	Balance 2016
Included in Rate Base:						
Plant Gains and Losses - extraordinary	(171)	284			284	0
Plant Gains and Losses - ordinary	(171)	841	645		231	1,255
Plant Gains and Losses - salvage value	(171)	(155)	(168)		(39)	(284)
Plant Gains and Losses - retirement costs	(171)	151	124		42	233
Demand Side Management	(179)	108	30		22	117
<hr/>						
Subtotal - Gross Deferrals Included in Rate Base		1,228	632	0	539	1,322
Related Future Income Taxes (FIT)		(67)	(38)	0	(16)	(89)
Rate Base Deferrals, net of FIT		1,161	594	0	522	1,233
<hr/>						
Mid-year rate base						1,197
Not included in Rate Base:						
Pipeline Inspections	(179)	(42)	(28)	(1)	(43)	(28)
Line break costs	(179)	0	71			71
Investigative Digs - Pre-2013	(179)	389		16	211	195
Investigative Digs	(179)	(21)	46	(0)	(21)	46
Bad Debt Provision	(179)	0				0
RSAM	(179)	2,319	2,449	261		5,029
GCVA	(179)	(1,365)	1,439	(17)		57
Common Equity Thickness - 2012 RRA	(179)	217		9	117	108
Industrial Customer Deliveries	(179)	(372)	(240)	(10)	(379)	(243)
Legacy Deferred Income Taxes - Offset to NPPRB Regulatory Asset	(179)	(738)		(34)	(280)	(492)
Legacy Deferred Income Taxes - Other	(179)	(3,712)		(171)	(1,408)	(2,475)
Subtotal		(3,325)	3,736	54	(1,802)	2,268
Other Interest Bearing Deferrals:						
BCUC Fees	(179)	(15)	(28)	(1)	(15)	(28)
BCUC Proceedings	(179)	(8)	(35)	(0)	(8)	(35)
Property Tax Variance	(179)	(76)	18	(1)	(77)	18
Resource Plans	(179)	(15)	20	(0)	(16)	20
Short term interest	(179)	(11)	(2)	(0)	(11)	(2)
Long term interest	(179)	(138)	19	(2)	(141)	19
LNG Partners Option Fee Payment	(179)	(3,660)	(267)	(199)		(4,125)
Subtotal - Other Interest Bearing Deferrals		(3,923)	(274)	(203)	(268)	(4,133)
<hr/>						
Subtotal - Non-Rate Base Deferrals		(7,248)	3,462	(150)	(2,070)	(1,865)
Related Future Income Taxes		876	(900)	(12)	222	(258)
Interest Bearing Deferrals, net of FIT		(6,372)	2,562	(162)	(1,848)	(2,123)
<hr/>						
NPPRB Regulatory Asset (Non-return bearing)	(179)	994			331	663
NPPRB Transitional Obligations (Non-return bearing)	(179)	292			97	195
PTP - Cost of Service Credit	(179)	0	(200)			(200)
<hr/>						
Gross Deferrals, excluding Debt Issue Costs & Termination Payment		(4,733)	3,894	(150)	(1,102)	114
Future Income Taxes on Deferrals, excluding Debt Issue Costs & Termination Payment		808	(886)	(12)	205	(295)
Deferrals (net of FIT), excl. Debt Issue Costs & Termination Payment		(3,925)	3,008	(162)	(897)	(182)
<hr/>						
Debt issue costs	(170)	289			56	233

