

National Energy Board
Reasons for Decision

September 1985

TransCanada PipeLines Limited

Application dated 8 February 1985, as revised,
for new tolls, effective 1 August 1985

RH-2-85

Minister of Supply and Services Canada 1985

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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 pursuant to sections 50, 51 and 53 of the National Energy Board Act; and

IN THE MATTER OF the application by TransCanada PipeLines Limited for certain Orders respecting the approval of prices to be paid by the Company to acquire natural gas produced in the Province of Alberta pursuant to section 53 of the Energy Administration Act and the Regulations made pursuant to Part III of the said Act.

HEARD at Ottawa, Ontario on 24, 25, 26 and 30 April 1985 and 1, 2, 3, 6, 7, 8, 9, 10, 13, 14, 15, 21, 22, 23, 24, 27, 28, 29, 30 and 31 May 1985 and 3, 4, 5, 6, 7, 10, 11, 12 June 1985 and 16, 17 and 18 July 1985.

BEFORE:

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J.R. Jenkins	Member
R.B. Horner, Q.C.	Member

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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

Board National Energy Board

B.C. Hydro B.C. Hydro and Power Authority

CCA Capital Cost Allowance

CDContract Demand

CD-100Unit Transportation Toll for CD Service Based on 100 Percent Load Factor

Consumers'The Consumers' Gas Company Ltd.

COSCanadian Ownership Special Charge

CPACanadian Petroleum Association

CPI Consumer Price Index

Consolidated Consolidated Natural Gas Limited

DCF Discounted Cash Flow

Dome Dome Petroleum Limited

EAA Energy Administration Act

FDPS First Date Placed in Service

FERC Federal Energy Regulatory Commission

GICQ Gaz Inter-Cité Québec Inc.

GJ Gigajoule (10⁹ joules)

GLGT, Great Lakes Great Lakes Gas Transmission Company

GMI Gaz Métropolitain, inc.

GPUAR Gas Pipeline Uniform Accounting Regulations

IGUA Industrial Gas Users Association

ICG Inter-City Gas Corporation

Kpa Kilopascal

Manitoba Minister of Mines for the Province of Manitoba

mcf Thousand Cubic Feet

10⁶m³ Million Cubic Metres

NBSC North Bay Shortcut

NEB National Energy Board

NEB Act

National Energy Board Act

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Northern and Central

Northern and Central Gas Corporation Limited

Northridge

Northridge Petroleum Marketing Inc.

Ontario

Minister of Energy for Ontario

PJ

Petajoules

Plains Western

Plains Western Gas (Manitoba) Ltd.

PS

Peaking Service

Simplot

Simplot Chemical Company Ltd.

SGS

Small General Service

STS

Storage Transportation Service

Sulpetro

Sulpetro Limited

TCPL, TransCanada

TransCanada PipeLines Limited

10³m³

Thousand Cubic Metres

TQM

Trans Québec & Maritimes Pipeline Inc.

TWS

Temporary Winter Service

Union

Union Gas Limited

**August 1980
Reasons for
Decision**

National Energy Board Reasons for Decision in the Matter of the Application Under Part IV of the National Energy Board Act (Rate Application) of TransCanada PipeLines Limited - August 1980

**July 1982
Reasons for
Decision**

National Energy Board Reasons for Decision in the Matter of the Application Under Part IV of the National Energy Board Act (Tolls Application) of TransCanada PipeLines Limited - July 1982

**June 1983
Reasons for
Decision**

National Energy Board Reasons for Decision in the Matter of the Application Under Part IV of the National Energy Board Act (Tolls Application) of TransCanada PipeLines Limited - June 1983

GLOSSARY OF TERMS

TransCanada PipeLines Limited Description of Classes or Types of Service

- 1. Contract Demand - CD** TCPL agrees to sell to a Buyer, in a specified delivery area, up to a specific quantity of gas each day, which represents TCPL's maximum daily obligation to deliver to a Buyer. For the transportation of the gas buyer must pay a fixed monthly demand charge regardless of volumes actually taken and also a commodity charge related to the volume taken.
- 2. Annual Contract Quantity - ACQ** TCPL agrees to sell to a Buyer in the Eastern Rate Zone an annual quantity of gas designated as the Annual Contract Quantity. Forty percent of this annual quantity is scheduled for delivery in the winter period and sixty percent in the summer period. Various curtailment rights are available to TCPL. Transportation charges relate to the volume taken each month, with provision for an annual supplemental charge for volumes offered and not taken.
- 3. Small General Service - SGS** TCPL agrees to sell to a Buyer, in a specified delivery area, up to a specific quantity of gas each day which represents TCPL's maximum daily obligation to deliver to a Buyer. A Buyer must pay a transportation charge related to the volume taken. Such service is available for a Buyer with primarily residential and commercial space heating load customers.
- 4. Authorized Overrun Interruptible - AOI** TCPL sells to a Buyer quantities of gas in excess of quantities contracted for by a Buyer and which TCPL may have available from time to time for delivery to a Buyer. Buyer must pay a transportation charge related to the volume taken.
- 5. Peaking Service - PS** TCPL agrees to sell to a Buyer a designated volume during the winter period in addition to gas purchased by a Buyer from TCPL under TCPL's CD Service Contract. Buyer must pay a transportation charge related to the volume taken. Volumes contracted must be taken or paid for if not taken.
- 6. Temporary Winter Service - TWS** TCPL agrees to sell to a Buyer a designated volume subject to curtailment provisions during the winter period in addition to gas purchased by a Buyer from TCPL under TCPL's CD Service Contract. Buyer must pay a transportation charge related to the volume taken. Volumes contracted must be taken or paid for if not taken.
- 7. T-Service** Buyer has arranged to have certain volumes of gas delivered to TCPL at the point where the facilities of NOVA join the facilities of TCPL, and to have TCPL transport such volumes to the Buyer's market. Buyer must pay a fixed monthly demand charge for this service regardless of volumes actually taken and also a commodity charge related to the volume taken.
- 8. Storage Transportation Service - STS** A Buyer desires to have volumes of gas delivered into Union's storage at Lisgar and/or Dawn during the summer period, and requires TCPL to transport the withdrawal of storage gas during the winter period to market. A Buyer must pay a fixed monthly demand charge for this service and also a commodity charge related to the volume of gas delivered into storage.

9. Transportation TCPL transports gas for a customer from specific receipt points to specific delivery points. Customer must pay a fixed monthly demand charge regardless of volumes actually transported and a commodity charge related to the volumes actually transported.

10. Short-Term Contract Demand - STCD A short-term firm sales service equivalent to Contract Demand Service but available for a period of one to three years.

11. Short-Term Transportation Service - STT A short-term firm transportation service equivalent to T-Service but available for a period of one to three years.

12. Interruptible T-Service - IT An interruptible transportation service provided by TCPL for gas which is owned by another shipper. IT-Service has the lowest priority of services offered by TCPL. The shipper must pay a transportation charge related to the volume taken.

13. T-AOI Service An interruptible transportation service provided by TCPL for gas which is owned by another shipper. This is an overrun service available only after daily contractual obligations for T-Service have been fulfilled. The shipper must pay a transportation charge related to the volume taken.

Executive Summary

(NOTE: This summary is provided solely for the convenience of the reader and does not constitute part of this Decision or the Reasons.)

The Application

In February 1985, the Board indicated its intention to hold a public hearing into TCPL's application dated 8 February 1985 for new tolls for the transportation of natural gas, effective 1 August 1985. TCPL filed a revised application with the Board in April 1985.

Among other things, TCPL applied for an increase in the common equity ratio and the rate of return on equity. TCPL also proposed to limit the increase in its transportation toll to the Eastern Zone to 7.9 percent of the toll in effect on 1 August 1984 by transferring a portion of its accumulated deferred income taxes to its cost of service and by amortizing the accumulated balances of certain deferred costs over five years.

In addition to the above issues, the Board considered certain rate base matters, and several toll design and tariff matters.

Decisions

The major decisions of the Board with respect to TCPL's application and to other principal issues addressed during the hearing are summarized below.

Rate Base

Niagara Line Abandonment

The Board has decided that the retirement should be treated as an extraordinary retirement and that the loss should

be amortized in the test year 1985-86 on a monthly basis.

Forecasted Plant Additions

The Board has decided to reduce the forecasted total rate base additions by \$8 million for the test year.

Unfunded Debt

The Board has decided to cost the unfunded debt component of the utility capitalization at a rate of 11.5 percent.

Common Equity Ratio

The Board was not convinced that a change in the common equity ratio from the existing level is warranted. Accordingly, the Board decided to maintain the 30 percent common equity ratio for the test year.

Rate of Return on Common Equity

TCPL applied for a rate of return on common equity of 16 percent which represents an increase of one-half of one percentage point from the existing approved rate. The Board found 14.5 percent to be a fair and reasonable rate of return on common equity.

Rate of Return on Rate Base

Based on the decisions noted above, the Board authorizes a rate of return on rate base of 14.54 percent as compared to the applied-for rate of 15.06 percent.

Transportation Cost of Service

Reduction of Average Accumulated Deferred Income Taxes

The Board found that the reasons for rejecting a similar proposal put forward by TCPL in its 1984 toll case remain valid. Therefore, the Board has decided to reject TCPL's proposal.

Amortization of Deferral Account Balances

TCPL proposed to amortize the accumulated deferral account balances of \$58.6 million over five years in order to avoid a disruptive Eastern Zone toll increase. The Board has decided to deny this proposal because the Board was not convinced that, in the absence of this proposed mechanism, the toll increase would be disruptive. In addition, the Board believes that a one-year amortization of deferred costs more closely matches the actual incurrence of costs with the recovery of these costs in the tolls.

Great Lakes Overrun Charges

The Board has decided to allow the recovery by TCPL of FERC approved charges paid to Great Lakes. However, the Board has decided to disallow the carrying charges associated with the "demand" portion of the Great Lakes overrun charge. The Board finds that the appropriate amount to be included in the test-Year cost of service is \$9,534,441.

Simplot Demand Charge Revenue

The Board has decided not to order a reduction in the Plains-Western CD contract with TCPL. In addition, the Board has decided that the deferred Simplot T-Service revenue should be distributed to all system users. TCPL entered into a T-Service contract with Simplot in the belief that the volumes being transported were incremental to the existing contracted supply with Plains-Western. Also, the Board does not believe that TCPL is recovering

demand charges twice since TCPL is obligated to reserve capacity for both the CD contract and the T-Service contract.

Allowance for Lost and Unaccounted for Gas

As in the past, the Board believes that the allowance for lost and unaccounted for gas should reflect TCPL's past experience. Based on evidence presented during this and previous toll hearings, the Board has decided to include a credit to cost of service which reflects a three-year average gain of 0.32 percent.

Cost of Compressor Fuel

TCPL has forecasted a compressor fuel requirement totalling approximately 59.6 PJ, representing an increase of 28 percent over the previously approved level. Based on recent experience of system throughput and fuel consumption, the Board has decided to reduce the forecast to a level of 50 PJ. This represents a reduction of \$26,865,138 in TCPL's test-year cost of service.

Difference Between Approved Tolls and Interim Tolls

The Board has decided that TCPL should be permitted to recover the revenue shortfall, together with carrying charges, that arises from the interim tolls being charged in the months of August, September and October. The Board has estimated the revenue shortfall to be \$19,793,457.

The Board believes this amount should be amortized in the test year and accordingly, has included this amount in the test-year cost of service and has added one-half the amount to rate base for carrying charge purposes.

Further, the Board believes a deferral account is required to record the difference between the estimated revenue shortfall and the actual amount.

Toll Design and Tariff Matters

ACQ Toll

The Board has decided to maintain the existing toll design methodology for ACQ.

AOI Tolls

The Board has decided to deny TCPL's AOI proposal and, therefore, tolls for AOI Service will be based on incremental costs. In the Board's view, any tolls other than incremental tolls would inevitably result in cross-subsidization among tollpayers and between test periods through the mechanism of the compressor fuel deferral account.

IT-Service

The Board has decided that tolls for IT-Service should be equal to the tolls for AOI Service. Also, the Board approves the priority of service proposed by TCPL. That is, deliveries of AOI gas will have priority over IT gas.

T-AOI Service

The Board has decided that T-AOI Service will have the same toll and the same priority as AOI Service. Also, the Board approves TCPL's method of prorating volumes between T-AOI and AOI.

STT and STCD Service

The Board approves new short-term CD and T-Services which will be offered for terms of one to three years.

T-Service Availability

The Board notes the concerns of the intervenors with respect to the ability of parties to participate in direct sales. However, the Board also recognizes that TCPL has been the prime long-term supplier, transporter and marketer of natural gas in eastern Canada. The Company has entered into supply agreements and trust deed arrangements to provide the underpinning for the construction and operation of the pipeline. Distributors entered into long-term CD Contracts with TCPL to provide protection for their own markets. Also, the outcome of discussions between the federal government, the provinces and industry may have an impact on the matter of direct sales; however, no conclusions have yet been reached. For these reasons, the Board is not prepared to remove the displacement proviso from the T-Service Tariff. It will also be included in the tariff schedules for IT, STT, and T-AOI Service.

Increase in Eastern Zone CD Toll

Effective 1 November 1985, the average toll in the Eastern Zone for CD Service taken at 100 percent load factor will be 1.097 \$/GJ. This represents an 11.4 percent increase over the previously approved toll of 0.985 \$/GJ.

If new tolls had become effective on 1 August 1985, the average toll in the Eastern Zone for CD Service taken at 100% load factor would have been 1.077 \$/GJ. This would have represented an increase of 9.3 percent over the previously approved toll.

ERRATA

National Energy Board Reasons for Decision on the Application by TransCanada PipeLines Limited dated 8 February 1985, as revised, for new tolls, effective 1 August 1985 - September 1985 (RH-2-85)

1. Please make the following changes to Table 4-1, Page 16:

- Delete the figure column headings in the table and insert the following:

Application 1	Application as Revised 2	NEB Adjustments	Authorized by NEB
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for: - Delete the existing numbers and insert the following

	NEB Adjustments	Authorized by NEB
--	-----------------	-------------------

Total Transportation Cost of Service Excluding Return		\$42,704,792	773,300,427
Total Transportation Cost of Service		\$22,802,441	\$1,145,917,127
Total Transportation Cost of Service for Toll Purposes	42,595,898	\$1,165,710,584	

2. Delete the second reference to Table 4-6 in Column 2, Page 25, just before the title, "4.7 Miscellaneous Deferred Items".
3. The exhibit referred to as Exhibit B in Condition 8 of Order TG-3-85, Page 46, is Exhibit B-113.
4. On Page 29, Section 5.1.1, line 5, delete the figure "34,571" and replace with "34,576", and on line 6 delete the figure "25,287" and replace with "25,292".

Chapter 1

The Application

By an application dated 8 February 1985, as revised on 10 April 1985, TransCanada PipeLines Limited (TCPL) applied to the National Energy Board (the Board) under Sections 50, 51 and 53 of the National Energy Board Act (NEB Act) for orders effective 1 August 1985 fixing the just and reasonable tolls that it may charge for or in respect of the transportation of its gas. TCPL also applied for tolls for transportation services rendered to Saskatchewan Power Corporation, Consolidated Natural Gas Limited (Consolidated), Gaz Métropolitain, inc. (GMi), Gaz Inter-Cite Quebec Inc. (GICQ), ProGas Limited, Sulpetro Limited (Sulpetro) and Simplot Chemical Company Ltd. (Simplot). TCPL requested the disallowance of any existing tariffs or tolls or portion thereof that are inconsistent with the just and reasonable tolls so fixed.

