

**NATIONAL ENERGY BOARD
REASONS FOR DECISION**

TransCanada PipeLines Limited

Application dated 14 July 1986
for new tolls effective
1 January 1987

RH-3-86

May 1987

Minister of Supply and Services Canada 1987

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(i)

Recital and Appearances

NATIONAL ENERGY BOARD

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

IN THE MATTER OF an application by TransCanada PipeLines Limited for certain orders respecting tolls under Sections 50, 51 and 53 of the National Energy Board Act; and

IN THE MATTER OF National Energy Board Directions on Procedure RH-3-86.

HEARD at Ottawa, Ontario on:

30 September and 1, 2, 3, 6, 7, 8, 9, 10, 15, 16, 17, 27, 28, 29, 30 and 31 October and 3, 4, 5, 6, 7, 10, 11, 12, 13, 14, 24, 25, 26, 27 and 28 November and 1, 2, 3, 4, 5, 8, 9, 10, 11, 12, 16, 17, 18 and 19 December 1986 and 6, 7, 8, 9, 12, 13, 14, 15, 16, 19, 20, 21 and 22 January and 9, 10, 11, 12, 13, 17, 18, 19, 20, 23, 24, 25, 26 and 27 February 1987.

BEFORE:

W.G. Stewart	Presiding Member
J. Farmer	Member
J.R. Jenkins	Member

APPEARANCES:

T. Dalgleish	TransCanada PipeLines Limited
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C.K. Yates	Canadian Petroleum Association

(ii)

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P.C.P. Thompson, Q.C. B.A. Carroll	B.F. Goodrich Canada Inc. and Diamond Shamrock Exploration Canada, Ltd.
K.F. Miller	Brenda Mines Ltd., Oil and Gas Division and Brenda Marketing Inc.
P.C.P. Thompson, Q.C. B.A. Carroll	Canadian Worldwide Energy Limited and Canadian Gypsum Company, Limited
M.M. Peterson	C-I-L Inc.
K.F. Miller	Consolidated Natural Gas Limited
J.H. Farrell P.A. Wylie	Consumers' Gas Company Ltd., The
E.B. McDougall G. Yorke-Slader	Cornu Resources Marketing Limited
J. Ryan	Cyanamid Canada Inc. and Cyanamid Canada Pipeline Inc.
D.G. Hart, Q.C.	Direct Natural Gas Group
H.R. Ward	Dome Petroleum Limited
J. Hopwood, Q.C.	Foothills Pipe Lines (Yukon) Ltd.
R. Meunier	Gaz Métropolitain, inc.
M.M. Peterson	General Chemical Canada Inc.
C. Bredt	Great Lakes Forest Products Limited
J. Nozick	Gulf Canada Corporation

(iii)

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L.A. Leclerc R. Heider	Trans Québec & Maritimes Pipeline Inc.
P.W. Gilchrist G. Pratte E. Merritt	Union Gas Limited
D.C. Edie L.L. Manning	Alberta Petroleum Marketing Commission
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B.G. Armstrong, Q.C. J. Pounder	Minister of Energy for Ontario
J. Morel R. Graw	National Energy Board

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)

Abbreviations

ABP	Alberta Border Price
ACQ	Annual Contract Quantity
AFUDC	Allowance for Funds Used During Construction
AOI	Authorized Overrun Interruptible
APMC	Alberta Petroleum Marketing Commission
Applicant, Company	TransCanada PipeLines Limited
Base Year	1 January to 31 December 1985
Bcf	Billion Cubic Feet
Board	National Energy Board
Brenda Marketing	Brenda Marketing Inc.
Canadian Utilities	Canadian Utilities Limited
CCA	Capital Cost Allowance
CD	Contract Demand
CMP	Competitive Marketing Program
Consolidated	Consolidated Natural Gas Limited
Consumers'	The Consumers' Gas Company Ltd.
Cornu	Cornu Resources Marketing Limited
CPA	Canadian Petroleum Association
Cyanamid	Cyanamid Canada Inc.
DCF	Discounted Cash Flow
DNNG	Direct Natural Gas Group
Dome	Dome Petroleum Limited
FERC	Federal Energy Regulatory Commission
FS	Firm Service

GJ	Gigajoule (10 ⁹ joules)
Great Lakes	Great Lakes Gas Transmission Company
GMi	Gaz Métropolitain, inc.
Goodrich	B.F. Goodrich Canada Inc.
GPUAR	Gas Pipeline Uniform Accounting Regulations
GPUC	Gas Plant Under Construction
Gypsum	Canadian Gypsum Company, Limited
ICG (Manitoba)	ICG Utilities (Manitoba) Ltd.
ICG (Ontario)	ICG Utilities (Ontario) Ltd
IGUA	Industrial Gas Users Association
IPAC	Independent Petroleum Association of Canada
IPEL	International Pipeline Engineering Limited
IS-1	Tier One Interruptible Transportation Service
IS-2	Tier Two Interruptible Transportation Service
IT	Interruptible Transportation Service
LDC	Local Distribution Company
Mcf	Thousand Cubic Feet
MMcfd	Million Cubic Feet Per Day
	Million Cubic Metres
NEB	National Energy Board
NEB Act	National Energy Board Act
Northridge	Northridge Petroleum Marketing, Inc.
NOVA	NOVA, AN ALBERTA CORPORATION
OD	Operating Demand
Ontario	Minister of Energy for Ontario

PGA	Purchase Gas Adjustment
PIP	Pipeline Integrity Program
PJ	Petajoules
Polysar	Polysar Limited
PS	Peaking Service
Quebec	le Procureur général du Québec
SGS	Small General Service
Simplot	Simplot Chemical Company Ltd.
SPC	Saskatchewan Power Corporation
SCD	Short-term Contract Demand
STT	Short-term T-Service
Stub Period	1 August to 31 December 1986
Sulpetro	Sulpetro Limited
T-AOI	Transportation-Authorized Overrrun Interruptible
TCPL, TransCanada	TransCanada PipeLines Limited
10 ³ m ³	Thousand Cubic Metres
Test Year	1 January to 31 December 1987
TQM	Trans Québec & Maritimes Pipeline Inc.
TSS	Temporary Summer Service
T-TSS	Transportation-Temporary Summer Service
TWS	Temporary Winter Service
T-TWS	Transportation-Temporary Winter Service
Union	Union Gas Limited
WGML	Western Gas Marketing Limited
Westcoast	Westcoast Transmission Company Limited

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 21 February 1986, TransCanada applied to the Board for new tolls to be effective 1 August 1986. In accordance with the Board's decision to change TransCanada's test year to conform to the Company's fiscal year, the Company refiled its application to reflect a calendar 1987 test year. The Board also made TransCanada's then existing tolls interim effective 1 August 1986.

The main features of TransCanada's application included an increase in tolls of approximately 6 percent effective 1 January 1987, an increase in the utility's deemed common equity ratio from 30% to 35% and a continuation of its 14.55% authorized return on equity. The Company also proposed to maintain tolls at the existing level by drawing down a portion of its deferred income taxes to offset cost increases. To reflect the market-sensitive price of natural gas used for fuel, the Company proposed a three-part toll design consisting of (1) a demand charge, (2) a non-fuel related commodity charge and (3) a separate commodity charge for fuel and fuel-related costs which would change monthly.

The Hearing

A public hearing lasting seventy-three hearing days was held in the NEB's hearing rooms in Ottawa from 30 September 1986 to 27 February 1987.

Revenue Requirement

The revenue requirement for 1987 was forecast by TransCanada to increase by about \$83 million over that previously approved by the Board for the August 1985 to July 1986 test period. This increase, however, included a proposal to spread the recovery of an estimated 1986 revenue deficiency over three years from 1987 to 1989. Without this proposal and its effect of deferring the recovery of about \$28 million in revenues beyond 1987, the estimated 1987 revenue requirement requested by TransCanada would be \$1,277 million. The Board decided to hold TransCanada's 1987 revenue requirement to \$1,154 million, including the recovery of all of the revenue deficiency in 1987. This compares to \$1,166 million approved by the Board in its RH-2-85 decision and in effect, disallows all of TransCanada's requested increase of some 10 percent.

Decision on Tolls

The decision by the Board to hold the revenue requirement for 1987 at the 1986 level means that the typical firm service toll from the Alberta border to the Eastern Zone essentially remains unchanged.

The Board denied TransCanada's three-part toll proposal because the Board believed that it would be unduly cumbersome. For toll purposes, the Board decided to use \$2.20 per GJ to price all gas-related costs.

The Board decided that, effective 1 November 1987, TransCanada shall offer two tiers of interruptible service, to be called IS-1 and IS-2. The IS-1 toll will be equal to the CD-80 toll, the IS-2 will be equal to the CD-90.

The Board did not accept proposals by CPA, IPAC, and Dome to treat the TQM revenue requirement differently than has been the case historically and continues to regard the Eastern Zone as being appropriate for toll purposes.

The Board found it appropriate to allow shippers the option of providing their own fuel as it would be consistent with the market-responsive pricing system called for by the 31 October 1985 Agreement on Natural Gas Markets and Prices.

The Board believed that it would be desirable to adopt a unified approach to tolls and to have a single uniform tariff that, as much as possible, does not differentiate between system gas sold by TransCanada and gas shipped for others. Accordingly, the Board directed TCPL to file uniform toll schedules incorporating the approved tolls which are to be effective 1 July 1987.

Capital Structure and Return on Equity

TransCanada requested the Board to increase the equity component in its capital structure from 30% to 35%. The Board denied this request. The Company requested the same rate of return as previously allowed for the common equity component of its capital structure. However, the Board reduced it from 14.5% to 13.25%

The Board's adjustments to the rate of return and related income taxes in the stub period and the test year reduced the overall revenue requirement for the test year by about \$82 million.

Deferred Tax Drawdown

The Board again rejected TCPL's proposal to draw down the balance of its accumulated deferred income taxes to offset other costs and to maintain tolls at their current level. The Board found that the Applicant's proposal is contrary to sound accounting principles.

Operating Costs

As with most intervenors, the Board was concerned with the magnitude of the applied-for cost increases. Where possible, the Board limited the increase in the test-year costs to the forecast rate of inflation between 1986 and 1987. In particular this was done for "other transmission, departmental and general expenses" where the Board disallowed \$2.9 million and in "salaries and benefits" where the Board disallowed \$2.3 million. The Board also approved the amortization over three years of the foreign exchange costs and related premiums on redemption of the 17 3/4% and 16% Eurodollar notes, which resulted in a reduction in the testyear revenue requirement of approximately \$9.5 million.

Interim Revenue Adjustment

As a result of the Board's decisions, the revenue deficiency for the period from August to December 1986 was reduced from the applied-for \$41.9 million to \$16.0 million.

The Board estimated that, under the interim tolls, TransCanada will have over-collected revenues for the period 1 January 1987 to 30 June 1987 in the amount of approximately \$7.8 million. The approved tolls provide for the recovery of the net difference between the 1986 revenue deficiency and the 1987 revenue surplus, and carrying charges, over the final six months of the test year.

Operating Demand Methodology

In its Decision the Board provided additional guidance on the operating demand methodology first announced in the Board's May 1986 TCPL Reasons for Decision. The Board confirmed that there will be no automatic reversion of pipeline capacity to distributors upon termination of direct displacement sales.

The Board decided that displacement sales should be prorated among all long-term firm sales and transportation services being purchased by the distributor from TransCanada at the time the displacement occurs. The Board decided that it will consider the need for operating-demand relief for loads lost to interruptible service on a case-by-case basis.

Chapter 1

Background

By an application dated 21 February 1986, TransCanada PipeLines Limited (TCPL, TransCanada, Applicant, Company) applied to the National Energy Board (the Board) under Sections 50, 51 and 53 of the National Energy Board Act (NEB Act) for orders making its then existing tolls interim on 1 August 1986 and fixing new tolls to be effective 1 November 1986 based on the test year 1 August 1986 to 31 July 1987.

The Board, by letter dated 24 March 1986, requested the views of TCPL and interested parties on the alternative of leaving the existing tolls in effect until 31 December 1986 and establishing new tolls, if necessary, effective 1 January 1987.

Having considered TCPL's submissions and the views of the interested parties regarding its proposal, the Board, by Order No. TGI-10-86 dated 8 May 1986, made the tolls of TCPL, established by Order No. TG-3-85, interim tolls effective 1 August 1986 until the issuance of a final decision on revised tolls.

By Order No. TGI-11-86 dated 8 May 1986, the Board also ordered TCPL, effective 1 August 1986, to discontinue amortization of deferred amounts which would be fully amortized at 31 July 1986, to continue amortization of the revenue deficiency allowed in Order No. TG-2-85 until 31 October 1986 and to continue amortization of the North Bay shortcut deferred amount in accordance with Order No. TG-5-83. The Board further ordered that, with the exception of the deferral of costs and revenues under TGI-13-85 and the deferral of demand charge revenues associated with direct sales pursuant to ss. 59(2) of the NEB Act, all other existing deferral accounts were to be discontinued effective 1 August 1986. Balances at 31 July 1986 in all existing deferral accounts were to be brought forward for consideration by the Board at TCPL's next toll hearing.

By letter to TCPL dated 9 May 1986, the Board confirmed to TCPL its view that the test year to be employed in setting tolls should conform to the Company's fiscal year and directed TCPL to submit an amended application not later than 7 July 1986 to address tolls for the period 1 August to 31 December 1986, referred to in the hearing as the "stub period", and tolls effective 1 January 1987 employing the test year 1 January to 31 December 1987 and the base year 1 January to 31 December 1985. The Board intended that any revenue deficiency or surplus arising from the interim tolls for the stub period would be disposed of following the hearing held to consider the new tolls for 1987.

On 5 June 1986, upon an application dated 19 May 1986 from TCPL, the Board issued Order No. TG2-86 permitting the deferral of certain transmission by others expenses incurred in June and July 1986 as a result of the Company's Pipeline Integrity Program (PIP). The Board intended to consider, in the context of a toll proceeding, the question

of whether or not it was appropriate to allow the recovery of these additional PIP expenses in tolls for a subsequent test period. Therefore, the Board directed that the balance in the deferral account be brought forward for disposition at the hearing to be held with respect to the 1987 tolls.

On 6 June 1986, TCPL filed applications with the Board for orders permitting the deferral of increases in income and capital taxes which resulted from both the increased Manitoba and Saskatchewan tax rates for the period 1 January to 31 July 1986 and the elimination of the federal 3% inventory allowance for the period 25 February to 31 July 1986.

On 19 June 1986, the Board issued Order Nos. AO2-TG-2-85, AO-3-TG-2-85 and AO-4-TG-2-85 which provided for the deferral of the difference between the income and capital taxes incorporated in tolls pursuant to Order Nos. TG-2-85 and TG-385 and such taxes calculated using the revised rates for Manitoba and Saskatchewan for the period 19 June to 31 July 1986 and which permitted the deferral of the difference between the income taxes incorporated in tolls pursuant to Order Nos. TG-285 and TG-3-85 and the income taxes calculated excluding the deduction for a 3% inventory allowance for the period 19 June to 31 July 1986.

The Board had earlier amended Order No. TG-285 by Order No. AO-1-TG-2-85 dated 19 December 1985 whereby TCPL was permitted to record in a deferral account the difference between the income taxes incorporated in the tolls approved pursuant to Order Nos. TG-2-85 and TG-3-85 and the income taxes calculated using the revised Ontario corporation income tax rates.

In its letters of 20 December 1985 and 19 June 1986 to TCPL, the Board had indicated that it intended to consider, at the next toll hearing, whether or not it was appropriate for increases in income taxes and capital taxes to be recovered in tolls for a subsequent test period and that the approval of the requested deferral accounts did not in any way prejudice the recovery of the differences in taxes in future tolls.

With leave of the Board, TCPL filed its application for new tolls on 14 July 1986 instead of 7 July 1986. TCPL applied under Sections 50, 51 and 53 of the NEB Act for orders fixing just and reasonable tolls effective 1 January 1987. The application, as subsequently updated, is further described in Chapter 2.

The Board issued Hearing Order RH-3-86 on 25 July 1986 directing, inter alia, that a public hearing be held commencing on 30 September 1986. In addition to its usual Directions on Procedure, the Board specified in its Hearing Order RH-3-86 that TCPL should be prepared to address the following matters at the hearing

(1) The determination, disposition and appropriate accounting treatment of any revenue deficiency or surplus arising from the interim tolls for the period 1 August to 31 December 1986;

(2) The question of whether it is appropriate to recover in tolls for a subsequent test period the additional Pipeline Integrity Program expenses incurred in June and July of 1986 and deferred in accordance with Board Order No. TG-2-86: and

(3) The question of whether it is appropriate to recover in tolls for a subsequent test period certain increases in federal and provincial income taxes and capital taxes which have been deferred in accordance with Board Order Nos. AO-1-TG-2-85, AO-2-TG-2-85, AO-3-TG-2-85 and AO-4-TG-2-85.

The Board further indicated that any new substantive issues or proposals which parties wished to introduce into the hearing should be fully addressed in their written evidence.

The Canadian Petroleum Association (CPA), the Independent Petroleum Association of Canada (IPAC) and Dome Petroleum Limited (Dome) introduced proposals for alternative treatments of the revenue requirement of Trans Québec & Maritimes Pipeline Inc. (TQM) which, in the past, had been rolled into TCPL's revenue requirement. By way of a motion argued at the beginning of the hearing, SOQUIP sought to have the CPA, IPAC and Dome

evidence on the issue of the TQM costs declared inadmissible because it was improperly introduced. On 15 October 1986, the Board ruled that the issue had been properly introduced in the hearing in accordance with the Directions on Procedure and that the evidence of CPA, IPAC and Dome on this matter was admissible. The question of the integration of the TQM costs with the costs of TCPL has been considered by the Board and its decision may be found in Section 9.10 of these Reasons for Decision.

IPAC also proposed, as a new issue, that the two-year and three-year amortization periods of the foreign exchange costs and related premiums on the redemption of TCPL's Eurodollar notes authorized by Order No. AO-5-TG-2-85 dated 1 August 1986 be extended, for toll-making purposes, to the term of the replacement obligations, namely ten years.

TCPL updated its application on 19 September 1986. The hearing, which began on 30 September 1986, proceeded on the basis of that revised application.

On 14 November 1986, during the course of the hearing, the Federal Court of Appeal rendered a judgment dismissing TCPL's appeal of the Board's decision in RH-5-85 and related Order No. TG-1-86 and thus confirmed the Board's jurisdiction to apply the operating demand methodology and the deferral account method in the determination of just and reasonable tolls as proposed in the May 1986 TCPL Reasons for Decision.

On 24 November 1986, the Board indicated to the parties at the hearing that it intended to proceed, in RH-3-86, with the implementation of the operating demand methodology for the purpose of determining TCPL's tolls. The Board further indicated that it would authorize, as soon as practicable, refunds of demand revenues deferred under various Board orders issued pursuant to ss. 59(2) of the NEB Act. These actions by the Board would be in accordance with the terms of Order No. TG-1-86 issued as a result of the RH-5-85 proceeding. At the same time, the Board also informed parties that applications by direct shippers for final orders under ss. 59(2) would be considered in the context of the RH-3-86 proceedings.

In response to the Board's indications, TCPL filed, on 25 November 1986, written submissions concerning both the operating demand volumes of distributors affected by displacement direct sales and the refunds of demand charges deferred pursuant to ss. 59(2) orders.

By way of written notice dated 26 November 1986 to all intervenors in RH-3-86 and to all applicants for orders under ss. 59(2) of the NEB Act, the Board confirmed its intention to deal with the determination and implementation of the operating demand methodology and the determination and authorization of refunds of the deferred demand charges during the TCPL tolls hearing. In its notice the Board also brought to the attention of the affected parties the submissions of TCPL on these issues filed in the proceedings as Exhibits B-160 and B-161.

On 1 December 1986, in response to requests made orally on 26 November 1986 by TCPL and various other intervenors, the Board clarified what it considered to be the principal tenets of the May 1986 TCPL Reasons for Decision and re-affirmed its view that the issues arising out of the implementation of the operating demand methodology should be settled in the context of a toll hearing. The Board invited all affected parties to comment, in the RH-3-86 proceedings, on the following issues:

(1) Whether the definition of displacement volumes includes interruptible volumes contracted under a direct purchase by the end-user which the distributor would have supplied from its firm volumes contracted with TCPL;

(2) Whether an operating demand would be prorated between CD and T-Service and, if so, whether such prorating would be done within the delivery area or within the distributor's franchise area;

(3) Which CD contract would an operating demand reduction be applied against?

On 9 December 1986, the Board issued Order No. TG-5-86 directing TCPL to refund to distributors, for the purpose of reimbursements of demand charges to each affected direct purchase shipper, the balances as at 31 October 1986 of the revenues deferred pursuant to each of the orders issued under ss. 59(2) of the NEB Act. Board Order No. TG5-86 further ordered TCPL to determine, in consultation with direct purchasers and distributors, the appropriate disposition of the balances as at 31

December 1986 of the deferred revenues under the various ss. 59(2) orders for the months of November and December 1986.

On 23 December 1986 the Board issued Order No. TGI-57-86 implementing, on an interim basis, the operating demand methodology as proposed by TCPL in a written submission filed in the RH-386 proceeding as Exhibit B-227 and establishing, effective 1 January 1987, interim operating demand volumes for toll and tariff purposes. On 7 January 1987 the Board amended Order No. TGI-57-86 for greater certainty by issuing Order No. AO-1-TGI-57-86, which provided for the establishment of a deferral account by TCPL for amounts billed but not paid by shippers and for amounts representing fixed revenues anticipated in the setting of tolls but not received and which ordered that the deferral of revenues under a ss. 59(2) order would cease when an operating demand volume for the affected distributor, in respect of volumes shipped under a ss. 59(2) order, had been approved by the Board.

Finally, the Board issued, on 23 December 1986, Order No. AO-1-RH-3-86 amending Hearing Order RH-3-86 and directing all applicants for ss. 59(2) orders to file with the Board, by 16 January 1987, updated or new applications for final ss. 59(2) orders. Order No. AO-1-RH-3-86 provided instructions to applicants on the information expected by the Board in support of applications for final ss. 59(2) orders as well as directions on the procedure the Board intended to follow to dispose of the applications as part of the toll hearing.

The proceedings in RH-3-86 encompassed matters and issues which, although they related to the setting of new tariffs and tolls for TCPL, extended beyond the normal scope of a toll hearing. Therefore, in addition to establishing just and reasonable tolls, the decisions and reasons contained in the following chapters also address issues brought about by recent changes in the regulatory and economic environment of the natural gas industry.

Chapter 2

Application

By application dated 14 July 1986 as revised 19 September 1986, TCPL applied to the National Energy Board under sections 50, 51 and 53 of the NEB Act for orders effective 1 January 1987 fixing the just and reasonable tolls that it may charge for or in respect of transportation of gas sold and transportation services rendered by TCPL, and disallowing any existing tariffs or tolls or portions thereof that are inconsistent with the just and reasonable tolls so fixed.

The application contained proposed tolls based on TCPL's cost of service employing a base period of calendar year 1985 and a test period of calendar year 1987.

In conjunction with the filing of TCPL's application, the Board issued Order No. TGI-10-86 which rendered TCPL's tolls interim on 1 August 1986. The Board also issued Order No. TGI-11-86 which provided that, with the exception of the deferral of costs and revenues under Order No. TGI-13-85 and the deferral of demand charge revenues associated with transportation services ordered under ss. 59(2) of the NEB Act, the deferral of all cost and revenue variances under all other existing deferral accounts, whether authorized by the Board on an interim or final basis, were discontinued effective 1 August 1986.

TCPL's cost of service calculations and tolls proposed for the test year were predicated on the reinstatement and continuation of all deferral accounts for the test year, subject to the approval of certain proposed amendments or additions as enumerated in the application. TCPL therefore requested that all final and continuing deferral accounts and all interim deferral accounts which ceased on an interim basis on 1 August 1986 be reinstated on a final and continuing basis on 1 January 1987 for the test year, subject to the approval of certain proposed amendments or additions as enumerated in the application.

TCPL also requested an additional deferral account on a final and continuing basis which would capture the cost of service variances that arise from variances between forecasted and actual expenditures associated with TCPL's capital and certain maintenance programs together with carrying charges calculated on the month-end balance at a rate equal to one-twelfth of the authorized rate of return on rate base. The balance would be brought forward for disposition at the next toll proceeding. The maintenance programs to be covered by this deferral account would be those identified and approved by the Board for inclusion in this account.

TCPL proposed that the PIP be viewed as a capital program and requested a Board Order pursuant to section 5(b) of the Gas Pipeline Uniform Accounting Regulations (GPUAR) directing TCPL to capitalize all costs associated with the Program including launchers and receivers, all pipe replacements greater than 1.2 meters in length, hydrostatic testing, electronic internal inspection and investigative digging.

TCPL proposed that, to the extent that tolls in the test year increased

above those currently in effect, it draw down an appropriate amount of deferred income taxes to maintain the tolls at their current level. TCPL further proposed that, to the extent that income taxes were drawn down to maintain tolls at their existing level, the deferred income tax balance would decline and have a corresponding increasing effect on rate base and return. Accordingly, TCPL requested a deferral account on a final and continuing basis which would capture the variance in return that arises from variances between the forecasted and actual deferred tax balance together with carrying charges calculated on the month-end balance at a rate equal to onetwelfth of the authorized annual rate of return on rate base, with the balance brought forward for disposition at the next toll proceeding.

As a result of TCPL facing an increasing number of shippers utilizing its system pursuant to orders issued under ss. 59(2) of the NEB Act to provide transportation services in instances where TCPL has not had the opportunity to assure itself of the financial soundness of those shippers, TCPL requested that the deferral account established in paragraph 6 of Board Order No. TG-6-84, as amended by Board Order No. TG-2-85, be further amended to provide for the deferral of amounts billed to but not paid by a shipper and amounts representing fixed revenues anticipated in the setting of tolls but not received, together with carrying charges calculated on the month-end balance at a rate equal to one-twelfth of the authorized annual rate of return on rate base, with the balance brought forward for disposition at the next toll proceeding.

TCPL further proposed to make an administration charge for each contract and any transportation service that had been ordered under ss. 59(2) of the Act and also for any new contracts or service provided under new orders issued pursuant to ss. 59(2) of the Act that occur during the test year. TCPL therefore requested a deferral account on a final and continuing basis which would capture all such additional revenues together with carrying charges calculated on the month-end balance at a rate equal to one-twelfth of the authorized annual rate of return on rate base, with the balance brought forward for disposition at the next toll proceeding.

TCPL further requested that the Board order TCPL to record during the test year the demand charges associated with any difference between the demand volume of 750,000 Mcf per day and the actual demand volume charged to TCPL by Great Lakes Gas Transmission Company (Great Lakes). The carrying charges on the month-end balance in this deferral account established pursuant to paragraph 9 of Board Order No. TG-2-85 for each month would be calculated at one-twelfth of TCPL's authorized annual rate of return on rate base, with the balance brought forward for disposition at the next toll proceeding.

TCPL further requested a deferral account on a final and continuing basis for accounting and tollmaking purposes in which TCPL would defer any increases or decreases in income taxes and capital taxes resulting from changes in rates of federal and provincial income taxes and provincial capital taxes. TCPL proposed that the differences would be deferred in an account together with a carrying charge on the month-end balance calculated at one-twelfth of the then authorized annual rate of return on

rate base, with the balance being brought forward for disposition at the next toll proceeding.

TCPL also requested a deferral account on a final and continuing basis for accounting and toll-making purposes in which TCPL would defer any new taxes imposed by a duly-constituted taxing authority as well as any retroactive tax increases or decreases so imposed, together with carrying charges on the month-end balance in the account for each month calculated at one-twelfth of TCPL's authorized annual rate of return on rate base, with the balance brought forward for disposition at the next toll proceeding.

TCPL further requested authorization to defer all payments made as a result of deductible provisions in insurance policies together with carrying charges on the month-end balance in the account for each month calculated at one-twelfth of TCPL's authorized annual rate of return on rate base, with the balance brought forward for disposition at the next toll proceeding.

TCPL maintained that the environment in which natural gas is marketed and priced in Canada is changing and that therefore once negotiated prices were in place there would no longer be an Alberta border price established by legislation. Accordingly, it was TCPL's expectation that a netback pricing mechanism would be in place which would result in TCPL's purchase cost of gas varying monthly. For purposes of calculating cost of gas-related costs in the test year TCPL did not have a sufficient basis to forecast in a meaningful way what its purchase cost of gas would be. As a result, costs for items which are dependent on TCPL's cost of gas could not be reflected in TCPL's test-year cost of service. Accordingly, TCPL proposed a three-part toll consisting of the following:

(1) Demand Toll

(2) Commodity Toll No. 1 (Variable costs which are not related to the Alberta border price)

(3) Commodity Toll No. 2 (Variable costs which are related to the Alberta border price)

The methodology for the implementation of this three-part toll is more specifically set out in the application.

Further details on the application, as amended on 19 September 1986 and during the course of the hearing, are set out in the following chapters of these Reasons for Decision.

By its Directions on Procedure RH-3-86, the Board set down for hearing TCPL's application, as amended. The hearing commenced in Ottawa on 30 September 1986 and lasted seventy-three hearing days, concluding on 27 February 1987.

Chapter 3

Revenue Requirement

TransCanada applied for tolls to be effective 1 January 1987 based on a test year ending 31 December 1987. TransCanada's tolls had been made interim effective 1 August 1986, with any revenue deficiency or surplus for the stub period 1 August to 31 December 1986 to be disposed of in this hearing.

TransCanada's applied-for revenue requirement had included an interim revenue adjustment for the stub period only. However, since the Board in this decision has approved new tolls to be effective 1 July 1987, the approved interim revenue adjustment covers both the stub period and the test period prior to 1 July 1987.

A summary of the approved revenue requirement for the test year ending 31 December 1987, together with Board adjustments, is shown in Table 3-1. The details of the interim revenue adjustment are provided in Chapter 8. The details of other Board adjustments to the test-year revenue requirement are provided in Chapters 4 to 7.

Table 3-1
**Transportation Revenue Requirement
for the Test Year**
(\$millions)

	Application ¹	Application as Restated ²	NEB Adjustments	Authorized by NEB
Transmission by Others	225.6	270.7	(4.3)	266.4
Operation & Maintenance	164.6	257.3	5.3	262.6
Depreciation	95.2	95.2	(.5)	94.7
Taxes Other than Income Taxes	36.7	36.7	.5	37.2
Income Taxes	195.8	195.8	(54.8)	141.0
Miscellaneous Deferred Items	10.9	10.9	-	10.9
Other Operating Income	(1.3)	(3.9)	(.2)	(4.1)
Miscellaneous Revenue	(13.7)	(14.3)	.3	(14.0)
Foreign Exchange Loss	25.2	25.2	(9.5)	15.7
	<u>739.0</u>	<u>873.6</u>	<u>(63.2)</u>	<u>810.4</u>
Return on Rate Base	360.6	360.6	(26.1)	334.5
Transportation Revenue Requirement	1,099.6	1,234.2	(89.3)	1,144.9
Interim Revenue Adjustment	14.5	14.5	(5.1)	9.4
Total Transportation Revenue Requirement	1,114.1	1,248.7	(94.4)	1,154.3

1 On 17 February 1987, TCPL filed Exhibit B-285 updating its application to reflect various changes based on matters raised during the hearing. The application excluded gas-related operating costs.

2 Application as restated to include gas-related operating costs at \$2.20/GJ per NEB Information Request Item No. 4 which was also updated by Exhibit B-285.

Chapter 4

Rate Base

The Board's adjustments to rate base for the test year ending 31 December 1987 are summarized in Table 4-1. The details of the adjustments are explained in the sections following the table.

