CANADA

National Energy Board

Reasons for Decision

Westcoast Transmission Company Limited

RH-2-87

November 1987

National Energy Board

Reasons for Decision

In the Matter of

Westcoast Transmission Company Limited

Application dated 19 December 1986 for new tolls effective 1 January 1987 and 1 January 1988

RH-2-87

November 1987

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Abbreviations

AFUDC	Allowance for Funds Used During Construction
Amoco	Amoco Canada Petroleum Company Ltd.
APMC	Alberta Petroleum Marketing Commission
B.C.	British Columbia
B.C. Hydro	British Columbia Hydro and Power Authority
BCPC	British Columbia Petroleum Corporation
BCPC Agreement	Westcoast/BCPC Agreement dated 13 November 1973
BCUC	British Columbia Utilities Commission
CAPM	Capital Asset Pricing Model
CD	Contract Demand
CICA	Canadian Institute of Chartered Accountants
COFI	Council of Forest Industries of British Columbia
Cominco	Cominco Ltd.
CPA	Canadian Petroleum Association
CWIP	Construction Work in Progress
DCF	Discounted Cash Flow
EIST	Export Interruptible Sales Toll
GPIS	Gas Plant in Service
GPUAR	Gas Pipeline Uniform Accounting Regulations
Hearing Order RH-2-87	National Energy Board Hearing Order RH-2-87, Directions on Procedure
Inland	Inland Natural Gas Co. Ltd.
IPAC	Independent Petroleum Association of Canada
LDC	Local Distribution Company

Long-Canada	Long-term Government of Canada Bond
MDVO	Maximum Daily Volume Obligation
MMcfd	Million cubic feet per day
1985 Natural Gas Agreement	Agreement Among the Governments of Canada, Alberta, British Columbia and Saskatchewan on Natural Gas Markets and Prices - 31 October 1985
NEB or the Board	National Energy Board
NEB Act	*National Energy Board Act*
NGL	Natural Gas Liquids
Northland	Northland Utilities (B.C.) Limited
Northwest	Northwest Pipeline Corporation
NOVA	NOVA, Corporation of Alberta
OD	Operating Demand
Petro-Canada	Petro-Canada Inc.
Poco	Poco Petroleums Ltd.
Province	Province of British Columbia
RH-5-85 TransCanada Reasons for Decision	"National Energy Board Reasons for Decision in the Matter of TransCanada PipeLines Limited Availability of Services - May 1986"
RH-3-86 TransCanada Reasons for Decision	"National Energy Board Reasons for Decision in the Matter of an Application of TransCanada PipeLines Limited dated 14 July 1986 for new tolls effective 1 January 1987 - May 1987"
10^3m^3	thousand cubic metres
10^6m^3	million cubic metres
TransCanada	TransCanada PipeLines Limited
Unocal	Unocal Canada Limited
U.S.	United States of America
Vancal	Vancal Properties Limited

Westcoast or the Company	Westcoast Transmission Company Limited
Westcoast/Northwest Agreements	the new Westcoast/Northwest Letter Agreements dated 14 and 15 September 1987
Westcoast Petroleum	Westcoast Petroleum Ltd.
Methodology Decision	"National Energy Board Reasons for Decision in the Matter of the Method of Regulation of the Tolls of Westcoast Transmission Company Limited - April 1985"
August 1986 Westcoast Reasons for Decision	"National Energy Board Reasons for Decision in the Matter of an Application Pursuant to Part IV of the National Energy Board Act (Tolls Application) of Westcoast Transmission Company Limited - August 1986"
April 1987 Westcoast Reasons for Decision	"National Energy Board Reasons for Decision in the Matter of an Application with respect to the Export Interruptible Sales Toll - April 1987"

Definitions

Base Year	1 January to 31 December 1986
CD Credit	Reduction in the demand component of a toll payable by a customer
Commodity Charge	A charge payable by a gas purchaser in a gas sales contract for each unit of gas purchased. The unit charge generally covers the commodity component of the applicable toll and the cost of gas, and may include a portion of the fixed costs of the pipeline
Commodity Component of the Toll	That part of the toll charged in respect of each unit of gas shipped
Contract Demand Toll/Daily Demand Toll	The demand component of the toll charged to firm sales/service customers
Contract Demand Volume	The maximum daily demand quantity as specified in a firm sales/service contract
Demand Charge	The fixed or monthly obligation of a gas shipper in a sales contract. A demand charge may cover some or all of a pipeline's fixed costs and is payable regardless of volumes actually taken
Demand Component of the Toll	That part of the toll charged monthly and payable regardless of the volume actually shipped, and designed to recover the fixed costs of a pipeline
Fixed Toll	A toll that does not vary with changes in throughput or expense variances
Off-Line Customers	A small-volume sales customer whose take-off points are north of Compressor Station 2 in northern B.C.
Test Years	1 January to 31 December 1987 and 1 January to 31 December 1988
TOPGAS	Reference to the Topgas I 1982 Agreement under which TOPGAS Holdings Ltd. assumed TransCanada's outstanding take-or-pay liabilities

Recital and Appearances

IN THE MATTER OF the *National Energy Board Act* and the Regulations made thereunder; and

IN THE MATTER OF an application by Westcoast Transmission Company Limited dated 19 December 1986, as amended, for certain orders respecting its tolls, pursuant to the *National Energy Board Act* filed with the Board under File No. 1562-W5-11.

HEARD in Vancouver, British Columbia on 26, 27, 28, 29 May and 2, 3, 4, 5, 6 June and 11, 12, 13, 14, 17, 18, 19, 20, 21 August 1987 and in Ottawa, Ontario on 9, 10, 11, 12, 15, 16, 17, 18 June and 6, 7, 8, 9, 15, 16, 22 July and 1, 2, 3, 4, 8, 9, 10, 15, 16, 23, 24, 25 September 1987.

BEFORE:

L.M. ThurPresiding Member
R.F. BrooksMember
W.G. StewartMember

APPEARANCES:

J. LutesWestcoast Transmission Company Limited
R. Sirett

J.B. Ballem, Q.C.Canadian Petroleum Association

R.B. WallaceCouncil of Forest Industries of British
H. IsherwoodColumbia
R.J. Bauman
D. Thomas

A.S. HollingworthIndependent Petroleum Association of
J.A. SniderCanada

R.G. PepperAlberta Natural Gas Company Ltd.

S. LiptonAmoco Canada Petroleum Company Ltd.

L.F. HindleBritish Columbia Hydro and Power
M.F. ShoemakerAuthority

J. ThompsonCanadian Hydrocarbons Limited

H. ChiversCoast Pacific Management Inc.

D. ClarkCzar Resources Ltd.

B. CraigDiamond Shamrock Exploration of Canada, Ltd.

R. FraserDome Petroleum Limited

H. HobbsFoothills Pipe Lines (Yukon) Ltd.

C.B. JohnsonInland Natural Gas Co. Ltd., Fort Nelson
D.M. MasuharaGas Ltd., and Peace River Transmission Company Limited

W.L. OostenbrinkMobil Oil Canada, Ltd.

D.K. WatkissNorthwest Pipeline Corporation
C.R. Rich
L.E. Smith

L. ZibotOcelot Industries Ltd.

R. DycePacific Northern Gas Ltd.

D.A. DawsonPan-Alberta Gas Ltd.

S. ProudfootPetro-Canada Inc.

P. McIntyrePoco Petroleums Ltd.

P.H. McMillanPST Gas Ventures Inc.

M. BrownTransCanada PipeLines Limited
R. Cohen

R. KlineUnocal Canada Limited

H. ScottWainoco Oil Corporation

D.C. EdieAlberta Petroleum Marketing Commission
J. McNamara

J.M. PelrineBritish Columbia Petroleum Corporation

L. KeoughNational Energy Board
A. Vockeroth
D. Bursey

Overview

NOTE: This overview is provided solely for the convenience of the reader and does not constitute part of this Decision or the Reasons to which readers are referred for the detailed text and tables.

The Application

On 19 December 1986, Westcoast applied to the Board for new tolls to be effective for a test year commencing 1 January 1987. The Company requested that the Board make the applied for tolls effective on an interim basis pending a final decision on its application. The Board approved the interim tolls for the 1987 test year and recommended that Westcoast consider amending its application to cover a period of two test years. Westcoast subsequently refiled a revised application providing revenue requirements and tolls for two test years, 1987 and 1988.

The main features of Westcoast's application included an increase in the rate of return on common equity from 13.75 to 14.50 percent, changes to the toll designs for Zones 1, 2 and 3 and changes to its general terms and conditions with respect to force majeure, interest rates on overdue accounts, and letters of credit for firm and interruptible service. Late in these proceedings, Westcoast applied for several additional changes to its toll design in conjunction with an application to the Board for approval of amendments to its contractual arrangements with Northwest.

In its original application, Westcoast had requested authorization to distribute to the export sales tollpayers the revenues received during 1986 and to be received in the 1987 test year from the application of the Export Interruptible Sales Toll (EIST). Based on the temporary open access of Northwest, Westcoast forecast that EIST revenues in 1987 would amount to $26.5 million. Intervenors and the Company requested an early decision respecting this issue.

The EIST Hearing

A public hearing lasting four days was held in Vancouver commencing on 10 March 1987. In its April 1987 Westcoast Reasons for Decision the Board denied Westcoast's application to have the EIST suspended or rescinded and directed that the EIST revenues be credited to Westcoast's overall cost of service. The Board also directed the Company to recalculate its interim tolls to account for projected EIST revenues and other related matters.

The 1987 and 1988 Tolls Hearing

A public hearing lasting forty-five hearing days was held in Vancouver and Ottawa. The hearing, conducted in two phases, opened in Vancouver on 26 May 1987, and concluded in Ottawa on 25 September 1987.

Revenue Requirement

Westcoast forecast that its 1986 revenue requirement of $257.9 million would increase by $7.7 million in 1987 and by an additional $11.3 million in 1988. The Board directed Westcoast to adjust its applied-for revenue requirements to reflect the Board's decisions as set out in these Reasons and to refile the rate bases, costs of service and tolls for the test years.

Tumbler Ridge Facilities

Westcoast proposed to purchase the Tumbler Ridge gas processing plant and pipeline from Northland and applied to the Board for the approval of certain rate base and toll design treatments for the Tumbler Ridge facilities. The Board denied Westcoast's application and directed the Company to remove from its test-year rate base and cost of service estimates all costs associated with owning and operating these facilities.

Rate Base

The Board disallowed the inclusion in rate base of any amounts for projects that had not received approval under Part III of the Act.

Westcoast's request to include overhead in its calculation of AFUDC was approved.

Depreciation Rates

The Board approved the applied-for depreciation rates for the Sikanni gas plant and pipeline, the Alces pipeline and the continuation of the depreciation rate for transportation equipment.

Capital Structure and Rate of Return on Equity

The Board approved Westcoast's request that the equity ratio remain at 35 percent.

The Company requested an increase in its rate of return on common equity from 13.75 to 14.50 percent. The Board found 13.50 percent in 1987 and 13.75 percent in 1988 to be just and reasonable.

Operating Costs

Westcoast's 1987 salary and wage increases were approved but the Board reduced the 1988 increases from 5.5 to 4.5 percent.

The Board increased the amount of salaries, wages and benefits allocated to non-utility activities by $128,000 and $124,000 for the 1987 and 1988 test years, respectively.

Westcoast has been directed to include pension expenses determined in accordance with the recommendation of the Canadian Institute of Chartered Accountants. The Board has also adjusted Westcoast's rate base for this item.

The Board decided that marketing activity costs should be reduced by $200,000 in each test year for toll- making purposes.

Insurance deductibles of $52,000 for 1987 and $222,000 for 1988 were approved.

The Board decided that the appropriate amount of the annual retainer fee to be credited to the cost of service should be $120,000 for each of 1986, 1987 and 1988.

Decisions on Toll Design

Westcoast will continue to determine its tolls on the basis of a fixed-toll methodology which the Board first approved for the Company's 1986 test year.

Allocation of Fixed Costs

The Board found that the CD volumes contained in Westcoast's gas sales and firm service contracts remain an appropriate basis for allocating fixed costs. The Board accepted as reasonable the revised CDs for the export market specified in the new Westcoast/Northwest Agreements in light of the circumstances of the export market. Accordingly, for the period 1 January to 31 October 1987, costs will be allocated to the export market on the basis of 809 MMcfd, 757 for Northwest and 52 MMcfd for Poco. Effective 1 November 1987, costs will be allocated to the export market on the basis of 727 MMcfd, 550 MMcfd for Northwest, 125 MMcfd for system suppliers and 52 MMcfd for Poco. For the domestic market, the basis of allocation will be the CD levels in the appropriate sales and service contracts.

Double Recovery of Demand Component

The Board found that in the circumstances of Westcoast the most appropriate method to avoid the potential double recovery of the demand component of the toll is the OD methodology first applied to TransCanada in the Board's RH-5-85 TransCanada Reasons for Decision. To ensure that Westcoast would not experience a revenue shortfall as a result of conversions during the test year, it was permitted to establish a suitable deferral account.

With respect to the issue of self-displacement, the Board did not believe that Westcoast's LDCs should be allowed to displace their own currently contracted firm supplies.

With regard to the applicability of firm-for-firm displacement relief to the export market, the Board found no reason to exclude Westcoast's export market from such relief. The Board accepted Westcoast's proposal to credit interruptible revenues to the domestic or export market depending on the destination of the interruptible gas, and to calculate tolls on a gross basis, effective 1 November 1987. The Board notes that acceptance of these proposals is a condition precedent to the new Westcoast/Northwest Agreements.

Toll Design Absent Westcoast/Northwest Agreements

In the event that the new Westcoast/Northwest Agreements are not executed, the Board directed the tolls be designed effective 1 November 1987 as follows;

- fixed costs be allocated to Northwest on the basis of 757 MMcfd (809 MMcfd less the 52 MMcfd of Poco),

- all interruptible revenues be credited to Westcoast's overall revenue requirement,

- eligibility of interruptible volumes to determine fixed cost relief be considered on a case-by-case basis, and

- firm tolls be calculated on a net rather than a gross basis.

Other Toll Design Matters

As a result of discussions with intervenors during these proceedings, Westcoast modified its applied-for toll designs for Zones 1, 2 and 3. The Board accepted the toll designs as modified.

The tolls for Zone I - Gathering will continue to be determined on a postage-stamp basis and to be published on a raw gas basis.

For Zone 2 - Processing, the treatment toll for acid gas removal will continue to be determined on a postage-stamp basis but will now include a minimum toll and be published on a residue gas basis. The toll for liquids recovery will be a flat-rate. A separate toll of $88.76 per 10^3m^3 has been established for the new Sikanni plant. This toll is based on the estimated cost of operating the plant for the 1987 and 1988 test years.

The tolls for Zone 3 - Transmission North, which had been determined on a volume/distance basis for mainline customers and on a nearest field concept for off-line customers, will now be determined using a postage-stamp methodology. Application of the methodology results in three separate tolls: a short-haul toll for the off-line customers and two long-haul tolls.

The Board approved the allocation of contract demand among Zone 4 delivery points on the basis of three peak days in the previous heating season, as proposed by Westcoast.

The Board noted that Westcoast would implement a postage-stamp toll for Zone 5 Alberta in 1987.

The Board noted that there is a difference between the basis on which service and sales transportation tolls are calculated because of the operation of the NGL plant. The Board directed the Company to investigate whether changes could be made to remove the difference and to report its findings to the Board by 1 April 1988.

Decisions on Tariff Matters

The Board denied Westcoast's requested amendments to the force majeure and demand charge credit provisions contained in its general terms and conditions. However, the Board recognized that a change to the existing provisions was warranted. Therefore, the Board directed that these provisions be amended to provide that:

(i)no demand charge credit shall be given, in the case of service customers, because of a failure of the shipper to deliver gas into the Westcoast system; and

(ii)a demand charge credit shall be given for an event of force majeure occurring on theWestcoast system and any downstream pipeline facilities connected directly to the Westcoast system, or where such an event renders Westcoast unable to obtain adequate gas supplies from its gas producers or suppliers.

Westcoast's proposal to increase the interest rate on delinquent accounts from prime plus two percent to prime plus five percent was denied. The Board decided that the interest rate on delinquent accounts should change from prime plus two percent to prime plus two percent for the first 30 days that an account is delinquent and to prime plus five percent on accounts delinquent beyond 30 days and on any second occurrence within a six-month period.

The Board approved a 62-day letter of credit for interruptible sales and service customers and for firm service customers.

The Board accepted Westcoast's proposal to implement daily prorationing by 1 November 1987 and requested the Company to document any difficulties it encountered with the proposal during the forthcoming heating season.

The proposed General Terms and Conditions for Export Sales, with some modification, were approved. The Board expressed the view that these general terms and conditions should apply to all export gas sales.

The Board directed that any changes to the existing general terms and conditions be effective 1 January 1988.

Deferral Accounts

The Board approved the continuation of all existing deferral accounts. The Board also approved new deferral accounts associated with the operating demand methodology and the letter of credit provisions. However, the Board did not approve a deferral account for potential force majeure claims.

Chapter 1
Application

1.1 The Application

By Order No. TG-4-86 and its August 1986 Westcoast Reasons for Decision, the National Energy Board (Board, NEB) established fixed tolls and tariffs for Westcoast Transmission Company Limited (Westcoast, the Company) for the test period 1 January to 31 December 1986. As Westcoast's fixed tolls are determined on a forward test year basis, it filed an application, dated 19 December 1986, with the Board requesting certain interim and final Orders, to be effective 1 January 1987, pursuant to Sections 16, 50, 51 and 52 of the *National Energy Board Act* (NEB Act).

Westcoast sought approval, on an interim basis, of the schedule of tolls contained in its application. By Order No. TGI-59-86 dated 30 December 1986 the Board, pursuant to subsection 16.1(2) and Section 52.2 of the NEB Act, approved the interim tolls, as requested, for the period commencing 1 January 1987 and ending on a date to be specified in the Board's Decision with respect to the forthcoming toll hearing.

Westcoast also applied for other orders including those outlined below:

Westcoast applied under Section 53 of the NEB Act for an order, effective 1 January 1987, disallowing any existing tariffs and tolls prescribed therein that are inconsistent with the orders requested above.

Westcoast applied to amend its General Terms and Conditions for Canadian Sales Agreements and Service Agreements, effective 1 January 1987, with respect to the definition of force majeure and the interest rate provision for overdue accounts. The request to have these changes implemented effective 1 January 1987 was not granted.

Westcoast applied for an order, pursuant to paragraph 25 of Order No. TG-4-86, to dispose of the balance of the 1 January to 31 December 1986 (base year) deferral accounts by crediting the net balance of such accounts to the 1987 test year cost of service.

Westcoast applied for orders: authorizing it to maintain for accounting and toll-making purposes, during the 1987 test year, the expense and revenue deferral accounts approved for the base year; and providing that carrying charges on the amounts from time to time in such accounts shall be calculated at the rate of interest charged from time to time to Westcoast for operating lines of credit by its principal banker, rather than be calculated at the rate of return on rate base. The proposed change to the carrying charge rate was subsequently withdrawn by the Company. Westcoast also applied for four new deferral accounts.

Westcoast applied for several changes to the toll design approved by the Board in its August 1986 Westcoast Reasons for Decision, including:

(i) the method used to determine:

- tolls for Zone 3 - Transmission North,
- gathering and processing tolls,
- allocation units for Zone 4 - Transmission South; and

(ii) the approval of a small plant toll.

1.2 NEB Order No. RH-1-87

In its 19 December 1986 application, Westcoast had applied for an order authorizing it to distribute to the export sales tollpayers - characterized as being the producer entities in British Columbia, Alberta, Yukon and the Northwest Territories - the revenues from an application of the Export Interruptible Sales Toll (EIST) received during 1986 and the revenues to be received during each month of the 1987 test year.

Citing changed circumstances in the U.S. Pacific northwest market served by Northwest Pipeline Corporation (Northwest), Westcoast, by an application dated 12 February 1987, as amended, requested:

(i) a final order pursuant to Section 54 of the NEB Act suspending the EIST for the period commencing 1 January 1987 and ending on a date to be specified in the Board's Decision with respect to Westcoast's 1987 toll application or, alternatively, a final order rescinding such toll; or

(ii) a final order pursuant to Section 50 of the Act approving Westcoast's application to distribute, in the month received, all revenue from the EIST to its system suppliers.

Westcoast, the British Columbia Petroleum Corporation (BCPC) and the Province of British Columbia (the Province) requested an early decision to remove the uncertainty with respect to the existence of this toll and the disposition of the revenues collected from it.

In response to this application the Board convened a public hearing, RH-1-87, in Vancouver, British Columbia, (B.C.) on 10 March 1987 to receive the submissions of Westcoast and intervenors on this matter. In its April 1987 Westcoast Reasons for Decision, the Board denied Westcoast's application to have the EIST suspended or rescinded and directed that the EIST revenues be credited to Westcoast's overall cost of service. In this way, the revenues from the EIST are treated in a manner consistent with the revenues received from other interruptible tolls. The Board, by Order No. TG-2-87, directed Westcoast to recalculate its interim tolls, effective 1 April 1987, to take into account projected EIST revenues and certain other related matters.

1.3 1987 and 1988 Test Years

By its letter dated 20 January 1987, the Board requested Westcoast to consider amending its December 1986 toll application to include both the 1987 and 1988 test years. This was done to overcome the undesirable situation which arose in the 1986 test year and again in the 1987 test year where the tolls for the test year were not finalized until late into the test year. Westcoast and intervenors responded favourably to this proposal and it was determined that the Westcoast toll application would be amended to deal with both the 1987 and 1988 test years.

The Board's Hearing Order RH-2-87, dated 20 March 1987, directed that the Westcoast hearing be conducted in two phases: Phase 1 to deal with the 1987 and 1988 toll design and tariff matters and Phase 2 to consider all other issues, including throughput forecasts, rate base, cost of service and rate of return.

1.4 Westcoast's Application Pursuant to Subsection 35(2) of the NEB Act, Part VI Regulations

Several intervenors viewed the contractual arrangements between Westcoast and Northwest as being critical to the determination of an appropriate toll design methodology for allocating the fixed costs of Westcoast.

On 28 June 1987 Westcoast applied to the Board, pursuant to subsection 35(2) of the NEB Act's Part VI Regulations for approval of an amendment to its existing arrangements with Northwest under the Fourth Service Agreement, the Kingsgate Gas Sales Agreement and the Letter Agreement dated 27 October 1986. This application was assigned to the Westcoast toll hearing panel for disposition. However, before the agreement was considered, it was withdrawn by Westcoast because of lack of producer support.

Subsequently, on 18 September 1987, Westcoast applied to the Board, pursuant to subsection 35(2) of the NEB Act's Part VI Regulations, for approval of revised agreements with respect to amendments to the Fourth Service Agreement and the Kingsgate Gas Sales Agreement. The Board approved the requested amendments pursuant to subsection 35(2) on 30 October 1987.

As a result of these agreements, Westcoast proposed several changes to its existing and applied-for toll design. During these proceedings the Board considered both the agreements and the applied-for changes to the toll design.

Chapter 2
Rate Base

The actual rate base for the 1986 base year and the applied-for rate bases for the 1987 and 1988 test years are shown in Table 2-1. As discussed more fully in Chapter 9, Westcoast is required to adjust the applied-for rate bases to reflect the Board's decisions as set out in this chapter.

Table 2-1

Actual 1986 and Forecast 1987 and 1988 Average Rate Bases ($000)

Line No.	Particulars	1986 Actual (A)	Adjustments (B)	1987 Applied-For (C)	Adjustments (D)	1988 Applied-For (E)
1	Gas Plant in Service	1,246,737	47,011	1,293,748	81,010	1,374,757
2	Accumulated Depreciation	(491,909)	(23,445)	(515,354)	(27,286)	(542,640)
3	Net Plant in Service	754,828	23,566	778,394	53,724	832,118
4	Extraordinary Plant Loss	3,390	(1,356)	2,034	(1,356)	678
5	Contributions in Aid of Construction	(3,810)	(83)	(3,893)	102	(3,791)
6	Plant Investment	754,408	22,127	776,535	52,470	829,005
7	Materials and Supplies	15,459	1,319	16,778	610	17,388
8	Line Pack Gas	5,415	(1,924)	3,491	3	3,494
9	Prepaid expenses	766	673	1,439	463	1,902
10	Deferrals	-	(1,423)	(1,423)	1,423	-
11	Income Tax Adjustment - Grizzly Valley	(11,322)	4,170	(7,152)	4,767	(2,385)
12	Deferred Income Taxes	(75,531)	-	(75,531)	-	(75,531)
13	Average Rate Base Exclusive of Cash Working Capital	689,195	24,941	714,136	59,736	773,872
14	Cash Working Capital	7,068	(2,375)	4,693	1,029	5,722
15	**Average Rate Base**	**696,263**	**22,567**	**718,830**	**60,765**	**779,595**

Notes:

1 Source: Exhibit B149
2 Totals may not add due to computer rounding
3 Net of Alberta (Zone 5) Facilities

2.1 Rate Base and Toll Treatment of the Tumbler Ridge Facilities

Westcoast applied for the approval of certain rate base and toll design treatments for the Tumbler Ridge facilities which it was proposing to purchase during the 1987 test year.

The Tumbler Ridge facilities which are located in the Peace River District of northern B.C. consist of a gas processing plant and approximately 27 kilometres of pipeline. The facilities are presently owned by Northland Utilities (B.C.) Limited (Northland), an off-line sales customer of Westcoast. The processing plant and pipeline serve the Quintette Coal Mine and the town of Tumbler Ridge. The plant was certificated by the British Columbia Utilities Commission (BCUC) in 1982 and has a design capacity of 8.0 10^3m^3 of residue gas per day. The pipeline is connected to Westcoast's Grizzly Pipeline which serves as a secondary supply of gas to Tumbler Ridge in the event that the primary supply is not available from the producer.

Decision

On the last day of these proceedings, 25 September 1987, the Board rendered the following decision on the rate base treatment and toll methodology for the Tumbler Ridge facilities.

"In view of the September 30 closing date for its proposed purchase of the Tumbler Ridge facilities, Westcoast requested that the Board render a decision by that date with respect to the toll treatment for those facilities. In response to that request the Board is now rendering its decision.

In its letter to Westcoast dated August 6, 1987, filed as Exhibit A-55, the Board indicated that, in this proceeding, it would examine the amounts associated with Westcoast's purchase of the Tumbler Ridge facilities to be included in rate base, and the manner in which those amounts should be recovered in tolls.

Westcoast has applied to include in the 1987 and 1988 test year rate bases the proposed purchase price of $3,125,000 relating to the Tumbler Ridge Gas Processing Plant and Pipeline to be acquired from Northland; $300,000 for additional modifications to the Tumbler Ridge Processing Plant, and other minor items.

The Board notes that the application filed by Westcoast would result in the recovery of the costs associated with owning and operating the Tumbler Ridge facilities from all of Westcoast's tollpayers. Evidence filed during the hearing shows that, for 1988, the first full year of operation, the cost of service associated with those facilities would be $728,000. The Board also notes that this figure has been adjusted to $640,000 based on the updated information filed in Exhibit B-149.

Application of the toll proposed of Westcoast for 1988 would result in the generation of revenues of approximately $56,000 from the users of the Tumbler Ridge Pipeline and Processing Plant. Therefore, other system tollpayers would be required to pay, through higher tolls, the difference between these amounts.

The Board in aware that Westcoast has entered into this Agreement in response to a letter from the Minister of Energy, Mines and Petroleum Resources for British Columbia. The Board also understands that, if the proposed toll treatment is not accepted, Westcoast is unlikely to proceed with the acquisition of these facilities.

In reaching its decision on this matter, the Board has carefully weighed the relevant regional and broader considerations and has examined the toll-making principles involved.

On balance, the Board was not persuaded that it should approve a toll design which would result in such significant permanent subsidization of one group of tollpayers by another. Thus, based on the evidence before it, the Board has decided that Westcoast should not include any amounts associated with owning and operating the Tumbler Ridge facilities in rate base or cost of service for the 1987 and 1988 test years.

Accordingly, Westcoast is directed to remove from its 1987 and 1988 rate base and cost of service estimates, all costs associated with owning and operating the Tumbler Ridge Gas Processing Plant and Pipeline."

