

**NOVA Gas Transmission Ltd. (NGTL)
Rate Design Methodology and Integration Application
Reasons for Decision RHW-1-2010**

1 Introduction

NGTL filed an application with the National Energy Board (NEB or Board) on 27 November 2009 requesting approval of a settlement NGTL had reached with the Tolls, Tariff, Facilities and Procedures (TTFP) committee respecting the rate design methodology for its Alberta System, comprised of approximately 24,000 km of pipeline and associated compression and other facilities. In this application, NGTL also sought approval of an Integration Agreement it had executed with ATCO Gas and Pipelines Ltd. The Board employed a written process to obtain comments from interested parties and NGTL's reply. The Board's views on the issues identified in this proceeding are presented in Section 2 of these Reasons for Decision.

1.1 Background

NGTL is a wholly-owned subsidiary of TransCanada PipeLines Limited, which owns and operates the Alberta System, an extensive natural gas transmission system transporting gas produced in the Western Canadian Sedimentary Base.

The Alberta System became subject to federal jurisdiction and regulation by the Board on 29 April 2009. Prior to that date, the Alberta System was under provincial jurisdiction and regulated by the Alberta Utilities Commission (AUC) and its predecessors.

In its 27 November 2009 application, NGTL applied for approval of the Alberta System rate design methodology and terms and conditions of services in accordance with the provisions of the Rate Design and Services Review Settlement (the Settlement). NGTL also applied for approval of the commercial integration of the Alberta System and the ATCO Pipelines (AP) system pursuant to the provisions of the Alberta System Integration Agreement between AP and NGTL (the Integration Agreement).

NGTL explained that the Settlement is the culmination of a review of the Alberta System rate design methodology and terms and condition of services that was initiated by NGTL and members of the TTFP in June 2008. NGTL stated that the Settlement represents an acceptable balance of interests amongst the parties and results from compromises in the diverse interests and positions of the parties.

For the Integration Agreement, NGTL and AP first announced in September 2008 that they had negotiated the terms of the proposed agreement to provide integrated, seamless Alberta natural gas transmission service to customers through a single suite of services. NGTL and AP executed the formal Integration Agreement in April 2009. The Rate Design and Services Review Task Force and the TTFP discussed the implications of integration when they considered the proposed rate design methodology.

In its Application, NGTL presented the Settlement and the Integration Agreement as a consolidated package. NGTL and AP are also seeking the approval of the Competition Bureau for the proposed integration.

1.2 Overview of Application

As noted in the previous sub-section, two agreements support NGTL's 2010 Tolls Methodology and Integration Application dated 27 November 2009. First, NGTL and the Alberta System Stakeholders entered into the Settlement, which describes proposed changes to the existing rate design methodology, and terms and conditions of services for the Alberta System. Second, NGTL and ATCO Gas and Pipelines Ltd., on behalf of AP, executed the Integration Agreement. This agreement contemplates the commercial integration of NGTL's Alberta System with the AP system to form a single gas transmission business using a single tariff approved by the NEB. In this Application NGTL is applying to the Board for approval to implement both agreements and for approval in principle of Asset Swaps between NGTL and AP to support the Integration Agreement. NGTL will provide details of these Asset Swaps later in separate application(s) to the Board.

NGTL requested an order from the Board:

- approving the Alberta System rate design methodology, terms and conditions of service, Tariff amendments, and a transition mechanism for customers affected by rate changes, as determined by the Settlement and described in the Application;
- approving the Integration Agreement including:
 - a) inclusion in NGTL's annual revenue requirement of the AUC-approved AP annual revenue requirement;
 - b) the process to implement integration and transition AP's customer contracts to NGTL; and
 - c) a swap of assets between AP and NGTL, in principle.

1.3 The Board's Process

After receiving NGTL's Toll Methodology and Integration Application, the Board issued a letter to NGTL on 22 December 2009 inviting comments from interested persons on the process the Board should adopt to consider this Application. Twelve entities responded to the Board's letter with comments in mid-January 2010. NGTL replied to these comments on 22 January 2010. From the submissions, the Board noted that most parties supported the toll methodology and integration components of the Application; no party expressed opposition, and one company had not yet finalized its position on the Integration Agreement. The Board found there was common ground amongst many of the organizations submitting comments and NGTL's reply respecting the process the Board should adopt to consider this Application. In its 4 March 2010 letter the Board advised NGTL that it had decided to proceed with a written process that would include information requests to NGTL by 25 March 2010 and responses by NGTL on 8 April 2010.