	Application ¹	NEB Adjustments	Authorized by NEB
Gas Plant in Service			
Gross Plant	3,444.6	(10.3)	3,434.3
Accumulated Depreciation	(994.6)	1.9	(992.7)
Net Plant	2,450.0	(8.4)	2,441.6
Contributions in Aid of Construction	(.4)	-	(.4)
Net Gas Plant in Service	2,449.6	(8.4)	2,441.2
Working Capital	76.9	.4	77.3
Deferred Costs:			
Transmission by Others	11.4	(1.3)	10.1
Average Accumulated Deferred Income Taxes	(75.9)	-	(75.9)
Miscellaneous Deferred Items	51.3	(28.8)	22.5
Other Deferred Items	(4.6)	.3	(4.3)
North Bay Shortcut	2.7	-	2.7
Interim Revenue Adjustment	40.8	(36.2)	4.6
Rate Base	2,552.2	(74.0)	2,478.2

¹ On 17 February 1987, TCPL filed Exhibit B-285 updating its application to reflect various changes based on matters raised during the hearing.

4.1 Gross Plant

TCPL forecast its average gross plant for the test year to be \$3,444,631,000. The Board has adjusted this amount to \$3,434,377,000 a decrease of \$10,254,000, which represents the weighted average of the gross plant adjustments shown in Table 4-2.

Table 4-2

**NEB Adjustments to Net Plant and Depreciation
for the Test Year
(\$000)**

	Weighted Gross Plant Additions	Test-year Depreciation	Average Accumulated Depreciation
Unauthorized Capital Projects:			
Relocation of Lisgar Meter Station	(194)	-	-
Montreal Line	(729)	(13)	1
Corporate Aircraft	(6,226)	(374)	1,828
Pipeline Integrity Program:			
Amounts Expensed	(14,431)	(338)	1,895
Amounts Capitalized	11,725	283	(175)
AFUDC and Overhead Capitalized ¹	(399)	(9)	4
NEB Adjustments	(10,254)	(451)	1,853

1 The adjustments related to AFUDC and overhead capitalized result from the net reduction to plant additions and the reduction in the rate of return.

4.1.1 Unauthorized Capital Projects

Decision

The Board has removed from the test-year rate base all projects which have not yet received the Board's approval under Part III of the Act. Accordingly, the weighted average cost of \$194,000 for the relocation of the Lisgar Sales Meter Station and the cost of \$729,000 associated with certain pipe replacements on the Montreal Line have been removed from the test-year rate base.

The Board notes that in recent years the estimated costs of plant additions exceeded the actual costs. The Board is concerned about this trend, but does not consider that it would be appropriate to adjust TCPL's forecasted costs of gas plant additions at this time. The Board will continue to monitor the situation.

4.1.2 Corporate Aircraft

In January 1986, TransCanada filed an application pursuant to Section 49 of the Act respecting a long-range corporate aircraft purchased in 1985 to

replace an older aircraft. The Board, in a letter dated 21 May 1986, stated that it was not persuaded that the Falcon 50 corporate aircraft is required for TCPL's regulated activities. The Board also indicated that the subject of allocation of costs of corporate aircraft would be reviewed in the next toll hearing.

TCPL owns two long-range corporate aircraft. The owning and operating costs of these jets are allocated between the utility and non-utility operations on the basis of an historical usage. In the first seven months of 1986, 45% of the flight time was charged to the utility. TCPL believes that this ratio is representative of the usage that will occur in the period from 1 August 1986 to the end of the test year.

TCPL was of the opinion that there are obvious benefits to ownership of corporate aircraft for both the Applicant and tollpayers. These include the ability to make the most effective use of the time of executives, security of the executives and the reliability of air-travel services. Although evidence indicated that long-range aircraft are more costly than mid-range aircraft, TCPL stressed the importance of owning aircraft that meet the needs of the entire Company thus allowing the operation of an effective "pool". TCPL argued that the separation of activities between Western Gas Marketing Limited (WGML) and the utility would increase the need for utility employees to fly from Toronto to Calgary. IPAC argued that, although corporate aircraft have some benefits, the aircraft should be no larger or more elaborate than necessary. The Minister of Energy for Ontario (Ontario) and the Alberta Petroleum Marketing Commission (APMC) suggested that, since deregulation, the need to fly nonstop from Toronto to Calgary for utility purposes was reduced. Accordingly, the requirement for using corporate aircraft for utility purposes was also reduced.

Decision

It is the Board's opinion that the requirement for a long-range corporate aircraft for utility purposes is limited and that for most purposes a mid-range aircraft would be more appropriate. The Board finds that the current method of allocation, based upon flying hours, leads to an allocation of costs to the utility which is disproportionate to the requirement for long-range aircraft. The Board has decided that the percentage of corporate aircraft costs which are allocated to the utility should be reduced from 45%, as proposed by the Applicant, to 25%. Accordingly, the Board has reduced TCPL's weighted average gross plant by \$6,226,000 in the test year. This revised allocation ratio will also apply to the aircraft expenses allocated to the utility.

4.1.3 Pipeline Integrity Program

4.1.3.1 . Allocation of Costs Between Capital and Expense

Following three in-service failures caused by stress corrosion cracking on Line 100-2 in Northern Ontario, TransCanada embarked on a Pipeline Integrity Program to ensure the integrity of the line. The program consists of installing electronic inspection tool launchers and receivers, hydrostatically testing portions of the line, running electronic internal inspection tools, and conducting investigative digs to locate pipe defects and to replace pipe. The program commenced in 1986 and TCPL is planning to continue the program in 1987 and thereafter as necessary. The Board granted Section 49 exemption to the Applicant for the launchers and receivers and pipe replacements in excess of 12 metres in length.

The costs of the other activities, namely pipe replacements less than 12 metres

in length, hydrostatic testing, investigative digging and electronic internal inspection, are normally treated as maintenance expenses. In its application TCPL requested a Board Order pursuant to ss. 5(b) of the GPUAR to capitalize all costs associated with the program, including those normally considered as maintenance. The cost of these activities was \$11,166,000 in 1986 and is estimated to be \$14,150,000 in 1987. TCPL argued that the PIP is essential to ensure the continued safety and reliability of the pipeline, and results in the line being upgraded from its original condition.

TCPL argued that PIP costs should be capitalized because the PIP is an integral program and unique in its magnitude.

Also directly associated with the PIP are transmission by others costs, research and development costs, and compressor fuel savings on the TCPL system. The net effects of these costs and savings were an increase of \$19,066,000 in 1986, and an estimated increase of \$11,626,000 in 1987. TransCanada treated these costs and savings as expense items.

IPAC supported TransCanada's proposed treatment of the PIP costs arguing that the PIP is a major rebuilding program and the costs should be charged out over the life of their improvement rather than the test year.

CPA opposed the capitalization of PIP costs normally considered as maintenance since the PIP does not result in any increased throughput. Several other intervenors, including Ontario, APMC and Cornu Resources Marketing Limited (Cornu), also opposed the capitalization of PIP costs as proposed by the TransCanada.

Decision

The Board is of the opinion that the PIP is a series of activities designed to re-establish the integrity of the Central Section and is necessary for the continued safety and reliability of the pipeline.

The Board believes that project activities such as replacements less than 12 metres in length, hydrostatic testing, electronic internal inspection and investigative digging on an in-service pipeline should be considered as maintenance. Therefore it is appropriate that the costs of these activities be treated in accordance with the GPUAR and expensed in the current period.

The Board is also of the opinion that the incremental costs associated with the PIP (i.e. transmission by others, compressor fuel and research and development) should be considered as costs of the program and should be prorated between capital and expense on the basis of the project costs.

The Board's allocation between capital and expense of the costs associated with the PIP program is detailed in Table 4-3.

As a result of the Board's re-allocation to maintenance expense of a portion of the project activity costs, the weighted average gross plant has been reduced by \$14,431,000 in the test year. The Board also has adjusted the stub-period rate base and operating costs and the test-period operating costs to reflect this decision (see Sections 4.1.3.2, 7.2.4 and 8.1.1).

The Board's re-allocation to capital of a portion of transmission by others, compressor fuel and research and development has resulted in an increase of weighted average gross plant by \$11,725,000 in the test year. In addition, the Board has made the necessary adjustments to the rate base and revenue requirement in the stub period and in the test-year revenue requirement.

Table 4-3
 Pipeline Integrity Program
 Allocation of Costs Between Capital and Expense
 (\$000)

	TCPL Allocation		NEB Allocation	
	Capital	Expense	Capital	Expense
1986 PIP Costs				
- Launchers, Receivers and Pipe Replacements	12,900	-	12,900	-
- Maintenance	11,166	-	-	11,166
Transmission by Others, Compressor Fuel and Research and Development	-	19,066	10,220	8,846
Total 1986	24,066	19,066	23,120	20,012
1987 PIP Costs				
- Launchers, Receivers and Pipe Replacements	18,078	-	18,078	-
- Maintenance	14,150	-		14,150
Transmission by Others, Compressor Fuel and Research and Development	11,626	6,522	5,104	
Total 1987	32,228	11,626	24,600	19,254

4.1.3.2 Costs Incurred Prior to 1 August 1986

TCPL filed an application dated 19 May 1986 for an order permitting the deferral of additional transmission by others expenses incurred prior to 1 August 1986 as a result of the PIP.

The Board, by Order No. TG-2-86, allowed TCPL to defer these costs together with carrying charges and bring the balance forward for consideration at TCPL's next toll hearing. In its letter to the Company dated 5 June 1986 the Board stated:

"The Board is not convinced that it would be appropriate for Pipeline Integrity Program expenses incurred in June and July 1986 to be recovered in tolls for a subsequent test period. However, the Board will consider this question at the toll hearing to be held in the fall of 1986, when Pipeline Integrity expenses for the period 1 August to 31 December 1986 will also be considered.

Accordingly, the Board has decided to approve the Company's request for an accounting order. This approval does not in any way prejudice the recovery of these expenses in future tolls."

Pursuant to Board Order No. TG-2-86, TCPL brought forward for consideration an amount of \$1,604,000 which included carrying charges.

Decision

The Board believes that the PIP operating costs are not unlike other operating costs which can be effectively managed and controlled by the Company. Under the fixed toll method of regulation, TransCanada is expected to absorb both unfavourable and favourable variances, which should be offsetting over time.

Accordingly, the Board has decided to disallow recovery of expenses incurred prior to 1 August 1986 in the amount of \$4,913,000. The Board has determined that the total PIP-related expenses incurred in 1986 are \$20,012,000 (see Section 4.1.3.1). The allocation of these PIP expenses to the period prior to 1 August 1986 is detailed in Table 4-4.

The Board has made the required adjustments to the test-year revenue requirement, including the interim revenue adjustment, to reflect the above decisions (see Sections 4.1.3.1, 4.3.1, 4.3.3, 7.1.1.1, 7.1.1.2, 7.2.4, 8.1.1, 8.1.4.1, and 8.1.4.2.4).

Table 4-4
Pipeline Integrity Program
Allocation of Expenses
to the Period Prior to 1 August 1986
(\$000)

	Total 1986 Expense	Incurred After 31 July 1986	Incurred Prior to 1 August 1986
Project Activity Costs Allocated to Maintenance	11,166	8,374	2,792 ¹
Transmission by Others, Compressor Fuel and Research and Development Costs	8,846	6,725	2,121 ²
Total	20,012	15,099	4,913

1 Of the \$11,166,000 for PIP expenses incurred during the period 1 July to 31 October 1986, the Board has allocated \$2,792,000 or 25% to the period prior to 1 August 1986.

2 For transmission by others, compressor fuel and research and development, \$2,121,000 is the amount remaining after capitalizing \$2,450,000 of a total of \$4,571,000 on the basis of project activity costs (see Section 4.1.3.1)

4.1.4 Allocation of General Plant

Of the total Toronto office general plant, a portion is allocated to the non-regulated area based on the ratio of non-regulated salaries in NEB Accounts 685 and 721. In its original application, TransCanada proposed an allocation factor of 17% to the non-regulated area.

TransCanada's witnesses were cross-examined with respect to the determination of the allocation factor. The Company had not weighted its percentage split in relation to the balances in NEB Accounts 685 and 721. The Company agreed under questioning that the allocation to the nonregulated area should be based on the ratio of the non-regulated salaries in these NEB accounts. The Company subsequently increased to 24% the factor for the allocation to the non-regulated area to incorporate suggested refinements to the original methodology.

Decision

The Board approves the allocation factor of 24% for the allocation of Toronto office general plant to the non-regulated area.

4.1.5 Gas Generator Retirement

An RB-211 gas generator at compressor station 17D experienced a severe failure in January 1986. TCPL applied to treat the retirement as an ordinary retirement.

An ordinary retirement of depreciable plant is a retirement resulting from causes anticipated in prior depreciation provisions. When a retirement is treated as an ordinary retirement and there are no removal costs or salvage value associated with the retirement, the net plant amount in rate base does not change.

An extraordinary retirement is a retirement resulting from causes not anticipated in prior depreciation provisions. When a retirement is treated as an extraordinary retirement, the net plant amount in rate base is reduced and the loss is charged to expense.

Some intervenors believed that the failure of the RB-211 gas generator should be treated as an extraordinary retirement because it involved a permanent shutdown of an entire operating assembly for reasons other than ordinary wear and tear.

Decision

The Board is of the opinion that a failure such as the RB-211 failure would have been considered in prior depreciation provisions. Therefore, the Board considers the retirement to be appropriately treated as an ordinary retirement (see Chapter 5, Depreciation).

4.2 Working Capital

TCPL estimated its working capital for the test year ending 31 December 1987 to be \$76,870,000. The Board's adjustment to working capital is shown in Table 4-5 and explained in Section 4.2.1.

Table 4-5
Working Capital for the Test Year
(\$000)

	Application ¹	NEB Adjustments	Authorized by NEB
Cash	11,688	382	12,070

Materials and Supplies	29,618	-	29,618
Transmission Linepack	31,389	-	31,389
Prepayments and Deposits	4,175	-	-4,175
Total	76,870	382	77,252

1. On 17 February 1987, TCPL filed Exhibit B-285 updating its application to reflect various changes based on matters raised during the hearing.

4.2.1 Cash Working Capital

TCPL requested a cash working capital allowance equal to one-twelfth of operation and maintenance expenses net of gas-related costs, toll hearing expenses and non-cash items. In support of its requested cash working capital allowance, the Company submitted a lead-lag study. The requested allowance of one-twelfth is unchanged from the level approved in the September 1985 TCPL Reasons for Decision.

In response to a requirement in the September 1985 TCPL Reasons for Decision, the Company had conducted a study to determine if the provision of 2.5 days for mail lag was appropriate. The study determined the mail lag to be 1.965 days, and this had been incorporated into the lead-lag study.

During the hearing the Company corrected its calculation of the cash working capital allowance by deducting the amortization of prepaid insurance of \$3,706,000 in determining the net operation and maintenance expense.

Decision

The Board approves the one-twelfth factor used by TCPL to determine the allowance for cash working capital

Adjustments made by the Board to operation and maintenance expense result in an adjustment to the cash working capital allowance as shown in Table 4-6.

Table 4-6

**NEB Adjustment to
Cash Working Capital Allowance
for the Test Year
(\$'000)**

Net Operation and Maintenance Expense (per Applicant)	140,252
Reduction in Salaries and Benefits	(2,331)
Increase in Transmission, Departmental and General Expenses	<u>6,917</u>
Net Operation and Maintenance Expense (per NEB)	144,838
1/12th of Net Operation and Maintenance Expense (per NEB)	12,070
1/12th of Net Operation and Maintenance Expense (per Applicant)	11,688
Total NEB Adjustment	382

4.3 Deferred Costs

4.3.1 Transmission by Others

Decision

As a result of the Board's decision to disallow certain costs associated with the Pipeline Integrity Program incurred prior to 1 August 1986 (see Section 4.1.3.2), an adjustment of (\$1,290,000) is required, as detailed in Table 4-7:

Table 4-7

NEB Adjustments to Deferred Costs re
Transmission by Others for Disallowed Costs
Associated with the Pipeline Integrity Program
Incurred Prior to 1 August 1986
(\$000)

Great Lakes Fuel Cost Adjustment	63
Non-fuel Component of the Commodity Portion of the Great Lakes Overrun Charge Deferred Pursuant to TG-2-86	(1,604)
PGA and Surcharges	(1,038)
Total Disallowed	(2,579)
NEB Adjustment - Average in the Test Year	(1,250)

4.3.2 Miscellaneous Deferred Items

Decision

The Board has decided to allow carrying charges on the unmortgaged losses on Eurodollar loans at TCPL's unfunded debt rate (see Sections 13.1 and 13.4.6). As a result of this decision, an adjustment of (\$28,750,000) is required to remove the unmortgaged losses on Eurodollar loans from rate base.

4.3.3 Other Deferred Items

Decision

In line with the Board's decision to disallow certain costs related to the PIP incurred prior to 1 August 1986 (see Section 4.1.32), an adjustment of \$312,000 is required to the compressor fuel deferral account (see Table 4-8).

Table 4-8

NEB Adjustment to Other Deferred Items
for Disallowed Fuel Savings Associated with
the Pipeline Integrity Program Incurred
Prior to 1 August 1986
(\$000)

TCPL System Fuel Savings	2,506
Fuel Component of the Commodity Charge Portion of the Great Lakes Overrun Charge	(1,882)
Total Disallowed	624
NEB Adjustment - Average in the Test Year	312

4.3.4 Interim Revenue Adjustment

Decision

The Board has decided to exclude from rate base, effective 1 August 1986, any subsequently authorized interim revenue adjustments; however, carrying charges will be allowed (see Sections 8.3 and 13.1). As a result of this decision, an adjustment in the amount of (\$36,210,000) is required to remove from rate base the average unamortized balance of the revenue deficiency applicable to the period 1 August to 31 December 1986.

Chapter 5

Depreciation

Decision

The Board has reduced depreciation expense by \$451,387 to reflect its decisions regarding gross plant (see Section 4.1).

Having considered the accounting treatment of the retirement of the RB-211 gas generator at compressor station 17-D (see Section 4.1.5), the Board is concerned that the asset groups used for depreciation purposes may include assets having a range of life expectancies which is too broad to be included in one group. Therefore, the Board directs TCPL to propose groupings at a more segregated level and to evaluate the appropriateness of adopting the Equal Life Group method of depreciating these assets in its next depreciation study.

Chapter 6

Cost of Capital

In its final update, the Company applied for a rate of return on rate base of 14.13% for the test year ending 31 December 1987. This rate of return is based on a deemed average capitalization equal to the average utility rate base outside Alberta plus gas plant under construction (GPUC) projected for the test year.

The applied-for deemed average capitalization, as revised, corresponding individual cost rates and overall requested rate of return are shown in Table 6-1 and discussed in succeeding sections of this chapter.

Table 6-1

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

	Amount (\$000)	Capital Structure (%)	Cost Rate (%)	Cost Component (%)
Debt -Funded	1,248,089	48.49	15.31	7.42
-Unfunded	81,333	3.16	10.50	0.33
Total Debt Capital	1,329,422	51.65		7.75
Preferred Share Capital	343,745	13.35	9.77	1.30
Common Equity	900,937	35.00	14.50	5.08
Total Capitalization	2,574,104	100.00		
Return on Rate Base				14.13

6.1 Funded Debt

Funded debt represents the Company's average principal amount of utility debt capital that is projected to be outstanding during the test year.

In its application TCPL initially applied for a cost rate of 17.19%, later amending this rate to 17.32%. These rates were calculated in a manner consistent with the Company's last toll application; in particular, forecast foreign exchange losses were reflected in the Company's calculation of the cost of funded debt.

CPA and IPAC argued that, because it has been the Board's practice to apply the rate of return on rate base to unamortized deferral account balances, the inclusion of foreign exchange losses would allow TCPL to earn additional monies on deferral account balances in excess of its actual cost of debt. As an alternative they suggested that the foreign exchange losses should be recovered separately in the cost of service. At the commencement of the evidentiary phase of the hearing TCPL agreed with this proposal. As a result, the cost rate of funded debt was amended to a level of 15.31%

Witnesses for the Company, CPA and Ontario agreed that foreign exchange gains and losses constitute a legitimate part of the cost of debt financing. While accepting that these costs could be left in the calculation of the cost of funded debt, the parties generally preferred the notion of allowing foreign exchange gains and losses to be recovered separately in the revenue requirement given the circumstances of this case. A witness representing TCPL expressed the view that removing these costs from the cost of debt calculation would keep the rate of return element on a cleaner and neater basis. Another Company witness stated that, from his point of view, foreign exchange costs really are a cost of debt. He went on to state, however, that these costs are not an appropriate item to be included in the calculation of determining what the return on the deferral accounts should be. In this vein, the witness noted that the Company had never experienced foreign exchange losses of the magnitude being forecast for the test year.

CPA's expert witness took the position that if deferral account carrying charges are based on a cost rate for debt which has been adjusted upwards to recover foreign exchange losses, then the Company will recover additional amounts to compensate for foreign exchange losses over and above the level of such costs recovered through the cost of funded debt. This potential over-recovery supported, in his view, the treatment of foreign exchange gains and losses proposed by CPA. Ontario's witness agreed that the proposal put forward by CPA and IPAC was reasonable.

Decision

The Board recognizes that foreign exchange gains or losses are considered to be costs of financing. The Board notes, however, that recent events have materially affected the amount of TCPL's foreign exchange costs, in particular, the early retirement of two Eurodollar issues. The proposal put forward by CPA and IPAC to recover such costs separately in the revenue requirement was accepted by TCPL. No intervenor objected to this treatment. In the circumstances of this case, the Board approves the inclusion of the test-year foreign exchange loss as a separate item in the Company's revenue requirement. As a result of the Board's decision on the amortization of losses on the Eurodollar loans (see Section 7.4.1), the amount of the Eurodollar note redemption premium to be amortized in the test year has been reduced from \$1,626,000 to \$170,000. This

adjustment reduces the total cost of funded debt in the test year to \$189,585,000. Accordingly, the Board approves a funded debt cost rate of 15.19%

6.2 Unfunded Debt

The component of unfunded debt in TCPL's total utility capitalization is determined arithmetically by subtracting funded debt, preferred share capital and common equity capital from the total capitalization.

TCPL applied for a cost rate of 10.5% for the test year. This rate represented the Company's forecast of the rate at which it could issue new longterm debt in 1987.

Company witnesses testified that a long-term rate should be used to cost unfunded debt because the funds are used to finance long-term assets. One witness argued that, to the extent the Company delays long-term funding, it is at risk for any additional costs incurred during the test year if longterm rates increase. Another witness stated that the Board had always approved the long-term rate as being the unfunded debt rate.

CPA's witness expressed similar views, recognizing that the reason this component is funded on a short-term basis in the interim is so that the Company has the opportunity to issue long-term debt prospectively at the best possible rate. While this witness generally supported the use of a long-term rate for unfunded debt, he did note that allowing the Company the long-term rate over a long period of time when it is only paying the short-term rate will result in a benefit to the Company, because, on balance, short-term rates are lower than longterm rates.

Ontario's witness argued that TCPL should only be allowed to cost the forecast unfunded debt using a short-term rate on the basis that it appears that the Company does not intend to fund this debt in the test year. He stated that if customers do not receive the stability offered by long-term rates they should not be required to pay the premium for long-term funds. In this regard, a Company witness testified that TCPL intends to fund its unfunded debt during the test year but that the timing had not yet been settled. He further indicated that TCPL did not intend to fund debt in the test year prior to the release of the Board's decision.

A Company witness forecast that TCPL's cost of new long-term debt during the test year will be 10.5%. He based this estimate on a long-term Canada Bonds forecast of 9.25% and a spread between long-term Canada's and "A"-rated corporate debt of 125 basis points.

Ontario's witness noted that the cost of long-term debt to TCPL at the time he prepared his testimony in August 1986 was 10.4%. However, he recommended that the Company's unfunded debt balance for 1987 should be costed at a short-term rate of 8.75%.

During cross-examination, CPA's expert witness voiced his opinion that the Company's forecast rate of 10.5% was at least 25 basis points too high based on the then current interest rate levels. He stated that, in his view, investors are not expecting long-term interest rates to increase in the next year, concluding that the rates achievable currently of 10.25% or less would be prospectively achievable over the 1987 test period. For support the witness also looked to the fact that Canadian Utilities Limited (Canadian Utilities) raised \$80 million at 10.25% in December 1986. He stated that, while Canadian Utilities may be a less risky company than TCPL consolidated, he did not believe that the utility operations of Canadian Utilities are any less risky than the utility activities of TCPL.

In his rate of return analysis CPA's witness utilized a long-Canada rate of 9%. He testified that in his view the cost of long-term debt to TCPL would currently and prospectively be 10.25% or somewhat less, which suggests a maximum spread between long-Canada's and "A"-rated corporate debt of 125 basis points.

Decision

The Board notes that the Company does not intend to issue long-term debt until after the Board's decision is released. Given the timing of the release of the decision, it appears likely this debt will remain unfunded for at least one-half of the test year. Under the circumstances of this case, the Board finds it appropriate to cost the Company's unfunded debt balance for the test year using a combination short-term/long-term rate.

Based on the evidence, the Board finds that a spread of 125 basis points between longCanada's and "A"-rated corporate debt, and a long-Canada rate of 9% for the test year are reasonable. Taking into account the recent trend in interest rates, the Board believes that 10.25% is a reasonable estimate of the rate at which TCPL could issue newlong-term debt during the test year. Further, the Board finds that a short-term rate of 8.75% is appropriate for the stub period (see Section 8.1.3.2) and is not convinced that this rate would be materially different in 1987. Accordingly, given its decision to cost TCPL's test-year unfunded debt balance using a combination short term/longterm interest rate, the Board has decided to cost this component at a rate of 9.5%.

6.3 Preferred Share Capital

Preferred share capital represents the average capital of preferred share issues associated with utility investments projected to be outstanding during the test year.

In its final update, TCPL applied for a cost rate of 9.77%. This rate was calculated in a manner consistent with the Company's last toll application. No intervenor objected to this rate.

By letter dated 7 May 1987, TCPL filed with the Board, and served on interested parties, a copy of the final prospectus relating to the Company's issuance of \$80 million of cumulative redeemable retractable first preferred shares Series J, yielding 7.6%. This yield is marginally lower than the 8% yield assumed by the Company in the final update of its application. In addition, the Board notes that these shares will become available for delivery on or about 2 June 1987.

Decision

After giving consideration to the additional information provided by the Company, the Board has approved a revised forecast balance of preferred share capital for the test year of \$337,591,000, and a cost rate of 9.74%

6.4 Common Equity Ratio

TCPL applied for an increase in its deemed common equity ratio to 35% from the 30% currently approved for toll purposes.

In assessing the deemed common equity ratio for TCPL's utility operations, the Board continues to rely on the following three main factors:

- considerations relating to the business risks faced by TCPL's utility operations;

- considerations relating to maintaining an appropriate balance between the debt and equity elements of the deemed capitalization; and

- considerations relating to maintaining 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 left implicitly to underpin the Company's non-utility operations.

With regard to business risk, TCPL's witnesses argued that an increase in the utility's deemed common equity ratio is required in order to maintain the Company's financial integrity in the face of increased business risks resulting from the deregulation of the natural gas industry.

The expert witness for Ontario expressed the view that investors would perceive only a minor increase in the business risks related to the transmission services of TCPL from the time of the last toll hearing. CPA's witness believed that the longevity of the TCPL system may, in fact, be enhanced by virtue of the flexibility of market sensitive pricing.

While TCPL argued that deregulation could increase the Company's risk of incurring future take-or-pay obligations, several intervenors expressed the view that this is a gas supply risk not associated with the operation of the pipeline.

With regard to TCPL's financial flexibility, Ontario's witness argued that thickening the utility equity ratio would not result in improved credit ratings or lower debt costs for TCPL and would not provide any benefits to the utility customers. CPA's witness argued that the additional income tax costs would, in his opinion, make a 35% equity ratio sub-optimal. The Board notes that the Company was able to raise new equity and long-term debt at competitive rates at a time when the deregulation process was underway.

The Board heard considerable debate on the topic of the adequacy of the forecast residual capitalization of TCPL's non-utility operations. The Company's witnesses argued that this capitalization is both sufficient and appropriate while the arguments of the intervenor witnesses served to cast some doubt on these assertions.

Decision

It is the opinion of the Board that the business risks of TCPL have not been significantly affected by deregulation in the Canadian natural gas industry. Further, the Board is satisfied that the Company has and will continue to have the financial flexibility and creditworthiness required for its utility operations. Accordingly, the Board sees no need to increase TCPL's deemed common equity ratio beyond the 30% level currently approved.

While the Board continues to have some doubts regarding the adequacy of the implicit capitalization of the Company's nonutility operations, it has based its decision to continue to deem the utility common equity ratio at 30% primarily on considerations relating to business risks and efficient capital structure.

6.5 Rate of Return on Common Equity

TCPL applied for a rate of return on common equity of 14.5%, unchanged from the existing approved rate. In requesting a rate of return of 14.5%, the Company relied upon the recommendations of two expert witnesses. Both witnesses utilized the discounted cash flow (DCF) and equity risk premium approaches and one witness also used the comparable earnings approach, upon which he placed

considerable emphasis.

Ontario and CPA each presented evidence prepared by their expert witnesses. The witness for Ontario originally recommended a rate of return of 13% to 13.25% based on the results of his DCF, equity risk premium and comparable earnings tests. During cross-examination, the witness lowered his recommendation to 13% to reflect ongoing changes in the capital markets.

The witness for CPA relied on the results of his DCF and equity risk premium tests in making his recommendation of a fair rate of return on common equity in the range of 12 5/8% to 12 7/8%.

While all expert witnesses utilized the DCF and equity risk premium approaches, only two witnesses utilized the comparable earnings approach. The witness for Ontario testified that he had placed less emphasis on the results of his comparable earnings test, expressing the view that his comparable earnings test was biased in the upper range by the use of historical periods which do not reflect current market conditions. His application of this test varied significantly in methodology and results from the test performed by the witness for TCPL. The witness for CPA, while not employing the test, expressed similar concerns about it, noting the impact of historical rates of inflation on reported earnings.

In applying the comparable earnings test, TCPL's expert witness examined the returns for the period 1983-1985 for stable industrials of reasonably similar risk to utilities. He then projected rates of return for such companies over the entire current business cycle. In order to avoid the effects of high rates of inflation which occurred in prior periods, the witness used a prospective business cycle and expressed the view that the current low rates of inflation tend to restore the economic significance of book profits.

In support of its rate of return recommendation, Ontario pointed to the fact that all expert witnesses had significantly lowered their recommendations at this hearing compared to the Company's last toll hearing. Ontario argued that this was a clear signal that TCPL's cost of capital is now considered to be much lower by all expert witnesses. As well, CPA emphasized the significant drop of approximately 250 to 300 basis points in the interest rate forecasts of TCPL's witnesses since the Company's last toll hearing.

Decision

In the Board's view the determination of a fair rate of return on common equity requires the exercise of judgment. Having considered all the evidence, giving particular consideration to the decline in interest rate levels since the time of TCPL's last toll hearing and the recent trends in capital markets, the Board finds 13.25% to be a fair and reasonable rate of return on common equity for the test year.

6.6 Rate of Return on Rate Base

Decision

Based on its findings in this case the Board has approved a rate of return on rate base of 13.50% for the test year. The approved deemed capitalization and the derivation of the allowed rate of return are shown in Table 6-2.

Table 6-2

Approved Deemed Average Capital Structure
and Rates of Return
for the Test Year

	Amount (\$000)	Capital structure (%)	Cost Rate (%)	Cost Component (%)
Debt				
- Funded	1,248,089	49.92	15.19	7.58
- Unfunded	164,424	6.58	9.50	0.62
Total Debt Capital	<u>1,412,513</u>	56.50		8.20
Preferred Share Capital	337,591	13.50	9.74	1.32
Common Equity	750,044	30.00	13.25	<u>3.98</u>
Total Capitalization	<u>2,500,148</u>	100.00		
Return on Rate Base				13.50

1 (\$000)

Rate Base Outside Alberta	2,478,236
GPUC	<u>21,912</u>
	2,500,148

6.7 Income Taxes

6.7.1 Income Tax Rate

TCPL used an overall tax rate of 52.682% in computing its utility flow-through income tax provision. This rate is comprised of a federal corporate tax rate of 36%, a composite provincial tax rate of 15.602% and a federal corporate surtax rate of 1.08%. The federal corporate tax rate used by TCPL did not reflect the scheduled 1 percentage point reduction to 35%, effective 1 July 1987.

