National Energy Board
Office national de l'énergie

Decision and Order

Westcoast Energy Inc.

Settlement for 2002 and 2003 Tolls

September 2002

Tolls

National Energy Board

Decision and Order

In the Matter of

Westcoast Energy Inc.

Settlement for 2002 and 2003 Tolls

September 2002

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Chapter 1

Background and Application

In May 1997, Westcoast Energy Inc., carrying on business as Duke Energy Gas Transmission Canada (Westcoast), entered into a multi-year incentive toll settlement with its shippers for tolls for the years 1997 to 2001. Under the terms of the settlement, Transportation-North (T-North) and Transportation-South (T-South) shippers had the option of electing to pay either fixed tolls for a 5-year period (Option A tolls) or variable tolls that would be re-calculated yearly in accordance with a prescribed methodology (Option B tolls). In August 1997, the National Energy Board (the Board) released Decision RH-2-97 and associated toll Order TG-3-97 by which it approved the settlement and associated toll methodology.

In May 2001, Westcoast initiated discussions with its stakeholders to reach a negotiated toll settlement that would apply post 31 December 2001.

On 13 December 2001, while still hopeful that a new negotiated settlement could be reached, Westcoast applied for interim and final tolls for 2002 based on the cost of service and toll design methodology that had been in place up to 1996, prior to the approval of the settlement for 1997 to 2001.

On 21 December 2001, the Board issued interim toll Order TGI-3-2001 which provided that the final tolls for 2001 would apply on an interim basis effective 1 January 2002. These tolls, however, were approved subject to reconsideration following receipt of comments from interested parties on their appropriateness as interim tolls. On 24 January 2002, following consideration of submitted comments, the Board decided that interim toll Order TGI-3-2001 remained appropriate.

On 26 March 2002, Westcoast amended its application of 13 December 2001. It applied for approval of T-North and T-South tolls for 2002 and a methodology for setting similar tolls for 2003 as set out in a settlement, which it appended to its application, reached with certain of its interested parties on 17 January 2002. Pursuant to this settlement, the tolls for each year would be based on the T-North and T-South toll methodology that was in place for the years 1997 to 2001. In addition, the tolls would be based on agreed, lump sum base revenue requirements for each year and certain adjustments provided for in the settlement.

On 18 April 2002, in accordance with the *Guidelines for Negotiated Settlements of Traffic, Tolls and Tariffs* dated 23 August 1994, the Board invited interested parties to comment on the settlement. The Board received letters supporting approval of the settlement from three parties and reply comments from Westcoast.

On 23 May 2002, the Board considered Westcoast's amended application of 26 March 2002 and approved the applied-for tolls for 2002 and the applied-for methodology for establishing tolls for 2003. By letter dated 23 May 2002, the Board released its decision and associated toll Order TG-2-2002.

The Board's 23 May 2002 decision, toll Order TG-2-2002 and Westcoast's application dated 26 March 2002 (complete with the settlement attached) are reproduced herein as a reference document.

Chapter 2

NEB Decision

File 4200-W005-14
23 May 2002

Mr. Barry Jardine
Director, Regulatory Affairs
Duke Energy Gas Transmission Canada
1333 West Georgia Street
Vancouver, British Columbia
V6E 3K9
Facsimile (604) 691-5884

Dear Mr. Jardine:

Westcoast Energy Inc. (Westcoast), carrying on business as
Duke Energy Gas Transmission Canada (Westcoast)
Amended Application for Approval of
a Settlement for 2002 and 2003 Tolls

On 26 March 2002, Westcoast applied to the National Energy Board (the Board) for approval of final tolls for mainline transmission services on Zones 3 and 4 for 2002 and a methodology for setting tolls for 2003 as set out in a Settlement appended to its Application and reached on 17 January 2002 with certain parties.

A copy of the application was filed on all of Westcoast's shippers and members of Westcoast's Tolls and Tariff Task Force. On 18 April 2002, the Board established a written procedure for examining the application which solicited comments from interested parties as well as Westcoast.

The Board received letters of support for the Settlement from the Canadian Association of Petroleum Producers, the Export Users Group and the Natural Gas Steering Committee. The Board also received reply comments from Westcoast in which it stated that it is not aware of any opposition to the Settlement and in which Westcoast requested that the Board approve the settlement pursuant to the Guidelines without the need for a public hearing.

The Board is satisfied that all parties with an interest in Westcoast's tolls have had the opportunity to comment on Westcoast's application for approval of the Settlement and the associated tolls.

In its review, among other things, the Board considered the fact that the Settlement provides for the tolls for each year to be determined in accordance with the existing toll design for T-North and T-South, the levels of the increases in the base revenue requirement over the term of the Settlement and the process that Westcoast followed leading to the Settlement.

In view of the foregoing and in accordance with the Board's *Guidelines for Negotiated Settlements of Traffic, Tolls and Tariffs* dated 23 August 1994, the Board has decided to approve the following:

- the Settlement;

- the tolls effective 1 January 2002 set out under Tab 3 of Westcoast's amended application of 26 March 2002 (the Application) and the methodology for fixing tolls effective 1 January 2003 as set out in the Settlement;

- the depreciation rates as set out under Tab 4 of the application;

- the deferral accounts for accounting and toll making purposes required to give effect to the Settlement as referred to in paragraph 19 of the application and disposition of the balances of such deferral accounts from time to time in accordance to the terms of the Settlement; and

- exemption from the requirement to file annual cost of service forecasts.

Westcoast also requested an order or directive permitting Westcoast to file quarterly surveillance reports, commencing with the quarter ending March 31, 2002, in a form amended to reflect the provisions of the Settlement and to be settled by its Tolls and Tariff Task Force (TTTF). In that regard, the Board expects Westcoast to either comply with paragraphs 1 through 7 of Part XI of the GFR or, in the event of specific agreement with the TTTF on an alternate format of reporting, Westcoast may file quarterly surveillance information in such alternate format provided that the requirements of paragraph 8 of Part XI of the GFR are satisfied.

Attached is Order TG-2-2002 giving effect to the aforementioned decisions.

