National Energy Board

Reasons for Decision

Trans Québec & Maritimes Pipeline Inc.

RHW-1-96

May 1996

Tolls

National Energy Board

Reasons for Decision

In the Matter of

Trans Québec & Maritimes Pipeline Inc.

Application dated 27 November 1995, as amended, for new tolls effective 1 January 1996

RHW-1-96

May 1996

Cat. No. NE22-1/1996-8E
ISBN 0-662-24508-3

This report is published separately in both official languages.

Copies are available on request from:
Regulatory Support Office
National Energy Board
311 Sixth Avenue S.W.
Calgary, Alberta
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(403) 292-4800

For pick-up at the NEB office:
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Printed in Canada

N° de cat. NE22-1/1996-8F
ISBN 0-662-81141-0

Ce rapport est publié séparément dans les deux langues officielles.

Exemplaires disponibles sur demande auprès du :
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Imprimé au Canada

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Abbreviations

Act	*National Energy Board Act*
AFUDC	Allowance for Funds Used During Construction
Base Year	1 January 1994 to 31 December 1994
Board	National Energy Board
CAPP	Canadian Association of Petroleum Producers
CEPA	Canadian Energy Pipeline Association
Company	Trans Québec & Maritimes Pipeline Inc.
Consumers Gas	Consumers' Gas Company Ltd., (The)
Current Year	1 January 1995 to 31 December 1995
Gaz Métropolitain	Société en commandite Gaz Métropolitain
IGUA	Industrial Gas Users Association
Intragaz	Intragaz inc.
LCT	Large Corporation Tax
NEB	National Energy Board
O&M	Operating and Maintenance
RHW-1-94	TQM Toll Application for 1995
ROE	Rate of Return on Common Equity
SCADA	Supervisory Control and Data Acquisition
SCC	Stress Corrosion Cracking
SGT	Storage Gas Transportation
Test Year	1 January 1996 to 31 December 1996
TQM	Trans Québec & Maritimes Pipeline Inc.
TransCanada	TransCanada PipeLines Limited

Recital and Submittors

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

IN THE MATTER OF an application by Trans Québec & Maritimes Pipeline Inc. for certain orders respecting tolls under Part IV of the Act, filed with the Board under File No. 4200-T028-7.

Examined by way of written submissions.

BEFORE:

R. Priddle	Chairman
A. Côté-Verhaaf	Member
R.L. Andrew	Member

INTERVENORS TO HEARING ORDER RHW-1-96:

Alberta Department of Energy

Canadian Association of Petroleum Producers

Consumers' Gas Company Ltd., (The)

Foothills Pipe Lines Ltd.

Industrial Gas Users Association

Intragaz inc.

Procureur général du Québec

Société en commandite Gaz Métropolitain

SOQUIP

TransCanada PipeLines Limited

Union Gas Limited / Centra Gas Ontario Inc.

Westcoast Energy Inc.

Overview

(Note: This overview is provided solely for the convenience of the reader and does not constitute part of the Reasons or Decisions, to which the reader is referred for detailed information.)

The Application

On 27 November 1995, TQM applied to the Board for new tolls to be effective 1 January 1996. The application dealt with rate base, cost of service, certain cost of capital issues and toll design and tariff matters.

Revenue Requirement

The Board approved a net Revenue Requirement for TQM of $66,721,000 for the 1996 Test Year which is $82,000 less than the applied-for amount.

Rate Base

The Board approved an average rate base for TQM of $307,309,000 for the 1996 Test Year.

Cost of Capital

In conjunction with the annual adjustment mechanism for rate of return on common equity, as determined in the RH-2-94 Multi-Pipeline Cost of Capital decision, the Board approved a rate of return on common equity of 11.25% for the 1996 Test Year which is 100 basis points less than the 1995 rate of 12.25%. The Board approved an overall rate of return on rate base of 10.29% for the 1996 Test Year.

Income Tax

The Board approved a 1996 Income Tax Allowance for TQM of $9,624,000.

Operating and Maintenance Expenses

The Board approved a total Operating and Maintenance amount of $8,534,000 for 1996 which reflects reductions to the 1996 applied-for Salary Escalation and Non-Salary Escalation factors.