Decision

It is the view of the Board that TCPL's overall tax rate for the test year should reflect known tax rate changes. Accordingly, the Company's overall tax rate for the test year has been adjusted to 52.167% as follows:

	Application	by NEB
	(%)	(%)
Federal Corporate Tax Rate	36.0	35.5
Composite Provincial Tax Rate	15.602	15.602
Federal Corporate Surtax	1.08	1.065

6.7.2 Interest AFUDC

For the purpose of calculating the tax provision it has been the Board's practice to utilize the amount of AFUDC that is being recognized in the additions to rate base for the test year when calculating the interest AFUDC deduction. TCPL has used different figures in its calculation of the flowthrough income tax provision.

Decision

The Board continues to find that the AFUDC provided for in the additions to rate base for the test year is the correct amount upon which to base interest AFUDC when calculating the flow-through income tax provision.

6.7.3 Drawdown of Deferred Tax Balance

For the third consecutive time TCPL proposed to drawdown the average accumulated deferred income tax account. The objective of the current proposal was to transfer a sufficient amount from the average accumulated deferred income tax account in order to maintain the test-year tolls at the level approved by the Board in Order No. TG-3-85.

Decision

The Board notes that there was no consensus as to the appropriateness of TCPL's proposal. The Board further notes that the netback pricing mechanism which was in effect when most of the deferred income taxes were accrued will also be in effect during the test period.

The Board was not persuaded that the Company's current proposal is materially different from its proposals in previous years. The Board therefore continues to believe that the Applicant's proposal is a departure from cost-based tolls and that the use of accumulated deferred income taxes in this manner is contrary

to sound accounting principles. Accordingly, TCPL's proposal is denied. The Board does not anticipate circumstances in the foreseeable future that would justify the use of accumulated deferred income taxes in this manner.

6.7.4 Flow-through Tax Calculation

Decision

The Board has adjusted the flow-through income tax provision from \$195,781,000 to \$141,007,000, a reduction of \$54,774,000 (see Table 6-3).

Table 6-3

Approved Utility Income Tax Allowance
for the Test Year
(\$000)

Utility Income After Tax	131,3461
Add:	
Depreciation	94,766 ²
Tax Rate Deferral	683
Non-allowed Amortization of Debt Discount and Expense	18,543 ³
Amortization of North Bay Shortcut	8,863
Deduct:	
Capital Cost Allowance	(117,931) ⁴
Overhead Capitalized	(967) ⁵
Eligible Capital Expenditures	(60)
Interest AFUDC	(3,847) ⁶
Preferred Share Issue Costs	(2,500)
Utility Income After Tax, as Adjusted	128,896
Utility Income Tax Allowance	
<u>.52167</u> X \$128,896	140,575
1 - .52167	
Add: Ontario CCA Difference	500
Less: Investment Tax Credit (Pipeline Integrity Program)	(68)
Utility Income Tax Allowance, as Adjusted	141,007

1 Equals the allowed rate base multiplied by the sum of the allowed weighted average cost of preferred and common equity capital (See Tables 4-1 and 6-2).

2 Revised to reflect the Board's adjustments to rate base (See Chapter 5, and Section 4.1).

3 Revised to reflect the Board's decisions in Section 7.4.

4 Revised to reflect the Board's decision in Section 4.1.

5 Revised to reflect the Board's decision in Section 7.2.2.

6 Revised to reflect the Board's decisions in Sections 6.6 and 6.7.2.

6.7.5 Capital Losses

The Company has incurred capital losses on the redemption of a number of its debt issues. These capital losses can only be used to offset available capital gains. TCPL's evidence indicated that it did not have any utility capital gains in either the stub period or the test year to offset these utility capital losses.

Decision

The Board believes that tollpayers should receive the full benefit of the utility capital losses incurred to date. Therefore, TransCanada is directed to file a continuity schedule of capital losses with its future toll applications. This schedule should reflect the total capital losses incurred as well as the portion of the losses used to offset either utility or non-utility capital gains.

Chapter 7

Operating Costs

Adjustments to operating costs included in the test-year revenue requirement are provided in this chapter. Details of interim revenue adjustments for the stub period and test year are provided in Chapter 8. Capital related adjustments to rate base, depreciation and cost of capital are provided in Chapters 4, 5 and 6 respectively. A summary of the approved operating costs for the test year, together with Board adjustments, is shown in Table 7-1. A summary of the approved transportation revenue requirement for the test year is shown in Chapter 3.

Table 7-1
Operating Costs for the Test Year
(\$000)

	Application as Restated¹	NEB Adjustments	Authorized by NEB
Transmission by Others	270,724	(4,281)	266,443
Operation and Maintenance	257,347	5,209	262,556
Taxes Other than Income Taxes	36,670	521	37,191
Miscellaneous Deferred Items	10,870	-	10,870
Other Operating Income	(3,855)	(181)	(4,036)
Miscellaneous Revenue	(14,334)	283	(14,051)
Foreign Exchange Loss	25,181	(9,531)	15,650
Total Operating Costs	582,603	(7,980)	574,623

1 Application as restated to include gas-related operating costs at \$2.20/GJ per NEB Information Request Item No.4 which was updated by Exhibit B-285.

7.1 Transmission by Others

The Board's adjustments to transmission by others are summarized in Table 7-2.

Table 7-2

**Transmission by Others
for the Test Year
(\$000)**

	Application as Restated¹	NEB Adjustments	Authorized by NEB
Great Lakes			
- Basic Charges	108,735	(709)	108,026
- Exchange	40,776	(266)	40,510
- Fuel Adjustment	6,843	(520)	6,323
Union Gas	9,241	(189)	9,052
Steelman Gas	304	(18)	286
TQM Tolls	81,984	-	81,984
Sub-total	247,883	(1,702)	246,181
Deferral Adjustments:			
Great Lakes			
- Demand	(1,686)	-	(1,686)
- Rates	10,978	(1,038)	9,940
- Exchange	8,899	-	8,899
- Fuel Adjustment	4,512	63	4,575
Union Rates	860	-	860
TQM Tolls	(2,326)	-	(2,326)
PIP	1,604	(1,604)	-
Total	270,724	(4,281)	266,443

1 Application as restated to include gas-related operating costs at \$2.20/GJ per NEB Information Request Item No. 4 which was updated by Exhibit B-285.

7.1.1 Pipeline Integrity Program

7.1.1.1 Test-year Costs Capitalized

Decision

The following transmission by others costs associated with the Pipeline Integrity Program in the test year were capitalized as explained in Section 4.1.3.1 and, accordingly, have been deducted from transmission by others:

	(\$000)
Great Lakes	
- Basic Charges	(709)
- Exchange	(266)
Union Gas	<u>(189)</u>
Total	(1164)

7.1.1.2 Costs Incurred Prior to 1 August 1986

As a result of the Board's decision to disallow certain PIP costs which were incurred prior to 1 August 1986 (see Sections 4.1.3.2 and 8.1.1), the following deferred transmission by others costs have been disallowed:

	(\$000)
Great Lakes PGA	(1,038)
Fuel Adjustment	63
Non-fuel Component of the Great Lakes Overrun Commodity Charge Deferred Pursuant to Order TG-2-86	<u>(1,604)</u>

Total

(2,579)

7.1.2 Great Lakes Fuel Cost Adjustment

Decision

The Board's adjustment of (\$520,000) to the Great Lakes fuel cost adjustment is made to reflect the approved toll for firm service from Empress at the Alberta border to the export point at Emerson, Manitoba

7.1.3 Steelman Gas

Decision

The Board's adjustment of (\$18,000) to the Applicant's calculation of the test-year transportation costs for gas purchased from Steelman Gas is made to reflect the approved transportation costs.

7.1.4 Great Lakes Overrun Charges

TCPL applied to recover in the test year the demand portion of the Great Lakes overrun charge in the Great Lakes deferral account in the amount of \$1,661,000 including carrying charges of \$186,000.

In its September 1985 TCPL Reasons for Decision the Board stated that it was not convinced that TCPL had made every effort to ensure that the interests of its tollpayers were protected in Great Lakes toll design proceedings before the Federal Energy Regulatory Commission (FERC). Accordingly, the Board decided to disallow the carrying charges associated with the demand portion of the Great Lakes overrun charge.

In this hearing some intervenors argued as they did in the 1985 proceeding that the Great Lakes overrun charge is inequitable because it includes an allowance for fixed costs which have already been recovered through the contract demand charge. Further, TCPL benefits from the overrecovery of fixed costs in the tolls of Great Lakes due to its 50% ownership of Great Lakes.

These intervenors argued that TCPL should have taken more action to have the overrun rate changed both before FERC and through TCPL's representatives on the Great Lakes Board of Directors. They contended that the Board should disallow the collection through tolls of the demand portion of the overrun charge.

In final argument, Cornu referred to proceedings under ss. 5(a) of the United States Natural Gas Act when inciting the Board to order a reduction in future tolls to the extent of any overcollection of revenues found to have wrongfully taken place.

Ontario took the position that the Board proceeded properly in its finding in September 1985 that it would not be appropriate to disallow recovery by TCPL of FERC-approved charges paid to Great Lakes. Ontario was also of the view that TCPL had taken the appropriate steps to ensure that the interests of its tollpayers will be protected in the current Great Lakes toll design proceeding before FERC. Ontario therefore concluded that the Board would be justified in allowing in cost of service the carrying charges associated with the demand portion of the Great Lakes overrun charge.

Decision

The Board continues to hold the view that it would be inappropriate to disallow the recovery by TCPL of FERC-approved charges paid to Great Lakes. Furthermore, the Board is of the opinion that TCPL has taken appropriate action to protect the interests of its tollpayers in the current proceedings before FERC. Accordingly, the Board has decided to allow the demand portion of the

Great Lakes overrun charge and associated carrying charges in the amount of \$1,661,000 to be included in the test-year cost of service.

With respect to the argument by Cornu, the Board is of the view that its powers under Part IV of the NEB Act are not dissimilar to those of FERC pursuant to 88. 5(a) of the United States Natural Gas Act and finds that its method of regulating is adequate to deal with this issue and to approve just and reasonable tolls for TCPL.

7.1.5 Great Lakes Fuel Tracker

CPA was concerned that the operation of the compressor fuel deferral account and the Great Lakes fuel tracker could result in a potential double recovery of fuel costs. However, CPA admitted that on the basis of the evidence it could not submit that there was double counting.

TCPL argued that there was no double recovery and provided two undertakings illustrating the operation of the accounts under four sets of conditions.

Decision

The Board is of the opinion that there has been no double recovery of fuel costs.

7.1.6 Flow-split Equation

TCPL provided evidence detailing the use of the flow-split equation to minimize overall cost of service by determining the proportion of volumes moving to the Eastern Zone via the central section versus the Great Lakes system.

Decision

The Board finds the use of the flow-split equation acceptable but will continue to monitor its effectiveness.

7.1.7 Great Lakes Contract Quantity

Great Lakes transports gas on behalf of TCPL pursuant to Great Lakes' T-4 transportation tariff.

In February 1986 TransCanada requested an increase in the transportation service contract volume. Great Lakes, upon considering its uncontracted capacity and a simultaneous request by another shipper, applied to FERC to increase the TCPL contract quantity by 62.5 MMcfd ($1.7 \times 10^6 \text{ m}^3/\text{d}$) to 887.5 MMcfd ($25.1 \times 10^6 \text{ m}^3/\text{d}$).

TCPL submitted that the decision to seek an increase in the T-4 contract quantity was based on a study indicating that this would result in a reduction of overall cost of service on the TCPL system. Further evidence indicated that this result was achieved.

During cross-examination TCPL explained that, in its opinion, prior approval by the NEB of a request to increase the T-4 contract quantity is not necessary. The Board, TCPL submitted, has full authority to disallow the recovery of any costs imprudently incurred. TCPL argued that requiring prior approval would lead to a cumbersome procedure with unnecessary delays.

Decision

The Board accepts that the decision taken by TCPL in February 1986 to increase the T-4 contract quantity was prudent. However, in the future TransCanada should seek approval from the Board prior to requesting a change in its long-term contractual obligations with other pipeline companies when the costs of transportation services provided under the contracts are included in TransCanada's revenue requirement.

7.2 Operation and Maintenance

The Board's adjustments to operation and maintenance expenses are summarized in Table 7-3.

Table 7-3

NEB Adjustments to Operation and
Maintenance Expenses in the Test Year
(\$000)

	Application as Restated ¹	NEB Adjustments	Authorized by NEB
Operating Uses and Fuel			
Taxes	102,581	(4,505)	98,076
Salaries and Benefits	70,620	(2,331)	68,289
Deferrals and Amortizations	9,176	624	9,800
Other Transmission, Departmental and General Expenses	74,970	11,421	86,391
Total	257,347	5,209	262,556

1 Application as restated to include gas-related operating costs at \$2.20/GJ per NEB Information Request Item No. 4 which was updated by Exhibit B-285.

7.2.1 Operating Uses and Fuel Taxes

As a result of the Board's decision to capitalize certain PIP-related expenses (see Section 4.1.3.1), an adjustment of (\$4,505,000) has been made to compressor fuel and related taxes in Saskatchewan and Manitoba.

7.2.2 Salaries and Employee Benefits

7.2.2.1 Permanent Employees

TCPL had, for the 1985 base year, an average of 1,488 permanent employees and an additional 65 vacant positions. For the 1987 test year TCPL forecast a full staff complement of permanent employees totaling 1,525. The full staff complement is derived by adding the average actual base-year figure of 1,488 plus actual vacancies of 65 and deducting base-year to test-year deletions of 28 person-years. In addition, TCPL expects 28 permanent positions to be vacant at all times as a result of the lag associated with recruiting replacement staff and allowed for a vacancy adjustment of 28 person-years. Therefore, the Company expects an average of 1,497 permanent

employees during the test year and has applied for recovery of the costs associated with this amount. TransCanada indicated the increase from 1,488 actual permanent person-years in the base year to 1,497 in the test year is a result of the replacement of contract employees or consultants by full-time Company employees and the need for additional employees to deal with the added complexity in the gas control and transportation areas.

TCPL's witnesses were cross-examined by intervenors on many areas of the Company's permanent staff complement. In argument, it was Ontario's opinion that if TCPL was to experience vacancies similar to past rates and taking into account the transfer of 20 positions to WGML, TCPL would be able to function with approximately 72 vacancies rather than the 28 vacancies proposed in the application. Ontario indicated the Board should reduce the permanent staff level, which forms the basis for calculating the salary costs in the utility cost of service, by 44 employees from 1,497 and approve a net permanent person-year complement of 1,453.

Decision

On the basis of the evidence presented, in particular the Company's past experience and the most recent monthly actuals for 1986, the Board finds that a vacancy adjustment of 55 permanent person-years is reasonable. Therefore, the Board has disallowed the salaries associated with 27 person-years for inclusion in the calculation of gross salary costs. The Board approves a net permanent person-year complement of 1,470, recognizing that part of the cost of staff is allocated to non-utility operations.

7.2.2.2 Temporary Employees

TCPL had an average of 136 temporary employee person-years during the 1985 base year. Temporary employee requirements are seasonal or related to specific non-recurring projects. TCPL's projected requirements for the test year average 167 temporary employee person-years. This increase of 31 temporary person-years is primarily because of direct labour related to the PIP construction work. The remaining temporary employee additions are indirectly related to the program, as they will be used to replace regular employees who are temporarily assigned to work on PIP and other construction assignments.

Decision

The Board notes that salaries capitalized or deferred are estimated to decrease by 7.6 percent from actual 1985 to the estimated 1987 test year. In addition, comparing TCPL's 1986 estimated actual to the 1987 test year, the reduction in salaries capitalized or deferred is 29.5 percent. This reduction will result in a freeing-up of employees time for utility cost of service activities The

Board believes that the additional 31 temporary employees are not justified in light of the proposed reduction in capitalized or deferred salaries below the actual 1985 level. Therefore, the Board has disallowed for inclusion in the calculation of the salary costs the proposed additional 31 temporary person-years and approves a net temporary person-year complement of 136.

7.2.2.3 Escalation Factors

TCPL's estimate of test year salaries reflects a build-up from the 1985 base-year salaries. For 1986 it reflects a general increase including merit of 5.0 percent and an additional 1.0 percent of the base salary level to cover progression and promotional increases for 1986. For the 1987 test year, as a result of reviewing its employee remuneration policy, TCPL reduced its proposed salary increase to 2.9 percent compared to the originally requested level of 5.5 percent, but maintained a 0.5 percent of base salary level to cover progression and promotion increases for 1987. TCPL indicated that this change reflects a restriction of base-salary increases for all staff and freezing base salaries for Company officers at the 1986 levels. In addition, a new basis for remuneration of Company officers and management is proposed to become effective in 1987, whereby base-salary growth in future years will continue to be limited. In order to ensure that total compensation remains competitive in the marketplace, officers and management will be eligible for annual cash bonuses above their base salary. The amount of each bonus will be dependent on the achievement of corporate, business unit and individual objectives which will be established in the first quarter of 1987. The first payment of these cash bonuses, dependent on 1987 performance results, will take place during the first quarter of 1988 and were included in this application. The outlay of bonuses anticipated in the first quarter of 1988, assuming reasonable attainment of the predetermined objectives in terms of 1987 performance, is forecast to result in a total compensation increase of 5.5 percent for 1987, the amount originally applied-for by TCPL. TCPL proposed that amounts payable for the 1987 performance bonus in the first quarter of 1988 would form part of the 1988 test-year revenue requirement and would accordingly be included in the Company's next tolls application.

Several intervenors cross-examined the Company's witnesses on the proposed escalation factors. In argument, CPA opposed the salary increase of 5.0 percent for 1986. CPA argued that TCPL's expressed policy of paying what it considers to be an appropriate level of salaries, even if doing so is inconsistent with a decision of the Board, is not reasonable. CPA believes that TCPL can pay its employees whatever it wants, but should not look to its tollpayers for reimbursement of more than the salary level that the Board approved as being just and reasonable.

Since the new remuneration policy for 1987 was introduced at a late stage in these proceedings, intervenors did not have the opportunity to cross-examine TCPL's witness on this matter. However, in their final arguments, IPAC and APMC shared the concern that the chief result of the proposed bonus program is a deferral of costs to a future year. APMC also voiced concern over the Company's argument that it operates in a buoyant Ontario market and that this forms the justification for the size of the proposed increases. APMC was not convinced that TCPL had done all that it should in minimizing the amounts it must pay to its staff.

Decision

The Board, in its September 1985 TCPL Reasons for Decision, allowed TCPL to provide for a salary increase of 4.0 percent for 1986, including merit adjustments. The Board remains of the view that a salary increase of 4.0 percent for 1986 should have been used in determining the revenue requirement allowance for salaries in the test year, instead of the 5.0 percent used by the Applicant.

For 1987, the Board is not convinced that a 2.9 percent increase with additional anticipated bonuses to be paid in 1988 which will result in a 55 percent increase, plus an additional 0.5 percent of base salary for promotion and progression for 1987 salaries, is reasonable. The Board notes that pipeline companies on their own accord are requesting all inclusive increases including general economic, merit, and promotion and progression increases ranging from 3.0 to 4.95 percent for 1987. In addition, the Board is also not persuaded that the costs of the proposed bonus program should be deferred to the Company's next tolls application. Accordingly, the Board approves the Company's base-salary increase of 2.9 percent and the additional 0.5 percent increase for promotion and progression. However, the Board will also include in the revenue requirement for 1987 an additional 1.0 percent to be administered by the Company to be drawn upon for the proposed bonus program.

7.2.2.4 Employee Benefits

With respect to employee benefits during the test year, TCPL provided for increases because of changes in statutory and plan costs, new participants and increases in salaries.

Decision

The Board accepts TCPL's estimate of its test-year cost of employee benefits as modified to reflect the decisions in Sections 7.2.2.1, 7.2.2.2 and 7.2.2.3. As a result, the applied-for test year allowance for salaries and employee benefits included in the revenue requirement has been reduced by \$2,331,000.

7.2.3 Deferrals and Amortizations

The Board's decision to disallow certain PIP-related costs incurred prior to 1 August 1986 (see Section 4.1.3.2) results in an adjustment of \$624,000 to deferrals and amortizations.

7.2.3.1 Deferred Income and Capital Tax Balances

During the test year ended 31 July 1986 TCPL applied for, and the Board approved, deferral accounts for recording increased federal and provincial income taxes and provincial capital taxes resulting from legislative changes which occurred after the date of the last toll decision. In support of its application to recover the taxes recorded in the deferral accounts, TCPL argued that income and capital taxes are components of cost of service that have traditionally been provided for by the Board in setting tolls. The Company noted that if these tax increases had been known at the date of the Board's last toll decision they would have been provided for.

Decision

It is the view of the Board that these amounts are legitimate utility-related expenses over which the Company had no control. Recognizing that the Board would have provided for these taxes had the increases been known at the time of the last toll decision, the Board approves the amounts recorded in these tax deferral accounts as shown in Table 7-4, which include carrying charges, for inclusion in the testyear revenue requirement.

Table 7-4

Deferred Tax Balances as at 1 January 1987
(\$000)

Ontario Income Tax	541
Saskatchewan Income Tax	58
Manitoba Income Tax	36
Federal Income Tax (re Inventory Allowance)	76
Saskatchewan Capital Tax	102
Manitoba Capital Tax	37
<u>Total</u>	<u>850</u>

7.2.4 Other Transmission, Departmental and General Expenses

The Board's adjustments to other transmission, departmental and general expenses are summarized in Table 7-5.

Table 7-5

**NEB Adjustments to
Other Transmission, Departmental and General Expenses
for the Test Year
(\$000)**

Other Transmission, Departmental and General Expenses per TCPL	74,970
NEB Adjustments:	
General Adjustment	(2,917)
Insurance Deductibles	210
PIP-related ¹	14,150
Research and Development re PIP ²	(22)
<u>Other Transmission, Departmental and General Expenses per NEB</u>	<u>86,391</u>

1 Cost of activities associated with the PIP that TCPL applied to include in the test-year rate base, but which the Board considers to be maintenance expense (see Section 4.1.3.1).

2 Research and development costs associated with the PIP in the test year which the Board has treated as a capital cost (see Section 4.1.3.1).

7.2.4.1 General Adjustment

Most intervenors were concerned, as IPAC pointed out in its argument, that TCPL's cost increases far exceeded the rate of inflation in nearly all categories. CPA described them as "runaway costs" and suggested that the new market-oriented pricing environment demanded that costs incurred in getting gas to market be kept to an absolute minimum. CPA stressed that it is gravely concerned with TransCanada's assertion that a sizeable increase in total cost of service could constitute "keeping costs to a minimum".

APMC contrasted TCPL's cost increases with the drastically reduced oil and gas revenues experienced by producers which required considerable paring of costs on their part and referred to the Government of Alberta and its external agencies which had been requested to cut budgets by as much as 20 percent. APMC submitted that, in such economic circumstances, it is incumbent upon TransCanada, as an integral part of the gas industry network in Canada, to curb costs in every way possible.

Ontario was also concerned about the attitude on the part of TCPL's management in exercising effective cost control and cited the following quote from the TCPL policy witness as an example of a lack of real effort in this area:

"The way the process operates, as I am sure you well know, is that applications are made by the regulated entity to the regulator. The company sets forth what they think is appropriate. The Board examines what is presented. Intervenors, such as yourself, come forward and examine the proposal in great detail. And, when it is all over, the Board will make the decision of what is appropriate.

It is through that process that the tollpayer is to be protected. He does not look for his protection in the boardrooms of the organizations."

In the course of the examination of departmental and general expenses, TransCanada's witnesses had some difficulty in answering questions concerning their direct testimony. This was partly attributed by the Company to the fact that its traditional forecasting process was not geared toward the fiscal-year test period. The transition from the previous August to July test year to the present test year which coincides with the Company's fiscal year, at the suggestion of the Board, increased the rate group's workload. It appeared, from testimony of the Company's rates witness, that the rates group responsible for gathering data for the test year had some difficulty in working closely with the forecasting function which normally operated on a calendar-year basis. As a result, TransCanada's witnesses could not provide clear answers for cost increases in many instances. In attempting to by-pass some of the confusion, intervenors tried to generate amounts

for 1986 by annualizing the August to December 1986 stub period. They then requested explanations for the 1986 increases over the 1985 base period and questioned the 1987 increases on this basis. This also proved to be unsatisfactory.

Decision

The Board shares the concerns expressed by the majority of intervenors that the Company had not demonstrated a clear effort to exercise effective cost control. In particular, the Board is concerned with the absence of a clear policy-level corporate objective of keeping costs to a minimum. This deficiency is reflected at the lower corporate levels by the lack of written procedures and clearly spelled out objectives for the purpose of budgetary planning and control.

As with the majority of intervenors who attempted to examine TCPL's cost increases, the Board is not satisfied with the answers provided. In these circumstances, the Board has decided to limit the increases from 1986 to 1987 in other transmission, departmental and general expenses to the anticipated rate of inflation between 1986 and 1987, i.e. 4.4%. This results in a total reduction of \$2,917,000 to other transmission, departmental and general expenses. It should be noted that in 80 doing, the Board has not adjusted the inflation factor downwards by imputing any productivity gain which may otherwise be reasonably expected.

In placing this overall inflation limit on the Company, the Board has also decided not to make adjustments to some of the expense items which, under normal circumstances, would reduce the revenue requirement further. These expense items include, for example, the requested increase in rent for acquiring additional floor space which the Board is not convinced that TransCanada needs (see Section 7.2.4.6) and the requested increase in aircraft operating expenses charged to the utility operation. For the purpose of rate base and depreciation calculation however, the Board has reduced the allocation factor for corporate aircraft from 45% to 25% (see Section 4.1.2).

On the subject of the test year for regulatory purposes, the Board reaffirms its decision contained in its letter of 9 May 1986 to TCPL and all interested parties that the test year should conform to the Company's fiscal year which, in this case, is the calendar year. The Board considers that the lack of co-ordination between work of the Company's rates group and its financial forecasting group which came to light in this hearing, reinforces the Board's earlier view that "a 1 January test year would avoid duplication in the Company's internal corporate forecasting and reporting activities which are normally done on a fiscal year basis. This should result in improved efficiencies in the long run and potential savings to tollpayers".

Regarding the extra workload caused by the change in test period, the Board notes the Company's witness' statement that the work will be computerized and that, if the test year remains on a

calendar-year basis, the workload next year will be reduced.

While the Board takes some comfort in the anticipated improvement in both the quality and flow of costing information in the future, it remains concerned about the lack of clear objectives and formal budgeting and control procedures within the Company.

Therefore, the Board directs TransCanada to formulate a set of planning objectives and to develop a comprehensive manual for budgeting and control and to file them with the Board within 90 days of receiving this decision.

7.2.4.2 Insurance Deductibles

TransCanada requested authorization to defer all non-capital payments made as a result of deductible provisions in insurance policies together with carrying charges at the authorized rate of return. Traditionally, deductible payments were absorbed by the shareholders. In light of recent dramatic increases in insurance premiums, TransCanada sought ways to minimize its insurance costs. The Company submitted that since it had experienced a good loss record, a greater benefit/cost ratio would result in terms of lower premium increases by assuming higher deductible levels.

IPAC compared this situation to the treatment of the allowance for lost and unaccounted-for gas where a three-year average is used to determine the amount to be included in the revenue requirement. TransCanada agreed that such a mechanism would accomplish the required recovery by smoothing the deductible over three years.

Decision

The Board agrees with the treatment proposed by IPAC. In the Board's view, the use of a three-year average will result in an amount for insurance deductibles which reflects recent experience. Accordingly, the Board denies TransCanada's request for a deferral account and approves the amount of \$210,000 for insurance deductibles to be included in other transmission, departmental and general expenses (see Table 7-6).

Table 7-6

Calculation of Non-capital Deductible
Payments for the Test Year

(\$000)

1983	135
1984	86
1985	<u>410</u>
	631
<u>3-year Average</u>	<u>210</u>

7.2.4.3 Donations

Ontario argued that it was apparent that the Company does not employ objective criteria in its determination of either the appropriate overall level of corporate donations or the appropriate rate of increases from one year to the next. Ontario pointed out that donations are not tied to net revenues or revenues before taxes but appear to be discretionary.

Ontario requested the Board to direct TransCanada to provide evidence, for the next tolls application, of a donations budget based upon more explicit criteria in relation to the overall level of support and the rate of increases from year to year, with a clear delineation between the donations that logically and properly relate to the activities of WGML and TransCanada's other non-utility activities as opposed to those that are appropriately the responsibility of the regulated utility.

Decision

In the Board's view TransCanada does not have adequate procedures in place to administer donations. Therefore, the Board directs TransCanada to have a donations budget in place, by the next tolls application, which is based on more explicit criteria. For example, the budget amount could be based on a percentage of toll revenues. The criteria should also provide clear explanations of the allocations of donations between the regulated and non-regulated areas of the Company's operations.

7.2.4.4 Inter-divisional and Inter-corporate Transactions

TransCanada stated that it has established the Corporate and Finance departments to provide common services to its various business units. Such units include the utility, WGML, and oil and gas. These are basic services which are required by all business units and there would be a greater overall cost to each business unit if these services were provided independently by each business unit. According to TransCanada, the accumulation of these services into common Corporate and

Finance departments enables it to have a higher level of expertise in these services available to each business unit.

TransCanada was cross-examined on whether it is appropriate for a charge to be made to the nonutility function because its corporate management is available for consideration of non-utility activities, as and when required. TransCanada argued that such a proposition is inappropriate as the pipeline management group is a small group that spends most of its time on regulated affairs. According to TransCanada, the group does not have time to work on non-regulated matters and, further, the skills of the group are generally not required in other business units of the Company. TransCanada submitted that the "retainer fee" concept is not applicable to TransCanada's facts.

TransCanada stated that it does not have a formal policy for inter-corporate transactions and that all transfers, whatever the nature, are determined at cost.

Decision

The Board believes that TransCanada should closely examine its treatment of inter-corporate and inter divisional transactions. Further, the Board directs TransCanada to provide evidence in the next toll hearing of a formal policy in respect of these non-arms length transactions including the basis for their valuation and a proposal for reporting them to the Board as part of its quarterly surveillance report.

7.2.4.5 WGML - related Costs

Intervenors were concerned about an effective separation of the cost of transportation services from the cost of market-related activities. The marketrelated activities of TransCanada are carried out by WGML, a separate corporate entity.

Ontario suggested that many expenses in the general expense category relate substantially, if not solely, to the marketing of natural gas and had been left in the utility cost of service rather than allocated more appropriately to the non-utility area, namely WGML.

Ontario submitted that the Board ought to disallow \$1.5 million from Accounts 470-Dues and Subscriptions, 433-Advertising and 434-Research which Ontario believed are related to the promotion of natural gas sales or the development of new natural gas markets. TransCanada indicated that if the Board were to decide that it was not appropriate for TransCanada to participate in such programs, then TransCanada would be prepared to accept that decision. However, TransCanada requested that there should be some notice given so that it could recover the costs that were already committed. Ontario submitted that deregulation is no surprise and that it has been clear

since the issuance of the Report of the Pipeline Review Panel that this Board would regard the effective separation of the cost of transportation from the cost of marketing activities as an important issue to be dealt with in the transition to market-oriented pricing. Ontario further submitted that TransCanada's shareholders ought to be obliged to bear the cost resulting from the fact that TransCanada has failed to deal with this issue satisfactorily.

TransCanada submitted that to identify the costs of joint advertising programs undertaken by industry-related associations as WGML costs is clearly wrong. TransCanada suggested that advertising, which is directed at benefitting the industry as a whole, must clearly be funded and supported by the industry as a whole and that this support, provided through the cost of service, provides a closer match of benefit and cost than does the expectation that WGML should undertake this expense. Further, TransCanada submitted that it could not have agreed to pay those costs out of the 1.5% fee.

With respect to the timing of advertising (i.e. in the fall), TransCanada submitted that advertising stimulates the use of natural gas, which in turn raises the capacity utilization of the system. Further, it is clearly appropriate for a pipeline to take action which improves the utilization of the pipeline to the benefit of the tollpayers.

Decision

The Board is concerned that TransCanada has not gone far enough to achieve an effective separation of costs more properly associated with the promotion of natural gas sales and the development of new natural gas markets from the costs of transportation activities.