Westcoast is directed to serve a copy of this letter and order immediately on interested parties to RH-2-97, members of Westcoast's Tolls and Tariff Task Force, and all shippers on the Westcoast system.

Yours truly,

(signed by)

Michel L. Mantha
Secretary

Attachment

Chapter 3

Order TG-2-2002

ORDER TG-2-2002

IN THE MATTER OF the *National Energy Board Act* (the Act) and the regulations made thereunder; and

IN THE MATTER OF an amended application by Westcoast Energy Inc., carrying on business as Duke Energy Gas Transmission Canada (Westcoast) dated 26 March 2002 for approval of final tolls commencing 1 January 2002, a methodology for establishing tolls for 2003 and certain accounting treatments pursuant to Part IV of the Act, filed with the Board under Files 4200-W005-14 and 4400-W005-9.

BEFORE the Board on 23 May 2002.

WHEREAS Westcoast has been charging tolls on an interim basis as of 1 January 2002 pursuant to Order TGI-3-2001;

WHEREAS on 26 March 2002, Westcoast filed an application for an order pursuant to Part IV of the Act for approval of final tolls for mainline transmission services in Zones 3 and 4 for 2002 and for a methodology for establishing tolls for 2003 using the existing toll design for Transportation-North and Transportation-South services but based on base revenue requirements and adjustments determined in accordance with a Settlement (the Settlement) reached on 17 January 2002 with certain parties;

AND WHEREAS Westcoast's application also incorporates approval of depreciation rates as set out in the application, approval of deferral accounts as set out in the Application and which are required to give effect to the Settlement over the term of the Settlement and disposition of the balances in such deferral accounts from time to time in accordance with the terms of the Settlement, and exemption from the requirement to file annual cost of service forecasts;

AND WHEREAS the tolls for 2002 were determined in accordance with the Settlement;

AND WHEREAS the Board has considered Westcoast's application, including the Settlement, with reference to the Board's *Guidelines for Negotiated Settlements of Traffic, Tolls and Tariffs* dated 23 August 1994;

AND WHEREAS the Board consulted with interested parties and it is satisfied that no party opposed the Settlement;

AND WHEREAS the Board is satisfied that Westcoast's tolls for the years 2002 and 2003, calculated in accordance with the Settlement, will be just and reasonable;

IT IS ORDERED THAT:

1. Westcoast shall charge the applied-for tolls for 2002 and shall calculate the tolls for 2003 in accordance with the Settlement;

2. the depreciation rates set out under Tab 4 of the Application are approved for the term of the Settlement;

3. Westcoast shall maintain, for accounting and toll making purposes, the deferral accounts referred to in the Application and which are required to give effect to the Settlement over the term of the Settlement and dispose of the balances in such deferral accounts from time to time in accordance with the terms of the Settlement;

4. Westcoast is exempted from the requirement to file annual cost of service forecasts; and

5. Order TGI-3-2001, which authorized tolls that Westcoast may charge on an interim basis effective 1 January 2002, is revoked and the tolls authorized thereunder are hereby disallowed.

NATIONAL ENERGY BOARD

(signed by)

Michel L. Mantha
Secretary

Appendix I

Amended Application

Duke Energy®
Gas Transmission

DUKE ENERGY GAS
TRANSMISSION CANADA
1333 West Georgia Street
Vancouver, BC V6E 3K9

March 26, 2002

Via Fax & Courier

Mr. M.L. Mantha
Secretary
National Energy Board
444 - 7th Avenue S.W.
Calgary, AB
T2P 0X8

Dear Mr. Mantha:

Re: Westcoast Energy Inc. ("Westcoast")
Amended Application for Approval of a Settlement for 2002 and 2003 Tolls

Westcoast encloses for filing pursuant to the National Energy Board's guidelines for Negotiated Settlements of Traffic, Tolls and Tariffs dated August 23, 1994, twenty-five (25) copies of an Amended Application for approval of final tolls effective January 1, 2002. Westcoast has entered into a settlement agreement (the "Settlement") dated January 17, 2002 by which the parties to the Settlement have agreed on the tolls to be charged by Westcoast for mainline transmission services in Zones 3 and 4 for the 12 month period commencing January 1, 2002 and on the methodology for fixing tolls for the 12 month period commencing January 1, 2003. A copy of the Settlement entitled "Agreement dated January 17, 2002 regarding Negotiated Tolls for the Westcoast Mainline System (Zones 3 and 4) for the Period January 1, 2002 to December 31, 2003" is attached to this Amended Application.

Westcoast is serving a copy of this application on interested parties to the RH-2-97 proceeding, all shippers on the Westcoast system and all members of Westcoast's Toll and Tariff Task Force.

Yours truly,

Barry J Jardine

Barry J. Jardine
Director, Regulatory Services
Phone: (604) 691-5714
Fax: (604) 691-5884

Enclosures (25)

cc: RH-2-97 Interested Parties
All Shippers on the Westcoast Transmission System
All Members of Westcoast's Toll and Tariff Task Force

Westcoast Energy Inc., a Duke Energy company www.duke-energy.com

IN THE MATTER OF the National Energy Board Act (the "Act") and the Regulations made thereunder;

and

IN THE MATTER OF an Application by Westcoast Energy Inc. ("Westcoast) dated December 13, 2001 pursuant to Part IV of the Act for approval of interim and final tolls commencing January 1, 2002;

and

IN THE MATTER OF an Amended Application by Westcoast dated March 26, 2002 pursuant to Part IV of the Act for approval of final tolls for the 12 month period commencing January 1, 2002 and for approval of a methodology for fixing final tolls for the 12 month period commencing January 1, 2003.

AMENDED APPLICATION

1. Westcoast is a "company" within the meaning of the Act.

2. Westcoast owns and operates a natural gas pipeline system extending from points in the Yukon Territory, the Northwest Territories, the Province of Alberta and the Province of British Columbia to a point on the international boundary between Canada and the United States of America near Huntingdon, British Columbia.

3. Westcoast provides shippers on its pipeline system with raw gas transmission service (Zone 1), treatment service (Zone 2) and mainline transmission service (Zones 3 and 4) in respect of natural gas produced in British Columbia, Alberta, the Yukon Territory and the Northwest Territories.