GAS PLANT IN SERVICE - CONTINUITY OF COST

\$000's

<u>Description</u>	<u>BCUC A/C</u>	<u>Balance 2015</u>	<u>2016 Additions</u>	<u>2016 Transfers (Reclass)</u>	<u>2016 Retirements</u>	<u>Balance 2016</u>
Land	(410)	-				-
Land Rights	(411)	-				-
Processing Plant	(413)	-				-
Purification Equipment	(418)	-				-
Gas Holders - Storage	(443)	30				30
Other Local Storage Equipment	(449)	3				3
Total Processing Plant		33	-	-	-	33
Land	(460)	104				104
Land Rights	(461)	1,237				1,237
Comp. Structures	(462)	2,901				2,901
Meas/ & Reg. Equip	(463)	1,363	17		(98)	1,282
Mains	(465)	154,652	1,030			155,681
Compressor Equipment	(466)	25,021	190		(14)	25,197
Meas. & Reg. Equipment	(467)	9,818	852		(860)	9,809
Communication Structures & Equip.	(468)	3,336	15		(102)	3,248
Other	(469)	2	485			487
Total Transmission		198,434	2,587	-	(1,075)	199,946
Land	(470)	1				1
Land Rights	(471)	34				34
Struct./Improvements	(472)	333				333
Services	(473)	25,691	212		(75)	25,829
House Reg. Installations	(474)	4,189	126		(18)	4,297
Mains	(475)	31,454	81			31,535
Meas. & Reg. Equipments	(477)	287			(11)	277
Meters	(478)	3,689	210		(353)	3,546
Other Dist. Equipments	(479)	31				31
Total Distribution		65,709	629	-	(456)	65,881
Land	(480)	295				295
Land Rights	(481)	0				0
Struc/Improvements	(482)	6,080	435		(328)	6,186
Office Furniture/Equipment	(483)	911	109		(52)	968
Transport Equipment	(484)	2,460	390		(525)	2,325
Heavy Work Equipment	(485)	3,722	425		(98)	4,049
Tools/Work Equipment	(486)	3,089	355		(27)	3,417
Computer Equipment	(487)	2,403	225		(33)	2,595
Communication Structures & Equip.	(488)	689	115		(66)	738
General Equipment	(489)	2				2
Total General		19,651	2,053	-	(1,130)	20,575
Total Capital Cost		283,827	5,269	-	(2,661)	286,436
WIP		203	410			613

GAS PLANT IN SERVICE - CONTINUITY OF ACCUMULATED DEPRECIATION

\$000's

<u>Description</u>	<u>BCUC A/C</u>	<u>Balance 2015</u>	<u>2016 Provision</u>	<u>2016 Transfer</u>	<u>2016 Retirements</u>	<u>Balance 2016</u>
Gas Holders - Storage	(443)	(12)	(1)			(13)
Other Local Storage Equipment	(449)	(2)	(0)			(2)
Processing Plant		(14)	(1)	-	-	(15)
Land Rights	(461)	(35)				(35)
Comp. Struc.	(462)	(2,305)	(88)			(2,393)
Meas/Reg Struct.	(463)	(1,099)	(36)		85	(1,050)
Mains	(465)	(73,930)	(2,002)			(75,932)
Compressor Equip.	(466)	(19,193)	(649)		5	(19,838)
Meas. & Reg. Equip.	(467)	(5,418)	(303)		710	(5,011)
Communication Structures & Equip.	(468)	(2,795)	(88)		102	(2,781)
Other	(469)	(1)	(0)			(1)
Total Transmission		(104,776)	(3,167)	-	902	(107,041)
Struct./Improvements	(472)	(137)	(11)			(148)
Services	(473)	(14,454)	(352)		69	(14,738)
House Reg. Instal.	(474)	(2,516)	(124)		15	(2,625)
Mains	(475)	(15,390)	(419)			(15,809)
Meas. & Reg. Equip.	(477)	(276)	(2)		6	(271)
Meters	(478)	(1,743)	(171)		291	(1,623)
Other Dist. Equip.	(479)	(23)	(0)			(24)
Total Distribution		(34,539)	(1,078)	-	380	(35,237)
Land	(480)	(0)				(0)
Struct./Improvements	(482)	(3,735)	(236)		152	(3,820)
Office Furniture/Equipment	(483)	(596)	(57)		35	(618)
Transport Equipment	(484)	(909)	(221)		335	(795)
Heavy Work Equipment	(485)	(1,953)	(196)		95	(2,054)
Tools/Work Equipment	(486)	(1,531)	(160)		18	(1,674)
Computer Equipment	(487)	(1,768)	(186)		33	(1,920)
Communication Structures & Equip.	(488)	(753)	(20)		65	(708)
General Equipment	(489)	(2)	(0)			(2)
Total General		(11,247)	(1,078)	-	734	(11,591)
Total Accumulated Depreciation		(150,576)	(5,324)	0	2,015	(153,885)
			Amortization of CIAC	210		
			Depreciation capitalized	104		
			Depreciation expense	(5,010)		