Generally, the Board believes that costs associated with the promotion of natural gas sales or the development of natural gas markets would more appropriately be borne by WGML. Therefore, the Board directs TransCanada to demonstrate, at the next toll hearing, why such costs should not be excluded from the transportation revenue requirement.

7.2.4.6 Rents

Decision

With respect to the increase in rent as a result of acquiring an additional 12,000 square feet of office space, the Board is not convinced that TransCanada needs the additional space to meet the general standards for offices in the Toronto area. The Board believes that this is another area where formal standards are necessary (see Section 7.2.4.1). Accordingly, the Board directs TransCanada to provide, at the next toll hearing, evidence that a formal policy with respect to

employee space standards and requirements is in place.

7.3 Taxes Other Than Income Taxes

On 16 March 1987, the Government of Manitoba tabled a budget increasing the rate of Manitoba capital tax effective 1 January 1987 from 0.3% to 0.5%. By letter dated 25 March 1987, TransCanada informed the Board that this change would increase its Manitoba capital tax costs by \$521,000.

Decision

It has been the Board's practice to provide for any tax rate changes known to the Board at the time tolls are set. Accordingly, the Board has increased the test-year provision for taxes other than income taxes by \$521,000.

7.4 Foreign Exchange Gains or Losses

Foreign exchange losses of \$25,181,000 in the test year have been reduced by \$9,531,000 to \$15,650,000 as explained in the following sections and summarized in Table 7-7. The Board's decision with respect to treating foreign exchange gains or losses as a separate item in the revenue requirement is explained in Section 6.1.

Table 7-7

NEB Adjustments to Foreign Exchange Losses
for the Test Year
(\$000)

	NEB Application ¹	Authorized Adjustments	by NEB
First Mortgage Pipe			
Line Bonds	7,241	-	7,241
Subordinated Debentures	3,462	-	3,462
Amortization of			
Eurodollar Note			
Exchange Losses	14,478	(12,946)	1,532
Carrying Charges:			
Losses	-	3,074	3,074
Redemption Premiums	-	341	341
Test-year Foreign Exchange Losses	25,181	(9,531)	15,650

1 On 17 February 1987, TCPL filed Exhibit B-285 updating its application to reflect various changes based on matters raised during the hearing.

7.4.1 Amortization of Losses on the Eurodollar Loans

The Board, by Order No. AO-5-TG-2-85, authorized the deferral and amortization of the foreign exchange costs and related premiums on the redemptions of the 17 3/4% and 16% Eurodollar notes. The amortization of these costs was to commence 1 January 1987 and the amortization period was to be over two-year and three-year periods corresponding to the original maturities of the notes.

TransCanada indicated that its decision to call for the early redemption of its Eurodollar loans was based on the benefit this would provide to the tollpayer. TransCanada's proposed amortization would result in no benefit to the tollpayers in the first year of amortization. In the interest of distributing the total benefit of the early redemption more evenly over the three years, the Board requested that TCPL provide an alternative method of amortization to achieve this result.

IPAC argued that the appropriate way to handle the tolling aspect of this matter, particularly in view of the significant possible effect on the cost of service, is to amortize the Eurodollar exchange bases over the term of the replacement obligations, namely ten years. In addition, IPAC recommended that no return be allowed on the exchange loss.

Decision

The Board believes that an amortization treatment for toll purposes should, in the special circumstances of this refinancing, benefit tollpayers evenly over a three-year period. Accordingly, the Board approves TCPL's alternative amortization method which results in a reduction of \$12,946,000 in the amortization of the exchange 1088 on the Eurodollar loans in the test year.

The approved method of amortization results in a reduction to the proposed amortization of the redemption premium which in turn causes a decrease in the cost of funded debt (see Section 6.1).

7.4.2 Carrying Charges

Decision

The Board has approved a rate of 9.5%, the unfunded debt rate, for carrying charges on the average unamortized balance of the Eurodollar note losses and redemption premiums. Accordingly, the Board has included in the test year carrying charges in the amount of \$3,074,000 on the

losses and \$341,000 on the redemption premiums.

The Board's decision with respect to carrying charges is provided in Section 13.1.

7.5 Other Operating Income

TCPL has an inventory of electronic internal inspection tools in the utility rate base. These tools were developed by the utility and are used on the TransCanada pipeline system. Evidence showed that TCPL's non-regulated subsidiary, International Pipeline Engineering Limited (IPEL) has access to this inventory and uses these tools, free of charge, for its work on other pipelines.

TCPL testified that although IPEL does not rent this equipment from the utility, it is required to restore the equipment to its original condition before returning. TCPL also testified that its utility operations have priority in the use of the equipment.

Ontario argued that the Board ought to require an appropriate credit to the utility cost of service reflecting the benefit of the technological support which is provided by the utility to the non-utility operations at no cost.

Decision

The Board considers the electronic internal inspection tools to be utility assets. The Board believes that it is appropriate to include in other operating income an amount to recognize the benefit these assets provide to the Company's non-utility operations. Therefore, the Board has decided to reduce the stub-period revenue requirement and the test-year revenue requirement by \$100,000 and \$200,000, respectively. These amounts are based upon the Board's estimates of the development and owning costs of this equipment and their usage by TCPL's non-utility operations. The Board also requests that TCPL develop, for examination at the next tolls proceeding, an appropriate methodology to reflect in the utility revenue requirement this type of benefit which is provided to TCPL's non-utility operations, specifically IPEL.

The Board has also adjusted other operating income for the test year by \$19,000 to reflect the revenue from the sale of delivery pressure arising from the newly-approved Manitoba tolls, which are used in the calculation of that revenue.

7.6 Miscellaneous Revenue

TransCanada credited its transportation revenue requirement with miscellaneous revenue in the amount of \$14,334,000. This amount included revenue from the sale of PS and TWS. The Board has

reduced miscellaneous revenue by \$283,000 to reflect the approved tolls for Peaking Service (PS) and Temporary Winter Service (TWS).

7.7 Purchase Price of Company-use Gas

TransCanada forecasted a system average purchase price of \$2.20 per GJ for its system gas in the test year. The purchase price of gas used on the TCPL system mainly affects the valuation of the following cost of service items:

	(\$millions)
Compressor Fuel	103.0
Unaccounted-for Gas	(13.8)
Heating Fuel	0.6
Operating Uses	0.7
Sales Tax on Compressor Fuel	
in Saskatchewan and Quebec	1.6
Return on Linepack	4.4
Total	96.5

The federal government announced in the 31 October 1985 Agreement that effective 1 November 1986, the prescribing of a price for natural gas at the Alberta border was no longer in effect pursuant to the Energy Administration Act, and the pricing of natural gas was left to contract negotiation. The pricing of natural gas was effectively deregulated from this date forward.

In anticipation of this date for price deregulation, TransCanada reached agreements in September 1986 with its producers and its distributors to value its company-use gas at the average netback price. This price takes into account the market price of natural gas and the cost of transporting it to market. Thus, the price of company-use gas reflects the effect of the Market Discount Funds and the Customer Specific Discount Funds negotiated by WGML with the distributors. It also took into consideration the end of the federal government's subsidy of toll increases which also expired on 1 November 1986.

TransCanada testified that it is precluded from searching for new lower priced gas purchases due to its current obligations pursuant to the various covenants of its TOPGAS agreements.

During the hearing, TCPL admitted to receiving an offer of \$1.50 per GJ from Northridge Petroleum Marketing, Inc. (Northridge) to supply onehalf of TCPL's own fuel requirements. TransCanada said it would seriously consider such offers in terms of price, security of supply, daily deliverability guarantees and any necessary back-stop arrangements. If such offers are deemed to be satisfactory to TCPL, then the consent of parties to the TOPGAS agreements would be sought.

Intervenors asserted that despite its TOPGAS covenants, TCPL has nevertheless negotiated new agreements with its producers for its company-use gas.

Any change to fuel prices during the term of the agreements which are reflected in tolls will have no impact on producer revenue because of the netback pricing mechanism in effect and will have no impact on the distributors' gas purchase prices because of the market-oriented pricing conditions in the distributor agreements.

Some intervenors also argued that the supply agreement that TCPL negotiated with its producers, a price which varies and is driven by sales contracts, does not produce a price that TCPL should be allowed to recover in its tolls. The Industrial Gas Users Association (IGUA) in particular believe that the price should be a fixed-price arrangement with producers at market-sensitive prices which are currently available to largevolume consumers. TransCanada should be obligated to obtain a price for its own gas uses as if it were negotiated in an arm's length transaction with its producers, rather than through its whollyowned marketing agent WGML, where the higher the price TCPL pays for its own gas, the better off financially WGML will be.

IGUA and Polysar Limited (Polysar) asserted that a 70 to 80 cents per GJ disallowance would cause TCPL to act properly, i.e. respond as if a marketsensitive pricing system were in effect rather than the currently negotiated pricing agreements signed with its distributors. IGUA believes the complete separation of WGML's activities from those of TCPL will enable TCPL to react properly to market signals, if a reasonable marketsensitive arrangement is put in place.

ICG Utilities (Ontario) Ltd. (ICG (Ontario)) also argued that TCPL opposes tendering for its gas requirements due to producer agreements and TOPGAS undertakings. ICG (Ontario) also view the use of an average netback price for company-use fuel as inconsistent with least-cost transportation. ICG (Ontario) and Ontario advocated a tendering process whereby system producers would be able to compete for the sale of approximately 60 Bcf of TCPL's compressor fuel requirements, where they predict a significantly lower price than \$2.20 per GJ could be obtained for such a significant

load.

ICG (Ontario) also agreed with the recommendation of the Pipeline Review Panel that,

"Where a shipper does not elect to supply its own fuel gas or where for any reasons this may be impractical, it would be appropriate for pipeline companies to call for tenders on the supply of fuel gas and thereby to acquire this gas at minimum costs."

ICG (Ontario) and Ontario recommended the Board adopt an identical approach to that required for Westcoast Transmission Company Limited (Westcoast) that (it),

"... has an obligation to its shippers to obtain it at a minimum cost. Costs might be reduced if Westcoast were to call for tenders on the supply of fuel. In future, Westcoast will be required to call for such tenders and provide cost of gas used in operation estimates on this basis."

Other intervenors contended that the negotiated gas pricing agreement would,

"... ensure the maximum retention of TransCanada's existing Canadian sales while providing the best possible producer netback,"

and that the Board should view this situation as a further impediment for a direct sale shipper to be able to compete with TransCanada in the marketplace. ICG (Ontario) asserted that the premium price negotiated by WGML in its pricing agreement serves to benefit only TransCanada and its system producers.

Other intervenors supported the current two-part toll, using TransCanada's own forecast of an average netback price of \$2.20 per GJ for toll-making purposes, as it was simpler than the one proposed by TCPL. Union Gas Limited (Union), in particular, suggested a deferral account be utilized to record any variations in TCPL's test-year forecast price of fuel from actual gas costs, with the accumulated balance to be disposed of in a subsequent tolls case.

When questioned as to its preference of disposing of the balances in its purchased price of gas deferral accounts should the Board deny its three-part toll in favour of a two-part toll which incorporates a forecast purchase price of gas, TransCanada maintained that the cost of gas-related costs, compressor fuel and the Great Lakes fuel cost adjustment deferral accounts would have to be reinstated (as they were suspended by Board Order No. TGI11-86 effective 1 August 1986).

Decision

The Board has decided to continue to fix a two-part toll (see Section 9.2) and to use a forecast of the average netback price of gas for toll purposes. The Board agrees with the position of TransCanada, as supported by Consumers' and CPA, that the average price of company-use gas for toll purposes should be \$2.20 per GJ. This is supported by the pricing agreement that TCPL has negotiated with its customers and which was agreed to by its producers. To use a different price would be speculative and not supported by the evidence.

The Board is also of the view that in a deregulated, market-sensitive environment, gas pricing is a matter of contract. The Board has decided to allow shippers the option of providing their own fuel (see Section 10.1.5.1). In these circumstances the Board expects that a competitive contracting environment will be created.

The Board further believes that if a tendering mechanism is adopted by TCPL in contracting for its own fuel requirements, then the objective of the lowest possible company-use gas cost for toll purposes would be achieved. The Board expects that TransCanada will adopt a tendering process for its company-use gas requirements in Canada and that fuel prices will reflect this process after 1 January 1988.

Chapter 8

Interim Revenue Adjustment

This chapter deals with the approved interim revenue adjustment for the test year which is comprised of a revenue deficiency for the stub period 1 August to 31 December 1986 and a revenue surplus for the test year, and carrying charges thereon. The approved interim revenue adjustment of \$9,362,000 is shown in Chapter 3, Table 3-1.

The stub-period revenue deficiency arises from interim tolls being charged in the stub period. The test-year revenue surplus arises from interim tolls being charged in the first-half of the test year.

Details of the determinations of the stub-period revenue deficiency, the test-year revenue surplus and carrying charges are provided in the following sections.

8.1 Stub-period Revenue Deficiency

Details of the Board's adjustment to the stub-period revenue deficiency are provided in this Section. Details of the capital-related adjustments to rate base, depreciation and cost of capital are included in Sections 8.1.1, 8.1.2 and 8.1.3, respectively. Explanations of adjustments to operating costs included in the stub-period revenue deficiency are provided in Section 8.1.4. The revenue requirement and the revenue deficiency for the stub period as at 30 June 1987 are shown in Table 8-1.

Table 8-1

Revenue Requirement and
Determination of Revenue Deficiency
for the Stub Period as at 30 June 1987
(\$000)

	NEB Application ¹	Authorized Adjustments	by NEB
Transmission by Others	132,967	(11,423)	121,544
Operation and Maintenance	152,657	7,120	159,777
Depreciation	38,925	(161)	38,764
Taxes Other Than Income Taxes	15,087	-	15,087
Income Taxes	67,618	(14,272)	53,346
Foreign Exchange Losses Net of Gains	1,005	-	1,005
Deduct: Other Operating Income	<u>(2,622)</u>	<u>(100)</u>	<u>(2,722)</u>
Total Cost of Transportation (Excluding Return)	405,637	(18,836)	386,801
Return on Rate Base	<u>153,118</u>	<u>(7,022)</u>	<u>146,096</u>
Total Cost of Transportation	558,755	(25,858)	532,897
Deduct: Miscellaneous Revenue	<u>(2,575)</u>	-	<u>(2,575)</u>
Revenue Requirement	556,180	(25,858)	530,322
Deduct: Total Revenue per Interim Tolls	<u>(514,276)</u>	-	<u>(514,276)</u>
Revenue Deficiency Before Carrying Charges	41,904	(25,858)	16,046
Carrying Charges 1 Aug. to 31 Dec. 1986 @ 8.75%	1,548	(1,253)	295

Carrying Charges 1 Jan. to 30 June 1987 @ 9.5%	-	792	792
<hr/>			
Total Revenue Deficiency as at 30 June 1987	43,452	(26,319)	17,133²

1 In February 1987, TCPL filed Exhibit B-285 updating its application to reflect various changes based on matters raised during the hearing.

2 See Table 8-10.

8.1.1 Rate Base

The Board's adjustments to the stub-period rate base are shown in Table 8-2.

Decision

As a result of the Board's decisions with respect to the PIP and corporate aircraft as set out in Sections 4.1.3 and 4.1.2 respectively, a reduction is required to the stub-period rate base. Table 8-3 provides a breakdown of the NEB adjustments to net plant.

The Board has reduced weighted average gross plant by \$5,583,000 with respect to PIP activities to reflect a reclassification of costs between capital and expense categories (see Section 4.1.3.1). The gross cost of these additions amounted to \$11,166,000. Of this total the Board has determined that an amount of \$8,374,000 was incurred in the stub period and accordingly has increased the stub-period operation and maintenance expense by this amount (see Section 8.1.4.2.4). The remainder of \$2,792,000 which was incurred prior to 1 August 1986 has been disallowed, as discussed more fully in Section 4.1.3.2.

The Board has decided to capitalize a portion of the \$19,066,000 cost of transmission by others, compressor fuel and research and development associated with PIP activities in the stub period. As a result, the Board has increased weighted gross plant by \$5,110,000. The gross cost of these 1986 additions to plant is \$10,220,000. This amount is comprised of \$8,808,000 that has been deducted from transmission by others less an amount of \$1,038,000 that has been added to operation and maintenance expense (see Section 8.1.4.2.4), and \$2,450,000 which was incurred prior to 1 August 1986 (see Table 4-4).

As a result of the Board's decision regarding certain PIP-related costs incurred prior to 1 August 1986, the Board has reduced deferred costs in the stub-period rate base by \$1,956,000 and has reduced the stub-period revenue requirement by \$2,615,000 as discussed in Section 4.1.3.2.

As discussed in Section 4.12, the Board has decided to reduce the percentage of corporate aircraft costs which are allocated to the utility. Accordingly, the Board has reduced TCPL's weighted average gross plant by \$6,226,000 in the stub period with respect to corporate aircraft.

8.1.2 Depreciation

Decision

As a result of the Board's decisions with respect to the stub-period rate base (see Section

8.1.1), depreciation has been adjusted by (\$161,000).

8.1.3 Cost of Capital

TCPL applied for a rate of return on rate base of 14.66% for the stub period. This rate of return is based on a deemed capitalization equal to the average utility rate base inside and outside Alberta plus GPUC for the stub period.

The applied-for deemed average capitalization and overall rate of return are shown in Table 8-4.

8.1.3.1 Funded Debt

The funded debt component of the deemed capitalization represents the average principal of debt capital specifically identified with the utility that was outstanding during the stub period.

TransCanada initially applied for a cost rate on this debt of 15.66%. The Company amended this rate to 15.57%, reflecting actual amounts for the period and its position taken at the beginning of the hearing to remove foreign exchange costs from the cost of funded debt and recover them as a separate item in the cost of service. No intervenor objected to this rate.

Decision

Consistent with its decision to approve the recovery of foreign exchange losses separately in the revenue requirement (see Section 6.1), the Board accepts the applied-for cost rate of 15.57%.

8.1.3.2 Unfunded Debt

The applied-for deemed capitalization included prefunded debt in the amount of \$100,923,000. A prefunded debt balance normally arises because the Company raises a portion of its funded debt in advance of its actual cash requirements. However, a Company witness indicated during cross-examination that a prefunded debt situation arose in the stub period because of the Company's request for an increase in its deemed common equity ratio from 30% to 35%. For this reason TCPL suggested that the prefunded debt component be costed at a forecast long-term corporate rate of 10.5%. The expert witness for Ontario indicated that the actual cost of the utility's short-term debt in the stub period was unlikely to exceed 8.5%, basing this conclusion on his view that there was no current upward pressure on short-term interest rates and that there was the possibility of further declines. He recommended the use of a short-term rate of 8.75% after suggesting that it was appropriate to add 25 basis points in recognition of the risk relating to

the possible fluctuation of interest rates. Ontario's witness noted that the commercial paper rate at mid-December 1986 was 8.35%, and that TCPL was able to borrow short-term in 1985 at a discount of 25 basis points below general corporate rates.

These estimates were not challenged by TCPL during cross-examination. In fact, a Company witness stated that the cost rate applicable to 30-day commercial paper was approximately 8.15% when he testified in early October 1986. The witness further expressed the view that there would be very little change between then and the year end, possibly 20 basis points either way.

The expert witness representing CPA did not put forward a specific rate at which he thought the Company could issue commercial paper. However, he did suggest that the rate would be at prime or less.

Decision

As a result of the Board's decision in Section 8.1.3.4, the capital structure for the stub period includes an unfunded debt component. This component, on an after-the-fact basis, would have been financed with shortterm funds. The Board finds it reasonable to cost this unfunded debt balance using a short-term rate of 8.75%.

8.1.3.3 Preferred Share Capital

Preferred share capital represents the average stated capital of preferred share issues associated with utility investments outstanding during the stub period.

In its final update TCPL applied for a cost rate of 10%. This cost rate was calculated in a manner consistent with its previous toll application. No intervenor objected to this rate.

Decision

The Board accepts the applied-for cost rate of 10 %.

8.1.3.4 Common Equity Ratio

Decision

The Board has decided that a deemed common equity ratio of 30% remains appropriate for TCPL's utility operations (see Section 6.4 for a more detailed discussion).

8.1.3.5 Rate of Return on Common Equity

TCPL applied for a rate of return on common equity of 14.5% for the stub period, the same rate applied for in the test year. In support of this applied-for rate the Company's expert witnesses stated that their testimonies, which were geared toward testyear recommendations, should also be adopted for the stub period. In taking this position one of the Company's witnesses stated that the economic conditions he expected to prevail were approximately the same for the stub period and test year.

There was some discussion during crossexamination related to the granting of a different rate of return on common equity for the stub period. In this regard it was noted during the hearing that TCPL operated on interim tolls for the stub period, with a deferral account for any revenue deficiency. One of the Company's expert witnesses indicated that the granting of such a deferral account would make it appropriate to approve a lower rate of return on equity for the stub period, but that the level of the return should not be below 14%. The Company's other expert witness offered no reduction. CPA's witness stated during crossexamination that his adjustment would be, at most, 15 basis points. During argument CPA indicated that its witness was recommending the lower end of his range of 12 5/8% to 12 7/8% for this five-month period in recognition of the likely elimination of the risk of recovering normal operating costs. When asked to comment in this vein, Ontario's witness stated that his rate of return on equity recommendation for the stub period would have been at the lower end of his originally recommended range of 13% to 13.25%, and possibly lower by 10 to 15 basis points.

Decision

The Board is of the view that, as a result of its decisions in this case, the risk of TransCanada being unable to recover its normal operating costs in the stub period has been reduced. Therefore, the Board finds it appropriate to approve a lower rate of return on equity for the stub period as compared to the test year. In conjunction with its decision in Section 6.5, the Board finds 13.1% to be a fair and reasonable rate of return on common equity for the stub period.

8.1.3.6 Rate of Return on Rate Base

Decision

Based on its findings in this case the Board has approved a rate of return on rate base of 14.02% for the stub period. The approved deemed capitalization and the derivation of the allowed rate of return are shown in Table 8-5.

8.1.3.7 Flow-through Tax Calculation

Decision

The Board has adjusted the flow-through income tax provision from \$67,618,000 to \$53,346,000, a reduction of \$14,272,000 (see Table 8-6).

8.1.4 Operating Costs

8.1.4.1 Transmission by Others

Decision

The Board's adjustment to transmission by others is a reduction of \$11,423,000. This reduction is a result of the Board's decisions on the PIP as set out in Sections 4.1.3 and 8.1.1.

8.1.4.2 Operation and Maintenance

Decision

Adjustments made by the Board to operation and maintenance expenses in the stub period are summarized in Table 8-7.

8.1.4.2.1 WGML Salaries

Intervenors cross-examined TransCanada's witnesses with respect to the transfer of 20 employees to WGML from the utility operation. Ontario argued that an adjustment should be made to the stub period for the salaries of the 20 employees transferred. TransCanada submitted that it needed some people to fulfill the new tasks which resulted from the segregation of the transmission and marketing functions. TransCanada stated that it staffed the transportation and rates department in 1986, increasing that department by 14 employees, prior to the transfer of the 20 employees. The result is a net reduction of six persons at an average of \$44,000 per year for five months which, in total, amounts to \$110,000 plus \$22,000 in benefits for a total reduction of \$132,000.

Decision

The Board has adjusted the stub-period revenue deficiency by (\$132,000), which is the net transfer to WGML of the salaries and benefits of six employees.

8.1.4.2.2 APMC Tax Recovery

As a result of a determination by APMC in October 1986, TransCanada was required to make a payment of \$1,048,000 to the producers by way of the Alberta cost of service. The Company has included this payment in its calculation of the revenue deficiency for the stub period.

This refund was required because APMC determined that an Alberta-only income tax rate must be used in calculating the Alberta cost of service. The adjustment was based on the period January 1984 to February 1986. A witness for the Company testified that TransCanada is appealing this decision.

Decision

It is the Board's view that this issue may not be finalized for some time. Accordingly, TransCanada is directed to record the amount of \$1,048,000 in a deferral account pending resolution of the matter. Carrying charges shall be calculated using the approved unfunded debt rate (see Sections 13.1 and 13.2).

8.1.4.2.3 Insurance

TransCanada stated that its practice is to accrue insurance expense on a monthly basis. The amount booked each month is based on an estimate of the annual cost. Ontario argued that it appears that the excess costs booked in the stub period occurred because of the delay in booking

the accrual adjustment and then spreading it over the balance of the year. Ontario argued that as a result of timing problems the stub-period cost is overstated. According to TransCanada the total amount of insurance expense for 1986 was \$3,776,000. An amount of \$2,418,000 was included in the stub period.

Decision

As TransCanada periodically reviews its estimate of insurance and revises the monthly accrual, the Board has decided to revise the insurance expense applicable to the stub period by allowing five-twelfths of the annual insurance expense to be included in the stub-period revenue requirement. Therefore, on this basis, the Board has adjusted the stub-period amount of insurance by (\$845,000).

8.1.4.2.4 Pipeline Integrity Program

Decision

The Board, as a result of its decisions on expensing or capitalizing costs associated with the PIP (see Sections 4.1.3.1 and 8.1.1), has adjusted operation and maintenance expenses for the stub period by \$9,412,000 as set out in Table 8-8.

8.1.4.2.5 Corporate Aircraft

Decision

As a result of the Board's decision to reduce the percentage of corporate aircraft costs which are allocated to the utility from 45% to 25%, as set out in Section 4.1.3, an adjustment of (\$267,000) has been made.

8.1.4.3 Other Operating Income

Decision

As a result of the Board's decision to allow a credit to the utility's revenue requirement to recognize the benefit certain utility assets provided to the non-utility operations (see Section 7.5), an adjustment of (\$100,000) has been made to other operating income in the stub period.

8.2 Test-year Revenue Surplus

The estimated test-year revenue surplus, including carrying charges, is \$7,991,000 for the period 1 January to 30 June 1987. This amount is the difference between the projected transportation revenue determined under existing tolls and the adjusted test-year revenue requirement as shown in Table 8-9. Refer to Section 13.4.5 for the Board's decision with respect to a deferral account for the test-year revenue surplus.

8.3 Carrying Charges

The approved unfunded debt rate is used in the calculation of carrying charges on the stub-period revenue deficiency, i.e. 8.75% to 31 December 1986 and 9.5% to 31 December 1987. The unfunded debt rate of 9.5% is also used to calculate carrying charges for the test-year revenue surplus (see Section 13.1). The amounts to be amortized in the test year are shown in Table 8-10.

8.4 Amortization of Interim Revenue Adjustment

Decision

The interim revenue adjustment included in the authorized test-year revenue requirement is set out in Table 8-11.

The Board directs TransCanada to amortize both the stub-period revenue deficiency and the estimated test-year revenue surplus in the period 1 July to 31 December 1987. As new tolls will be in effect for only six months of the test year, the amounts to be amortized have been doubled for the purpose of calculating tolls effective 1 July 1987.

For accounting purposes, the Board believes that the amortization of the interim revenue adjustment, in this case a revenue deficiency, should be credited to revenue rather than to expense. The latter treatment causes an understatement of expenses in the case of a revenue deficiency and an overstatement of expenses in the case of a revenue surplus.

Chapter 9

Toll Design

9.1 Test-year Throughput Forecast

TransCanada's final natural gas throughput forecast for the 1987 test year was 30 828 10⁶m³ of which 25 667 10⁶m³ was forecast for the domestic market, the remaining 5 161 10⁶m³ for the export market. This forecast reflects TransCanada's letter dated 19 March 1987 advising the Board that a planned service to GMI under a Short-Term Transportation (STT) contract for 567 10³m³ per day would not occur in the test year.

Decision

The Board recognizes the uncertainties that result from the ongoing process to deregulate the natural gas industry in both Canada and the United States, and from such other factors as the weather, the level of economic activity, and inter-fuel competition. The Board shares the view that such uncertainties make natural gas demand forecasting difficult.

The Board notes that TransCanada's 1987 test-year forecast was, for the most part, unchallenged.

Thus, the Board finds TransCanada's 1987 test-year forecast to be reasonable and accepts it for cost allocation and toll design purposes.

9.2 Three-part Toll Proposal

TCPL currently has a two-part toll consisting of a demand toll and a commodity toll. TCPL proposed that the commodity toll be split into two components; a commodity toll No.1 and a commodity toll No.2. The commodity toll No.1 would recover all variable costs not related to TCPL's purchase price of gas at the Alberta/Saskatchewan border while the commodity toll No.2 would recover all variable costs directly related to the purchase price of gas.

The revenue requirement items related to the purchase price of gas that would be included in the commodity toll No.2 are;

- (i) compressor fuel,
- (ii) unaccounted-for gas,

- (iii) heating fuel,
- (iv) operating uses,
- (v) sales tax on Saskatchewan and Quebec compressor fuel,
- (vi) Great Lakes fuel cost adjustment,
- (vii) sale of delivery pressure,
- (viii) miscellaneous revenue, and
- (ix) Steelman Gas exchange.

TCPL sought the Board's approval for the demand and commodity No.1 tolls as shown in the application and for the methodology used to determine the commodity No.2 tolls with authority to charge the commodity No.2 tolls.

The valuation of transmission linepack is a function of the purchase price of gas and affects return on rate base and income taxes. To the extent that the purchase price of gas changes, the valuation of linepack changes, and the demand tolls will change. TCPL proposed that any costs or credits associated with linepack, which are deferred as a result of the purchase price of gas changing monthly in the test year, be recovered or credited in the commodity No.2 toll in the subsequent month.

TCPL stated that this proposal is designed to reflect the most current gas purchase price in its tolls on a monthly basis and argued that this is important to avoid a substantial debit or credit in subsequent tolls caused by the deferral of price variances and also to reflect any seasonal fluctuations in the purchase price of gas in the shippers' tolls. Further, TCPL argued that its proposal is intended to ensure, to the maximum extent possible, that all services pay the appropriate tolls to recover the costs incurred in providing those services, so that cross-subsidization of costs by other services will be minimized.

Finally, TCPL argued that, although an average purchase price of \$2.20 per GJ for Canadian and export sales has been estimated by WGML, the actual average purchase price for each month could fluctuate significantly under the pricing agreements negotiated by WGML and the distributors.

Most intervenors were opposed to the three-part toll proposal. CPA, The Consumers' Gas Company Ltd. (Consumers') and Ontario argued that the proposal is unduly complex and cumbersome and that the

existing deferral account mechanisms already in place provide a simple approach to the problem of changes in the price of gas during the test year. Saskatchewan Power Corporation (SPC) argued that the proposal would result in needless uncertainties to users while IGUA argued that the proposal was premature because TCPL had not demonstrated that the gas price arrangement that drives the gas-related components of the tolls is a market-sensitive one, or that the mechanism that will produce changes in prices during the test year is appropriately responsive to market factors.

ICG (Ontario) argued that the use of a seasonally weighted average price would eliminate TCPL's concern of a huge deferral balance if the gas purchase price was fixed for the test year. In its view, fluctuations arising from the Market Discount Funds and the Customer Specific Discount Funds would not cause a significant variation from a price that reflects a seasonally weighted average price of all distributor agreements.

IPAC argued that the tolls should remain two part, with price and volume variations handled by a monthly adjustment account throughout the year. In IPAC's view, this would enable monthly adjustments shortly after the shipment of the gas, and ensure that variations flow directly to shippers and producers more quickly.

APMC was the only intervenor to support TCPL's proposal but it believed that volume as well as price differences should be included in the rolling average .

Decision

The Board agrees with those intervenors who criticized the proposal for being unduly complex and cumbersome. In the Board's view, tolls should not be allowed to fluctuate monthly as this causes needless uncertainty to the users of the system. Accordingly, the Board has denied TCPL's three-part toll proposal.

For toll purposes, the Board has decided to use TCPL's estimate of \$2.20 per GJ to price all gas-related costs and to allow appropriate deferral accounts (see Section 13.3). However, as discussed more fully in Section 10.1.5, the Board will allow shippers to provide their own fuel.

9.3 ACQ

9.3.1 Allocation of Trial Revenue Deficiency

Under the existing ACQ toll design methodology, the ACQ toll is determined by subtracting an ACQ differential from the average toll for Contract Demand (CD) service in the Eastern Zone calculated at 100% load factor. The ACQ differential represents the additional costs TCPL would incur if TCPL

replaced ACQ service by purchasing storage and/or building additional facilities to meet the ACQ delivery pattern.