4. Westcoast's tolls for firm and interruptible raw gas transmission and treatment services in Zones 1 and 2 are determined pursuant to the Framework for Light-Handed Regulation dated March 1998 approved by the Board pursuant to Order TG-4-98 dated June 25, 1998.

5. During the period January 1, 1997 to December 31, 2001 Westcoast's tolls for mainline transmission services in Zone 3 and 4 were determined pursuant to the terms of the Multi-Year Incentive Toll Settlement approved by the Board pursuant to Order TG-3-97 dated August 16, 1997.

6. On December 11, 2001 Westcoast applied to the Board for approval of interim and final tolls for mainline transmission services in Zones 3 and 4 for the period commencing January 1, 2002 and ending December 31, 2002.

7. On December 21, 2001 the Board issued Order TGI-3-2001 directing Westcoast to charge on an interim basis, effective January 1, 2002, the tolls approved by the Board pursuant to Order TG-01-2001.

TOLL SETTLEMENT

8. Westcoast has entered into a settlement agreement (the "Settlement") dated January 17, 2002 with BC Gas Utility Ltd., the Canadian Association of Petroleum Producers, the Export Users Group (comprised of Avista Corporation, Avista Energy, Inc., Avista Energy Canada, Ltd., Cascade Natural Gas Corporation, Northwest Natural Gas Company, and Puget Sound Energy, Inc.), Mirant Canada Energy Marketing, Ltd., the Natural Gas Steering Committee (comprised of the Council of Forest Industries and its member forestry companies, other forest companies, Teck-Comino, Methanex Corporation and other petro-chemical companies), and Unocal Canada Limited, under which the parties to the Settlement have agreed on the tolls to be charged by Westcoast for mainline transmission services in Zones 3 and 4 for the 12 month period commencing January 1, 2002 and on the methodology for fixing tolls for the 12 month period commencing January 1, 2003, as well as certain other matters which are summarized below. A copy of the Settlement is attached to this Amended Application under Tab 1.

9. The parties to the Settlement represent, directly or indirectly, a large proportion of Westcoast's shippers, gas producers and end-use markets. In addition, Westcoast has received indications of support for the Settlement from a significant proportion of its mainline transmission shippers.

<u>Summary of the Toll Settlement</u>

10. The Settlement is essentially an agreement on the methodology to determine the revenue requirement (excluding tax on fuel gas consumed in operations which is collected by way of a commodity toll) to be used to set Westcoast's Zone 3 (Transportation North) and Zone 4 (Transportation South) tolls for each of the years 2002 and 2003. The terms of the Settlement require that the Board approve the Settlement in its entirety and provides that the Settlement is without prejudice to the position of Westcoast or any of the parties or shippers in any regulatory proceeding subsequent to the expiration or termination of the Settlement.

11. Under the Settlement the agreed 2002 base revenue requirement is $242,700,000, subject to the adjustments set out in sections 6, 9(c), 9(f) and 9(g) of the Settlement. The required adjustments have now been made and the final 2002 base revenue requirement under the Settlement is $239,853,000. A work paper showing the calculation of the final 2002 base revenue requirement is attached under Tab 2.

12. Under the Settlement the agreed 2003 base revenue requirement is $244,600,000. This amount will be adjusted at the beginning of 2003 (after 2002 actual results are available) prior to setting final tolls for 2003 to account for any variances in forecasts for 2002 property taxes, NEB cost recovery expense, swing gas costs, discretionary revenue, contract demand allocation units and pipeline integrity costs. Certain other non-routine adjustments described in Appendix A to the Settlement and adjustments due to changes in federal or provincial statutory tax regimes would also be made if applicable. Westcoast will prior to January 1, 2003 request the Board to issue an order making the 2002 transmission tolls interim from January 1, 2003 pending the determination of final 2003 tolls in accordance with the Settlement.

13. Attached under Tab 3 are schedules showing the 2002 net demand tolls, interruptible commodity tolls and demand allocation units based on the final 2002 base revenue requirement of $239,853,000, and the changes from 2001. In calculating the 2002 net demand tolls a credit of $745 thousand has been applied to the base revenue requirement for transmission service provided to Alliance Pipeline Ltd. The existing and applied for demand tolls expressed on a unit basis for 2001, 2002 (final based on the Settlement methodology) and 2003 (illustrative based on the Settlement methodology) are as follows:

Unit Demand Tolls
(cents/Mcf)

Firm Transportation Service	2001[(1)]	2002	2003
Northern	Blended	Applied for	Illustrative
Long Haul	9	10.2	10.7
Short Haul	0.6	0.7	0.7
Southern			
PNG Delivery Point	6.2	6.1	6.2
Inland Delivery Area	14.8	15.1	15.3
Huntingdon Delivery Area	27.2	27	27.4

Note: (1) The 2001 tolls are a weighted average of the Option A and B tolls in effect in 2001.

14. While Westcoast is at risk over the two year term of the Settlement for its forecast of maintenance capital, adjustments to the 2003 revenue requirement will be made with respect to the revenue requirement impacts associated with variances in the forecasts of compressor replacement capital, expansion capital, shipper requested capital and pipeline integrity capital.

15. The Settlement provides for an overall composite depreciation rate of 2.625 percent in each of 2002 and 2003 compared to the existing composite rate of 1.89 percent. The depreciation expense based on this rate is included in the base revenue requirement in each year. A tabulation of depreciation rates by rate base section and for general plant is attached under Tab 4.

16. The Settlement provides for discretionary revenue sharing of miscellaneous revenue and any interruptible and short term firm service revenue with the first $800 thousand and two thirds of any remainder to the credit of shippers. New services, if any, and the treatment of the associated costs and revenue will be subject to approval of the Westcoast Toll and Tariff Task Force (the "TTTF").

17. In addition to the above items related to the calculation of tolls there are also a number of other commitments in the Settlement. These include (i) the negotiation of a Code of Conduct with respect to affiliates for implementation by July 1, 2002, (ii) the filing of financial reports respecting the Settlement, (iii) the quarterly public disclosure of mainline firm service contracts (subject to an affirmative shipper vote), (iv) the monthly publishing on the Westcoast website of annual contractible and available mainline capacity, and (v) monthly publishing of a detailed report regarding the calculation of fuel ratios. In addition Westcoast will set up a subcommittee of the TTTF to review the variables affecting fuel usage and the implications, if any, on the fuel requirements of firm shippers.