GAS PLANT UNDER CONSTRUCTION

For the year ended December 31, 2016
Account 115
\$000's

Description of Project

PROJECTS NOT SUBJECT TO AFUDC

Pipe	\$	-
Fittings		-
Transmission Materials		-
Projects Under Construction		-
<hr/>		
Subtotal		-
WIP - Carryforward Projects		613
<hr/>		
TOTAL WORK IN PROGRESS	\$	613

GAS OPERATING REVENUES

For the year ended December 31, 2016

Account and Description	Gas Sold TJ's	Revenue (\$000's)	Customers Year End
Sales (520-523)			
Residential	988	18,940	17,738
Commercial	734	10,012	2,461
Industrial	197	1,278	16
	1,919	30,230	20,215
Granisle	6	115	139
Off-system	3,486	6,151	
	5,411	36,496	20,354
Transportation	2,402	9,975	159
Total Sales	7,813	46,471	20,513
Amortization of Deferred Charges		1,949	
Miscellaneous (560-579)		3,779	
Total	7,813	52,199	20,513

GAS OPERATING EXPENSES

For the Years Ended December 31
\$000's

Account and Description	2016	2015	Difference
623-629 Gas Supply	9,835	13,168	(3,333)
660 Supervision	135	176	(41)
664 Communications	7	31	(23)
665 Pipelines	1,805	1,720	85
665 Fuel Gas In Kind	-	-	-
Company Use Gas	15	16	(1)
666 Compressors	601	498	103
Company Use Gas	220	282	(63)
667 Regulating stations	213	237	(24)
Company Use Gas	43	71	(28)
Total Transmission - Operation	3,039	3,030	9
670 Supervision	591	603	(12)
671 Load dispatching	-	-	-
673 Removing & resetting meters	417	355	62
674 Service on customer premises	47	52	(5)
675 Mains and services	453	408	44
677 Regulating stations	3	4	(1)
Total Distribution - Operation	1,511	1,422	88
684 Communications	82	37	45
685 General systems operations	3,134	2,987	147
686 Safety	163	114	49
687 Training	261	283	(22)
688 Other general operations	1,259	1,007	252
689 Transferred to capital	(440)	(314)	(126)
690 Amortization of deferred charges	-	-	-
Total General - Operation	4,460	4,114	345
700 Sales supervision	2	2	0
701 Advertising	44	36	8
702 Demonstration and selling	-	3	(3)
709 Other	-	-	-
Total Distribution - Sales	45	40	5
711 Customer contracts	488	470	18
712 Meter reading	242	249	(7)
713 Customer billing	974	981	(7)
714 Credit and collections	63	61	2
718 Uncollectible accounts	58	65	(7)
Total Customer Accounting	1,824	1,826	(2)