TCPL also applied under Section 53 of the Energy Administration Act, and under the Regulations made pursuant to Part III of that Act, for orders approving the price to be paid by it to acquire gas for removal from the Province of Alberta and revoking any previous orders inconsistent therewith.

The application contained proposed tolls based on TCPL's cost of service employing a base period of 12 months ended 30 September 1984 and a test period of 12 months commencing 1 August 1985.

TCPL applied for an order for accounting and tollmaking purposes that would allow it to amortize monthly in tolls the balances in the following deferral accounts over 5 years commencing 1 August 1985:

- (a) Cost of Transmission by Others;
- (b) Cost of Compressor Fuel;
- (c) Excise Tax;
- (d) Revenues Received Under Peaking Service (PS) Contracts;
- (e) Revenues Received Under T-Service Contracts; (f) Miscellaneous Debt Service Deferrals.

TCPL also requested carrying charges on the monthend balances in the accounts calculated at a rate equal to 1/12th of the then authorized annual rate of return on rate base.

TCPL also requested an order for accounting and tollmaking purposes that would allow it to transfer \$23,310,000 in 12 equal monthly installments commencing 1 August 1985 from Accumulated Deferred Income Taxes (Account 276) to Income Taxes (Account 306).

TCPL requested the above orders for accounting and toll-making purposes as mechanisms to limit to approximately 7.9 percent its estimated increase for the test year in the Eastern Zone toll for CD Service. Without the proposed steps the estimated increase would have amounted to 16.8 percent and TCPL considered that such an increase in tolls would have been disruptive.

By Order No. TGI-1-85, the Board had ordered TCPL to record in an interim deferral account for each month the demand charges attendant upon the difference between the demand volume of 590,000 thousand cubic feet (mcf) per day reflected in the tolls approved pursuant to Order No. TG-5-84 and the actual level of daily demand volume being, at that time, 608,750 mcf per day, charged to TCPL by Great Lakes Gas Transmission Company (Great

Lakes). TCPL was also required to include carrying charges on the month-end balance in the account for each month calculated at 1/12th of its authorized annual rate of return on rate base. In its application, TCPL requested that this deferral account be approved on a final and continuing basis and that a projected demand volume of 658,438 mcf per day instead of 590,000 mcf per day be reflected in the tolls to be approved by the Board.

In 1984, the Board authorized, on an interim basis, by Order No. TG-6-84, the deferral for accounting and toll-making purposes of the difference between the actual cost of compressor fuel used for the month and the amount for compressor fuel costs that is actually recovered by TCPL in its tolls for the month. TCPL was also ordered to calculate carrying charges on the month-end balance in the account for each month calculated at 1/12th of TCPL's authorized annual rate of return on rate base. TCPL requested the continuation of this deferral account on a permanent and continuing basis.

The application also contained a request that the Board amend the authorization for deferral of unpredicted CD or T-Service revenues issued in Order No. TG-6-84 to include on a continuing basis PS and Temporary Winter Service (TWS) contracts not incorporated in the calculation of the tolls in effect.

TCPL also applied for orders for accounting and tollmaking purposes to allow the recording in deferral accounts of the following two items:

1. any amounts paid by it in respect of income tax reassessments by Revenue Canada in 1985 or later years, arising out of deductions in respect of on high impact welding; and
2. the differences, if any, between the actual costs of unaccounted for volumes of gas and the estimated costs as approved by the Board.

It also sought carrying charges on the month-end balance in the account which would be calculated at a rate equal to 1/12th of the then authorized annual rate of return on rate base.

Concerning toll design, TCPL proposed an amendment to the structure of its Authorized Overrun Interruptible (AOI) tolls. TCPL applied to charge for winter AOI deliveries, the CD toll at 100 percent load factor level and for summer AOI deliveries a toll based upon the average variable costs plus 6 cents per gigajoule (GJ) of fixed costs.

Finally, TCPL also proposed that a new Interruptible Transportation (IT) Service be introduced and requested appropriate changes to its tariff to accommodate such service. During the course of the hearing, TCPL proposed similar tariff provisions for three new services, T-AOI, Short-Term T-Service and Short-Term CD Service.

Further details on the application, as amended on 10 April 1985 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-2-85, the Board set down for hearing TCPL's application, as amended. The hearing commenced in Ottawa on 24 April 1985 and lasted 35 days during the months of April, May, June and July 1985, concluding on 18 July 1985.

Chapter 2

Rate Base

2.1 General

Table 2-1 shows the Board's adjustments to rate base for the test year ending 31 July 1986. The details of the adjustments are explained in the sections following.

2.2 Gross Plant

TCPL projected its average gross plant for the test year to be \$3,371,845,845. The Board has adjusted this amount to \$3,363,065,352, a decrease of \$8,780,493, representing the weighted average of gross plant adjustments as shown in Table 2-2 NEB Adjustments to Plant.

2.2.1 Forecasted Plant Additions

In 1985, the Board has authorized TCPL to install miscellaneous pipeline, compressor and metering modifications totaling approximately \$39.5 million. TCPL applied to include all these estimated costs in its testyear rate base.

The Board notes that in the past TCPL has generally spent less on capital additions than that estimated in its applications. This occurred as a result of cancelled or postponed projects, or completed projects costing less than estimated. Accordingly, the Board considers it reasonable to reduce by \$8 million the total amount of forecasted plant additions to be included in gross plant for the 1985-86 test year.

2.2.2 Niagara Line Abandonment

TCPL recorded as an ordinary retirement the abandonment in place of 40 km of its Niagara Line. This pipeline was put in service in 1957 and has been depreciated at the same rate as other pipeline properties recorded in the same group. A Company witness testified that the abandonment would take place in June 1985. As of June 1985, the original cost of the retired line was \$3,972,368 and the related accumulated depreciation was \$2,018,921.

The Company contended that the retirement of this line should be treated as an ordinary retirement as this is consistent with the basis upon which TCPL's depreciation rates have been fixed. The group method of depreciation recognizes that some assets in the group will be retired before they are fully depreciated and some assets will be retired after they are fully depreciated. TCPL believed this accounting method was consistent with past practice.

The retirement was necessary because of the population density pipe specification requirements. This sort of early retirement, the Company argued, could reasonably be assumed to have been anticipated when the basis for the depreciation provision was established. In argument, TCPL referred to Section 40(1) of the Gas Pipeline Uniform Accounting Regulations (GPUAR) which defines an extraordinary retirement as:

"A retirement of depreciable plant that results from causes not reasonably assumed to have been anticipated or contemplated in prior depreciation or amortization provisions, including such causes as fire, storm, flood, premature obsolescence or unexpected and permanent shut down of an entire operating assembly for reasons other than ordinary wear and tear." (emphasis added)

The Applicant maintained that the Niagara Line was not being retired for any of the reasons cited in Section 40(1). The retirement was due to population density which was one of the factors considered in establishing prior

depreciation provisions. In addition, the Applicant stated that consideration of the Niagara Line abandonment as ordinary or extraordinary is immaterial because the book cost is 0.15 percent of the value of the main account and 0.12 percent of the gas plant in service, and based upon the provisions of Section 40(4) of the GPUAR immaterial gains or losses resulting from extraordinary retirements shall be accounted as ordinary retirements. Finally, the Applicant requested that if the Board directs that the retirement be treated as extraordinary, the loss should be amortized in the test-year cost of service over a 12-month period.

The Canadian Petroleum Association (CPA) took the position that the anticipated early demise of this particular section had not been contemplated in the depreciation and amortization provision applied to this particular section of the line. In argument, the CPA relied on Section 39(1) of the GPUAR which states that:

"In respect of depreciable plant, ordinary retirement means a retirement of depreciable plant that results from causes reasonably assumed to have been anticipated or contemplated in prior depreciation or amortization provisions."

In its final argument, the CPA took the position that if this item is treated as a normal retirement it would result in an increase in cost of service of some \$500,000 per year on a continuing basis. If it were treated as an extraordinary retirement and amortized in the test year it would result in an increase in cost of service for the test year of \$4.1 million, including income taxes.

The Board finds that the retirement constitutes a permanent shutdown of an entire operating assembly for reasons other than ordinary wear and tear and as such constitutes an extraordinary retirement as defined in Section 40(1) of the GPUAR. The Board, therefore, directs that the retirement of the Niagara Line be treated as an extraordinary retirement, and that the loss be amortized to the cost of service in the 1985-86 test year on a monthly basis.

Since TCPL has treated the retirement as a normal retirement in its application, the Board has increased the accumulated depreciation at the beginning of the test year by \$2,323,115. This amount is included in the cost of service before the provision for income taxes. Details of this adjustment are shown in Table 2-3.

2.2.3 Unauthorized Capital Projects

TCPL included in its revised test-year rate base two projects which the Board has not yet authorized pursuant to Part III of the NEB Act. Accordingly, the Board has reduced TCPL's rate base by \$75,770, and appropriate adjustments have been made to depreciation.

2.3 Working Capital

TCPL estimated its working capital for the test year ending 31 July 1986 to be \$81,763,905. The Board's adjustments to working capital are summarized in Table 2-4.

2.3.1 Cash Working Capital

TCPL originally requested a cash working capital allowance equal to 1/11th of operation and maintenance expenses net of gas related costs, rate hearing expenses and non-cash items. The allowance requested by the Company is an increase over the allowance of 1/12th approved in the July 1984 Reasons for Decision.

As in the past, the Applicant submitted a lead/lag study to support the increase in the allowance from 1/12th to 1/11th. The study was similar to that of the previous year but increased the lag days for rent paid in advance from about 20 to 50 days. This factor was responsible for the increase in the allowance from 1/12th to 1/11th. During the hearing, the Company further revised the lead/lag study to correctly reflect the lag days associated with payroll and payroll deductions. In addition, it weighted the mail lag by the percentage of operation and maintenance

expenses net of payroll activities. As a result of these refinements, the Company requested a cash working capital factor of 1/12th, unchanged from the previous year.

The CPA accepted the final factor applied by TCPL but indicated that the Board should look carefully at the evidence to determine whether the allowance for cash working capital should be less than 1/12th. In support of this position, it indicated that TCPL had accepted the Board's determination in TG-3-82 of 2.5 days mail lag but TCPL had not undertaken a study to determine if this factor is accurate.

The Minister of Energy for Ontario (Ontario) questioned whether a revised lead/lag study might suggest a factor equal to 1/13th.

The Board accepts the 1/12th factor submitted by the Applicant for determining the allowance for cash working capital for the test year. However, for the next toll case, the Board requires that TCPL review the existing methodology in regard to the lag for cash outlay, and to determine whether the provision of 2.5 days mail lag is still appropriate.

Adjustments made by the Board to operation and maintenance expenses result in adjustments to the cash working capital allowance as shown in Table 2-5.

2.4 Deferred Costs

2.4.1 Transmission by Others

As set out in Sections 4.2 and 4.3.1 the Board has decided to amortize the accumulated deferred balances in this account during the test period and to deny the carrying charges associated with GLGT overrun charges. The Board has adjusted this account by \$(14,968,570) to reflect these decisions. The calculation of the adjustment is shown in Table 2-6.

2.4.2 Average Accumulated Deferred Income Taxes

As part of its overall proposal to restrict an otherwise disruptive toll increase in the test year, TCPL requested the Board to approve a reduction in the opening average accumulated deferred income tax balance of \$75,868,922.

For reasons as outlined in Section 4.1, the Board has decided that the transfer of such an amount is not required to accomplish this purpose. Accordingly, the Board has adjusted the proposed test-year balance of \$61,055,422 in average accumulated deferred income taxes to the amount of \$75,868,922 which was outstanding at the beginning of the test period.

2.4.3 Miscellaneous Deferred Items

The Board has adjusted this account by \$(10,419,789) as shown in Table 2-7 as a result of its decision to amortize the accumulated deferred balances during the test year.

2.4.4 Other Deferred Items

As a result of the Board's decision to amortize the accumulated deferred balances over one year commencing 1 August 1985 rather than five years, an adjustment was required to this account in rate base to reflect this decision. The calculation of the adjustment to this item in rate base is shown below in Table 2-8.

2.4.5 Interim Revenue Adjustment

The Board has decided, as set out in Section 4.10, to allow TCPL to recover the estimated revenue deficiency of \$19,793,457 arising from interim tolls being in effect for the period 1 August 1985 to 1 November 1985, and to allow it to amortize the amount monthly in tolls. The Board therefore has decided to include one-half of the estimated deficiency in rate base for the purpose of allowing carrying charges on the unamortized portion.

Chapter 3

Rate of Return

TCPL, in its final revision, applied for a rate of return on rate base of 15.06 percent for the test year ending 31 July 1986, as compared to the existing approved rate of 14.53 percent. Consistent with recent years, this rate of return is based on a deemed average capitalization that equates to the average utility rate base inside and outside Alberta plus gas plant under construction projected for the test year.

The applied-for deemed average capitalization, as revised, and corresponding individual cost rates and overall requested rate of return are shown in Table 3-1 below.

3.1 Funded Debt

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

TCPL, in its final revision, applied for a cost rate of 15.49 percent. TCPL used what it characterized as the gross proceeds method¹ to calculate the cost of its funded debt. By this method, TCPL recovers the debt discount and issuance expenses associated with its debt directly in the cost of debt and includes the unamortized balances of these costs in rate base. No intervenor objected. The Board approves this method for the determination of the test-year cost of funded debt.

The Board accepts the applied-for cost rate of 15.49 percent.

3.2 Unfunded Debt

Arithmetically, this element of TCPL's total utility capitalization is derived by subtracting funded debt, preferred share capital and common equity capital from the total capitalization.

TCPL, in its final revision, applied for a cost rate of 13 percent. This cost rate represents TCPL's forecasted long-term borrowing rate for the test year. The originally applied-for cost rate of 13.25 percent was amended to 13 percent to reflect the recent downward shift in interest rates as cited by a Company witness.

The CPA submitted in argument that dramatic changes in interest rates had been experienced since the original application was filed and that during the course of the hearing TCPL sold \$75 million of 11.4 percent debentures. The CPA further submitted that there is no basis for allowing a higher rate than that applied to the recent issue.

¹ Under its applied-for approach, which TCPL refers to as the gross proceeds method the cost of debt is calculated by dividing financial charges including amortization of debt discount and expense by the gross proceeds of debt outstanding.

Having regard to all the evidence, the Board has decided to cost the unfunded debt component of the utility capitalization at a rate of 11.5 percent.

3.3 Preferred Share Capital

Preferred share capital represents the average stated capital of preferred share issues associated with utility

investments projected to be outstanding during the test year.

TCPL, in its final revision, applied for a cost rate of 10.9 percent. The gross proceeds method¹ was used to calculate the cost of preferred share capital. This method was proposed by TCPL to recover the issuance expenses associated with its preferred shares directly in the cost of preferred share capital and to include the unamortized balances of these costs in rate base. This approach is consistent with the method used by TCPL to cost its funded debt. No intervenor objected to the introduction of this method. The Board has approved the applied-for method in determining the test-year cost of preferred share capital.

The Board accepts the applied-for cost rate of 10.9 percent.

3.4 Common Equity Ratio

TCPL applied for a deemed common equity ratio of 32 percent as opposed to the 30 percent ratio currently approved for toll purposes.