The information request process was followed by written submissions by the interested parties and then reply by NGTL. Twelve parties filed submissions on 22 April 2010 and NGTL replied on 6 May 2010.

2 Issues Identified during the Board's Process

The issues discussed in this section were identified by the Board or by parties in their written submissions and are addressed in the sub-sections below. The Western Export Group (WEG), Terasen Gas Inc. (TGI) and Westcoast Energy Inc. carrying on business as Spectra Energy Transmission (Westcoast) identified a few concerns with the rate methodology. The proposed integration with AP prompted BP Canada Energy Company (BP) to raise a concern about the title to natural gas liquids (NGL) while NOVA Chemicals Corporation (NOVA Chemicals) expressed a concern about tolls post-integration with AP.

2.1 Rate Methodology

In its Application NGTL explained that the Settlement would cause three primary changes to the Alberta System's rate design methodology and terms and conditions of service. First, the practice of equating the Firm Transportation Delivery rate (FT-D rate) to the average Firm Transportation Receipt rate (FT-R rate) is being terminated. In its place, the Alberta System revenue requirement will be divided into equal amounts for receipt and delivery services to determine rates. Second, a single primary delivery service will replace the current FT-D Service for delivery at Export Delivery Points and the Firm Transportation - Alberta Delivery Service (FT-A) for intra-Alberta deliveries. The proposed FT-D Service will be available at three mutually exclusive delivery locations: FT-D1 (deliveries to major pipelines removing gas from the basin), FT-D2 (intra-basin or Intra deliveries excluding gas distribution utilities in Alberta (LDCs)) and FT-D3 (deliveries to LDCs and excluding FT-D1 and FT-D2). Third, the rate for Intra deliveries will include a transmission component in a demand form to account for the distance the gas is transported. The current intra-Alberta delivery rate includes only a metering component and has a commodity rate form.

The written process identified some issues that the Board will address below.

2.1.1 Geographic Footprint of Alberta System Implicit in the Settlement

Submissions of WEG and TGI

Both WEG and TGI have raised concerns over the geographical footprint of the Alberta System that is implicit in the Settlement. TGI participated in the negotiating process leading to the Settlement, both as TGI and as a member of WEG. TGI's support for the rate design specified in the Settlement was based on the footprint of the Alberta System at the time of negotiations, which did not include any extension projects in northeast British Columbia (B.C.).

WEG also indicated that the Settlement should apply to the footprint of the Alberta System as of 17 July 2009, which was the date of the Memorandum of Understanding that formed the basis of the Settlement.

Submissions of the Industrial Gas Consumers Association of Alberta (IGCAA)

IGCAA, who was a party to the Settlement process, stated that it was its understanding that one reason the Alberta System came under federal jurisdiction was to facilitate the economic and orderly attachment of supply at receipt points north and west of Alberta. IGCAA indicated that gas supply in northeast B.C., and connection of Mackenzie Valley and Alaska gas was the full extent of geographic extension (whether physically or through service arrangements) of the Alberta System that were considered by IGCAA in the context of rate design discussions culminating in the Settlement.

Submissions of the Canadian Association of Petroleum Producers (CAPP)

CAPP supported NGTL's rate design methodology application and indicated that this support was contingent on its understanding that the Alberta System major FT-D1 interconnects would remain at the current delivery points with TransCanada's Mainline, Foothills B.C. and Foothills Saskatchewan.

Submissions of NGTL

NGTL indicated that the applied-for toll methodology would apply to Alberta System receipt points in both B.C. and Alberta. NGTL also stated that it would separately file for new receipt points, such as those on the Groundbirch Mainline, using the rate design methodology resulting from the Settlement.

NGTL confirmed CAPP's understanding as it relates to the location of the major FT-D1 interconnects.