GAS OPERATING EXPENSES

For the year ended December 31
\$000's

Account and Description	2016	2015	Difference
721 Administration	4,478	6,044	(1,567)
722 Special Services	708	472	236
723 Insurance	460	476	(16)
725 Employee Benefits	3,575	3,829	(253)
728 Fiscal and corporate expense	2,335	282	2,053
729 Transferred to capital	(372)	(367)	(5)
730 Amortization of deferred charges	0	0	-
Total Admin & General - Operation	11,183	10,736	448
864 Communications	3	6	(3)
865 Pipe lines	45	51	(6)
866 Compressors	23	15	8
867 Regulating stations	85	72	13
Total Transmission - Maintenance	156	144	11
872 Structures	0	0	-
875 Mains and services	96	108	(13)
877 Regulating stations	0	1	(1)
878 Meters	109	113	(4)
Total Distribution - Maintenance	205	222	(18)
884 Communications	1	2	(1)
885 General	27	13	14
Total General - Maintenance	28	15	12
TOTAL GAS OPERATING EXPENSES	22,450	21,552	899
Summary			
Gas Supply	9,835	13,168	(3,333)
Operation Expense	10,879	10,434	445
Admin & General Expense	11,183	10,736	448
Maintenance Expense	388	382	6
	22,450	21,552	899
	32,285	34,720	(2,434)

CONSTRUCTION OVERHEADS

For the year ended December 31, 2016
 \$000's

Type of Overhead	Undistributed Overhead Beginning of Year	Overheads for Year	Undistributed Overheads End of Year	Total Overheads Cleared to Construction	Cost of Construction to which Overheads were Charged	% Overheads to Construction
Operations (1)	-	440	-	440		3.5%
Administrative (2)	-	372	-	372		3.5%
Capitalized Depreciation	-	104	-	104		24.9%
Other charges (3)	-	(120)	-	(120)		100.0%
Total	-	796	-	796	2,345	34.0%

Breakdown:

Transmission	463	Meas/Reg structures	2
	465	Mains	363
	466	Compressor equipment	42
	467	Regulating equipment	198
	468	Communication Structures & Equip.	3
Distribution	472	Struct./Improvements	-
	473	Services	88
	474	House installations	30
	475	Mains	29
	478	Meters	42
			<u>796</u>

Capitalization Procedure:

- (1) The pooled field operations costs were charged at a 3.5% capitalization rate on average in 2016.
- (2) The total administrative costs including employee benefits were subject to an 3.5% capitalization rate on average in 2016.
- (3) Other charges, which are charged 100% to construction, include equip costs, rentals, and other minor costs that service multiple projects.

Distribution:

Allocated operations and administrative overheads are primarily for indirect wage and benefit costs related to capital projects. Capitalized depreciation is allocated on a prorata basis of capital additions in an asset pool.

GAS ACCOUNT

For the year ended December 31, 2016

	<u>TJ of Gas Measured</u>
NATURAL GAS	
Gas Received	
Natural gas received from Summit Lake	4,620
Total Receipts	4,620
Gas Delivered	
Sales to ultimate customers (excluding Granisle)	1,919
Transportation customers	2,402
	4,321
Gas used by Utility	69
Increase (decrease) in line pack	(7)
Total Deliveries	4,384
Losses and Unaccounted for Gas	
Known lost gas	10
Unaccounted for gas	227
Total Deliveries, Losses and Unaccounted for Gas	4,621
PROPANE	
Propane Received	5
Propane Delivered	
Propane sales	6
Propane used by Utility	0
Increase (decrease) in line pack	1
Total Deliveries	6
Propane losses and unaccounted for gas	(1)
Total Deliveries, Losses and Unaccounted for Gas	6

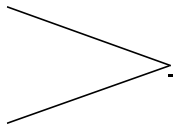
PIPELINE MILEAGE

As at December 31, 2016
 (kilometres)

	Steel	Plastic	Total
Service Lines			
Current	271.58	427.98	699.56
Previous	272.32	426.98	699.31
2016 Net Change	(0.74)	0.99	0.25
Distribution Mains			
Current	501.63	457.33	958.95
Previous	501.63	456.37	958.00
2016 Net Change	-	0.95	0.95
Transmission Mains			
Current	1,022.93	-	1,022.93
Previous	1,022.85	-	1,022.85
2016 Net Change	0.07	-	0.07
Total Pipeline			
Current	1,796.13	885.30	2,681.44
Previous	1,796.81	883.36	2,680.16
2016 Net Change	(0.67)	1.95	1.27