18. The Settlement provides that tolls will be calculated in accordance with the existing toll design for Zones 3 and 4. Westcoast's existing toll design in Zones 3 and 4 incorporates a full fixed/variable rate design by which fixed costs are allocated between Zone 3 - Transportation Service - Northern Long and Short Haul, and Zone 4 - Transportation Southern. Demand tolls for firm service are determined on the basis of the fixed costs by Zone and the sum of the shipper contract demands by Zone. In addition to firm service Westcoast offers interruptible service. The tolls for interruptible winter service (November 1 to March 31) are set at the equivalent of the firm service tolls at a 75 percent load factor and the tolls for interruptible summer service (April 1 to October 31) are set at the equivalent of the firm service toll at a 100 percent load factor.

19. In accordance with the Settlement, Westcoast is applying to the Board for approval to maintain for accounting and toll-making purposes the following cost of service and revenue deferral accounts which are set out in sections 6 and 9 of the Settlement:

Cost of Service Deferral Accounts

- Changes in federal or provincial statutory tax regimes including without limitation the introduction of new taxes, changes in income tax rates, corporate capital tax rates, sales tax rates, and rules and regulations or reassessments.
- Property Taxes
- NEB Cost Recovery Expense
- Swing Gas Costs
- Material changes in costs resulting from changes in legislation, regulations or ordinances or the issuance of orders or directives which results in changes to safety, health or environmental requirements, practices or procedures for Westcoast
- Material changes in costs or revenues resulting from changes in applicable accounting standards of the Canadian Institute of Chartered Accountants
- Material changes in costs resulting from orders or directives issued by a regulatory authority having jurisdiction, including the Board
- The incurrence of uninsured losses, to the extent that the aggregate amount of such losses exceeds $2,000,000 in any year
- Changes in costs resulting from programs implemented or to be implemented by Westcoast, provided that the recovery of such costs is agreed to by the TTTF
- Pipeline Integrity Costs (O&M and capital related)
- Asset divestitures over one year which have the effect of decreasing gross plant in service by an aggregate amount of $30 million for that year

- The Tax Impact as that term is defined in section 9 of the Settlement
- The CCA Forecast as that term is used in section 9 of the Settlement
- The cost of service related to the Compressor Upgrade, T-South Expansion and T-North Expansion projects as provided for in section 9 of the Settlement

Revenue Deferral Accounts

- Contract Demand allocation units
- Discretionary Revenue

Interest on the deferral balances will be calculated monthly based on Westcoast's actual short-term borrowing rate for the month. The year-end deferral balances will be amortized in 2003 together with carrying charges based on Westcoast's actual average short-term borrowing rate for 2002.

20. In Westcoast's submission the tolls and methodology for fixing tolls under the Settlement are just and reasonable and should be approved by the Board. In Westcoast's submission the Settlement is in the public interest:

    (a) The Settlement was negotiated at arm's length after extensive negotiations. All parties to the Settlement actively participated in the negotiations and these parties represent, directly or indirectly, a large proportion of Westcoast's shippers, gas producers and end-use markets and includes most if not all of the principle intervenors before the Board in prior Westcoast toll proceedings.

    (b) Westcoast has received indications of support for the Settlement from a significant proportion of its mainline transmission shippers.

    (c) The Settlement is consistent with the Board's desire to streamline the regulatory process and, to the extent possible, minimize the degree of oversight and burden associated with regulation of companies under the Board's jurisdiction.

    (d) The Settlement satisfies the criteria for negotiated settlements set out in the Board's Guidelines for Negotiated Settlements of Traffic, Tolls and Tariffs dated August 23, 1994 and the Draft Revised Guidelines for Negotiated Settlements of Traffic Tolls and Tariffs dated January 30, 2002.

21. In the event any party files an objection to the Settlement Westcoast would request that the Board consider the Settlement as a Contested Settlement under the Board's Draft Revised Guidelines for Negotiated Settlements of Traffic, Tolls and Tariffs dated January 30, 2002. In the event the Settlement is contested it will be Westcoast's position that the Settlement should be approved by the Board and made applicable to all shippers, including shippers who may contest the Settlement.

22. The parties to the Settlement have reviewed and concur with this Amended Application.

WHEREFORE WESTCOAST APPLIES FOR an Order or Orders under Part IV of the National Energy Board Act for:

(a) approval of the Settlement Agreement;

(b) approval of the tolls effective January 1, 2002 set out under Tab 3 of this Amended Application, and the methodology for fixing tolls effective January 1, 2003 as set out in the Settlement;

(c) approval of the depreciation rates set out under Tab 4 of this Amended Application;

(d) approval to maintain for accounting and toll making purposes the deferral accounts referred to in paragraph 19 of this Amended Application and which are required to give effect to the Settlement over the term of the Settlement from January 1, 2002 to December 31, 2003 and to dispose of the balances in such deferral accounts from time to time in accordance with the terms of the Settlement; and

(e) exemption from the requirement to file annual cost of service forecasts and an order or directive permitting Westcoast to file quarterly surveillance reports, commencing with the quarter ending March 31, 2002, in a form amended to reflect the provisions of the Settlement and to be settled by the TTTF as provided for in section 12 of the Settlement.

All of which is respectfully submitted.

DATED at the City of Vancouver, in the Province of British Columbia, this 26thday of March 2002.

WESTCOAST ENERGY INC.

Barry J. Jardine
Director, Regulatory Services

All notices and communications in connection with this Application should be directed to:

Mr. Barry J. Jardine
Director, Regulatory Services Westcoast Energy Inc.
1333 West Georgia Street Vancouver, British Columbia V6E 3K9
Telephone: (604) 691-5714
Facsimile: (604) 691-5884

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Tab 1

Agreement dated January 17, 2002 regarding Negotiated Tolls for the Westcoast Mainline System (Zones 3 and 4) for the Period January 1, 2002 to December 31, 2003

Westcoast and certain parties (the "Parties") have reached this agreement ("Agreement") on the principles for setting tolls and tariffs and certain other matters for the Pipeline Division for the period commencing January 1, 2002 and ending December 31, 2003. The Parties intend that this Agreement will be carried out in good faith.