2.1.2 Appropriate Rate Ceiling for FT-R Service

Submissions of NGTL

NGTL submitted that the toll methodology for its proposed receipt point tolls are bound by a ceiling rate and a floor rate that are +/- 8¢/Mcf from the average FT-R rate. NGTL was of the view that the floor and ceiling reasonably define a sufficient rate differential to reflect the differences in costs of serving the different receipt points. NGTL indicated that the continued use of the established FT-R ceiling and floor rates for new extensions in B.C. was agreed to by parties as a component of the Settlement, which is the product of extensive collaborative discussions between NGTL and interested Alberta System stakeholders. NGTL also indicated that the TTFP adopted Resolution T2008-01, Rate Design and Services Review, through an unopposed vote. Accordingly, NGTL did not expect to provide further information supporting the appropriateness of the FT-R floor and ceiling rates for new receipt points on the Alberta System, including receipt points such as those on the Groundbirch Mainline. As a result,

NGTL stated that the Board should deny Westcoast's request that NGTL be required to apply for approval of receipt point rates for new extensions into B.C.

Submissions of Westcoast

Westcoast was not a party to the Settlement process and did not take a formal position regarding it. Westcoast noted that there are a significant number of receipt points that have allocated unit cost that fall outside the floor and ceiling tolls proposed by NGTL. Westcoast referred to NGTL's expectation that the Groundbirch and Cabin receipt stations would both be priced at or close to the ceiling FT-R toll (i.e. 24.4¢/Mcf using 2008 tolls). Westcoast noted that NGTL's evidence did not provide any comparison between receipt point tolls and allocated costs for future extensions of the NGTL system.

Westcoast proposed that NGTL should be required to file information with the Board demonstrating the ceiling and floor tolls of +/-8¢ per Mcf from the average receipt point toll are appropriate and that the tolls established for those new Receipt Points would recover a fair allocation of NGTL system costs. Westcoast also requested the Board make clear in any decision approving NGTL's Application that such approval would not constitute approval or pre-judgment of the appropriate toll for receipt point service on extensions of the NGTL system into B.C. According to Westcoast, this requirement would be consistent with the determinations made by the Board in Reasons for Decision GH-1-2009 respecting the Groundbirch Pipeline Project.

Submission of TGI and WEG

TGI and WEG indicated that subsequent extensions to the Alberta System may require a review of the rate design methodology since rate design is expected to change over time with the evolution of any pipeline system. TGI was concerned that the proposed rate design and cap on the FT-R rate could provide an artificial competitive advantage over the accessing of gas for the NGTL system relative to the Westcoast system. TGI also expressed concerns related to the lack of information about the impact of northeast B.C. expansions on the distance of haul. TGI and WEG submitted that there may be significant future variances from the facts and circumstances that were assumed during the Settlement negotiations and that these changes may warrant modifications to NGTL's rate design methodology.

Views of the Board

In the context of NGTL's application, the Board views the issue of the footprint of the Alberta System covered by the Settlement as being closely linked to the appropriateness of the ceiling rate and floor rate of +/- 8¢/Mcf from the average FT-R rate for service at individual receipt points. The Board considered these issues concurrently.

In assessing the appropriateness of the rate methodology with floor and ceiling rates, the Board took into account the impact on shippers and on potential competition for new supply. The Board gave considerable weight to the fact that the Settlement with its applied-for rate design is supported by an unopposed resolution of the TTFP and that no parties opposed the Settlement in the current proceeding. At this time, the Board accepts

the rate methodology included in the Settlement for use to determine individual receipt point rates on the Alberta System that would extend into northeast B.C.

Keeping in mind that the Board's practice is to treat negotiated settlements as a package, the Board is not imposing a time limit or a geographical boundary to the Settlement. However, in the future, the Board will need sufficient information to assess the continued appropriateness of the ceiling and floor rates of +/- 8¢/Mcf from the average FT-R rate. To achieve this purpose, the Board requires NGTL to file with the Board a study in two phases. The deadline for the first phase of the study is 1 July 2012 (before the expiration of the recently applied-for revenue requirement settlement (2010 - 2012)). The second phase will be an update of the first phase and is to be filed by 1 July 2015. This latter deadline will enable NGTL to incorporate and assess the actual effects of rate design changes, integration with AP and any Board-approved extensions to northeast B.C. Appendix A describes details of the required study.