In its July 1982 Reasons for Decision, the Board identified three main factors that it considered in assessing the appropriateness of a deemed common equity ratio for toll purposes. They are as follows:

- 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 such actual consolidated financing which is left to implicitly underpin the Company's non-utility operations².

Concerning business risk, the Board notes that TCPL's witnesses all agreed that business risks have remained substantially unchanged since the Company's last toll hearing.

In argument, TCPL took the position that a 32 percent common equity ratio was warranted on the basis of a number of factors. In this regard, TCPL reiterated the position of one of its expert witnesses that there is absolutely no cross-subsidization and that it is time to recognize that if the utility does generate earnings, and if it were to be a stand-alone pure utility, its common equity ratio would increase. This latter factor, as well as competitive conditions in capital markets, convinced this witness that some increase in the utility's deemed common equity ratio was warranted.

CPA disagreed stating in argument that the deemed common equity ratio should not be raised above the existing 30 percent level for the following reasons:

1. the low common equity ratio underlying the non-utility component of TCPL's total capitalization;
2. the continued minimal risk level, both in absolute terms and relative to other utilities, of TCPL's utility operations; and
3. TCPL's minimal need for financing flexibility.

Ontario also presented evidence in this regard and recommended that the deemed common equity ratio be reduced to the 28 percent level, which the Board had found appropriate in its 1982 and 1983 Reasons for Decision. Ontario

concluded that a 28 percent deemed common equity ratio was appropriate in light of TCPL's level of business risk and the apparent viability of this reduced ratio.

The Board is of the view that the level of business risk inherent in TCPL's utility operations remains unchanged since the Company's last toll hearing. In addition, the Board believes that the use of a 30 percent deemed common equity ratio has not adversely affected the financial flexibility or creditworthiness of TCPL's utility operations.

Having considered all the evidence, the Board is not convinced that a change in the common equity ratio from the existing level is warranted. Accordingly, the Board maintains the 30 percent common equity ratio for the current test year.

1 Under its applied-for approach, which TCPL refers to as the gross proceeds method, the cost of preferred share capital is calculated by dividing the dividend required plus yearly amortizations of issue expense less gains on purchase fund for the \$2.80 preferred shares by the gross proceeds (paid-up equivalent) of the preferred shares.

2 The non-utility capitalization is obtained by subtracting the dollar values of the various components of total capital deemed to apply to the utility operations from those actually existing in TCPL's consolidated capitalization.

3.5 Rate of Return on Common Equity

TCPL applied for a rate of return on common equity of 16 percent, which represents an increase of one-half of one percentage point from the existing approved rate of 15.5 percent. In requesting a rate of return of 16 percent, the Applicant relied upon the recommendations of its two expert witnesses. In arriving at their recommendations, the witnesses used their usual methods of estimating the cost of equity capital. These are the comparable earnings, discounted cash flow (DCF) and equity risk premium methods.

Two intervenors, the CPA and Ontario, presented evidence prepared by their expert witnesses. Initially the CPA's expert witness recommended a fair rate of return on common equity of 14 to 14.25 percent. During the hearing the witness amended his recommendation to 14 percent. The changed emphasis was based on developments which occurred in the capital markets, more particularly the decline in long-term interest rates. The CPA's expert witness used his traditional DCF technique to estimate his recommended rate.

Ontario's expert witness recommended a range of 14 to 14.5 percent based on an analysis of the results of his risk premium, comparable earnings and DCF tests. However, in recognition of continuing declines in long-term interest rates the witness placed more weight on the lower end of this range.

In the Board's view, the determination of a fair rate of return on common equity involves the evaluation of several different approaches. The Board is of the view that the final determination of a just and reasonable rate of return requires the exercise of judgment. Having regard to all the evidence, giving consideration to prospective long-term interest rates, the Board finds 14.5 percent to be a fair and reasonable rate of return on common equity.

3.6 Rate of Return on Rate Base

Based on its findings in this case, the Board has decided that a rate of return on rate base of 14.54 percent is fair and reasonable. The deemed capitalization and the derivation of the allowed rate of return are shown in Table 3-2. A comparison of the rates of return previously authorized, applied-for and approved is provided in Appendix V to this Decision.

Chapter 4

Transportation Cost of Service

4.1 Reduction of Average Accumulated Deferred Income Taxes

In its current application the Company proposed to reduce its flow-through utility income tax provision as one of two proposals to avoid what it considered to be a disruptive toll increase for the test year. To accomplish its objective, TCPL proposed to offset a part of its current income tax provision by transferring an amount from its accumulated deferred income tax account to limit its current income tax provision to the level approved by the Board in its July 1984 Reasons for Decision.

A number of intervenors presented arguments in respect of this issue. The Board notes that there was considerable disagreement amongst those parties as to the appropriateness of the Company's proposal.

The Board finds that the reasons for rejecting a similar proposal put forward by the Company in its 1984 toll hearing remain valid.

In that instance the Board stated, "The Board finds that the Applicant's proposal is a departure from costbased tolls, and that the use of accumulated deferred income taxes in this manner disregards tax allocation principles. Consequently, the Board has decided that TCPL's proposal is not appropriate and shall not be used."

Accordingly, the Board has decided to reject TCPL's proposal.

4.2 Amortization of Deferral Account Balances

In the application, one of the two mechanisms proposed by TCPL to limit the increase in the CD toll in the Eastern Zone to 7.9 percent was to amortize certain accumulated deferral account balances of \$58.6 million over five years commencing 1 August 1985. The average unamortized deferred balance outstanding during the test year, including carrying charges on the month-end balance calculated at a rate equal to 1/12th of the then authorized annual rate of return on rate base, was proposed to be included as part of rate base.

TCPL proposed this mechanism so that the increase in the Eastern Zone toll would not be disruptive.

TCPL cited the North Bay Shortcut (NBSC) deferral as a precedent for its five-year amortization proposal. TCPL stated that the NBSC deferral procedure was proposed by the Company so it could comply with the federal government's six-and-five restraint program.

During cross-examination, TCPL stated that its proposal would reduce the current test-year cost of service by approximately \$54.6 million. However, the average unamortized deferred balances, including carrying charges, would increase the test-year utility rate base by approximately \$29 million. The total impact of the five-year amortization proposal would be to increase the next four test-years' cost of service by approximately \$82.2 million.

The cost to tollpayers of this proposal would amount to approximately \$27.6 million. This cost is the carrying cost, calculated at the currently authorized rate of return on rate base including taxes, of deferring the average unamortized deferral account balances for an additional four years. Intervenors argued that these additional test-year costs were not appropriate. At the hearing, TCPL acknowledged during cross-examination that the disposition of balances in deferral accounts in the year following incurrence of the costs most closely aligns with the principle of costbased tolls. Generally, TCPL advocates cost-based tolls on its system.

Although TCPL acknowledged that its five-year amortization proposal departs from the principle of cost-based tolls, it also maintained that in this case the principle need not be applied. TCPL asserted that its cost-based tolls are protected through the existence of carrying charges which recognize the opportunity cost of the delay in the recovery of these costs. TCPL also maintained that the rate of return on rate base was a fair representation of the time value of money, and that the tollpayer should be indifferent if recognition is given to the time value of money.

Intervenors, in general, disagreed, stating that tollpayers are not indifferent to this carrying charge rate. One intervenor did support TCPL's proposal, but disagreed with the use of the rate of return on rate base as the appropriate carrying charge on the average unamortized deferred balance to be carried forward. That intervenor advocated the use of TCPL's five-year cost of borrowing for the purpose of calculating carrying charges.

Intervenors also did not support TCPL's amortization proposal on the basis that the people who would be paying the deferred costs in the future are not necessarily the same people who enjoyed the benefit of the service which incurred the deferred costs. These intervenors submitted that such toll treatment distorts market signals.

TCPL argued that largely the same mix of customers would enjoy the benefit of the deferral of these costs as would pay for it. One intervenor stated that the distributors' customers would ultimately bear the additional costs associated with TCPL's proposal and that a customer five years from now would be burdened with a cost that was incurred five years previously. TCPL expressed hope that future sales volumes would increase in the period of amortization and assumed that the future tollpayer would be in a better position to absorb the additional future amortized operating costs. TCPL did not supply any evidence to the Board to that effect.

The Board was not convinced that in the absence of this proposed mechanism the toll increase would be disruptive.

Further, in the Board's view, the circumstances of the NBSC deferral differ from the circumstances of the current proposal in that deferred equity return and the associated taxes relating to the very high capital costs of the NBSC facilities were deferred and amortized over that period of time until those facilities would be fully used and useful. The NBSC deferral was not a precedent to be used to smooth future toll increases by deferring operating costs ordinarily incurred in the provision of service.

In addition, the Board believes that a one-year amortization of deferred costs more closely matches the actual incurrence of costs with the recovery of these costs in tolls. Such toll treatment means that the majority of customers enjoying the benefit of the services being provided are largely the same mix of customers who actually pay for these services.

To the extent possible, the Board advocates toll treatment that results in cost-based tolls and is of the view that TCPL's proposal departs from this principle for an inappropriate reason.

The Board therefore denies TCPL's request to amortize the accumulated deferral account balances over five years. The Board has decided that the amounts should be amortized over one year.

The relevant deferral accounts as shown in Table 2-1 and Table 4-1 have been adjusted to reflect the Board's decision.

4.3 Disposition of Deferral Account Balances

4.3.1 Great Lakes Overrun Charges

Great Lakes transports gas on behalf of TCPL pursuant to Great Lakes' T-4 Transportation Tariff.

Overrun volumes are volumes transported during a contract year which are in excess of the volumes contracted for by TCPL. The actual amount of the overrun volumes is not determined until the end of the contract year.

The rate for the transportation of overrun volumes is equivalent to the average rate for T-4 transportation service calculated at 100 percent load factor.

Since the rate is equivalent to the T-4 transportation rate at 100 percent load factor it may be considered to be made up of two components, a "demand" component and a "commodity" component although it is specified as a single rate.

During a contract year, TCPL pays the T-4 commodity rate for all volumes transported by Great Lakes. Thus, at the conclusion of a contract year TCPL has paid the T-4 commodity toll for all volumes, including overrun volumes, transported by Great Lakes. However, TCPL has not paid the "demand" component of the overrun toll for the overrun volumes. Accordingly, Great Lakes bills TCPL for the "demand" portion of the total overrun charge at the conclusion of the contract year. TCPL records the amount paid to Great Lakes in respect of the "demand" portion of the overrun charge in the Great Lakes Deferral Account together with carrying charges and brings the balance forward for disposition at a future toll hearing.

The amount brought forward by TCPL for disposition in this proceeding was \$10,831,270 which included carrying charges of \$1,296,829 and was based on overruns in the 1983-84 contract year of some $1.37 \times 10^9 \text{m}^3$ (48.4 Bcf).

Some intervenors argued that TCPL should not be permitted to recover this amount through its tolls. To the extent that the overrun rate recovers more than the variable costs associated with providing overrun, the overrun charge paid by TCPL contributes to an overrecovery of fixed costs by Great Lakes to the benefit of its shareholders. Further, the intervenors pointed out that TCPL is a 50 percent owner of Great Lakes and thus benefits from the overrecovery of fixed costs through the overrun charge.

The intervenors maintained that the approved rate for overrun service is not appropriate and TCPL, by virtue of its ownership position with Great Lakes, has little incentive to pursue a change in the design of the overrun rate before the Federal Energy Regulatory Commission (FERC).

The intervenors argued that disallowance of the "demand" portion of the overrun charge would provide an incentive to TCPL to seek a change in the Great Lakes toll structure. They also argued that TCPL's shareholders should not benefit at the expense of its customers from the Great Lakes overrun charge.

One intervenor argued that the minimum fuel operating policy used by TCPL prior to the implementation of the flow-split equation was improper because it did not yield the minimum cost of service.

In 1981, TCPL reduced its contract demand on the Great Lakes system from 815,000 mcf per day to 590,000 mcf per day to provide capacity for three other shippers: ANR Pipeline Company, Texas Eastern Transmission Corporation and Tennessee Gas Pipeline Company, Division of Tenneco Inc. When other shippers on the Great Lakes system were operating below their contracted levels, TCPL used the resulting spare capacity because the incremental fuel rate on Great Lakes was lower than the incremental fuel rate on the Northern Ontario Line. TCPL discovered, however, that the resulting overrun charge, when added to the incremental cost of fuel, resulted in a total incremental cost of using Great Lakes which exceeded the incremental cost of using the Northern Ontario Line.

TCPL developed the flow-split equation which, in its view, will result in the combined systems being operated in a manner to minimize the cost of service.

TCPL stated that in November 1982, after receiving a bill for overrun service during the 1981-82 contract year, it

began work on the flow-split formula but it was not available for use until mid-1984. TCPL argued that it has been shipping gas through Great Lakes in a prudent manner and the use of the flow-split formula in the future will assure the most economical operation of the joint system to the benefit of the Applicant's customers.

With respect to its efforts to have the overrun rate changed, TCPL stated in argument that it has been an active and vigorous intervenor in Great Lakes' rate cases.

TCPL further stated that the design of the Great Lakes overrun rate has not been particularly at issue in Great Lakes' rate cases and there is practically no chance of obtaining FERC approval for an overrun rate based solely on variable costs.

Recognizing that this is a complex issue, the Board has carefully reviewed all the evidence and arguments before it.

In the Board's view, it would not be appropriate to disallow the recovery by TCPL of FERC-approved charges paid to Great Lakes.

However, the Board is not convinced that TCPL has made every effort to ensure that the interests of its tollpayers are protected in Great Lakes toll design proceedings before the FERC. Accordingly, the Board has decided to disallow the carrying charges associated with the "demand" portion of the Great Lakes overrun charge.

The Board finds the appropriate amount to be included in the test-year cost of service in respect of Great Lakes overrun charges is \$9,534,441 which is the amount brought forward for disposition of \$10,831,270 less the associated carrying charges of \$1,296,829.

4.3.2 Simplot Demand Charge Revenue

TCPL brought forward for disposition in this hearing accumulated deferred revenues of \$977,162 as a result of transporting gas under a T-Service contract for Simplot which was executed subsequent to the last toll decision.

On 26 January 1981, the Simplot Chemical Company advised Plains-Western (its distributor) that it was contemplating obtaining Alberta gas reserves having a delivery capability of 282 10³m³/day for use in its Brandon fertilizer plant. Simplot requested that PlainsWestern buy this amount of gas from Simplot and deliver it to Simplot's plant in Brandon at which point the gas would be resold to Simplot. At that time, Plains-Western responded that it already had sufficient gas volumes under a CD contract with TCPL to supply all of Simplot's requirements. However, PlainsWestern advised Simplot that it was prepared to buy an additional 282 10³m³/day from Simplot, provided that any additional costs incurred by Plains-Western would be borne by Simplot. Simplot refused PlainsWestern's proposal and instead requested that PlainsWestern reduce its contract demand with TCPL to maintain its overall contract demand at the current level then in effect. This proposal would have had the effect of requiring Plains-Western to replace the 282 10³m³/day of gas it had under firm contract with TCPL with the same amount per day that PlainsWestern would purchase from Simplot.

Plains-Western discussed with TCPL its request to reduce its contracted demand by an amount equivalent to the gas it would purchase from Simplot (i.e. 282 10³m³/day).

TCPL refused to grant this request because granting the request would have had the effect of displacing TCPL's volumes with Simplot's volumes. The key issue in TCPL's opinion is the incremental nature of the service contracted for. TCPL entered into a TService contract with Simplot on the belief that the volumes being transported were incremental to the existing contracted supply with Plains-Western.