Deferral Accounts

The Board approved the disposition of the balances of TQM's two existing deferral accounts as at 31 May 1996.

The Board denied the request by TQM to continue the deferral account related to Unfunded Debt for 1996. In addition, the Funded Debt deferral account was discontinued.

Toll Design and Tariff Matters

The Board approved the proposed SGT toll design for the transportation of storage gas from Pointe-du-Lac, Québec.

Chapter 1

Background and Application

Background

Trans Québec & Maritimes Pipeline Inc. ("TQM" or the "Company") operates natural gas transmission facilities as mandatary (agent) of TQM Pipeline Partnership. TQM Pipeline Partnership is comprised of two partners, la Société en commandite Gaz Métropolitain ("Gaz Métropolitain") and TransCanada PipeLines Limited ("TransCanada"), each owning 50% of TQM.

The TQM system extends from a point of interconnection with the TransCanada system at Saint-Lazare near Montréal to a point west of Québec City, with laterals to Boisbriand, Saint-Jérôme, Joliette, Louisville, Trois-Rivières and Québec City. The mainline from Saint-Lazare to the Boisbriand junction is constructed with 762 mm diameter pipe while the mainline from the Boisbriand junction to Québec City is built with a 610 mm diameter pipe. TQM has recently completed constructing facilities to cross the St. Lawrence River to the South Shore of Québec City. This 14 kilometre extension (406 mm diameter) is expected to be placed in service by the end of May 1996.

Natural gas is transmitted by TQM for TransCanada and delivered at the points of interconnection of TQM's pipeline with that of the distributor, Gaz Métropolitain.

TQM determines its cost of service for a forward test year, deducts revenues received from Gaz Métropolitain for miscellaneous transportation and storage services, and charges TransCanada 1/12th of the remaining costs each month. These costs are then included by TransCanada in its overall cost of service.

Application

On 27 November 1995, TQM applied under Part IV of the *National Energy Board Act* (the "Act") for new tolls, to be effective 1 January 1996. TQM subsequently filed revisions to its application dated 18 December 1995, 30 January 1996, 6 February 1996, and 18 March 1996.

TQM proposed that all issues in its application be dealt with by way of written submissions.

By Interim Order TGI-4-95, the National Energy Board ("NEB" or the "Board") authorized TQM to charge tolls on an interim basis effective 1 January 1996. These tolls were to be calculated on the basis of tolls currently approved in Order TG-2-95 and Amending Order AO-1-TG-2-95.

In Order RHW-1-96 dated 4 January 1996, the Board set out the Directions on Procedure for processing this application by way of a written hearing.

Hearing Order RHW-1-96 was amended by Amending Order AO-1-RHW-1-96 on 9 February 1996 to revise the original List of Issues and the Timetable of Events.

Chapter 2

Revenue Requirement

TQM requested the approval of a net revenue requirement of $66,803,000 for the 1996 Test Year. This represents a increase of $3,171,000 from the 1995 approved revenue requirement of $63,632,000. The Board has approved a net revenue requirement for TQM of $66,721,000 for the 1996 Test Year.

A summary of the applied-for and approved net revenue requirement for 1996, including the Board's adjustments, is shown in Table 2-1. Details of the Board's adjustments to rate base can be found in Chapter 3. Further details of the Board's adjustments to the 1996 Operating and Maintenance ("O&M") expenses are provided in Chapter 6.

Table 2-1
Revenue Requirement for 1996
($ 000)

	Application as Revised	NEB Adjustments	Authorized by NEB
Operating Costs			
Operating and Maintenance	8,615	(81)	8,534
Municipal and Other Taxes	2,915	-	2,915
NEB Cost Recovery	355	-	355
Depreciation and Amortization	13,885	-	13,885
Income Taxes	9,624	-	9,624
Total Operating Costs	35,394	(81)	35,313
Return on Rate Base	31,623	(1)	31,622
Total Revenue Requirement	67,017	(82)	66,935
Storage Revenue	(214)	-	(214)
Net Revenue Requirement	**66,803**	**(82)**	**66,721**

Chapter 3

Rate Base

TQM requested approval of a rate base amount totalling $307,316,000 for the 1996 Test Year (see Table 3-1).