2.2 Gas Plant in Service

2.2.1 Capital Additions Transferred to GPIS

Westcoast applied to transfer to gas plant in service (GPIS) forecast plant additions of $83.582 million for 1987, and $52.691 million for 1988. Some intervenors were concerned about the large amounts of additions to rate base for the test years.

Westcoast stated that all of these projects were necessary to maintain the safe and efficient operation of its system or to increase supply capability because of service requests.

Westcoast also stated that if projects had not received Part III approval at the time the toll decision was made, then such projects should not be included in rate base for the test years. Most intervenors, including the Canadian Petroleum Association (CPA), supported that position. CPA further argued that only projects which were included in Westcoast's toll application should be included in rate base.

Of the forecast additions included in the application, as amended, there were 6 projects totalling $2.037 million for 1987 and 5 projects totalling $1.772 million for 1988, which had not received Board approval under Part III of the NEB Act at the time the Board issued Order No. TG-7-87. These projects are listed in Table 2-2.

Westcoast filed an exhibit that showed there were 92 projects for 1987 and eight projects for 1988 which exceeded or were projected to exceed the estimates approved under Part III of the Act. The actual and projected overruns totalled $642,000 for 1987 and $119,000 for 1988. Westcoast provided explanations of the actual cost overruns or projected increases for all projects estimated to cost over $100,000.

No intervenor specifically argued against the inclusion of these amounts in rate base.

Decision

The Board is not prepared to approve for inclusion in rate base any amounts for projects which have not been approved under Part III of the Act. Therefore, Westcoast is directed to exclude from forecast plant additions all the projects listed in Table 2-2, as well as any proposed capital additions associated with the Tumbler Ridge facilities (see Section 2.1 of these Reasons).

On 8 October 1987, the Board approved, under Part III of the Act, projects totalling $802,000 from Westcoast's sixth amendment to its 1987 Section 49 application. The Board notes that none of these projects were included in WestCoast's amended application. However, the Board is of the view that in this instance it is appropriate to allow Westcoast to include these amounts in its 1987 and 1988 test year rate bases for toll-making purposes.

Table 2-2
($000)

Project #	Description	Cost
	1987	
76000009	Tumbler Ridge Upgrade	300
76000011	Red Willow Pipeline	1,306
77721003	Electronic Measurement - McMahon	51
77721004	Electronic Measurement - Pine River	162
77703002	Electronic Measurement - Huntingdon/B.C. Hydro	48
77703004	Electronic Measurement - Huntingdon	170
Total		**2,037**
	1988	
88519004[1]	Sour Water Line Flow Distribution and Control System	175
87703001	Install Electronic Measurement - Inland Meter Station #2	40
87703002	Install Electronic Measurement - Inland Meter Station #7	40
88519052	Install Expander Turbine	1,500
89610011	1/2 Ton Pick Up with VHF Radio - Tumbler Ridge System	17
Total		**1,772**

1 Westcoast withdrew this project from its 1988 Section 49 application.

The Board notes that, if additional large projects subsequently receive Part III approval during the test years, Westcoast may apply to the Board for a deferral account in which to record costs associated with the facilities.

While the Board accepts for inclusion in rate base the actual 1987 cost overruns and the increases forecast in the estimates for certain other projects, the Board is of the view that an appropriate procedure should be established for the regular reporting of such overruns. Westcoast is therefore directed to file with the Board, as part of its final quarterly surveillance report for each test year, a schedule

showing all projects for which actual costs exceeded the cost estimates, including the 10 percent overrun allowance, by the greater of $10,000 or 10 percent. The schedule should provide, by project: the approved cost estimate (including the 10 percent overrun allowance), the actual cost, and an explanation for the overrun.

2.2.2 Adjustment to Forecast GPIS

Because Westcoast's actual expenditures have rarely equalled the projected capital additions, the Company was questioned on the appropriateness of adjusting its forecast GPIS and on the basis to use for determining the amount of the adjustment. Two methods were examined; the first method compared the actual to estimated cost of capital additions over a two-year period, while the second compared the actual to estimated net plant in service over a five-year period.

The evidence showed that Westcoast's actual cost of capital additions was 90.7 percent of the forecast in 1985 and 97.2 percent of the forecast in 1986. Other data showed that, for the last five years, the average amount of actual net plant in service was 0.16 percent less than the forecast.

During the hearing, Westcoast indicated that, if an adjustment were necessary to the test-year GPIS, it would prefer to use historical net plant in service data. Westcoast stated that it preferred the net plant in service approach because it takes into account capital additions, salvage, retirements and depreciation variances. However, in rebuttal, Westcoast took the position that there was no basis for reducing the test-year forecast, and that historical experience suggested the differences between actual and forecast GPIS were not significant.

In argument, British Columbia Hydro and Power Authority (B.C. Hydro) and the joint intervenors, the Council of Forest Industries of British Columbia and Cominco Ltd. (COFI/Cominco), advocated that the forecast cost of facility additions should be reduced based on a comparison of the actual to estimated cost of capital additions.

Decision

The Board notes that Westcoast's forecast cost of plant additions upon which Westcoast earns a test-year return have tended to exceed the actual costs. Consequently, the Board is of the view that the Company's rate base ought to be adjusted for the 1987 and 1988 test years. Of the two methods examined, the Board prefers the historical net plant in service method. Accordingly, Westcoast is directed to reduce its 1987 and 1988 net plant in service amounts, after taking into account the Board's decisions in Section 2.2.1, by 0.16 percent.

2.2.3 Section 49 Applications and Surveillance Reports

During the hearing a number of intervenors expressed concern regarding the existing procedures under which the Board deals with applications pursuant to Section 49 of the Act. Intervenors were concerned that they were not usually provided with copies of such applications and, therefore, were unable to comment on the merits of projects at the Part III approval stage. They argued that the Board should require Westcoast to serve Section 49 applications on interested parties and to provide them with an opportunity to make submissions, if they so desire. Inland Natural Gas Co. Ltd. (Inland) also urged the Board to require Westcoast to provide copies of its quarterly surveillance reports to the major tollpayers.

Westcoast indicated that it was not adverse to providing information to interested parties, but did not think that it should be required to provide quarterly surveillance reports as they are administrative reports. With respect to Section 49 applications, Westcoast was concerned that interventions by interested parties might impede the Board's approval process for routine projects.

Decision

The Board understands the desire of interested parties to be better informed with respect to certain matters that can affect their interests.

However, it is beyond the scope of these proceedings to direct that changes be made to the Board's established procedures for the disposition of applications pursuant to Section 49 of the Act.

The Board wishes to indicate that it will bring the concerns expressed by parties to the attention of the full Board for further consideration. The Board notes that Westcoast indicated during the hearing that it is not adverse to providing information to interested parties; thus, it seems possible that Westcoast and interested parties could resolve this problem without Board intervention.

Regarding quarterly surveillance reports, the Board notes that these reports are in the public domain. These reports are used by the Board for internal monitoring functions and the Board agrees with Westcoast that they are administrative in nature. Accordingly, the Board is of the view that Westcoast should not be directed to serve such reports on its tollpayers.

2.2.4 AFUDC Policy

It has been Westcoast's policy to base the calculation of allowance for funds used during construction (AFUDC) accruals on cash payments related to capital projects for items such as direct costs for labour and materials and payments made for outside services. The monthly AFUDC accrual was computed by multiplying the average of the opening and closing construction work in progress (CWIP) balances for the particular month by one-twelfth of the allowed rate of return on rate base. Neither overhead nor AFUDC, which had previously been added to CWIP, was included in the calculation.

Commencing with the 1987 and 1988 test years, Westcoast has requested Board approval to include overhead in the monthly calculation. The Company believes that overhead costs, comprised mainly of engineering and construction salaries and associated expenses, should be included in the base on which AFUDC is calculated.

CPA was opposed to the inclusion of overhead in the calculation of AFUDC because of the amount of overhead in the Company's application. In CPA's view, overhead appears to be unresponsive to changes in the amount of capital additions. If overhead is inflated then AFUDC will be calculated on an inflated amount.

Decision

The Board is of the view that overhead costs, like other costs incurred for the purpose of constructing or otherwise acquiring pipeline facilities, form an integral part of the cost of a pipeline's facilities. Accordingly, Westcoast's request to include overhead in the calculation of AFUDC is approved. However, the Board notes that the amount of overhead during construction for each of the test years is forecast to remain at a relatively constant level while the dollar value of capital project additions in the second test year is forecast to decline significantly. While there may be reasons for this in the short term, the Board would expect overhead costs to track construction costs over the long term.

2.3 Line Pack Gas

2.3.1 Line Pack - Imbalance Gas

During the hearing, intervenors expressed the concern that Westcoast may be including gas provided by direct shippers in its line pack figures. In this event, Westcoast would earn a return on gas owned by others.

Westcoast stated that it requires direct shippers to provide one to two days inventory of gas before the Company will commence to redeliver gas for the shipper at the downstream off-take point. This predelivery of gas is referred to by Westcoast as "imbalance gas".

In rebuttal, Westcoast stated that its line pack requirement is independent of the "imbalance gas".

Decision

The Board is of the view that Westcoast's estimates of line pack do not include any imbalance gas. Therefore, the Board accepts Westcoast's 1987 and 1988 line pack estimates.

2.3.2 Valuation of Line Pack

In its August 1986 Westcoast Reasons for Decision, the Board directed the Company to develop an alternative approach to valuing line pack "which would remove much of the complexity surrounding the current method".

During these proceedings, Westcoast indicated that it had considered the Board's direction and looked at various alternatives. Westcoast concluded that, because of its contractual obligation to purchase line pack gas from BCPC, and the seasonal load factor variations that occur, the approach presently used by the Company is the most appropriate for valuing line pack.

CPA advocated that Westcoast be required to value line pack in the same fashion as TransCanada PipeLines Limited (TransCanada). The effect of the CPA proposal would be for Westcoast to derive a normalized line pack value and adjust it only for price changes.

Decision

Considering the seasonal fluctuations in line pack, the Board accepts the methodology used by Westcoast to value its line pack for the 1987 and 1988 test years.

2.4 Prepaid Expenses - Petro-Canada Utility Exchange Agreement

Westcoast records payables and receivables resulting from the operating and utility exchange agreements for the McMahon plant and the adjacent Petro-Canada Inc. (Petro-Canada) refinery near Taylor, B.C., in NEB Accounts 251, Accounts Payable, and 141, Accounts Receivable, of its accounting records as required by the Board's Gas Pipeline Uniform Accounting Regulations (GPUAR). However, in its toll application Westcoast has included these amounts in prepaid expenses where they have been accorded rate base treatment.

When cross-examined by CPA, the Company's witness explained that although Westcoast operates on a cash basis, an accrual is made each month for amounts relating to the operating agreement and the utility exchange agreement. Accruing these amounts in the month in which service is provided results in the tollpayers receiving an immediate credit through the cost of service rather than having to wait until payment is received, which is normally a lag of some two and one-half months.

It is Westcoast's position that because the tollpayers receive an immediate benefit in their tolls due to the monthly accrual, Westcoast should be entitled to a return on the funds between the time they are credited to the cost of service and revenue is received. The Company stated that no allowance has been provided for this amount in the cash working capital calculation.

Decision

The Board agrees with Westcoast that the Company should be compensated for the time lag which exists between the dates when the amounts are accrued and are subsequently received. The Board notes that the time lag is unusually long. However, the Board finds that the method presently in use by Westcoast to record these amounts on the Company's books and in its toll applications continues to be appropriate.

2.5 Recovery of Pension Expenses in Excess of Pension Plan Funding Requirements

The Board, having directed Westcoast to treat pension plan costs in accordance with the recommendation of the Canadian Institute of Chartered Accountants (CICA) as indicated in Section 5.1.1.4 of these Reasons, recognizes that this will result in the Company recovering from the tollpayers pension costs in advance of the time that such funds are required.

Decision

The Board is of the view that Westcoast's rate base should, therefore, be reduced by an appropriate amount. Accordingly, the Board has decided that the difference between the amount which Westcoast recovers in its tolls for pension expenses and the amount actually expended shall be placed in a separate account. In determining the average monthly rate base, the Board requires Westcoast to deduct the average of the opening and closing monthly balances of this account.

2.6 Westcoast's Capitalization Policy

Westcoast, when cross-examined by COFI/Cominco, explained that its present capitalization policy, as contained in the Company's Policy and Procedure manual, has been in effect since 1978 and that some time has elapsed since it was last reviewed. The policy presently provides certain minimum limits for determining whether an item should be classified as a capital expenditure or an expense. These limits are $500 dollars for large items; and $100 dollars for small items such as office furniture, tools, communications equipment and items of a similar nature.

Intervenors believed that these limits are no longer appropriate and should be increased.

Decision

The Board is of the view that the limits contained in Westcoast's capitalization policy are no longer appropriate. Westcoast is directed to revise its policy taking into account the 1983 revisions to the GPUAR which, among other things, established a limit of $5,000 dollars for determining whether minor items of plant should be capitalized or expensed. Westcoast is required to file the updated policy by 1 April 1988 for the Board's approval.

Chapter 3
Depreciation

3.1 Depreciation Rates for New Rate Base Sections

The Board last approved depreciation rates for Westcoast's facilities during the Company's 1986 toll hearing. Westcoast had included a depreciation study as part of that application and the issue of depreciation rates and the methodology to be used for their determination was debated at length in those proceedings.

In its present application Westcoast has applied for approval of rates relating to facilities it proposes adding in newly-established rate base sections. These facilities and rates are as follows:

Section	**Name**	**Rate** (%)
14(A)	Sikanni Gas Plant	2.4
14(B)	Sikanni Pipeline	1.9
15	Alces Pipeline	2.5
16(A)	Tumbler Ridge Plant	1.8
16(B)	Tumbler Ridge Pipeline	1.7

The rates for which Westcoast is seeking approval have not been calculated in a manner consistent with the approved methodology. The Company explained that at the time of submitting its application it had not used the approved methodology because it did not have sufficient information relating to reserves and throughputs. Therefore, Westcoast proposed to use the applied-for rates during the two test years. The proposed rates have been determined as follows:

(i) for the Sikanni system, which the Company views as an extension of the Fort Nelson gathering system, the depreciation rates are similar to those for the Fort Nelson system;

(ii) for the Alces gas plant, because of a lack of data and no comparable facilities, the rate is based on a 40-year physical life; and

(iii) for the Tumbler Ridge plant and pipeline, which are in the same general area and are similar to the Pine River plant and the Grizzly pipeline, the proposed rates are the same as those for the existing facilities.

Intervenors described the approach taken by Westcoast as being inconsistent with and departing from the methodology approved by the Board. They were generally opposed to approval of rates determined on any basis other than that which the Board has approved.

Decision

In view of the Board's decision in Section 2.1 respecting the Tumbler Ridge facilities, a decision on depreciation rates for those rate base sections is not required.

With regard to the appropriate rates for the Sikanni gas plant and pipeline and the Alces pipeline, the Board approves the rates in the Company's application for the period from 1 January 1987 to 31 December 1988. These rates are being approved for the test years because Westcoast's lack of data prevents it from using the approved methodology at this time. However, the Board expects Westcoast, in its next application, to calculate depreciation rates for these sections in a manner consistent with that approved by Order No. TG-4-86.

3.2 Depreciation Rates for Transportation Equipment

For trucks having a gross vehicle weight of less than five tons, Westcoast uses a depreciation rate of 23 percent. This rate was approved by the Board in 1986 and was based on a depreciation study which indicated that it is the Company's practice to replace vehicles of this type after three years' service. Both B.C. Hydro and Inland believed that the useful life of these vehicles is more likely to be in the range of four years or longer. Therefore, they were of the opinion that the present depreciation rate is excessive. Westcoast indicated that it would review this rate as part of its next depreciation study.

Decision

The Board notes that Westcoast proposes to address the continued appropriateness of this rate in its next depreciation study. In the meantime, the Board approves the use of a depreciation rate of 23 percent for this equipment for the 1987 and 1988 test years.

Chapter 4
Cost of Capital

In its amended application, Westcoast applied for rates of return on rate base of 12.28 percent and 12.21 percent for the test years 1987 and 1988, respectively. These rates compare to the existing approved overall rate of return of 12.10 percent. The applied-for rates of return are based on deemed average capitalizations that equate to the average rate base plus CWIP projected for each test year.

The applied-for deemed average capitalizations for 1987 and 1988, as amended, and corresponding individual cost rates and overall requested rates of return are shown in Tables 4-1 and 4-2, respectively, and are discussed in detail in succeeding sections of this chapter.

Table 4-1

Applied-For Deemed Average Capital Structure and Rates of Return for the 1987 Test Year

	Amount ($000)	Capital Structure (%)	Cost Rate (%)	Cost Component (%)
Debt - Funded	398,397	53.44	11.44	6.12
- Unfunded	51,984	6.97	10.19	.71
Total Debt Capital	450,381	60.41		6.83
Preferred Share Capital	34,200	4.59	8.09	.37
Common Equity	260,928	**35.00**	**14.50**	5.08
Total Capitalization	**745,508**[1]	**100.00**		
Rate of Return on Rate Base				**12.28**

1 Total does not add due to computer rounding.

Table 4-2

Applied-For Deemed Average Capital Structure and Rates of Return for the 1988 Test Year

	Amount ($000)	Capital Structure (%)	Cost Rate (%)	Cost Component (%)
Debt Funded	469,535	58.84	11.18	6.58
- Unfunded	14,921	1.87	10.75	.20
Total Debt Capital	484,456	60.71		6.78
Preferred Share Capital	34,200	4.29	8.09	.35
Common Equity	279,277	**35.00**	14.50	5.08
Total Capitalization	**797,933**	**100.00**		
Rate of Return on Rate Base				**12.21**

4.1 Funded Debt

In its final update, Westcoast applied for cost rates of 11.44 percent and 11.18 percent for the 1987 and 1988 test years, respectively, using what it characterized as a net proceeds approach to determine the costs of funded debt. These rates were calculated in a manner consistent with the method used in past toll applications. Under the applied-for approach, the Company calculated the funded debt cost rates by dividing the financial charges, including the amortization of debt discount and expense and the gains on sinking fund purchases, by the net proceeds of debt outstanding.

In determining the dollar amount of outstanding net proceeds for its utility operations, Westcoast first determined the dollar amount of gross proceeds to be allocated to the utility for each outstanding debt issue using the allocation procedure accepted by the Board in its August 1986 Westcoast Reasons for Decision. The Company multiplied the resulting gross proceeds amounts by the original net proceeds percentage of each issue to obtain the dollar amount of outstanding debt. Westcoast does not believe that the proceeds of a debt issue increase over time, despite the fact that the issuance costs are recovered over the life of a debt issue.

In determining its funded debt balance and associated cost rate for 1988, the Company included amounts relating to the 11.55 percent debenture issue dated 26 August 1987 and the debt issue expected to be placed later in 1987. This latter issue was also costed assuming a long-term corporate rate of 11.55 percent. The Company acknowledged that the amounts included in the funded debt determination for 1988 for these issues represented estimates of the amounts to be allocated to the utility. Westcoast confirmed that it will permanently allocate a portion of each of these debt issues to the utility at the end of the 1987 test year.

During these proceedings, the Company's method of determining funded debt balances and associated cost rates was questioned. B.C. Hydro's expert witness took issue with the manner in which the Company applied the net proceeds approach. She took the view that as the debt issuance costs are amortized and recovered through the cost of debt, the net proceeds of each issue increase by the amount of amortization recovered. As a result, the Company's approach understated the funded debt and preferred share balances included in the application, and overstated their associated cost rates and the unfunded debt balances.

She submitted that as each year's amortization amount is received by the Company, the amount of net proceeds available for investment in rate base and CWIP increases. In her opinion, the cumulative amount of issuance costs recovered are, in effect, cost-free capital to Westcoast. Under her approach, the cost of funded debt would be calculated by dividing the financial charges, including the amortization of debt discount and expense and the gains on sinking fund purchases, by the gross proceeds of debt outstanding (less the average unamortized balance of debt issuance costs).

Westcoast took issue with the assertion that the recovered debt issuance costs represent cost-free capital to the Company. However, B.C. Hydro argued that the Company's tollpayers return this money to Westcoast over time, thus providing funds that can be used to invest in assets. In B.C. Hydro's view, these costs are recovered from the tollpayers and therefore should be included in the utility capital structure.

Decision

The Board recognizes that both of the methodologies presented have merit. However, the Board was not convinced during these proceedings that one methodology is to be preferred over the other. Further, the Board is of the view that the possible implications of the two methodologies were not fully explored during the hearing.

Accordingly, the Board accepts the applied-for balances and cost rates associated with funded debt for the 1987 and 1988 test years. However, the Board may wish to examine this issue in greater detail at the Company's next toll hearing.

4.2 Unfunded Debt

The Company originally applied for a cost rate on its forecast unfunded debt balances of 10.75 percent for both 1987 and 1988. This rate represented Westcoast's forecast long-term corporate debt rate. Subsequent to the filing of its application, Westcoast revised its request to 10.19 percent for 1987 and 10.75 percent for 1988. The 1987 rate represented a blend of actual and forecast short-term and long-term interest rates; the 1988 rate was a blend of forecast rates only.

Westcoast's expert witness supported the Company's requested rate for 1987, but believed that a long-term corporate rate should be used for 1988. In this regard, the witness differentiated between a test year that has partially elapsed and a prospective test year. It was his belief that, as a general principle, a blended rate should not be used for a projected test year because it would not provide the utility with the incentive to use its best judgment in obtaining funds at the lowest possible cost. The witness suggested that an appropriate long-term corporate rate for 1988 would be in the range of 11 to 11.10 percent, based on a long-term Government of Canada bond (long-Canada) rate of 9.75 percent and a spread of 125 to 135 basis points.

CPA's witness, while not disagreeing with the use of a blended rate for 1987, stated that he has consistently been of the opinion that a long-term corporate rate should be used to cost unfunded debt balances. In this regard, the witness noted that a long-term corporate rate of 11 percent for 1988 was a conservative estimate based on present circumstances.

B.C. Hydro disagreed with the proposition that unfunded debt balances should be costed at a long-term interest rate. In its view, unfunded debt is comprised of both short-term and long-term debt, and the appropriate rate to allow is a blend of the two. While supporting the blended rate approach, BCPC's witness was of the view that, with careful timing, Westcoast should be able to issue long-term debt at a rate of 10.50 percent in 1988. This rate was based on a long-Canada forecast of 9.30 percent and a spread of 120 basis points between long-Canada's and corporate debt issues. Westcoast argued that such a long-Canada forecast for 1988 was not realistic and that a spread of 120 basis points was certainly at the bottom end of the reasonable range.

Decision

The Board believes that, as a matter of principle, unfunded debt balances should be costed using forecast long-term corporate interest rates, unless the circumstances of a particular case indicate that a different rate should be used. The Board notes that unfunded debt represents debt which the Company expects to issue on a long-term basis to finance the long-term, fixed assets of the utility.

With respect to 1987, the Board recognizes that the year is partially completed and that the Company took into account the timing of its 1987 debt issues in arriving at the applied-for blended rate of 10.19 percent. The Board finds that the use of a blended short-term/long-term interest rate is appropriate for 1987 and accepts the applied-for rate as being reasonable.

For l988, Westcoast indicated during cross-examination that it intended to issue long-term debt during the forward test year. Therefore, the Board finds it appropriate to cost the Company's forecast unfunded debt balance using a long-term corporate rate. The Board is of the view that a cost rate of 11 percent is reasonable.

4.3 Preferred Share Capital

Westcoast applied for a cost rate on its preferred shares of 8.09 percent for both test years. This rate was calculated using a net proceeds approach consistent with the method used by the Company to cost its funded debt. Under the Company's applied-for approach, the cost of preferred shares is calculated by dividing the dividend required plus the yearly amortization of issuance expense by the original net proceeds of the preferred shares.

As discussed more fully in Section 4.1, B.C. Hydro's witness took issue with this approach. In her view, such an approach understated the dollar amount of preferred shares included in the applied-for capital structures and overstated the associated cost rates.

Decision

Consistent with its decision in Section 4.1, the Board accepts the applied-for balances of preferred share equity and the associated cost rate of 8.09 percent for the 1987 and 1988 test years. However, the Board may wish to examine the continued appropriateness of the Company's approach at the next toll hearing.

4.4 Common Equity Ratio

The Company applied for a deemed common equity ratio of 35 percent for both the 1987 and 1988 test years; the same level that is currently approved. Westcoast's expert witness took the position that an equity ratio of 35 percent should be viewed as a minimum, in light of the increased business risks and the numerous uncertainties facing Westcoast. The witness viewed Westcoast's export market and the continuation of the BCPC Agreement as being major uncertainties facing the Company.

Several intervenors addressed this issue during the hearing. BCPC's witness recommended approval of the applied-for equity ratio for the test years. This differs from the position he put forth at the time of the Company's 1983 toll hearing, when he recommended an equity ratio of 33 percent. In recommending that the currently approved ratio be maintained, this witness recognized the fact that the Company's method of regulation had changed since the last time he appeared before the Board. The witnesses representing B.C. Hydro and CPA recommended that the deemed common equity ratio be reduced to levels of 30 and 32 percent, respectively.

In assessing the reasonableness of the Company's request to maintain its deemed common equity ratio at a level of 35 percent, the Board continues to rely mainly on the following three factors:

(i) the business risks faced by Westcoast's utility operations (business risk);

(ii) the need to maintain an appropriate balance between the debt and equity elements of the deemed utility capitalization (balance between debt and equity); and

(iii) the need to maintain an appropriate balance between the equity financing attributed to the utility through the deeming process and that portion of the actual consolidated financing which is implicitly left to underpin the Company's non-jurisdictional activities (cross-subsidization).

(i) Business Risk

With respect to business risk, the Company's witness was of the view that there had been a moderate increase in risk since the time of Westcoast's last toll hearing. BCPC's witness believed that investors had perceived a modest increase in the Company's overall business risk since last year's hearing. The witness representing CPA stated that, in his opinion, there had been no meaningful change in business risk this year compared to last. He further stated that if the Company's requests relating to letters of credit and force majeure were granted, he would see this as reducing Westcoast's short-term business risks. B.C. Hydro’s witness did not perform a detailed analysis of the utility’s business risk, but did state that the comments made by the Company’s expert witness in this regard seemed reasonable.

The business risk of Westcoast relative to other pipelines regulated by the Board was also discussed during these proceedings. In particular, CPA submitted in argument that the Company’s business risks do not differ meaningfully from those of TransCanada. In reply argument, Westcoast indicated that its utility operations were clearly more risky than those of TransCanada, noting the differences between the two companies and the changes that have taken place since the Board first determined that an equity ratio of 35 percent was reasonable for its pipeline activities.

(ii) Balance Between Debt and Equity

As evidence that the applied-for deemed capital structures maintained an appropriate balance between the debt and equity elements, Westcoast’s witness pointed to the similarity between the applied for and currently approved capital structures. BCPC’s witness stated that there was no reason to believe that the Company’s financing flexibility and creditworthiness would be adversely affected if an equity ratio of 35 percent were approved.

(iii) Cross-Subsidization

With respect to the issue of possible cross-subsidization, it was noted during cross-examination that when the Company acquires a non-utility oil and gas subsidiary, its philosophy is to finance the acquisition on the basis of 40 percent debt and 60 percent equity. Further, Westcoast argued that, to a large extent, the choice of the appropriate capital structure for the Company’s non-jurisdictional activities is an issue for management to decide. As support for its contention that no cross-subsidization exists, the Company submitted a letter from the Royal Bank of Canada (Royal Bank) concerning the level and likely conditions of term-loan financing achievable for Westcoast Petroleum Ltd. (Westcoast Petroleum). Westcoast argued that the ability of Westcoast Petroleum to raise its own debt was evidence that no cross-subsidization exists.

BCPC’s witness found 35 percent to be a reasonable equity ratio based on an assessment of the Board’s first two criteria, but concluded that the residual equity for the non-jurisdictional activities was low relative to a sample of Canadian oil and gas producers. The witness for CPA was concerned that the projected non-utility interest coverage ratios were below those experienced by Westcoast’s utility operations and by non-utility industrials. B.C. Hydro’s witness was concerned about the possibility of cross-subsidization because her analysis indicated that if an equity ratio of 35 percent were established for Westcoast’s utility operations, the implied equity ratio for the non-utility would be insufficient, given the business risks inherent in those operations.