2.2 Integration Agreement: Commercial Implications

NGTL also filed an Integration Agreement between NGTL and AP that is intended to provide integrated Alberta natural gas transmission service. NGTL and AP executed the Integration Agreement in April 2009. In its Application, NGTL presented the Settlement and the Integration Agreement as a consolidated package. The Rate Design and Services Review Task Force and the TTFP discussed the implications of integration when they considered the proposed rate design methodology.

In its request for approval of the Integration Agreement from the Board, NGTL noted some specific implications for its rates and services:

- inclusion in NGTL's annual revenue requirement of the AUC-approved AP annual revenue requirement, and
- the process to implement integration and transition AP's customer contracts to NGTL.

Other parties raised a few further issues, discussed below. No party to this proceeding requested that the Board deny approval of the Integration Agreement.

2.2.1 Duplicative Tolling related to the Ventures Joffre Pipeline

Submissions of NOVA Chemicals

Currently, NOVA Chemicals must pay a toll on both the Alberta System (owned by NGTL) and the Ventures Joffre Pipeline (owned by TransCanada Pipeline Ventures Limited Partnership (Ventures)) for service at the same delivery point in the Joffre Petrochemical Complex area. NOVA Chemicals noted that NGTL had indicated that the Ventures pipeline was part of an overall integrated system. As a result, NOVA Chemicals was of the view it was subject to duplicative tolls because it has to pay different tolls for the same service at the same delivery point on both the Alberta System and the Ventures pipeline. NOVA Chemicals supported the

Application because, among other things, it is intended to eliminate duplicative tolls but it further indicated that the elimination of duplicative tolls should apply to all customers of AP and NGTL and thus must also include the Ventures pipeline.

Submissions of NGTL

NGTL indicated that the Ventures pipeline is part of an overall integrated system for gas delivery to the Joffre Petrochemical Complex area. However, this pipeline is owned by Ventures and is not subject to the Integration Agreement. NGTL submitted that NOVA Chemicals has separate contracts with Ventures for service on the Ventures pipeline and this situation does not amount to the “same service” NOVA Chemicals receives on the Joffre Sales Lateral and does not result in duplicative tolls. Rather, NGTL was of the view that NOVA Chemicals pays separate tolls for separate services on each of the systems.

Views of the Board

The Board has decided not to rule on the matter of possible duplicative tolls on the Ventures pipeline at this time. The Board is not in a position to include the Ventures pipeline, a pipeline not under its jurisdiction, in the Integration Agreement, which is an agreement between two commercial parties (NGTL and AP). In the Board’s view, a separate application seeking the appropriate relief would be required to address the matter of possible duplicative tolls on the Ventures pipeline.

2.2.2 Title to Natural Gas Liquids on the Alberta System

Submission of BP

In transitioning AP’s Straddle Plant Delivery (SPD) contracts to NGTL’s Other Service (OS) contracts, BP noted that NGTL cannot acquire title to NGL and then pass it to an OS contract holder as AP currently does with its SPD contract holders. Because of this, BP asserted that NGTL is not complying with its obligation to transition from SPD contracts to OS contracts on similar terms and conditions with comparable service attributes. BP does not hold SPD contracts with AP but purchases liquids from the Edmonton Ethane Extraction Plant (EEEP) that receives gas delivered by AP. BP is concerned that transitioning from AP’s SPD contract to NGTL’s OS agreement will alter AP’s existing extraction rights.

BP acknowledged that NGTL has established a process to address the extraction issue. However, BP still wants the integration application to be put on hold for the interim until an acceptable solution is found to its issue of passing title of NGL to a SPD/OS contract holder. BP did not state what action it has initiated with EEEP to resolve this issue, nor did it identify any potential harm if SPD contracts are replaced with NGTL’s OS contracts.

Submission of NGTL

NGTL acknowledged in an information response that, unlike AP, NGTL does not acquire title to NGL under its tariff provisions and cannot grant title to NGL under an OS agreement. In its Reply, NGTL stated that it is continuing to meet with SPD contract holders to discuss the transitioning of AP's SPD contracts to NGTL's OS agreements. NGTL noted that BP is not a SPD contract holder and that no SPD contract holder has raised any objections to the proposed integration in this proceeding. NGTL understands that holders of AP's SPD contracts do not have long term vested rights in their agreements with AP and AP can terminate these contracts by notice. NGTL submitted that providing service under OS agreements doesn't necessarily extend to the granting of title to the commodity being transported.