1. Tolls will be calculated in accordance with the existing toll design for T-North and T-South based on the base revenue requirement and adjustments determined in accordance with this Agreement.

2. Tolls for T-North and T-South for 2002 will be based on a base revenue requirement (excluding motor fuel taxes) of $242,700,000 which amount includes provision for the $1.3M estimated December 31, 2001 debit balance in the "Option A Stub Period" deferral account, a $0.9M Option A non-routine adjustment credit for the 2001 BC corporation capital tax and federal income tax rate adjustments and the forecasted Tax Impact of the Compressor Replacement and T-North Expansion projects (estimated to be a $1.7M reduction in base revenue requirement) (paragraph 9 (c)). This base revenue requirement will be adjusted by the December 31, 2001 balances in the Option B deferral accounts, plus any other 2001 non-routine adjustments.

3. The base revenue requirement includes depreciation expense calculated at the overall rate of 2.625% in 2002 and 2.625% in 2003.

4. The allocation units used to calculate the tolls for 2002 will be the allocation units derived from contracted volumes for T-North and T-South for the year 2002 as at December 1, 2001.

5. The allocation units used to calculate the tolls for 2003 will be the allocation units derived from contracted volumes for T-North and T-South for the year 2003 as at December 1, 2002.

6. Tolls for 2003 will be based on a base revenue requirement (excluding motor fuel taxes) of $244,600,000 adjusted as follows:

   Non-Routine Adjustments

   - The base revenue requirement to derive the tolls for 2003 will be adjusted by any non-routine adjustments in 2002. In addition all non-routine adjustments that Westcoast and the Parties, acting reasonably, agree are likely to re-occur in 2003 will be applied to adjust the base revenue requirement for 2003. Any non-routine adjustments that occur once tolls for 2003 are set which have not been accounted for will be deferred for disposition in the period post 2003. The circumstances qualifying as non-routine adjustments are set out in Appendix A to this Agreement.

Property Tax

- Property Tax will be treated on a flow-through basis. For 2002 a property tax estimate of $41,600,000 is included in the base revenue requirement. For 2003 a property tax estimate of $42,000,000 is included in the base revenue requirement. Any variance from the estimate will be deferred to the subsequent year for disposition to the shippers' account.

Regulatory Costs (NEB Cost Recovery)

- Regulatory Costs (NEB Cost Recovery) will be treated on a flow-through basis. For 2002 a regulatory cost estimate of $630,000 is included in the base revenue requirement. For 2003 a regulatory cost estimate of $644,000 is included in the base revenue requirement. Any variance from the estimate will be deferred to the subsequent year for disposition to the shippers' account.

Swing Gas Costs

- For each of 2002 and 2003, $500,000 of swing gas costs is included in the base revenue requirement. Any variance below the estimate will be deferred to the subsequent year for disposition to the shippers' account.

- For swing gas costs in excess of the $500,000 annual level Westcoast will provide the Toll and Tariff Task Force ("TTTF") notice of this event and bring justification to the TTTF for approval of the disposition of the related deferral of costs to shippers' account in the subsequent year. In the event the TTTF does not approve the disposition Westcoast will have the right to apply to the National Energy Board ("NEB") to have the costs included in the subsequent year for disposition to the shippers' account. The test before the TTTF and the NEB will be whether Westcoast, operating in a manner consistent with the provisions of its tariff, was prudent in its actions to incur the excess annual swing gas costs to maintain operating pressures and line pack within a reasonable range in order to preserve system operating integrity.

- The issue of accountability for swing gas costs incurred following the term of this Agreement will be resolved through Westcoast's BOSI process.

Taxes

- Changes in federal or provincial statutory tax regimes including, without limitation, the introduction of new taxes, changes in income tax rates, corporate capital tax rates, sales tax rates, and rules and regulations or reassessments will be treated on a flow-through basis. Any resulting variance will be deferred to the subsequent year for disposition to the shippers' account.

Discretionary Revenue Sharing

- In each year, discretionary revenue from IT, STFS, and existing miscellaneous operating services up to $800,000 and two thirds of any remaining discretionary revenue from these services will be to the account of shippers with any positive (negative) difference from the forecast used to adjust downward (upward) the subsequent year's base revenue requirement. Any remaining discretionary revenue from IT, STFS, and existing miscellaneous operating services will be to Westcoast's account. The forecast of discretionary revenue from IT, STFS, and existing miscellaneous operating for each year is $2,400,000. The shippers' share of discretionary revenue based on the forecast is included as a credit in the base revenue requirement for each of 2002 and 2003.

  New services and the treatment of the associated revenue will be subject to approval of the Westcoast TTTF.

Allocation Units (AU) Adjustment

- If the actual AU for 2002 are greater or less than the AU used to derive 2002 tolls the corresponding amount of toll revenue will be subtracted from or added to the base revenue requirement for 2003.

- If the actual AU for 2003 are greater or less than the AU used to derive 2003 tolls the corresponding amount of revenue will be deferred for disposition in the period post 2003.

7. Motor fuel taxes will be charged in accordance with the existing methodology.

8. Total maintenance capital expenditures (excluding any expansion capital, compressor replacement capital and shipper requested capital such as meter stations) are estimated to be $113 million over the two years of this Agreement. Except as provided for in Appendix A the base revenue requirement will not be adjusted for any variance between actual maintenance capital expenditures and the $113 million estimate over the two years. For the purpose of this Agreement, the Deferred Income Tax account, which serves as credit to Rate Base, will not be drawn down during the term of the Agreement.