Decision

In assessing the reasonableness of the applied for common equity ratio, the Board is of the view that principal consideration should be given to the factors relating to the business risk of the utility and the maintenance of a balanced capital structure. The Board is of the view that there has been no meaningful change since last year’s proceedings in the fundamental business risks facing Westcoast. Further, the Board finds the applied-for capital structures to be reasonably

balanced and does not believe that they would adversely affect the utility's creditworthiness and financing flexibility. Based on these two factors, the Board finds that a deemed common equity ratio of 35 percent continues to be reasonable. In reaching this conclusion, the Board believes that the fundamental business-risks currently faced by Westcoast's utility operations are somewhat greater than those of TransCanada.

On the issue of cross-subsidization, the Board was not persuaded one way or the other by the Royal Bank letter, nor was the Board convinced by the other testimony in this area that possible cross-subsidization of the Company's non-jurisdictional activities is a concern at this time.

Accordingly, the Board approves a deemed common equity ratio of 35 percent for the 1987 and 1988 test years.

4.5 Rate of Return on Common Equity

In its application, Westcoast applied for a rate of return on common equity of 14.50 percent for both 1987 and 1988. In support of this rate, the Company relied on the advice of its expert witness. In reaching his original recommendation of 14.50 percent, this witness examined the results emanating from his comparable earnings, discounted cash flow (DCF) and equity risk premium analyses. Subsequent to the commencement of Phase 2, the witness updated the results of his various cost estimation techniques, and revised his recommendation to 14 3/8 percent.

CPA's witness originally recommended a rate of return on equity in the range of 12 5/8 to 12 7/8 percent for both 1987 and 1988. At the time of his appearance at the hearing, the witness recommended the upper-end of this range for 1988, taking into account his views as to the apparent increase in the degree of uncertainty associated with future financial conditions since the time he had prepared his testimony. The witness' recommendations were based on his application of the DCF and equity risk premium approaches.

BCPC's witness recommended a rate of return on equity in the range of 12.80 to 13.10 percent for both test years. In reaching this conclusion, the witness relied on the results obtained from his application of the comparable earnings, equity risk premium and capital asset pricing model (CAPM) techniques.

B.C. Hydro took the position that the appropriate rate of return on equity for Westcoast is currently in the range of 12.50 to 13 percent. B.C. Hydro's witness relied upon the basic data presented by the Company's expert witness in assessing the cost of equity capital for Westcoast's utility operations.

In arriving at his final recommendation, the Company's witness gave 50 percent weight to his comparable earnings results. He concluded that the average return on book equity for stable industrials would be approximately 14.50 percent for the entire current business cycle having regard to achieved returns for the years 1983 to 1986 and projected returns for the remainder of the cycle. In this regard, BCPC was of the view that the witness' reliance on actual and forecast data in the application of this test was no different than relying on the observed returns for a partial business cycle. BCPC argued that such an approach required the witness to make speculative forecasts, thus rendering his results questionable.

With respect to his DCF results, the Company's witness estimated that the basic cost of equity capital was 12.30 percent. Adjusting this rate to reflect a market-to-book ratio of 1.15 resulted in a final cost of equity of 13.40 percent. Based on his risk premium analysis, to which he attached 30 percent weight, the witness concluded that the investors' required rate of return for Westcoast was 13.50 percent. This rate was comprised of a forecast long-Canada rate of 9.75 percent and a risk premium of 3.75 percentage points. Adjusting the basic cost of equity capital in the same manner as was done for the DCF data resulted in a cost of equity of 14.75 percent.

It was noted during cross-examination that, despite forecast long-Canada rates for 1987 and 1988 being 25 basis points higher than they were for 1986, the Company's witness was recommending a rate of return on equity some 60 basis points lower in these proceedings. The witness noted that his recommendation last year of 15 percent reflected the results of the same three cost estimation techniques used in these proceedings, namely the comparable earnings (15.25 percent), DCF (14 to 14.70 percent) and equity risk premium (14 percent) approaches. The witness indicated that the only reason he was recommending a lower rate of return on equity in these proceedings was that he followed the principle that the comparable earnings results should be given primary consideration. The Board notes that the witness' comparable earnings result in these proceedings is 75 basis points lower than it was at the Company's last toll hearing.

Based on his application of the DCF and equity risk premium approaches, CPA's witness concluded that the investors' required rate of return was currently no more than 12 and 12.25 percent, respectively. In arriving at his final recommendations for Westcoast, the witness took into account the recent behaviour of interest rates and their prospective volatility, his common equity ratio recommendation and the need for a margin of safety to minimize the likelihood of dilution. During cross-examination, the witness indicated that the basic reason he made a judgmental adjustment to his initially observed results was to ensure that the rate of return on equity awarded would be fair, even if financial market conditions changed in a meaningful way over the test years.

CPA noted during argument that the basic DCF results of its witness and the Company's witness were virtually the same, stating that the similarity in results provided strong support for placing principle reliance on the results of the DCF approach. With respect to the risk premium technique, it was noted that both the Company and CPA witnesses utilized a long-Canada forecast of 9.75 percent in their respective analyses. The difference in their risk premium results was essentially attributable to their differing assessments of the risk of Westcoast relative to that of the entire market.

When asked to comment on the fact that this year's long-Canada forecast is slightly higher than it was last year, CPA's witness stated that the cost of long-term debt capital has no doubt increased marginally; however, in his view, it does not necessarily indicate that the cost of equity capital has increased. He stated that, to the extent the increase in long-Canada rates reflects the additional risks faced by bond investors due to the possibility of purchasing power loss, there is no need to reflect this increase in the rate of return on equity. He argued that this risk is not applicable to long-term investors in common shares.

BCPC's witness relied primarily on the results of his comparable earnings and equity risk premium analyses, using the results of his CAPM test as a check of the reasonableness of his findings from the other two tests. In applying the comparable earnings approach to a sample of low-risk industrials, this witness concluded that, over the last one and two complete business cycles, average returns of 14.20 to 14.40 percent were more than sufficient to allow a typical low-risk industrial company to maintain a market-to-book ratio above 1.15. Prior to adjustment, this range compared to the comparable earnings result of the Company's witness of 14.50 percent. BCPC's witness then decreased his cost of equity capital range by 120 basis points to a level of 13 to 13.20 percent. His first adjustment was 30 basis points, based on his assessment of the lower risk of Westcoast's utility operations relative to the typical industrial in his sample. He made a further reduction of 40 basis points to take into account that the level of inflation for the next couple of years is likely to be significantly less than the average rate experienced over the two time periods examined. His final adjustment of 50 basis points was made because of his view that associated with the observed returns for his sample companies were market-to-book ratios substantially in excess of the levels required to maintain the financial integrity of these industrials during normal stock market conditions.

The Company's witness recognized that, if one were to apply the comparable earnings technique in this fashion, a judgmental adjustment is necessary because the last business cycle was characterized by higher levels of inflation. However, he rejected the need for a market-to-book ratio adjustment. He argued that if it had not been for the past high levels of inflation, the market-to-book ratios would not have been as high. Westcoast argued that making adjustments for both inflation and market-to-book ratios amounts to double counting.

BCPC's witness also placed significant reliance on the results of his risk premium analysis. Having performed three versions of the test, and having given equal weight to each of the test results, the witness arrived at a range of 12.30 to 13.30 percent. The witness found further support for his final recommendation from his CAPM results of 12.80 to 13.20 percent.

B.C. Hydro's witness concluded that the DCF data provided by the Company witness supported a rate of return on equity in the range of 12.10 to 12.30 percent. The low end of this range represented the basic cost of equity capital for two samples of utilities; this witness held the view that there is no circularity involved in applying the DCF test to utility samples. Taking into account the change in interest rates and equity return requirements from the beginning of the year, the witness concluded that more current cost estimates would be some 25 to 50 basis points higher than the 12.10 to 12.30 percent range. Her equity risk premium result, as revised, was 11.75 to 12.75 percent, comprised of a long-Canada rate of 9.75 percent and a risk premium range of 2 to 3 percentage points. This risk premium range was in part determined on the basis of her risk assessment of Westcoast relative to the market as a whole. She concluded that a beta value of .50, the same as that used by CPA's witness, was appropriate for Westcoast's utility operations. This value is significantly different from the beta value of .75 utilized by the Company's witness. With respect to comparable earnings, her analysis of the data presented by the Company's witness indicated that the cost of equity capital was probably somewhere in the range of 8.70 to 14.75 percent. She had no evidence to suggest wherein this range the rate of return would be and, as such, gave no weight to the data presented.

Decision

The Board notes that two of the expert witnesses in these proceedings placed significant reliance on the comparable earnings test. The Board remains concerned that past high levels of inflation can distort the usefulness of this test in assessing the fair rate of return on common equity. Further, regarding the Company witness' comparable earnings analysis, the Board notes the difficulties inherent in accurately forecasting rates of return for the remainder of the current business cycle. BCPC's witness attempted to overcome some of the shortcomings of this test in his application of the approach. The Board believes that, in making adjustments to his originally observed results for both inflation and market-to-book ratios, the witness has, to some extent, overstated the amount of the required downward adjustment. As well, the Board notes that personal judgment was exercised in determining the magnitude of the adjustments made by the witness.

With respect to the DCF test, the Board notes that the witnesses for the Company and CPA applied this technique to groups of industrials. While the dividend yield components of their respective results were reasonably similar, the two witnesses disagreed as to the appropriate growth estimates to utilize. The Company's witness used two weighting approaches, which gave recognition to growth in both dividends and retained earnings, in arriving at his growth estimate of 10.30 percent. On the other hand, the analysis performed by CPA's witness led him to conclude that, in his view, investors would regard the achieved nominal growth rates in dividends over the most recent five-year period as the best available indicators of the nominal growth rates achievable prospectively. The growth rate implicit in his analysis was 9.60 percent. The Board was not persuaded by the evidence that one growth estimate was more appropriate to use than the other in the context of the DCF technique. The Board recognizes that there is no precise method for determining the growth component of the DCF formula.

With respect to the risk premium test, the Board notes that the majority of the witnesses utilized a long-Canada rate of 9.75 percent. The main area of contention was the risk assessment of Westcoast's utility operations relative to the market as a whole. The Board agrees that the risks of Westcoast's utility-related operations are less than those of the average risk company in the market, but was not convinced that a risk adjustment of the magnitude suggested by the intervenors was warranted.

Based on its analysis of the various test results in these proceedings, the Board would conclude that a reduction in the currently-approved rate of return on common equity is indicated. In reaching this conclusion, the Board recognized that the long-Canada rates forecast during these proceedings were generally somewhat higher than the long-Canada rate forecast at the time of the last Westcoast proceeding. However, the Board is of the view that the current

volatility in interest rates raises a degree of uncertainty as to the interest rate levels that will prevail on average during the 1988 test year. Also uncertain, among other things, is whether Westcoast is exposed to some risk in 1988 associated with the unclear future of the BCPC. All things considered, the Board concludes that some reduction in the rate of return on common equity is warranted for 1987 but not for 1988. Accordingly, the Board finds a fair and reasonable rate of return on common equity for the 1987 test year to be 13.50 percent and for the 1988 test year to be 13.75 percent.

4.6 Income Tax Provision

In its final update, Westcoast computed its income tax provision on a flow-through basis consistent with the approved methodology.

Using overall corporate income tax rates of 51.301 percent for the 1987 test year and 46.195 percent for the 1988 test year, the income tax expense was calculated to be $29.815 million for 1987 and $26.113 million for 1988 (per Exhibit B-149 filed 8 September 1987). The 1988 tax rate reflects the lower corporate income tax rate proposed in the federal governments 18 June 1987 White Paper on Tax Reform.

Decision

The Board notes that Westcoast has calculated its income tax provision using the approved methodology. The Board directs Westcoast to recalculate its test-year income tax provisions to reflect the impact of the various Board decisions given in these Reasons.

Chapter 5
Operating Costs

Westcoast's actual cost of service for the 1986 base year and the applied-for revenue requirements (cost of service) for the 1987 and 1988 test years are shown in Table 5-1. In its original application dated 19 December 1986, Westcoast's forecast revenue requirement for the 1987 test year was $278,738,000. The interim tolls in effect from 1 January 1987 to the date of the Board's final toll order are based on this amount. The amount of the amended revenue requirement which the Company submitted on 3 September 1987, is $265,651,000, a difference of $13,087,000. As discussed more fully in Chapter 9, Westcoast is required to adjust the applied-for test year amounts to reflect the Board's decisions as set out in Chapters 2, 3, 4 and 5.

5.1 Operation and Maintenance

5.1.1 Salaries, Wages and Employee Benefits

5.1.1.1 Staff Complement

In its August 1986 Westcoast Reasons for Decision, the Board approved a net operating and maintenance staff complement of 718 person-years. This figure excludes person-years allocated to non-utility activities and capital projects. In its final update Westcoast projected a reduction of 2 person-years for the 1987 test year and an increase of 16 person-years for the 1988 test year from the 1986 complement. Of the proposed increase of 16 person-years for 1988, 11 are required to operate additional facilities, namely, the Monias Booster Station (3 person-years), the Sikanni plant (6 person-years), and the Tumbler Ridge facilities (2 person-years). The remaining 5 person years are required for the implementation of daily prorationing.

Decision

With the exception of the person-year additions forecast for the Tumbler Ridge facilities, the Board accepts Westcoast's 1987 and 1988 net utility staff complements.

In view of the Board's decision to exclude all items related to the Tumbler Ridge facilities from the cost of service (see Section 2.1 of this Decision), the Board directs Westcoast to reduce the net utility staff complements and to exclude all salaries, wages and benefits related to the additional employees required to operate and maintain the Tumbler Ridge facilities from the 1987 and 1988 test-year costs of service.

5.1.1.2 Escalation Factors

Actual Versus Approved Salary and Wage Increase for the Base Year

In its August 1986 Westcoast Reasons for Decision, the Board allowed Westcoast to provide for a salary and wage adjustment of four percent, inclusive of merit, promotion and progression increases. However, in its application, as amended, the 1986 base year salary, wage and benefit amounts were based on the actual salary and wage increase of 4.2 percent. In argument, Westcoast explained that, while the Board's Decision which allowed 4 percent was received in September 1986, the Company's wage and salary program had been in place since January/February of 1986. The Company believed that it had done well to limit the actual increase to 4.2 percent under those circumstances. It did not think that the base-year amounts should be adjusted so as to disallow any portion of the actual increase.

A number of intervenors believed that the 1986 base year salary and wage levels should reflect the Board approved salary and wage adjustment of four percent. CPA believed that to do otherwise would allow a regulated utility to exceed the approved levels and be required to absorb the difference for only the year in which the increase occurred. It would also result in levels which have never been specifically approved by the Board becoming incorporated automatically into the cost of service. B.C. Hydro believed that the Board should use the same approach as it did in the RH-3-86 TransCanada Reasons for Decision, where the Board reduced TransCanada's 1986 base-year salary and wage amount to reflect the Board-approved four percent increase rather than the actual increase of five percent granted by TransCanada.

Table 5-1
Actual 1986 and Forecast 1987 and 1988 Revenue Requirements
($000)

Line No.	Particulars	1986 Actual (A)	Adjustments (B)	1987 Applied-For (C)	Adjustments (D)	1988 Applied-For (E)
1	Salaries, Wages and Employee Benefits	35,207	161	35,368	2,640	38,008
2	Other Operating and Maintenance Expenses	43,140	826	43,966	1,937	45,903
3	Sub-Total	78,347	987	79,334	4,577	83,911
4	Depreciation	25,542	1,132	26,674	1,885	28,559
5	Amortization	2,481	(80)	2,401	45	2,446
6	Taxes Other Than Income Taxes	36,600	3,695	40,295	1,353	41,649
7	Miscellaneous Operating Revenue	(3,477)	(82)	(3,559)	(565)	(4,124)
8	Insurance Deductibles	-	(57)	(57)	279	222
9	Foreign Exchange on Debt	4,018	19	4,037	(2,017)	2,020
10	Gas Used in Operations	9,990	(3,939)	6,051	(360)	5,691
11	Income Tax Expense	24,921	4,894	29,815	(3,702)	26,113
12	Income Tax Adjustment - Grizzly Valley	(4,767)	-	(4,767)	(1)	(4,768)
13	Return on Rate Base	84,248	4,024	88,272	6,916	95,189
14	Sub-Total	257,903	10,593	268,496	8,410	276,907
15	Deferrals	-	(2,845)	(2,845)	2,845	-
16	Total Revenue Requirement	257,903	7,748	265,651	11,255	276,907
17	Fixed Costs	248,293	9,512	257,805	11,338	269,143
18	Variable Costs	9,610	(1,763)	7,847	(83)	7,764
19	**Total Revenue Requirement**	**257,903**	**7,748**	**265,651**	**11,255**	**276,907**

Notes:
1 Source: Exhibit B149
2 Totals may not add due to computer rounding
3 Net of Alberta (Zone 5) Facilities

Decision

On the basis of the evidence presented, in particular the time lag between the implementation of the salary and wage programs and the issuance of the Board's August 1986 Westcoast Reasons for Decision, the Board accepts the 1986 salary, wage and benefit amounts contained in the application, as amended. While noting B.C. Hydro's reference to the Board's recent TransCanada decision as a precedent, the Board is of the view that the circumstances in this case are not similar and therefore do not warrant similar treatment.

1987 Salary and Wage Increases

For the 1987 test year, Westcoast applied for approval of the actual negotiated increases of three percent for salaried employees and three percent plus a lump sum payment of $500 for each wage earner. In addition, Westcoast provided for reclassifications and upgrades under the terms of the respective wage earners' collective agreements. This is equivalent to 0.25 percent of basic wages. Westcoast stated that these increases were determined by comparing its salary grades and comparable positions for wage earners to other companies within the industry. In addition, a review of 1987 negotiations and anticipated settlements were discussed with members of the industry. The actual salary and wage settlements adopted in the industry for 1987 ranged from 2.7 to 4.5 percent for salaries and 2.3 to 3.5 percent for wages.

The only objection to the proposed increases for 1987 came from B.C. Hydro which recommended a wage and salary increase in the range of 2.5 to 2.75 percent for 1987.

Decision

Taking into consideration the actual settlements in the industry, the Board finds the proposed increases for 1987 to be reasonable. The Board directs Westcoast to use these increases in determining its salaries, wages and benefits expense for the 1987 test year. The Board also finds the 0.25 percent provision for reclassifications and upgrades for wage earners to be reasonable.

1988 Salary and Wage Increases

With respect to salary and wage increases for the 1988 test year, the salaried staff pay-for-performance program and the wage settlements are anticipated to cost 5.5 percent of salaries and wages payroll. In addition, Westcoast provided for a 0.25 percent increase for reclassifications and upgrades. The salary and wage increases were determined by reviewing the anticipated increases of other companies in the oil and gas industry in Canada. During cross-examination, Westcoast acknowledged that the anticipated increases of other utility companies in the oil and gas industry in Canada range from 4.5 to 6.0 percent for 1988.

A number of intervenors cross-examined the Company on the proposed 1988 increase and argued that the proposed increase was excessive. COFI/Cominco and B.C. Hydro believed that Westcoast had failed to take into account the job security risk differential inherent in working for Westcoast, as compared to working in other sectors of the oil and gas industry. B.C. Hydro believed that the Board should give equal weighting not only to what companies are offering in the industry but also to what is happening in B.C. in terms of wage and salary increases.

In replying to the concerns raised by intervenors with respect to the relative job security in the utility sector, Westcoast stated that its skilled employees come from the production and refining sector, which is a more stable sector of the industry as compared to the exploration and drilling sector. Westcoast did not agree that, because of increased job security, it can afford to pay its skilled employees less.

Westcoast stated that the market for employees with the required skills is not found in Vancouver but in cities such as Calgary and Toronto, and believed that employees in those cities possessing the necessary skills could expect increases of 5.5 percent in 1988.

Decision

The Board was not persuaded that an increment of the magnitude applied for is justified for the 1988 test year. The Board is of the view that a 4.5 percent average increase in salaries and wages is reasonable. Therefore, Westcoast is directed to use this increase in calculating its salaries, wages and benefits expense for the 1988 test year. In addition, the Board finds that the 0.25 percent provision for reclassifications and upgrades for wage earners is reasonable.

5.1.1.3 Allocation to Non-Utility Activities

Westcoast stated that it applies what it believes to be generally accepted cost accounting procedures to allocate costs to non-utility activities. Costs are allocated on the basis of non-utility hours recorded on employees' time sheets and include a surcharge of 65 percent of each dollar of salaries or wages allocated.

Westcoast indicated that all senior management personnel acting as directors of subsidiary companies charge all their time spent preparing for, travelling to and attending directors' meetings to non-utility activities. Work conducted evaluating non-jurisdictional acquisitions is carried out by the staff of Westcoast Petroleum. Time spent by senior Westcoast management reviewing acquisitions is also charged to non-utility activities.

Each of Westcoast's non-jurisdictional subsidiaries is a self-contained operating company with its own board of directors and full complement of operating personnel.

In argument, CPA noted that the proportion of costs allocated to the non-utility function has decreased gradually from 6.5 percent in 1986 to 5.7 percent in 1988. In CPA's view, it would be unrealistic to expect that the non-utility acquisition program currently being pursued by Westcoast would not occupy a substantial portion of the proceedings at board of directors' meetings. CPA also argued that the fact that Westcoast arranges the bulk of public financing for its subsidiaries is surely a significant contribution to the non-utility function and one which should be reflected in the allocation.

COFI/Cominco and B.C. Hydro also argued that the costing mechanism for allocating the non-utility salaries, wages and benefits was inadequate to reflect the Company's non-utility activities.

Decision

The Board is not persuaded that salaries, wages and benefits allocated to non-utility activities should decrease in the test years in view of the forecast increase of non-utility activities. Accordingly, the Board directs that salaries, wages and benefits allocated to non-utility activities be set at the 1986 amount of $2,914,000 for both 1987 and 1988. This will result in a decrease in utility salaries, wages and benefits expense of $128,000 and $124,000 for the 1987 and 1988 test years, respectively, and will result in a corresponding increase in the amount allocated to non-utility.

5.1.1.4 Pension Plan Accounting Treatment and Toll Implications

In view of the accounting recommendation on "pension costs and obligations" which was issued by the CICA in April 1986, the Board decided to examine Westcoast's treatment of pension costs.

The Board notes that the recommendations were effective, with some exceptions, for the fiscal years commencing on or after 1 December 1986 and that the measurement and reporting methods for pension costs and obligations would change for many companies.

The new recommendations are intended to achieve improved measurement of the pension expense, to make pension accounting results more uniform and comparable between companies and, over time, to provide extended disclosure. Section 3460.07 of the CICA Handbook reads as follows:

> "The employer's objective in accounting for pension costs is distinctly different from the objective in funding a pension plan. The objective of accounting is to provide a proper allocation of the cost of the plan to the years in which the related employee services are rendered. This objective is achieved by allocating that cost in a rational and systematic manner to the employees' pre-retirement years. The objective of funding a pension plan is to provide cash or other consideration to discharge pension obligations and to provide for pension security. Funding is a financing procedure that considers cash requirements and other matters such as pension or income tax legislation. Accordingly, the amount contributed to a pension fund in a period is not necessarily the appropriate amount to be recognized as pension expense of the period."

Westcoast indicated that, consistent with prior years, it had followed a cash basis for charging pension costs to the 1987 and 1988 test-year costs of service and had flowed through the benefit of deferring charges by treating pension expense in the same manner as it does income tax.

The Company stated that the reason it did not adopt the CICA accounting recommendation was to avoid the cost increase associated with implementing the change. The evidence indicated that expenses of $1.7 million would be charged to the cost of service in each of 1987 and 1988 if the CICA recommendation was followed. During cross-examination, Westcoast stated that, based on its funding approach, it had forecast no pension expense for the 1987 and 1988 test years.

Intervenors did not express any concerns regarding Westcoast's lack of conformity with the CICA accounting recommendations. Only CPA addressed the matter of the pension plan during the hearing.

In response to CPA's cross-examination, Westcoast advised that it has a pension plan surplus of $5.7 million and that the Company will probably be faced with funding the plan in two or three years, depending on the investment performance of the plan.

Decision

The Board notes Westcoast's efforts to keep increases in the cost of service to a minimum. However, the Board does not believe that the cash or flow-through basis results in a proper matching of pension costs with the incurrence of the obligation. The Board recognizes that although the pension expenses would be reduced in the two test years using the cash basis of accounting proposed by the Company, the reverse could occur in future years by not recording appropriate pension expense accruals in 1987 and 1988.

The Board is not persuaded that cost reduction in the two test years provides sufficient justification for not conforming with the CICA recommendation. Accordingly, the Board directs Westcoast to include pension expenses determined in accordance with the CICA accounting recommendation in its 1987 and 1988 test-year costs of service.

The Board recognizes that Westcoast may not expend funds in the two test years to the extent of the pension expense allowed in the cost of service. In view of this, the Board directs that an appropriate adjustment be made to the rate base to mitigate the impact of this decision on tolls (see Section 2.5).

5.1.2 Other Operation and Maintenance

5.1.2.1 1988 McMahon Plant Labour Costs

Westcoast's policy is to perform a major maintenance overhaul in each of its processing plants every second year. This is referred to as a "major plant outage" or "plant turnaround". Such a plant turnaround was scheduled for the McMahon plant in 1987. Accordingly, Westcoast forecast that the cost of operating the plant in 1987 would be $620,000 higher than 1986, with labour accounting for $206,000 of the increase. To reflect a return to a normal operating year, the Company has forecast a decrease in operating costs of $405,000 for 1988. The cost of labour, however, is projected to increase by an additional $38,000 in 1988.

CPA contended that if the 1987 labour charges are projected to increase by $206,000 over those of 1986 because of a plant turnaround, there should be a corresponding drop in the cost of labour the following year. However, this does not appear to be the case.

Westcoast explained that although the plant turnaround accounted for some increased labour costs in 1987, other factors were also involved. These other factors included a signing bonus and wage increase granted by Petro-Canada and the fact that the plant was operated with less than a full staff complement during 1986. With the exception of the cost of the increased labour related to the plant turnaround, all the remaining labour costs were flowed through to 1988. Westcoast also noted that the cost of outside services was forecast to decrease by $218,000 in 1988 because there would be no plant outage.

Decision

The Board believes that to properly assess the impact which a plant turnaround has on operating and maintenance costs on a year-to-year basis, it is necessary to focus on the total cost rather than to single out labour or outside services. In this context, and in light of the explanations provided by the Company, the Board accepts Westcoast's operating and maintenance expense forecasts for the McMahon plant for the 1987 and 1988 test years.

5.1.2.2 Vancouver Head Office Rental Costs

The Vancouver head office building and the land on which it is situated is owned by Vancal Properties Limited (Vancal), a wholly-owned subsidiary of Westcoast. Westcoast leases the entire building from Vancal pursuant to the terms of a lease agreement between the two companies. Westcoast pays Vancal its owning and operating costs, plus the costs associated with the operation of the building and charges the rental costs to the cost of service.

Westcoast indicated that its rental costs per square foot would be $16.58 in 1987 and $18.54 in 1988. Any space which Westcoast does not require is rented by way of sub-leases with the revenues from such tenants being credited to the test-year cost of service.

Westcoast recently renegotiated the lease with its major tenant for a term of five years and agreed, as part of the new lease arrangements, to pay the cost of additional leasehold improvements amounting to approximately $1,000,000. The Company stated that it will earn about $5,000,000 in rentals over the term of the renegotiated lease. The charge per square foot to this tenant is more than $24.00 for both 1987 and 1988.

Inland noted that an amending agreement signed between Westcoast and Vancal, dated 1 January 1987, requires Westcoast to indemnify Vancal from foreign exchange losses which Vancal incurs on interest and debt repayments relating to the building mortgage. Inland viewed this arrangement as imprudent because Westcoast receives no economic benefit in return.

Decision

The Board, while cognizant of Inland's concerns, believes that the Company's tollpayers benefit from the favourable rental cost which Westcoast pays per square foot for accommodation under its present lease arrangements. The Board, therefore, approves the amounts charged to operating and maintenance expense during the two test years for the rental of the Vancouver head office.