Views of the Board

The Board notes BP did not reveal steps it has taken or plans to take to resolve these concerns about its commercial contract with EEEP. The Board also notes that BP is not a SPD contract holder with AP and the Board has no jurisdiction over commercial arrangements between extraction plants and third parties such as BP. Consequently, the Board will not address BP's concern about title to NGL in this proceeding. Further, the Board was not persuaded by BP's submission to put the Integration Agreement on hold but rather has considered the Settlement and Integration Agreement as a consolidated package. The Board encourages NGTL and SPD contract holders to continue to address and resolve extraction issues through the collaborative process established by NGTL.

2.3 Integration Agreement: Asset Swap

As part of the approval sought for the NGTL-AP Integration Agreement, NGTL is seeking approval in principle of a swap of assets between AP and NGTL, currently regulated by the AUC and the NEB, respectively. AP has requested approval in principle for the Asset Swap from the AUC. NGTL and AP will seek approval from their respective regulators for the transfer of specific facilities. The companies also undertook to seek approval from the Competition Bureau.

The Asset Swaps are expected to occur on a region-by-region basis, over approximately 18 months. In total, the Asset Swap is expected to account for 3800 km of pipeline, 220 meter stations and six compressors, with an aggregate value of approximately \$150 million for each pipeline company. NGTL and AP are identifying footprints for the construction of new facilities by each of AP and NGTL. NGTL indicated it expected the Asset Swap to convey ownership of existing facilities to generally align facility ownership and operations within their respective footprints.

2.3.1 Approval "In Principle" of the Asset Swap

NGTL is requesting that the Board grant approval of the swap of assets "in principle" since it will formally ask for leave from the Board in an application(s) under section 74 of the *National Energy Board Act* (Act) which NGTL has undertaken to submit at a later date. The present

application contemplates a future transfer of assets currently regulated under provincial jurisdiction to federal regulation and vice-versa.

Views of the Board

As recognized by NGTL, a conceptual approval related to the Asset Swap will still be the subject of future detailed section 74 applications to be filed with the Board. Accordingly, the Board will not make any findings regarding the Asset Swap, which would be premature. Conceptually, the Asset Swap appears reasonable and offers the opportunity for operational efficiencies, reduced costs and enhanced flexibility for coordinated system expansion, which are usually indicative of public interest. The Board also notes that no statements were received specifically opposing the concept of the Asset Swap.

Although the Board considers that the Asset Swap as described in the Integration Agreement appears reasonable, this shall not be construed, explicitly nor implicitly, as the Board pre-approving or granting leave with regard to future section 74 applications. Such applications will be judged on their own merits at the time they are filed with the Board.

2.3.2 NGTL's Program for Consultation with Landowners

In its application, NGTL indicated that there would be separate applications for the transfer of ownership of its facilities and that it had identified most of the facilities to be covered by the Asset Swap. NGTL also indicated that there would be an impact upon landowners because of the Asset Swap and that it intended to consult with landowners once there was more certainty about which facilities would be involved in the Asset Swap. None of the other parties to the proceeding raised landowner consultation as an issue.

The Asset Swap would mean that certain NGTL facilities transferred to AP would come under provincial jurisdiction and certain AP facilities transferred to NGTL would then fall under federal jurisdiction. The change from provincial to federal jurisdiction of the entire NGTL Alberta System was addressed in the Reasons for Decision GH-5-2008. In that case, NGTL had committed to consult with landowners following the issuance of a certificate. Landowners and interest groups argued there were significant impacts on landowners from the jurisdictional change, due to the differences in provincial and federal legislation.

Regarding the Asset Swap, the Board requested that NGTL provide a description of what the potential impacts could be for landowners as well as an overview of the principles, goals and tools of the consultation program it planned to use to consult with the affected landowners. In response, NGTL indicated a number of potential issues for landowners and also described the goals and tools of the consultation program it would develop and execute alongside AP (the other pipeline operator that would need to consult with affected landowners around the Asset Swap). NGTL reiterated its commitment to provide further information in its section 74 application(s).