Table 3-1
Average Rate Base for 1996
($ 000)

	Application as Revised	**NEB Adjustments**	**Authorized by NEB**
Gas Plant in Service			
Gross Plant	493,557	-	493,557
Accumulated Depreciation	(180,120)	-	(180,120)
Net Plant	313,437	-	313,437
Working Capital			
Cash	718	(7)	711
Materials & Supplies	532	-	532
Transmission Linepack	618	-	618
Prepayments	548	-	548
Total Working Capital	2,416	(7)	2,409
Other Rate Base Items			
Tax Benefit on Sponsors' Development Costs	(9,902)	-	(9,902)
Unamortized Debt Issue Costs	1,365	-	1,365
Total Rate Base	**307,316**	**(7)**	**307,309**

3.1 Gross Plant

TQM forecasted its average Gross Plant to be $493,557,000 for the 1996 Test Year. This amount reflects plant additions approved by the Board under Part III of the Act since RHW-1-94.

Decision

The Board approves the applied-for average Gross Plant amount of $493,557,000 for the 1996 Test Year.

3.2 Depreciation Rates

TQM requested that its currently-approved depreciation rates be continued in 1996 (see Table 3-2).

Table 3-2
Existing Depreciation Rates
(%)

NEB Account	**Intangible Plant**	**Depreciation Rate**
401	Franchises and Consents	2.75
402	Other Intangible Plant	33.33
403	Other Franchises and Consents	5.00
	Transmission Plant	
461	Land Rights	2.75
463	Measuring and Regulating	2.80
464	Other Structures and Improvements	2.95
465	Mains	2.75
467	Measuring Equipment	5.15
468	Communication Structures	10.00
	General Plant	
482	Structures and Improvements	10.00
483	Office Furniture and Equipment	7.00
484	Transport Equipment	16.00
485	Heavy Work Equipment	6.75
486	Tools and Work Equipment	7.00
488	Communication Structures	10.00
489	Other Equipment	20.00

Decision

The Board approves the continued use of TQM's currently-approved depreciation rates for 1996.

3.3 Time-Lag Study Methodology for Cash Working Capital Allowance

In RHW-1-94, the Board directed TQM to file a cash time-lag study which considered that TQM received payment for expenses in the month after an expense was recorded rather than in the month after the expense was paid. As this decision related only to the determination of the revenue receipt date, it was assumed that TQM would continue to calculate the net lag from the payment date to the revenue receipt date. However, in its current application, TQM filed a 3-month time lag analysis which calculated the net lag beginning, not from the payment date, but from the recording date of the expense. The revenue receipt date was correctly considered to be in the month after the expense was recorded.

In response to an information request from the Board, TQM indicated that calculating the net lag from the payment date to the revenue receipt date as directed by the Board in RHW-1-94 would only increase the net lag from 30.29 days to 30.43 days. As a result, TQM submitted that it is reasonable to continue to approve a cash working capital requirement equal to 1/12th of its O&M expenses.

Views of the Board

As the Board's RHW-1-94 Decision intended that TQM would calculate the net lag from the payment date of an expense, not the recording date, to a revenue receipt date which is considered to be in the month after the expense is recorded, the Board is of the view that TQM should adjust its methodology to reflect what was originally intended by the Board.

Decision

The Board approves a total cash working capital allowance of $2,409,000, representing 1/12th of TQM's total O&M expenses for the 1996 Test Year. The approved cash working capital allowance is $7,000 lower than applied-for due to a decrease in approved O&M expenses.

The Board directs TQM, in the future, to prepare its cash time-lag study on a basis which calculates the net lag from the payment date to a revenue receipt date which considers that revenues are received in the month after an expense is recorded.

Chapter 4

Cost of Capital

TQM's Application was based on a rate of return on common equity of 11.25% for the 1996 Test Year, and a deemed common equity component of 30%. Details of the applied-for rates of return and capital structure are shown in Table 4-1.