5.1.3 Sikanni Plant

During the hearing, it became evident that Westcoast had not considered the operating costs incurred by the previous owners of the Sikanni processing plant in estimating the cost of service for the plant.

Several intervenors expressed concern that Westcoast would commit to a major acquisition without having done a thorough examination of the economics. B.C. Hydro felt that Westcoast's projected operating costs might be a little high, and Inland took the position that the Sikanni plant and pipeline should be treated as non-utility projects.

In rebuttal, Westcoast admitted that a thorough evaluation of the costs of operating the plant had not been done at the time Westcoast committed to buy the plant, but indicated that its projected operating costs for 1988 are less than the actual annual costs incurred by the previous owner.

Decision

While the Board would expect Westcoast to conduct a complete evaluation of historical data and present it to the Board concerning any future acquisition, the Board is prepared to accept the information as filed by Westcoast in this case. The Board notes that Westcoast's projected 1988 operating costs are 71 percent of those of the previous owner and that Westcoast forecasts a greater throughput for the plant. The Board is of the view that the estimated operating costs for the Sikanni plant are reasonable. However, Westcoast is required to adjust the estimated cost of service for this plant to reflect the Board's decisions found elsewhere in this report.

5.1.4 Amortization of Hearing Costs

Westcoast estimated that costs of this hearing will amount to $900,000 and proposed that they be recovered in the cost of service in equal amounts over the two test years. The Company has not included the unamortized balance in rate base. Intervenors were not opposed to the proposed treatment.

Decision

The Board approves Westcoast's proposed treatment of hearing costs.

5.1.5 Tumbler Ridge Facilities

See Section 2.1 of this Decision regarding the cost of service treatment of the Tumbler Ridge facilities.

5.1.6 Marketing Activity Costs

The issue of the appropriate treatment of Westcoast's marketing activity costs was discussed during the 1986 toll case. As well, this matter formed part of Westcoast's application for review pursuant to Section 17 of the NEB Act, with respect to the August 1986 Westcoast Reasons for Decision. The Board directed Westcoast, for purposes of the Company's next toll hearing, to show all marketing costs on a separate schedule in its application. In the present application, Westcoast has included marketing department costs of $753,000 and $784,000 in its cost of service relating to the 1987 and

1988 test years, respectively. While the Company has, for compliance purposes, shown these marketing department costs on a separate schedule, they are included in the cost of service. Westcoast noted that these costs included amounts associated with customer liaison and administration, and throughput forecasting.

Westcoast contended that it does not profit from marketing gas and that its marketing costs are incurred for the sole purpose of obtaining maximum utilization of its utility system. The Company believed that all users of the system benefit from the activities of its marketing department and therefore the costs of this department should be included in the 1987 and 1988 cost of service. During the hearing, Westcoast stated that it intended to assign its existing sales contracts to a separate marketing entity by 31 October 1989.

Intervenors were generally of the opinion that the marketing function and the associated costs should be removed from the Company's regulated utility function. Allowing Westcoast to recover its marketing department costs in its tolls creates a perception that these operations are being subsidized by tollpayers who may also be in competition with Westcoast, the marketer. A number of intervenors felt that marketing costs such as those related to market forecasting, customer liaison and administration should be recovered through Westcoast's transportation tolls. However, there was general agreement among the intervenors that costs resulting from the Company's efforts to sell gas are a non-jurisdictional function and, as such, should be removed from the cost of service.

Decision

The evidence indicates that of the six persons employed in the marketing department during 1986, the two marketing analysts spent significant portions of their time in the field attempting to generate new gas sales. The department manager also was involved in this activity. The Board also notes that Westcoast proposed adding one additional full-time employee to the department in 1987. Although the Board cannot precisely delineate the specific functions of these employees, it is the Board's opinion that the functions of the two analysts are more closely related to the marketing of gas than to the utility operations of the Westcoast system. Accordingly, the Board directs Westcoast to remove $200,000 from each of the 1987 and 1988 test-year cost of service. This amount represents approximately two-sevenths of the Vancouver departments costs relating to marketing activities.

5.2 Insurance Deductibles

In its August 1986 Westcoast Reasons for Decision, the Board approved an amount of $481,000 in the cost of service for insurance deductibles relating to insurable operating and maintenance losses. This item was included to protect Westcoast from losses over which it has no control and which are not recoverable under the deductible clause contained in certain insurance policies. The approved amount was determined by calculating the average amount of such losses over the previous four-year period.

In its current application, Westcoast included a credit of $57,000 for the 1987 test year and a charge of $222,000 for the 1988 test year for insurance deductibles. The Company calculated the amounts using the approved methodology; however, two adjustments were made to the amount for 1987 which resulted in a credit for that year. An amount of $166,000 was deducted from the four-year average after it was determined that the 1986 deductible of $481,000 had been overstated, and a further deduction of $109,000 was made to recognize that no losses had been sustained during the first six months of the 1987 test year. However, while Phase 2 of the hearing was in progress, a landslide, which moved a section of its pipeline approximately eight feet, occurred in Westcoast's northern district. The ultimate cost of repairing the line had not been determined at the time of the hearing.

The actual amount of losses incurred by Westcoast during the base year as a result of deductible clauses was zero. B.C. Hydro stated that, as a result, Westcoast received a windfall gain of $319,000. In B.C. Hydro's opinion, the Company should be directed to explore possible alternatives to the method presently used to determine an appropriate amount for insurance deductibles. It also recommended that the 1988 test-year amount be reduced by $50,000 to reflect Westcoast's actual experience during the first half of 1987.

Decision

In the Board's opinion, the method presently used to calculate an amount for insurance deductibles in the cost of service, based on a four-year rolling average, continues to be appropriate. The Board is also of the view that the deduction of $109,000 made to reflect the Company's actual experience during the first six months of 1987 should not have been made because such mid-year adjustments are not consistent with the Board's approved methodology.

Accordingly, the amounts approved for insurance deductibles for 1987 and 1988 are $52,000 and $222,000, respectively.

5.3 Foreign Exchange on Debt

Westcoast has included amounts for foreign exchange on debt of $4.037 million for 1987 and $2.020 million for 1988 based on $1.00 U.S. being approximately equal to $1.34 Canadian.

CPA questioned whether these amounts should be reduced, noting that during the first six or seven months of 1987 the exchange rate had consistently been below $1.34.

Decision

In Section 8.1 of these Reasons, Westcoast has been granted a deferral account in which to record the difference between the actual cost of foreign exchange and the amount recovered in the tolls. Accordingly, the amounts included in the cost of service for foreign exchange on debt for the two test periods are approved.

5.4 Gas Used in Operations

5.4.1 Tendering for Fuel Gas

In its August 1986 Westcoast Reasons for Decision, the Board found that costs might be reduced if Westcoast were to call for tenders for the supply of fuel gas for those shippers who do not provide their own. Accordingly, Westcoast was directed to call for such tenders and to provide estimates of the cost of gas used in operations on that basis.

At the hearing, Westcoast indicated that it had not tendered for gas used in operations. Westcoast took the position that it is contractually obligated to purchase gas from BCPC and further argued that a lower price for fuel gas would not result from tendering since the average annual load factor for fuel gas would be about 14 percent.

Inland considered Westcoast's purchase of gas from BCPC to be reasonable, given the low load factor. Inland was concerned that action could be taken which might jeopardize the arrangement by which Westcoast now purchases gas for operations, and that such action would not result in lower gas costs over the long term under a tendering process.

BCPC, in argument, submitted that Westcoast was contractually obliged to buy fuel gas from BCPC.

Decision

Evidence and argument did not conclusively establish whether Westcoast is contractually bound to purchase its fuel gas from BCPC. Regardless, this is not determinative of the amount the Board will allow Westcoast to include in its approved cost of service and thus be reflected in the tolls for those customers who do not provide their own fuel gas. Therefore, the Board requires Westcoast to determine the costs of obtaining fuel gas and its line pack requirements from other sources. In its next toll application, Westcoast should indicate the sources of gas which it has considered, the prices quoted, and the reasons underlying Westcoast's decision to select one specific source.

5.4.2 Cost of Gas Used in Operations

Westcoast estimated that the net gas used in operations would be 123 728 10^3m^3 in 1987, and 113 776 10^3m^3 in 1988. The costs associated with those volumes were estimated to be $6.051 million for 1987 and $5.691 million for 1988.

Decision

The Board accepts Westcoast's estimates of cost of gas used in operations, for the 1987 and 1988 test years, subject to any adjustments required to reflect the Board's decision regarding the Tumbler Ridge facilities (see Section 2.1 of this Decision).

5.5 Retainer Fee

In its August 1986 Westcoast Reasons for Decision, the Board approved an amount of $120,000 to be credited to the cost of service as a retainer fee, to recognize the benefit the non-utility derives from having ready access to the utility's regular, technical and professional staff.

Westcoast subsequently requested that the Board review and vary its decision. In ruling on Westcoast's request, the Board stated that its decision to establish a retainer fee, in principle, would stand; however, it was prepared to re-examine the amount of the fee. Accordingly, Westcoast was directed to address this issue in its next toll proceeding. Westcoast did not file any evidence to support the appropriate quantum of a retainer fee, but led evidence which attempted to persuade the Board that such a fee was not required. During cross-examination Westcoast maintained that because it was opposed to such a fee in principle, the appropriate amount would be zero.

B.C. Hydro, BCPC and the Independent Petroleum Association of Canada (IPAC) were of the opinion that the non-utility portion of the Company obtained a benefit from having various utility personnel skills available to it that is greater than that reflected through the Company's cost allocation process. Each of these intervenors suggested various methods for determining the appropriate amount of the retainer fee.

Decision

The Board is not persuaded by the evidence that the appropriate level of the retainer fee is other than the amount determined in its August 1986 Westcoast Reasons for Decision. Accordingly, the Board has decided that the appropriate amount of the annual retainer fee for each of 1986, 1987 and 1988 is $120,000, and directs Westcoast to credit that amount to the cost of service.

5.6 Variance Between Approved Tolls and Interim Tolls

Since 1 January 1987 Westcoast has recovered, out of revenues from sales and transportation services, interim tolls as prescribed by Order No. TGI-59-86, as amended.

Decision

The Board, having considered all of the evidence, issued Order No. TG-7-87 giving effect to its decisions in respect of Westcoast's toll application, as amended. With the issuance of the Board's final Order in these proceedings, Westcoast is required to recalculate the tolls for sales and transportation services for each month commencing I January 1987 and refund the difference between those tolls and the interim tolls, together with a carrying charge, to the tollpayers. The carrying charge, calculated at 1/12th of the approved rate of return on rate base, shall be added to the balance outstanding at each month-end up to the date of the refund.

Chapter 6
Toll Design

6.1 Throughput Forecasts

Westcoast forecast daily demand volumes for the 1987 and 1988 test years of 42 011 10^3m^3 and 40 097 10^3m^3, respectively. The daily demand is split approximately 46 percent domestic and 54 percent export for 1987 and 49 percent domestic and 51 percent export for 1988, the first full year of the new Westcoast/Northwest Agreements.

Westcoast's annual sales and service volumes, including interruptible, are forecast to be 8 087 10^6m^3 in 1987 and 8 066 10^6m^3 in 1988. Approximately 59 percent of the annual volumes are expected to be consumed in the domestic market in 1987 and 62 percent in 1988.

Decision

The Board notes that the 1987 and 1988 throughput forecasts have taken into consideration the contractual obligations specified in the Letter Agreement dated 15 September 1987 between Westcoast and Northwest. The Board finds Westcoast's 1987 and 1988 test year forecasts to be reasonable and accepts them for cost allocation and toll design purposes.

6.2 Allocation of Fixed Costs

Background

As part of its development of a toll design for Westcoast, the Board must establish a basis for allocating costs among various types of service and pipeline customers. Variable costs, mainly compressor fuel, are generally charged on the basis of throughput. The allocation of fixed costs, which represent approximately 97 percent of Westcoast's revenue requirement, has proven to be more contentious.

In its 1986 toll application Westcoast proposed that fixed costs be allocated on the basis of the firm daily contract demand (CD) volumes contained in its gas sales contracts with its firm sales customers. The Board accepted Westcoast's proposal for the 1986 test year.

In the current proceedings, CPA noted that the existing Letter Agreement dated 26 October 1986, which amends the Fourth Service Agreement between Westcoast and Northwest, was due to expire on 31 October 1987. Because costs are allocated on the basis of existing CD levels in Westcoast's gas sales contracts, CPA was concerned about the method Westcoast would use to allocate its costs to recover its cost of service if a significant change were to occur in the Westcoast/Northwest contract.

A number of options were examined at the hearing as a possible basis for the allocation of Westcoast's fixed costs. These included:

(i) CD levels in the gas sales contracts, including an allocation to export on the basis of 727 MMcfd, as set out in the new Westcoast/Northwest agreements;

(ii) historical CD levels in the gas sales contracts;

(iii) current system utilization; and,

(iv) other bases, such as annual nominations or total throughput.

Of these, only the first three received any support. The third option, current system utilization, was originally proposed by CPA before it had made its position known on the new Westcoast/Northwest Agreements. Accordingly, the Board is of the view that only the first two options need to be examined.

(i) CD Levels in Contracts

Westcoast indicated that its existing toll design methodology, which is based on the CD volumes in the gas sales contracts, is capable of accommodating a change in the volumes specified in the Westcoast/Northwest Agreements.

For the period 1 January to 31 October 1987, Westcoast indicated that costs would continue to be allocated to the firm export customers on the basis of 809 MMcfd. Pursuant to the new Westcoast/Northwest Agreements[1], Westcoast proposed that, effective 1 November 1987, costs be allocated to the export market on the basis of a contract demand of 727 MMcfd, comprised of 550 MMcfd to Northwest; 125 MMcfd to System Producers; and, 52 MMcfd to Poco.

The 550 MMcfd allocated to Northwest was the CD level agreed to in the new Westcoast/Northwest Agreements and represented Northwest's estimate of its requirements, provided its system remained closed. The 125 MMcfd allocated to system producers was based on their intention to enter into service agreements with contract demands at that level. Westcoast indicated that the intended market for the 125 MMcfd was off-system sales into export market areas other than Northwest's but that no firm sales arrangements were in place. The 52 MMcfd allocated to Poco Petroleums Ltd. (Poco) was based on its existing service contract.

Westcoast indicated that it had five objectives in its negotiations with Northwest:

- that the Northwest CD reflect the realities of its market;
- that Northwest pay a demand charge equal to the fixed costs associated with its contract demand;
- that any cost reallocation to Westcoast's domestic customers be minimized;
- that the agreement be sufficiently flexible to accommodate Northwest becoming an open-access carrier; and,
- that the negotiated pricing arrangement and Westcoast's toll methodology be consistent.

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[1] These new gas sales agreements are summarized in Appendix VI.

Westcoast acknowledged that the reduction in the costs allocated to the export market would have an impact on the tolls of the domestic distributors. It indicated that the share of the fixed costs borne by the local distribution companies (LDCs) would increase from 45.5 to 47.0 percent.

Westcoast indicated that in order to minimize the impact on the LDCs, the system suppliers had agreed to contract for 125 MMcfd. Taking these volumes into account, the total CD on which costs would be allocated to the export market is approximately ten percent lower than the previous total export CD of 809 MMcfd. Westcoast saw some parallel between the proposed reduction and the LDCs existing adjustment provision, whereby an LDC can reduce its CD by ten percent from the previous maximum.

Westcoast's position was supported by Northwest, CPA, IPAC and the Alberta Petroleum Marketing Commission (APMC). Westcoast received qualified support from BCPC, while B.C. Hydro, Inland and COFI/Cominco opposed the proposal.

Under the terms of the new Westcoast/Northwest Agreements, Northwest has agreed to pay in its demand charge 100 percent of the fixed costs allocated to it, based on the Board-approved tolls. This commitment was made with no guarantee that Northwest would be able to flow through these costs to its customers on an "as billed" basis. Northwest was prepared to assume this risk for the duration of the Agreements.

Northwest acknowledged that if it were allocated costs on the basis of 550 MMcfd, a reallocation of costs to all other firm customers would result. If this were to occur, Northwest saw some opportunity for redeployment of pipeline capacity to new customers in the future. The ultimate result of such redeployment could be lower unit costs for all customers.

Northwest agreed that if other firm customers were facing a major restructuring of their businesses, they should have a similar opportunity to review their situations and alter their contract demands.

CPA believed that the Westcoast/Northwest Agreements would provide assurance that gas would flow into the export market until at least 31 October 1989 and would free up pipeline capacity. CPA indicated that the proposed reduction for Northwest should not entitle domestic utilities to a similar reduction because the circumstances were not similar. In support of this position, CPA noted that domestic utilities fully utilize their respective CDs and indeed require additional volumes. However, according to CPA there was no indication that Northwest needed its CD of 809 MMcfd.

CPA agreed that in the short term, until the domestic distributor contracts are renegotiated, producers could benefit from the shift in allocation away from the export market by receiving higher netbacks from export sales. However, CPA suggested that over the long term domestic distributors would take the market price and the tolls into account in their negotiations. As a result, CPA concluded that the price received by producers would be reduced to reflect this reallocation. Inland and B.C. Hydro did not agree with CPA's assertion.

BCPC, speaking for both itself and the Province, advocated that the cost reallocation proposal be accepted by the Board. BCPC suggested that the proposal was based on two principles that ought to be retained. Firstly, the pipeline was a joint domestic/export venture requiring a sharing of responsibilities among its customers. Secondly, the excess capacity resulting from the reduction in the export CD arises out of the failure of a marketing contract held by Westcoast. BCPC also believed that similar treatment should be accorded Canadian utilities should similar circumstances prevail in the domestic market.

Inland and B.C. Hydro took the position that contracting parties should be relieved of the responsibility for their share of fixed costs only if the responsibility for such costs were redistributed through an assignment to new firm CD shippers. They acknowledged that the LDCs had reduced their CDs in the past within their allowable ten percent limitation, but noted that an LDC gas purchase contract differed from that of Northwest in that it is underpinned by a 65 percent load factor requirement in the minimum bill. In their view, it is not appropriate to look at one item of a contract and say that it is discriminatory. Rather, it is necessary to look at the whole contract. Inland and B.C. Hydro also suggested that if Northwest were allowed to reduce its CD volumes, then other firm users of the system should be allowed the same opportunity.

Inland and B.C. Hydro presented evidence to show the impact on the domestic utilities of a cost allocation to the export market of 602 MMcfd, comprised of 550 MMcfd to Northwest and 52 MMcfd to Poco. For 1987, they estimated the effect to be a two percent increase in tolls over the base case, if made effective 1 November 1987; or a 14 percent increase, if made effective 1 January 1987. In cross-examination, they agreed that the increase for 1988 would be 15 to 16 percent over the 1986 base-case tolls. They indicated that rates of increase of such magnitude could affect the competitive position of natural gas in relation to electricity in their markets. Furthermore, Inland and B.C. Hydro suggested that the increase in the distributor’s tolls could cause industrial customers to consider bypassing the LDCs.

Westcoast acknowledged that even with a CD of 727 MMcfd for export as contained in the new Westcoast/Northwest Agreements the increase over the two-year period 1986 to 1988 would be approximately 15 percent. Westcoast noted however that approximately one-half of the increase is attributable to increases in Westcoast’s cost of service over the same two-year period.

Inland indicated that it was prepared to consider a change in its position on the costs allocated to export, if longer term arrangements were contemplated. However, it did not consider the new agreements to be long term. Accordingly, Inland opposed the arrangement stating that the Board should not revise the cost allocation factors.

Inland and B.C. Hydro were of the view that once it was established that the participants in the export market pay all costs associated with the investments made to service that market, the LDCs would have no interest in how export tollpayers allocate the toll among themselves.

Inland and B.C. Hydro suggested that Northwest’s problem resulted from the displacement of firm sales by direct sales of interruptible gas. They concluded that interruptible service was inappropriately priced and the logical solution would be to increase Westcoast’s toll for interruptible service relative to firm.

(ii) Historical CD Levels

In support of their position that Westcoast should continue to allocate costs to export on the basis of 809 MMcfd, Inland and B.C. Hydro presented joint evidence in opposition to the proposal to reduce the costs allocated to the export market. The parties suggested that consideration of such a reduction was not required at this time, because the original gas sales contract and export licence GL-41 contemplated a contract demand of 809 MMcfd until 1 November 1989.

The parties argued that Westcoast facilities had been approved by the NEB in the past to serve the CDs in the gas sales contracts of the domestic utilities and Northwest. The parties saw no reason to change from the historical arrangement at this time. B.C. Hydro proposed cost allocation on the basis of the status quo until the LDCs had the opportunity to renegotiate their contracts.

CPA considered the continued allocation of costs on the basis of 809 MMcfd to be unrealistic. It suggested that this could lead to a situation where facilities are constructed and additional gas supplies are contracted for unnecessarily. As well, CPA suggested that the use of 809 MMcfd was tying up space that other parties might want to contract for on a firm basis.

Northwest opposed cost allocation on the basis of 809 MMcfd stating that such a cost allocation is not equitable and ignores the fact that the Westcoast system is being utilized as a transporter in an open access environment. Northwest further argued that the existing method of cost allocation resulted in Northwest subsidizing other service on Westcoast. It submitted that excess capacity had been created, which provided a strong incentive for service customers to contract on an interruptible basis. Finally, it argued that an allocation based on 809 MMcfd has required Westcoast to build or purchase facilities as if the 809 MMcfd were actually needed. Northwest suggested that a cost allocation based on a realistic demand would more closely match cost responsibility with facilities utilization and send more accurate price signals to buyers and sellers, as well as producers.

Decision

The Board continues to view the Westcoast System as an integrated one which was designed to serve both the domestic and export markets. Furthermore, the Board is of the view that the CD volumes contained in Westcoast's gas sales and firm service contracts remain an appropriate basis for allocating fixed costs.

The Board finds the revised CDs put forward by Westcoast to be reasonable in the circumstances of the export market, as described in the evidence led by Westcoast and Northwest. All things considered, the Board finds the resulting cost reallocation acceptable. In reaching this conclusion, the Board gave careful consideration to the evidence of the intervenors, particularly that of Inland and B.C. Hydro, as to the effects on other parties.

Accordingly, for the period 1 January to 31 October 1987, Westcoast is directed to allocate fixed costs to the firm export customers on the basis of 809 MMcfd the total of the CDs of 757 MMcfd to Northwest and 52 MMcfd to Poco.

For the balance of the 1987 test year, 1 November to 31 December 1987, and all of the 1988 test year, costs shall be allocated to the firm export customers on the basis of 727 MMcfd using the new CDs in the revised contractual arrangements

put forward by Westcoast: 550 MMcfd to Northwest; 125 MMcfd to System Producers; and 52 MMcfd to Poco.

For the domestic customers, the basis of allocation will be the CD levels in the appropriate sales and service contracts.

The above decisions are subject to those contained in Section 6.3.

6.3 Double Recovery of Demand Component

6.3.1 Background

The 1985 Natural Gas Agreement

The 1985 Natural Gas Agreement encouraged parties to move toward a market-oriented gas régime for natural gas. Export prices were deregulated immediately while administration of domestic prices was removed more gradually.

In response to this encouragement, gas-on-gas competition became more prevalent with direct sales competing openly with system gas in both the export and domestic markets. For gas deregulation to be effectively implemented, it is necessary for other elements to be in place, including non-discriminatory access to pipelines and markets, and no unjust discrimination between tolls for system sales gas and those for transportation service.

Regulators, including the Board, have been responsive to the changing environment and have taken measures to assist in the transition to the new régime.

Traditional Role of Pipelines

Prior to the 1985 Natural Gas Agreement, natural gas transporters, such as Westcoast, had a marketing monopoly in addition to a transportation monopoly. All gas passing through the system was owned by the transporter. Back-to-back contracts with upstream suppliers and downstream customers were relied on to support applications to construct facilities and to arrange the required financing. Such financial underpinning did not distinguish between the marketing and transportation functions of the pipeline company.

The 1985 Natural Gas Agreement effectively removed the marketing monopoly. Westcoast and its system suppliers and customers are now required to compete with the prices offered by direct sellers. The obligations associated with the existing long-term contractual arrangements are impediments to a true market-oriented pricing environment. Certain aspects of these residual effects can be dealt with by the Board but others must be worked out by the parties or resolved by some other government or regulatory body.

Regulatory Impact of Direct Sales

Displacement of system gas by direct sales can lead to a duplication in the payment of the demand component of the toll. Such duplication occurs when a customer, who previously purchased gas through a distributor, arranges an alternate supply through a direct purchase. In its RH-5-85

TransCanada Reasons for Decision, the Board found the duplication of payment of the demand component of the toll to be inappropriate and implemented a new system of toll design and cost allocation based on the establishment of an operating demand (OD) volume.

Similar duplication of payment can arise with Westcoast's tolls when a conversion from sales to service takes place. In addition to the duplication of the demand component problem, Westcoast is confronted with another problem because the level of costs associated with a system sale may not be the same as the level of costs associated with a direct sale that replaces it. Thus, the potential for cost reallocation arises. These cost reallocations can occur when the gas shipped under a service agreement comes from out-of-province and does not require gathering or processing. In either case, the issue to be resolved is who should pay for the costs that were previously allocated to the system sale.

A reallocation of costs on the Westcoast system can also occur when direct sales gas is of different quality than the system gas average. In most cases firm service volumes, which displace firm sales volumes, are of higher quality than the system gas average. Because of the toll structure in place for Westcoast, gas of higher quality would generate less toll revenue than system gas.

Given the possible impacts of the switching from system sales to service, the Board must determine how to avoid the potential excess recovery of the demand component of the toll. In so doing, it must decide whether there should be a redistribution of Westcoast's costs.

1986 Westcoast Reasons for Decision

In 1986, the Board did not find it necessary to deal with the issues raised by conversion from sales to service, including the problem of the double recovery of the demand component of the toll, as there were no facts presented during the 1986 hearing which indicated that such issues then existed. The Board directed that in the event such direct sales did take place, any toll revenues collected in the test year were to be accrued in a deferral account for disposition at the next toll proceeding.

After the conclusion of the 1986 proceedings, Westcoast approached the Board with an interim proposal to allow service volumes to flow for the gas year commencing 1 November 1986. This proposal for the interim period, which was supported by all affected parties, required that the demand component of toll revenues from firm direct sales be credited directly to the domestic distributor in whose franchise area such direct sales were made. This became known as a revenue credit. The Board notes that this interim arrangement was extended by its letter to Westcoast dated 30 October 1987.

6.3.2 Conversion from Firm Sales to Firm Service

In these proceedings, four approaches for resolving the double recovery problem, which occurs when conversion from firm sales to firm service take place, were presented: (i) a revenue credit approach, (ii) a volume credit approach, (iii) buy/sell arrangements and (iv) a displacement toll.

(i) Revenue Credit Approach

This approach was proposed by Westcoast and focusses on the revenues generated by the service volumes. The credit to the LDCs would be equal to the fixed component of the toll revenue that

Westcoast collects from the shipper of direct sales gas. The approach restricts any reallocation of costs to within the particular franchise area facing the displacement. In order to be kept whole, and avoid a redistribution of costs within its franchise area, the LDC has typically required an indemnification by the direct shipper for any monies no longer collected.

In support of the revenue credit approach, Westcoast stated that the proposal was merely a continuation of the present arrangement which had been agreed to by the parties involved. Furthermore, Westcoast was concerned about the potential cost shift and, because all direct sales were taking place within B.C., believed it was appropriate to delegate to the provincial regulator the choice of who should bear the cost of any toll differential that arises from direct sales. Selection of a revenue credit solution would mean that a cost shift could occur only as a result of a decision by the BCUC.

Westcoast's revenue credit proposal did not receive support from intervenors. Producers opposed the revenue credit because it did not provide for permanent relief and did not free-up pipeline capacity. COFI/Cominco took the position that the revenue credit proposal rendered Westcoast's tolls for transportation service ineffective and meaningless. Because the direct shipper is required to indemnify the distributor for any shortfall in the revenue credit, COFI/Cominco stated that the shipper is effectively paying a sales toll based on system gas of average quality, rather than a toll based on the quality of gas actually shipped. COFI/Cominco believed that the continued use of the revenue credit would encourage the bypass of domestic utilities because this may be the only way that a direct shipper could avoid the indemnities currently being imposed.