9. The base revenue requirement and tolls for each of 2002 and 2003 will be adjusted for any expansion that is approved on a rolled-in basis, as well as for any compressor replacements or shipper requested capital that goes into service during the Agreement period. Specific mechanisms for this adjustment include the following:

   (a) AFUDC Rate

   There will be an interim AFUDC rate. The interim AFUDC rate will be based on a 70% debt, 30% equity deemed capital structure. The interim AFUDC rate will be determined based on a cost of debt equivalent to that in Westcoast's rate case filing for the period commencing January 1, 2002 and on a cost of equity as determined by the National Energy Board's formula arising out of RH-2-94. On or before November 30, 2002 Westcoast and the Parties will negotiate a return on common equity to be used to calculate final AFUDC rates, subject to NEB approval, for 2002 and 2003. In the event Westcoast and the Parties cannot agree on a return on common equity rate to be used to calculate final AFUDC rates for 2002 and 2003 the matter will be referred to the National Energy Board for determination. For 2003 Westcoast will estimate the cost of debt rate on an equivalent basis as in the rate case filing, such rate to be used to determine the final AFUDC rate for 2003.

(b) 2002 CWIP Adjustment

After the AFUDC rate is finalized in November 2002, Westcoast will adjust its CWIP for any difference between the interim and final AFUDC rate from January 1, 2002.

(c) 2002 Tax Impact

Westcoast will forecast the 2002 (i) AFUDC interest deduction; (ii) BC corporation capital tax; and (iii) large corporation capital tax (collectively the "Tax Impact") for the Compressor Upgrade and the T-North Expansion projects and adjust the 2002 base revenue requirement when it finalizes its 2002 tolls. The preliminary forecast of $1.7M is included in the base revenue requirement in paragraph 2.

(d) 2003 Tax Impact

Westcoast will forecast the 2003 Tax Impact for the Compressor Upgrade, the T-South Expansion and the T-North Expansion projects in November 2002 and adjust the 2003 base revenue requirement. The base revenue requirement in 2003 will also be adjusted for any forecasted 2002 Tax Impact which arises from the T-South Expansion project.

(e) Adjustment of Tax Impact Forecast

In November 2002 Westcoast will update the forecast of expenditures and update the Tax Impact forecast for the Compressor Upgrade and the T-North Expansion projects. Any difference between the updated forecast and the forecast used in the calculation of the 2002 base revenue requirement will be carried forward to 2003. Any difference between the forecast and actual Tax Impact for 2003 related to the Compressor Upgrade, the T-South Expansion and the T-North Expansion projects will be carried forward to 2004.

(f) Adjustment of CCA Forecast for 2002 and 2003

Westcoast expects the T-North Expansion project to be in service in 2002. In finalizing the 2002 tolls and adjusted base revenue requirement Westcoast will forecast the CCA (if any) available from this project and adjust the base revenue requirement accordingly. Any difference between the forecast and actual CCA for 2002 related to the T-North Expansion project will be carried forward for adjustment in 2003.

Westcoast expects both the Compressor Upgrade and T-South Expansion projects to be in service in 2003. In finalizing the 2003 tolls and adjusted base revenue requirement Westcoast will forecast the CCA (if any) available from these projects and adjust the base revenue requirement accordingly. Any difference between the forecast and actual CCA for 2003 related to the Compressor Upgrade and the T-South Expansion projects will be carried forward for adjustment in 2004.

(g) Adjustment of Base Revenue Requirement for 2002 and 2003 related to placing projects in service

In addition to the CCA forecast adjustment for 2002 in paragraph 9(f), Westcoast, in finalizing the base revenue requirement for 2002 will make an adjustment for the T-North Expansion project for costs (O&M, taxes, depreciation, return on rate base) and revenue post the in-service date based on the forecast final cost, the forecast in-service date and using the interim AFUDC rate as the return on rate base. Any difference between the forecast impact on the 2002 base revenue requirement and the actual impact as a result of differences in the interim and final AFUDC rate, the forecast final cost or the in-service date of the Compressor Upgrade and the T-South Expansion projects will be carried forward to 2003.

In addition to the CCA forecast adjustment for 2003 in paragraph 9(f), Westcoast, in finalizing the base revenue requirement for 2003 will make an adjustment for the Compressor Upgrade and T-South Expansion projects for costs (O&M, taxes, depreciation, return on rate base) and revenue post the in-service date based on the forecast final cost, the forecast in-service date and using the agreed 2003 AFUDC rate as the return on rate base. Any difference between the forecast impact on the 2003 base revenue requirement and the actual impact as a result of differences in the forecast final cost or the in-service date of the Compressor Upgrade and the T-South Expansion projects will be carried forward to 2004.

10. Westcoast and the Parties will in good faith negotiate a Code of Conduct with respect to Westcoast Pipeline Division's dealings with its affiliates for implementation by July 1, 2002.

11. Mainline reliability targets will continue to be 100% of nominated Contract Demand (CD) from November 1 to March 31 and 91% of nominated CD from April 1 to October 31.

12. Westcoast will file surveillance and other reports in accordance with NEB requirements, plus reporting of all adjustments to the base revenue requirement and tolls.

13. To help develop an efficient marketplace for natural gas and transmission service for the supply and market areas it serves, Westcoast will, subject to an affirmative vote in each zone of 50 percent of its mainline transmission system firm shippers by number and 67% of its mainline transmission system firm shippers by volume, provide quarterly public disclosure of the mainline transmission system firm contracts in that zone, broken down by month, held by shippers on its system. At a minimum, details will include: Contract Demand volume, receipt and delivery points, type of service and term of contract. If requested by a shipper, the identity of that shipper could be withheld for up to two reporting periods to protect negotiating positions.

Westcoast will also publish on its website monthly estimates of annual contractible capacity and available capacity by segment on its mainline transmission system and continue to publish any factors or conditions that could affect the availability of capacity. Westcoast will make such information available on its website upon approval by the National Energy Board of this Agreement.

14. Westcoast will set up a subcommittee of the TTTF to review the variables affecting fuel usage and the implications, if any, on the fuel requirements of firm shippers. In addition, Westcoast will provide shippers with a monthly detailed report regarding the calculation of the fuel ratio for the coming month and a review of the actual fuel ratio for the previous month.

15. [intentionally left blank]

16. In the event of any dispute under this Agreement, including a dispute respecting the determination of tolls and a dispute respecting the application of this Agreement, Westcoast and the Parties will in good faith attempt to resolve the dispute. If a satisfactory resolution cannot be achieved within 30 days, Westcoast or any of the Parties or shippers may file an application with the Board requesting the Board to adjudicate the matter in dispute. Any such application must also contain a request that the Board deal with the matter in dispute on an expedited basis and may contain a request that tolls be made interim pending the Board's decision with respect to the matter.