TQM's applied-for capitalization for the 1996 Test Year was determined in a manner consistent with the methodology approved in RHW-1-94. Namely, the funded debt component reflects the Company's expected total outstanding long-term debt during the 1996 Test Year and TQM's capitalization is equated to the test-year rate base for the purposes of calculating its return on rate base.

Table 4-1
Applied-For Deemed Average Capital Structure and Rate of Return for 1996

	Amount	Capital Structure	Cost Rate	Cost Component
	($ 000)	(%)	(%)	(%)
Debt - Funded	197,692	64.33	10.11	6.50
Debt - Unfunded	17,429	5.67	7.19	0.41
Total Debt Capital	215,121	70.00		6.91
Equity	92,195	30.00	11.25	3.38
Total Capitalization	**307,316**	**100.00**		
Rate of Return on Rate Base				**10.29**

4.1 Cost of Debt

4.1.1 Funded Debt

TQM applied for an average funded debt amount of $197,692,000 with an associated cost rate of 10.11% for the 1996 Test Year.

Consistent with the Board's directive in RH-4-87, TQM included its total outstanding funded debt in the determination of total capitalization. Based on this methodology, the funded debt cost rate is calculated by dividing financial charges, including the yearly amortization of debt issue expenses by the average gross proceeds of the outstanding debt (see Table 4-2).

Table 4-2
Funded Debt Balances and Cost Rates for 1996

	Average Gross Proceeds	**Financial Charges**	**Cost Rate**
	($ 000)	($ 000)	(%)
Series B Bonds (13.20%)	67,692	8,935	
Series E Bonds (7.63%)	10,000	763	
Series F Bonds (7.97%)	35,000	2,790	
Series G Bonds (8.51%)	85,000	7,234	
	197,692	19,722	9.98
Amortization of Debt Discount		264	0.13
Total Funded Debt	**197,692**	**19,986**	**10.11**

Views of the Board

The Board is of the view that TQM's interest rates related to Series E, F, and G bonds which were negotiated in the fall of 1995 are reasonable.

Decision

The Board approves a funded debt amount of $197,692,000 with an average cost rate of 10.11% for TQM for the 1996 Test Year.

4.1.2 Unfunded Debt

TQM applied for an average unfunded debt balance of $17,429,000 for the 1996 Test Year at an average cost rate of 7.19%. This rate was based on a forecast of the average Prime Rate for 1996, less 50 basis points. This methodology is consistent with the practice outlined in RHW-1-94.

To arrive at its Prime Rate forecast for 1996, TQM averaged the results of a verbal poll of the six major Canadian banks' Prime Rate forecasts for 1996.

Views of the Board

The Board considers that TQM's forecast of its short-term borrowing rate for 1996 is appropriate. Due to adjustments to rate base, the approved unfunded debt amount decreased by $5,000.

Decision

The Board approves an average unfunded debt amount of $17,424,000 with an average cost rate of 7.19% for TQM for the 1996 Test Year.

4.2 Deemed Common-Equity Ratio and ROE

TQM's Application was based on an applied-for deemed common equity ratio of 30% and on an ROE of 11.25% for 1996 that was determined in accordance with the adjustment mechanism specified in the RH-2-94 Multi-Pipeline Cost of Capital decision.

4.3 Capital Structure and Rate of Return on Rate Base

Decision

The Board approves a rate of return on rate base of 10.29% for the 1996 Test Year. TQM's approved capital structure and overall rates of return for 1996 are shown in Table 4-3.

Table 4-3
Approved Deemed Average Capital Structure and Rate of Return for 1996

	Amount	Capital Structure	Cost Rate	Cost Component
	($ 000)	(%)	(%)	(%)
Debt - Funded	197,692	64.33	10.11	6.50
Debt - Unfunded	17,424	5.67	7.19	0.41
Total Debt Capital	215,116	70.00		6.91
Equity	92,193	30.00	11.25	3.38
Total Capitalization	**307,309**	**100.00**		
Rate of Return on Rate Base				**10.29**

Chapter 5

Income Taxes

5.1 Flow-Through Income Tax Calculation

TQM applied for a Utility Income Tax Allowance of $9,624,000 for the 1996 Test Year (see Table 5-1).