Most parties disagreed with Westcoast's position that the potential duplication of the demand component was a problem for the provincial regulator. Because the potential for duplication occurs as a result of Westcoast's toll structure, parties expressed the view that it was a matter that should be resolved by the Board.

(ii) Volume Credit Approach

This approach is based on the OD concept[1] applied to TransCanada. With respect to Westcoast, the OD approach would give cost allocation relief to firm sales customers in a fashion similar to TransCanada. The impact of any cost reallocation would be spread among all of Westcoast's firm customers.

A number of intervenors proposed that the basic concept of the OD methodology used for TransCanada be applied to Westcoast, with whatever modifications might be necessary to accommodate Westcoast's particular situation. Westcoast opposed the OD concept on the grounds that the Company is not revenue neutral when a direct sale replaces a volume of gas previously being sold by Westcoast. Under such a proposal, if the gas which makes the displacement sale comes from a source which attracts a lower toll, Westcoast would fail to recover the revenue requirement on which its tolls are based in the year in which the switch takes place. Westcoast acknowledged that if its

1 In the case of TransCanada, an operating demand concept has been introduced to avoid the potential duplication of the demand component of the toll. Under this approach, the operating demand volume for each distributor is calculated as the CD volumes specified in its gas purchase contract with TransCanada, less the volume of all firm direct displacement sales occurring in its franchise area.

revenue requirement recovery were protected, the OD concept would be more acceptable. To alleviate Westcoast's concerns regarding revenue neutrality, CPA, IPAC, COFI/Cominco and Inland all suggested the Company be authorized to record in a deferral account any variances in test-year revenues caused by displacement sales.

Westcoast's second area of concern with respect to the OD concept was that such an approach would lead to an inevitable shifting of costs from industrials to the residential and commercial core market. Westcoast's concern was shared by B.C. Hydro, who believed that there should be no cost shift among classes of customers. Inland, however, did not view the transfer of costs that would occur under an OD concept as being a problem. COFI/Cominco stated that if adoption of a volume credit means service customers pay service tolls then any resulting reallocation is appropriate.

BCPC indicated that it would prefer to have the appropriate credit mechanism determined on a case-by-case basis. In the alternative, BCPC supported the OD methodology, subject to it being reconsidered as circumstances warrant. It selected the volume credit approach because this alternative would reallocate the cost most widely among parties.

A third area of concern was whether or not, under the OD concept, the reduction in volumes would be permanent. Westcoast was of the view that relief relating to capacity obligations should not be permanent; rather, a party should receive relief only during the period that the firm service agreement would be in effect. At the end of the service agreement the capacity obligation should revert to the party to the sales contract. Westcoast was also concerned that although there could be a reduction in CD volumes for cost allocation purposes, the reduction may not necessarily apply with respect to its contractual obligations.

Inland agreed with Westcoast that the reduction in a party's rights to capacity under an OD approach should not be permanent. It suggested that the absence of such an automatic reversion could lead to abuse. CPA believed that a LDC should not be entitled to an automatic reversion to its former CD level when the displacement sale ends. CPA was of the view that this would avoid the inefficiency of having pipeline capacity and gas supply tied up and unavailable for use by other potential shippers. Northwest was also opposed to automatic reversion.

Intervenors raised some contractual concerns related to the implementation of an OD concept. A number of parties suggested that any volume relief granted to a distributor under the OD methodology should result in an equivalent reduction in the reserve obligations of system producers. Inland indicated that it was prepared to have its right to obtain gas from Westcoast permanently reduced if an OD concept were introduced. This position assumed a corresponding waiver of the gas purchase exclusivity clause contained in the gas sales contracts. Both Inland and B.C. Hydro indicated that under an OD approach they would require a volume-crediting mechanism with respect to their take-or-pay obligations or perhaps elimination of these obligations.

Various parties expressed views on an appropriate definition of displacement to be used in conjunction with the OD methodology. Generally, parties supported an adoption of the definition of displacement as applied by the Board in the RH-5-85 TransCanada Reasons for Decision. This definition is as follows:

> "... the volume of gas contracted under a direct purchase, firm service contract is to be considered a displacement volume for fixed cost allocation purposes, if assuming the absence of such direct purchase, the distributor could supply the account on a firm contract basis without itself contracting for additional firm volumes to accommodate the resulting demand."

(iii) Buy/Sell Arrangements

Westcoast indicated that buy/sell arrangements had taken place in the past through BCPC. Under these arrangements, BCPC bought non-system gas and sold it to Westcoast. Westcoast then sold that gas to the distributor, who in turn sold it to a third party. If BCPC agreed to enter into that type of arrangement, Westcoast had no problems with the approach. COFI/Cominco indicated that buy/sell was not necessarily the best approach, since BCPC was no longer authorizing such arrangements.

(iv) Displacement Tolls

B.C. Hydro proposed that a displacement toll be charged to an existing utility customer who opted for a direct purchase. The displacement toll would be equivalent to the toll charged to the distribution utility and would be applicable until the utility was able to arrange a downward adjustment in its CD nomination or to negotiate an appropriate volume credit from Westcoast. In addition, the direct sales customer would have to agree to either indemnify the utility for un-utilized CD or pay the proportionate share of un-utilized contract demand. In proposing a displacement toll, B.C. Hydro cited toll neutrality as an objective. In so doing, it was asking the Board to recognize that this was a transition period and that, during the transition period, tolls should not provide an advantage to one class of customer over another.

Westcoast did not take a position on the proposed displacement toll. It did comment that displacement tolls had been applied for at the last toll proceeding and had been rejected by the Board. IPAC voiced strong objections to the concept of a displacement toll suggesting that it is inconsistent with equitable open access and an impediment to market-responsive pricing.

Decision

Because the conversions from firm sales to firm service take place on the Westcoast system and have an impact on the allocation of Westcoast's fixed costs and its revenue recovery, the Board believes that resolution of these matters rests with the Board and not the provincial regulator.

In November 1986, the Board approved, as an interim measure, the revenue credit arrangement proposed by the Company. The Board notes that the revenue credit approach would restrict any cost reallocation to within the affected franchise area. The Board finds that as Westcoast is an integrated system it is more appropriate that the impacts of any cost reallocation be borne by all system users. Therefore, the Board finds that the revenue credit approach is no longer appropriate.

With regard to the displacement toll proposed by B.C. Hydro, this concept and its implications were examined at length during the 1986 proceedings. Even though the discussion focussed on the export market, many of the concerns expressed with the proposal were equally applicable to the domestic market. The Board rejected the proposal at that time and heard nothing in these proceedings to persuade it that a domestic displacement toll is now appropriate.

The Board notes that under buy/sell arrangements the buyer may still be required to pay the pipeline toll which would have been paid for system gas. The Board does not believe that buy/sell arrangements are the appropriate solution.

The Board finds that in the circumstances of Westcoast, the most appropriate method to avoid the double recovery of the demand component of the toll when conversions from firm sales to firm service take place is the OD methodology. The Board also adopts the definition of displacement used in the RH-5-85 TransCanada Reasons for Decision.

In order to ensure that Westcoast does not experience a revenue shortfall the Board permits Westcoast to establish a deferral account to capture any variances in test-year revenues caused by conversions from sales to service during the test years. Westcoast is directed to maintain separate deferral accounts for each toll zone.

In deciding to implement an OD concept for Westcoast, the Board recognizes that there is some potential for cost reallocation among Westcoast's customers, but notes that any such reallocation simply results from a third party exercising its ability to contract directly for gas.

The Board acknowledges that implementation of the OD concept could have an incidental effect on existing contracts. A number of parties invited the Board to address or at least take into account such matters as gas supply, take-or-pay obligations and exclusivity clauses. The Board has previously found these to be gas sales matters which are beyond jurisdiction. However, the Board is aware of the difficulties associated with altering certain aspects of the previous arrangements that exist between the parties, and is also aware of the problems that remain. Moreover, the Board believes that the inability to resolve all of the problems does not render the approved toll unjust or unreasonable. The Board encourages parties to renegotiate existing agreements to deal with those issues that must be resolved before the move to open access can be completed.

The Board directs Westcoast to file and incorporate into its tariff a list of the OD volumes applicable to each of its firm customers as at 1 November 1987. The Board also directs Westcoast to file an updated list on a quarterly basis. Any changes to the approved OD volumes will take effect when gas first flows pursuant to any new contractual arrangements. Any reduction of the established

OD volume shall occur only with the agreement of the customer. Any reduction in the established OD shall be permanent and there shall be no automatic reversion of the volumes upon termination of the service agreement.

6.3.3 Self-Displacement

As defined in the RH-5-85 and RH-3-86 TransCanada Reasons for Decision, self-displacement occurs when a distributor replaces any portion of its currently contracted firm supply with an alternate supply or makes any other arrangement that accomplishes the same end.

Westcoast indicated that it is not adverse to having its distributors convert from sales to service, but that it has supply arrangements with BCPC and its producers to consider. Westcoast thought that the consent of these parties must be obtained before conversion from sales to service is permitted.

CPA opposed self-displacement stating that Westcoast's firm sales customers, whether domestic or export, should not be permitted to displace their own purchases from Westcoast with firm service. It believed that the OD approach should not be modified to enable a firm customer to convert its CD from sales to service.

IPAC also expressed concern about the potential for self-displacement by the distributors. It cited the Board's RH-3-86 TransCanada Reasons for Decision wherein the Board stated that self-displacement is not within the intent of the 1985 Natural Gas Agreement.

B.C. Hydro took the position that if self-displacement by distributors is not allowed, neither should it be considered permissible for system producers. As an example, it cited the instance where system producers had been given the right to sell, on a direct sales basis, gas not being used by BCPC at any particular point in time. It considered that this would give producers the right to displace sales that would otherwise have been made by Westcoast to the LDCs.

Decision

The Board does not believe that Westcoast's LDCs should be allowed to self-displace their currently contracted firm supplies.

The Board notes that in the circumstances of Westcoast, when a distributor exercises its contractual right to decrease its previous maximum CD by up to ten percent, the LDC's only contractual obligation is with respect to the new CD. In the Board's view, the LDC is not abrogating its contract by arranging for additional volumes above the new CD, as service volumes. The Board does not consider the nomination of such service volumes, in these circumstances, to be self-displacement.

6.3.4 Westcoast/Northwest Agreements

6.3.4.1 Description of Proposed Toll Design Changes

In conjunction with the 15 September 1987 Letter Agreement between Westcoast and Northwest, Westcoast proposed the following changes to its toll design, to be effective 1 November 1987:

(1) Northwest would receive the benefit of an OD methodology which would include volume or revenue credits for firm volume displacements of Northwest's firm sales requirements from Westcoast;

(2) all interruptible toll revenue that would under the existing methodology have been distributed among all firm tollpayers would instead be distributed between export and domestic tollpayers; and

(3) tolls for Westcoast's firm customers would be based on their proportionate share of the gross cost of service, after deducting the off-line fixed cost of service credit. In other words, Westcoast tolls would be stated on a "gross" rather than a "net" basis.

This agreement was subject to a number of conditions precedent, one of which was Board approval of the above changes to the toll design.

6.3.4.2 Applicability of OD Methodology to Export

Northwest explained that it is the interstate pipeline responsible for serving virtually all of the Pacific northwest. Because its market has been greatly reduced, Northwest stated that any new sales or transportation service into its market area from Canada could be served by Northwest within its CD. Therefore, virtually any new arrangement involving the delivery of Canadian gas into this market represents a displacement. For this reason, Northwest believed the adjustment mechanism selected by the Board should be equally applicable to the export market.

Northwest cited two reasons why the Westcoast/Northwest situation is different from the export situation faced by TransCanada: the historical reliance of Northwest on Canadian gas and the large dual-fuel capability of the Northwest market, which makes it prone to the displacement of firm by interruptible.

The joint Westcoast/Northwest panel of witnesses acknowledged that, if any of the 125 MMcfd subscribed by the system suppliers were to be sold in the market area served by Northwest, the 550 MMcfd of Northwest would not be reduced under the OD approach.

In argument, no one opposed the proposal that Northwest receive an OD credit when its market is displaced by gas transported on the Westcoast system under firm service arrangements.

CPA believed that the same operating demand credit methodology should apply to Westcoast's export market although it recognized that OD methodology was not applied to TransCanada's export market. In addition to the differences cited by Northwest, CPA noted that in the case of Northwest it is possible to identify in the export market whether Westcoast gas is being displaced by Canadian gas delivered through Huntingdon or U.S. domestic gas.

For the export market, CPA proposed a minor modification to the definition of displacement. The definition proposed by CPA is as follows:

> "... the volume of gas contracted under a direct purchase, firm service contract on the Westcoast system is to be considered a displacement volume for fixed cost allocation purposes, if assuming the absence of such direct purchase, Northwest could supply the

> account on a firm contract basis without itself contracting for additional firm volumes of Canadian gas through Huntingdon to accommodate the resulting demand."

In argument, both Inland and B.C. Hydro indicated their support for this proposal, at least with respect to firm volumes. Inland added the qualification that the application of displacement should be restricted to the geographic area served by Northwest. Inland included the proviso that the concept should be implemented only where there is a clear identification of a tollpayer in the export market.

Decision

The Board notes that none of the intervenors were opposed to firm-for-firm displacement relief being made available to the export market. The Board also notes that conceptually the OD volume credit is meant to apply where a firm load that was formerly provided by means of a gas sales agreement is being displaced by direct transportation service. In the circumstances, the Board finds no reason to exclude Westcoast's export market from the application of firm displacement relief. Therefore, the Board directs Westcoast to implement the OD methodology for Westcoast's export market upon the following conditions:

(i) The 550 MMcfd CD of Northwest will not be reduced under the OD concept if any of the 125 MMcfd subscribed by the system suppliers is sold in Northwest's market area;

(ii) firm sales made outside the Northwest market area will not reduce Northwest's CD; and,

(iii) OD relief will not be granted to the firm export customers of Westcoast when the displacement volumes are not shipped on the Westcoast system.

Subject to the above, the Board accepts the definition of displacement proposed by CPA.

6.3.4.3 Displacement by Interruptible

In certain situations firm sales volumes can be displaced by interruptible service volumes. Evidence suggested that this is more likely to occur in Westcoast's export market. Both Inland and B.C. Hydro indicated that the domestic LDCs do not have circumstances which give rise to displacement of firm by interruptible. The Board must decide whether relief should be given for this type of displacement and, if so, the appropriate basis for granting such relief. Westcoast and Northwest indicated that their objective was to provide Northwest with relief in instances where interruptible volumes displace firm volumes. This situation would be more acute if Northwest were to become an open access carrier. The Board notes that Northwest intends to become an open access carrier, possibly by as early as 1 January 1988. This is subject to the resolution of a proceeding currently ongoing before the U.S. Federal Energy Regulatory Commission.

Northwest argued that in order to fairly reduce its payment for its share of fixed costs allocated to the export market, there must be a matching of the revenue generated by the displacing sale with the CD being displaced. Because the majority of displacement sales is currently occurring in the export market, a revenue credit to the overall cost of service does not match the revenues from the displacing arrangement with those of the volumes actually being displaced. Therefore, Northwest submitted that a more direct form of crediting is required. In the unique situation facing it, Northwest was of the view that a traditional toll design may not provide the relief necessary.

Therefore, Westcoast and Northwest proposed the crediting of interruptible revenues to the domestic or export market, depending upon the destination of the interruptible gas. Westcoast referred to this method of crediting revenues as streaming.

This proposal would operate such that:

> "all export (domestic) interruptible sales and service toll revenue generated in any month will be credited in that month to the firm export (domestic) sales and service customers pro rata based upon each export (domestic) customer's proportionate share of the total demand revenue generated by firm export (domestic) sales and service in each toll zone."

Northwest testified that incremental sales and service into its market area would be very small because of the unique circumstances faced by Northwest. In spite of that, Northwest had agreed to an interruptible crediting mechanism that was simpler to administer and perhaps more acceptable to the Board. However, Northwest indicated that it had been able to cope with the determination of incremental versus displacement sales on its system on a case-by-case basis.

Westcoast agreed that its proposal would capture all sales into the export market, whether displacement or incremental. Westcoast suggested this should not be a concern, because the vast majority of volumes flowing to export would likely be characterized as displacement.

While supporting the streaming concept as proposed in this situation, Westcoast indicated that, in principle, it could appreciate the merits of crediting incremental volumes to its overall cost of service. However, Westcoast believed that this would be more administratively difficult.

Westcoast agreed that, because of the streaming concept, net firm tolls for gas transported to redelivery points in the domestic market may differ from the net firm tolls for gas transported to the export market. Northwest believed that any short-term differences between the net firm export tolls and net firm domestic tolls were justified by market differences.

Westcoast stated that the monthly crediting of actual interruptible toll revenues would eliminate the crediting of such revenues to the gross cost of service, and would eliminate the need for the interruptible revenue deferral account after 1 November 1987, because the monthly credits would reflect actual receipts and not a forecast.

Westcoast and Northwest received full support from the producers and qualified support from APMC and BCPC. The proposal was opposed by B.C. Hydro, Inland and COFI/Cominco.

CPA and IPAC supported the Westcoast proposal to stream interruptible revenues as between domestic and export. With regard to the argument that streaming would result in unjust discrimination, CPA argued that the unique circumstances of the Northwest market area removed any aspect of unjust discrimination. IPAC stated that the approach removed the need for indemnifications, displacement tolls and other similar arrangements which IPAC has condemned in the past. It believed any charge of unjust discrimination could be dismissed easily.

COFI/Cominco considered Westcoast's proposal to be a poor solution to a problem, open access on Northwest, that had not yet arisen. COFI/Cominco believed that it was more appropriate to credit interruptible revenues to the overall cost of service. It proposed that the appropriate means of treating interruptible revenues in an open-access environment should be determined at the point in time that Northwest becomes an open-access carrier.

B.C. Hydro opposed the Westcoast proposal on the grounds that the concept of an integrated system precludes the streaming of benefits from interruptible revenues to particular customers. B.C. Hydro and Inland stated that, if the interruptible revenues were streamed, then the pipeline costs should be similarly segregated with the export market being allocated costs based on 809 MMcfd. Inland went on to suggest that because streaming can result in different net tolls between the export and domestic market, it can lead to undue discrimination.

APMC indicated that in principle it was opposed to the streaming of interruptible revenues. It did recognize, however, that Westcoast's proposal might be a practical short-term solution, unique to the Northwest market area, because of its pending open-access status. Given what it considered to be the temporary nature of the solution, APMC was prepared to support the proposed change to the crediting of interruptible volumes. It urged the Board to re-examine the streaming issue at the end of the term of the new Westcoast/Northwest Agreements.

BCPC, while supporting the thrust of the Westcoast/Northwest Agreements, did not accept the streaming methodology proposed in the Agreements. Rather than crediting Northwest with a pro rata share of all export interruptible revenues, BCPC suggested that the streaming be focussed and limited to interruptible gas sold into the Northwest market area. Giving Northwest a credit for off-system sales in California was to be avoided, even if it might be more administratively difficult.

Decision

In principle, the Board believes that relief should be provided for interruptible volumes only when it can be clearly demonstrated that a load formerly transported on a firm basis on Westcoast is being displaced. In such circumstances, the burden of proof that such a displacement is occurring should rest with the party alleging the displacement. In the event it were established that such displacement by interruptible volumes were occurring, the Board considers that the most appropriate form of relief would be a revenue credit for the period of the displacement.

The Board acknowledges that in order to provide an exact matching of revenues to the parties being displaced, it would be necessary to establish some means of identifying whether the markets being served by volumes shipped on an interruptible basis on Westcoast were incremental or displacement.

To avoid this administrative burden, the Board notes that Westcoast has proposed a streaming of interruptible revenues as between domestic and export customers to become effective 1 November 1987. The Board also notes that such a technique falls short of its intended objective of providing relief to Northwest only when its market is displaced by interruptible volumes. Firstly, the technique will capture the revenues from all interruptible volumes flowing into the export market; secondly, Northwest will receive only a pro rata share of these interruptible revenues; and thirdly, it would be applicable in circumstances where interruptible volumes are being displaced by other interruptible volumes.

On balance, the Board accepts the Westcoast proposal to stream interruptible revenues as between domestic and export customers as an interim measure. Acceptance is necessary at this time given the situation in the Northwest market and because non-acceptance would have negative consequences outweighing the acknowledged shortcomings of the temporary solution. Should circumstances change to such an extent that significant volumes of interruptible gas flowing to export are entering market areas other than Northwest's, the Board may wish to review the continued appropriateness of this treatment. Accordingly, the Board directs Westcoast to advise the Board when significant deliveries of interruptible volumes into these market areas are contemplated.

6.3.4.4 Gross Versus Net Tolls

In its August 1986 Westcoast Reasons for Decision, the Board approved the calculation of firm tolls on a net basis. To determine tolls on a net basis all forecast interruptible revenues are deducted from the total cost of service before determining the tolls.

Westcoast proposed to determine firm tolls on a gross basis. Under this method tolls are set on the basis of the total cost of service before deducting the forecast of interruptible revenues. Westcoast stated that such a methodology was necessary if interruptible revenues were to be provided to tollpayers in the form of a monthly credit, and if large deferrals, such as those that occurred in the period of interim open access on Northwest from February to May 1987, were to be avoided.

Westcoast agreed that the currently approved toll design, whereby interruptible revenues are credited to the overall cost of service, could be continued if the revenues were very predictable from interruptible shipments. Unfortunately, particularly under open access, revenues would not be predictable. Therefore, to achieve its objectives in the export market, Westcoast believed monthly crediting is necessary.

Westcoast indicated that, if domestic distributors preferred a net toll and continued use of the deferral account mechanism, it would be willing to accommodate them.

Inland indicated that if the Board were to adopt streaming, it would prefer to have its tolls calculated on a net basis. The effect of implementing a gross toll with an after-the-fact crediting was to move the responsibility for a deferral account from Westcoast to the domestic distributors.

B.C. Hydro indicated that it would also prefer tolls structured on a net basis. However, if the Board were to decide on a toll structure incorporating a gross toll, together with monthly credits, this would be acceptable to B.C. Hydro.

Decision

Given that the proposal to state tolls on a gross basis is an integral part of Westcoast's efforts to provide Northwest with timely relief, the Board accepts tolls calculated on such a basis for the export market. The Board finds this approach to be appropriate for the domestic market as well, and considers any administrative consequences to be minor in nature.

6.3.4.5 Toll Design Absent Execution of Westcoast/Northwest Agreements

The Board is aware that the Westcoast/Northwest Agreements are subject to a number of conditions precedent. Should any of these not be fulfilled or waived by the parties to the Agreements, the Board understands that the Agreements will not come into effect. Should the Agreements not come into effect by 31 December 1987, the Board directs as follows:

(i) Westcoast's fixed costs shall be allocated to Northwest on the basis of 757 MMcfd (809 MMcfd less the 52 MMcfd of Poco);

(ii) all interruptible revenues shall be credited to Westcoast's overall revenue requirement;

(iii) eligibility of interruptible volumes to determine fixed cost relief shall be considered on a case-by-case basis; and,

(iv) the firm tolls shall be calculated on a net rather than gross basis.

6.4 Amoco MDVO

In its August 1986 Westcoast Reasons for Decision, the Board accepted the Company's proposal for three separate export tolls which differentiated between the province or territory of origin of the gas exported. Under this proposal, the costs assigned to export were allocated first to gas from Alberta, Yukon and the Northwest Territories on the basis of the maximum daily volume obligation (MDVO) contained in the gas purchase contracts, with the remainder allocated to gas sourced in B.C.

Amoco Canada Petroleum Company Ltd. (Amoco), the sole owner of the Pointed Mountain field, requested that the Board approve the 1987 MDVO for the field as shown in the application, as amended, because they are based on actual results of the January 1987 deliverability tests conducted by Westcoast pursuant to its gas purchase contract with Amoco.

However, because the 1988 deliverability test will not be conducted until some time after the test year tolls are established, Amoco suggested that its 1988 MDVO be estimated to take into account the historical pressure decline at the Pointed Mountain field. Amoco estimated its Pointed Mountain field MDVO to be 485.3 10^3m^3 at 1 January 1988, a reduction of 13 percent from that used for 1987.

Westcoast acknowledged that the deliverability tests are usually not carried out until the winter period of the test year. Therefore, Westcoast agreed to use Amoco's estimate rather than the previous year's actual MDVO as the basis for determining the 1988 test-year MDVO.

Other intervenors did not take a position on this matter.

Decision

The Board notes that Amoco and Westcoast have agreed to the 1988 forecast of MDVO for the Pointed Mountain field provided by Amoco. Accordingly, the Board directs Westcoast, commencing 1 January 1988, to use the MDVO estimate of 485.3 10^3m^3 for the Pointed Mountain field provided by Amoco.

6.5 Heat Content

Westcoast stated that it did not think there was an issue to be addressed by the Board because the heat content of the gas redelivered to its sales customers was within the range set out in the gas sales contracts. It noted that the Board had resolved this issue in its August 1986 Westcoast Reasons for Decision and that the decision remains appropriate.

However, the issue of heat content arose again as a result of discussions concerning the operation of the Natural Gas Liquids (NGL) plant. The two aspects of this issue which were discussed during these proceedings were: (i) whether the NGL plant should pay for the transportation of make-up volumes, and (ii) whether there should be a different basis of accounting for the make-up volumes between sales and service customers.

The NGL plant, which is owned jointly by Westcoast and Petro-Canada, is located downstream of the outlet of the McMahon plant in the Taylor complex. The plant removes liquids and returns the gas to the pipeline. The removal of liquids results in a decrease in the heat content of the gas. The NGL plant provides make-up volumes to Westcoast to replace this loss of heat content. These make-up volumes attract a toll for gathering, processing, and short-haul transportation north of Station 2. In addition, this gas is transported in Zone 4 and is delivered primarily to the LDCs and export customers.

Although the sales customers do not pay for the additional "make-up" gas volumes, they do have to pay for the transportation of these volumes. The reason for this is that the volume of gas to which the appropriate toll is applied for sales gas is measured at the downstream redelivery point. On the other hand, service customers pay tolls on the basis of the volume of gas measured at the upstream delivery point into the system, which excludes the make-up volumes. Westcoast stated that the effect of the NGL plant on the system is to lower the average heat content of the gas stream. Westcoast pointed out that, all other things being equal, this results in the sales customers requiring a slightly greater volume of gas in order to receive the same total energy.

B.C. Hydro requested that the Board require the NGL plant to pay a toll as if it transported gas to Huntingdon, because it decreases the capacity of the Westcoast system downstream of the NGL plant. B.C. Hydro stated that the service customers are not affected by the reduction in heat content caused by the NGL plant, whereas the sales customers are affected because they must nominate for a higher

CD than would otherwise be the case. Thus, the LDCs end up with higher tolls, making them less competitive with service shippers.

Also, Inland was of the view that the only fair method of establishing the tolls is to take into account the reduced heat content of the gas which results from the NGL plant and to levy a toll either against the NGL plant or against the make-up volumes to reflect the fact that the make-up volumes must be transported through the whole of the Westcoast system, including Zone 4.

Poco believed that there should be a credit or compensation for any additional costs of transportation caused by the make-up volumes.

CPA stated that the differing treatment between sales and service customers appears to be occasioned by the fact that service gas is shotgunned and billed as it enters the system, while sales gas is billed at the redelivery point. CPA left it to the Board to decide whether the problem is significant enough to justify any remedial measures.

In rebuttal, Westcoast stated that to charge a phantom toll or surcharge on the NGL plant toll, as suggested by Inland and B.C. Hydro, would be discriminatory under the NEB Act. Westcoast was of the view that it would discriminate against B.C.'s petrochemical industry in favour of Alberta's, where such tolls would not be charged. Westcoast noted that Inland gets exactly what it contracts for under its gas purchase arrangement with Westcoast; that is, gas with a minimum heat content of 975 British thermal units.

Decision

The Board is of the view that multiple users of a common gas system must accept the reality and the consequences of such things as: the commingling of gas streams; the impacts that new industrial customers may have on the previous average gas composition; and the presence of industrial operations, such as the NGL plant. Such facilities are common to the gas industry and it is the Board's understanding that their impact on the affected gas streams in generally known and accepted in that industry.