Inter-City Gas Corporation Ltd. (ICG) successor company to Plains-Western, believes that the refusal by TCPL to reduce its contract demand with Plains Western results in TCPL recovering demand charges twice; once in the CD toll to Plains-Western and once again in the T-Service toll to Simplot.

In this hearing, ICG proposed that a portion of the accumulated deferred revenues, currently recorded in TransCanada's T-Service revenue deferral account as a result of the T-Service contract with Simplot, be directly credited to ICG.

The usual treatment of such accumulated balances for toll purposes is to credit the cost of service with the amount accumulated to the end of the then current test year, since all CD customers are affected proportionately by the non-inclusion of these volumes in the setting of the existing tolls.

ICG was of the view that the provision of T-Service under the TCPL/Simplot contract caused no additional costs on the TCPL system than TCPL would have incurred under the existing CD contract with PlainsWestern. ICG maintained their overall CD on the TCPL system would be unaffected by this transfer of CD from Plains-Western to Simplot.

ICG and the intervenors who supported the ICG proposal believed that since the excess capacity that was used to provide T-Service to Simplot was upstream of the plant, the credit for use of that spare capacity by Simplot should be allocated to the benefit of the franchised distributor in whose area the Simplot plant is located. The allocation of the credit would be to the extent that the distributor had not utilized the full capacity of its annual contracted amount from TCPL. The balance of the credit would be allocated to the remaining system users.

ICG also asked the Board to order a reduction of 282 $10^3\text{m}^3/\text{day}$ in the CD contract between ICG and TCPL for the balance of the T-Service contract to avoid the double demand charges it claimed that TCPL is recovering.

Should the Board not order a reduction of 282 $10^3\text{m}^3/\text{day}$ in the CD contract between ICG and TCPL, ICG requested that the Board order that the future demand revenues from the Simplot/TCPL T-Service contract continue to be recorded in the T-Service deferral account with the accumulated deferred amount to be refunded annually to ICG.

The intervenors who supported the ICG proposal maintained that through the above credit allocation technique the demand revenues would be annually deferred and refunded to the distributor and would have the desired effect of a lowering by 282 $10^3\text{m}^3/\text{day}$ of the CD entitlement between ICG and TCPL, in the event the Board found that it could not legally order such a reduction in the existing CD contract. In their view, such treatment would respond to the needs of the consumer and thus meet marketsensitive pricing policy objectives.

The key issue in TCPL's opinion is the incremental nature of the T-Service contract between itself and Simplot. TCPL maintained that at the time it signed the Simplot T-Service contract, TCPL was not requested to reduce its contract demand with Plains-Western nor did Simplot and Plains-Western reduce their contracted volumes. TCPL signed this T-Service contract with Simplot on the understanding that this volume of gas was incremental to the existing contracted supply with Plains-Western. It was TCPL's belief that there would be no negative effects on TCPL's contractual arrangements with others except for the possible loss of some interruptible sales.

Evidence at the hearing indicated that Plains-Western used their full contract capacity on some days of the past winter and Simplot is operating at 100 percent load factor under their own T-Service. Since such capacity must be made available when required by its customers, TCPL maintained that there can be no double demand charge. The fact that Plains-Western is not always operating at 100 percent load factor does not imply toll treatment different than any other firm service customer who does not use the service contracted for.

Further, according to TCPL, the signed agreements between Simplot and Plains-Western demonstrate acceptance by those parties of the contractual arrangements made with TCPL. The fact these signed agreements were signed subsequent to the issuance of tolls does not provide justification for either refunding all of the demand charges to Plains-Western or allocating such revenue all for the benefit of one customer. The approved toll permitted TCPL to collect the authorized demand charges in the Manitoba rate zone applicable to the customers in that zone.

It has been alleged that TCPL is recovering a double demand charge in respect to the ICG and Simplot situation. In the Board's view, a double demand charge is not being recovered if TCPL has firm CD contracts with its customers and has the capacity to meet those obligations. If customers have entered into firm contracts with TCPL for firm service but then conclude that they have committed themselves to more capacity than they require, that is a matter parties should resolve between themselves.

Since the cost of service is allocated on the basis of firm contracts TCPL recovers its fixed costs on the basis of all its valid firm contracts. Therefore TCPL cannot recover its fixed costs, that is, the demand charge, twice.

Having reviewed all of the evidence, the Board has decided not to grant ICG's request.

The CD and T-Service demand revenue deferral account was established to deal with firm contracts which are finalized after the Board has made its allocation of cost of service for the test year. Had those contracts been in place prior to the Board's decision then all customers would have benefited from the higher level of firm sales.

The Board therefore orders that the accumulated deferred balance in the CD and T-Service demand revenue deferral account be credited to all users of the TCPL system.

4.4 Transmission by Others

TCPL projected its cost of transmission by others for the test year to be \$197,197,253. The Board's adjustments are summarized in Table 4-2 and explained more fully in the sections following.

4.4.1 Great Lakes Fuel Cost Adjustment

Under the pricing regime established pursuant to Part III of the EAA, fuel used in the transmission of Canadian gas through the Great Lakes system is purchased by TCPL at the Alberta Border Price (ABP) as defined in the EAA Natural Gas Prices Regulations, 1981. Because such fuel is sold to Great Lakes at the export price, TCPL receives revenues in excess of the costs allocated to such fuel, amounting to the excess of the export price over the sum of the ABP plus transmission costs on its system from the Alberta border to the export point. To offset these excess revenues, an equal amount, referred to as the Great Lakes Fuel Cost Adjustment, is deducted from transmission by others in the cost of service.

For purposes of calculating the Great Lakes Fuel Cost Adjustment, an estimate of the fuel used for the test year in the transmission of Canadian gas through the Great Lakes system is made by using a fuel ratio which is based on historical data from Great Lakes purchased gas adjustment filings to the FERC and consideration of all T-4 transportation volumes on Great Lakes. This fuel ratio is then multiplied by Great Lakes total purchases to determine the volume of fuel used in the transmission of Canadian gas through Great Lakes.

This procedure for estimating the fuel was examined at the Methodology Hearing held under Board Order No. RH-2-84.

In its Directions on Procedure RH-2-85, the Board indicated that it intended to consider at this proceeding the appropriate method of estimating the Great Lakes Fuel volume for the purpose of calculating the Great Lakes Fuel Cost Adjustment.

The Board questioned TCPL on whether the estimate for the test period could not be based upon a projected fuel ratio for the test period and limited to TCPL's T-4 volumes alone.

TCPL maintained that the fuel ratio should continue to be determined on the basis of a past period. TCPL stated that at any given time there will be a discrepancy between the actual fuel volumes consumed by Great Lakes in moving Canadian gas and the fuel calculated using the fuel ratio. TCPL maintained that since the fuel ratio changes every six months over time, the two will take care of each other.

TCPL did submit that the historical methodology could be modified to restrict it to only TCPL's T-4 volumes but indicated that such a modification would result in an increase of \$10,511,940 in the test year cost of service.

Having reviewed the evidence, the Board has concluded that a change in the established method of estimating the fuel used on Great Lakes to transport Canadian gas is not warranted at this time.

In the Board's view, the present method has been well tested over time and the Board does not believe that a change would necessarily result in a better estimate of Great Lakes fuel. In any event, the estimate made using the historical method is protected by deferral accounts so that neither TCPL nor its customers will suffer as a result of an inaccurate forecast.

The Board is satisfied that the present method is appropriate and therefore has not changed the estimate of Great Lakes fuel for the test year.

The Board has made an adjustment of \$692,705 to account for the new transmission costs on TCPL's system from the Alberta border to the export point at Emerson, Manitoba.

4.4.2 Flow-Split Equation

TCPL transports gas to eastern Canada by using both its own pipeline in Northern Ontario and the Great Lakes pipeline system in the United States. In the past, the flows on these two alternative routes were determined by minimizing the combined fuel use on the two systems in the belief that that method would yield the lowest overall cost of service.

However, as a result of underutilization by other Great Lakes shippers in 1984, the minimum fuel operating mode resulted in deferred overrun charges, which increased the TCPL cost of service under some conditions (see Section 4.3.1) beyond that which would have been incurred if there had been greater use of the Northern Ontario line. TCPL has therefore developed a flow-split equation which incorporates all of the relevant engineering and rate design factors to achieve a minimum cost of service on the combined systems.

No intervenors presented any evidence to challenge the use of the proposed flow-split methodology in the operation of the combined TCPL and Great Lakes pipeline systems in the test year. At the present time, the Board has no reason to question the use of the flow-split procedure. However, the Board will expect TCPL to closely monitor the throughputs, fuel consumption and overall costs on the two systems and report to the Board on the effectiveness of the flow-split procedure at the next toll hearing.

4.4.3 Steelman Gas

The Board's adjustment of \$13,768 to the Applicant's calculation of the test-year transportation costs for gas purchased from Steelman Gas is necessary to reflect the transportation costs on the Applicant's system which have been approved by the Board.

4.4.4 Deferral Adjustment

The Board's adjustment of \$27,343,483 to the deferred costs associated with Transmission by Others reflects the Board's decision with respect to Great Lakes overrun charges as set out in Section 4.3.1. and the Board's decision to amortize the deferred costs over 1 year instead of 5 years as set out in Section 4.2.

4.4.5 TQM Tolls

TCPL included an amount of \$86,832,000 in Transmission by Others as the forecast of the amount to be paid to Trans Québec & Maritimes Pipeline Inc. (TQM) during the test year. This forecast was based on TQM's application to the Board dated 22 February 1985.

By Order No. TG-1-85 the Board approved a monthly toll of \$7.216 million to be charged to TCPL by TQM.

Accordingly, the Board has reduced the forecast of TQM tolls for the test year to \$86,592,000, a reduction of \$240,000.

4.5 Operation and Maintenance

Adjustments made by the Board to operating and maintenance expense have resulted in a net decrease of \$46,817,189 as shown in Table 4-3.

4.5.1 Deferral Account for Lost and Unaccounted for Gas

TCPL again requested approval of a deferral account to record variances between actual quantities of lost and unaccounted for gas, and those quantities reflected in the tolls.

The Board was not convinced by the evidence provided by the Applicant as to the appropriateness of such a deferral account. Accordingly, the Board denies TCPL's request for a deferral account for lost and unaccounted for gas.

4.5.2 Allowance for Lost and Unaccounted for Gas

TCPL applied for an allowance of zero percent of the forecast input to the pipeline system to estimate lost and unaccounted for gas.

The Board still considers it to be appropriate that the allowance for lost and unaccounted for gas should reflect the Applicant's historical experience. The Board has decided to include a credit to cost of service which reflects a three-year average gain of 0.32 percent, on a forecasted system input volume of 42.8 (10⁹)m³. In the Board's view the use of a three-year average will result in an allowance which is more reflective of recent experience.

4.5.3 Cost of Compressor Fuel

TCPL has forecast a compressor fuel requirement totaling approximately 59.6 Petajoules (PJ) for the test year, representing an increase of 28 percent over the level approved by the Board for the 1984-85 test year. This amount represents a cost of \$166,767,138 excluding taxes.

Based on recent actual experience of system throughput and fuel consumption, and information provided by the Applicant for system throughput for the test year, the Board has decided to reduce the forecast of fuel consumption to a level of 50.0 PJ. This represents a reduction of \$26,865,138 in TCPL's test-year cost of service, excluding taxes. In addition, the Board has also decided to reduce TCPL's forecast of electric compressor fuel from \$1,283,800 to \$800,000. The adjustments shown in Table 4-5 reflect the fuel volume reduction and the decrease in provincial sales taxes for Saskatchewan and Manitoba.

4.5.4 Compressor Fuel Deferral Account

The Applicant requested approval, on a final and continuing basis, of the compressor fuel deferral account established on an interim basis by Board Order No. TG-6-84.

The key issue raised by TCPL concerning the continuance of this account centered on its ability to forecast sales and transportation volumes.

TCPL maintained that irrespective of the good operating condition of its compressors, an uncertainty always exists with a test year sales forecast, since factors such as inter-fuel and gas to gas competition, weather, pricing and the market affect the level of uncertainty.

However, most intervenors, although not in favor of the Board establishing a compressor fuel deferral account on a final and continuing basis were, for various reasons, in agreement with its continuance on an interim basis. One intervenor expressed concern about TCPL's position of establishing the compressor fuel deferral account on a final and continuing basis, particularly with the use of the flow-split equation still in development.

The prospect of the introduction of market-responsive pricing in the domestic market in Canada as announced in

the Western Accord, has introduced increased uncertainty both in respect of pricing and in the volumes forecast to be sold in the test year. Because of the increased uncertainty in the forecast test year volumes, TCPL is of the opinion that even more uncertainty has been introduced in the amount of testyear fuel that will be required.

The Board is also of the view that the possible advent of market-responsive pricing to include the domestic market has added an important element of uncertainty to TCPL's ability to accurately forecast test-year throughput and the associated compressor fuel.

The Board believes, in these circumstances, that the continuation of an interim compressor fuel deferral account, effective 1 August 1985, is appropriate for this test period. The appropriateness of the continuation of this deferral account will be required to be addressed by TCPL at its next toll hearing.

4.5.5 Disposition of the Balance in the Compressor Fuel Deferral Account

In respect of the compressor fuel deferral account, the Board has decided that the balance in the account (net of the amount of fuel deferred on account of deliveries associated with the Annual Contract Quantity (ACQ) make-up volumes) at 31 July 1985 of \$2,829,414 is to be amortized as a debit to cost of service in twelve equal monthly amounts commencing 1 August 1985.

4.5.6 Salaries and Employee Benefits

4.5.6.1 Test Year Escalation Factors

TCPL's estimate of test-year salaries provides for a general increase including merit of 4.7 percent for 1985 and 6 percent for 1986. In adopting these estimates, the Company relied on the recommendations of an expert witness, which were largely based on two surveys comparing the competitive position of TCPL employees' salaries with those of a broad range of industrials and utilities. The Company indicated that the 4.7 percent escalation factor for 1985 was supported by salary and wage settlements in competing industries, ranging from 3.5 to 5 percent. In addition, a witness for TCPL stated that the 1986 escalation factor incorporated a provision of 4 percent for inflation and 2 percent for merit increases.

The Board notes that recent salary and wage settlements generally ranged from 2 to 5 percent for 1985 and 1 to 5 percent for 1986. The average wage settlement as reported by Statistics Canada, including cost of living adjustments, fell to 3.2 percent in the first quarter of 1985, down from 4.4 percent in the final quarter of 1984. In addition, economic forecasters are predicting salary and wage increases ranging from 3.4 to 4.6 percent for 1985 and 4 to 4.7 percent for 1986. Taking into consideration recent settlements and continuing general economic restraint, the Board believes that increases of 4 percent for 1985 and 4 percent for 1986, including merit adjustments, are reasonable. As a result of these adjustments, the testyear allowance for salaries in the cost of service has been reduced by \$1,445,328.

In considering the survey information supplied by TCPL in support of its proposed levels of employee compensation, the Board observed that the material covered only lower to middle-level employees, with \$55,000 per annum being the highest salary documented. The Board is of the view that supporting information for all levels of employees is relevant in its consideration of the matter. Accordingly, the Board directs TCPL to include support information for uppermiddle and senior executive compensation in future submissions.

4.5.6.2. Number of Employees

TCPL determines its staff requirements by requesting from its various department managers estimates of the staff needed to perform all the Company's functions during the test year in an efficient manner.