Views of the Board

The Board expects applicants to undertake consultation with potentially affected groups or persons for a variety of projects, and to demonstrate the adequacy of any consultation carried out. The level of public consultation should be appropriate for the setting, nature and magnitude of each project. The previous approval of the transfer of the NGTL Alberta System to federal jurisdiction included facilities that may now be transferred back to provincial jurisdiction, at the same time that assets previously regulated by the province may now come under federal jurisdiction. As there are differences between provincial and federal regulation which may impact landowners, the Board is of the view that landowner consultations regarding the implications of the Asset Swaps is required. The Board is also of the view that such consultation should ensure that clear, timely, and relevant information is provided to landowners, and is also responsive to the needs, input and concerns of affected landowners.

The Board notes NGTL's commitment to develop and implement a consultation program with AP and further notes the commitment NGTL has made to provide details of its consultations at the time of its section 74 applications. The appropriateness of any such consultation programs will be evaluated at the time of receipt of these section 74 applications. The Board has provided further direction to NGTL regarding its expectations prior to and forming part of these applications, in the attached order.

2.3.3 Liabilities for Future Abandonment Costs

The Application included some criteria NGTL would apply in selecting assets for the Asset Swap. While generally aligning facility ownership and operations within their respective footprints, the parties to the Integration Agreement are striving to swap facilities of approximately equal asset value (book-value). Also, the parties state that the swap of assets will not affect the revenue requirement of either Party. The intent stated in the Integration Agreement is that:

- Transferred facilities are of equal value,
- Neither party would be negatively impacted, and
- The most efficient Alberta System would be created through the swap.

The swaps are expected to reduce overlap of resources and generate efficiencies.

The Asset Swap objectives address differences in original investment and accumulated depreciation, noting that regulatory book cost does not need to drive the swap-value. There is no explicit mention of the potential for assets with equal book value to have different future liability. Under NEB jurisdiction, NGTL would need to address the estimated liability of the facilities because of the May 2011 date set in the RH-2-2008 Decision for Group 1 companies to file estimates of the cost to abandon their pipeline systems. NGTL indicated that currently AUC does not require setting aside funds for future pipeline abandonment costs. The Integration

Agreement does not articulate how differences in liabilities would be recognized in the swap value.

NGTL indicated it was not aware of any historic differences in financial approaches, practices or procedures regarding future abandonment between AP and NGTL, citing the fact that NGTL and AP were under the jurisdiction of the same provincial regulator and were not required to contribute to a fund for future abandonment costs.

Views of the Board

In RH-2-2008, the Board set out steps and principles toward the goal that appropriate financial provision is made for liabilities for future pipeline abandonment activities under the NEB's jurisdiction. In the interest of transparency, the Board finds it would be assisted in reviewing the section 74 filings if NGTL provided certain information related to its proposed handling of these liabilities.

Accordingly, the Board directs NGTL to include estimates of the cost of abandonment for assets coming into and those leaving NEB jurisdiction in the section 74 filings supporting the proposed assets swaps.

In addition, the Board directs that NGTL's section 74 filings include confirmation from the counterparty (AP) that the Asset Swap recognizes any general or specific funds set aside for the liability of future abandonment costs, and the amount of such recognition, if any.

When assets change hands, it is important to clarify where liabilities reside. This clarification may be particularly important where one company is under NEB-jurisdiction and the other is not. Therefore, the Board directs that the future section 74 filings indicate who will assume liability for assets swapped between AP and NGTL, explaining the terms of any sharing.

The Board considers that providing the requested information would not impose a burden on NGTL, as normal corporate practices would require AP and NGTL to gather and consider environmental liability information during their due diligence of asset purchase and sales. Inclusion of this information at the time of section 74 filings will enable all parties to better understand the implications of the proposed ownership transfer, and will present a more complete application for the Board's consideration.

3 Board Decision on Application

With regard to the rate design methodology, the Board is satisfied that all parties with an interest in NGTL's tolls have had an opportunity to participate in the collaborative process and to have their interests recognized and considered in the Settlement. The Board notes that no party has asked the Board to reject the Settlement. The Board finds that the Settlement meets the Board's guidelines for negotiated settlements.

Subject to prudent application of this methodology, the Board expects the resulting tolls to be just and reasonable and not unjustly discriminatory. Accordingly, the Board approves the Settlement as presented in NGTL's Application.