At the stage in the toll design process where trial tolls are developed, a revenue deficiency occurs in the Eastern Zone because the ACQ revenues based on the ACQ differential are less than the costs allocated to ACQ.

TCPL eliminates this deficiency by prorating it, in the form of higher commodity tolls, over all sales and services in the Eastern Zone, including ACQ service.

As it did in the RH-2-85 Hearing, Union proposed that the trial revenue deficiency be prorated to all users across the system on a variable volume basis, not just those in the Eastern Zone, because ACQ service benefits all system users by substantially enhancing the system's operating flexibility and efficient use of facilities. Union argued that the fact that ACQ is purchased in the Eastern Zone is not relevant from a cost allocation point of view, since the benefits transcend the Eastern Zone.

Union also argued that if TCPL were to replace ACQ service by purchasing storage and/or building additional facilities, the costs associated with these alternatives would be treated as system costs and borne by all users of TCPL's system. Since the ACQ differential represents these costs, it is unfair that they should be borne only by the Eastern Zone users.

TCPL opposed Union's proposal to allocate the trial revenue deficiency system-wide. TCPL argued that costs which have been properly allocated to the Eastern Zone on the basis of the appropriate allocation units should be recovered from the Eastern Zone. By allocating the deficiency across all of the zones, Eastern Zone costs are allocated to the other zones.

TCPL also argued that the Eastern Zone has an inherent benefit in the way costs are allocated to it because fixed costs are allocated to ACQ service on the basis of 90% of the average daily winter volume. This recognizes an allowable 10% winter curtailment. Therefore, the Eastern Zone is the recipient of approximately \$7.5 million less cost than would otherwise be the case if ACQ costs were allocated on the same basis as CD. On this point, Union argued that ACQ is different from CD for purposes of cost allocation because only 90% of the volume is guaranteed in the winter season, even though 100% or more of the seasonal quantity may be delivered at TCPL's option.

Of the intervenors, ICG (Ontario) and SPC supported TCPL's position. They argued that the trial revenue deficiency was created in the Eastern Zone and to allocate a portion of it to other zones would result in other zones cross-subsidizing the Eastern Zone. ICG (Ontario) argued that, in any

event, if TCPL were to add facilities to convert ACQ to CD service, those costs would be allocated on a volume-distance basis and not on a volumetric basis.

Consumers' was of the view that Union's proposal was not fully developed in this proceeding and it would prefer to have the matter deferred to another hearing when an adequate record could be developed, unless the Board decides to adopt Union's proposal in this hearing.

Decision

The Board is of the view that ACQ service benefits all system users by enhancing the system's operating flexibility and efficient use of facilities. The Board also believes that if TCPL were to replace ACQ service by purchasing storage and/or building additional facilities to meet the ACQ delivery pattern, those costs would be treated as system costs and borne by all users. The Board believes those costs would be allocated on a volume-distance basis, and not on a volumetric basis.

Accordingly, the Board has decided that the trial revenue deficiency should be allocated across the system on a variable volumedistance basis.

9.3.2 ACQ Differential

In its calculation of the ACQ toll differential, TCPL used the methodology approved by the Board in its June 1983 TCPL Reasons for Decision.

During the hearing, Union proposed that when the Ontario Energy Board approves new storage and transportation rates during TCPL's test year those new rates should be reflected in the ACQ differential calculation. Union argued that this would better reflect the costs TCPL would incur if it had to contract for storage and transportation on Union's system to meet the ACQ delivery pattern.

TCPL did not believe that this change would be appropriate. TCPL argued that the costs in the ACQ differential represent what it would cost if TCPL had to contract for storage and transportation but these are not real costs that TCPL is incurring.

Decision

The Board has decided to maintain the existing methodology for the ACQ differential for the test year. However, the Board wishes to fully examine the ACQ toll differential methodology during TCPL's next toll hearing.

Taking into account the various adjustments made in this decision, including the decision to price fuel at \$2.20 per GJ, the Board finds that a differential of \$5.50 per 10³m³ is appropriate.

9.3.3 ACQ Make-up

In March 1984, the Board approved agreements between TCPL and Consumers' and TCPL and Union involving the deferral of ACQ volumes otherwise deliverable in the 1982-83 contract year. The agreements gave Consumers' and Union the opportunity to make up the deferred ACQ volumes during a recovery period extending from 1 August 1984 to 31 October 1987. The volumes of ACQ make-up service delivered to Consumers' and Union in the months of August, September and October 1985 were 20 525.6 10³m³ and 113 311.3 10³m³ respectively.

TCPL recorded the costs associated with the ACQ make-up gas in various deferral accounts, and the balances were brought forward for disposition in this hearing. The incremental cost over and above the amounts already collected for Consumers' and Union are \$315,000 and \$1,736,000, respectively. TCPL stated that these costs could be paid in one of three ways; by way of a lump-sum payment with the accrued carrying charges, by way of twelve equal installments with accrued carrying charges or by a surcharge on the ACQ toll.

TCPL did not propose a surcharge but stated that it was neutral as to the other two alternatives. Consumers' preferred a lump-sum payment and Union did not indicate its preference.

Decision

The Board accepts the amounts as applied for and believes that the method of payment by Consumers' and Union is a matter to be resolved by the parties and not an issue for the Board to rule on.

9.4 TWS and PS Tolls

In the past the Board has approved TWS and PS tolls that have consisted of a historic base toll, which differs from zone to zone, the Eastern Zone contract demand commodity toll and the Eastern Zone daily demand toll.

With respect to the TWS tolls, TCPL proposed that each zone's respective contract demand commodity toll be used instead of the Eastern Zone commodity toll to more properly reflect the actual variable cost of providing the service to each zone. TCPL also proposed that the daily demand toll be calculated at 88 percent of the Eastern Zone daily demand toll to reflect that TWS service may be interrupted on up to 20 winter days.

With respect to the PS tolls, TCPL proposed that each zone's respective contract demand commodity toll be used instead of the Eastern Zone commodity toll in order to be conceptually consistent with the proposed change in the TWS tolls and to more properly reflect the actual variable cost of providing the service to each zone.

TCPL believed that these changes would stimulate the use of these services because they result in tolls lower than they otherwise would be absent the changes.

Decision

The Board approves TCPL's proposed toll design changes for the TWS and PS tolls.

9.5 Interruptible Tolls

In its application, TCPL sought continuation of the existing methodology for interruptible toll design whereby the tolls would be based on incremental costs. However, in final argument, TCPL stated that two events, which occurred late in the proceeding, caused it to change its position. These events were:

(1) As of 1 November 1986, Simplot Chemical Company Ltd. (Simplot) split its daily load requirement of 20 MMcfd by taking 10 MMcfd as firm T-Service and 10 MMcfd as T-AOI; and

(2) On 1 December 1986, the Board admitted for the first time as an issue the question of whether or not interruptible displacement direct sales should be recognized in the implementation of the Operating Demand (OD) methodology.

With respect to the Simplot situation, TCPL concluded that given the current under-utilization of the Western Section of its system, users whose requirement is in reality for firm service are open to virtually assure themselves of firm service by electing interruptible service at a toll significantly lower than the firm service toll. TCPL argued that if the existing toll design produces this result, it cannot be categorized as just and reasonable.

TCPL also argued that while similar operational circumstances do not prevail at the eastern end of the system, there was some evidence of a similar inclination to take advantage of the prevailing differentials between the firm and interruptible tolls. TCPL referred to Canadian Gypsum Company Limited, (Gypsum) which commenced a direct sale in early May 1986 and elected to serve its requirement with summer Interruptible Transportation (IT) service, which has a toll lower than the firm service toll. On 1 November 1986, Gypsum converted to STT service. TCPL argued that Gypsum

perceived that the decrease of the quality of IT service in the winter together with the higher than firm service toll necessitated the shift.

TCPL argued that there was considerable evidence, led by IPAC, Northridge and ANR Pipeline Company, to support either the allocation or imputation of fixed costs to the interruptible tolls and now is the time to make such a change.

With respect to interruptible displacements, TCPL argued that if the existing cost allocation and toll design is maintained, allowance for interruptible displacements in the OD methodology would drive firm tolls up and shift costs to other users. To include fixed costs in the interruptible tolls would eliminate this problem.

Therefore, TCPL proposed that all interruptible tolls be set at a toll equivalent to the firm service average toll at 100% load factor (i.e. CD-100). For the test period, fixed costs would be imputed, not allocated. Fuel would be attributable to the interruptible toll at the average fuel rate. Also, this new interruptible toll regime would apply prospectively from the date of the decision.

TCPL stated that setting the toll at the firm 100% load factor level may not be enough to persuade a customer, such as Simplot, to convert to firm service. However, TCPL believed that for the balance of the test year it would be appropriate. TCPL undertook to lead expert testimony in its next tolls case in order to re-examine this issue.

IPAC and Northridge supported TCPL in this change in interruptible toll design. Both these parties, in fact, made similar proposals in their own evidence. IPAC argued that the present methodology may not result in cost-based tolls because the winter marginal fuel rate used is for the coldest and busiest month, January. It is not necessarily the actual fuel used by interruptible shippers.

IPAC also considered it appropriate to set two levels of IT service with differing priorities. IPAC proposed that the first tier, with the lower priority, would have a toll calculated equal to the CD-100 toll. The second tier, having a higher priority than the first, would have a toll calculated equal to the CD-90 toll. The tollpayer then pays according to the priority of service requirement, but does not get the priority afforded to firm service because a monthly demand charge is not paid.

Consumers', Ontario and Polysar also supported TCPL on the understanding that this issue would be fully examined at TCPL's next tolls case.

CPA, Union and ICG (Ontario) opposed this change. They argued that the incremental costs are

real costs and, unless paid by the interruptible shippers, the firm system users will be crosssubsidizing the interruptible users.

Decision

The Board believes that a toll design that allows a firm service customer to nominate for interruptible service and receive that service virtually interruption-free at a toll lower than the firm service toll is not just and reasonable. Also, the Board is of the view that interruptible tolls should be high enough to discourage customers from contracting for high quality interruptible service to meet their firm operating requirements while low enough to promote the use of interruptible service to meet legitimate interruptible operating requirements.

Accordingly, the Board has decided that, effective 1 November 1987, TCPL shall offer two tiers of interruptible service, to be called Tier One Interruptible Service (IS-1) and Tier Two Interruptible Service (IS-2), with the IS-1 toll equal to the CD-80 toll and the IS-2 toll equal to the CD-90 toll. As discussed in Section 10.2.2, the Board will eliminate AOI, T-AOI and IT services effective 1 November 1987. Between 1 July and 31 October 1987, AOI and T-AOI customers will pay the IS-1 toll because of its higher priority while IT customers will pay the IS2 toll. The demand component of the revenues received from the provision of interruptible services will be recorded in a deferral account (See Section 13.4.7).

Further, the Board directs that the applicable export interruptible tolls shall apply to all gas shipped into the export market on an interruptible basis.

9.6 Toll for Sulpetro Volumes

The Sulpetro transportation contract was entered into in 1979 to provide export transportation service at Niagara Falls. As a result of gas salesagreements between Sulpetro and each of Consumers' and Union, approximately two-thirds of Sulpetro's firm export service entitlement of $2125 \cdot 10^3 \text{m}^3$ per day on the TCPL system during the 1986/ 87 operating year will be dedicated to deliveries in the domestic market.

These gas sales agreements call for volumes of 991 and $422.6 \cdot 10^3 \text{m}^3$ per day to be delivered to Consumers' and Union respectively. The delivery points for both companies are in the Central Delivery Area of the Eastern Zone.

The Sulpetro export toll is designed on a point-topoint methodology as opposed to a zone toll. Therefore, the firm service toll is less in the Eastern Zone than the export point-to-point toll for transportation to Niagara Falls.

TCPL expressed the view that when export service is diverted to serve the domestic market, it should be in accordance with TCPL's domestic tariff in order to avoid discrimination.

TCPL also argued that the Board should establish an OD volume for Sulpetro's firm transportation service for Consumers' and Union. In addition to these OD volumes, Sulpetro would be entitled to 711.4 10³m³ per day of firm export transportation service at Niagara Falls (i.e. 2 125 minus 991 minus 422.6).

TCPL argued that if Consumers' and Union nominate volumes from Sulpetro which are in excess of their respective OD volume, then Sulpetro should pay TCPL's Eastern Zone T-AOI toll for such deliveries.

ICG (Ontario) argued that the effect of the switch from export transportation service to deliveries in the domestic market is a cost reallocation that results in other system users paying more than they otherwise would because of Sulpetro's inability to sell its gas in the export market.

ICG (Ontario) argued that it would be fair to give consideration to the imposition of a diversion charge which would equal the difference between the Sulpetro export tolls and the Eastern Zone tolls.

Consumers' argued that there really is no reason to apply the OD system to the Sulpetro contracts, other than to protect system gas. The application of the OD system to Sulpetro's transportation contract for a one-year term merely complicates matters, and indeed, it would result in additional costs being allocated to other users of the TCPL system.

Consumers' argued that no one is complaining about the fact that Sulpetro, Consumers' and Union are paying export tolls for a domestic transportation service. To the contrary, the converse is true; parties are complaining about the cost reallocation that would result if the OD system is applied to the Sulpetro contracts.

Sulpetro also objected to TCPL's proposal to establish an OD volume for its volumes. Sulpetro argued that its sales to Union and Consumers' are in no way self-displacement.

Sulpetro also argued that its right to make deliveries of gas to Union and Consumers' under its transportation contract existed prior to the Board's decision to implement the OD methodology. It is not now open to TCPL to reduce its contractual obligation to deliver a fixed volume of gas as nominated by Sulpetro under its contract, whether the gas is destined for the Niagara Falls export point, or the several domestic delivery points provided for in the contract.

Decision

In the Board's view, the short-term contractual arrangements made by Sulpetro with Consumers' and Union primarily benefit those parties and therefore should not result in a reallocation of costs to other system users. Accordingly, the Board has decided that tolls should be calculated based on Sulpetro's full CD volumes of $2\ 125\ 10^3\text{m}^3$ per day being delivered to the Niagara Falls export point. The volumes delivered to Consumers' and Union in the domestic market should pay the approved toll for transportation from Empress to Niagara Falls.

9.7 Allocation of Administrative Costs

As discussed in the September 1985 TCPL Reasons for Decision, TCPL classifies departmental and general expenses as fixed costs and then uses two ratios or formulae to apportion these expenses between the metering function and the transmission function. The result is that approximately 4% of these expenses are included in the metering function and allocated on the basis of fixed volume units, and 96% are included in the transmission function and allocated on the basis of fixed volume-distance units.

Decision

The Board wishes to examine the appropriate allocation of these administrative costs for the purposes of calculating tolls and therefore directs TCPL to address the matter in its next toll case.

9.8 Allocation of Manitoba Motive Fuel Tax

TCPL proposed to include the Manitoba motive fuel tax of \$8,885,000 in the revenue requirement and allocate it on a variable volume-distance basis to all firm users. TCPL stated that this treatment would be consistent with the manner in which TCPL allocates the Saskatchewan and Quebec sales taxes on compressor fuel.

ICG Utilities (Manitoba) Ltd. (ICG (Manitoba)) supported TCPL's position. It argued that the tax should not be treated any differently than any other provincial taxes on compressor fuel.

APMC, IPAC, Northridge and SPC all opposed TCPL's allocation of the tax. They argued that the tax is excessive and in a netback pricing regime, the producers, mostly in Alberta, are bearing the cost. They argued that, because the benefit of the tax will flow to the residents of Manitoba, the full amount of the tax should be charged to the Manitoba Zone and paid for by customers in that

zone.

Decision

In the Board's view, the Manitoba motive fuel tax should not be treated any differently than the Saskatchewan and Quebec sales taxes on compressor fuel. Accordingly, the Board approves TCPL's proposal to allocate the tax on a variable volume-distance basis to all firm users.

9.9 Modified Fixed/Variable Toll Design

Northridge recommended that the equity return and associated taxes be included in the commodity component of the tolls because this would provide an incentive to TCPL to maximize its throughput and it would provide for the recovery of significant fixed costs of the pipeline from interruptible sales and transportation services. APMC also recommended that some form of modified fixed/ variable toll design be examined in order to determine if it would result in lower unit transportation costs.

TCPL argued that it would be inappropriate to shift some fixed costs into the commodity toll with the aim of maximizing throughput because, as the only natural gas pipeline company directly servicing eastern Canada, there is very little that TCPL can do to increase the usage of its system.

TCPL argued that, if fixed costs were shifted to the commodity tolls, its risks would increase which should result in a higher return on equity which would result in higher tolls.

Ontario supported TCPL's position. Ontario argued that a modified fixed/variable methodology would not provide any added incentive to TCPL in relation to the marketing and sale of natural gas because the creation of WGML has provided both increased capability in the marketing and sales area of the Company's activities and significantly greater incentives to increase sales and broaden markets. Also, the allocation of fixed costs to the commodity tolls would increase the risks in providing transmission service.

Decision

The Board believes that the inclusion of fixed costs in the firm service commodity tolls is not appropriate because, as a transporter of natural gas, there is little that TCPL can do to influence markets. The Board also believes that it would unnecessarily penalize high load factor customers and would increase the risk of TCPL not recovering its fixed costs. Accordingly, the proposal to include fixed costs in the firm service commodity tolls is denied.

9.10 TQM Cost of Service

Since the construction of the TQM pipeline in the early 1980's, the cost of service has been rolled into TCPL's revenue requirement and all volumes shipped to Quebec, including those sold off the TQM system, have been charged TCPL's Eastern Zone tolls. The merits of alternative treatments for TQM's costs proposed by CPA, IPAC and Dome were the subject of considerable debate during the hearing.

CPA proposed that TQM be treated as a separate pipeline. Under its methodology the TQM revenue requirement would be billed directly to shippers on the TQM system. These shippers would pay a TQM toll in addition to TCPL's Eastern Zone toll adjusted downward to exclude TQM costs. IPAC and Dome, on the other hand, proposed that TCPL provide a sales service and a transportation service with separate tolls for each. TQM's costs would be rolled into TCPL's costs for CD service. For T-Service, TQM's costs would be charged incrementally.

The CPA proposal was supported by IPAC and Dome. In addition some support was provided by SPC which stated that it "supports the proposition that the introduction of additional shippers on the TQM system should automatically result in those new shippers paying their proportionate share of the TQM costs."

Essentially the same three arguments were used to support both the CPA and IPAC/Dome proposals. Firstly, CPA stated that Quebec customers are only paying about 20% of the cost of the TQM system and thus the current system is not fair because it results in a cross-subsidy of sales off the TQM system. CPA argued that its proposal would be fair because it would allocate all of TQM's costs to shippers using the TQM system. Thus it claimed that costs would be allocated on a "user pays" basis. CPA further argued that although subsidies were required initially to support the expansion of the natural gas market in Quebec the time to end the subsidy period has arrived. The fact that the Quebec government re-imposed a sales tax on natural gas sales in the residential and commercial market in April 1986 was cited as an indication that Quebec also feels the subsidy period is at an end.

The second argument used to support the proposals was that a revision in toll methodology is necessary because circumstances have changed. It was maintained that the current system was appropriate when TCPL was the only shipper on TQM. However, now that direct sales are a reality, the approach should be changed. It was stated that the proposed approaches would be consistent with the Board's June 1983 TQM Reasons for Decision, which stated that in the event that additional shippers utilized the pipeline, the TQM toll was to be charged to each shipper in proportion to that shipper's share of contracted deliveries.

Finally, it was maintained that the proposals would be more consistent with the new market-determined pricing regime since they would provide more accurate signals on the costs of transportation to the various markets being served by natural gas.

The CPA, IPAC and Dome proposals were opposed by a number of intervenors including TQM, GMi, SOQUIP and le Procureur général du Québec (Quebec). They were also opposed by a Quebec industrial user of natural gas, SECAL; a marketer, Cornu; APMC, Ontario, TCPL and NOVA, AN ALBERTA CORPORATION (NOVA). This group supported the retention of the status quo.

The CPA, IPAC and Dome proposals were described by these interested parties as being discriminatory. It was argued, for example, that because the cost of transportation by other pipelines, e.g. Great Lakes and Union, were rolled into TCPL's tolls, to treat TQM costs incrementally would be discriminatory. Intervenors also noted that there would be two tolls for Montreal depending on whether the delivery point was off the TCPL or the TQM system. Furthermore, although Boisbriand (TQM) is closer to the Alberta border than Sabrevois (TCPL), the toll for deliveries to Boisbriand, because it is on the TQM system, would be substantially greater than for deliveries at Sabrevois. Moreover, many intervenors noted that the IPAC/ Dome proposal, as initially outlined, would be discriminatory because different tolls would be charged for CD service and T-Service, i.e. the tolls charged would depend on ownership of the gas.

A number of intervenors suggested that the proposals by CPA, IPAC and Dome would have significant negative impacts on Quebec with little positive offsets elsewhere. A study produced for GMi, SOQUIP and Quebec indicated a significant slowdown in the growth of GMi's market. Furthermore, GMi's president stated that the study likely under-estimated the negative impact. CPA, IPAC and Dome disagreed with the extent of the estimated negative impacts on natural gas sales in Quebec.

Among intervenors who argued that now was not the time to make a change in the treatment of TQM's costs, APMC submitted that more experience with deregulation was necessary before changing the status quo. Others said that the timing was not appropriate because significant investments with long pay-out periods had been made on the basis of a rolled-in cost treatment and that substantial amounts of these sunk costs have yet to be recovered.

TQM presented an expert financial witness who testified that altering the present toll design with respect to TQM would drastically alter the framework on which investors committed funds on a long-term basis in TQM. Such a change would increase the business risk of the investments and would undoubtedly be viewed negatively by the financial community. One effect could well be a lowering of TQM's credit rating, thus increasing the future financing cost of TQM.

Decision

The Board agrees that cross-subsidization should be avoided to the extent possible in designing tolls. The Board notes, however, that cross-subsidies are inevitable in an integrated toll design and while their elimination could be a desirable goal, it must be balanced against other principles such as fairness and equity.

The provision of accurate market signals was identified as another desirable goal in the establishment of tolls. The Board notes, however, that economic theory indicates that accurate market signals are provided by setting price equal to marginal cost. In the case of TQM, because the vast majority of costs are sunk and because there is excess capacity, the marginal costs of additional shipments are negligible. Accordingly, the Board disagrees with CPA's proposal. Rather, the Board in this instance, is primarily concerned with the fair and equitable allocation of sunk costs.

The Board disagrees with CPA's interpretation of the statement with regard to the proportionate sharing of TQM's costs made by the Board in its June 1983 TQM Reasons for Decision because it is too narrow when applied to the present circumstances. Furthermore, the Board notes that under the status quo, TQM costs are shared by all firm shippers in proportion to contracted deliveries on the TCPL/TQM system.

The Board finds that CPA's proposal results in different treatment between transmission by TQM and transmission by other pipe lines within the TCPL system, that is by Great Lakes and Union. On the evidence in this proceeding the Board sees no justification for this inconsistent treatment of TQM costs. Thus it finds that CPA's proposal would not result in just and reasonable tolls. Furthermore, the Board finds that the IPAC and Dome proposal results in unjust discrimination between CD service and TService.

For the above reasons, the CPA, IPAC and Dome proposals are not accepted. Accordingly, TQM's costs have been included in TCPL's revenue requirement for cost allocation and toll design purposes and the Eastern Zone remains unchanged.

The Board recognizes that the existing Eastern Zone dimensions were established in the light of past economic, political and investment decisions made to achieve objectives which at the time were developed in the public interest of the country. In the Board's view, the setting of Eastern Zone tolls on the basis of allocating the costs, principally embedded costs, equally to all users in the Eastern Zone continues to be just and reasonable and in the public interest.

Chapter 10

Tariff Matters

10.1 T-Service and STT Tariff Provision

10.1.1 Bumping

TCPL's currently approved STT and Short-Term Contract Demand (SCD) Toll Schedules provide for firm, short-term service of from one to three years in duration, where there is sufficient excess capacity available and on the understanding that no new facilities will be built for such services. Sections 2.9 and 2.4 of the respective toll schedules provide that a short-term shipper can, upon six months notice from TransCanada, be required to elect either to extend its service to a term of 15 years or terminate its short-term service if TransCanada requires capacity for new, longterm, firm service. The requirement to either extend short-term service to long-term service or terminate short-term service was referred to in the hearing as the "bumping provision".

Large industrial direct-sale shippers raised the issue of whether the continued inclusion of the bumping provision in the tariff is still appropriate, considering that many of these and prospective new direct-sale shippers would be affected by its utilization, and whether it was in the spirit of the new deregulated, market-sensitive environment.

TransCanada testified that it is not offering shortterm services for longer than three years since it cannot forecast spare capacity beyond this period. TCPL can only construct facilities based on longterm contracts given the Board's policy that new facilities be supported by long-term contracts and the availability of satisfactory financing. The bumping provision ensures that redundant facilities will not be constructed

TCPL pointed out that a short-term customer can remain on the system by extending his contract, by arranging for an Umbrella T-Service or by structuring his service as a buy/sell arrangement, or a combination thereof.

TransCanada was requested to consider whether Board approval should be required before TCPL could

invoke the bumping provision. This proposal was supported by many intervenors. TCPL opposed such an amendment to the tariff on the grounds that the new pricing and marketing regime does not justify a departure from the policy that long-term contracts should underpin new facilities.

Most intervenors submitted that the bumping provision of TCPL's STT Toll Schedules impedes the provision of effective, non-discriminatory access to the pipeline system and inhibits the development of direct sales in a deregulated marketplace. Over time the provisions would force existing short-term users of firm capacity to enter into long-term contracts.

Consumers' and ICG (Ontario) supported retention of the bumping provision to avoid the construction of potentially redundant facilities. Consumers' recognized the objective of direct purchase shippers to keep all available options open by contracting for short-term supply, and it viewed TransCanada's Umbrella T-Service concept as an attractive solution to the conflicting objectives. Union's proposed solution was the creation of a new five-year non-bumpable STT service.

Some intervenors also compared TCPL's Competitive Marketing Program (CMP) contracts with direct purchases. The main differences are that CMPs are not subject to the tariff provisions of the STT and SCD Toll Schedules, are faster to implement and are not subject to TCPL's restrictions for transporting gas for direct purchases. Some intervenors suggested that this resulted in unfair discrimination.

TCPL asserted that the removal of the bumping clause would equate the attributes of TCPL's system to those of distributors' systems, where risks are spread over a million and a half customers rather than about 60 as has now become the case.

Decision

The Board has decided that its prior approval is required before any bumping of service occurs. The Board does not advocate the use of the bumping provision as a general means of controlling the construction of facilities on the TCPL system and would only consider its use in special circumstances. This recognizes that long-term markets are being served under the short-term transportation contracts that are characteristic of the current direct-sales market.

The approved wording for the preamble to Section 2.9 of the STT Toll Schedules and Section 2.4 of the SCD Toll Schedules is,

"Notwithstanding Section 2.7 hereof, TransCanada may, by written notice to Shipper and with the prior approval of the National Energy Board, reduce the Contract Demand with Shipper at any time and to the extent that TransCanada requires capacity, to provide for long-term firm CD, SGS, ACQ, STS and T-Service contracts or services and/or long-term firm export sales and transportation contracts or services, subject to the following terms and conditions:"

The Board recognizes that CMP gas purchases may enjoy some advantages over other direct purchasers. In effect, gas available to end-users under CMP arrangements is firm long-term gas sold to distributors under existing CD contracts. The Board considers CMP agreements to be competitive pricing arrangements concluded in accordance with the various pricing agreements negotiated in September 1986 between TCPL and the distributors as a result of the 31 October 1985 Agreement on Natural Gas Markets and Prices. Whatever advantages CMP gas may enjoy result from the method by which the gas is marketed and not from any discriminatory application of the toll schedules.

10.1.2 Umbrella T-Service

During the hearing, TransCanada proposed a contractual solution to the bumping issue and a mechanism to reduce the number of customers with whom it deals as a result of ss. 59(2) Orders, which it called Umbrella T-Service.

Under the proposal, distributors would sign a long-term firm T-Service contract with TransCanada (an Umbrella T-Service contract), such that their corresponding volume rights and obligations under their current CD contracts with TransCanada would be contractually reduced. This umbrella of T-Service would be supported by signed short-term transportation service contracts between the distributors and the end-users under which the directly purchased gas would flow to the end-users. An Umbrella T-Service contract would require the distributor to provide firm transportation service for direct sales in accordance with the terms of TransCanada's tariff. If any such direct sale ends

and is not renewed or replaced, the distributor would remain obligated to pay the full TService contract demand charge.

Many intervenors favoured the implementation of the Umbrella T-Service concept. Consumers' endorsed the concept and observed that such a service would provide a workable and acceptable solution to a number of problems, namely:

- a) TransCanada would have long-term TService contracts with the participating distributors who would be obligated to pay demand charges over the long-term;
- b) The long-term T-Service contracts would serve to dedicate pipeline capacity to the participating distributors' franchise areas, thus alleviating their concerns about re-claiming pipeline capacity for that purpose when that capacity is relinquished by displacement shippers;
- c) End-users could continue to operate on a short-term "bump-free" basis under the umbrella.

Consumers' and GMi emphasized that the Umbrella T-Service concept would provide a mechanism for having capacity available to distributors and would permit customers in their service areas to move on and off the system while guaranteeing TCPL that its fixed charges would be recovered.

Large industrial end-users also viewed the Umbrella T-Service concept as a desirable additional service but also added that its implementation should not circumvent the intention of the 31 October 1985 Agreement by not allowing end-users to freely negotiate their own gas purchases in western Canada, nor to force end-users to contract with distributors for their gas supply and transportation arrangements.

Union viewed the Umbrella T-Service concept to be complex and conceptual in nature, requiring further clarification and/or modification, and its implementation would transfer risk from TransCanada and the end-users to the distributor. Union believed that negotiation with TCPL to provide relief of TCPL's gas supply obligations, and its own proposal of a five-year non-bumpable STT service, are simpler and preferable solutions.

Decision

The Board encourages the development of TransCanada's Umbrella T-Service concept. The Board believes it would be a significant step towards a contractual solution to both the numerous requests for ss. 59(2) Orders and the perceived negative consequences of the bumping provision.

10.1.3 Term of Contracts

Union's solution to the "bumping" issue was for TCPL to offer a new five-year non-bumpable STT service costed at the same level as the existing STT toll with no volume restrictions. Such restrictions were intended originally to avoid the risk of ending up with unacceptable levels of unused capacity. Union argued that markets are likely to remain stable and the Board need not be concerned about facilities becoming redundant over time.

Union believed that such a new service would be simpler than TCPL's Umbrella T-Service concept. Union submitted that its proposal would facilitate direct purchases and assist distributors meeting market requirements.

TransCanada viewed Union's proposal as nothing more than an elimination of the bumping provision and an extension of the term approved for STT. When new short-term firm services terminate, TCPL questioned whether the vacated capacity should continue to be considered used and useful with the recovery of costs borne by TCPL's other tollpayers.

Decision

The Board sees no merit in the proposed service particularly in light of its decision that bumping will not be automatic (see Section 10.1.1). Accordingly, the proposed service is denied.

10.1.4 Assignment of Contracts

Polysar and IGUA advocated that an assignment clause be included in the T-Service tariff that would enable an end-user to assign capacity it no longer needed to another end-user. Without an assignment provision, Polysar believed it would be difficult for a direct shipper to commit to a longterm transportation contract unless it had the right to assign all or a portion of that contract capacity. If a uniform provision for assignability existed, then both sales and transportation customers would be treated equally. Any disputes between parties could be brought before the Board for resolution.

Polysar concurred with the Pipeline Review Panel's recommendation in Section 5.6.4 of its Report that the pipeline user should have the right to assign part or all of its contracted transportation service capacity, for part or all of its contracted term, provided that the new arrangements meet operating standards and do not weaken the financial underpinning of the original contract.

Polysar proposed that any assignment provision should ensure that part or all of the transportation

contracts would be freely assignable and would not operate to release the original party from its contractual obligations without the consent of the other party. Such consent should not be unreasonably withheld. If TCPL was dissatisfied with the creditworthiness of the new party, then TCPL simply would not release the original end-user from its commitments.