TCPL had an average of 1,577 permanent employees and 57 vacancies during the base year. From the base year to the test year, TCPL projects a reduction of 24 positions in the permanent staff complement. However, TCPL forecasts a much larger decrease of some 81 regular employees for the test year ended 31 July 1986, in comparison with the test year ended 31 July 1985. The Company indicated that these deletions are a result of a critical review by TCPL of staffing requirements and more effective use of manpower through increased system efficiency. On the basis of this evidence, the Board accepts for inclusion in the test-year cost of service, the permanent staff level applied for by TCPL, recognizing that part of the cost of staff is allocated to non-utility operations.

For the 1985-86 test year, TCPL requested 10 additional temporary employees resulting in a temporary staff complement of 157 persons. The extra employees were requested to accommodate departments' requirements during scheduled vacation periods, on special projects, and during periods of peak workloads. The Company indicated that the additional temporary staff is required as a result of the reduction in the average number of regular employees.

The Board notes that TCPL has significantly overestimated its temporary staff requirements in recent years, and is not convinced of the necessity of a provision for 157 temporary positions in the test-year cost of service. Based on the Company's recent experience, the Board finds a provision for temporary employees equal to 70 percent of the applied-for amount to be reasonable. Accordingly, the Board denies TCPL's request for additional temporary employees and further reduces the number of temporary staff by 37, and approves a temporary staff complement of 110 for the test year. As a result of these adjustments, the test-year allowance for temporary employees salaries in the cost of service has been reduced by \$1,241,712.

4.5.6.3. Employee Benefits

With respect to employee benefits during the test year, the Applicant provided for increases because of changes in statutory and plan costs, new participants and increases in salaries. Having regard to this evidence, the Board accepts TCPL's estimated test-year cost of employee benefits, as modified to reflect the above-noted reductions in the test-year allowance for salaries. As a result of the above reductions, the test-year allowance for employee benefits has been reduced by \$578,212.

4.5.7. Transmission, Departmental and General Expenses

TCPL estimated test-year transmission, departmental and general expenses by applying forecasts from suppliers wherever possible to actuals recorded for the base year. Where such forecasts were unavailable, the Company used the 15 January 1985 "Blue Chip Economic Worldscan" forecasts for Consumer Price Index (CPI) growth of 4.5 percent for 1985 and 5.1 percent for 1986 to estimate increases in these expenses.

The Board notes the continued low rate of inflation, as evidenced by the 4 percent annual growth rate for the CPI in the second quarter of 1985 over the second quarter of 1984. In addition, the Board notes that the consensus forecast on which TCPL based its estimates is no longer current. More recent projections of major forecasting institutions call for smaller increases in the CPI for 1985 and 1986.

Taking into consideration all of these factors, the Board concludes that escalation rates of 4 percent for 1985 and 4.3 percent for 1986 represent reasonable inflation adjustments for these expenses. Accordingly, the test-year cost of service allowance is reduced by \$136,962 to reflect this revision.

During the hearing, TCPL indicated that it would examine the methodology of allocating the directors' fees and expenses.

In its written argument, TCPL proposed a method of allocating directors' fees and expenses based upon the time spent by the Company's corporate administration on regulated versus non-regulated activities. As a result of this allocation method, TCPL proposed to reduce the total directors' fees and expenses by \$207,948 or 53 percent.

The Board accepts the proposed allocation method by TCPL as being reasonable.

4.6 Income Taxes

4.6.1 Corporate Surtax

In its final revision, TCPL reflected as a component of its overall tax rate the five percent temporary corporate surtax proposed by the federal government in its 23 May 1985 budget. The surtax is based on federal income tax payable by large corporations and initially covered the 12-month period 1 July 1985 to 30 June 1986. Since TCPL's test year covers the period 1 August 1985 to 31 July 1986, the Company reflected only 11/12th of the corporate surtax in its overall income tax rate. However, on 27 June 1985, the Minister of Finance announced that the temporary surtax would be extended to 31 December 1986.

The Board has no reason to believe that the surtax proposal, as amended, will not become law and as such considers it legally binding on the Company. Consequently, the Board has decided to reflect the corporate surtax as a component of the overall income tax rate for the entire test year.

4.6.2 Corporate Surtax Deferral Account

In its written argument, TCPL requested a corporate surtax deferral account. The surtax, as initially proposed by the federal government, was to apply to the 1 2-month period 1 July 1985 to 30 June 1986. Since TCPL's test year covers the 12-month period ending 31 July 1986, the Applicant felt that if the duration of the surtax was subsequently extended beyond 30 June 1986 it would not recover its full cost of ser

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This would result because TCPL incorporated the surtax in its overall corporate tax rate for only 11/12th of the test year.

The Board has noted that on 27 June 1985, the Minister of Finance announced that the temporary surtax would be extended to 31 December 1986. Given this extension and the Board's decision as outlined in Section 4.6.1, the Board denies TCPL's request for a corporate surtax deferral account.

4.6.3 Income Tax Rate

TCPL used an overall tax rate of 52.62 percent in computing its utility flow-through income tax provision. This rate is comprised of a federal corporate tax rate of 36 percent, a composite provincial tax rate of 14.97 percent and a corporate surtax rate of 1.65 percent. As a result of the Board's decision in Section 4.6.1 to reflect the corporate surtax for the entire test period in the Company's utility income tax rate, the Board has increased the overall income tax rate to 52.77 percent. The derivation of this rate is shown below.

	Per Final Revision %	Authorized by NEB %
Federal Corporate Tax Rate	36.00	36.00
Composite Provincial Tax Rate	14.97	14.97
Federal Corporate Surtax	1.65	1.801

4.6.4 High Impact Welding Costs

The Applicant reflected \$7,433,717 as a current deduction in its flow-through income tax calculation. This amount represents costs incurred by the Company for the construction of a 6.2 kilometre loop-line in Northern Ontario using high impact welding techniques. TCPL believes that these costs are in the nature of applied research to develop a practical application for the high impact welding process. As such, it is the Company's opinion that these costs can be deducted currently for income tax purposes as research and development expenses. On 30 July 1984, TCPL requested an advance ruling from Revenue Canada as to whether these costs qualify for current deduction as scientific research expenses. At the completion of the hearing, TCPL had not as yet received a decision from Revenue Canada.

_____ 1 Federal Part I Tax Rate x 5% = 36% x 5% = 1.8%

The Board has no evidence before it to believe that the proposal will be rejected by Revenue Canada and, as such, authorizes TCPL to reflect \$7,433,717 as a current deduction in its flow-through income tax calculation.

4.6.5 Deferral Account Respecting Possible Reassessments of High Impact Welding Costs

TCPL requested a separate deferral account to cover any potential income tax reassessment resulting from its proposed treatment of high impact welding costs.

In its August 1980 Reasons for Decision, the Board allowed TCPL to record in a deferral account payments made as a result of income tax reassessments covering the period 1956 to 1977. In its July 1984 Reasons for Decision, the Board extended the use of this deferral account to payments made with respect to 1978 and 1979 income tax reassessments.

The Applicant stated during cross-examination that it had no objection to using the existing income tax reassessment deferral account for possible reassessments relating to its treatment of high impact welding costs. No intervenor objected to the proposal. Consequently, the Board has decided to extend the existing income tax reassessment deferral account to include any reassessments related to the treatment of high impact welding costs.

4.6.6 Excess of Allowable Capital Losses Over Taxable Capital Gains

In its final revision, TCPL included \$1,544,024 as a deduction in its utility income tax calculation. This amount represents the excess of allowable capital losses over taxable capital gains forecast by TCPL for the test period. Under the Income Tax Act, the excess of allowable capital losses over taxable gains for a taxation year should be carried back three years and forward indefinitely to reduce taxable capital gains, if any, in those other taxation years. However, the Board is of the view that, for toll-making purposes, the treatment of capital losses should not result in retroactive adjustments in tolls. Further, the Board notes that TCPL wishes to grant the benefit of this deduction to its tollpayers in the test period. For these reasons, the Board has decided to allow TCPL to reflect this amount of \$1,544,024 as a deduction in its test-year income tax calculation.

4.6.7 Flow-Through Tax Calculation

The Board has computed \$138,309,627 as the amount of income taxes to be included in the Applicant's tolls. The computation is shown in Table 4-6.

4.7 Miscellaneous Deferred Items

As a result of the Board's decision to amortize the deferral account balances over one year as set out in Section 4.2, an adjustment of \$20,839,578 is required to this item to reflect this decision. The calculation of the adjustment to this item is shown in Table 4-7.

4.8 Other Operating Income

The Board's adjustment of \$(10,560) to the Applicant's calculation of other operating income for the test year was necessary 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.

4.9 Miscellaneous Revenue

The Applicant credited its transportation cost of service with miscellaneous revenue amounting to \$9,100,206. This amount included revenue from the sale of PS and TWS.

The Board has made an adjustment to miscellaneous revenue of \$(82,765) to reflect the revenue from the sale of PS and temporary TWS based on the approved tolls.

4.10 Interim Revenue Deficiency

By Board Order No. TGI-4-85, as amended by AO-1 -TGI-4-85, the tolls approved under Board Order No. AO-1-TG-5-84 became interim effective 1 August 1985. The Board's decisions in this case will result in new tolls effective 1 November 1985 based on a test year beginning 1 August 1985. The Board recognizes that the revenue received by TCPL under the interim tolls will be less than the revenue TCPL would have received if new tolls reflecting the Board's decisions had come into effect on 1 August 1985.

The Board believes that the reason for the delay in the implementation of new tolls is due solely to the number and complexity of issues which were examined in this proceeding. Accordingly, the Board has decided that TCPL should be permitted to recover the revenue shortfall, together with carrying charges, arising from the interim tolls being charged in the months of August, September and October.

The Board has estimated the revenue deficiency for these three months to be \$19,793,457. The Board believes this amount should be amortized in the testyear and accordingly has included this amount in the test-year cost of service and has added one half the amount to rate base for carrying charge purposes.

Further, the Board believes a deferral account is required to record the difference between the actual revenue shortfall experienced by TCPL in August, September and October and the amount of revenue shortfall recovered in tolls by TCPL in the nine months ending 31 July 1986.

4.11 Deferral Accounts

4.11.1 Great Lakes Demand Charge Deferral Account

By Order No. AO-1-TGI-1-85, the Board allowed TCPL to record in an interim deferral account for each month, the demand charges attendant upon the difference between the demand volume of 590,000 mcf per day

reflected in the tolls approved pursuant to Board Order No. AO-1-TG-5-84 and the actual level of daily demand volume charged to TCPL by Great Lakes together with carrying charges on the month-end balance in the account for each month calculated at 1/12th of the annual rate of return on rate base.

In its application, TCPL projected demand volume of 658,438 mcf per day for the test year. However, this amount in TCPL's view is subject to change and TCPL therefore requested that the Board approve the existing interim deferral account on a final and continuing basis and reflect the change from 590,000 mcf per day to 658,438 mcf per day.

The Board recognizes that TCPL's actual level of contract demand on Great Lakes is subject to agreements between Great Lakes and its other shippers in that any reduction in the other shippers' contract demand level results in a corresponding increase in TCPL's contract demand. In addition, the need for FERC approval of those contractual agreements introduces another element of uncertainty into TCPL's forecast of contract demand for the test year.

In these circumstances, the Board considers it appropriate to extend the existing deferral account. However, the Board believes that TCPL should be required to justify annually the necessity for this deferral account. Therefore, the Board approves the continued use of this deferral account on an interim basis.

4.11.2 Peaking Service Revenue Deferral Account

By Order No. TGI-2-85, the Board approved, on an interim basis, the deferral of the difference between:

- a) the revenues under certain PS contracts not reflected in the current tolls, and
- b) the cost of transporting such gas;

together with carrying charges on the month-end balance in the account calculated at 1/12th of the authorized rate of return on rate base.

A similar deferral provision was approved for CD and T-Services by Order No. TG-6-84 on a continuing basis.

TCPL requested the Board to amend the authorization for the deferral of unpredicted CD or T-Service revenues issued in Order No. TG-6-84 to include, on a continuing basis, PS and TWS contracts not incorporated in the calculation of the tolls in effect.

The Board agrees that this amendment to the CD and T-Service revenue deferral account is necessary since it would prevent TCPL from receiving excess revenues as a result of PS and TWS contracts which were signed after tolls have been set not being included at the time tolls are calculated.

The Board approves TCPL's request.

4.1.2 Economy and Efficiency

TCPL filed a report as part of its Senior Vice President and Chief Operating Officer's testimony to show the cost efficiency of the TCPL system by reviewing the historical development of the Company.

The Company stated that through the public hearing process, the information supplied to the Board and the examination of work carried out in the field, it has demonstrated its effectiveness in achieving economy and efficiency.

TCPL stated that, with the present system working well, another audit such as was suggested by the Auditor General would not be productive.

The Auditor General of Canada, in his report to the House of Commons dated 7 December 1984 on the Comprehensive Audit of the National Energy Board, stated that the Board could make a regulated company's obligation to economy and efficiency "more real by establishing reporting and auditing requirements in this area".

The Board does not think that efforts made by any company toward efficiency should preclude further examination along the lines suggested by the Auditor General.

Chapter 5

Toll Design and Tariff Matters

5.1 Toll Design

5.1.1 Test-Year Throughput Forecast

TCPL, in its final revision, forecast a throughout of 34,863 million cubic metres of natural gas in the 1985-86 test year. The Board has adjusted this forecast to exclude AOI volumes and include PS and TWS volumes, resulting in a forecast of 34,571 million cubic metres of which 25,287 million cubic metres are destined for the domestic market. The forecast export volume of 9,284 million cubic metres represents 75 percent of volumes authorized for export under licences in use during the test year.

The Board is of the opinion that this test-year forecast is reasonable.

5.1.2 ACQ Toll

The toll for ACQ Service is determined by subtracting an ACQ differential from the average toll for CD Service in the Eastern Zone calculated at 100 percent load factor. The ACQ differential represents the additional costs which TCPL would incur if it provided CD Service instead of ACQ Service. The Consumers' Gas Company Ltd. (Consumers') and Union Gas Limited (Union) each proposed changes to the toll design for ACQ Service. These proposed changes are discussed in the following sections.

5.1.2.1 Allocation of Trial Revenue Deficiency

Under the existing ACQ toll design methodology used by TCPL, the ACQ toll is set to equal the CD-100 toll in the Eastern Zone less the ACQ differential, which represents the cost to TCPL of additional services that it would require to provide CD Service instead of ACQ Service. When trial tolls are calculated initially in the toll design process, a trial revenue deficiency in the Eastern Zone results since ACQ revenues are less than allocated costs.

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

Union proposed that, as ACQ Service benefits all system users, the revenue deficiency should be prorated to all users across the system not just those in the Eastern Zone.

TCPL disagreed with Union's proposal stating that one zone should not cross-subsidize another. It submitted that the costs as incurred have been appropriately allocated to zones. To prorate the trial revenue deficiency among all zones, in effect, would move costs that were properly assignable and allocable to the Eastern Zone to other zones.

Having considered all of the evidence, the Board has decided to maintain TCPL's existing methodology for ACQ toll design. The Board believes, however, that some refinement to the process of initially allocating costs to ACQ Service could significantly reduce or even eliminate the trial revenue deficiency. However, there is insufficient evidence on the record for the Board to determine, at this time, if there is a more appropriate level of costs that should be allocated to ACQ Service.