In the future, in order to assess the continued appropriateness of the rate design methodology, the Board will require further information to be filed by NGTL. The Board will require additional information on the relationship between rates and costs by receipt point in order to assess the continued appropriateness of the ceiling and floor rates of +/- 8¢/Mcf from the average FT-R rate. The information will be required in 2012 and in 2015 as the impact of certain flows, costs and rate changes are incorporated into the integrated system. The required information is summarized below and set out in more detail in Appendix A.

The Board notes that NGTL presented the Settlement and the Integration Agreement as a consolidated package and that certain parties commented that their support for the Settlement was conditional on the integration of the Alberta System with the AP. Opportunity was provided for parties to comment on the commercial implications of the Integration Agreement for the rate design. No parties to this proceeding requested that the Board reject the Integration Agreement. As noted earlier, the Board has considered the Settlement and Integration Agreement as a consolidated package. Accordingly, the Board approves the Integration Agreement between NGTL and AP insofar as its commercial implications are incorporated in NGTL's rate design methodology and services, including:

- the inclusion in NGTL's annual revenue requirement of the AUC-approved AP annual revenue requirement; and
- the process to implement integration and transition AP's customer contracts to NGTL.

As for the timing to implement the changes, notwithstanding BP's opinion that the Board should direct NGTL to implement any changes arising from the new rate design and Integration Agreement to commence on the start date of the traditional gas year, the Board accepts NGTL's proposal that it will consider opportunities to align implementation of the Application with key industry dates.

In relation to NGTL's request for approval in principle of the Asset Swap, the Board takes note of the intent of the Integration Agreement to create an integrated seamless Alberta natural gas transmission service to customers. The Board will not make any findings regarding the Asset Swap, which would be premature, but considers that the Asset Swap appears reasonable and offers the opportunity for operational efficiencies, reduced costs and enhanced flexibility for coordinated system expansion, which are usually indicative of public interest. However, the Board's present considerations do not guarantee the approval of any future section 74 application(s) and that such an application(s) will be judged on its own merits once filed with the Board, taking into account, among other things, the completeness of the application(s) and consultation with affected landowners and other parties.

Based on the foregoing, the Board approves NGTL's Application in the attached order.

The Board's other directions to NGTL in this decision are summarized below. This summary is provided for the convenience of readers. In the event of any difference between the directions in this summary and those in the main body of the Reasons for Decision, the wording in the main body of the Reasons for Decision shall prevail. NGTL shall:

- file a two phase study, described in Appendix A, assessing the continued appropriateness of ceiling and floor rates of +/- 8¢/Mcf from the average FT-R rate for all receipt points including those in northeast B.C. for which NGTL has received Board approval to connect to the Alberta System.
 - 1) The first phase of the study shall be filed by 1 July 2012, using forecast flow scenarios for 2012, as necessary.
 - 2) The second phase of the study shall be filed by 1 July 2015 using actual 2014 flows, including flows from northeast B.C. receipt points.
- At least 30 days prior to filing its applications for the Asset Swaps, NGTL is directed to notify, by registered letter, all affected landowners of NGTL's intent to apply for transfer of its assets under section 74 of the National Energy Board Act. This correspondence should include, but is not limited to:
 - 1) information regarding the intended transfer of assets in sufficient detail to allow landowners to determine their interests or concerns;
 - 2) the planned filing date for the applications;
 - 3) information on how landowners may raise outstanding concerns regarding the applications with the Board, including participation in the Board's process by filing a letter of comment; and,
 - 4) full contact information for the Board.
- When filing its section 74 Applications for the Asset Swaps, NGTL is directed to include:
 - 1) Complete information on consultations with affected landowners and any other stakeholders, and
 - 2) For any asset proposed to be swapped,
 - Estimates of the cost of abandoning assets for those assets leaving and those coming into NEB jurisdiction
 - Counterparty declaration regarding any pre-funding for abandonment
 - Description of any liability sharing.

4 Disposition

The foregoing constitutes our Decision and Reasons for Decision on this matter.