Polysar submitted that its proposed assignment clause is a reasonable compromise between the position taken by TCPL in respect of CD assignment privileges (with the right to assign and completely release the assignor from all its financial obligations) and its own (with the right to assign but not to release the assignor from the original financial commitments made under the T-Service contract with TCPL).

TransCanada argued that such an assignment provision was not a tariff but a contractual matter and should be left to negotiation between parties, and that both T and STT are presently assignable. It did not support Polysar's proposal to include an assignment provision in the T-Service tariff because of the number and diversity of T-Service customers.

Decision

The Board believes that the inclusion of an assignability provision in the T or STT tariff increases the flexibility and use of such services, more fully utilizes facilities devoted to such services, assures uniformity of application to end-users, treats sales and transportation customers equally, and provides a means for resolving disputes which might arise between parties in the interpretation of the tariff provision.

Accordingly, the Board directs TransCanada to include an assignment clause in the T and STT Toll Schedules which will allow deliveries under these services to be fully assignable, provided that any assignment does not release the assignor from its obligations to TransCanada without the consent of TransCanada. TransCanada's consent shall not be unreasonably withheld. All assignment agreements shall require the assignee to pay tolls approved by the Board for the assigned services. A copy of the agreement shall be filed with the Board.

10.1.5 Provision of Fuel and Linepack by Shippers

10.1.5.1 Provision of Fuel

Currently, all fuel gas requirements on the TCPL system are supplied by TCPL's system gas suppliers. During the hearing a number of intervenors argued that shippers should have the right

to provide their own fuel gas because it would reduce costs and enhance the achievement of market-oriented pricing.

In response, TCPL argued that the operational and administrative problems associated with allowing shippers the right of providing their own fuel weighed heavily against granting this request. TCPL argued that its system could not be compared to the NOVA, Northern Border or Westcoast systems because the operation of its system is much more complicated. TCPL also argued that it is impossible to determine, either in advance or after the fact, the exact fuel volumes attributable to a shipper's deliveries. From day to day, the system fuel requirements can swing from 80 Mcf to 250 Mcf. Another complexity is the required assurance that the appropriate amount of fuel will be supplied by the shipper at the Alberta/ Saskatchewan border.

An alternative to the daily determination of fuel rates is a monthly determination. TCPL argued that this also has its operational and administrative difficulties. At the end of every month, considerable work must be performed in order to reconcile the fuel supplied by a shipper with the fuel that should have been supplied, based on the actual loading and the actual compressor fuel consumed by TCPL. TCPL stated that the reconciliation would require the development of actual variable volume-distance allocation units each month. Once the actual fuel rates had been determined, they would be translated into an actual fuel volume and the variance between the actual supplied and the actual consumed would be calculated with the variance to be made up at a later date.

TCPL also stated that the administrative costs associated with this procedure would amount to \$522,000. These costs would be for the development of computer programs, the addition of five staff members and the applicable overhead.

TCPL stated that a shipper contemplating providing its own fuel would have to analyze whether or not its savings on fuel would outweigh these increased costs on the TCPL system plus the additional demand charges required on the NOVA system.

CPA was the only intervenor to support TCPL's position. CPA was of the view that provision of fuel by individual shippers is desirable in principle but precluded by impracticality.

IPAC, Northridge, IGUA, Cyanamid Canada Inc. (Cyanamid) and Sulpetro all argued that shippers should be able to supply their own fuel. They argued that operational and administrative difficulties are not a valid reason for not allowing shippers this right. IGUA also argued that the desire by shippers to have this right is the direct product of TCPL's failure to negotiate a pricing agreement for fuel gas that is market-sensitive.

Counsel for Simplot, Brenda Marketing Inc., Consolidated Natural Gas Limited (Consolidated) and ATCOR Ltd. argued that an artificially high fuel cost is only a further impediment for directsale shippers to compete with TCPL in the marketplace. Ontario, Direct Natural Gas Group (DNGG), SPC, and Cornu also argued that to allow shippers to provide their own fuel would encourage competition and enhance the achievement of market-oriented pricing. Polysar and SOQUIP took similar positions.

Decision

The Board finds that it would be appropriate to allow shippers the option of providing their own fuel as it would be consistent with the market-responsive pricing system called for by the 31 October 1985 Agreement and would help meet the objective of minimum cost of transportation.

In the Board's view, TCPL's proposed method of utilizing monthly fuel ratios with monthly fuel reconciliations would be administratively too complex. The Board believes the provision of fuel by shippers can be implemented by the following methodology:

- (a) Shippers will be permitted to supply an allocated share of the fuel used by TCPL in the transportation of gas on the TCPL system;
- (b) Great Lakes fuel will continue to be supplied by TCPL in accordance with the sales contract between TCPL and Great Lakes;
- (c) All other gas-related costs, including the provision for lost and unaccounted-for gas, will be calculated using the TCPL average netback price of \$2.20 per GJ as approved for toll purposes;
- (d) The approved fuel ratio for each service will be calculated as the ratio of the allocated fuel volume to the commodity volumes;
- (e) The toll for shippers who provide their own fuel will consist of a demand toll, a commodity toll (which excludes the cost of fuel) and a fuel ratio;
- (f) The variance between the actual total fuel used and the total fuel recovered through tolls costed at the approved average netback price of \$2.20 per GJ will be recorded in a deferral account and brought forward for disposition at a subsequent toll hearing.

The Board directs TCPL to file, by 1 October 1987, the tariff amendments required to implement this fuel provision so that shippers can begin supplying their own fuel by 1 November 1987. 10.1.5.2 Provision of Linepack DNGG argued that direct purchasers should be permitted to carry an inventory of gas, without penalty, in the transporter's system, to be balanced on a monthly basis. It argued

that in order for direct sales to compete on a level playing field with system gas, the benefits of access to inventory in the system must be extended to direct sales shippers to give them the same operating flexibility enjoyed by system gas and the customers or consumers thereof.

TCPL strongly opposed this proposal. TCPL argued that the purpose of linepack is to optimize the operation of the TCPL system while accommodating changes in operational patterns and the hourly swings in loads. It is not the purpose of linepack to provide inventory to allow the producer or shipper to smooth out receipts and deliveries. TCPL also argued that the use of linepack as inventory would result in additional operating costs being incurred. If TCPL were to provide some form of load-balancing service, these additional costs would form the basis of a load-balancing charge. However, TCPL argued that it does not have the system facilities to provide such a service even if a charge were to be levied.

Decision

The Board believes that linepack should not be used to provide inventory to shippers or producers. To use linepack for this purpose could have an adverse effect on the efficient operation of the system. Therefore, the Board denies the request by DNGG to carry inventory in the TCPL system.

10.1.6 Force Majeure

10.1.6.1 Force Majeure Causing Gas Supply Failure

IGUA and Cyanamid proposed that the Board amend TransCanada's T-Service Toll Schedules (subsection 3.2(a)) to suspend payment of demand charges under force majeure situations. The particular sentence contained in both T and STT Toll Schedules is:

"The said demand charge is payable notwithstanding any failure by Shipper during such month, for any reason whatsoever including force majeure, to deliver or to cause to be delivered any portion of the gas to be delivered to TransCanada at the point of interconnection."

IGUA noted that under a sales service contract (e.g. CD service) a distributor is not forced to pay for transportation service during a force majeure situation, whereas a T-Service customer under the same circumstance is required to continue paying the monthly demand charge.

TransCanada noted that neither IGUA nor Cyanamid led evidence in support of this relief, and that the Board rejected this same proposal in the 1984 and 1985 TransCanada tolls decisions.

Decision

The Board believes that T-Service shippers, owning the gas being transported by TransCanada, having made arrangement for their own gas supply and having reserved the space on the pipeline system, must be responsible for demand charges in the event of force majeure. The shippers' responsibility in these circumstances cannot be transferred by default to other users of the system or TCPL's shareholders.

The Board continues to believe that amending the subsections in the tolls schedules, as requested, would insulate T-Service shippers from their demand charge responsibilities. The Board therefore denies the proposals by Cyanamid and IGUA.

10.1.6.2 Priority of Service in Events of Force Majeure

In its submission, Union requested that Article XII of the General Terms and Conditions of TCPL's tariff be amended so that under a force majeure daily curtailment situation, ACQ firm service would be treated on an equal priority basis with other firm services.

Currently under Article XII, ACQ has a lower priority than other firm services in regards to daily curtailments due to an occurrence of a force majeure:

"subject to Seller's seasonal obligations if Seller's inability to deliver is due to an occurrence of a force majeure, then Seller shall be entitled to completely interrupt deliveries under such contracts on such day."

The ACQ deliveries would be interrupted that day ahead of CD, SGS, PS, STS and T-Service contracts.

Under a seasonal curtailment scenario, Article XII provides for ACQ firm service to be treated on an equal priority basis with the other firm services.

TransCanada noted that since 1972 ACQ service has had a lower priority than CD service in event of force majeure for daily curtailments, where seasonal requirements can be met. It further noted that TransCanada's customers purchasing CD service without storage could be forced to interrupt residential customers, which interruption might be unnecessary if ACQ were curtailed first.

Decision

The Board notes that under Section 2.3 of the ACQ Toll Schedule, TCPL may curtail or interrupt deliveries,

"(i) during any day in any contract year by up to 50% of the applicable average daily volume calculated pursuant to Section 2.1 hereof, and

(ii) during the period from May 1 to September 30 in any contract year and on not more than 20 days, by up to 100% of the average daily summer volume;"

and this ability of TCPL to curtail a portion of the average daily volume provides flexibility for the system. Nevertheless, 50% of the applicable average daily volume on most days during the winter period is considered firm volume.

The Board recognizes the discrimination argument presented by Union on daily curtailment priority, and is of the view that the winter firm volume portion of ACQ service should be given equal priority status with other firm services under a force majeure situation. TransCanada is required to amend Article XII paragraphs 1.(c) and (d) of the General Terms and Conditions accordingly.

10.2 Other Tariff Provisions

10.2.1 Unauthorized Volumes Penalties

TCPL proposed to delete the current unauthorized overrun provisions from the individual sales and transportation service toll schedules and to insert, in the General Terms and Conditions, provisions respecting unauthorized volumes applicable to each class of service.

The proposed unauthorized volumes penalty provisions differ from the current provisions in that the threshold volume triggering a penalty would be the nominated volume rather than the contract demand, a 28 10³m³ per day minimum forgiveness level has been added, and both underruns and overruns outside of the 2% and 4% ranges would attract penalties.

TCPL proposed that the levels of the penalty charges remain equivalent to those in the current tariff at \$175 per 10³m³ for variances greater than 2% but less than 4% and \$525 per 10³m³ for variances greater than 4% TCPL also proposed a new gas imbalance penalty charge because TCPL is concerned with imbalances between receipts and deliveries of other parties' gas. If, over a month, a shipper takes volumes from the pipeline which exceed the total volumes that shipper delivered into the pipeline during that month, TCPL proposed to collect \$135 per 10³m³ times the excess, which would be refundable without interest upon that shipper balancing its total deliveries and takes. TCPL stated that the carrying costs associated with this charge offer sufficient incentive for shippers to balance as soon as possible.

TCPL argued that the unauthorized volumes penalties are needed so that the system can operate efficiently by having all shippers nominate properly on a daily basis. TCPL stated that failure by a party to perform according to its nomination could result in additional costs to the system and, in some circumstances, injury to other system users. TCPL also stated that it was not TCPL's intent to indiscriminately apply penalty charges but rather to give consideration to the circumstances prevailing. If a shipper properly communicates with both NOVA and TCPL, no penalty will be applied. The penalty is to ensure that a shipper informs everybody of a change in nomination.

TCPL argued that there need not be a rationale behind the magnitude of a penalty charge. Rather, the purpose and intent of a penalty is to deter system users from doing things that are detrimental to the operation of the system.

During the hearing, some parties questioned TCPL on the 10% tolerance in various export licences. TCPL argued that the daily tolerance levels under the export licences have nothing to do with the tolerance of variances between a shipper's nomination and its actual performance. Even though exporters have a 10% tolerance from the volume specified in their licences, they will still have to abide by the same 2% and 4% tolerances on the system as do all domestic shippers.

Consumers' supported TCPL in the need for unauthorized volumes penalties because it believed that these provisions are both reasonable and necessary for the efficient operation of the system. Consumers' argued that direct-purchase shippers should not be able to use system linepack to cover delivery rate fluctuations because to do so would undoubtedly cause operating problems and would likely give rise to additional costs at the expense of other system users.

Polysar argued that TCPL had not demonstrated the need for the receipt point penalty and, therefore, it should not be allowed. Polysar also argued that it appeared that the receipt point penalty provision was directed at those shippers who request a receipt point in Saskatchewan. Further, Polysar argued that a 4% variance could be attributable to meter error alone.

TCPL argued that the receipt point penalty provisions are required to provide an incentive for shippers to exercise the same degree of control over their supply as TCPL does over its own.

Cyanamid argued that penalties for receipt and delivery variances in excess of 2% are too limiting and it believed that the tariff should be amended to allow for a 10% variance without giving rise to a penalty.

SPC viewed the balancing and penalty provisions to be unnecessary and cumbersome. It argued that since TCPL has experienced no significant problems in the past, it would be imprudent to introduce them at this time. However, SPC also argued that should the Board decide to approve the penalties,

the levels of the penalties would be excessive and they should only be imposed during times of curtailment.

Decision

The Board believes that unauthorized volumes penalties are needed since their purpose is to instill discipline among system users to nominate properly on a daily basis resulting in the most efficient operation of the pipeline system. The Board was not convinced by Polysar's argument that the receipt point penalty provisions are not needed. In the Board's view, all shippers should exercise the same degree of control over their supply as TCPL does over its own. The Board also believes that these proposed penalty charges are intended to deter system users from acting in a manner detrimental to the system and are not cost-based charges that would apply to services provided by TCPL. Accordingly, the Board approves TCPL's proposed unauthorized volumes penalties for underruns and over-runs at the receipt and delivery points. The Board also approves the proposed penalty levels of \$175 per 10³m³ and \$525 per 10³m³ for the 2% and 4% variance ranges respectively.

With respect to the gas imbalance penalty charge, the Board is of the view that the transmission system was neither designed nor built to be used as a form of storage tank and, therefore, gas imbalances should be corrected as soon as possible. Accordingly, the Board approves TCPL's proposed gas imbalance penalty charge. However, with respect to the level of the gas imbalance penalty, TCPL calculated \$135 per 10³m³ by adding a 30% premium to the previous Alberta border price of \$2.79804 per GJ. In view of the Board's decision to price fuel at \$2.20 per GJ for toll purposes, the Board approves a gas imbalance penalty charge of \$100 per 10³m³.

10.2.2 Priority of Interruptible Services

The traditional argument used by intervenors supporting the position that AOI and T-AOI services are of a higher priority than IT, was that the firm service users through payment of a monthly demand charge have already paid for a certain level of capacity, and should have priority access to that capacity through the AOI toll. Since IT service users are not obligated to take firm service, and since IT service does not contribute to the recovery of fixed costs of the pipeline, an IT service user should have a lower priority access to available capacity.

The counter argument advanced by proponents of the proposed new toll design for interruptible services is that, if there is a fixed charge component in the new interruptible service toll. the tradition

al argument no longer applies, since the new interruptible service toll may also be seen to be contributing to the recovery of the fixed costs, making overrun and interruptible equivalent

services.

Another argument supporting making AOI, TAOI and IT equivalent services is that the tolls currently charged on all these interruptible services are at the same level, and for this reason alone AOI and T-AOI should not have priority of access to capacity over IT service as it is a form of discrimination.

Decision

The Board has decided that, effective 1 November 1987, TCPL shall offer a new two-tiered interruptible service (IS-1 and IS-2), with the IS-1 toll set equivalent to the CD80 toll and the IS-2 toll set equivalent to the CD-90 toll (see Section 9.5).

The Board believes that to retain the current distinction in priority of AOI and TAOI over IT would provide an unfair advantage for some users over others, and has decided that effective 1 November 1987 AOI, T-AOI and IT will be replaced by the new two-tiered interruptible services.

From 1 July 1987 to 31 October 1987, AOI and T-AOI customers will pay the IS-1 toll because of its higher priority, and IT customers will pay the IS-2 toll.

10.2.3 Removal of Emergency Backstopping from T, STT and T-AOI Toll Schedules

Subsections 2.8 in the current T, STT and T-AOI Toll Schedules provide procedures for the deliveries of gas in the event of an emergency arising upstream of the point of delivery of gas to the TransCanada system. TransCanada has proposed the removal of these subsections from the particular toll schedules.

TransCanada submitted that gas supply is not a matter related to the operation of the pipeline; emergency gas supply arrangements are matters for resolution upstream of the transmission system, and TransCanada's gas supply has been taken over by a subsidiary company. TransCanada further submitted that the emergency backstop provision had never been used.

Polysar opposed the deletion of the subsections from the toll schedules, because they increased reliability of supply; nevertheless, Polysar also noted that it has negotiated several backstopping arrangements with suppliers upstream of the TCPL system.

Decision

The Board is of the view that transportation service shippers are obliged to make their own gas supply arrangements upstream of the TCPL system and these arrangements should include emergency backstopping. The Board is in agreement with TCPL that subsection 2.8 should be deleted from the T, STT and T-AOI Toll Schedules.

10.2.4 Diversion Rights of Direct Purchasers

To adequately respond to a market-oriented environment, and to make efficient use of the TCPL system, DNGG proposed that the existing diversion rights in TCPL's T-Service Toll Schedules should be modified to allow direct-sale purchasers to divert gas to other points.

DNGG asserted that a direct purchaser should have the ability to divert gas to other purchasers during periods of plant cutback or turnaround. Diversions should be permitted without penalty within the same rate zone or to other zones.

TCPL testified that the diversion privilege was originally for the long-term T-Service customer who could not forecast in which delivery area its market was likely to be strong or weak from one Year to the next.

The current T-Service diversion provision is discretionary on the part of TCPL and restricted to an affiliate of a shipper for financial and legal considerations.

TCPL provided a diversion to GMi in 1984 to divert gas from the TQM system to the South Shore, Eastern Townships delivery point, and is not proposing removal of diversion privileges from the current T-Service Toll Schedules.

The diversion provision was not included in the STT Toll Schedules since TCPL believed an STT shipper could forecast its load pattern and would not need to rely on any kind of diversion right.

TCPL stated it would not oppose, in principle, a permanent shift between one end-user to a second, non-affiliated end-user if there has been a reduction in the requirements of that end-user, providing all of the normal conditions of the transportation toll schedule are met. TransCanada cannot otherwise plan its activities and schedule its operations properly under an environment whereby a shipper has the freedom to shift gas from one delivery point to another after the fact.

TCPL would not consider diversion where such diversion would constitute a further displacement of TCPL's system supply gas. It would oppose such diversion on the basis of its TOPGAS covenants.

Another reason stated by TCPL for refusing an STT diversion would be operating considerations. Diversions between delivery points within the same delivery area are far less complex than between two points in different delivery areas, since, from a liability point of view, two different distributors and a number of end-users may be involved. In a situation of dispute between parties concerning a diversion, a daily confirmation process would be required to bind parties to their agreements which would be an administratively complex process. TCPL would prefer to be notified of a diversion before the costs of a diversion are incurred.

In argument, DNGG asserted that diversion should be allowed in circumstances where the volumes cannot be taken by the purchaser at the contracted delivery point. DNGG submitted that the availability of diversion rights would benefit both short-term and long-term T-Service shippers and that the Board, consistent with prudent regulatory practice, should permit such diversion on an equal and non-discriminatory basis without regard to source of system supply.

Decision

The Board is of the view that the existing diversion privileges under T-Service should be extended to STT customers and that such privileges not be unreasonably withheld by TCPL.

Inclusion of a diversion provision in the STT Toll Schedules is consistent with such provisions in existing services utilizing system-supply gas, and wherever possible, TCPL should be encouraged to extend such privileges to services utilizing non-system gas supply.

The Board directs TransCanada to include a clause in the STT Toll Schedules similar to that already included in Section 10 of the T-Service Toll Schedules but restricted to diversions within the same delivery area, since the Board believes that diversions of STT between delivery areas is administratively too complex. However, the Board believes that specific diversion arrangements should be allowed in circumstances where parties agree to an appropriate OD allocation between delivery areas, but should exclude those that would result in further displacement of TCPL's system supply gas. The revised wording shall exclude the "between-affiliate" condition in the provision as it serves no purpose in the SIT service situation.

10.2.5 Direct-sale Proviso

Section 1.1 of TCPL's toll schedules for sales services contains the following proviso:

"PROVIDED FURTHER, that Seller agrees to refrain from making direct sales to industries that are located within an area for which Buyer or a subsidiary of Buyer holds a franchise, or requisite authorization, without the prior authorization of the National Energy Board."

TCPL argued that this proviso should be removed from the tariff because it is more appropriately a matter of contract relating to marketing practices rather than a matter of tariff and because under the new pricing and marketing régime, the proviso disadvantages TCPL's marketing subsidiary, WGML, in its competitive efforts.

TCPL argued that the following three circumstances illustrate this second point:

- (a) WGML's pricing agreements with the distributors are subject to provincial regulatory controls, which is not the case for its direct sale competitors;
- (b) Union gave evidence that, in a few months time, displacement sales may exceed its total CD volumes; and
- (c) IGUA led evidence that industrial end-users would prefer to have WGML competing on even terms with other direct sellers.

TCPL also argued that the Board should not be influenced by marketing, pricing and supply issues in the administration of its jurisdiction respecting transmission tolls and tariffs. To achieve that result, the Board's decisions must ensure that competing users of the system are accorded equal, non-preferential and non-discriminatory treatment.

Most industrial end-users supported TCPL's proposal to remove the proviso. They argued that the clause should be removed because the refusal of WGML to compete in the direct sale market operates to reduce competition between gas producers in that market.

Consumers' did not object to the removal of the direct sale proviso on the understanding that all direct sales by WGML would be treated as displacement sales under the OD methodology with no prorating. Consumers' stated that there are a number of related matters that remain to be analyzed and assessed before any direct sales by WGML are implemented, not the least of which are the implications under Ontario law of WGML making direct sales in a distributor's franchise area.

Ontario agreed that this prohibition is more in the nature of a contract matter rather than a tariff matter. Its removal would be appropriate because it would represent a further step in the direction of achieving a fully competitive marketplace. However, Ontario was of the view that it would be equally appropriate for the distributors to be permitted the same kind of market freedom in obtaining their firm gas requirements at the least cost in the marketplace without regard to the constraints of their existing CD service contracts. Ontario argued that the proviso should be deleted if and when distributors are relieved of their CD service obligations as well.

ICG (Manitoba) and ICG (Ontario) argued that this matter is of such a degree of significance that it ought to have been the subject matter of evidence, and parties should have been permitted to cross-examine and lead evidence on it. ICG (Manitoba) argued that the proviso ought not to be removed unless all marketing considerations are removed from the tariff. GMI also argued that the proviso should only be removed if all other tariff matters which give preferential treatment to WGML are removed as well.

Union argued that the Board should deny this proposal because TCPL raised this issue for the first time in argument with no supporting evidence.

Decision

The Board believes that the direct-sale proviso is not a tariff matter but rather a contract matter relating to marketing, pricing and supply. Accordingly, the Board has decided that it is appropriate to remove the direct sale proviso from TCPL's toll schedules. The Board also confirms that any direct sales made by WGML could give rise to an OD reduction in the distributor's CD obligations.

10.2.6 Credit Assurances

As part of its argument on the final disposition of ss. 59(2) Orders, TCPL requested that entitlement to service under a ss. 59(2) Order be conditional on the applicant providing TCPL with adequate credit assurances. TCPL argued that, in the absence of the ss. 59(2) process, it would be able to insist as a precondition to contracting with a party, that the applicant for service provide it with adequate evidence as to its creditworthiness or, alternatively, with financial assurances, such as letters of credit or parental guarantees, to ensure that the shipper would meet its contract payment obligations.

TCPL also argued that, under the ss. 59(2) process, a multiplicity of new shippers are obtaining access to the system and not all of these new shippers match the standard of creditworthiness applicable to TCPL's historic system users, namely, the distribution utilities. Further, TCPL argued that the purpose of its request for credit assurances is to enable TCPL to exercise the same degree of control and prudence that it was able to do under the historic contract regime.

A number of intervenors argued that the level of credit assurances required by TCPL should be reasonable under the circumstances prevailing and not to the extent of precluding a shipper from the system. They argued that the objective of minimizing TCPL's risk needs to be balanced with the shippers' ability to pay.

CPA, IPAC, Northridge, Polysar, and APMC argued that the credit assurances should be limited to the maximum amount payable by a shipper for 55 days worth of service, as established by the August 1986 Westcoast Reasons for Decision. Counsel for Brenda Marketing, Consolidated and Simplot argued that this upper limit could be in the order of 90 days. IPAC and Northridge also argued that such credit assurances should not be required in perpetuity. They suggested that a year's good record of payment should be adequate to remove the requirement of the letter of credit.

Cyanamid was of the view that credit is a risk of doing business and TCPL should only be entitled to protect itself against undue risk. Cyanamid took the position that the need for and the extent of financial assurances should only be settled on a case-by-case basis before a ss. 59(2) Order is issued.

Decision

The Board is of the view that TCPL ought to be permitted to require financial assurances for all types of services provided, whether sales services or transportation services, and whether provided pursuant to contractual arrangements or to an order of the Board under ss. 59(2) of the Act.

Therefore, the Board has decided that TCPL may require, from any firm service shipper or buyer, an irrevocable letter of credit issued by a financial institution acceptable to TCPL or such other equivalent financial guarantees in an amount equal to two months of demand charges and 60 days of commodity charges based on full contracted volumes. In the case of interruptible service, TCPL may require at the option of the shipper, either prepayment of the commodity charges for volumes nominated or an irrevocable letter of credit, or other such financial guarantees, in an amount equal to 60 days of commodity charges based on the shipper's maximum entitlement.

Paragraph 2 of clause VIII and clause XIV of the General Terms and Conditions, which relate to defaults and non-payments, are amended to replace the 30-day period referred to therein with a 10-day period.

10.2.7 Reporting Requirements

TCPL also requested that the Board include a reporting requirement condition in any final ss. 59(2) Order that it issues to ensure that all gas transported under the orders will ultimately be consumed by the applicable end-user at its plant and any potential self-displacement could be monitored.

TCPL stated that should the monthly reports indicate that self-displacement had occurred, service under the ss. 59(2) Order should be curtailed until such time as the distributor had delivered the remaining balance of direct-purchased gas to the end-user. However, TCPL also stated that it would first consult with the end-user and the distributor to confirm whether or not self-displacement was occurring or if there were operational considerations that were creating the temporary imbalance before curtailing service.

Cyanamid and Brenda Marketing stated that they did not object to a reporting requirement. However, Cyanamid stated that there may be plant operating conditions which would cause a gas imbalance to occur and Cyanamid requested that TCPL and the Board keep those operating conditions in mind. Brenda Marketing argued that the condition should not be used to prevent diversions by a direct-sale shipper between its various end-users.

Decision

The Board confirms the view presented in its May 1986 TCPL Reasons for Decision that there should be no self displacement by distributors (see Section 112). With the advent of buy/sell, load-balancing and other arrangements between potential shippers and distributors for operational reasons, the possibility of self-displacement has increased. The Board therefore believes that a reporting mechanism to monitor transaction imbalances between an enduser and a distributor is required. In the absence of a reporting requirement, no information would be available to identify imbalances which may be of an operational nature or, in fact, self-displacement.

Accordingly, the Board directs TCPL to include a reporting requirement condition in the General Terms and Conditions of its tariff. The requirement, which would be at the option of TCPL, would be for the shipper to file with TransCanada, within 15 days of the end of each month, a monthly report of the quantities of gas transported by TCPL, the quantities of gas consumed by the end-user and the quantities of gas bought and sold between the end-user and the distributor. The Board expects that any disputes involving the question of whether self-displacement is occurring will be brought to the Board for resolution.

10.2.8 Uniform Tariff for Firm Services

IGUA expressed the view that separate toll and tariff schedules for sales and transportation services are inappropriate because they give TCPL the opportunity to introduce terms and conditions which could give system gas an advantage. IGUA argued that TCPL should design one set of transportation tolls and tariffs that would apply to all volumes being transported, whether system gas or non-system gas. IGUA submitted that this would clearly separate WGML from TCPL and place WGML on the same footing with other gas suppliers. Cyanamid agreed with IGUA's suggestion.

Northridge argued that access to nondiscriminatory transportation is fundamental to the implementation of the 31 October 1985 Agreement. Northridge was of the view that, as a transporter, TCPL should be indifferent as to whether it carries gas on its own account or for others. Therefore, there should only be firm and interruptible services including ACQ.

Decision

The Board believes that it would be desirable to adopt a unified approach to tolls and to have a single uniform tariff including General Terms and Conditions, that, as much as possible, does not differentiate between system gas and non-system gas, whether delivered to the domestic market or to the export market. TCPL shall ensure that all future contracts for the sale and transportation of gas to the export market shall incorporate the approved General Terms and Conditions.

In order to implement this unified approach to tolls, the Board has modified the level of precision incorporated in the toll design. The effect of the gas-supply adjustment, which previously resulted in slightly different tolls for system and non-system gas moving over comparable distances, has been eliminated. Further, the costs for miscellaneous transmission have been allocated to all users of the system on a volumetric basis. The Board directs TCPL to file uniform toll schedules incorporating the approved tolls, to be effective 1 July 1987, as set out in Appendix V.

10.2.9 Delivery Pressure

TCPL proposed that a new paragraph be added to the delivery pressure section of all transportation toll schedules which states:

"For any receipt point downstream of Empress, Shipper shall do or cause others to do all that is required to allow Shipper's Volume to be delivered to TransCanada at a pressure no less than that prevailing in TransCanada's pipeline at such receipt point(s) at the time of delivery and no greater than the maximum allowable operating pressure of TransCanada's pipeline at such point."

No intervenor opposed this change.

Decision

The Board believes that this change is appropriate and approves the new paragraph for inclusion in TCPL's tariff.

10.2.10 Demand Charge Adjustments

Section 5.2 of the CD and SCD Toll Schedules provides that if, on any day, TCPL fails to make available for delivery the quantity of gas requested by the buyer, the monthly demand charge is reduced by the daily demand toll multiplied by the volume of gas which was not delivered.

A similar section in the T-Service and STT Toll Schedules allows for the make-up of previously curtailed deliveries but does not provide for reduced demand charges when curtailment takes place.

During the hearing Polysar argued that the right of make-up provided in the T-Service and STT Toll Schedules is not equivalent to the provision of Section 5.2 of the CD and SCD Toll Schedules. The right of make-up would only provide equivalent treatment if a shipper's suppliers could deliver additional daily volumes and if that shipper had the ability to utilize the additional volumes on a daily basis.

TCPL then proposed an additional provision for the T-Service and STT Toll Schedules which would allow the shipper a monthly demand charge reduction to the extent that TCPL failed to deliver the shipper's volume. This proposed provision satisfied Polysar's concern.

Decision

The Board approves the new provision and requires that it be included in TCPL's uniform tariff.

10.2.11 Prorating of Daily Deliveries

Section XIII of TCPL's General Terms and Conditions deals with the determination of daily deliveries for customers taking delivery of gas under contracts and/or toll schedules for more than one class of service in one delivery area.

Customers are free to nominate firm volumes at the level desired, provided that the nominations are within the operating demand volumes. In cases where the total actual deliveries correspond to the total of the authorized volumes, the pro rata provisions of Section XIII do not apply. In cases where total actual deliveries do not correspond to the total of the authorized volumes, the pro rata provisions of Section XIII determine under which class or classes of service the difference between the measured volume and the authorized volume occurs.

During the hearing, GMi argued that the pro rata provisions are no longer required between sales and transportation volumes because gas supply is a matter that can be negotiated.

TCPL argued that the pro rata provisions are necessary in determining daily deliveries when, for services of a similar character, the actual deliveries are at variance with the authorized

nominations. TCPL argued that this variance occurs as a result of the customer's difficulty to control its operations to match its nomination and has nothing to do with the price of gas.

Decision

The Board believes that in situations where a variance occurs between a customer's actual deliveries and its authorized nomination, the fairest method of allocating such variances between services is to prorate them according to the customer's authorized volumes. Accordingly, GMI's request is denied.