5.1.2.2 Design of Toll to Reflect Distance to ACQ Delivery Point(s)

Currently, TCPL designs its ACQ tolls on a zone basis, i.e., the distance to the load centre of the zone.

Union proposed that the ACQ toll be designed on a point-to-point basis, i.e., the distance to the point of delivery of the ACQ volumes.

TCPL argued that it would be inappropriate to design ACQ tolls on a basis different from other types of service in the same market area. The logical conclusion of such treatment would be for all customers upstream of a load centre to attempt to find a justification for point-to-point cost allocation for other delivery points, thereby shifting the zone load centre downstream.

The Alberta Petroleum Marketing Commission (APMC) and Dome Petroleum Limited (Dome) argued that with this proposal Union is essentially seeking to resurrect the Southwest Delivery Area proposal from the first TCPL tolls case, a concept rejected by the Board in its May 1973 Reasons for Decision.

In the Board's view, the zoned system of cost allocation is a fair and equal approach within like geographical and market areas. Approval of Union's proposal would in effect create a separate zone for ACQ Service and could encourage all customers who happen to be upstream of the load centre to attempt to justify cost allocation on a point-to-point basis. Union's proposal is therefore denied.

5.1.2.3 Fixed Allocation Units Based on 50 Percent of the Average Daily Winter Volume

Under the present toll design methodology for ACQ Service, fixed costs are allocated to the Service on the basis of 90 percent of the average daily winter volume. Variable costs are allocated on the basis of the annual contract quantity.

Consumers' stated that the use of 90 percent of the average daily winter volume in the development of fixed cost allocation units is unreasonable because it implies that a corresponding amount of pipeline capacity is dedicated to ACQ Service. Consumers' pointed out that TCPL has the right on any day to curtail or interrupt deliveries to the ACQ buyer to 50 percent of his average daily winter volume.

Consumers' submitted that TCPL has only incurred fixed costs to install the capability required to deliver 50 percent of the seasonal winter volume. The other 40 percent of the seasonal winter volume is provided through daily capability that has been installed specifically to deliver the aggregate firm service contract demand, but which becomes available in off-peak periods. Consumers' contended that, at those times, TCPL is able to use the otherwise idle capacity to deliver the balance of the average daily winter volume and, indeed, to deliver up to 135 percent by exercising the acceleration right under the ACQ-E Toll Schedule.

Consumers' proposed a change so that fixed allocation units would be assigned to ACQ Service on the basis of 50 percent of the average daily winter volume. A toll would then be designed specifically to recover these allocated costs.

TCPL stated that one of the main justifications for allocating costs to ACQ based on the 90 percent of average daily winter volume is that TCPL designs its facilities for ACQ on a seasonal and annual basis rather than on a daily basis. This means that over the 151 winter day period, at least 90 percent of the seasonal volume is to be delivered.

The intervenors' main criticism of Consumers' proposal was that there would be a substantial decrease in allocated costs without a corresponding decrease in TCPL's obligation to provide the service. Therefore, ACQ Service would not be allocated an appropriate level of costs based on the volumes which they are contractually obligated to receive over the course of the winter season.

Northern and Central Gas Corporation Limited (Northern and Central) argued that Consumers' had been curtailed to 50 percent or less of average day deliveries on only 5 or 6 days during the last six years with its consent while TCPL made available to Consumers' 90 percent or more of average daily volumes on 124 out of 151 days in the most recent winter season.

In the Board's view, the question of the appropriate basis to allocate costs to ACQ Service is a matter of judgment. Recognizing that TCPL designs its facilities for ACQ on a seasonal basis, it does seem appropriate to the Board that costs be allocated to ACQ Service also on a seasonal basis. Since over the winter season Consumers' is going to receive at least 90 percent of the winter seasons' volumes, the Board believes that Consumers' should pay a level of fixed costs appropriate for the volumes that it is obligated to receive.

The Board believes that the use of 90 percent of the average daily winter volume in the development of fixed cost allocation units is more reasonable than the use of 50 percent since the nature of the service provided by TCPL, in the Board's judgment, warrants a higher allocation of fixed costs than would be the case if Consumers' proposal were accepted. The Board therefore denies Consumers' proposal.

5.1.2.4 Design of Toll to Recover Allocated Costs

Consumers' proposed that the ACQ-E toll should be designed specifically to recover the fixed and variable costs allocated to ACQ Service. Accordingly, the ACQ-E toll should be calculated by dividing the sum of the fixed and variable costs allocated to the service by the annual contract quantity. This results in a onepart commodity toll with an implicit fixed cost component. Consumers' submitted that the present methodology does not result in a cost-based toll.

Northern and Central was the only other intervenor to state a position on the issue. It opposed this change in methodology since it felt that Consumers' and Union are fairly and adequately compensated through the ACQ differential.

In the Board's view, the basis on which the ACQ differential is determined results in a cost-based ACQ toll. The evidence presented was insufficient to justify a change from the existing toll methodology. Consumers' proposal is therefore denied.

5.1.2.5 ACQ Differential

In its calculation of the ACQ toll differential, TCPL used the methodology approved by the Board in its June 1983 Reasons for Decision to arrive at a differential of 6.3 $\$/10^3\text{m}^3$. Taking into account the various adjustments made to Cost of Service in this Decision, the Board finds that a differential of 6.2 $\$/10^3\text{m}^3$ is appropriate.

5.1.3 AOI Tolls

AOI tolls are presently incremental tolls, that is, they recover the incremental costs associated with providing the service.

TCPL proposed that the winter AOI toll be equal to the CD toll at the 100 percent load factor level and the summer AOI toll be a discounted toll based upon the system average variable costs plus 6 cents/GJ of fixed costs. This proposal necessitated a projection of estimated AOI sales volumes for the test year.

TCPL advanced two principle reasons for making this proposal. It would increase gas sales by virtue of the attractive, low summer toll and TCPL would assume some risk in the marketing of gas by allocating fixed costs to AOI service.

TCPL forecasted its AOI sales volumes to be 336 million cubic meters based on historical experience in the three most recently completed contract years.

This forecast did not include any AOI sales to Consumers' and Union. TCPL indicated, however, that if either or both of them were to waive irrevocably their rights to ACQ make-up, TCPL would be prepared to sell them AOI.

All distributors and interested parties from Quebec were in favour of the proposal. They agreed that the attractive, low summer toll would increase gas sales and would contribute to the development of new markets.

Other intervenors supported the proposal in concept but had concerns about the AOI forecast and TCPL's potential for earning excess profits due to an unreasonably low AOI sales forecast.

A number of other intervenors, however, opposed the proposal. The CPA, Consumers' and Ontario submitted that the proposal is not cost-based since the incremental cost of shipping AOI in the summer is greater than the proposed toll. TCPL sought to use the lower summer toll as an incentive to distributors to take additional volumes but the CPA argued that it is inappropriate to provide incentive through tolls and that any incentive should be provided through the price of gas in the market place. Further, the CPA submitted that it is not appropriate for TCPL to put any funds at risk in the provision of interruptible service because they do not build facilities for this service.

Northern and Central argued that TCPL is seeking a reward for what it considers its marketing effort, when in all likelihood it may be the marketing efforts of the distributors which cause any higher than forecasted AOI sales.

Also, the fixed cost component of revenues collected for volumes sold above the forecasted AOI level flows directly to TCPL's profits and, therefore, the distributors do not share in the benefit. Not only do they not share in the benefit but they will be burdened, through the mechanism of the compressor fuel deferral account, with a bill in the form of a higher demand charge in a subsequent year to recover incremental fuel costs associated with any higher sales.

The Board has decided to deny TCPL's AOI proposal.

The Board agrees with those intervenors who criticize the proposal for not being cost-based. In the Board's view, any tolls other than incremental would inevitably result in cross-subsidization among tollpayers and between test periods through the mechanism of the compressor fuel deferral account.

The Board also agrees that TCPL could be rewarded through higher than forecasted AOI sales when in fact it will be the marketing efforts of the distributors and not TCPL which would cause any higher than forecasted AOI sales.

Accordingly, the Board does not believe the proposal by TCPL would be appropriate.

5.1.4 Interruptible Transportation (IT) Service Tolls

TCPL offered an IT-Service for the first time in this application.

The service would be available to users who are not firm service customers and who therefore are not contributing under other toll schedules to TCPL's fixed costs. TCPL proposed a toll which would charge the full incremental cost of providing this service.

The tolls TCPL proposed were dependent on the acceptance of its AOI proposal. If the AOI proposal was to be accepted, the IT tolls would be determined incrementally at a level above both firm service and AOI Service. If the AOI proposal was not to be accepted, TCPL proposed that both AOI and IT tolls would be determined on an

incremental and equal basis above firm service.

A number of intervenors took exception to the IT toll being proposed. Northridge Petroleum Marketing Inc. (Northridge) and Brenda Mines Ltd. submitted that this proposal unjustly discriminates against non-TCPL gas suppliers since IT-Service would have a higher toll and a lower priority of service than AOI. Northridge further submitted that IT tollpayers should pay the system average variable cost and make a contribution to fixed costs in much the same way as AOI tollpayers would under the AOI proposal. The APMC and the Independent Petroleum Association of Canada supported Northridge in this regard.

TCPL argued that the estimate of volumes for IT would be much more difficult than for AOI because there is no history for such service on which to rely and, since TCPL is not privy to the gas sales involved, it has less knowledge and less influence to enable it to determine likely usage than it has in the case of AOI. Therefore, it would be very difficult to make an estimate of IT sales for the purpose of allocating fixed costs.

TCPL also argued that, if IT customers paid the average variable cost, any deferred fuel costs resulting from actual IT sales being greater than forecast would result in the service being subsidized by the firm service customers since there is no guarantee that the IT customers would be on the system in the next year to pick up their share of the deferred costs.

Other intervenors such as Dome, Consumers', Ontario, the Industrial Gas Users Association (IGUA), and Consolidated were of the view that IT and AOI should have the same toll while the CPA and Northern and Central submitted that IT and AOI should both have incremental tolls but the IT tolls should be higher.

In the Board's view, there is no justifiable reason at this time for treating the two interruptible services in a different manner for toll purposes.

In addition, as with AOI Service, the Board believes that any tolls other than incremental tolls would result in cross-subsidization of the service by the firm service customers due to the compressor fuel deferral account.

The Board therefore has decided that the tolls for ITService should be equal to the incremental tolls for AOI service.

5.1.5 Sulpetro Interruptible Toll

In an application to the Board dated 28 November 1984, TCPL requested amendments to the appropriate schedules of the TransCanada PipeLines Limited Export Price Order and the Sulpetro Limited Export Price Order which in TCPL's view were required to reflect the true cost of moving the overrun gas to Niagara Falls.

In a letter dated 25 February 1985, the Board advised that in view of the changes to the methodology of calculating AOI tolls as proposed in TCPL's 1985 toll application dated 8 February 1985, this matter should be deferred and dealt with as part of the 1985 tolls application.

In this application TCPL has requested amendments to the appropriate Schedule of the TransCanada PipeLines Limited Export Price Order and the Sulpetro Limited Export Price Order to reflect the cost of moving the overrun gas during the 1985-86 test year.

In view of the Board's decision to have one incremental toll for interruptible sales, the Board has determined the toll for overrun gas delivered at Niagara Falls to be 37.032 $\$/10^3\text{m}^3$ in the winter months and 34.723 $\$/10^3\text{m}^3$ in the summer months.

The Board will issue amendments to the appropriate Schedule of the TransCanada PipeLines Limited Export Price

Order and the Sulpetro Limited Export Price Order which reflect the approved tolls.

5.1.6. PS and TWS Tolls

Union proposed that the tolls for PS and TWS should be set by reference to their practical alternative which in Union's submission is storage.

At the Methodology Hearing RH-2-84, TCPL argued against this proposal stating that in 1980 the Board rejected a proposal by TCPL to set PS and TWS tolls with reference to storage. TCPL also stated that the tolls have been stable since then, no new PS-related facilities have been constructed and since PS and TWS are not expensive for TCPL no change should be made.

Union recommended that the Board instruct TCPL to adopt its proposed methodology in its next toll case.

In the Board's view, there is insufficient evidence before it to justify ordering TCPL to adopt Union's proposed methodology. The Board does not believe that Union adequately demonstrated that the existing tolls for PS and TWS are not just and reasonable or that its proposed methodology would result in more appropriate tolls.

5.1.7 Allocation of Departmental and General Expenses

At present, 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 percent of these expenses are included in the metering function and allocated on the basis of fixed volume units, and 96 percent are included in the transmission function and allocated on the basis of fixed volume-distance units.

Consumers' did not agree that the correlation between the departmental and general expenses and the distance of transmission is close enough to warrant the use of volume-distance allocation units. It stated that the mere act of functionalizing a cost to transmission does not automatically make it distance-related.

Consumers' proposed that these expenses should all be allocated on the basis of fixed volume units, except for expenses that are not related to an administrative or services function and expenses that pertain to aviation costs.

TCPL argued that most of these expenses are distance-related since, with a much shorter pipeline, these expenses would decrease because of a general reduction in the activities of the Company.

In written argument, the Minister of Mines for the Province of Manitoba submitted that Consumers' did not include the analysis on which its proposal is based. Rather, its proposal is followed by a statement of belief that such expenses are more related to throughput than to distance, so that volume units would be more appropriate.

In the Board's view, Consumers' did not present sufficient evidence to justify a change in methodology and, therefore, the Board has decided to maintain the present method used by TCPL.

5.2 Tariff Matters

5.2.1 Priority of IT-Service

TCPL's position on this issue of priority of services was that AOI together with T-AOI (See Section 5.2.2.1) and IT are different services and therefore, different terms and conditions of service are appropriate.

TCPL stated that while interruptibility is a common feature of all three services, AOI and T-AOI are overrun services and as such can only be taken by firm service users in a delivery area on any day after 100 percent of their firm entitlement for such delivery area has been taken. There is no similar restriction on the IT user, even if that IT user were also a firm service customer.

TCPL's proposed toll schedules give priority to AOI and T-AOI over IT. TCPL argued that the ability to offer such interruptible services depends entirely on the availability of excess system capability beyond that which is required on any day to meet firm requirements. The system's firm service customers (who qualify for AOI and T-AOI) through their firm service tolls have paid for that excess capacity and are entitled to first call on it.

In the Board's view, priority would only become a problem during the peak winter periods when the pipeline is operating at or near capacity. Under these circumstances, those customers with long-term firm contracts who require additional overrun volumes should be given first call on available pipeline capacity. Accordingly, the Board approves the priority of service proposed by TCPL.

5.2.2. New Services

5.2.2.1 T-AOI

During the hearing, GMi proposed the implementation of T-AOI Service which would allow the purchase of gas from producers and the transportation of the gas by TCPL for users who have already concluded firm and T-Service contracts with TCPL.

TCPL stated its willingness to provide the service as proposed by GMi subject to the following conditions:

1. T-AOI shall not be used to displace or substitute for any existing gas that TCPL has under contract to others;
2. A customer must first utilize 100 per cent of his firm CD and T-Service before he is eligible for AOI and T-AOI;
3. Volumes shall be prorated between T-AOI and AOI, based on the proportion of T-Service contract demand to the total contract demand within a given delivery area;
4. If a shipper does not on any day supply sufficient volumes at Empress to provide the T-AOI portion of total authorized overrun volumes, the deficiency would be provided by TCPL as AOI, and not as curtailment of the market.

GMi indicated its acceptance of the conditions generally but objected to condition 3. It proposed that the volumes should be prorated based on the total volumes of the concerned distributor and not on the total volumes of the specific delivery area.