17. This Agreement is subject to regulatory approval and if this Agreement is not approved in its entirety by the NEB or if this Agreement is subsequently materially varied by the NEB during the term, this Agreement will terminate.

18. If determined on a simple majority basis by votes of the Westcoast Tolls and Tariff Task Force an independent compliance audit will be conducted in 2004 with respect to the determination of final tolls under this Agreement for 2002 and 2003. The full cost of the audit will be recovered through tolls on a flowthrough cost basis.

19. This Agreement is the result of negotiations and Westcoast and the Parties have entered into this Agreement on the understanding that no single component of this Agreement is to be construed as representing the position of Westcoast or any Party on the appropriate tolls that would be obtained in the absence of this Agreement. Westcoast and the Parties intend that this Agreement be viewed as a whole, and that no aspect of this Agreement should be considered as acceptable to Westcoast or any of the Parties in isolation from all other aspects of this Agreement. This Agreement does not prejudice the position of Westcoast or any of the Parties in any regulatory proceeding subsequent to the expiration or termination of this Agreement. If a settlement or agreement is not negotiated or approved for the period after December 31, 2003, Westcoast will file a full toll application for the period after December 31, 2003.

20. Westcoast will, as soon as practicable, prepare an application to the National Energy Board to give effect to the terms and conditions of this Agreement and to make the required consequential amendments to Westcoast's December 13, 2001 Rate Application. The application will address the manner to give effect as soon as possible through interim and final tolls to this Agreement. Westcoast will consult with and provide the Parties with the opportunity to review and comment on the application with the intention that Westcoast and the Parties will agree on the form and content of the application prior to filing with the National Energy Board.

21. [intentionally left blank]

22. Westcoast and each Party will do all such further acts and things as may be reasonably necessary to give full effect to the intent and meaning of this Agreement.

23. This Agreement is subject to the approval of the Westcoast Board of Directors.

The undersigned accept that the foregoing principles establish the basis on which Westcoast's Zone 3 and Zone 4 tolls will be calculated for the period January 1, 2002 to December 31, 2003.

Westcoast Energy Inc.

- Canadian Association of Petroleum Producers
- Natural Gas Steering Committee
- Export Users Group
- BC Gas Utility Ltd.
- Mirant Canada Energy Marketing, Ltd.
- Unocal Canada Limited

Illustrative Tolls
<u>Cents/mcf</u>

	2001 Blended Option A & B	2002 Illustrative	2003 Illustrative
T-North Longhaul	9	10.5*	10.7**
T-South PNG	6.2	6.1	6.2
T-South Inland	14.8	15.2***	15.3***
Huntingdon Pool	27.2	27.2	27.5
Total (T-N + HPool)	**36.2**	**37.7**	**38.2**

*Decontracting impact included in toll is 0.9 cents [note: includes the forecasted impact of the T-North Expansion project in accordance with paragraph 9.]

**Decontracting impact included in toll is 1.2 cents [note: the allocation units for 2003 exclude the T-North expansion allocation units as costs and revenues are not included as costs have not yet been estimated. These adjustments will be made for 2003 at the end of 2002 in accordance with paragraph 9.]

***Reflects 2000/2001 Load Centre

Appendix A: NON-ROUTINE ADJUSTMENTS

Each of the following circumstances will constitute a non-routine adjustment in respect of the determination of the base revenue requirement for the tolls:

(a) material changes in costs resulting from changes in legislation, regulations or ordinances or the issuance of orders or directives which result in changes to safety, health or environmental requirements, practices or procedures for Westcoast;

(b) material changes in costs or revenues resulting from changes in applicable accounting standards of the Canadian Institute of Chartered Accountants;

(c) material changes in costs resulting from orders or directives issued by a regulatory authority having jurisdiction, including the National Energy Board;

(d) the incurrence of uninsured losses, to the extent that the aggregate amount of such losses exceeds $2,000,000 in any Year;

(e) changes in costs resulting from programs related to pipeline integrity including but not restricted to stress corrosion cracking, corrosion and pipeline re-coating necessary to address existing, new or unanticipated pipeline integrity issues, to the extent that the 0&M cost of such programs differs from $9,000,000 in 2002 and $9,000,000 in 2003 and the capital costs of such programs differs from $11,000,000 in 2002 and $13,100,000 in 2003.

(f) changes in costs resulting from programs implemented or to be implemented by Westcoast, provided that the recovery of such costs is agreed to by the Westcoast Tolls and Tariff Task Force.

(g) asset divestitures over one year, which have the effect of decreasing gross plant in service by an aggregate amount of $30 million for that year.

Tab 2

RECONCILIATION OF THE 2002 FINAL BASE REVENUE REQUIREMENT ($000s)

Line No	Particulars	2000 Test Year
1	2002 Base Revenue Requirement (Excluding Motor Fuel Taxes) (Note 1)	242,700
Option A and B Adjustments:		
2	Base Revenue Sharing (BRS)	(913)
3	Property Tax Adjustment(PTA)	219
4	Forecast of Income and Capital Tax Expense(FTE)	(497)
5	Base Discretionary Revenue(BDR)	(251)
6	Net Excess Discretionary Revenue(NEDR)	(1,261)
7	Contract Demand Volumes (CDV) - Option B	(748)
8	Non-Routine Adjustment (TRNRA) - (Note 2)	604
9	Total Option A and B Adjustments	(2,847)
10	2002 Final Base Revenue Requirement (Excluding Motor Fuel Taxes)	239,853

Notes:

1. 2002 Base Revenue Requirement of $242,700 includes the following
   - $1.3 million December 31, 2001 Debit balance in the "Option A Stub Period" deferral account,
   - $0.9 million Option A non-routine adjustment credit for the 2001 BC Corporate Capital Tax and Federal Income Tax rate adjustments, and
   - $1.7 million reduction in Base Revenue Requirement for the forecasted Tax Impact of the Compressor Replacement and T-North Expansion projects (To be updated in the 2003 tolls calculations).