SALE OF GAS BY COMMUNITY

For the year ended December 31, 2016

Community	Population	Total Sales Revenue (incl. Transport) (\$000's)	Residential Revenue (\$000's)
PNG (East)**	23,854		
Smithers - Houston	17,098		
Terrace	19,382		
Kitimat	8,732		
Prince Rupert	12,550		
		<u>\$ 40,320</u>	<u>\$ 18,940</u>

** Includes Vanderhoof, Fort St. James, Fort Fraser, Fraser Lake, Endako, Burns Lake and Decker Lake

Residential		Commercial		Industrial (incl. Transport)	
TJ	Year End Customers	TJ	Year End Customers	TJ	Year End Customers
994	17,877	734	2,461	2,599	175

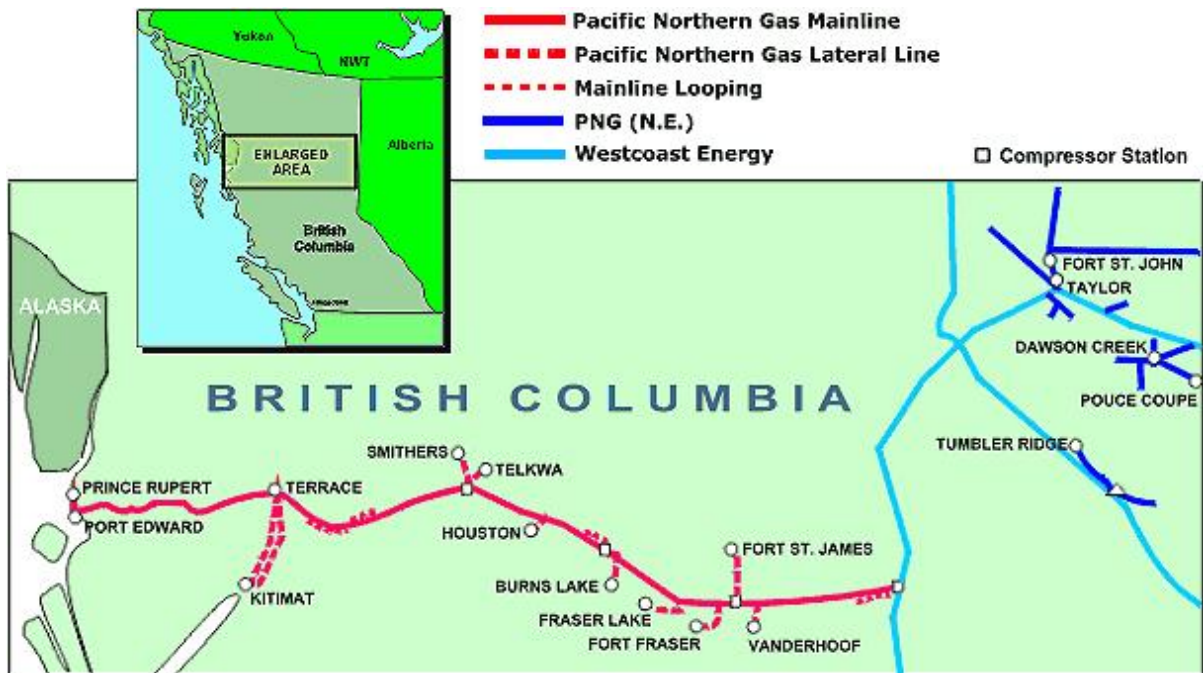
SERVICE INTERRUPTIONS AND PROPERTY DAMAGE

Report below any important interruptions of service due to failure of utility's transmission facilities or failure of utility's gas supply. State for each case the action taken to maintain service, the duration of interruption, the restrictions imposed, and the number of classes of customers affected.