TCPL maintained that its method of prorating ensures a fair division of capacity that may be available to both services, comparable to the existing prorating provision applicable to CD and T-Service.

The Board agrees with TCPL's position. In the Board's view, since availability is prorated between CD and T-Service on the basis of volumes within a delivery area, it would seem to be reasonable that the availability of the overrun services associated with the firm services be Prorated on the same basis.

The Board therefore directs TCPL to file T-AOI Toll Schedules which reflect the conditions outlined above.

T-AOI will have the same toll and the same priority as AOI Service.

5.2.2.2 Short-Term Sales and Transportation Services

During the hearing, some intervenors questioned TCPL on its willingness to provide short-term firm sales and transportation services. TCPL stated that it was prepared to enter into such contracts and filed draft Short-Term T-Service (STT) and Short-Term CD (STCD) Service toll schedules as well as amendments to the General Terms and Conditions which would be needed to recognize implementation of these additional services.

TCPL proposed a minimum term of one year and a maximum term of three years for such services.

TCPL also proposed certain conditions of service which it believed were necessary to ensure that such services would not cause the construction of facilities and to ensure that short-term firm users would absorb deferred costs incurred by them in the last year of their contracts if no replacement service had been contracted.

In the Board's view, a term of one to three years for such services is reasonable. The Board also agrees that provision of short-term services should not result in the construction of facilities. However, the Board does not agree that the tolls for short-term services should be increased in the final contract year to reflect certain deferred costs so that such costs would not be borne by others.

The Board agrees with one intervenor who stated that any deferred costs remaining outstanding at the end of the contract term are balanced by the costs deferred from the period prior to the contract term which are paid by the short-term user during the term of his contract.

Accordingly, the Board does not believe that such a condition should be included in the toll schedules for Short-Term T-Service and Short-Term CD Service.

5.2.2.3 Contract AOI

Union proposed a contract summer AOI Service similar to contract TWS with a contract fee payable in any event. In Union's view, such a service would provide a useful marketing tool and would improve the use of storage and hence TCPL's load factor. Union submitted that the contract fee could subsidize other overrun services.

TCPL did not object to the proposal.

The Board believes such a service may have some merit and accordingly requires TCPL to review the service proposed by Union and file the necessary toll schedules for examination in its next toll case.

5.2.3 T-Service Toll Schedules

5.2.3.1 Availability

TCPL proposed revisions to Section 1.1 of its T Toll Schedules to clarify its position on the availability of TService. In addition, TCPL proposed that the displacement proviso in Section 1.1 (a) be amended and moved to the end of

Section 1.1 and the same proviso be included in the proposed IT and Short-Term T Toll Schedules. The existing and proposed wording follows:

existing:

"PROVIDED ALWAYS that Shipper's gas transported by TransCanada will not, in whole or in part, displace or substitute for volumes of gas which Shipper or any purchaser from Shipper has contracted to Purchase from TransCanada",

proposed:

"PROVIDED ALWAYS that Shipper's gas transported by TransCanada will not, in whole or in part, displace or substitute for volumes of gas which any party has contracted to purchase from TransCanada."

TCPL indicated that the wording change would more clearly state the intent of the proviso included in previous years' T Toll Schedules. Several intervenors considered the inclusion of any displacement proviso as discriminatory and proposed it be removed from the tariff. In their opinion, the proviso would have an adverse impact on the ability of certain producers and end-users to fully use a market-oriented pricing environment for natural gas.

The Board notes the concerns of the intervenors with respect to the ability of parties to participate in direct sales. However, the Board also recognizes that TCPL has been the prime long-term supplier, transporter and marketer of natural gas in eastern Canada. The Company has entered into supply agreements and trust deed arrangements to provide the underpinning for the construction and operation of the pipeline. TCPL's take-or-pay obligations were incurred during a period of anticipated sales growth to serve its markets. Distributors entered into long-term CD contracts with TCPL to provide protection for their own markets. Taking this into account, the Board is of the view that a displacement proviso is not unreasonable in the present circumstances.

Discussions between the federal government, the provinces and industry regarding changes to interprovincial gas marketing policies are currently underway. The outcome of these discussions may have an impact on the matter of direct sales; however, no conclusions have yet been reached.

For these reasons, the Board is not prepared to remove the displacement proviso at this time. The displacement proviso will also be included in the tariff schedules for IT, Short-Term T-Service and T-AOI Service.

As to TCPL's proposed wording for the displacement proviso, the Board is of the view that it could be interpreted to safeguard volumes of gas which any party may have had under contract, at any time in the past, to purchase from TCPL. Such an interpretation could, in the opinion of the Board, unduly restrict access to the transportation system of TCPL. The intent of the proviso is to safeguard volumes of gas which are under contract at the time the transportation service is required by the shipper. For this reason, the Board has revised the displacement proviso to be included in the above-mentioned tolls, to read as follows:

"PROVIDED ALWAYS that Shipper's gas transported by TransCanada will not, in whole or in part, displace or substitute for volumes of gas which any party has under contract to purchase from TransCanada."

With respect to the other proposed amendments to the wording of Section 1.1 (a) the Board notes that no intervenor objected to TCPL's proposals.

The Board believes the proposed amendments to be reasonable and approves their incorporation into the T Toll Schedule.

5.2.3.2 Tariff Reference to "Processing"

TCPL proposed that Section 10 of the T-Service Toll Schedules respecting "Processing" be deleted since it is no longer applicable.

No intervenor opposed this change. The Board agrees that this change is appropriate and approves the deletion of Section 10 of the T-Service Toll Schedule.

5.2.3.3 Tariff References To "Shipper's Volume" And Transportation Volume"

TCPL proposed revisions to the T-Service Toll Schedules to correct certain inconsistencies in the use of the terms "Shipper's Volume" and "Transportation Volume."

No intervenor opposed these revisions. The Board approves the proposed changes.

5.2.3.4 T-Service Force Majeure

Subsection 3.2(a) of TCPL's T-Toll Schedule states in part:

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

IGUA proposed that the phrase "including force majeure" in this section be changed to read "excluding force majeure."

IGUA maintained that the provision in its present form is discriminatory against T-Service in favour of CD Service

since the CD Service tariff does not contain a similar provision.

In last year's proceedings, the Board had been requested to remove this sentence entirely. At that time the Board stated:

"The Board recognizes that force majeure is a common basis for relief from contractual obligations. The Board believes, however, it is fairer to require that the party owning the gas being transported by TCPL be responsible for demand charges in the event of force majeure of that supply. In this important regard, the CD and T-Service tariffs are consistent."

The Board saw no evidence in the current hearing to cause it to depart from its view that the party owning the gas being transported by TCPL should be responsible for demand charges in the event of a force majeure of the gas supply.

The Board believes that IGUA's proposal would have the effect of insulating the T-Service shipper from that responsibility. The Board therefore denies the proposal by IGUA.

5.2.3.5 Provision of Fuel

Some intervenors questioned the role of TCPL in supplying fuel gas for operations on its system. They submitted that shippers should have the option of providing the fuel gas portion of their toll in kind.

In its June 1983 Reasons for Decision, the Board said with respect to this issue:

"In the Board's view, the provision of compressor fuel required for transmission of natural gas on any pipeline system is an activity which is normally carried out by the pipeline owner without constraint and with freedom to negotiate fuel supply with either shippers or other suppliers. Therefore, the Board finds that it is inappropriate to include in TCPL's tariff the option for a T-Service shipper to provide its own fuel."

Having reviewed the evidence in this proceeding, the Board is not convinced of the need to change its previous decision at this time. The Board maintains the view that the provision of fuel should be a matter of negotiation between TCPL and the suppliers.

5.2.4. AOI Toll Schedules

5.2.4.1 Availability

TCPL proposed several changes to Section 1.1 Availability of the AOI Toll Schedule. The purposes of the changes were to clarify that AOI is also available to T-Service customers, to remove certain existing restrictions respecting the sale of such gas, to establish the daily volume of ACQ to be included in the Total Daily Contracted Quantity when determining a Buyer's AOI nomination and to ensure that volumes which might otherwise be purchased as ACQ makeup are not purchased as AOI in the summer.

The Board considers the proposed changes by TCPL to be reasonable. However, in view of the decision to maintain incremental tolls for AOI Service, the Board does not believe that it is necessary to ensure that ACQ make-up volumes are not purchased as AOI in the summer. Accordingly, the Board directs that the proposed additional proviso to Section 1.1.(c) be removed from the AOI Toll Schedule.

Further, in view of the Board's decision to approve new STCD and STT Services, the Board believes it would be appropriate to make AOI available to purchasers of those services as well. Accordingly, the Board directs TCPL

to include references to STCD and STT in Section 1.1 of the AOI Toll Schedule.

5.2.4.2 Applicability and Character of Service

TCPL proposed to amend Section 2 "Applicability and Character of Service" of the AOI Toll Schedule to provide that in the event TCPL arranges to deliver gas to storage, such deliveries would take priority over AOI deliveries. TCPL also proposed that the toll schedule for T-AOI Service reflect this priority.

In the Board's view, any storage program by TCPL would likely involve deliveries of gas into storage during the summer months when excess capacity is more available. Accordingly, to provide higher priority to any storage program of TCPL would not seem to impose any undue restriction on TCPL's ability to deliver either AOI or T-AOI which will more likely be delivered during the winter months. Therefore, TCPL's proposed amendment to Section 2 is approved.

5.2.5 Continuation of Higher than General Delivery Pressure Provisions

Subsequent to the proceedings of the Methodology Hearing held pursuant to Board Order No. RH-2-84, the Board decided to consider in this toll hearing the continuation of the higher than general delivery pressure provisions of Section IX of TCPL's General Terms and Conditions.

In accordance with the Applicant's and intervenors' evidence during the hearing, the Board has decided that the continuation of these provisions be maintained. While existing agreements for minimum pressures in excess of 2800 kPa should be maintained, customers that in future require a higher guaranteed minimum pressure should pay the necessary additional costs to TCPL.

5.2.6 Transfer of Excess Demand

Union proposed that the CD Toll Schedule be amended to permit a CD purchaser to transfer excess contracted volumes to another CD purchaser within the same zone provided such transfer did not require TCPL to construct additional facilities. Union stated that such a transfer could be for the duration of the CD contract in question, or a shorter period, provided that in the latter case the demand reverted to the original contracting party or to some other qualified transferee at the end of the assignment period.

Union believed that the entire gas market would benefit from the resulting increased efficiency without cost to any party.

The Board agrees that such a proposal could have beneficial effects on the ability to market gas. The Board notes that no party objected to the proposal. Accordingly, the Board approves the proposal by Union and directs TCPL to file revised toll schedules reflecting this proposal.

5.2.7 Availability of PS and TWS

Union proposed that the Board direct TCPL to discuss the issue of PS related transportation service with Union and bring forward a proposal at its next toll hearing for entering into short-term transportation contracts for the purposes of increased availability of PS and TWS.

The Board does not believe it is necessary for it to direct parties to enter into discussions. The Board believes that parties should always be willing to discuss matters that may be mutually beneficial. Accordingly, the Board is not prepared to accept Union's proposal.

5.2.8 Reduced Notice of Curtailment of ACQ

Union proposed that TCPL amend Section 1.3 of the ACQ-E Toll Schedule to reduce the 18-month notice period for a reduction in ACQ to the date which is the earlier of (1) the latest date which would still permit TCPL to incorporate the changes in volume in its rate case for that year, and (2) the date, if any, on which TCPL advises the ACQ purchasers that it is proposing to construct facilities.

TCPL opposed Union's proposal on the grounds that the 18-month notice period is a standard period for operating information, the proposal has the potential to become administratively complex, and in all likelihood the proposal will not result in any reduced notice period for the ACQ customers. In addition, TCPL submitted that the current existing provision does not stop TCPL from being flexible when circumstances permit. TCPL stated that the provision can be waived on a case-by-case basis.

The Board does not believe that sufficient evidence has been advanced to justify an amendment to the ACQ-E Toll Schedule. The Board believes that TCPL will display flexibility in this matter when it is appropriate. Accordingly, Union's proposal is denied.

5.2.9 Conversion of ACQ to CD

Union proposed that a distributor should have the right, upon three years' notice, to convert ACQ to CD. Union believed that a three-year notice would allow negotiations to take place to determine whether there was a way the distributor could continue with ACQ or improve it in such a way that the distributor would not want to convert to CD.

TCPL stated that it is willing to consider firm proposals to convert ACQ to CD but does not believe such a right to convert should be included in TCPL's tariff.

The Board agrees with the position stated by TCPL. The subject of ACQ conversion should be a matter of discussion between the parties and should not be a tariff matter. Therefore, the Board denies the proposal by Union.

5.2.10 ACQ Availability

During the course of the hearing, GMi proposed that TCPL amend Section 1.1 (b) of the ACQ Toll Schedule to provide that ACQ be available to buyers in the Eastern Delivery Area in addition to the Central and Southwestern Delivery Areas which are already provided for.

TCPL stated that it was prepared to consider any specific proposal that GMi may have that would enable it to receive ACQ. However, because GMi has not yet brought any specific proposal forward TCPL submitted that the matter not receive any consideration from the Board at this time.

The Board does not believe it would be appropriate to order such an amendment to the ACQ Toll Schedule at this time. The Board believes that the provision of ACQ Service in the Eastern Delivery Area should more appropriately be fully discussed among the affected parties and a specific proposal should be brought to the Board for its consideration. At that time, the Board would consider a proposal to amend the ACQ Toll Schedule. The Board, therefore, denies GMi's proposal at this time.

5.2.11 ACQ Make-Up Surcharge

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. By 31 October 1984, only Consumers' had taken any ACQ make-up gas.

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 proceeding. These deferred balances plus associated carrying charges have been treated as a revenue deficiency associated with the ACQ make-up gas. TCPL proposed to recover this revenue deficiency by means of a unit surcharge applicable to the volumes of current ACQ Service taken by Consumers' in either the 1985-86 test year or the 1985-86 contract year. During the hearing, TCPL filed a proposed unit charge of $\$1.186/10^3\text{m}^3$ applicable to the 1985-86 contract year.

Consumers' preferred a surcharge applicable to the contract year; TCPL appeared to be indifferent in this regard.

Union believed that there should be some offset to the ACQ make-up surcharge to reflect any savings to the system arising from the deferral of ACQ. TCPL agreed that there may have been savings but stated that they could not be quantified. Union agreed that a precise quantification was impossible but argued that a reasonable estimate could be made.

The Board has decided that the surcharge in respect of ACQ make-up gas should be applicable to the 1985-86 contract year. In addition, in the absence of any evidence as to the possible savings that may have resulted from the deferral of ACQ the Board does not believe it is appropriate to offset the proposed surcharge to reflect such savings.

Accordingly, the Board approves the unit charge of $\$1.186/10^3\text{m}^3$ applicable to the volumes of current ACQ Service taken by Consumers' in the 1985-86 contract year.

5.2.12 Storage Transportation Service (STS)

Union made two proposals which, in its view, would encourage the use of storage services by downstream customers and thus reduce their gas costs.

Union proposed that Quebec distributors receive a discount for summer storage deliveries at least equal to Union's transportation commodity charge.

Union submitted that the distributor is effectively paying twice for transportation service as it must pay the regular transportation rate to the Eastern Zone load centre and, in addition, pay a transportation rate to have the gas delivered from Dawn to its market in Quebec when the gas is taken out of storage.