L. Mercier
Presiding Member



R.R. George
Member



R.D. Vergette
Member

Calgary, Alberta
August 2010

**OUTLINE OF STUDY TO ASSESS THE CONTINUED APPROPRIATENESS OF
NGTL'S ALBERTA SYSTEM
FT-R FLOOR AND CEILING RATES**

The study is required to provide information that will enable the Board to assess the continued appropriateness of the ceiling rate and floor rate of +/- 8¢/Mcf from the average FT-R rate for service at individual receipt points on NGTL's Alberta System. The study shall compare the approved FT-R floor and ceiling rates with the costs of serving the geographically diverse receipt points on the Alberta System, including the extensions planned for northeast B.C. NGTL shall:

- By 1 July 2012, file phase 1 of the study based on forecast flow scenarios on the Alberta System in 2012.
- By 1 July 2015, file phase 2 of the study using actual flows on the Alberta System in 2014.

Information Required from the Study

The Board requests NGTL to include summary results in a format similar to that provided by NGTL in its response to Westcoast's information request 1.1(a) through (l)¹ In general, the Board is requesting an extension of the analysis NGTL undertook to respond to Westcoast's IR 1.1. This extension should provide data on individual receipt points on the Alberta System including those on the Groundbirch Pipeline and the Horn River Project, if approved by the Board.

The phase 1 study is to compare the Board-approved FT-R rates for estimated system gas flows in 2012 with the estimated allocated unit cost of serving each receipt point² on the Alberta System.

The phase 2 study is to compare the Board-approved 2014 FT-R rates with the actual allocated unit cost of serving each receipt point on the Alberta System in 2014.

The study shall:

- Identify each receipt point by name and number, and the Design Sub-Area³ (or Design Area if the Design Sub-Area is not available) in which each receipt point is located;
- Rank the receipt points according to ascending allocated unit costs;

¹ E-filing A1S4Q1

² Those receipt points in effect in 2012 as listed in NGTL's Gas Transportation Tariff, Table of Rates, Tolls and Charges, Attachment 1

³ As identified in NGTL's 2009 Annual Plan or the current Annual Plan at the time NGTL is preparing the study.

- Show the allocated unit cost⁴ and the FT-R demand rate for each receipt point, and the difference between the allocated unit cost and the FT-R demand rate⁵;
- Demonstrate the significance of the gas quantity at receipt points by, for example, presenting the cumulative contract demand quantities (CDQ) against each receipt point and the allocated unit cost ranked in ascending order. (Note: If confidentiality of individual customer contract data is a concern, begin presenting the cumulative CDQ at the receipt point where the allocated unit cost is equal to or immediately below the FT-R floor rate. In addition, combine CDQ for two or a few receipt points to preserve the confidentiality of individual customer data.)
- Provide data summarizing the effect the FT-R floor and ceiling rates have on the distribution of revenue requirement obligations amongst NGTL's customers. This data should identify:
 - the additional revenue, in dollar and percent terms, paid by shippers whose allocated unit costs are below the FT-R floor rate;
 - the additional revenue, in dollar and percent terms, paid by shippers whose unit costs fall between the FT-R floor and ceiling rates; and
 - the revenue reduction, in dollar and percent terms, for shippers whose allocated unit costs exceed the FT-R ceiling rate.

The study should address the pros and cons of continuing with variances for the receipt points at which the allocated costs exceed the ceiling or are less than the floor of the FT-R rate. This assessment should make specific reference to receipt points on the Groundbirch Pipeline and the Horn River Project if the Board approves the latter project.

Suggested Guidelines and Assumptions for the Study

For phase 1 of the study the Board expects NGTL to develop flow scenarios and simplifying hydraulic assumptions that will enable it to provide meaningful illustrative data without incurring a two year lag to obtain actual distance of haul data. For phase 2 of the study the Board expects NGTL to expedite its processes so that the results of the study will be based on actual flow data for 2014.

The calculations for phase 1 of this study should include the assumption that the rate methodology and integration proposals are fully implemented (i.e. beyond the transition phase).

The study should include any other information or scenarios that would be useful to assess the continued appropriateness of the ceiling rate and floor rate of +/- 8¢/Mcf from the average FT-R rate for service at individual receipt points on NGTL's Alberta System.

⁴ The allocated unit cost for a receipt point is defined the same way as in the first paragraph of the preamble of Westcoast's information request 1.1 (e-filing A1S4Q1, PDF page 1 of 12).

⁵ In the same units as in NGTL's response to Westcoast information request 1.1, Attachment (e-filing A1S4Q1, PDF pages 7 to 12 of 12)