



File: OF-TOLLS-GROUP1-W102-2006-05-01  
15 March 2007

Mr. Mike Kelly  
Vice President, Regulatory Affairs and Services  
BC Pipeline and Field Services Divisions  
Spectra Energy Transmission – West  
Fifth Avenue Place, East Tower  
Suite 2600, 425 1st Street S.W.  
Calgary, AB T2P 3L8  
Facsimile (403) 699-1585

Dear Mr. Kelly:

**Westcoast Energy Inc., carrying on business as Spectra Energy Transmission – West (Westcoast) application for accounting treatment of certain costs associated with the Southern Mainline Expansion Project**

The National Energy Board has received Westcoast's application dated 29 December 2006, filed pursuant to Part IV of the National Energy Board Act, for approval of the amortization of certain costs associated with the Southern Mainline Expansion. Specifically, Westcoast applied to transfer the balance of Compressor Station No. 3 (CS-3) Construction-work-in-progress (CWIP) account to the Southern Mainline Expansion Project Cost Amortization Account effective 1 January 2007 for amortization over eight years (i.e., 2007 through 2014). Westcoast submitted that reduced firm contracting and lower gas flows on its Southern Mainline means that the upgrade project at CS-3 planned for 2008 can be deferred indefinitely without adversely affecting system deliveries or reliability.

The Board received and considered letters of comment from the Canadian Association of Petroleum Producers (CAPP) dated 9 January 2007, and from Terasen Gas and the Export Users Group (EUG) dated 1 February 2007, and reply comments from Westcoast dated 15 February 2007.

The Board notes that CAPP, Terasen Gas, and EUG did not dispute the costs recorded in the CS-3 CWIP account nor did they disagree with the decision to defer the CS-3 upgrade project indefinitely, but argued that Westcoast should have acted sooner to mitigate the costs. In particular, Terasen Gas and EUG submitted that Westcoast should have undertaken steps to dispose of the compressor unit after the contract renewal process in October 2005, but before the end of 2005.

.../2

CAPP, Terasen Gas and EUG proposed that Westcoast should be penalized for not acting sooner. The proposed penalties included either denying a portion of accrued AFUDC and storage costs or reducing its allowed carrying cost rate.

Westcoast countered the assertion that it should have acted sooner by arguing that the information obtained through the contract renewals did not provide sufficient information to support the indefinite deferral of the upgrade project. Westcoast argued that the overall system utilization and throughput must be considered in system planning and noted that the overall level system utilization on the transmission system has been consistently above contract demand levels. Second, Westcoast argued that at that time of year, October, there is always the prospect that additional volumes may be contracted for prior to the start of the next gas year (i.e. November 2006). In addition, Westcoast added that its Firm Service Enhancement application was approved in the Board's RHW-1-2005 Reasons for Decision dated 2 November 2005, after the contract renewal process, and the enhancements were designed to encourage higher levels of firm contracting on the transmission system. Westcoast pointed out that two of the three enhancements approved were effective 1 January 2006, while the third was not effective until July 2006. Therefore, Westcoast argued it could not have known in October 2005 what the impact of its applied-for enhancements may have on contracting levels in the coming year. Accordingly, Westcoast submitted there is no basis for the assertion that it ought to have acted prior to year-end and, therefore, there is no basis for applying a penalty.

Westcoast submitted that in June 2006, it was able to conclude with reasonable confidence that the CS-3 upgrade could be deferred indefinitely without adversely affecting system deliveries or reliability. Westcoast then undertook to market the compressor unit through direct efforts as well as engaging third parties to assist in the disposition.

The Board is of the view that system planning should consider not only the levels of contract demand, but also the expected level of future utilization and throughput. For example, because the purpose of Westcoast's Firm Service Enhancement application was to encourage higher levels of firm contracting, there was the prospect of incremental contracting resulting from an approval of that application.

The Board, therefore, concludes that Westcoast did not unduly delay its decision of indefinite deferral and approves the transfer of the \$16.472 million balance of the CS-3 CWIP account as of 31 December 2006 to the Southern Mainline Expansion Project Cost Amortization Account effective 1 January 2007 for amortization over eight years as applied-for. The Board affirms its Decision, dated 20 December 2004, regarding the accounting treatment of Southern Mainline Expansion Project Costs, that Westcoast's AFUDC rate (which is equivalent to its average cost of capital) more accurately reflects Westcoast's financing costs for capital projects than its short-term borrowing rate does. Accordingly, the AFUDC rate should be used in the amortization of the balance of the CS-3 CWIP account.

In addition, the Board expects Westcoast to work proactively with its Tolls and Tariff Task Force to inform and update shippers of its intentions regarding its compressor upgrade program.

Westcoast is directed to serve a copy of this letter and the attached Order TG-04-2007 on interested parties to GH-1-2002 and RH-1-2004, members of Westcoast's Toll and Tariff Task Force, and all shippers on the Westcoast system.

Yours truly,

A handwritten signature in black ink, appearing to read "Mantha", with a long horizontal flourish extending to the right.

Michel L. Mantha  
Secretary

Attachment

National Energy  
Board



Office national  
de l'énergie

**ORDER TG-04-2007**

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

**IN THE MATTER OF** an application by Westcoast Energy Inc., carrying on business as Spectra Energy Transmission – West (Westcoast), dated 29 December 2006, for approval of the recovery of costs associated with the Southern Mainline Expansion Project pursuant to Part IV of the Act, filed with the Board under File No. OF-Tolls-Group1-W102-2006-05-01.

**BEFORE** the Board on 15 March 2007.

**WHEREAS** Westcoast has filed an application on 29 December 2006 for approval of the recovery of certain costs associated with the Southern Mainline Expansion Project under Part IV of the Act;

**AND WHEREAS** by letter dated 16 January 2007, the Board established a process to receive comments on the application;

**AND WHEREAS** the Board has considered the comments filed and has determined that the costs associated with the Southern Mainline Expansion Program are recoverable;

**IT IS ORDERED THAT:**

1. Westcoast transfer the balance of the CS-3 CWIP account as of 31 December 2006 to the Southern Mainline Expansion Project Cost Amortization Account for amortization over an eight-year period, with carrying costs being accrued at Westcoast's AFUDC rate.

NATIONAL ENERGY BOARD

A handwritten signature in black ink, appearing to read 'Mantha'.

Michel L. Mantha  
Secretary