State particulars of any important property damage sustained during the year, including information as to cause, personal injuries, or loss of life to employees or others, approximate cost of repairs, and length of time damaged facilities were out of service.

None

SYSTEM MAP



CASH WORKING CAPITAL

For the year ended December 31, 2016
 (\$000's)

<u>Description</u>	<u>Lag /(Lead) Days</u>	<u>Expense</u>	<u>Working Capital</u>
Revenue	50.1		
Expense	(22.2)		
Operating working capital	<u>27.9</u>	\$ 30,521	\$ 2,333
Adjustments:			
Allowance for Doubtful Accounts			\$ (85)
Budget Billing Plan			\$ (1,202)
Carbon Tax			\$ 19
GST			\$ (12)
PST and ICE Fund Levy			\$ 8
Cash working capital			<u>\$ 1,061</u>

EARNED RETURN

For the year ended December 31, 2016
(\$000's)

Utility Income	7,510
Deduct:	
Amortization of DIT drawdown	-
Other adjustments	-
Other income	(3,433)
	<u>(3,433)</u>
Add:	
Amortization of debt discount	56
Interest on long-term debt	4,602
Other interest expense	211
AFUDC and Imputed Interest on Deferrals	120
Disallowances	1,568
Income Tax Account	1,306
	<u>7,863</u>
Adjusted Earnings	11,940
Add:	
Income tax calculated on Adjusted Earnings	(1,689)
Deduct:	
Future income taxes on deferrals	(205)
EARNED RETURN	<u>10,046</u>

INCOME TAXES

For the year ended December 31, 2016
(\$000's)

Calculation of Taxable Income

Earned return before income taxes	11,940
Interest	(3,453)
Permanent differences	94
Timing differences	(2,084)
<hr/>	
Taxable income	6,497

Calculation of Income Tax Expense

Income taxes payable	1,689.164
Part I.3 tax	-
Deferred income tax drawdown	-
<hr/>	
Income tax expense	1,689

Particulars of Timing Differences

A. Tax Effects Subject To Flowthrough

Depreciation	5,010
Amortization	(1,102)
Capital cost allowance	(5,078)
Deduction of EMAT ILI capex	(485)
Other	(429)
<hr/>	
	(2,084)

B. Tax Effects Subject To Deferral

Deferred Tax Drawdown	-
<hr/>	
Timing differences	(2,084)

Tax rate	26.00%
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UTILITY RATE BASE AND RATE OF RETURN

For the year ended December 31, 2016
 (\$000's)

	2016	2015	Mean
Gas Plant in Service	286,436	283,827	285,131
Accumulated Depreciation	(153,885)	(150,576)	(152,231)
Depreciated Value of Plant	132,551	133,251	132,901
Other Rate Base Items			
Adjustment - expenditure/disposal timing			480
Contributions for construction			(6,026)
Pension funding in excess of expense			4,420
Work in progress, no AFUDC			100
Unamortized deferred charges			1,197
Cash working capital			1,061
Other working capital			1,826
Utility rate base, midyear			135,958
Earned Return			10,046
Earned Return as Percentage of Utility Rate Base			7.39%

RETURN ON CAPITAL

For the year ended December 31, 2016
(000's)

Short Term Debt	(\$2,349)
proportion	(1.73%)
rate of return	1.19%
return component	(0.02%)
 Long term debt	 \$57,604
proportion	42.37%
rate of return	6.04%
return component	2.56%
 Common equity	 \$80,704
proportion	59.36%
rate of return	8.17%
return component	4.85%
 Total capitalization	 135,958
<hr/>	
Return on rate base	7.39%
<hr/>	
Utility rate base	135,958
<hr/>	

DEGREE DAYS

For the year ended December 31, 2016

Degree Day Information

Actual Degree Days	3,536.4
Normal Degree Days	4,186.7
Difference	(650.3)
% Change	-15.53%