   These are unchanged from the Settlement 2002 Base Revenue Requirement.

2. Non-Routine Adjustments represents the deferral between the forecast and actual Pipeline Integrity Costs in 2001.

3. Totals may not add due to computer rounding

Tab 3

Actual 2001 and Applied for 2002 Firm Demand Tolls ($\$/10^3m^3$/mo.)*

Service	2001		2002 (applied for)
	Option A	Option B	
Transportation Service - Northern			
Short Haul	6.58	6.98	7.64
Long Haul	94.80	100.56	110.04
Transportation Service - Southern			
PNG Delivery Point	66.87	64.20	65.59
Inland Delivery Area	162.19	152.29	161.74
Huntingdon Delivery Area	295.42	283.73	289.79

* plus the amount of tax on fuel gas consumed in operations payable by Westcoast under the Motor Fuel Act (British Columbia) allocated to shipper for each day in the month

Actual 2001 and Applied for 2002 Interruptible Commodity Tolls ($\$/10^3m^3$/mo.)*

Service	2001		2002 (applied for)	
	Summer	Winter	Summer	Winter
Transportation Service - Northern				
Short Haul	0.230	0.306	0.251	0.335
Long Haul	3.306	4.408	3.618	4.824
Transportation Service - Southern				
PNG Delivery Point	2.111	2.814	2.156	2.875
Inland Delivery Area	5.007	6.676	5.317	7.090
Huntingdon Delivery Area	9.328	12.438	9.527	12.703

* plus the amount of tax on fuel gas consumed in operations payable by Westcoast under the Motor Fuel Act (British Columbia) allocated to shipper for each day in the month

Demand Allocation Units (10^3m^3/d) Used to Determine Tolls

Service	2001	2002 Forecast
Transportation Service - Northern		
Short Haul	12,219	12,487
Long Haul	51,550	50,895
Transportation Service - Southern		
PNG Delivery Point	3,062	3,084
Inland Delivery Area	4,440	4,793
Huntingdon Delivery Area	41,986	45,731

Reconciliation of Revenue Requirement to 2002 Tolls

	Allocation Units 10^3m^3/day	Toll $/$10^3m^3$/mo.	Revenue Calc (,000)	Revenu Req Check (,000)
TNSH	12,487	7.64	1,145	
TNLH	50,895	110.04	67,205	
T-North			68,350	68,350
PNG	3,084	65.59	2,427	
Inland	4,793	161.74	9,303	
Huntingdon	45,731	289.79	159,028	
T-South			170,758	170,758
Total			239,108	239,108
Alliance Pipeline Toll Revenue			745	745
2002 Revenue Requirement per Reconciliation of Final Base Revenue Requirement (Tab 2)			239,853	239,853

Tab 4

Transmission - 2002 and 2003 Test Year Depreciation Rates

($000s)

Line No.		Rate Base Section	Gross Plant 31-Dec-00	Accumulated Depreciation 31-Dec-00	Net Plant	Reserve Life Index Years	Amount	Settlement Depreciation Rates %	Currently Approved Depreciation Rates %
			(A)	(B)	(C)	(D)	(E)	(F)	(G)
	RB 1	MIL, Station 2 to Huntingdon							
1		a) Obsolete Equipment	79,566	(42,843)	36,723	10.0	3,672	4.62	3.70
2		b) Balance	905,782	(269,092)	636,690	35.1	18,149	2.00	1.50
3			985,348	(311,935)	673,413		21,822	2.21	1.53
	RB 2 & 2A	FN mainline & Aitken Transmission							
4		a) Obsolete Equipment	0	0	0	10.0	0	-	3.60
5		b) Balance	256,408	(65,208)	191,200	29.5	6,492	2.53	1.50
6			256,408	(65,208)	191,200		6,492	2.53	1.57
7	RB 7	M/L, Station 1 to 2	58,641	(19,319)	39,322	40.0	983	1.68	1.50
8	RB 10A	16" Pipeline System	14,606	(8,303)	6,303	19.6	322	2.21	1.40
9	RB 10B & 12	26" Pipeline System	12,701	(6,188)	6,513	40.0	163	1.28	1.40
10	RB 13C	Grizzly Transmission System	14,013	(5,910)	8,103	28.4	285	2.04	1.40
11	RB 14B	Sikanni Pipeline & Meter Station	6,400	(3,792)	2,608	19.2	136	2.13	6.10
12	RB 15	Alces Pipeline & Meter Station	684	(597)	87	19.6	4	0.65	9.20
13	Subtotal		1,348,801	(421,252)	927,549		30,208	2.24	1.56
14	Misc.	(a) Franchises and Consents	132	(132)	0		4	3.40	1.80
15		(b) Intangible	1	0	1		0	-	-
16		(c) Other Structures	1,969	(613)	1,356		67	3.40	1.80
17	Subtotal		2,102	(745)	1,357		71	3.40	1.80
18	General Plant	482-31 – Structures	3,461	(1,026)	2,435		118	3.40	3.20
19		482-32 – Leaseholds	3,124	(3,023)	101		312	10.00	10.00
20		482-33 – Houses	1,050	(1,050)	0		26	2.50	2.50
21		483-30 – Computer Equipment	19,911	(11,033)	8,878		3,982	20.00	15.40
22		483-37 – Office Furniture	2,519	(1,029)	1,490		126	5.00	5.00
23		484-34 – Transportation under 5 tonnes	4,290	(3,678)	612		699	16.30	17.00
24		484-35 – Transportation over 5 tonnes	1,096	(908)	188		77	7.00	6.50
25		485 – Heavy Work Equipment	5,299	(3,318)	1,981		249	4.70	5.70
26		486 – Tools and Work Equipment	7,944	(7,944)	0		397	5.00	10.00
27		488 – Communications Equipment	6,179	(6,179)	0		618	10.00	10.00
28		489 – Other Equipment	723	(341)	382		36	5.00	5.00
29	Subtotal		55,596	(39,529)	16,067		6,641	11.94	9.81
30	Transmission Composite Rate		1,406,499	(461,526)	944,973		36,920	2.625	1.890