10.2.12 Authorized Volume

TCPL proposed a new Section XIX to the General Terms and Conditions of its tariff which outlines the procedures for nominating and which defines the term "authorized volume". For the purposes of Section XIX, TCPL defined a "buyer's authorized volume" or a "shipper's authorized volume" as that portion of a buyer's or a shipper's nomination or revised nomination which TransCanada would accept for delivery.

TCPL also proposed that the Applicability and Character of Service section of each of the transportation service toll schedules be revised to clarify the obligations of the parties with respect to the shipper's authorized volume.

In addition, TCPL proposed several wording changes to its tariff which were not addressed by any party to the hearing.

Decision

The Board finds these changes appropriate and accepts them for inclusion in TCPL's tariff.

10.3 Proposed TSS and T-TSS Services

TCPL proposed a new Temporary Summer Service (TSS) and a new Transportation-Temporary Summer Service (T-TSS) in response to the Board's requirement contained in its September 1985 TCPL Reasons for Decision.

TCPL stated that these services were designed to fill in the summer period availability of system capacity on TCPL's system.

TCPL proposed that the tolls for these services be set equal to the sum of 46% of the Eastern

Zone daily demand toll plus each zone's respective CD commodity toll.

Decision

In light of the Board's decision to establish a two-tiered toll design for interruptible service (see Section 9.5), the Board believes that the proposed TSS and T-TSS services and the associated tolls are inappropriate. However, if a specific need for this type of service should arise, the Board would consider alternative proposals.

10.4 Proposed T-TWS Service

TCPL proposed a Transportation-Temporary Winter Service (T-TWS) which would have the same toll and priority as TWS.

Decision

The Board approves the new service and requires that it be included in TCPL's uniform tariff.

Chapter 11

Operating Demand Methodology

11.1 Automatic Reversion

The question was raised of whether distributors should be automatically entitled to increase their OD under CD service contracts on the strength of either pre-existing or new contracts with TransCanada. This increase was referred to as "automatic reversion" throughout the hearing.

TransCanada generally advocated that distributors should not be entitled to automatic reversion. TransCanada should not be put in the position of having to reserve gas supply to provide a distributor with an automatic reversion right under a CD service contract.

APMC extended TCPL's argument to all of TCPL's system producers having to maintain sufficient gas in the ground on speculation that such gas ultimately would be required by the distributor under its contract with TransCanada. Such gas would be held in inventory without payment or other compensation by the distributors for the lost marketing opportunities.

TransCanada referred to a letter from the Federal Minister of Energy, Mines and Resources to the Board regarding producer concerns about automatic reversion rights.

CPA was of the view that there should be no automatic reversion of pipeline capacity to the affected distributor.

Cyanamid argued that a distributor should not be automatically entitled to remain at its CD level when assessing its OD requirements to accommodate a direct purchaser. Cyanamid did not support automatic reversion since it believed OD should not be manipulated by TCPL or by distributors in any way that may undermine direct purchasers by creating artificial capacity shortages and forcing direct shippers off the system.

Northridge opposed automatic reversion and recommended that when the Board sets a new OD it should remain a permanent OD until changed by the Board. A distributor should not be required to increase its OD when a T-Service customer ceases to take gas, nor should it have any right to reclaim the right to additional OD previously relinquished to the T-Service customer. Subsequent changes in a T-Service shipper's requirements should have no effect on a distributor's OD level.

In the case where a distributor does not wish to increase its OD under CD contracts, but seeks a new transportation service, TransCanada believed it should be treated as a request for new service

and assessed along with other requests for new service on the basis that;

(a) long-term service takes priority over shortterm service,

(b) existing long-term service takes priority over a new request for long-term service, and

(c) the granting of any new service is conditional on the customer satisfying the availability provisions of the applicable toll schedules and TransCanada's requirement for financial assurances.

GMI supported automatic reversion but sympathized with TCPL's conditional agreement to increase an OD subject to availability of the necessary gas supply. GMI also pointed out that it wished to be able to utilize that capacity since it had a valid CD contract with TCPL.

Decision

The Board implemented the OD methodology as a mechanism to deal specifically with the double demand charge problem. The Board does not believe that automatic reversion of pipeline capacity to distributors would be appropriate as it confers to distributors additional rights not previously available to them under TCPL's CD contract. Also, automatic reversion, if implemented, would obligate TCPL's producers to keep gas in inventory without being compensated for lost marketing opportunities.

11.2 Self-displacement

Generally, self-displacement occurs when a distributor replaces any portion of its presently contracted firm supply with an alternate supply or makes any other arrangement that accomplishes the same end.

Decision

In its May 1986 TCPL Reasons for Decision, the Board rejected the requests of certain distributors to convert all or a portion of their CD entitlement to T-Service and decided that it would be inappropriate to order tariff changes that would accommodate self-displacement. The Board has not altered its view.

The Board's decision does not mean that a distributor is prevented from contracting for additional gas supply. In the Board's view, any new firm direct purchases by a distributor on its own behalf would not qualify it for any relief from its existing firm service obligations.

11.3 Prorating

11.3.1 Pro Rata OD Reductions

In the May 1986 TCPL Reasons for Decision the Board implemented the OD volume methodology which it described as follows:

"The operating demand volumes will be used instead of the contracted demand volumes for the allocation of fixed costs in the setting of tolls. A distributor's operating demand volume will be determined to be the contracted demand, as specified in the distributor's CD contracts with TCPL, less the total amount by which the distributor's CD volumes are displaced."

During the current hearing the Board requested views of interested parties as to whether this OD volume methodology should be modified. In particular, parties were asked whether an OD volume change for a distributor resulting from displacement volumes should be prorated between its CD and T-Services.

TransCanada objected to the assumption that all direct-purchase shippers' gas is displacing only CD service gas and proposed that firm transportation services for other supplies should share displacement volumes on a pro rata basis. CPA, IPAC, IGUA and APMC supported the position that prorating should include all firm services taken by a distributor and should be proportionate to the percentage that a given service is to all those firm services.

Union maintained that whether or not ACQ volumes are to be reduced as a result of OD prorating, ACQ ought to be included with CD as long-term firm system gas for determining the proportion of system and non-system gas being displaced.

Ontario opposed the prorating of displacement volumes in accordance with a fixed formula in that it would not be consistent with the objectives of deregulation and market-oriented pricing. It supported Consumers' position that highest-cost gas should be displaced first. GMi proposed the displacement reduction be allocated between suppliers on the basis of competitive price as well as market share.

Only TCPL was in favour of including short-term firm sales and transportation services in the OD displacement prorating methodology.

Decision

The Board is of the view that a pro rata sharing of displacement volumes on the basis of all long-term firm sales and longterm transportation services being purchased by a distributor from TransCanada at the time the displacement occurs is the fairest and most practical method of allocating displacement volumes for OD purposes between system and non-system gas supplies.

The Board does not consider it appropriate to include short-term firm sales and shortterm transportation services in the pro rata sharing of displacement volumes. Being of short duration, these services are contracted by the distributor to meet a particular firm requirement, which in many cases will have terminated prior to the termination of the displacement contract.

11.3.2 ACQ Service

Union submitted that ACQ is a firm service and that in the event of a displacement direct purchase distributors should have the right to reduce ACQ volumes in the absence of CD volumes. Union noted that about 50% of its firm purchases are under ACQ contracts, and that all of Union's CD volumes might be displaced by November 1987.

TransCanada objected to any reduction in ACQ contract obligations to accommodate displacement volumes, because the proposal could reduce system flexibility and result in higher tolls to all users. Consumers' was of the opinion that any displacement should apply to CD service only, with none applying to its ACQ volume, because of the other aspects of ACQ service.

Decision

As mentioned earlier, the Board implemented the OD methodology in order to avoid the duplication of demand charges when a distributor experienced the loss of a system gas customer to the direct sale market. In essence, the OD methodology ensures that pipeline capacity is only paid for once and that the obligation for payment properly rests with the shipper using the capacity in question.

The Board recognizes the potential for the displacement of ACQ service as a result of the growth in direct sales and believes that in such circumstances relief from the associated fixed-cost contributions of the ACQ volumes displaced may be warranted.

However, insufficient evidence was provided during the hearing for the Board to determine the most appropriate formula for the extension of the application of the OD methodology to ACQ services. Therefore, the Board directs TCPL, in consultation with Union and Consumers', to prepare and submit to the Board, by 1 September 1987, a formula to be applied in the event that ACQ toll relief is requested by a distributor in order to accommodate the growth in displacement volumes within its franchise area.

11.3.3 Sulpetro's Volume in Pro Rata Allocation

TransCanada proposed the inclusion of Sulpetro's deliveries to Consumers' and Union in the pro rata sharing of displacements for OD purposes. Union and Consumers' each purchase a portion of their total general supply from Sulpetro under firm delivery arrangements. TransCanada's position was that an appropriate share of firm entitlement should be relinquished by Sulpetro to cover direct-purchase displacements.

Consumers' and Union opposed prorating the OD displacements to the Sulpetro volumes. They believed that displacements should be applied to long-term contracts and not to one-year contracts such as those with Sulpetro. Union argued that the Sulpetro volumes are a discretionary gas supply. Sulpetro submitted the volumes sold under these contracts should be classified as incremental. Sulpetro plans to retain its capacity rights on the TCPL system for future exports, and the distributors are not requesting an OD reduction to offset deliveries.

Decision

The Board is of the view that Sulpetro's deliveries to the distributors are incremental to their long-term firm supply in this instance. The short-term contract, which expires on 31 October 1987, supplies a specific firm requirement.

Having considered the evidence and the circumstances of the Sulpetro diversion, the Board is not convinced that the inclusion of Sulpetro's deliveries to Union and Consumers' in the pro rata sharing of displacements would be consistent with the OD methodology concept.

11.4 Delivery Area Versus Franchise Area

The Board requested interested parties' views as to whether prorating of displacement volumes should be restricted to a particular delivery area or include all of a distributor's franchise area.

In its implementation of the OD methodology, TransCanada determined that the OD volume on a delivery-area basis was consistent with its method of contracting for service on its system. This ensures that the system fixed-cost allocation units are not reduced.

GMI proposed pro rata sharing on a total franchise basis, but subsequently accepted the delivery area concept. All other intervenors who proposed pro rating of displacement volumes suggested it be implemented on a delivery-area basis.

Decision

The Board is of the view that prorating of displacement volumes for OD purposes should be restricted to the delivery area.

11.5 Displacement by Interruptible Volumes for OD Purposes

An issue raised during the hearing was whether the definition of displacement volumes should include direct purchasers' interruptible volumes transported on the TransCanada system.

The following definition of displacement volumes for tariff purposes was provided in the May 1986 TCPL Reasons for Decision

"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" (emphasis added).

Under the OD methodology a distributor may reduce its OD volume up to the amount of the direct purchaser's volume that meets the displacement criteria. The objective of the OD reduction is to prevent the collection by TransCanada of transportation demand charges from both the direct purchaser and the distributor for the same volume (double demand charge). The double demand charge would occur if the distributor, which had formerly contracted on a firm basis for the enduser's gas requirements with TransCanada, did not receive OD relief when the end-user itself contracted for firm service with TransCanada.

Several intervenors proposed that the distributor receive OD relief if a direct purchaser enters into an interruptible service arrangement with TransCanada. It was argued that the distributor could have formerly served the customer through firm service purchases from TransCanada. Nevertheless, it was recognized that there would be no duplication of demand charges under these circumstances. The distributors were requesting demand charge relief if, in their opinion, they had lost a customer previously supplied from their firm contract purchases.

The question arose of how it could be determined whether the customer's supply was part of the LDC's firm or interruptible purchases from TransCanada or another supply source. It was suggested that the distributor would be the most appropriate source of information for this determination.

Under those circumstances where a distributor would be authorized to obtain OD relief equivalent

to the volume transferred to interruptible service, there would be no offsetting collection of demand charges by TransCanada. Thus, all firm customers on the system would be required to pick up the reduction in demand charge payments.

During argument TransCanada proposed a new toll design for interruptible service whereby interruptible tolls would contain a fixed-cost component, and the fixed costs collected would provide compensation to the distributors for any interruptible displacement losses. Under the proposal, if an interruptible service was determined to be a displacement, TransCanada would credit the displaced distributor's demand charge with the fixed costs collected from the displacing interruptible customer for its service in the preceding month.

The distributors objected to TransCanada's proposal. The after-the-fact fixed-cost assignment would not resolve their basic need for demand charge relief under the OD methodology, and, in their opinion, pipeline capacity requirements would remain overstated without the reduction in their OD. Furthermore, there would be no assurance that the interruptible volumes would actually flow in the quantities anticipated, and any drop in volume would reduce the monthly credit to the distributors' demand charges.

TransCanada, CPA, APMC, SPC and Union were of the opinion that the definition of displacement included in the May 1986 TCPL Reasons for Decision should not be expanded to include interruptible volumes. They supported the "firm-for-firm" concept because; interruptible volumes are not reasonably subject to a forecast, double demand charges are not received by TransCanada for a direct purchaser's interruptible service, unabsorbed demand charges within a distributor's system should be resolved by the provincial regulatory body, and any adjustment to the distributor's OD volume for interruptible service reallocates fixed costs to other firm customers on the TransCanada system.

IGUA, Northridge, certain distributors and Ontario were of the view that the issue should be looked at from the distributor's viewpoint. If the service displaced is a firm service, the distributor should be entitled to reduce its OD volume. It was recognized that this scenario requires the affected distributor to demonstrate that the interruptible displacement was, or would have been, entirely from firm supplies or a portion of firm supplies.

An assessment of the need for the inclusion of interruptible transportation volumes in the definition of displacement indicated that it was not an overall issue, and only a few parties would become involved. ICG (Ontario) was of the opinion that few customers would choose to take the risk of interruptible service. Consumers' indicated that all of its few interruptible service customers had converted to firm service.

Decision

The Board has approved a toll for interruptible transportation service that includes a fixed-cost component (see Section 9.5). The Board believes that OD relief for interruptible displacement should not be provided directly through demand charges collected under this service, as proposed by TransCanada.

The Board recognizes that there may be instances of a distributor suffering a displacement when a customer no longer contracts for services from the distributor but opts for an interruptible direct purchase. In these circumstances, the Board is prepared to consider requests for OD relief on a case-by-case basis.

Apart from the special cases noted above, the Board is of the view that the evidence does not indicate a need to amend the definition of displacement. The firm-for-firm concept is an integral part of the OD methodology.

11.6 Relief for Past Interruptible Displacements

During the hearing, three parties sought retroactive relief for past demand charge indemnifications they paid pursuant to provincial regulatory orders. Simplot sought relief for demand charge indemnifications it made for its use of T-AOI service on TCPL's system from 1 November 1986 to 31 December 1986. Gypsum sought relief for its use of IT service from 15 May 1986 to 31 October 1986, amounting to approximately \$298,000. Also, B.F. Goodrich Canada, Inc. (Goodrich) sought relief for its use of IT service from 20 August 1986 to 31 December 1986, amounting to approximately \$126,000.

Simplot argued that it should not be penalized for making a least-cost transportation decision (i.e. nominating T-AOI) when there were no curtailments in delivery because of excess capacity and where Simplot had the right to make such a nomination on the TCPL system.

Gypsum argued that the arrangements between itself and its supplier were put in place in an atmosphere of uncertainty and that it should not be held liable for selecting IT service when venturing forth into such an atmosphere.

TCPL argued that these interruptible displacement shippers should not be entitled to any such relief. TCPL argued that Simplot's gas requirement is clearly for firm service and Simplot opted for TAOI because it knew it would receive interruptionfree service.

TCPL also argued that Gypsum and Goodrich took the same sort of high risk strategy as Simplot by staying on IT service because it knew, or perceived, that during the summer season IT was, for all

practical purposes, firm service and the summer IT toll is lower than the firm service toll.

Decision

The Board is of the view that shippers should nominate for the type of service that will meet their requirements. The Board notes that Simplot, Gypsum and Goodrich opted for interruptible service to meet firm service requirements, and in doing so received the advantage of interruption-free service at the lower summer interruptible toll. Shippers opting for interruptible transportation service on the TransCanada system are expected to fully assess the risks and costs inherent in their transportation service decision. In these circumstances, the Board does not believe it would be appropriate to grant retroactive relief. Accordingly, the Board has denied the requests of Simplot, Gypsum and Goodrich.

11.7 Tariff Implementation

Decision

During the hearing TCPL filed a proposal for the implementation of the OD methodology on an interim basis. As part of that proposal TCPL proposed that the OD methodology be extended to include all domestic firm service daily demands. The Board accepts this proposal but believes that it would be more appropriate to extend the OD methodology to include all domestic and export firm service daily demands.

In order to implement the OD methodology, the Board directs TCPL to file toll schedules that incorporate a list of the operating demand volumes applicable to firm service for each distributor and for all domestic and export shippers

The Board is of the view that the inclusion of all domestic and export shippers in the OD methodology enhances the development of this new system of toll design and allocation for the purpose of determining just and reasonable tolls on the TCPL system.

The Board has decided that the reduction of operating demand volumes due to displacement has application solely in the Canadian market and will not be extended to export sales.

Chapter 12

Subsection 59(2) Applications for Final Orders

12.1 Tariff Matters

Up to the close of the evidentiary part of the hearing on 13 February 1987, applications covering fiftyeight interim orders for access to transportation and related tolls on the TransCanada system were completed and issued pursuant to ss. 16.1(2) and 59(2) and s. 50 and 53 of the Act. These were filed during the hearing, under Exhibit Code D, for final disposition of the applications for ss. 59(2) Orders.

Tariff matters, as they generally apply to ss. 59(2) Orders, have been dealt with in Chapter 10. The tariff matters in this section relate to specific concerns expressed about the term of ss. 59(2) Orders, Alberta removal permits and potential volume adjustments and their impact on ss. 59(2) Orders.

12.1.1 Duration

TransCanada held the view that final orders for STT service should specify a termination date not earlier than one year following the commencement date of service, if the interim ss. 59(2) Orders for STT service were issued prior to 31 October 1986. For interim STT service orders issued on or after 1 November 1986, the termination of the final orders should correspond to TransCanada's current contract year ending 31 October 1987 or the end of the next succeeding contract year but no longer than a three-year term. Although this may result in a term of less than one year, TransCanada is of the opinion that this is required to tie the ss. 59(2) Orders to TransCanada's contracts for transportation by other transmission systems. In Exhibit B-199 TransCanada stated that:

"Should some final Orders specify a termination date of December 31, 1987, TransCanada would need to contract with other transmission companies (assuming it could) to protect against peak day deliveries between November 1, 1987 and December 31, 1987 and continue to pay the related demand charges for the remainder of the contract year."

TransCanada also stated that it has no contractual right to demand an increase in its transportation capability on the Great Lakes and Union systems. On the Union system the contract provides for 24 months' notice. Although there are no constraints in the Great Lakes contract, there could be regulatory lags.

Union held the view that since many T-Service contracts with distributors are storage oriented, a 1 April to 31 March period for a T-Service contract is the most appropriate. In Union's view, such a contract year should be available to those endusers who request it.

Decision

The Board was not convinced by the evidence to terminate ss. 59(2) Orders on a contract year ending 31 October or any other standard time period. The applicants for ss. 59(2) Orders should be able to obtain service under the orders for a term that meets their requirements as long as they do not adversely affect TransCanada's contracts for transmission by others. Applications for ss. 59(2) Orders relate to displacement volumes, which for the most part, would be balanced by OD volume reductions and TransCanada's contracts for transmission by others would not be adversely affected. Even if a ss. 59(2) Order terminated on a 31 December date, presumably TransCanada's concerns would only be realized if the shipper/end-user switched to an alternate form of energy.

Therefore, the Board will issue final orders for STT service for terms of one-to-three years, as provided for in clause 1.1(d) of TransCanada's STT Toll Schedules, commencing on the day the shipper first delivers gas pursuant to the order issued. If an interim order has been issued, the term of the final order will be from the commencement date of deliveries under the interim order. If a shipper obtains or has obtained an amendment to a ss. 59(2) Order, to increase the daily STT demand volume, the start of the term period for the additional volume will be the latter of the date requested in the application or the date of first delivery of the additional volumes under the amendment to the Board order. The amount of the increase in the STT volumewill not be authorized for a period of less than one year. In the case where such an amendment would exceed the three-year term, a new order will be issued for the additional volume subject to the one to three-year term.

The IT Toll Schedules do not specify a term. Therefore, the term of the ss. 59(2) Orders for this service will be established by the Board taking into account the term requested in the application for a final order.

12.1.2 Force Majeure and Alberta Removal Permits

In its comments of 29 January 1987 on the applications for final orders (Exhibit D-1), TransCanada raised concerns about the gas supply arrangements of ss. 59(2) applicants. In particular, TransCanada noted that certain Alberta removal permits associated with certain ss. 59(2) Orders contain a condition that

"... gas shall not be removed from Alberta pursuant to the permit on or after 1 July 1987 unless before that date the Minister of Energy of the Province of Alberta has given written notice to

the Energy Resources Conservation Board that the Minister of Energy is satisfied that reviews of the surplus test to be conducted respectively by the National Energy Board and the Energy Resources Conservation Board have resulted or will result in significantly freer access to export markets for Alberta produced gas ..."

TransCanada further noted that shippers to ss.

59(2) Orders would be obligated to pay transportation demand charges payable to TransCanada for the full term of the final ss. 59(2) Order if the volume of gas cannot be removed from the province of Alberta.

Beaver Wood, Canadian Salt, Canadian GeneralTower, Domglas, Domtar, MacMillan Bathurst, Seagram, Panther, Proctor & Gamble, Polysar and PPG Canada submitted in response that the inability to remove gas constituted a "very special force majeure". As a result, the shippers holding ss. 59(2) orders ought to be relieved from paying any demand charges.

Decision

The Board has dealt with the force majeure issue put forth by IGUA and Cyanamid with respect to the interruption of gas supply in T-Toll Schedules in Section 10.1.6. In view of the Board's decision not to require TransCanada to amend its Toll Schedules to exempt a shipper from paying demand charges, if a force majeure is claimed by the shipper when there is an interruption of gas supply, it would be inappropriate and discriminatory to authorize such an exemption under any ss. 59(2) final Order. Moreover, the Board is of the view that such relief from demand charges would be tantamount to shifting the gas supply risks of the shippers under ss. 59(2) final Orders to TransCanada and other system users.

12.1.3 Requests for Potential Adjustments

Beaver Wood, Canadian Salt, Canadian GeneralTower, Canadian Gypsum, Consumers Packaging, Domglas, MacMillan Bathurst, Seagrams, Proctor & Gamble and PPG Canada indicated their concerns about forecasting demand for their products and services and unforeseeable market forces which could trigger changes to their requirements. It was their view that distributors subscribe to a variety of TransCanada's services that permit load management to a degree unavailable to a direct purchaser. The applicants therefore requested that the Board not preclude annual volume adjustments on the anniversary dates of ss. 59(2) Orders.

TransCanada held the view that there should be no automatic adjustments under the orders and any changes should be dealt with by applications for amendments subject to Board review and judged on the merits of each case.

Decision

The Board notes the applicants' concerns in attempting to accurately forecast their requirements over the applied-for term of a final order. However, any adjustments of the volume in a final order would potentially impact on the revenue requirement approved by the Board for TransCanada in any given test year. The Board maintains the view that any future volume adjustments to the final orders will be by application to the Board and each case will be judged on its own merits, taking into consideration, among other matters, the effect the applied-for change would have on TransCanada and other users on the system.

12.1.4 Sunset Provisions

Decision

The Board will condition all final orders, except those for IT service, with a sunset provision to ensure that the shippers act in a timely manner to finalize all the necessary arrangements to commence deliveries of gas to TransCanada. It is also appropriate to ensure that available capacity is not tied up for indefinite periods by potential shippers. Therefore, if gas has not commenced flowing within 60 days of the issuance of a final order, the order will terminate.

12.2 Resolution of TransCanada's Conditions for Access and ss. 59(2) Orders

Since the 31 October 1985 Agreement, the Board has been cognizant of the difficulties faced by the gas industry during the transition phase from an administered pricing regime to a market-oriented pricing regime, particularly with respect to the need for transportation services to access markets. During this period TransCanada has required potential displacement shippers to agree to certain conditions before entering a transportation agreement with such a shipper. Over time these conditions of access to transportation services have changed as various issues have been resolved and new ones have evolved. For the most part these conditions and the time factor for service have been the driving force for the applications for transportation service pursuant to ss. 59(2) of the Act.

During the hearing, IGUA requested TransCanada to file a copy of the standard conditions the Company was requiring potential displacement shippers to agree to before entering a transportation agreement. The November 1986 version of those conditions contain the following six conditions (Exhibit B-162):

"(a) The 'Availability' conditions of the applicable toll schedules must be satisfied.

(b) Shipper must agree to make payments (in addition to the applicable transportation toll) in accordance with the Take-or-pay Costs Sharing Act of Alberta and regulations thereunder.

(c) The distributor must agree to reduce permanently TransCanada's obligation to deliver under its CD contracts to the extent necessary to allow TransCanada to take on additional firm transportation contracts. This is only applicable if the service to be provided to Shipper is to be delivered at locations where TransCanada does not have sufficient pipeline capacity to meet all of its firm delivery obligations.

(d) Shipper and the end-user must agree that all of the gas transported be consumed by the end-user. None can be sold to the distributor for its own system supply.

(e) If this proposal is accepted by Shipper, TransCanada will submit it to TransCanada's producers, whose consent is required before TransCanada can provide such service.

(f) Shipper must furnish TransCanada with adequate assurances of its ability to meet its financial commitments to TransCanada."

At the time, these six conditions reflected TransCanada's position on entering contract negotiations for transportation access. Events subsequent to the filing of Exhibit B-162 have made some of the conditions redundant, such as the Alberta Government's prescription of TOPGAS sharing costs through the enactment of the Take-or-Pay Cost Sharing Act and Take-or-Pay Cost Sharing Regulations (condition b). In other cases, the conditions have had to be amended by TransCanada as a result of Board decisions and orders. These would include the implementation of the Board's OD methodology on an interim and final basis (condition c) and the Board's letter of 13 March 1986 respecting financial assurances (condition f). In addition, the Board's decisions contained in these Reasons for Decision respecting compliance with the availability sections of the toll schedules and the Board's position on the ultimate consumption by the end-users of gas transported, including a monthly reporting requirement, have addressed TransCanada's conditions (a) and (d) respectively.

Finally, condition (e) respecting producer consent has been removed as a pre-contracting criterion. In a letter dated 10 April 1987, TransCanada filed with the Board pro-forma copies of TransCanada's current offering letter and STT service contract. The Board has noted that the documents no longer reference the requirement for producer consent. The remaining conditions (e.g. satisfying the "Availability" provisions, financial assurance, OD volume reductions by distributors, ultimate consumption by end-users, reporting requirements and a 60-day sunset condition) are consistent with rulings by the Board or conditions which would have been included in a ss. 59(2) Order.

Decision

Although the letter dated 10 April 1987 is not part of the record in the RH-3-86 proceedings, the Board has taken note that it has a significant bearing on whether it is necessary to proceed with the issuance of final orders concurrently with the release of these Reasons for Decisions. In view of the changed circumstances, it is the Board's view that none of the conditions which remain should prevent or inhibit TransCanada and potential shippers from concluding negotiated contracts for transportation services.

12.3 Disposition of Final Applications

By a letter dated 27 November 1986 and by Order No. AO-1-RH-3-86, the Board stated its intentions, as part of the hearing, to dispose of all applications for final orders pursuant to ss. 59(2) of the Act. Subsequent to the close of the evidentiary record, ten of the fifty-eight interim orders filed at the hearing have been amended as a result of applications by the shippers. Since the close of the hearing the Board has also issued twenty five other interim orders for transportation access. In addition, the circumstances and issues related to the issuance of ss. 59(2) Orders have

c h a n g e d .

TransCanada has revised its pre-conditions for entering into contracts for transportation services with potential shippers. For the most part, those conditions would have to be satisfied by any applicant for a ss. 59(2) Order. The Board also believes that the decisions on access to transportation services on TransCanada's system contained in these Reasons for Decision establish an environment conducive to discussions between TransCanada, distributors and potential shippers to conclude contract negotiations for transportation services. Given these circumstances, the Board expects that potential applicants and applicants who have applied for and obtain orders pursuant to ss. 59(2) of the Act would continue discussions with TransCanada with the view to negotiating contracts with TransCanada to meet their requirements for transportation service. The Board is also aware from the submissions filed by the applicants pursuant to Order No. AO-1-RH-3-86 that no discussions with TransCanada have been held with the view of negotiating contract arrangements since the issuance of their interim orders.

Decision

It is the Board's view that it would be appropriate to provide a grace period before the issuance of any final orders pursuant to ss. 59(2) (a pro-forma order is shown in Appendix VI). Such a grace period would allow all parties to further pursue the negotiated contract process to satisfy their transportation requirements in light of the changed circumstances and these Reasons for Decision.

Consequently, the Board will require all holders of interim orders pursuant to ss. 59(2) to advise the Board by 30 September 1987 as to their contract negotiations with TransCanada and their continued requirement for a final order to meet their transportation requirements. The Board will subsequently consider the issuance of such final orders by 15 October 1987, if still required. As contracts for transportation services are successfully negotiated, the applicants will be expected to request the Board to revoke their interim orders and to withdraw their applications for final orders.

Chapter 13

Deferral Accounts

13.1 Rate of Carrying Charges

TransCanada has applied for monthly carrying charges on deferred balances at a rate of onetwelfth of the rate of return on rate base. Intervenors, most notably CPA and IPAC, argued that a lower rate should be allowed because deferral account balances are short-term in nature and do not have the same risk of non-recovery attached to them as the rate base as a whole. It was also argued that TCPL does not, in fact, finance these balances with long-term equity and debt.

Decision

It is the view of the Board that TCPL has two distinct types of deferral accounts; deferral accounts for operating costs and revenues and deferral accounts for special, non-recurring situations such as the Eurodollar foreign exchange loss and revenue deficiencies.

With respect to the operating deferral accounts, the debit and credit balances should offset each other and the net balances should not be significant over time. The balances in operating deferral accounts are normally amortized to the revenue requirement during the following test period.

In the case of deferral accounts for special situations, while the balances can be significant, they are usually non-recurring and are usually amortized over a much shorter period than the average life of rate base assets.

It is the Board's view that carrying charges on deferral accounts established for special situations such as the Eurodollar foreign exchange loss and revenue deficiencies should be calculated using a rate that approximates TCPL's probable cost of financing the deferred balances. The appropriate rate will be determined by the Board on a case-by-case basis.

The Board has decided that the rate of return on rate base continues to be appropriate for the purpose of calculating the carrying charges on operating deferral accounts. Accordingly, the Board authorizes TCPL to calculate carrying charges monthly on all deferred balances at a rate equal to onetwelfth of the approved annual rate of return on rate base, except when the Board directs otherwise for special situations.

13.2 Calculation of Carrying Charges

Decision

TransCanada has been calculating carrying charges on deferred balances using the month-end balances of the accounts. In the Board's view, this methodology is not consistent with the practice of including the average outstanding balance in rate base during the amortization period.

The Board has decided that, effective 1 January 1987, carrying charges on all deferred balances shall be calculated on the average of the opening and closing monthly balances.

13.3 Accounts Suspended 1 August 1986

TCPL requested that all final and continuing deferral accounts and all interim deferral accounts which were suspended by Board Order No. TGI11-86 effective 1 August 1986 be reinstated on a final and continuing basis for the 1987 test year subject to the approval of certain proposed amendments.

The following accounts were suspended by Board Order No. TGI-11-86.

Transmission by Others Accounts:

- Great Lakes Demand Charge
- Great Lakes Rates
- Great Lakes Exchange
- Great Lakes Fuel Cost
- Great Lakes Refund

Union Rates
TQM Toll

Other Accounts:

Compressor Fuel and Sub-account for ACQ
Make-up
Demand Revenue (FS, PS, TWS)
Debt Service
Income Tax Reassessment
Gas-related Costs and Purchase Price

TCPL also requested that the Great Lakes demand charge deferral account be amended to reflect a change in demand volumes from 658,438 Mcf per day to 750,000 Mcf per day.