Union also proposed that it be permitted to nominate a portion of its CD demand downstream to Quebec or other storage customers so that some STS commodity charges could be eliminated for such customers and the gas costs thereby reduced.

GICQ opposed this proposal. It argued that this proposal is similar to Union's point-to-point proposal for ACQ Service.

The Board believes that insufficient evidence was heard, at this time, to justify the changes proposed by Union.

Accordingly, the Board has decided to deny Union's proposals.

Chapter 6

Disposition

The foregoing together with Orders Nos. TG-2-85 and TG-3-85 constitute our Reasons for Decision and our Decision on this matter.

L.M. Thur
Presiding Member

J.R. Jenkins
Member

R.B. Horner, Q.C.
Member

Ottawa, Canada
September 1985

Appendix I

Order No. TG-2-85

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-T1-20.

BEFORE:

L.M. Thur
Presiding Member

J.R. Jenkins
Member

Thursday, the 19th
day of September, 1985

R.B. Horner, Q.C.
Member

WHEREAS an application dated 8 February 1985, 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 August 1985;

AND WHEREAS TransCanada has requested that the Board, by Order, approve for accounting and tollmaking purposes certain related procedures and modifications to procedures referred to in paragraphs 1, 3, 5 through 9 and 12 herein;

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-2-85 which commenced in Ottawa on 23 April 1985;

AND WHEREAS the Board has ordered, by Order No. TGI-4-85 as amended by Order No. AO-1-TGI-4-85, that, effective 1 August 1985, TransCanada's tolls as established by Order No. TG-5-84 as amended by Order No. AO-1-TG-5-84 and the procedures for accounting and toll-making purposes set forth in Order No. TG-6-84, as amended by Order No. AO-1-TG-6-84 be continued and followed on an interim basis until the Board issues its final decisions on the application;

AND WHEREAS the Board's decisions on the application are set out in its Reasons for Decision dated September 1985, in Order No. TG-3-85 and in this Order:

IT IS ORDERED THAT:

1. TransCanada's request for an order for accounting and toll-making purposes which would allow the monthly amortization in tolls over 5 years commencing 1 August 1985, of the balances in certain deferral accounts, together with carrying charges on the month-end balance in the accounts calculated at a rate equal to one-twelfth of the then authorized annual rate of return on rate base, is denied. This denial refers to the following deferral accounts:

(a) Transmission by Others:

1. Great Lakes Gas Transmission Company
2. Union Gas Limited
3. Trans Québec & Maritimes Pipeline Inc.

(b) Other

1. Compressor Fuel
 2. Excise Tax
 3. Gaz Inter-Cite Quebec Inc. (Revenue)
 4. Simplot Chemical Company Ltd. (Revenue)
 5. Miscellaneous Debt Service Deferrals
2. TransCanada shall amortize each month for the year commencing 1 November 1985, for accounting and toll-making purposes the balances accumulated as of 1 August, 1985 on the deferral accounts specified in paragraph 1, together with carrying charges on the month-end balances in the accounts calculated at a rate equal to onetwelfth of the authorized rate of return on rate base.
3. TransCanada's request for an order for accounting and toll-making purposes which would allow TransCanada to transfer an amount in twelve equal monthly installments commencing August 1985 from Account 276, Accumulated Deferred Income Taxes to Account 306, Income Taxes is denied.

4. TransCanada shall amortize each month for the year commencing 1 November 1985 for accounting and toll-making purposes the loss of \$2,323,115 associated with the extraordinary retirement of the Niagara Line, together with carrying charges on the month-end balances in the accounts calculated at a rate equal to one-twelfth of the authorized rate of return on rate base.

5. TransCanada's request for an order for accounting and toll-making purposes which would allow TransCanada to record in a deferral account the difference between the actual cost of TransCanada's unaccounted for volumes and the amount recovered in respect thereof in the tolls as approved by the Board, together with carrying charges on the month-end balance in the account calculated at a rate equal to one-twelfth of the authorized annual rate of return on rate base, and to amortize the balance including carrying charges from time to time through adjustments in future tolls is denied.

6. TransCanada's request for an order for accounting and toll-making purposes which would allow TransCanada to record in a deferral account any amounts paid by it in respect of income tax reassessments by Revenue Canada in respect of the years 1985 or later, together with carrying charges on the month-end balance in the account calculated at a rate equal to one-twelfth of the then authorized annual rate of return on rate base, arising out of deductions in respect of expenditures on high impact welding, and directing TransCanada to bring forward the balance in the account for disposition by the Board when all dispute over such reassessments has been resolved is denied.

7. TransCanada shall, for accounting and tollmaking purposes,

(a) record in the deferral account established under paragraph 6 of Order No. TG-5-83 as amended by paragraph 7 of Order No. TG-6-84 amounts paid by it in respect of income tax reassessments by Revenue Canada resulting from its proposed treatment of high impact welding costs, 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;

(b) credit to the said account any refunds and interest thereon received from Revenue Canada of amounts paid in respect of any such reassessments;

(c) bring forward the balance in the said account for disposition by the Board when the dispute over the reassessments has been resolved."

8. TransCanada's request for an order for accounting and toll-making purposes approving on a final and continuing basis the deferral account in respect of demand charges paid by TransCanada to Great Lakes Gas Transmission established by Order No. TGI-1-85, as amended, is denied.

9. TransCanada's request for an order for accounting and toll-making purposes amending, effective 1 August 1985, the deferral account in respect of demand charges paid by TransCanada to Great Lakes Gas Transmission to record the difference between the demand volume of 658,438 mcf per day reflected in TransCanada's tolls and the actual demand volume in effect from time to time is approved until 31 July 1986.

10. TransCanada's request for an order for accounting and toll-making purposes approving on a final and continuing basis the deferral account in respect of compressor fuel costs as continued by paragraph 8 of Order No. TG-6-84 is denied

11. TransCanada shall continue to record each month until 31 July 1986 for accounting and tollmaking purposes in accordance with Order No. TGI-1-83, as amended by Order No. AO-1TGI-1-83, the difference between:

(a) the actual cost of compressor fuel used for the month, and

(b) the amount for compressor fuel costs that is actually recovered by TransCanada in its tolls for the month, together with carrying charges on the month end balance in the account calculated at the rate of one-twelfth of the authorized annual rate of return on rate base, and shall bring forward the balance in the account for disposition by the Board at the next toll proceeding.

12. TransCanada shall, continue to record each month until 31 July 1986 for accounting and tollmaking purposes in a sub-account of the account established under Order No. TGI-1-83, as amended by Order No. AO-1-TGI-1-83, the difference between:

(a) the actual cost of compressor fuel used in the transportation of make-up ACQ volumes delivered to The Consumers' Gas Company Ltd. and Union Gas Limited in the month, and

(b) the amount in respect of the cost of compressor fuel that is recovered by TransCanada in the tolls charged for the transportation of the make-up ACQ volumes delivered in the month, together with carrying charges on the month end balance in the account calculated at one twelfth of the authorized annual rate of return on rate base, and shall bring forward the balance in the sub-account for disposition by the Board at the next toll proceeding.

13. TransCanada's request for an order for accounting and toll-making purposes approving on a final and continuing basis a deferral account in respect of Peaking Service contracts (as established by Order No. TGI-2-85) and TWS contracts, by amendment to the deferral account authorized by paragraph 6 of Order TG-6-84 to include Peaking Service and TWS contracts therein is approved effective 1 November 1985.

14. TransCanada shall record in a deferral account for accounting and toll-making purposes the difference between:

(a) the estimate made by the Board of the difference in revenue arising from the use, in the months of August, September and October 1985, of the interim tolls approved by Order No. TGI-4-85 as amended by AO-1-TGI-4-85 and the revenue TransCanada would have received if tolls based on the approved cost of service excluding the interim toll adjustment had been effective 1 August 1985, and

(b) the actual difference in revenue arising from the use, in the months of August, September and October 1985, of the interim tolls approved by Order No. TGI-4-85 as amended by AO-1-TGI-4-85, together with carrying charges on the month end balance in the account calculated at one twelfth of the authorized annual rate of return on rate base, and shall bring forward the balance in the account for disposition by the Board at the next toll proceeding.

15. TransCanada shall amortize each month for the year commencing 1 November 1985 for accounting and toll-making purposes the estimate of the interim revenue deficiency of \$19,793,457.

NATIONAL ENERGY BOARD

J.S. Klenavic
Secretary

Appendix II

Order No. TG-3-85

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-T1-20.

BEFORE:

L.M. Thur
Presiding Member

J.R. Jenkins
Member

Thursday, the 19th
day of September, 1985

R.B. Horner, Q.C.
Member

WHEREAS an application dated 8 February 1985, 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 August 1985;

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-2-85 which commenced in Ottawa on 23 April 1985;

AND WHEREAS the Board has ordered, by Order No. TGI-4-85 as amended by Order No. AO-1-TGI-4-85, that, effective 1 August 1985, TransCanada's tolls as established by Order No. TG-5-84 as amended by Order No. AO-1-TG-5-84 and the procedures for accounting and toll-making purposes set forth in Order No. TG-6-84, as amended by Order No. AO-1-TG-6-84 be continued and followed on an interim basis until the Board issues its final decisions on the application;

AND WHEREAS the Board's decisions on the application are set out in its Reasons for Decision dated September 1985 in Order No. TG-2-85 and in this Order:

IT IS ORDERED THAT:

1. TransCanada shall charge in respect of the transportation of gas sold by it and in respect of its TService, T-AOI Service and Transportation Services the tolls specified in Schedule "A" hereto.
2. TransCanada's proposal to revise Section 1.1 of the Authorized Overrun Interruptible Service Toll Schedules as set out in Exhibits B-113, B-114, and B-115 is approved with the exception that TransCanada's proposal to add the following words:

"PROVIDED ALWAYS, that this Toll Schedule shall not be available for the purchase of gas from Seller by a

Buyer until such Buyer has taken all volumes of gas for which Buyer had previously paid Seller a supplemental charge and which such Buyer is entitled to recover from TransCanada at the time AOI Service is requested."

to Section 1.1 (c) of the AOI Toll Schedules is denied.

3. TransCanada's proposal as set out on the Part V Requirements, Section 25, Revised April 1985 to revise section 2.2 of the AOI Toll Schedule to add the words:

"or any storage program of Seller."

is approved.

4. TransCanada's proposal as set out in Exhibit No. B-114 to add a new Section 2.3 to the AOI Toll Schedule is approved.

5. TransCanada's proposal to revise Section 1.1 of the T-Toll Schedules as set out in the Part V Requirements, Section 25, Revised April 1985, is approved with the exception that the words:

"PROVIDED ALWAYS that Shipper's gas transported by TransCanada will not, in whole or in part, displace or substitute for volumes of gas which any party has contracted to purchase from TransCanada."

shall be replaced by the words:

"PROVIDED ALWAYS that Shipper's gas transported by TransCanada will not, in whole or in part, displace or substitute for volumes of gas which any party has under contract to purchase from TransCanada."

6. TransCanada's proposal to delete Section 10 of the T-Toll Schedule is approved.

7. TransCanada's proposal to amend Sections 2.1, 3.2(b), 4.1, 4.2 and 5.1 of the T-Toll Schedule as set out in Part V Requirements, Section 25, Revised April 1985, is approved.

8. TransCanada's proposed IT Toll Schedules as set out in Exhibit B are approved.

AND IT IS FURTHER ORDERED THAT:

9. TransCanada shall charge in addition to the toll specified in Schedule "A" of this order $.186/10^3 \text{m}^3$ applicable to the volumes of ACQ service taken by The Consumers' Gas Company Ltd. in the 1985-86 contract year in respect of ACQ make-up gas.

10. TransCanada shall forthwith file with the Board and serve upon all parties to the hearing of this application new tariffs and tolls conforming with the decisions outlined in the Reasons for Decision dated September 1985, with Order No. TG-2-85, and with this Order.

11. Notwithstanding the filing of the new tariffs and tolls, the same shall remain suspended and be of no effect until 1 November 1985.

13. 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 September 1985, or to any order of the Board including this Order, are hereby disallowed, effective 31 October 1985.

NATIONAL ENERGY BOARD

J.S. Klenavic Secretary

Appendix III

TransCanada Pipelines Limited
Transportation Tolls for Exports

Particulars	Transportation Demand Toll (\$/10 ³ m ³ /mo)	Transportation Commodity Toll (\$/10 ³ m ³)
Inter-City	351.67	2.073
Midwestern	358.91	2.125
Great Lakes	358.91	2.125
ANR Pipeline	358.91	2.125
Boundary	1067.23	7.246
Niagara	1072.89	7.287
Vermont	1132.44	7.716

**TransCanada Pipelines Limited
Transportation Tolls for Interruptible Exports**

Particulars	Transportation Demand Toll (\$/10 ³ m ³ /mo)	Transportation Commodity Toll (\$/10 ³ m ³)
Emerson-W		10.986
Emerson-S		8.623

Niagara Falls-W
Niagara Falls-S

37.032
34.723

Appendix IV

TransCanada Pipelines Limited
Functional Distribution and Classification of Authorized Cost of Service

	Total	Cost of Gas	Miscellaneous Transmission	Metering	Fuel, Uses Fixed	Unaccounted for and Order	Losses	Transmission Variable
Cost of Gas Sold	\$3,169,129,798	\$3,169,129,798						
Transmission by Others	225,008,082		\$284,288		179,077,859	\$45,645,935		
Operation and Maintenance	2,837,092			\$5,518,659	124,700,838	156,938,523	\$(14,320,928)	
Depreciation	92,543,588			875,097	91,668,491			
Taxes Other than Income taxes	33,210,943			133,630	33,077,313			
Miscellaneous Deferred Items	26,049,473				6,049,473			
Income Taxes	138,309,627			1,304,513	137,005,114			
Reduction in Deferred Income Taxes	0							
Other Operating Income	(5,475,407)				(78,120)	(5,397,287)		
Interim Revenue Adjustment	19,793,457				19,793,457			
Return 14.54%	372,616,700			3,459,966	369,156,734			
Total Cost of Service	\$4,344,023,353	\$3,169,129,798	\$284,288	\$11,291,865	\$980,451,159	\$197,187,171	\$(14,320,928)	
Miscellaneous Revenue	\$(14,390,196)	(5,207,225)	(2,217)		(137,547)	(7,141,432)		(1,901,775)
Net Cost of Service	\$4,329,633,157	\$3,163,922,573	\$282,071	\$11,154,318	\$973,309,727	\$195,285,396	\$(14,320,928)	

Appendix V

Pipelines Limited
 Comparison of Components of Rate of Return
 Previously Authorized, Applied for and Approved

	Previously Authorized			Applied For			Approved		
	Capital Structure %	Cost Rate %	Cost Component %	Capital Structure %	Cost Rate %	Cost Component %	Capital Structure %	Cost Rate %	Cost Component %
Funded Debt	55.09	14.94	8.23	54.60	15.49	8.46	55.50	15.49	8.60
Unfunded Debt	1.94	14.25	.28	.60	13.00	.08	1.49	11.50	.17
Total Debt Capital	57.03		8.51	55.20		8.54	56.99		8.77
Preferred Share Capital	12.97	10.54	1.37	12.80	10.90	1.40	13.01	10.90	1.42
Common Equity	30.00	15.50	4.65	32.00	16.00	5.12	30.00	14.50	4.35
	<u>100.00</u>			<u>100.00</u>			<u>100.00</u>		
Overall Rate of Return			14.53			15.06			14.54