In addition, the Board finds that the parties purchasing gas from Westcoast are receiving gas which meets the contractual requirements, with respect to heat content. Therefore, the Board is not prepared to order adjustments to the cost allocation methodology to account for the impact that the NGL plant has on the tolls charged to the users of the Westcoast system.

The Board does however recognize that under existing arrangements the treatment of sales versus service customers differs in respect of the volume of gas on which the tolls are based. The Board directs Westcoast to investigate whether changes can be made to remove the difference. Westcoast is directed to report its findings to the Board by 1 April 1988.

6.6 Methodology for Allocating Costs Within Zones

Background

In its August 1986 Westcoast Reasons for Decision, the Board approved a toll methodology for Westcoast which significantly altered the regulatory framework under which Westcoast had operated since the early 1970's. There were three main elements of that decision which established the framework for Westcoast's 1987 and 1988 test-year toll design. The three elements are as follows:

(1) the Board approved a toll design methodology which included 100 percent of the fixed costs in the demand component of the toll;

(2) the Board approved the use of four toll zones wherein Westcoast's tolls were established on a postage stamp basis for Zone 1 - Gathering, and Zone 2 - Processing; and on a volume/distance basis for Zone 3 - Transmission North and Zone 4 - Transmission South; and

(3) the Board approved the use of contract demand volumes as contained in the gas sales contracts as the basis for allocating the fixed costs within each toll zone.

In argument, Westcoast stated that its approach to toll design in these proceedings was driven principally by the following four objectives:

(1) a toll design which is generally cost based and fair to its various classes of customers;

(2) a toll design which enjoys the broadest possible support of Westcoast's customers and producers;

(3) a toll design which can be readily understood and is easily administered; and,

(4) a toll design which encourages the fullest possible utilization of Westcoast's facilities.

In attempting to achieve these objectives, Westcoast indicated that it had actively sought out the views of its customers and producers during these proceedings. Westcoast believes that its efforts in this regard have resulted in toll design proposals for Zones 1, 2 and 3 which, although changed from those which were proposed in the original application, have the support of many of the intervenors who actively participated in these proceedings.

6.6.1 Zone 1 - Gathering

In its original application, Westcoast proposed to determine the Zone 1 gathering tolls based on a cost relationship which recognized the actual costs of gathering gas behind each of its three major processing plants. Westcoast proposed to publish the tolls on a residue gas basis in combination with the processing toll. As a result of ongoing discussions with various parties during these proceedings, Westcoast withdrew its application for a combined gathering and processing toll and its application for step functions. Westcoast agreed to adopt the Zone 1 toll design approved by the Board in its August 1986 Westcoast Reasons for Decision for purposes of its application.

CPA, COFI/Cominco, and IPAC supported retention of the existing toll design for Zone 1. Further, COFI/Cominco urged the Board to order Westcoast to carry out a comprehensive review of its charges for gathering and processing services well in advance of the next hearing.

B.C. Hydro supported a "true" uniform postage-stamp toll design for gathering and processing. B.C. Hydro argued that where there is high underutilization at certain plants, the only way to increase demand for these facilities is to have a uniform combined gathering and processing toll for all the plants. This would tend to reduce the McMahon plant's competitive advantage. B.C. Hydro believed that Westcoast's original proposal which was simpler to understand, dealt more effectively with this problem.

Inland stated that it supports postage-stamp tolls for the existing gathering system. For reasons of simplicity, Inland indicated a preference to have the gathering tolls stated on a residue gas basis. Inland further stated that its concerns would be alleviated if the producers were responsible for payment of the gathering and processing costs.

Decision

The Board continues to be of the view that the Zone 1 gathering costs should be allocated on a postage-stamp basis; that the gathering tolls should be derived by dividing the Zone 1 cost of service by the total raw gas units being gathered; and that the tolls be published on a raw gas basis. The Board also notes that Westcoast has agreed to use the existing toll design approved for Zone 1. The Board acknowledges that, for some shippers, gathering tolls published on a residue gas rather than a raw gas basis may be simpler to understand. Accordingly, the Board requires Westcoast to make available, upon request, raw-to-residue conversion tables that will assist shippers in using the published tolls.

6.6.2 Zone 2 - Processing

As part of its amended application, Westcoast proposed three separate processing tolls: (i) a treatment toll, (ii) a liquids recovery toll and (iii) a small plant toll for its Sikanni plant.

6.6.2.1 Treatment Toll

Westcoast originally proposed a single processing toll which included the liquids recovery portion and reflected the average costs of processing gas of various acid levels at each plant. The single processing toll would be published on a residue gas basis in combination with the gathering tolls. Gas flowing through the processing plant would also be subject to a minimum processing toll and all gas of a similar quality would pay the same processing toll.

The proposed combined tolls featured range rates and incorporated a step function of varied widths to reflect the increasing costs of processing gas of different acid levels. The costs of processing gas would vary from the lowest at the McMahon plant to the highest at the Pine River plant.

Late in Phase 1 of these proceedings, Westcoast clarified its position on a number of toll design matters. Westcoast indicated that it was no longer applying for combined gathering and processing tolls or for step functions, nor was it applying for processing tolls which would include the costs of liquid recovery.

Westcoast stated that it would continue to determine the treatment tolls for acid gas removal on a postage-stamp basis but that it proposed to state the tolls in residue gas terms. To derive the cost relationship for the treatment toll, Westcoast plotted a curve by connecting four points, three of which reflected the average actual treatment costs at each of its three major processing plants.

CPA was prepared to accept the revised treatment toll design proposed by Westcoast. CPA also suggested that Westcoast should have the flexibility to request a toll for processing CO_2 rich gas in order to discourage by-passing. CPA noted that Westcoast intends to conduct a study on cost causation with respect to its processing plants, with the view that the results of such a study could form the basis for the determination of future processing tolls. CPA agreed to provide whatever input and information it may have available.

COFI/Cominco accepted the amended processing toll methodology; however, it remained concerned that Westcoast may not yet have established an accurate cost-to-acid content relationship. Therefore, COFI/Cominco urged the Board to order Westcoast to retain outside experts to review its current proposals and possible alternatives, to formally consult with affected parties, and to formally report its findings to the Board, in a timely manner, well before the next toll hearing.

IPAC endorsed the amended proposal and stated that it will continue to support it until a joint industry review of Westcoast's processing charges has been carried out and an appropriate toll is determined by that joint task force.

B.C. Hydro supported Westcoast's original proposal, commenting that the only way to shift demand to the under-utilized processing plants would be to have a uniform toll for all the plants, thus reducing the McMahon plant's advantages.

Inland preferred the processing tolls originally proposed by Westcoast claiming that "they are better supported by cost calculations".

Decision

The Board finds that the amended treatment toll design proposed by Westcoast is consistent with the provision of the service and is appropriate in the circumstances. Therefore, the Board accepts Westcoast's revised treatment toll design for the 1987 and 1988 test years.

The Board notes CPA's comment that Westcoast should have the flexibility to request a toll for processing CO_2 rich gas and reminds parties that Westcoast may, at any time, submit new tolls to the Board for consideration.

The Board shares the concerns of some of the parties that Westcoast may not yet have established fully accurate cost allocation relationships. Accordingly, the

Board directs Westcoast to conduct a joint industry study of its current gathering and processing proposals, and consider alternatives with a view to ensuring that the gathering and processing tolls are appropriately based. Westcoast is directed to report its findings to the Board by 1 April 1988.

6.6.2.2 Liquids Recovery Toll

The Company proposed that its liquids recovery toll continue to be a postage-stamp toll with a minor variation from that approved by the Board in its August 1986 Westcoast Reasons for Decision. This variation changes the basis for calculating the toll from a liquids residue gas equivalent to a residue gas basis. The resulting toll is a flat-rate, liquids recovery toll, whereby all gas requiring liquids recovery pays the same toll. The purpose of this change, keeping in mind that the toll is less than one cent per Mcf, is to simplify the toll.

During cross-examination, intervenors expressed some concern regarding Westcoast's proposal of a flat rate; however, no party objected strenuously to this proposal.

Decision

The Board finds the proposal reasonable and accepts the liquids recovery toll design methodology proposed by Westcoast.

6.6.2.3 Sikanni Plant Toll

As a consequence of acquiring the Sikanni processing plant, Westcoast proposed a unique toll methodology for determining the processing tolls of the Sikanni plant for the 1987 and 1988 test years.

During these proceedings, Westcoast acknowledged that additional time is required to carry out appropriate studies before the Sikanni plant toll can be properly incorporated into the processing toll.

Westcoast stated that the proposed toll of \$88.76 per 10^3m^3 is cost based and is designed to recover Westcoast's estimated cost of operating the plant during the 1987 and 1988 test years.

B.C. Hydro expressed concerns that the toll would tend to increase underutilization and encourage facility additions. B.C. Hydro was of the view that the costs of facilities added must not be allowed to increase the tolls of other tollpayers.

CPA agreed to accept the proposed toll for Sikanni and added that any new small plant must be dealt with on a case-by-case basis insofar as tolls are concerned.

Inland considered Westcoast's proposed Sikanni processing plant toll to be reasonable in the present circumstances.

IPAC stated that it would accept the toll on the understanding that an industry task force would look at the processing costs and determine how they should be developed for toll-making purposes (see Section 6.6.2.1).

Decision

The Board accepts the proposed Sikanni plant toll of $88.76 per 10^3m^3 for the 1987 and 1988 test years.

6.6.3 Zone 3 - Transmission North

In last year's Decision, the Board found that Zone 3 provided primarily a transmission function and, generally for this function, costs should be allocated on the basis of volume, adjusted for distance. Because of special circumstances, the Board excluded off-line customers from this allocation. Their tolls were to be based on the nearest-field concept.

In its application, Westcoast described Zone 3 as consisting "of a network of residue gas pipelines which commingles residue gas from many delivery points and transports it to a central point ...". Because the physical complexity of the system, Westcoast contended that the use of a volume/distance methodology was too complex and that the derivation of the allocation units was difficult to understand and time consuming to apply.

Westcoast originally proposed that Zone 3 tolls be split into short haul and long haul and that a postage-stamp rate be applied to each. The cut-off point between short haul and long haul would be 50 kilometres. The short-haul toll would apply to deliveries to the off-line customers and the NGL plant, as well as gas flowing in the Tumbler Ridge and Pine River pipelines and therefore represented a departure from the nearest-field concept.

Westcoast stated that it believed that a single-zone, postage-stamp toll was most appropriate for longhaul shipments in Zone 3. However, as a result of discussions with various intervenors during these proceedings, Westcoast proposed that the long-haul zone be split into two sub-zones. One sub-zone would consist of the section from Fort Nelson to Compressor Station No. 2, including all interconnecting transmission lines, while the other sub-zone would consist of all other transmission sections within Zone 3. Westcoast also proposed that the 50 kilometre cut-off point be increased to 75 kilometres so as to encompass all customers classified as off-line.

IPAC continued to believe that "complete purity of principle would dictate continuing with a volume/distance methodology". However, it recognized the appeal of the postage-stamp approach for its simplicity and ease of administration. Creation of sub-zones within Zone 3 is a recognition of the volume/distance methodology, with the appeal of maintaining the simplicity of a postage-stamp toll. IPAC believed that the sub-zone concept takes care of Westcoast's concern about continual changes to the toll, while at the same time it provides recognition of the vastly different distances between Fort Nelson and Compressor Station No. 2 when compared with the distance between the Alberta border and Compressor Station No. 2. IPAC therefore commended the compromise sub-zone proposal to the Board as it accomplishes the goals of all parties. IPAC is also prepared to accept the short-haul concept with a 75-kilometre limit.

APMC remained of the view that a volume/distance based toll design is most appropriate in Zone 3. However, APMC would not object to the two sub-zone approach. APMC stated that, while the splitting of Zone 3 into two sub-zones does not fully comply with its principles, it eliminates its primary concern relating to cross-subsidization between the two sub-zones; it also minimizes the extent of any cross-subsidization within each sub-zone by reason of the smaller size of each zone.

APMC submitted that diversity of supply or capacity constraints should not be determining factors in the Board's imposition of the appropriate toll design for a pipeline. The Commission submitted that it would be unfair to shippers to incorporate or achieve these goals through a toll design not based on sound economic principles.

B.C. Hydro recognized that the sub-zone proposal is a compromise between the volume/distance and postage-stamp tolls. B.C. Hydro supported the original Westcoast proposal for three reasons: Zone 3 is similar to the NOVA Corporation of Alberta (NOVA) system, which has a uniform postage-stamp rate for all gas leaving the zone; a single long-haul rate would reduce the competitive toll disadvantage facing the Fort Nelson plant and should encourage greater utilization of the Fort Nelson plant; and, tolls should not be developed that handicap utilization behind other plants that are undercontracted.

Inland supported the toll design proposal contained in the original application, but agreed that the appropriate cut-off point for off-line customers should be 75 kilometres.

Decision

While the Board remains of the view that for a transmission function costs should generally be allocated on a volume/distance basis, it sees merit in the short-haul, two sub-zone, long-haul toll design propose put forth by Westcoast. The Board believes that this proposal deals effectively with the concerns expressed by APMC regarding cross-subsidization within the zone, possesses the desirable attributes of simplicity and ease of administration, and results in just and reasonable tolls in the circumstances.

Therefore, the Board accepts the Zone 3 toll design methodology as described by Westcoast in its argument, including the 75 kilometre cut-off point for short-haul customers.

6.6.4 Zone 4 - Transmission South

In its August 1986 Westcoast Reasons for Decision, the Board accepted Westcoast's methodology for allocating contract demand among the Zone 4 delivery points of each LDC, but instructed Westcoast to investigate other approaches for consideration at its next toll hearing.

Westcoast proposed to use the average of the three peak days in the previous season as the basis of allocating contract demand rather than the previous methodology which was based on the average of the three peak days in January.

CPA, B.C. Hydro and Unocal Canada Limited (Unocal) supported Westcoast's proposal.

Decision

The Board accepts Westcoast's proposal to allocate contract demand among Zone 4 delivery points on the basis of the three peak days in the previous heating season.

6.6.5 Zone 5 - Alberta Facilities

IPAC raised the issue of whether the variable toll methodology presently used to calculate the Zone 5 tolls was an impediment to marketing gas on the Westcoast system because of the considerable monthly swings in the unit toll which resulted. IPAC also expressed concern over the lack of continued regulatory supervision of the tolls by APMC.

Westcoast responded to IPAC's concerns by undertaking to implement an appropriate single-rate toll for Zone 5.

IPAC, Inland and Poco addressed this issue and they did not oppose Westcoast's undertaking to implement a postage-stamp methodology for Zone 5.

Decision

The Board notes that Westcoast, by undertaking to implement a single-rate toll for Zone 5, has responded appropriately to the concerns of intervenors. No action is required by the Board at this time. However, Westcoast is directed to provide the Board with the current tolls for Zone 5 and any future toll amendments.

6.7 Interruptible Tolls

6.7.1 Design of Interruptible Tolls

In its August 1986 Westcoast Reasons for Decision, the Board found that, given the high quality of interruptible service on the Westcoast system, interruptible tolls should make a significant contribution to fixed costs. Accordingly, a two-tiered domestic interruptible toll design was established with the Tier-One toll set equivalent to the firm service toll at a 75 percent load factor and the Tier-Two toll set equivalent to the firm service toll at an 85 percent load factor. A single-tiered toll was established for interruptible transportation to the export market, calculated on the basis of the firm service toll at a 75 percent load factor.

The Board also directed that all interruptible tolls be calculated based on a revenue requirement which does not take into account the revenues from interruptible volumes forecast for the test year (i.e. the gross revenue requirement approach).

During the hearing, Westcoast did not propose any change to the method of calculating interruptible tolls and was opposed to the proposal to reduce interruptible tolls by calculating them based on a revenue requirement net of forecast interruptible revenues. Westcoast stated that interruptible tolls should be fixed at a level which does not discourage the use of the system by firm customers and which maximizes the contribution that these interruptible tolls make to fixed costs.

CPA observed that the 75 percent and 85 percent load factors established in the August 1986 Westcoast Reasons for Decision have, in practice, turned out to be 65 percent and 75 percent for Tier-One and Tier-Two, respectively, because of the disposition of the unexpectedly high EIST revenues. CPA stated that it had no problem with this result so long as an appropriate balance between economic efficiency and fairness is achieved.

IPAC and COFI/Cominco argued that interruptible tolls should be calculated based on the revenue requirement after deducting the forecast of revenues from interruptible sales and service. They viewed this as necessary to re-establish the relationship between actual firm and interruptible tolls contemplated in the August 1986 Westcoast Reasons for Decision.

B.C. Hydro and Inland argued that interruptible tolls based on firm service tolls at a 75 percent load factor are too low and suggested that a 65 percent load factor would be more appropriate.

Inland also proposed a postage-stamp rate for interruptible gathering and processing. They argued that it should lead to a more uniform usage of the processing plants. B.C. Hydro supported this proposal and Westcoast stated that it was worth looking at because it would provide incentive for the utilization of under-utilized plant facilities.

Decision

The Board is not persuaded that a change in the toll design for interruptible service is needed. In the Board's view, an appropriate balance between economic efficiency and fairness is achieved by utilizing the gross revenue requirement approach and the established load factors. The Board notes that the large distortion in the load factors for 1987 resulted from a unique situation which occurred early in 1987 as a result of the temporary open access of Northwest's pipeline. The Board finds that the toll design should not be altered in response to such situations.

6.7.2 Disposition of Interruptible Revenues

Decision

As discussed in Section 6.3.3, the Board has decided that interruptible revenues will be streamed as between domestic and export and within each category shared on a pro rata basis among firm customers, based on their CDs.

6.7.3 Seasonal Interruptible Tolls

IPAC requested the implementation of a summer interruptible toll for a test period. IPAC maintained that natural gas sales, particularly to the export market, would increase if there were a summer interruptible toll that was perhaps ten percent lower than the current interruptible tolls.

Westcoast and several intervenors opposed seasonal interruptible tolls on the basis that there was no evidence to suggest that the introduction of a lower summer interruptible toll would increase pipeline throughput. Furthermore, they maintained that such tolls would more likely reduce interruptible pipeline revenue. It was argued that, in the absence of evidence to the contrary, firm tollpayers should not be called upon to bear the risk of reduced pipeline revenues. Westcoast stated that it would be willing to consider and bring to the Board for approval any proposal where it could be demonstrated that a special seasonal toll would be required to capture an incremental market.

Decision

The Board notes that no concrete evidence was presented to suggest that summer interruptible tolls would stimulate increased throughput. The Board does not find it appropriate to implement summer interruptible tolls at this time. However, the Board would be prepared to consider any proposals where it could be demonstrated, first, that an incremental market could be captured if a seasonal toll were available, and second, that such a toll would lower the tolls of Westcoast's other customers.

6.8 Other Toll Design Matters

6.8.1. Off-Line Customers' Measured Contract Demands

The Company originally proposed to measure the offline customers' CDs using the average of the three peak-day sales volumes delivered by Westcoast in the previous heating season. For the 1986 test year, Westcoast had used the average of three peak-day deliveries in January of the 1985 base year.

In argument, Inland submitted that Westcoast should modify its proposed methodology to incorporate a three-year rolling average into its calculation of demands for the off-line customers. The advantage of the three-year rolling average is that it would avoid substantial movements in CD which could result because of significant temperature variations from year to year.

In rebuttal, Westcoast agreed with Inland that it could use a three-year average of the peak-day heating season requirements to determine the appropriate contract demands for the off-line customers.

Decision

The Board accepts the methodology proposed by Inland, and directs Westcoast to use this methodology in determining the off-line customers' contract demands for both the 1987 and 1988 test years.

6.8.2 Proposed Toll Treatment of Facilities Additions

In its August 1986 Westcoast Reasons for Decision, the Board requested Westcoast to develop a policy with respect to the toll treatment of facility additions and to submit the policy for review in its next toll application.

In response to this request, Westcoast indicated that it would construct new facilities for the connection of new gas reserves where the existing toll, over the lesser of contract or reserve life, or ten years, recovers at least 50 percent of the cost of such additional facilities. If the toll does not recover at least 50 percent of these costs, Westcoast proposed a surcharge to be borne by the users of the new facilities to bring the toll up to the 50 percent level.

During these proceedings, Westcoast stated that its proposal represented a policy which was in place and which would be used to screen requests for facilities additions. Westcoast believed its proposed policy to be similar to that of NOVA.

Westcoast also indicated that it would continue to make applications to the Board for approval of new facilities and tolls and that the Board would consider each such application on its own merits.

CPA endorsed Westcoast's position for gathering facilities only. It did not agree that the policy should apply for additions to processing and transmission facilities.

B.C. Hydro proposed three tests for evaluating facility addition proposals: a revenue test to ensure full cost recovery, an underutilization test for facilities, and an opportunity cost test to ensure that the next addition is the most economic. B.C. Hydro also advocated contributions-in-aid-of-construction rather than the surcharge proposed by Westcoast because it greatly reduces the risk to the other firm tollpayers that the revenue stream would not materialize.

Inland believed that an appropriate policy must be in place and enforced and that approval for facilities additions should not be sought unless they meet the test of the policy. Inland was of the view that the policy should apply to gathering and processing only. Inland also believed that the full cost of new facilities should be recovered and opposed the concept of a surcharge for facility additions. Inland preferred that Westcoast obtain capital contributions from persons wishing the construction of the facilities.

BCPC opposed a facilities addition test because it cannot be relied on for decision making. BCPC believed that each addition should be considered on its own merits and be determined on the basis of public convenience and necessity.

In rebuttal, Westcoast endorsed BCPC's comments. Westcoast believed intervenors have exaggerated the relevance of the test in the context of the Board's obligations under Part III of the Act to approve or disapprove each application for facility additions and the Board's obligation under Part IV of the Act to fix just and reasonable tolls.

Decision

The Board is encouraged that Westcoast has established and made visible a corporate policy that would be used as one of the bases for screening requests for facilities additions. However, the Board notes the concerns raised by the intervenors regarding whether application of the policy should be restricted to gathering or gathering and processing facilities; and whether contributions-in-aid-of-construction rather than a charge would be more appropriate so as to reduce the risk to the other tollpayers.

The Board concurs with parties who have expressed the view that Westcoast's policy should be used as a guideline only. The Board reminds parties that all proposed capital additions for which Westcoast seeks authorization from the Board are considered in accordance with Parts III and IV of the NEB Act regardless of any corporate criteria used to examine such projects.

6.8.3 Inland Surcharge Proposal

Inland proposed a surcharge methodology as a means by which Westcoast could allocate the costs of underutilized facilities equitably among its customers. Specifically, Inland's proposal addresses the allocation of costs associated with the underutilization of gathering and processing facilities. Because it is now possible for some sales customers to switch to service gas and thereby avoid paying the system average gathering and processing tolls by taking gas from behind those plants with the lowest percentage acid gas, there could be an increase in the underutilization of these facilities. Customers can also purchase gas from Alberta, thereby avoiding the gathering and processing facilities entirely. Inland is of the view that these costs were prudently incurred by Westcoast and suggests that the Board establish a clear direction for the allocation of these costs which would not favour one class of customer over another. Inland proposed that:

(i) Westcoast should determine the maximum contractual capacity of its major facilities;

(ii) for those facilities operating at less than 90 percent capacity, tolls should be calculated assuming a 100 percent load factor;

(iii) any revenue shortfall should be determined for these facilities; and,

(iv) the shortfall in gathering and processing tolls should be allocated among all firm users of Westcoast's system.

The application of Inland's proposal would prevent sales customers who switch to service gas from totally avoiding the system average costs of the gathering and processing facilities. In effect, these service customers would be making a contribution to the costs of the underutilized facilities through the surcharge.

Westcoast did not take a position on Inland's proposal. However, a Westcoast witness indicated that Inland's methodology is based on the Company having separate tolls for each plant, something which it was not proposing. The witness agreed that Inland's proposal is similar to the Board's recommended treatment of the TransCanada TOPGAS issue, which recognized that "all users of the system should contribute to the fact that underutilization has come about because of the facts of history" and, that a surcharge is one method of reducing, if not avoiding, cost shifts.

CPA opposed Inland's surcharge proposal as it would require shippers to pay for facilities that they do not use.

B.C. Hydro stated that there is over 200 MMcfd of excess processing capacity and that Westcoast should be directed to implement a policy which addresses the issue of underutilization of existing facilities.

Inland believed that serious efforts must be taken to avoid underutilization on the Westcoast system and recognized that the present methodology does not result in the cost of underutilized facilities being borne equally by all users. Inland states that it has presented the only evidence which deals with the underutilization in an effective way and that its proposal should be accepted.

Decision

The Board recognizes that the appropriate toll treatment of underutilized facilities is a problem which could become acute in the future. However, on the basis of the evidence presented in these proceedings, the Board is not prepared to adopt or implement a proposal such as that put forward by Inland.

6.8.4 Treatment of By-Product Revenues

In the 1986 Westcoast toll hearing, parties were invited to comment on the appropriate treatment of byproduct revenues. Evidence presented indicated that under existing contracts with BCPC, the title to and revenues from by-products remain with BCPC. Under direct sales, by-products remain the property of third parties and can be marketed either through BCPC or by the individual producer. Because none of the by-product revenues accrued to Westcoast, the Board stated that no decision was required.

As part of these proceedings, Inland proposed that the structure of Westcoast's sales and service tolls should be the same, with only minor adjustments between them. Inland cited that differences in entitlement to by-products causes a disparity between sales and service customers.

BCPC believed that there is no discrimination between sales gas and service gas because there is no basis of direct comparison. In the case of service gas, Westcoast is merely handling natural gas owned by third parties, while in the case of sales gas, Westcoast owns the gas and sells it to other people for a negotiated price. BCPC also noted that Inland conceded that it was aware of the by-product treatment when it last negotiated the commodity price with Westcoast.

BCPC submits that nothing has occurred which should induce the Board to change its August 1986 Westcoast Reasons for Decision ruling with respect to the treatment of by-product revenues.

Decision

The Board remains of the view that no decision is required. The situation in respect of by-product revenues has not changed since the last toll decision.

6.8.5 Payment by Producers for Gathering and Processing

In 1986, Northland, Inland and ICG Utilities (British Columbia) Ltd. suggested that the producers pay the gathering and processing tolls. The Board rejected this proposal at the time stating that it agreed with the Westcoast position that, for system sales, Westcoast is bound by contractual arrangements to gather and process gas in order to provide pipeline quality gas. Because Westcoast is the owner of the gas as soon as it enters the pipeline, it is not possible for the gathering and processing portion of the sales tolls to be segregated and paid for by the producers.

In these proceedings Inland once again proposed that the gathering and processing functions be the responsibility of the producers.

Decision

The Board continues to find that Westcoast must perform gathering and processing functions to produce pipeline quality gas. It also finds that the contractual arrangements for gathering and processing have not changed since the last hearing. Therefore, Inland's request in denied.

Chapter 7
Tariff Matters

7.1 Amendments Proposed by Westcoast

7.1.1 Administrative Fee

Westcoast proposed the collection of an administrative fee from all shippers requesting new interruptible service contracts. However, early in these proceedings, Westcoast withdrew the proposal in response to concerns of intervenors.

Westcoast explained that it had proposed the fee to eliminate trifling requests for service agreements and to encourage shippers to exercise discipline in nominating their gas volumes.

Decision

Because this item was withdrawn by Westcoast, no decision is required.

7.1.2 Interest Rate - Delinquent Accounts

Westcoast proposed that the interest rate charged on overdue accounts be increased from prime plus two percent to prime plus five percent. However, Westcoast indicated in argument that it was prepared to accept as a compromise the interest rate decision rendered by the BCUC in a recent Inland rate case. The compromise proposal provides for a penalty rate of prime plus two percent for the first 30 days that an account is delinquent and prime plus five percent on accounts delinquent beyond 30 days and on any second occurrence within a six-month period. Inland supported the compromise proposal.

Westcoast's original proposal was opposed by COFI/Cominco, IPAC, CPA and Unocal, who submitted that Westcoast had not provided sufficient evidence to justify modifying the currently approved rate.

In addition, COFI/Cominco and IPAC were of the view that if the Board felt that there was potential for abuse of the existing rate, the interest rate should be increased, but only in the case of repetitive and excessive delinquency by a particular customer.