TCPL further requested that the demand-revenue deferral account be amended to provide for (i) the deferral of amounts billed but not paid by a shipper and (ii) amounts representing fixed revenues anticipated in the setting of tolls but not received.

No intervenors opposed the approval of the deferral accounts discussed above.

Decision

The Board approves the reinstatement of all suspended deferral accounts effective 1 January 1987, with variances to be calculated with reference to the approved revenue requirement for the test year.

The Board considers a Great Lakes demand volume of 750,000 Mcf per day to be reasonable based on estimates of contracted volumes, and therefore approves these volumes for deferral-account purposes effective 1 January 1987.

The Board denies the requested amendment of the demand-revenue deferral account to defer amounts billed but not paid by a shipper. However, the Board approves amendments to this account to (i) provide for the deferral of amounts representing fixed revenues from domestic direct shippers anticipated in setting tolls but not received (see Section 13.4.2), and (ii) extend the provision for fixed-cost revenues to include Storage Transportation Service contracts.

13.4 New Accounts

13.4.1 Capital Additions and Maintenance Program

TransCanada requested a deferral account in which to record the variance between projected and actual costs of plant additions and certain maintenance projects.

TCPL argued that the change to a calendar year increased the time between when the test-period construction forecast is made and the start of construction, thereby decreasing the accuracy of its cost estimates. The addition and cancellation of projects subsequent to the toll hearing results in further variances between forecasted and actual cost of service. TCPL argued that this situation will become more prevalent with a calendar-year test year. The costs of certain projects such as pipe replacements following internal inspection are difficult to accurately forecast. TCPL argued that these projects should be included in the proposed deferral account. TCPL submitted that there would be no change in TransCanada's incentive and ability to control costs since all costs would continue to be brought forward to the next tolls hearing for review, without any assurance of recovery prior to a decision by the Board.

Several intervenors opposed the deferral account. Most argued that TCPL has control over its expenditures. CPA and IPAC argued that the deferral account for capital expenditures would decrease the incentive to TransCanada to strive for an accurate forecast and for the best estimate of capital costs. ICG (Ontario) argued that a deferral account would be tantamount to the cost of service type of regulation.

Decision

TCPL did not demonstrate the need for a deferral account for capital additions and certain maintenance projects. However, the Board would be willing to consider an application by TCPL for a deferral account in the specific instance of a project which may significantly affect the test-year rate base.

13.4.2 Fixed-cost Revenues Not Recovered

TCPL requested that the deferral account established in paragraph 6 of Board Order No. TG-684, as amended by Board Order No. TG-2-85, be further amended to provide for the deferral of amounts billed to, but not paid by, a shipper and amounts representing fixed revenues anticipated in the setting of tolls, but not received.

TCPL argued that the purpose of this deferral account is to maintain the same level of risk respecting cost recovery that TCPL currently has. While TCPL has not had collection problems in the

past, it argued that the significant proliferation of customers on the system has increased TCPL's exposure.

TCPL also argued that the existence of this deferral account is not a guarantee of the recovery of bad debt costs. TCPL would have to demonstrate that it had taken appropriate and reasonable steps in attempting to preclude the bad debt from occurring. In this regard TCPL is requesting a credit assurance condition in the final ss. 59(2) Orders to enable TCPL to make prudent assessments of shipper credit.

A number of intervenors were opposed to this deferral account. CPA, ICG (Ontario), APMC and Ontario all argued that, if shippers provided appropriate financial assurances, there would be no need for this deferral account. ICG (Ontario) also argued that TCPL should consider providing for an allowance for bad debt expense in its cost of service while Ontario argued that the risk associated with bad debts is an element of normal business risk for which TCPL is more than adequately compensated in its rate of return.

Decision

The Board finds it appropriate to amend the demand-revenue deferral account (see Section 13.3) to include amounts representing fixed revenues anticipated from domestic direct shippers in the setting of tolls, but not received. However, the Board does not believe that it would be appropriate to provide for the deferral of bad debts in view of the Board's decision on credit assurances (see Section 10.2.6). Therefore, the amendment to provide for the deferral of amounts billed to, but not paid by, a shipper is denied.

13.4.3 Insurance Deductibles

Decision

As a result of the Board's decision to use a three-year average to determine the appropriate amount of insurance deductibles to be included in the test-year revenue requirement (see Section 7.2.4.2), there is no need for a deferral account.

13.4.4 Future Legislative Changes to Various Taxes

TransCanada requested approval of deferral accounts to record variances between forecast and actual income and capital taxes as well as any new taxes which may result from any legislation enacted during the test year.

In support of this request, TransCanada noted the many tax rate changes that occurred during the last test year which had not been provided for in tolls. TCPL further argued that moving the test year to a calendar year will not allow the Company to make provision in its toll applications for tax changes normally announced in federal and provincial budgets during the first-half of the year.

Although TCPL could not identify any specific new taxes that it expects to be enacted during the test year, it argued that the tax reform initiatives currently underway by the federal government could result in changes to existing tax rates as well as the possible imposition of new forms of taxation.

Decision

The Board recognizes that changes in tax rates and new taxes are clearly beyond the Company's control and can occur on short notice. In these circumstances the tax deferral accounts requested are appropriate. Accordingly, the Board authorizes TCPL to record in deferral accounts the amount by which actual taxes vary from the taxes provided for in tolls because of future legislative changes to;

- (a) federal surtaxes and income taxes,
- (b) provincial surtaxes and income taxes,
- (c) corporate capital taxes,
- (d) taxes related to fuel consumption, and
- (e) new federal or provincial taxes.

13.4.5 Test-year Revenue Surplus

Decision

The Board has estimated that the existing interim tolls will result in a revenue surplus in the period 1 January to 30 June 1987. The Board has reflected this amount in the test-year revenue requirement and it is to be amortized in the period 1 July to 31 December 1987 (see Sections 8.2 and 8.4).

The Board directs TransCanada to set up a deferral account to record variances between the estimated test-year revenue surplus and the actual revenue surplus recovered in tolls during the period 1 July to 31 December 1987, together with carrying charges calculated at the authorized unfunded debt rate. The balance in the account shall be brought forward for disposition at the next toll hearing.

13.4.6 Losses on Eurodollar Loans

Decision

As a result of the Board's decision on the three-year amortization of the losses on the Eurodollar loans (see Section 7.4.1), TransCanada shall establish a separate deferral account to record the higher unamortized balance which is to be brought forward for disposition at the next toll proceeding. The carrying charges shall be calculated at the unfunded debt rate.

13.4.7 Fixed-cost Revenues from Interruptible Services

Decision

As part of the Board's decision to set interruptible tolls equivalent to the FS-80 and FS-90 levels, which include a fixed cost component, the Board has established a deferral account to record the fixed-cost revenues attributable to interruptible services, together with carrying charges (see Section 9.5).

The amount to be deferred will be the difference between the interruptible toll charged, either IS-1 or IS-2, and the firm service commodity toll. The deferred amounts, together with carrying charges, shall be brought forward for disposition at the next toll hearing.

Chapter 14

Disposition

The foregoing chapters, together with Order No. TG-3-87, constitute our Reasons for Decision and our Decision on this matter.

W.G. Stewart
Presiding Member

Member J. Farmer

J.R. Jenkins
Member

Ottawa, Canada
May 1987

Appendix I

ORDER RH-3-86

Directions on Procedure TransCanada PipeLines Limited 1986 Tolls Application

By application dated 14 July 1986, TransCanada PipeLines Limited has applied to the National Energy Board for certain orders respecting tolls under Sections 50, 51 and 53 of the National Energy Board Act.

Having considered the application on 25 July 1986, the Board has decided to hold a public hearing and 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 Commerce Court West, 54th Floor, corner of King and Bay Streets, Toronto, Ontario, M5L . A copy of the application is also available for viewing during normal business hours in the Board's Library, Room 962, 473 Albert Street, Ottawa, Ontario, K1A 0E5 and at the Board's Calgary office, 4500-16th Avenue, N.W., Calgary, Alberta, T3B 0M6.

INTERVENTIONS AND LETTER OF COMMENT

2. Interventions and letters of comment are required to be filed with the Secretary and served on the Applicant by 15 August 1986.

3. The Secretary will issue a list of intervenors shortly after 15 August 1986.

INFORMATION REQUESTS

4. Information requests addressed to the Applicant or any other party to the proceeding are required to be filed with the Secretary and served on all other parties to the proceeding by 5 September 1986.

5. Responses to information requests received within the specified time limit shall be filed with the Secretary and served on all other parties to the proceeding by 15 September 1986.

WRITTEN EVIDENCE

6. Written evidence of the Applicant shall be filed with the Secretary and served on all other parties to the proceeding by 20 August 1986.

7. Written evidence of intervenors is required to be filed with the Secretary and served on all other parties to the proceeding by 29 August 1986.

HEARING

8. The public hearing will commence in the Hearing Room of the National Energy Board, 473 Albert Street, Ottawa, Ontario on Tuesday, 30 September 1986 at 9:00 a.m.

SERVICE TO PARTIES

9. The Applicant shall serve one copy of these Directions on Procedure and the Notice of Public Hearing attached as Appendix I forthwith on the parties listed in Appendix II.

NOTICE OF HEARING

10. The publications in which the Applicant is required to publish the Notice of Public Hearing are listed in Appendix III.

STRUCTURE AND SCOPE OF HEARING

11. At the hearing, unless otherwise authorized by the Board, the evidence will be heard in the following order:

- (1) Cost of Capital;
- (2) Rate Base;
- (3) Cost of Service excluding Cost of Capital; and
- (4) Toll Design and Tariff Matters.

The Board will hear first all of the evidence of TransCanada on all of the items and then will hear all of the evidence of each intervenor in turn.

For each item, before hearing evidence on subsequent items, the Board will hear all of the evidence for both periods under consideration, i.e. 1 August to 31 December 1986 and 1 January to 31 December 1987.

12. At the hearing the Applicant should be prepared to address, among other things, the following matters:

- (1) The determination, disposition and appropriate accounting treatment of any revenue deficiency or surplus arising from the interim tolls for the period 1 August to 31 December 1986;
- (2) The question of whether it is appropriate to recover in tolls for a subsequent test period the additional Pipeline Integrity Program expense incurred in June and July of 1986 and deferred in accordance with Board Order No. TG-2-86; and

(3) The question of whether it is appropriate to recover in tolls for a subsequent test period certain increases in federal and provincial income taxes and capital taxes which have been deferred in accordance with Board Orders Nos. AO-1-TG-2-85, AO-2TG-2-85, AO-3-TG-2-85 and AO-4-TG-285.

13. Any substantive issues or proposals which parties wish to introduce which are not included in the application or this Order should be fully addressed in the written evidence filed pursuant to this Order.

FILING AND SERVICE REQUIREMENTS

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

- (i) for documents to be filed with the Board, provide 35 copies;
- (ii) for documents to be served on the Applicant, provide 3 copies;
- (iii) for documents to be served on intervenors, provide 1 copy.

15. Parties filing or serving documents at the hearing shall file or serve the number of copies specified in the preceding paragraph.

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

17. Parties filing or serving fewer than three days prior to the commencement of the hearing shall also bring to the hearing a sufficient number of copies of the documents for use by the Board and other parties present at the hearing.

SIMULTANEOUS INTERPRETATION

18. The proceeding will be conducted in either of the two official languages and simultaneous will be provided.

GENERAL

19. All parties are asked to quote No. RH-3-86 when corresponding with the Board in this matter.

20. These Directions supplement the NEB Draft Rules of Practice and Procedure.

J.S. Klenavic
Secretary

APPENDIX I To Order RH-3-86

**NATIONAL ENERGY BOARD
NOTICE OF PUBLIC HEARING**

**TransCanada PipeLines Limited
1986 Tolls Application**

The National Energy Board ("the Board") will conduct a hearing into an application dated 14 July 1986 by TransCanada PipeLines Limited ("the Applicant") pursuant to Sections 50, 51 and 53 of the National Energy Board Act for certain orders respecting tolls.

The hearing will commence on Tuesday, 30 September 1986 at 9:00 a.m. local time in the Board's hearing room, 473 Albert Street, Ottawa, Ontario.

The hearing will be public and will be held to obtain the evidence and relevant views of interested parties, groups, organizations and companies 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 the Applicant. The Applicant will provide a copy of the application to each intervenor.

Anyone wishing only to comment on the application should write to the Secretary of the Board and send a copy to the Applicant at P.O. Box 54, Commerce Court West, Toronto, Ontario M5L 1C2.

The deadline for receipt of either written interventions or comments is 15 August 1986. The Secretary will then issue a list of intervenors.

Information on the procedures for this hearing (Reference Number: RH-3-86) or the NEB Draft Rules of Practice and Procedure governing all hearings (both documents available in English and French) may be obtained by writing to the Secretary or telephoning the Board's Regulatory Support Office at (613)998-7206.

J.S. Klenavic
Secretary
National Energy Board
473 Albert Street
Ottawa, Ontario
K1A 0E5

(Telex No. 0533791)
(Telecopier no. 990-7900)

25 July 1986

APPENDIX II to Order RH-3-86

Federal Government

Department of Consumer and Corporate Affairs

Provincial Government

Province of British Columbia

Attorney General

Province of Alberta

Attorney General

Province of Saskatchewan

Attorney General

Minister of Energy and Mines

Province of Manitoba

Attorney General

Minister of Energy and Mines

Province of Ontario

Attorney General

Ministry of Energy

Province of Quebec

Procureur général du Québec

Ministère de l'énergie et des ressources

Associations

The Canadian Chemical Producers' Association
Canadian Gas Association
Canadian Petroleum Association
Council of Forest Industries of British Columbia
Independent Petroleum Association of Canada
Industrial Gas Users Association

U.S. Companies

Natural Gas Pipeline Company of America
Niagara Interstate Pipeline System
Northern Natural Gas Company
Northern States Power Company
Northwest Alaskan Pipeline Company
Tennessee Gas Transmission Company
Texas Eastern Transmission Corporation
Transcontinental Gas Pipe Line Corporation

Others

Alberta Natural Gas Company Ltd.
Alberta Petroleum Marketing Commission
Allied Chemical, a division of Allied Canada Inc.

Amoco Canada Petroleum Company Ltd.
B.C. Hydro and Power Authority
Bralorne Resources Limited
Brenda Mines Ltd.
British Columbia Petroleum Corporation
Canterra Energy Ltd.
City of Edmonton
Consolidated Natural Gas Limited
The Consumers' Gas Company Limited
Cornu Resources Marketing Limited
Cyanamid Canada Inc.
Czar Resources Ltd.
C-I-L Inc.
Dome Petroleum Limited
Dow Chemical of Canada Inc.
Foothills Pipe Lines (Yukon) Ltd.
Gas Inter-Cite Quebec Inc.
Gaz Métropolitain, inc.
ICG Utilities (Manitoba) Ltd.
Gulf Canada Limited

Esso Resources Canada Limited

Inland Natural Gas Co. Ltd.

Inter-City Gas Corporation

Interprovincial Pipe Line Limited

Long Energy Consultants

Nitrochem Inc.

Northern and Central Gas Corporation

Northridge Petroleum Marketing, Inc.

NOVA, AN ALBERTA CORPORATION

Ocelot Industries Ltd.

PacGas Limited

Pan-Alberta Gas Ltd.

PanCanadian Petroleum Limited

Polysar Limited

ProGas Limited

PSR Gas Ventures Inc.

Saskatchewan Power Corporation

Signalta Resources Limited

Simplot Chemical Company Ltd.

SOQUIP

Sulpetro Limited

Suncor Inc.

Topgas Holdings Limited

Trans Québec & Maritimes Pipeline Inc. TransCanada PipeLines Limited

TransContinental Gas Pipe Line Corporation Union Gas Limited Westcoast

Transmission Company Limited

APPENDIX III to Order RH-3-86

"The Herald"	Calgary, Alberta
"The Edmonton Journal",	Edmonton, Alberta and "Le FrancoAlbertain"
"The Sun Province"	Vancouver, British Columbia
"The Times-Colonist"	Victoria, British Columbia
"The Winnipeg Free Press"	Winnipeg, Manitoba
"La Liberté"	St. Boniface, Manitoba
"Le Devoir", "La Presse", and "The Gazette"	Montreal, Quebec
"Le Journal de Québec", "Le Soleil" and "The Chronicle Telegraph"	Quebec, Quebec
"The Leader-Post" and	Regina,

"Journal L'eau Vive" Saskatchewan
"The Globe and Mail", Toronto, Canada
Toronto Star", "The
Financial Post",
"Financial Times of
Canada", and "L'Express"
"The Citizen", "Le Droit" Ottawa, Ontario
and "The Canada Gazette"

Order AO-1-RH-3-86

Appendix II

**(Amending Hearing Order RH-3-86)
TransCanada PipeLines Limited
Procedure Relating to the Final Disposition
of Applications filed pursuant to
ss. 59(2) of the National Energy Board Act**

On 25 July 1986 the Board issued Order No. RH-386 setting out the scope and procedure for the hearing to be held on TransCanada's Tolls Application. Subsequently, by letter dated 27 November 1986, the Board advised all interested parties in the hearing and all Applicants for final orders of the Board pursuant to ss. 59(2) of the Act, that as part of the hearing, the Board intended to dispose of all applications for final orders under ss. 59(2) and all matters related thereto. In order to properly consider the disposition of these applications, the Board hereby amends Hearing Order No. RH-386 by the addition of the following paragraphs:

21. The Board directs that all Applicants for ss.59(2) orders file with the Board, on or before 16 January 1987, an updated or new application for a final ss. 59(2) order which application, without limiting the generality of the foregoing, shall include the following information:

(a) the name(s) of end-user(s) and location of facilities receiving gas to be shipped under the order;

(b) the location(s) where gas is to be delivered by the shipper to TransCanada and the delivery point(s) on the TransCanada system where gas is to be delivered by TransCanada to local distributor for subsequent delivery to the enduser's facilities;

(c) the daily maximum volume of gas in 10^3m^3 by class of service, to be received, transported and delivered by TransCanada, by distributor and by delivery area;

(d) (i) if gas has commenced flowing under an interim order, advise the date of first delivery of gas by the shipper to TransCanada under that order;

(ii) with the exception of IT service, if gas will not have commenced flowing under an interim order by 1 January 1987, the reasons why a final order should be issued:

(e) the term of the proposed STT service, if applicable, considering the following factors:

(i) the STT Toll Schedule provides for a minimum term of one year and a maximum term of three years;

(ii) if gas is flowing under an interim order, the start of the term period is when shipper first delivered gas to TransCanada for transmission under the interim order for STT service;

(iii) if a shipper has received authorization under an amendment to the ss.59(2) order to increase the daily STT demand volume, the start of the term period for the additional volume will be the date of the amendment to the Board order;

(iv) if gas is not flowing, the start of the term period for a final order will be when the shipper first delivers gas to TransCanada for transmission.

(f) the term of the proposed IT service, if applicable;

(g) the status of contract negotiations with TransCanada for transportation service.

22. All applications for orders under ss.59(2) must be for service which complies with the applicable interim STT, T-AOI or IT Toll Schedules approved by Board Order No. TGI-57-86.

23. Overrun interruptible transportation service under the T-AOI Toll Schedule will be available to shippers holding final orders under ss.59(2) for STT transportation service;

24. With the exception of an order for IT service only, if gas has not commenced flowing within 60 days of the issuance of the order under ss.59(2), the order will terminate unless extended by the Board upon application by the shipper.

25. The Applicant for a final order under ss. 59(2) must file ten copies of its application with the Board and one copy with each of the interested parties listed in Attachment A, where applicable.

26. Interested parties are requested to provide their comments on each application to the Board, to the Applicant for a final order under ss.59(2) and to other interested parties by 29 January 1987.

27. The Applicant for a final order under ss.59(2) is requested to respond to the comments of interested parties by 5 February 1987.

28. The Board intends to deal with all applications for final orders under ss. 59(2) by written

submission.

29. All outstanding interim orders under ss.59(2) for gas transmission by TransCanada will terminate with the disposition of applications for final orders in conjunction with the Board's decision in RH-3-86.

J.S. Klenavic,
Secretary

Attachment A to Order AO-1-RH-3-86

Potentially Interested Parties

The Producing Province

1. Alberta Energy Resources Conservation Board Secretary Alberta Energy Resources Conservation Board 640 - 5th Avenue S.W. Calgary, Alberta T2P 3G4
2. Alberta Petroleum Marketing Commission Mr. W.M. Smith General Counsel and Secretary Alberta Petroleum Marketing Commission 1900, 250 Sixth Avenue S.W. Calgary, Alberta T2P 3H7
3. Alberta Energy and Natural Resources Mr. N. E. MacMurchy Assistant Deputy Minister Alberta Energy and Natural Resources Petroleum Plaza - South Tower 9915 - 108 Street Edmonton, Alberta T5K 2C9
4. Saskatchewan Ministry of Energy and Mines Deputy Minister Ministry of Energy and Mines 1914 Hamilton Street Regina, Saskatchewan S4P 4V4

The Consuming Province

5. Ontario Ministry of Energy Director, Legal Services Ontario Ministry of Energy Queen's Park Toronto, Ontario M7A 2B7

6. Ministère de l'énergie et des ressources Me Jean Robitaille Service juridique 200B Chemin Ste-Foy Québec (Québec) G1R 4X7

7. Régie du gaz et électricité Secrétaire Montreal, Québec

8. Manitoba, Ministry of Energy and Mines Mr. R. Pritchard Director, Energy Policy Suite 555 330 Graham Avenue Winnipeg, Manitoba R3C 4E3

Pipeline and Distribution Companies

9. TransCanada PipeLines Limited Mr. J.W.S. McOuat Vice-President - Law TransCanada Pipelines Limited Box 54, Commerce Court West Toronto, Ontario M5L 1C2

10. Trans Québec and Maritimes Pipeline (TQM) - if applicable Mr. J.W. Beames, Q.C. Trans Québec and Maritimes Pipeline (TQM) 870, boul. de Maisonneuve est Montreal, Quebec H2L 1Y6

11. The affected local distribution company

Other Potentially Interested Parties

12. Any intervenor in RH-3-86 who has made a written request on or before 16 January 1987 to the Applicant for a final order under ss. 59(2).

Appendix III

ORDER NO. TG-3-87

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

IN THE MATTER OF an application by TransCanada PipeLines Limited (hereinafter called "TransCanada") for certain Orders respecting tolls under Sections 50, 51 and 53 of the National Energy Board Act, filed with the Board under File No. 1562-T1-22.

BEFORE:

W.G. Stewart
Presiding Member

J. Farmer Thursday, the 14th
Member day of May 1987

J.R. Jenkins
Member

WHEREAS an application dated 14 July 1986, as revised, has been made to the Board by TransCanada seeking, inter alia, orders under Sections 50, 51 and 53 of the National Energy Board Act fixing the just and reasonable tolls TransCanada may charge for or in respect of the transportation of gas sold by TransCanada, and for the transportation of gas owned by others, and disallowing any existing tolls or portions thereof that are inconsistent with the just and reasonable tolls so fixed, effective 1 January 1987;

AND WHEREAS the Board has issued, on 23 December 1986, Order No. TGI-57-86, as amended, implementing, on an interim basis commencing 1 January 1987, the Operating Demand ("OD") methodology proposed by TransCanada in a submission made pursuant to paragraph 4 of Board Order No. TG-1-86 and filed in the proceedings under RH-3-86, as Exhibit B-227;

AND WHEREAS the Board has heard the evidence and submissions of TransCanada and all interested parties with respect to the application at a public hearing held pursuant to RH-3-86 which commenced in Ottawa on 30 September 1986;

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

IT IS ORDERED THAT:

1. TransCanada shall, for accounting, tollmaking and tariff purposes, implement procedures conforming to the Board's decisions outlined in the Reasons for Decision dated May 1987 and with this Order.

2. The tolls which were in effect for the period extending from 1 August 1986 to 31 December 1986 are final.

3. The tolls which were in effect for the period extending from 1 January 1987 to 30 June 1987 are final.

4. TransCanada shall forthwith file with the Board and serve upon all parties to the hearing of this application new tariffs including general terms and conditions and tolls conforming with the decisions outlined in the Reasons for Decision dated May 1987 and with this Order.

5. Notwithstanding the filing of the new tariffs and tolls, the same shall remain suspended and be of no effect until 1 July 1987.

6. Those provisions of TransCanada's tariffs and tolls or any portion thereof that are contrary to any provision of the National Energy Board Act, to the Reasons for Decision dated May 1987, or to any order of the Board including this Order, are hereby disallowed, after 30 June 1987.

NATIONAL ENERGY BOARD

J.S. Klenavic Secretary

Appendix IV

TransCanada Pipelines Limited
Functional Distribution and Classification of Total Revenue
for the Test Year

	Total	Cost of Gas Sold	Metering	Transmission Fixed	Fuel & Other	Miscellaneous Transmission
Cost of Gas Sold	\$2,379,482,538	\$2,379,482,538				
Transmission by Others	266,443,186			\$177,094,676	\$89,062,707	\$285,803
Operation and Maintenance	262,557,030		\$7,163,527	143,716,764	125,502,247	(13,825,508)
Depreciation	94,766,000		1,026,251	93,739,749		
Taxes Other than Income Taxes	37,190,897		149,646	37,041,251		
Income Taxes	141,007,116			1,527,010	139,480,106	
Miscellaneous Deferred Items	10,869,502			10,869,502		
Other Operating Income	(4,036,133)			(262,400)	(3,773,733)	
Return on Rate Base	334,561,810		3,623,075	330,938,735		
Interim Revenue Adjustment1	18,723,755			18,723,755		
Foreign Exchange Loss	15,650,000			15,650,000		
Miscellaneous Revenue	(19,128,139)	(5,076,745)	(192,456)	(11,542,953)	(2,315,985)	
Total Revenue	\$3,538,087,562	\$2,374,405,793	\$13,297,053	\$955,449,185	\$208,475,236	(\$13,539,705)

1 The interim revenue adjustment has been doubled for the purpose of calculating tolls in order to amortize the adjustment in the six month period ending 31 December 1987. Refer to Section 8.4 of the report.

Appendix V

TransCanada Pipelines Limited Transportation Tolls Effective 1 July 1987
Fuel Provided by Shipper

Service (a)	Demand Toll (\$/10 ³ m ³ /mo) (b)	Commodity Toll (\$/10 ³ m ³) (c)	Commodity Toll (\$/10 ³ m ³) (d)	Fuel Ratio (e)
Saskatchewan Zone				
FS	180.85	0.982	0.317	0.81%
IS-1		8.414	7.749	0.81%
IS-2		7.588	6.923	0.81%
PS		80.85	80.18	0.81%
TWS		31.72	31.053	0.81%
Manitoba Zone				
FS	315.35	2.127	0.919	1.47%
IS-2		15.087	13.879	1.47%
IS-2		13.647	12.439	1.47%
PS		81.99	80.786	1.47%
TWS		32.86	31.656	1.47%
Western Zone				
FS	519.86	3.917	1.872	2.49%
IS-1		25.281	23.236	2.49%
IS-2		22.907	20.862	2.49%
PS		83.78	81.738	2.49%
TWS		34.65	32.608	2.49%
Northern Zone				
FS	807.91	6.339	3.152	3.88%
IS-1		39.541	36.354	3.88%
IS-2		35.852	32.665	3.88%
PS		86.21	83.018	3.88%
TWS		42.37	39.178	3.88%
Eastern Zone				
FS	1001.20	7.978	4.027	4.81%
ACQ		35.394	31.443	4.81%
IS-1		49.123	45.172	4.81%
IS-2		44.552	40.601	4.81%
PS		116.08	112.133	4.81%
TWS		45.77	41.823	4.81%
Saskatchewan Power Corporation:				
-from Empress & Richmond FS	145.81	0.693	0.159	0.65%
-from Bayhurst & Liebenthal FS	135.57	0.597	0.112	0.59%
-from Success FS	92.06	0.751	0.398	0.43%
-from Herbert FS	27.23	0.164	0.090	0.09%

TransCanada Pipelines Limited Transportation Tolls Effective 1 July 1987

Service (a)	Fuel Provided by Shipper			Fuel Ratio (e)
	Demand Toll (\$/10 ³ m ³ /mo) (b)	Commodity Toll (\$/10 ³ m ³) (c)	Commodity Toll (\$/10 ³ m ³) (d)	
-from Herbert to Emerson	289.43	1.940	0.823	1.36%
FS		13.834	12.717	1.36%
IS-2		12.513	11.396	1.36%
-from Empress to Spruce	346.10	2.422	1.075	1.64%
FS		16.645	15.298	1.64%
IS-1		15.065	13.718	1.64%
IS-2				
-from Empress to Emerson	353.54	2.486	1.114	1.67%
FS		17.015	15.643	1.67%
IS-1		15.401	14.029	1.67%
IS-2				
-from Empress to Niagara Falls	1042.10	8.363	4.231	5.03%
FS		51.189	47.057	5.03%
IS-1		46.431	42.299	5.03%
IS-2				
-from Empress to Cornwall	1056.43	8.486	4.296	5.10%
FS		51.901	47.711	5.10%
IS-1		47.077	42.887	5.10%
IS-2				
-from Empress to Phillipsburg	1114.74	8.981	4.553	5.39%
FS		54.792	50.364	5.39%
IS-1		49.702	45.274	5.39%
IS-2				

Code: FS Firm Service (CD, T, STCD, and STT)
 ACQ Annual Contract Quantity
 IS-1 Tier One Interruptible Service (& AOI and T-AOI from 1 July to 31 October 1987)
 IS-2 Tier Two Interruptible Service (& IT from 1 July to 31 October 1987)
 PS Peaking Service (PS and T-PS)
 TWS Temporary Winter Service (TWS and T-TWS)

Appendix VI
Pro-forma Order Pursuant
to ss. 59(2) of the NEB Act

ORDER NO. TG- 87

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

IN THE MATTER OF an application for orders pursuant to subsection 59(2) and Sections 50, 51 and 53 of the Act directing TransCanada Pipelines Limited ("TransCanada") to transport natural gas and fixing the toll TransCanada may charge for the service.

BEFORE the Board on

UPON an application dated the _____ by _____ (" ") pursuant to subsection 59(2) and Sections 50, 51 and 53 of the Act, for an order requiring TransCanada to receive, transport and deliver natural gas offered by _____ for transmission by means of its pipeline and for an order establishing the just and reasonable tolls that TransCanada may charge _____ for and in respect of transportation services to be rendered by TransCanada, as more particularly set out in the application and filed with the Board under File No. _____

AND UPON the Board having issued interim Order No. TGI- _____ ;

AND UPON the aforementioned application having been filed as Exhibit No. D- _____ in the TransCanada Pipelines Limited toll hearing, pursuant to Hearing Order No. RH-3-86 as amended;

AND UPON the Board having considered the application for relief and the comments of interested parties thereon and having found that it would be in the public interest to grant an order pursuant to subsection 59(2) and Sections 50, 51 and 53 of the Act;

IT IS ORDERED THAT, pursuant to subsection 59(2) and Sections 50 and 53 of the Act:

1. TransCanada shall in accordance with the terms and conditions of TransCanada's (FS, IS-1, IS-2, TWS, PS, as applicable) Toll Schedules receive, transport and deliver gas offered by the shipper specified in subparagraph (a), for transmission by means of its pipeline from the point or points of receipt specified in subparagraph (b), to the point or points of interconnection of the TransCanada and distributor or distributors pipeline systems specified in subparagraph (c) in the quantities specified therein at the point of delivery, for subsequent transmission by such distributor or distributors to the end-user at the location or locations of its facilities specified in subparagraph 1(d)

(a) Shipper: _____ (b) Points of Receipt: _____ (c) Points of Delivery By Distributor and _____ Quantity: _____ (d) End User and Location of Facilities: _____

2. The term of this Order shall be for the period commencing on the _____ day of _____, and ending on the _____ day of _____.

3. Quantities of gas equivalent to those transported pursuant to this Order shall ultimately be consumed by the end-user at its facilities specified in subparagraph 1(d).

4. This Order will terminate if the Shipper referred to in subparagraph 1(a) has not commenced deliveries pursuant to this Order within 60 days of the issuance of this Order.

NATIONAL ENERGY BOARD

J.S. Klenavic