Decision

The Board finds that Westcoast has not provided sufficient evidence to support a uniform increase in the interest rate on delinquent accounts from prime plus two percent to prime plus five percent. However, the Board does see merit in the compromise proposal that was struck in the recent Inland rate case. Therefore, the Board directs Westcoast to modify its general terms and conditions to reflect the compromise proposal as agreed to by the Company in argument.

7.1.3 Force Majeure

The issue of the appropriate force majeure and demand charge credit[1] provisions to be included in Westcoast's general terms and conditions was one of the most controversial and time consuming matters discussed during the hearing. Westcoast sought to change the provisions imposed by the Board as a result of its August 1986 Westcoast Reasons for Decision. Westcoast requested that the Board approve a clause which would have the effect of limiting the circumstances in which the Company would have to grant a credit to the payment of the demand component of its tolls to events of force majeure occurring on its system. Westcoast subsequently amended its position to recognize that it may be appropriate for Westcoast to give such relief, with respect to its sales customers, in the event of an upstream occurrence of force majeure. The difference in treatment between sales and service customers is attributed to the fact that for sales customers Westcoast is responsible for ensuring that adequate gas supply arrangements are in place, while for service customers other parties are responsible for these arrangements.

Westcoast maintained that its proposal resulted in a fair and equitable sharing of risks because Westcoast would take responsibility for force majeure events occurring on its system and other parties would take responsibility for similar events occurring on their systems. Westcoast expressed great concern that under the existing provisions it was exposed to unlimited liability because it may be required to grant relief from the payment of its demand component of its toll for events arising far afield of its pipeline system. Westcoast requested that the Board approve a deferral account to cover the two force majeure claims that it presently faces, as it assumes any changes to the existing general terms and conditions will only operate prospectively. As well, Westcoast requested that in the event the Board did not approve its proposed provisions, a deferral account be authorized in order to keep Westcoast and its shareholders whole.

Several intervenors took issue with the Westcoast proposal. They argued that it resulted in inequitable treatment between Westcoast and the users of the system. The intervenors also argued that the proposal removed the benefits of the force majeure clause for shippers, while retaining the benefits for Westcoast.

CPA proposed that a demand charge credit should be granted for an act of force majeure that occurs:

(i) on Westcoast's system;

(ii) on an upstream supply source connected with Westcoast's system, whether for sales or service; or

(iii) on any downstream facilities connected directly with Westcoast's system.

CPA characterized this approach to limiting liability as a "ring fence" and indicated that it was based on the doctrine of remoteness of causation. If its proposal were accepted, CPA submitted that there would be no need for such measures as a strike adjustment fund or a deferral account.

1 A demand charge credit refers to a credit to the demand component of the toll.

COFI/Cominco, IPAC, Inland and Poco generally supported CPA's proposal. However, some parties expressed additional views which distinguished their positions from that of CPA.

COFI/Cominco argued that Westcoast's proposal was the same as that which was addressed by the Board last year. COFI/Cominco submissions would appear to broaden CPA's "ring fence" to cover end-user industrial customers. COFI/Cominco did suggest that if there is a problem because of the inclusion of certain events, such as strikes, in the force majeure provision, the provision could be tightened up to deal with this problem. COFI/Cominco supported the inclusion of a deferral account to protect Westcoast.

IPAC focussed on the fact that the Westcoast proposal sets up distinctions between sales and service customers and does not give them equal treatment.

Inland argued that the force majeure provision should relate to the operation of the pipeline or events which parties have historically accepted as events of force majeure. Inland supported the distinction between the upstream treatment of sales and service customers. With respect to the CPA proposal, Inland suggested that the wording be very clear, when referring to a by-pass pipeline, to indicate that the relief is limited to the by-pass pipeline facilities and not the industrial facilities involved.

In general, B.C. Hydro and BCPC supported the Westcoast proposal. B.C. Hydro argued that the purpose of force majeure is to limit the risks to which the utility is exposed to matters directly related to the operation of the regulated pipeline. BCPC suggested that it would be appropriate to make each person financially responsible for the portion of the system he operates. In that fashion, control and responsibility go hand in hand.

TransCanada submitted that the Board's decision should be limited to the specific circumstances of Westcoast and not be generic.

Decision

The Board continues to be of the view that the proposal of Westcoast does not operate so an to treat Westcoast and other parties equitably. For this reason the Board denies the amendments requested by Westcoast.

However, the Board recognizes that there is a need for a change in the existing provision. In determining an appropriate limitation to attach to the requirement to give relief from the payment of the demand component of the relevant tolls, the Board has considered other options; such as, restricting the relief to the contracting parties and the CPA "ring fence" proposal. On balance, while the Board is aware that the CPA proposal has some shortcomings, it is prepared to accept a modified "ring fence" approach. The modification is with respect to the upstream application of the requirement to grant relief by Westcoast.

The Board is aware that implementing this decision will accord different treatment to sales versus service customers, but is of the view that the distinction is warranted in this situation. For service customers, Westcoast is providing

solely a service function and therefore should not be held responsible for a gas supply failure.

The Board directs that the general terms and conditions for sales and service be amended as follows:

1. Article 14.03 - Sales (Article 17.03 - Service) is revoked and the amended wording proposed by Westcoast in its application (filed as part of Exhibit B-2) for this article is to be substituted therefore.

2. Article 5.01 - Sales (Article 6.01 - Service) is amended as follows:

(i) by deleting the phrase:

> **"but no such credit shall be given if such failure or inability to deliver by Westcoast resulted from (i) Buyer being unable to accept delivery of gas at the delivery point, or (ii) Westcoast being unable for any reason beyond its control to obtain gas supply from its gas producers or suppliers"**

(ii) and, substituting therefor the following:

> **"but no such credit shall be given if such failure or inability to deliver by Westcoast resulted from:**
>
> **(a) in the case of service customers, shipper being unable to deliver gas at the delivery point; or**
>
> **(b) an event of force majeure, other than an event of force majeure: (i) occurring on the Westcoast system or any downstream pipeline facilities connected directly to the Westcoast system; or (ii) which renders Westcoast unable to obtain adequate gas supply from its gas producers or suppliers."**

For greater certainty, this latter clause would apply to the pipeline facilities of Westcoast, the domestic LDCs, Northwest, any off-line sales customer and any bypass customer.

With respect to Westcoast's request for a deferral account to cover: (i) any demand charge credit that it may be required to give based on the existing claims by Poco and Inland; and (ii) any demand charge credits that it may be required to give if its applied-for amendments to this provision are not accepted by the Board, the Board is of the view that it is not appropriate to grant a blanket deferral account to cover potential eventualities. If Westcoast is subject to direct and tangible exposure as a result of the force majeure and demand charge credit provisions contained in its general terms and conditions, Westcoast may seek relief from the Board at that time.

7.1.4 Letters of Credit

7.1.4.1 Interruptible Service

Westcoast proposed to increase the security required from interruptible shippers deemed to be uncreditworthy to the maximum amount payable for 62 days of service rather than the current 55 days.

Westcoast stated that the increase of seven days is required because the Board in its August 1986 Westcoast Reasons for Decision had increased by seven days the length of time before which Westcoast can terminate service in the event of a default.

Intervenors did not oppose the Westcoast proposal.

Decision

The Board agrees with Westcoast that the letter of credit for interruptible sales and service customers should be for a period of 62 days. Therefore, the Board accepts the Company's proposal.

7.1.4.2 Firm Service

Westcoast is proposing a one-year letter of credit for those firm customers that it considers a credit risk. The Company does not believe that the 62-day period used in the letters of credit for interruptible customers is appropriate for a firm customer.

In support of its position, the Company submitted in argument that (i) the 62-day period used to establish the limit for interruptible customers is directly related to Westcoast's maximum exposure to risk; (ii) the length of time for which Westcoast is exposed to risk in the case of firm contracts is one year; and, (iii) the 62-day letter of credit does not provide adequate protection to Westcoast in the case of a firm customer.

During cross-examination, Westcoast indicated that if it had deemed a firm customer uncreditworthy and were then ordered to provide service and that customer failed to pay his fixed costs, Westcoast would expect to collect any unrecovered fixed costs in the following test year.

Westcoast also indicated that it would be prepared to accept the risk that a firm customer, who it had deemed creditworthy, would subsequently fail to pay, qualified only by consideration of the quantum or size of the loss.

CPA was of the view that if Westcoast deems a firm shipper to be creditworthy and offers firm service that is subsequently terminated for failure to pay, this is a normal business risk which should be assumed by Westcoast. CPA also pointed out that because a shipper might become insolvent and unable to pay its bills does not mean that the end use for that volume of gas will necessarily disappear. Another party may be able to serve that same customer and thereby keep Westcoast's revenue stream whole.

With respect to firm service for periods that are longer than one year, CPA believed that Westcoast should be entitled to require financial statements or other proof of creditworthiness from shippers at yearly intervals and to demand a 62-day letter of credit if a previously creditworthy customer has become uncreditworthy.

COFI/Cominco urged the Board to approve 62 days for the letter of credit and indicated that it would not oppose any revenue shortfall being recovered in a deferral account.

IPAC continues to firmly reject the one-year letter of credit proposal. IPAC concurs with the Board's recent decision for TransCanada and believes that it could be applied in the Westcoast situation.

B.C. Hydro supported Westcoast's proposal because it would prevent costs from being shifted from uncreditworthy to creditworthy customers, which was not the intent of a market-oriented environment.

TransCanada supported Westcoast's proposal. TransCanada argued that a 62-day letter of credit could provide Westcoast with the incentive to refuse service, thus requiring the involvement of the Board in granting orders to enable parties to receive service. TransCanada also believes that a one-year letter of credit might be fairer than requiring Westcoast to react to bankruptcies and seek deferral mechanisms that would have parties unrelated to the transaction ultimately absorbing the unrecovered costs.

TransCanada was also of the view that the Board's decision should clarify that Westcoast has the right not only prior to, but also during the term of service, to require financial data adequate to allow Westcoast to update credit assessments.

APMC and Poco did not support Westcoast and submitted that such a letter of credit would act as an impediment to sales.

Decision

The Board believes that Westcoast has the opportunity and the obligation to perform credit assessments of its customers at any time and that it may demand reasonable credit assurances in those cases where there is a compelling reason to do so.

Considering the comments of the intervenors and the fact that Westcoast has the opportunity to suspend service after 62 days, the Board believes that approval of a one-year letter of credit is not warranted. Therefore, the Board approves a 62-day letter of credit for firm service customers.

However, the Board recognizes that in the event of a default by a shipper and a subsequent suspension of service, Westcoast will still be at risk for the unpaid portion of the demand component of the tolls if these amounts cannot be recovered from the defaulting party. Accordingly, the Board approves a deferral account for purposes of recording the unpaid amounts.

This deferral account is to be used only to record those fixed demand amounts which will not be collected by Westcoast from its firm service customers due to a

costumers default on the payment of its account. The unpaid amounts to be included in this account shall be calculated from the date on which Westcoast has terminated service, pursuant to the letter of credit provision in the general terms and conditions.

7.1.5 Demand Charge Credit for Routine Maintenance Shutdowns

Westcoast is proposing a new provision in the general terms and conditions for service which would eliminate its obligation to provide demand charge credits to shippers who obtain all their gas supply from behind a single plant during the planned routine maintenance shutdowns of that plant.

As part of its proposal, Westcoast proposed that if a shipper has an alternate source of supply during such a shutdown, it would apply the same toll to the alternate supply as it would have applied to gas from the shutdown plant. The advantages of the proposal are that Westcoast will not have to issue demand credits and firm customers will not have to pay interruptible tolls for transportation from an alternate source. As an alternative, Westcoast proposed to allow advance deliveries into its system during the summer months, provided that it could accommodate them.

Because Westcoast was uncertain whether or not the Board would accept its proposals, Westcoast was also applying for a deferral account to record any demand charge credits that it may have to give because of such planned routine maintenance plant shutdowns. Westcoast explained that the deferral account is required because the use of a forward test year makes it almost impossible to forecast the extent of the shutdowns and to identify the affected shippers.

In argument, Inland agreed with Westcoast's proposal because users of Westcoast should be aware that maintenance shutdowns will occur. In Inland's view, shippers should arrange for alternate supplies during those times and, if they do not do so, they should not expect credits to their demand charges.

Decision

The Board believes that Westcoast's proposal is reasonable. Therefore, the Board directs Westcoast to include this new provision in its general terms and conditions for service. Consequently, Westcoast's request for a demand charge credit deferral account is denied.

In addition, the Board believes that it would be helpful if Westcoast were to provide advance notification to its shippers of any planned shutdowns and their expected duration.

7.2 Amendments Proposed by Intervenors

7.2.1 Priority of Interruptible Service

In its August 1986 Westcoast Reasons for Decision, the Board directed that interruptible volumes be curtailed on a pro rata basis.

In these proceedings, Westcoast stated that it continues to favour the allocation of interruptible volumes on the basis of the first flow of volumes and remained of the view that it should continue to use the existing twice-monthly allocation procedure during the coming winter to enable it to document anticipated difficulties, even with this procedure.

Westcoast explained that the main problems that it envisaged with daily prorationing were that the producers may encounter problems in actually producing at lower allocated volumes; the end-use customers with dual-fuel capabilities may not take any gas if their pro rata share does not meet their daily requirements; and there will be a need for additional personnel and facilities to administer both the daily allocations and the significant increase in changes of gas orders to the production sources.

Nevertheless, as a result of discussions with various producer entities, Westcoast agreed to implement daily prorationing for its system by 1 November 1987.

IPAC alleged that Westcoast had been treating the priority of interruptible service for sales and transportation service gas quite differently by giving priority to EIST sales gas over Tier-One and Tier-Two service gas. IPAC also contended that if this practice had been occurring, a number of sellers would have been disadvantaged and that "Westcoast should fully explain its rationale and provide a reconciliation between treating all interruptible service on a pro rata basis (approved by the Board) versus the procedure it may have adopted (Westcoast's practice)".

In response to IPAC's concern, Westcoast stated that for interruptible gas taken from behind each plant, no preference was given to sales over service. However, Westcoast stated that with respect to BCPC gas which is made available for sales on an interruptible basis, there may be no gas supply available to serve certain interruptible customers if BCPC calls on that gas during peak-day requirements.

CPA, IPAC and COFI/Cominco all agreed that Westcoast should implement daily prorationing. IPAC added that this might alleviate the capacity problems behind the McMahon plant.

Inland was opposed to Westcoast incurring extra expenses for the sake of daily prorationing and submitted that there was no evidence to demonstrate significant benefits from daily prorationing.

B.C. Hydro was not opposed to having equal priority for interruptible sales and service customers behind each gas plant provided the same toll is paid and suggested that Westcoast should interrupt the source that pays the lowest toll whether it is for sales or service.

> **Decision**
>
> **The Board notes that Westcoast has agreed to implement daily prorationing for its system by 1 November 1987. The Board requests that Westcoast document any difficulties that it may encounter during the upcoming heating season from daily prorationing.**

7.2.2 Nomination Lead Time

Westcoast's gas sales contracts with its LDCs require these customers to provide their contract demand nominations twelve months ahead of the next gas year. The firm service contracts do not specify a nomination lead time. However, for service gas shipped under the umbrella of the Inland/Westcoast sales agreement, the service shipper must provide its CD nomination to Inland thirteen months ahead of the next gas year. The reason for this is that Inland provides only one CD nomination to Westcoast for both sales and service gas.

COFI/Cominco and Inland proposed that the 12 month nomination lead time for firm gas be reduced to four to six months.

IPAC stated that because there is no major growth in the marketplace, the one year lead time is excessive. IPAC believed that the nomination lead time should vary with the individual circumstances of the customer's requirements.

Westcoast stated that it has been and intends to continue being responsive to the lead-time concerns of the distributors.

Westcoast explained that it needs to be informed of firm sales gas nominations one year ahead of the coming gas year for three reasons. First, Westcoast needs to be able to determine available plant capacities, particularly at the McMahon plant, so that it can properly confirm service to customers, or react to their requests. Hence, for the latter case, Westcoast explained that the one year provision is really a minimum which would allow Westcoast enough time to either acquire additional gas supplies or install new facilities. However, Westcoast conceded that, operationally, it could live with less than twelve months if no new supplies or facilities are required. Second, under a forward-test-year method of regulation, it needs time to adequately prepare for toll hearings before the Board. And third, Westcoast suggested that the system suppliers should be advised early of Westcoast's requirements for a coming gas year so that those suppliers could also compete for direct sales of gas.

Decision

The Board notes that the nomination lead time is a provision contained in the gas sales contracts and not in the general terms and conditions for sales and service. The Board also notes the comments of the intervenors and Westcoast and is encouraged that there is potential for reducing the nomination lead time through co-operation between the parties. In particular, there seems to be scope for reducing lead time in cases where no new supplies or facilities are required.

7.2.3 Allocation of Capacity

During the hearing Westcoast filed its draft policy for allocating capacity. A number of intervenors expressed concerns regarding the policy.

COFI/Cominco was concerned that (i) a request in writing need not be backed up by a natural gas sales agreement and accordingly believed that it was at least theoretically possible for speculators to book capacity and then broker a right to a regulated service on a free-market basis; (ii) there are no time limits on Westcoast for responding to requests for service or capacity, and accordingly it is possible for Westcoast to delay a party currently prepared to contract to the detriment of that party; and (iii) while extension rights for past service contracts are contemplated it is not clear which party, the end-users on the LDC's system or the LDC, would benefit under the extension rights.

COFI/Cominco submitted that the allocation policy must permit the transfer of capacity to industrials with or without the consent of the distributor utility which had previously provided the service.

Inland shared COFI/Cominco's concerns regarding the need for a person requesting service to sign a document to ensure that the requirement is bona fide and believed that the policy should set a time limit for Westcoast to respond to requests. However, Inland did not believe that the policy must permit the transfer of capacity to industrials as suggested by COFI/Cominco.

B.C. Hydro was of the view that the policy should indicate that "top priority should be given to those sales customers transferring from sales to service".

COFI/Cominco recognized that policies of this nature take time to evolve and that renewals of service contracts are only now beginning to occur. Therefore, COFI/Cominco urged the Board to require Westcoast to meet with the principal parties affected by its allocation policy to discuss the concerns raised by parties and to submit a set of more detailed formal guidelines for review by the Board at an early date.

Decision

The Board recognizes the effort made by Westcoast to develop a formal policy for allocating capacity and notes, in particular, Westcoast's comments that its "formal policy ... doesn't necessarily cover every possible eventuality ..." but is "a guideline that is subject to some interpretation, depending on the events that ensue".

The Board does not believe that it would be appropriate for it to become actively involved in shaping Westcoast's allocation policy at this time. The Board believes that it would be more effective if Westcoast were to discuss its allocation policy with the principal parties affected and then to submit a more detailed, formal guideline with the Board. Accordingly, the Board directs Westcoast to file such a policy by 1 April 1988.

7.2.4 Operating Tolerance

In argument, CPA stated that there appears to be unfairness arising from the fact that Westcoast has no obligation to give a demand charge credit pursuant to Article 5.01 of the Sales General Terms and Conditions (Article 6.01 - Service) unless it is unable to deliver a minimum of 97.5 percent of the volume of gas that the buyer requested, while on the other hand, if a shipper takes gas between 100 and 102.5 percent of the allowable level, the shipper is required to pay the demand charge for the excess volume in that non-penalty range.

CPA and BCPC believed that Westcoast should be required to either give a demand charge credit for gas deliveries below 100 percent of the volume requested or the shipper should not be required to pay a demand charge for takes of gas between 100 and 102.5 percent of the allowable level.

Westcoast did not address this matter in its rebuttal.

Decision

The Board notes the points raised by CPA in argument. However, because this matter was not addressed during the evidentiary phase of the hearing, the Board is not prepared to authorize a change to this article of the general terms and conditions at this time.

The Board directs Westcoast, by 1 April 1988 to explain why it does not provide a demand charge credit when the volume of gas delivered falls in the range between 97.5 and 100 percent of the volume requested, while on the other hand it requires a shipper to pay a demand charge on the excess gas when the shipper takes gas between 100 and 102.5 percent of the allowable level.

7.2.5 Minor Wording Changes to Certain Tariff Provisions

In argument, Westcoast stated that as a result of concerns raised by intervenors, it had agreed to make some additional wording changes to its general terms and conditions that are intended to clarify the intent of the existing provisions.

The first change relates to Article 5.05 of the Service General Terms and Conditions. This Article sets out the tolerance levels that apply to daily reporting penalties. Westcoast agreed to eliminate the five percent tolerance category (delivery volumes greater than 2 800 10^3m^3). The new provision provides that the tolerance level will be 10 percent for all volumes greater that 701 10^3m^3.

The next change also relates to Article 5 of the Service General Terms and Conditions and to reporting penalties. Because some intervenors expressed concern that they could be penalized twice if they were to incur both daily and monthly reporting penalties, Westcoast agreed to amend this article to provide that where both daily and monthly penalties are incurred, the penalty to be charged by Westcoast will be the greater of the monthly penalty or the aggregate of the daily penalties incurred during such month.

The final minor wording change that Westcoast agreed to make is an amendment to the unauthorized overrun penalty provisions. The relevant sections are Article 6.01 of the Sales General Terms and Conditions and Article 7.01 of the Service General Terms and Conditions. Westcoast agreed to amend these articles so that it is clear, that when a penalty is charged, there is no additional toll for providing the unauthorized overrun service.

On 2 September 1987, Westcoast filed amended general terms and conditions which incorporated the wording changes proposed by Westcoast.

Decision

The Board recognizes that these amendments were made on the basis of concerns raised by intervenors and therefore accepts them for inclusion in Westcoast's general terms and conditions.

7.3 General Terms and Conditions for Export Sales

This matter was the subject of considerable discussion during Phase 1 of the hearing. However, after the matter had been thoroughly discussed, Westcoast filed General Terms and Conditions for Export Sales.

Northwest pointed out that only two minor administrative adjustments would be required to the terms and conditions to accommodate circumstances unique to it; one related to the notice and the timing of notice for daily deliveries, and the other was with respect to possible overcharges. Northwest agreed to be bound by the general terms and conditions for export sales as approved by the Board.

A number of intervenors expressed the view that there should be general terms and conditions for export sales and that they should track as closely as possible the terms and conditions for the domestic market. Inland went so far as to suggest that there should be only one document containing the terms and conditions for both domestic and export sales.

Westcoast believed that there was enough difference in certain provisions to keep them separate.

Decision

The Board approves the proposed general terms and conditions, but directs Westcoast to make the necessary changes to them to reflect the Board's decisions in the other tariff sections and to address the minor changes suggested by Northwest.

The Board is also of the view that the general terms and conditions, as revised, should apply to all export sales gas transported in its system and not just export sales gas sold to Northwest.

7.4 Commencement Date for General Terms and Conditions

Westcoast was of the opinion that any changes to the existing General Terms and Conditions should not become effective until 1 November 1987.

Inland also took the position that changes to the tariff provisions should be prospective because parties should be aware of the terms and conditions that will apply when contracting for gas.

Decision

The Board believes that changes to the existing General Terms and Conditions should be implemented on a prospective basis. Accordingly, the Board directs that the changes required by these Reasons for Decision become effective 1 January 1988.

Chapter 8
Cost of Service Deferral Accounts

8.1 Existing Deferral Accounts

Pursuant to Order No. TG-4-86, the Board approved various deferral accounts that Westcoast had applied for in its 1986 toll application and allowed carrying charges at the approved rate of return. The Company requested that these deferral accounts, with carrying charges, be continued in 1987 and 1988 with an amendment to the deferral account for income taxes to provide for tax reform legislation affecting the 1988 test year. The requested amendment would add the following provision after the words "income taxes" in paragraph 20 of Order No. TG-4-86:

> "including any difference in the 1988 federal and provincial income tax rates from that forecast for the 1988 test year which results from the failure of the federal government's June 18, 1987 White Paper on Tax Reform to be enacted into legislation in the form proposed."

Intervenors were not opposed to the Applicant's request.

Decision

The Board approves the continuation of the deferral accounts for the 1987 and 1988 test years, together with the requested amendment to the deferral account for income taxes.

All deferral accounts approved in these Reasons for Decision shall accrue a carrying charge each month, on the month-end balance in the account, at a rate equal to one-twelfth of the approved rate of return on rate base and are to be included in Westcoast's next toll application for disposition by the Board.

8.2 New Deferral Accounts

Westcoast has requested four new deferral accounts as set out in the following subsections.

8.2.1 Force Majeure Deferral Account

Westcoast claimed that this account is required because it cannot adequately forecast or insure the cost of providing demand charge credits related to force majeure relief during the two test years.

Both CPA and B.C. Hydro proposed amendments to Westcoast's force majeure proposals which, if adopted, would in their view eliminate the need for this deferral account.

Decision

In Section 7.1.3, the Board stated that it is not prepared to grant a blanket deferral amount to cover potential force majeure claims, and if Westcoast became

subject to direct financial exposure, the Company could apply to the Board at that time.

8.2.2 Operating Demand Deferral Account

The Company stated that this deferral account will be required if the Board rejects Westcoast's revenue credit approach.

CPA was in favour of such a deferral account, while B.C. Hydro believed that a displacement toll would eliminate the requirement for an operating demand deferral account.

Decision

The Board approves an operating demand deferral account. The Board's reasons for approving this account are to be found in Section 6.3.

8.2.3 Letter of Credit Deferral Account

Westcoast believes it should be granted a letter of credit deferral account if the Board denies its request to require a twelve-month letter of credit from firm customers that it considers uncreditworthy. CPA opposes the granting of this deferral account arguing that it is an attempt to obtain indirectly what the Board declined to grant directly. B.C. Hydro is also opposed to the approval of a deferral account.

Decision

As set out in Section 7.1.4, the Board approves a deferral account for the specific uses detailed therein.

8.2.4 Planned Maintenance Deferral Account

The Company requested a planned maintenance deferral account if the Board does not approve its proposal to place a limitation on its obligation to provide demand charge credits when service is interrupted for planned maintenance.

Decision

In view of the Board's decision in Section 7.1.5, the need for a deferral account no longer exists. Therefore, the request is denied.

8.3 Proposed Treatment of the 1986 Deferral Account Balances

As directed by paragraph 25 of Board Order No. TG-4-86, Westcoast credited in the 1987 test-year cost of service the balances of various deferral accounts amounting to $2.845 million as at 31 December 1986. The Company applied to amortize this amount in its 1987 tolls and to include the unamortized balance in the rate base. Included in the deferral account balances is a debit balance of $128,000 which represents the 1986 retainer fee of $120,000 plus carrying charges. The Board, by its decision of 1 December 1986, directed Westcoast to record the amount of the retainer fee, with carrying charges, in a deferral account pending a resolution of the matter of the appropriate amount of the retainer fee in the current proceedings.

During the latter stages of the hearing, the Company stated that, as at 31 December 1986, there was a credit balance of $616.6 thousand in the EIST deferral account which had been included in its toll design. Westcoast requested that the Board flow this amount through the cost of service in the same manner as other deferral account balances.

No intervenor took a position with regard to the toll treatment of the deferral account balances as such; however, comments were made regarding the retainer fee (refer to Section 5.5 of the Reasons).

Decision

The Board approves the Company's proposed rate base and cost of service treatment of the 986 deferral account balances. The amount approved for amortization is ($3,589,600), which has been determined as follows:

Balance per Application[1]	**($2,845,000)**
Adjustments:	
1986 Retainer Fee[2]	**(128,000)**
1986 EIST Revenues[3]	**(616,000)**
Total	**($3,589,000)**

1 Exhibit B-149, Tab Cost of Service, Page 26.0

2 Exhibit B-149, Tab Cost of Service, Page 26.0

3 Exhibit B-159,. Evidence of A.L. Edgeworth and M.W. Montgomery, Page 3

Chapter 9
Final Determination of Cost of Service and Tolls by Westcoast

The Board has not included a final approved rate base, cost of service or tolls for the 1987 and 1988 test years in these Reasons for Decisions. The Board has not attempted to provide these because of the complexity caused by such factors as the double test year and the new Westcoast/Northwest Agreements. In these circumstances, the Board believes it is more appropriate for the Company to make the necessary adjustments to its application, as amended, to reflect the Board's decisions.

Accordingly, Westcoast is required to revise the average rate base, cost of service and all supporting schedules for the 1987 and 1988 test years. The revised schedules and the tolls and tariffs are to be filed with the Board and served on interested parties. Sufficient information should be included to clearly explain each adjustment and, where necessary, tables or working papers should be provided to support the explanation.

Chapter 10
Disposition

The foregoing chapters, together with Order No. TG-7-87, constitute our Reasons for Decision and our Decision on this matter.

L.M. Thur
Presiding Member

R.F. Brooks
Member

W.G. Stewart
Member

Ottawa, Canada
November 1987

Appendix I
Order No. TG-7-87

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

IN THE MATTER OF an application by Westcoast Transmission Company Limited (Westcoast) dated 19 December 1986, as amended, for certain interim and final Orders respecting tolls and tariffs under Sections 16, 50, 51, 52 and 53 of the NEB Act, filed with the Board under File No. N1562-W5-11.

BEFORE:

L.M. Thur
Presiding Member

R.F. Brooks
Member

On Monday, the 9th
day of November, 1987

W.G. Stewart
Member

WHEREAS by application dated 19 December 1986, as amended, Westcoast applied to the Board for certain interim and final Orders under Sections 16, 50, 51, 52 and 53 of the National Energy Board Act fixing just and reasonable tolls which Westcoast may charge, effective 1 January 1987, for or in respect of the gathering, processing and transportation of gas owned by Westcoast and gas owned by others, and disallowing any existing tolls or tariffs inconsistent therewith;

AND WHEREAS Westcoast has requested that the Board approve, for accounting and toll making purposes, certain related procedures and deferral accounts;

AND WHEREAS the Board, by Order No. TGI-59-86, approved, on an interim basis, the tolls to be charged by Westcoast for gas which is gathered, processed and transported by Westcoast, effective 1 January 1987;

AND WHEREAS Westcoast, in response to a request by the Board, amended its application to include both the 1987 and 1988 test years;

AND WHEREAS the Board heard evidence and submissions of Westcoast and all intervenors, with respect to the application, at a public hearing held pursuant to Order No. RH-2-87, as amended, which commenced in Vancouver on 26 May and ended in Ottawa on 25 September 1987;

AND WHEREAS the Board's decisions on the application, as amended, are set out in its Reasons for Decision, dated November 1987 and in this Order;

IT IS ORDERED THAT:

1. Westcoast shall file with the Board and serve upon all intervenors to the hearing of this application, by 1 January 1988, new tariffs and tolls conforming with the decisions outlined in

the Reasons for Decision dated November 1987 and with this order; and Westcoast shall charge, in respect of the gathering, processing and transportation of gas owned by Westcoast and gas owned by others, the tolls so calculated;

2. (1) Effective 1 January 1988 the tolls authorized herein shall be in service and form part of Westcoast's tariffs.

(2) Effective 1 January 1988 the changes authorized with respect to Westcoast's General Terms and Conditions for Sales and Service shall come into effect.

(3) Pursuant to subsection 16.1 (2) and Section 52.2 of the Act, Westcoast shall recalculate the tolls authorized in conformity with the Board's Reasons for Decision dated November 1987, for the period 1 January 1987 to 31 December 1987 and shall refund such part of the tolls charged by the company under the interim order as is in excess of the tolls determined pursuant to this Order, together with interest, either as a lump sum on or before 30 January 1988, or in equal monthly instalments over a period not exceeding six months.

3. Westcoast shall, for accounting, toll-making and tariff purposes, implement procedures conforming with the Board's decisions outlined in the Reasons for Decision dated November 1987 and with this Order.

4. Those provisions of Westcoast's tariffs and tolls or any portion thereof that are contrary to any provision of the *National Energy Board Act*, the Reasons for Decision dated November 1987 or any Order of the Board, including this Order, are disallowed, after 31 December 1987.

National Energy Board

J.S. Klenavic
Secretary

Appendix II
Order No. RH-2-87

File: N1562-W5-10

20 March 1987

Mr. R.B. Maas
Vice-President
Marketing & Regulatory Affairs
Westcoast Transmission Company Limited
1333 West Georgia Street
Vancouver, B.C.
V6E 3K9

Dear Mr. Mass:

Re: Westcoast Transmission Company Limited Application for Tolls Effective 1 January 1987 and 1 January 1988

The Board is today announcing that it will hold Phase 1 of its two-phase public hearing on an application by Westcoast Transmission Company Limited for new tolls effective 1 January 1987 and 1 January 1988.

Background

By application dated 19 December 1986, Westcoast applied to the National Energy Board for, among other things, orders respecting tolls under Part IV of the *National Energy Board Act*. On 30 December 1986, the Board issued Order No. TGI-59-86 to Westcoast authorizing interim tolls to be charged by Westcoast for the period commencing 1 January 1987 and ending on a date to be specified in the Board's Decision with respect to the forthcoming toll hearing. By letter dated 20 January 1987, the Board asked Westcoast to consider amending its application to include both 1987 and 1988 as test years.

By letter of 30 January 1987, Westcoast agreed to so amend its application and suggested a two-phase approach to the hearing. On 20 February 1987, the Board wrote to the Company agreeing to the proposal, indicating that Phase 1 would deal with toll design and tariff matters, and that Phase 2 would deal with throughput forecasts, rate base, cost of service, and rate of return matters.

In its letter, the Board also concurred with a Westcoast proposal to file its direct evidence in two stages and established 13 March 1987 as the date for filing Phase 1 evidence and 29 June 1987 as the date for filing material for Phase 2.

Following a public hearing held pursuant to Board Order No. RH-1-87, the Board, by Order No. TG-2-87 dated 16 March 1987, directed Westcoast to file new interim tolls effective 1 April 1987.

The Hearing

On 16 March 1987, Westcoast filed its Phase 1 evidence. The Board has decided to start Phase 1 in Vancouver, British Columbia on 26 May 1987 and sit for a period of two weeks. The hearing will reconvene in Ottawa on 9 June 1987. Directions on Procedure for Phase 1 are attached.

Once Westcoast has filed its evidence for Phase 2, further Directions on Procedure will be issued by the Board.

Please serve this letter and the attached Board Order No. RH-2-87 on parties as required by paragraph 12 to the Order.

Yours truly,

J.S. Klenavic
Secretary

Attach.

File No.: 1562-W5-10

20 March 1987

Hearing Order RH-2-87
Directions on Procedure

Westcoast Transmission Company Limited
Application For Tolls Effective
1 January 1987 and 1988

By application dated 19 December 1986, as amended, Westcoast Transmission Company Limited ("Westcoast" or "the Applicant") applied to the National Energy Board for, among other things, orders respecting tolls under Part IV of the *National Energy Board Act*. Having considered the application, the Board decided on 20 March 1987 to hold a public hearing in two phases. Phase 1 will commence on 26 May 1987 in Vancouver, British Columbia. The Board directs as follows:

PUBLIC VIEWING

1. The Applicant shall deposit and keep on file, for public inspection during normal business hours, a copy of the application in its offices at 1333 West Georgia Street, Vancouver, British Columbia, V6E 3K9. A copy of the application is also available for viewing in the Board's Library, Room 962, 473 Albert Street, Ottawa, Ontario, KlA 0E5 and at the National Energy Board, 4500 - 16th Avenue, N.W., Calgary, Alberta, T3B 0M6.

METHOD OF HEARING

2. The hearing will be held in two phases: Phase 1 will deal with 1987 and 1988 toll design and tariff matters, Phase 2 will consider all other issues, including throughput forecasts, rate base, cost of service and rate of return.

INTERVENTIONS

3. Interventions are required to be filed with the Secretary by 3 April 1987. Interventions should include all the information set out in paragraph 32 of Part III to the Board's Draft Rules of Practice and Procedure dated 18 February 1985, including all issues which the intervenor wishes to address during Phase 1 of the public hearing.

4. The Secretary will issue a list of intervenors shortly after 3 April 1987.

Phase 1

INFORMATION REQUESTS TO THE APPLICANT

5. Information requests with respect to Phase 1 are required to be filed with the Secretary and served on all parties to the proceeding by 3 April 1987.

6. Responses to the information requests made pursuant to paragraph 5 are required to be filed with the Secretary and served on all parties to the proceeding by 16 April 1987.

INTERVENOR WRITTEN EVIDENCE

7. Intervenor Written Evidence on Phase 1 is required to be filed with the Secretary and served on all parties to the proceeding by 23 April 1987.

LETTERS OF COMMENT

8. Letters of comment with respect to Phase 1 are required to be filed with the Secretary and served on Westcoast by 23 April 1987.

INFORMATION REQUESTS TO INTERVENORS

9. Information requests with respect to the material filed pursuant to paragraph 7 are required to be filed with the Secretary and served on all parties to the proceeding by 5 May 1987.

10. Responses to the information requests made pursuant to paragraph 9 are required to be filed with the Secretary and served on all parties to the proceeding by 12 May 1987.

11. Phase 1 will commence in the Conference Centre, Rooms 201-204, of the Sheraton Landmark Hotel in Vancouver, British Columbia, on 26 May 1987 at 9:30 a.m.

SERVICE TO PARTIES

12. The Applicant shall serve one copy of these Directions and the Notice of Public Hearing, attached as Appendix I, by 27 March 1987 on interested parties to Board Order Nos. RH-6-85 and RH-1-87, parties listed in Appendix IV of this Order, as well as parties with whom Westcoast has entered into Interruptible Gas Gathering, Processing and Transportation Service Agreements and any other person who, to Westcoast's knowledge, has expressed an interest in these proceedings. Westcoast is directed to file with the Board one copy of the list of all parties served.

NOTICE OF HEARING

13. The publications in which the Applicant is required to publish the Notice of Public Hearing, on or before 27 March 1987, are listed in Appendix II.

LIST OF ISSUES

14. The Board intends to examine during Phase 1 of the hearing, but does not limit itself to, the issues specified in Appendix III.

PHASE 2

15. Directions on Procedure for Phase 2 of the hearing will be issued at a later date.

PROCEDURE FOR HEARING OF EVIDENCE

16. For the purpose of the hearing of evidence in each phase, the following procedure shall apply:

    (a) Westcoast shall present its evidence;

(b) Intervenors and Board Counsel shall have the right to cross-examine Westcoast's witnesses;

(c) Intervenors shall present their evidence in an order to be specified at the commencement of the proceedings:

(d) After each Intervenor has presented its evidence, other Intervenors, Westcoast and Board Counsel shall have the right of cross-examination.

17. Final argument is to be presented at the end of each phase of the hearing on the issues addressed in that phase.

FILING AND SERVICE REQUIREMENTS

18. Where parties are directed by these Directions on Procedure or by the draft NEB Rules of Practice and Procedure to file with the Board or serve documents on other parties, the following number of copies shall be served or filed:

(a) 35 copies of the document are to be filed with the Board;

(b) 3 copies of the document are to be served on the Applicant; and

(c) 1 copy of the document is to be served on intervenors.

19. Persons filing letters of comment should serve one copy of the documents on Westcoast and file one copy with the Board, which in turn will provide copies for all other parties.

SIMULTANEOUS INTERPRETATION

20. All parties are requested to indicate in their interventions the official language they intend to use at the hearing. If it appears that both languages will be used, simultaneous interpretation will be provided.

GENERAL

21. Unless otherwise directed by the Board, the hours of sitting shall be from 9:00 a.m. to 12:30 p.m. and from 2:00 p.m. to 4:30 p.m.

22. All parties are asked to quote Order No. RH-2-87 when corresponding with the Board in this matter.

23. Subject to the foregoing, the procedures to be followed in this proceeding shall be governed by the National Energy Board Draft Rules of Practice and Procedure dated 18 February 1985.

24. For information on this hearing, or the procedures governing the hearing, contact Mr. Denis Tremblay, Regulatory Support Officer, at (613) 998-7198.

NATIONAL ENERGY BOARD

J.S. Klenavic
Secretary

APPENDIX I
to RH-2-87

NATIONAL ENERGY BOARD
NOTICE OF PUBLIC HEARING

Westcoast Transmission Company Limited
Application for Tolls Effective
1 January 1987 and 1988

The National Energy Board has decided to hold a public hearing in two phases for the purpose of examining an application, dated 19 December 1986, by Westcoast pursuant to Part IV of the *National Energy Board Act* for, among other things, orders respecting the tolls which Westcoast may charge as of 1 January 1987 and 1988, for its natural gas gathering, processing and transportation services, under Part IV of the *National Energy Board Act*.

Phase I of the hearing, will deal with toll design and tariff matters, will start in Vancouver on 26 May 1987, at 9:30 a.m. in the Conference Centre of the Sheraton Landmark Hotel, 1400 Robson Street.

Phase II of the hearing, to be held at a later date, will consider all other issues, including throughput forecasts, rate base, cost of service, and rate of return. Westcoast is expected to file material for Phase II by 29 June 1987.

The hearing will be held to obtain the evidence and views of Westcoast and interested parties on the application.

Anyone wishing to intervene in the hearing must file a written intervention with the Secretary of the Board and serve a copy on Westcoast by 3 April 1987. Anyone wishing only to comment on the application should write to the Secretary of the Board and send a copy to Westcoast at 1333 West Georgia Street, Vancouver, British Columbia, V6E 3K9 by 23 April 1987.

Information on the procedures for this hearing (Hearing Order RH-2-87) or the NEB Rules of Practice and Procedure governing all hearings (both documents are available in English and French) may be obtained by writing to the Secretary or telephoning the Board's Regulatory Support Office at (613) 998-7204.

John S. Klenavic
Secretary
National Energy Board
473 Albert Street
Ottawa, Ontario
KlA 0E5
Telex: 0533791
Telecopier: (613) 990-7900

APPENDIX II
to RH-2-87

Publications	**City**
’Times Colonist"	Victoria, British Columbia
"The Sun", the "Vancouver Province" & "Le Soleil de Colombie"	Vancouver, B.C.
"Alaska Highway News"	Fort St. John, B.C.
"The Edmonton Journal" & "Le Franco-albertain"	Edmonton, Alberta
"Calgary Herald"	Calgary, Alberta
"Globe and Mail" & "Le Toronto Express"	Toronto, Ontario
"Canada Gazette" & "The Citizen"	Ottawa, Ontario

APPENDIX III
to RH-2-87

LIST OF ISSUES

The Board intends to examine during Phase I of the hearing, but does not intend to limit itself to, the following issues:

Toll Design

(a) The appropriate method to be used to determine the tolls for Zone 3;

(b) The appropriateness of a combined gathering and processing toll;

(c) The appropriate method to be used to derive the measured contract demand for the off-line sales customers;

(d) The appropriate method to be used to distribute the contract demands of the Canadian sales customers among their various delivery points in Zone 4;

(e) The appropriate method to be used to deal with the potential duplication of demand charges;

(f) The appropriateness of Westcoast’s proposed toll treatment with respect to utility facility additions for the connection of new gas reserves.

Tariff Matters

(g) Any proposed amendments or additions to the General Terms and Conditions for service, sales and off-line customers, including Westcoast’s proposal that all shippers requesting interruptible service agreements pay an administrative fee.

APPENDIX IV
to Order RH-2-87

Assistant Deputy Minister for Energy
Ministry of Energy, Mines and Petroleum Resources
Parliament Buildings
Victoria, B.C.
V8V 1X4

Mr. Geoffrey Ho
Senior Solicitor
Department of Energy and Natural Resources
10th Floor, South Tower
Petroleum Plaza
9915 - 108th Street
Edmonton, Alberta
T5K 2C9

Secretary
Department of Justice
P.O. Box 2703
Whitehorse, Yukon Territory
YlA 2C9

Secretary
Department of Justice & Public Services
P.O. Box 1320
Yellowknife, N.W.T.
X1A 2L9

Commission Secretary
British Columbia Utilities Commission
4th Floor
800 Smithe St.
Vancouver, B.C.
V6Z 2El

General Manager
British Columbia Petroleum Corporation
6th Floor
1199 West Hastings Street
Vancouver, B.C.
V6E 3T5

Vice-President, Corporate Secretary
Canadian Gas Association
55 Scarsdale Road
Don Mills, Ontario
M5B 2R3

Industrial Gas Users Association
170 Laurier Avenue West
Suite 804
Ottawa, Ontario
KlP 5V5

Appendix III
Order No. AO-1-RH-2-87

File: N1562-W5-11

17 June 1987

Mr. R.B. Maas
Vice-President
Marketing & Regulatory Affairs
Westcoast Transmission Company Limited
1333 West Georgia Street
Vancouver, B.C.
V6E 3K9

Dear Mr. Maas:

Re: Phase 2 Directions on Procedure

Further to your letter dated 16 June 1987, the Board has decided to grant your request for extensions of the filing of evidence with respect to Phase 2.

The Board had indicated in its letter to Westcoast dated 20 March 1987 that it did not intend to issue Directions on Procedure for Phase 2 until after Westcoast has filed its Phase 2 evidence. However, the Board is of the view that, in this instance, the interests of all parties will be better served if they are made aware of the dates for filing and service at the earliest possible time. Accordingly, the Board has decided to issue at this time the Phase 2 Directions on Procedure, a copy of which is attached. The Board believes that the time frames indicated therein should provide adequate time to conduct an orderly review of Phase 2 matters while still maintaining the 11 August 1987 starting date in Vancouver.

It is the Board's intention to sit until 21 August in Vancouver and, if necessary, reconvene in Ottawa on 25 August at 8:30 a.m. Should the evenditiary portion relating to matters other than rate of return be completed before 1 September, the hearing will adjourn until this date.

Westcoast is directed to serve a copy of this letter and attachments on all parties who have intervened in these proceedings pursuant to RH-2-87 by 23 June 1987. For the purpose of service of documents, the Board directs that when a date is specified in the attached Directions on Procedures it is intended that the material be delivered to parties on or before that date.

Yours truly

J.S. Klenavic
Secretary

Attach.

File No. 1562-W5-11

17 June 1987

Hearing Order AO-1-RH-2-87
Phase 2
Directions on Procedure

Westcoast Transmission Company Limited -
Application for Tolls Effective
1 January 1987 and 1988

On 20 March 1987 the National Energy Board issued Hearing Order RH-2-87 setting out the Directions on Procedure for a public hearing the Board had decided to hold with respect to an application by Westcoast Transmission Company Limited ("Westcoast" or "the Applicant") for, among other things, orders respecting tolls under Part IV of the *National Energy Board Act*. The Board directed that the public hearing be held in two phases, with Phase 2 considering all issues not dealt with in Phase 1, including throughput forecasts, rate base, cost of service and rate of return.

This amendment to Hearing Order RH-2-87 is designed to establish the timing and filing requirements for Phase 2 and as such supplements Hearing Order RH-2-87. The procedure relating to such matters as: public viewing, the procedure for hearing of evidence, filing and service requirements and other general matters shall be governed by the procedure established pursuant to Hearing Order RH-2-87.

Accordingly, the Board directs that Hearing Order RH-2-87 be amended by adding thereto the following:

INFORMATION REQUESTS TO THE APPLICANT

25. Information requests with respect to Phase 2 are required to be filed with the Secretary and served on all parties to the proceeding by the following dates:

    (a) Matters excluding Rate of Return 16 July 1987
    (b) Rate of Return 22 July 1987

26. Responses to the information requests made pursuant to paragraph 25 are required to be filed with the Secretary and served on all parties to the proceeding by the following dates:

    (a) Matters excluding Rate of Return 24 July 1987
    (b) Rate of Return 29 July 1987

INTERVENOR WRITTEN EVIDENCE

27. Intervenor Written Evidence on Phase 2 is required to be filed with the Secretary and served on all parties to the proceeding by the following dates:

    (a) Matters excluding Rate of Return 31 July 1987
    (b) Rate of Return 7 August 1987

LETTERS OF COMMENT

28. Letters of comment with respect to Phase 2 are required to be filed with the Secretary and served on Westcoast by 31 July 1987.

INFORMATION REQUESTS TO INTERVENORS

29. Information requests with respect to the material filed pursuant to paragraph 27 are required to be filed with the Secretary and served on all parties to the proceeding by the following dates:

    (a) Matters excluding Rate of Return 5 August 1987
    (b) Rate of Return 12 August 1987

30. Responses to the information requests made pursuant to paragraph 29 are required to be filed with the Secretary and served on all parties to the proceeding by the following dates:

    (a) Matters excluding Rate of Return 11 August 1987
    (b) Rate of Return 19 August 1987

HEARING

31. Phase 2 will commence in the Ballroom of the Sheraton Landmark Hotel in Vancouver, British Columbia, on 11 August 1987 at 8:30 a.m.

SERVICE TO PARTIES

32. The Applicant shall serve one copy of these Directions and the Notice of Public Hearing, attached as Appendix I, by 26 June 1987 on interested parties who have intervened pursuant to paragraph 3 of Hearing Order RH-2-87, and parties listed in Appendix II to this Order.

NOTICE OF HEARING

33. The publications in which the Applicant is required to publish the Notice of Public Hearing, on or before 26 June 1987, are listed in Appendix III.

LIST OF ISSUES

34. Parties are required to provide in writing by 16 July 1987 a list of all issues they wish to address during Phase 2 of the hearing. The Board will issue a complete list of issues shortly thereafter.

BOARD CONTACT

35. For information on this hearing, or the procedures governing the hearing, contact Mr. Denis Tremblay, Regulatory Support Officer, at (613) 998-7199.

NATIONAL ENERGY BOARD

J.S. Klenavic
Secretary

APPENDIX I
to AO-I-RH-2-87

NATIONAL ENERGY BOARD
NOTICE OF PUBLIC HEARING

Westcoast Transmission Company Limited
Application for Tolls Effective
1 January 1987 and 1988

On 20 March the National Energy Board decided to hold a public hearing in two phases for the purpose of examining an application dated 19 December 1986, by Westcoast for, among other things, orders respecting the tolls which Westcoast may charge as of 1 January 1987 and 1988, for its natural gas gathering, processing and transportation services, under Part IV of the *National Energy Board Act*.

Phase 1 of the hearing, which deals with toll design and tariff matters, commenced on 26 May 1987.

The Board hereby announces that Phase 2, which will consider all other issues, including throughput forecasts, rate base, cost of service and rate of return, will start in Vancouver on 11 August 1987, at 9:30 a.m. in the Ballroom of the Sheraton Landmark Hotel, 1400 Robson Street.

Information on the procedures for Phase 2 may be obtained by writing to the Secretary or telephoning the Board's Regulatory Support Office at (613) 998-7204.

John S. Klenavic
Secretary
National Energy Board
473 Albert Street
Ottawa, Ontario
KIA 0E5
Telex: 0533791
Telecopier: (613) 990-7900

Assistant Deputy Minister for Energy
Ministry of Energy, Mines and Petroleum Resources
Parliament Buildings
Victoria, B.C.
V8V lX4

Mr. Geoffrey Ho
Senior Solicitor
Department of Energy and Natural Resources
10th Floor, South Tower
Petroleum Plaza
9915 - 108th Street
Edmonton, Alberta
T5K 2C9

Secretary
Department of Justice
P.O. Box 2703
Whitehorse, Yukon Territory
Y1A 2C9

Secretary
Department of Justice & Public Services
P.O. Box 1320
Yellowknife, N.W.T.
X1A 2L9

Commission Secretary
British Columbia Utilities Commission
4th Floor
800 Smithe St.
Vancouver, B.C.
V6Z 2El

General Manager
British Columbia Petroleum Corporation
6th Floor
1199 West Hastings Street
Vancouver, B.C.
V6E 3T5

Vice-President, Corporate Secretary
Canadian Gas Association
55 Scarsdale Road
Don Mills, Ontario
M5B 2R3

Industrial Gas Users Association
170 Laurier Avenue West
Suite 804
Ottawa, Ontario
K1P 5V5

APPENDIX III
to AO-l-RH-2-87

Publications	City
"Times Colonist"	Victoria, British Columbia
"The Sun", the "Vancouver Province" & "Le Soleil de Colombie"	Vancouver, B.C.
"Alaska Highway News"	Fort St. John, B.C.
"The Edmonton Journal" & "Le Franco-albertain"	Edmonton, Alberta
"Calgary Herald"	Calgary, Alberta
"Globe and Mail" & "Le Toronto Express"	Toronto, Ontario
"Canada Gazette" & "The Citizen"	Ottawa, Ontario

Appendix IV
Order No. TGI-59-86

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 Transmission Company Limited ("Westcoast") for certain interim orders respecting its tolls pursuant to the Act. Board File No.: 1562-W5-10.

BEFORE the Board on Tuesday, the 30th day of December 1986.

UPON an application by Westcoast, dated 19 December 1986, seeking interim and final Orders of the Board, effective 1 January 1987, approving the tolls set forth in that application;

AND UPON the Board having considered the matter of the appropriate tolls to be charged by Westcoast for the period commencing 1 January 1987 and ending on a date to be specified in the Board's Decision with respect to the forthcoming toll hearing;

IT IS ORDERED THAT:

1. Pursuant to Subsection 16.1(2) and Section 52.2 of the Act, the tolls detailed in Westcoast's application, dated 19 December 1986, at the tab, "Toll Design", Pages 1.1 to 1.12 inclusive, are hereby approved on an interim basis for a period commencing 1 January 1987 and ending on a date to be specified in the Board's Decision with respect to the forthcoming toll hearing.

National Energy Board

J.S. Klenavic
Secretary

Appendix V
Order No. AO-1-TGI-59-86

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

IN THE MATTER OF an Application by Westcoast Transmission Company Limited ("Westcoast") for an interim order respecting its proposed small plan toll, as detailed in Exhibit B-62, filed as part of the public hearing pursuant to Board Order No. RH-2-87.

BEFORE the Board on Wednesday, the 15th day of July 1987.

UPON an application by Westcoast to amend the interim tolls approved by Board Order No. TGI-59-86 to include, effective 15 July 1987, its proposed small plan toll;

AND UPON the Board having considered the appropriate toll to be charged by Westcoast for utilization of plants to which the proposed small plant toll is intended to apply, for the period commencing 15 July 1987 and ending on a date to be specified in the Board's Decision with respect to the toll hearing being held pursuant to Board Order No. RH-2-87.

IT IS ORDERED THAT:

1. Order No. TGI-59-86 be amended by adding thereto the following:
    2. Pursuant to Subsection 16.1(2) and Section 59.2 of the Act, the small plant tolls detailed in Exhibit B-62, filed as part of the public hearing being held pursuant to Board Order No. RH-2-87, are hereby approved on an interim basis for a period commencing 15 July 1987 and ending on a date to be specified in the Board's Decision with respect to the toll hearing being held pursuant to Board Order No. RH-2-87.

NATIONAL ENERGY BOARD

J.S. Klenavic
Secretary

Appendix VI
Summary of Westcoast/Northwest Agreements

In conjunction with its amended toll application, Westcoast filed new gas sales agreements between Westcoast and Northwest covering the periods 1 January 1987 to 31 October 1987 (September 14th Agreement) and 1 November 1987 to 31 October 1989 (September 15th Agreement) respectively.

The September 14th Agreement was intended to resolve the dispute which arose between Westcoast and Northwest as to the disposition of interruptible revenues. The effect of the agreement was to place Northwest in the same position as Westcoast's distributor customers with respect to the crediting of interruptible toll revenues for the period of the Agreement. Westcoast did not propose any change in its toll design for the period from 1 January 1987 to 31 October 1987 as a result of the Agreement.

The September 15th Agreement provided for a new pricing arrangement for the period 1 November 1987 to 31 October 1989. The Agreement reduces Northwest's contract demand to 550 MMcfd and provides for crediting of export interruptible sales and service toll revenues to the demand charges payable by firm export customers. In addition, Northwest becomes responsible for the payment of the total fixed costs allocated to it in the demand charge payable to Westcoast.

The September 15th Agreement is conditional upon:

(1) the system suppliers entering into firm service agreements commencing 1 November 1987 and expiring on 31 October 1989 with a contract demand of 125 MMcfd; and

(2) the Board approving a toll methodology whereby:

  (a) Northwest's demand toll is based upon a contract demand of 550 MMcfd;

  (b) Northwest receives the benefit of an operating demand methodology which will include volume or revenue credits for firm volume displacements of Northwest's firm sales requirements from Westcoast; and,

  (c) all export interruptible sales and service toll revenue is credited to Westcoast's firm export sales and service tollpayers, pro rata, based upon each such tollpayers proportionate share of the total demand revenue generated by firm export sales and service in each toll zone.