Table 5-1
Utility Income Tax Allowance for 1996
($ 000)

	Application as Revised	**NEB Adjustments**	**Authorized by NEB**
Utility Income after Taxes	10,387	-	10,387
Depreciation	13,885	-	13,885
Amortization of Debt Discount	168	-	168
Meals & Lodging	80	-	80
Social Activities	57	-	57
Large Corporation Tax	706	-	706
Capital Cost Allowance	(11,254)	-	(11,254)
Interest AFUDC	(549)	-	(549)
20% of Debt Issue Costs	(314)		(314)
50% of Meals & Lodging	(40)	-	(40)
50% of Social Activities	(29)	-	(29)
Taxable Income*	**13,096**	**-**	**13,096**
Taxes: 50% at (0.43732)/(1-0.43732)	5,089	-	5,089
Taxes: 50% at (0.369)/(1-0.369)	3,829	-	3,829
Recovery of LCT	706	-	706
Utility Income Tax Allowance	**9,624**	**-**	**9,624**

* Total does not add due to rounding

Decision

The Board approves a Utility Income Tax Allowance for TQM of $9,624,000 for the 1996 Test Year.

Chapter 6

Operating and Maintenance Expenses

6.1 Overview of Operating and Maintenance Expenses

TQM's application included a request for $8,615,100 in O&M expenses for the 1996 Test Year (see Table 6-1).

Table 6-1
Applied-for Operating and Maintenance Expenses for 1996
($ 000)

Employee Benefits - Direct	751.6
Employee Expenses	204.5
Employee Training	77.3
Library	26.2
Recruiting Advertising	3.1
Office Expenses	124.4
Office Rental Expenses	691.0
Power and Light	126.9
Other Expenses	12.4
Data Processing	95.3
Audio Visual	2.5
Consultants	462.4
Translation Services	1.3
Contracted/Contractor Labour	704.0
Radio	54.8
Communication Costs	230.1
Equipment Use	347.9
Directors' Fees and Expenses	64.8
Dues and Subscriptions	104.0
Auditing	79.2
Legal	51.5
Financial Charges	53.6
Insurance Expenses	422.1
Regulatory Expenses	384.9
Corporate Advertising	51.4
Injuries and Damages	54.1
Donations and Community Relations	191.1
Maintenance Parts	98.7
M & S Inventory Adjustments	10.3
Amounts Charg. Constr. Orders - Credits	(54.0)
Total	**8,615.1**

6.2 Salary Escalation Factor

TQM applied for a salary amount of $3,187,700 which reflected an all-inclusive salary increase of 3.0% for the 1996 Test Year. In support of the requested increase, TQM relied on its compensation consultant, Towers Perrin, which recommended a salary increase of 3.0% based on the rationale that TQM's salaries are approximately 2.0% below the market median and 1996 salary increase budgets are expected to be in the range of 2.5-2.9%. TQM indicated that the 3.0% increase was required to allow it to maintain its current position and possibly allow it to move slightly closer to the market median. TQM submitted that the average salary per employee compares favourably with other Group 1 Gas Pipelines regulated by the Board and is consistently below that of other pipelines.

The Canadian Association of Petroleum Producers ("CAPP") took issue with the applied-for increases for Non-Salary O&M expenses (2.8%) and salaries (3.0%). In both cases, CAPP submitted that TQM's forecast of inflation for 1996 was too generous and that greater efficiencies would be encouraged if the Board limited the adjustments to rates lower than forecast by TQM.

The Industrial Gas Users Association ("IGUA") was of the view that the applied-for increase in operating expenses for 1996 was excessive. IGUA supported the views expressed by CAPP and urged the Board to utilize an "envelope" approach to reduce the overall O&M allowance for the 1996 Test Year.

Views of the Board

In the Board's view, the applied-for salary escalation factor of 3% is excessive, particularly in light of the current economic conditions present in the region. The Board finds that an all-inclusive increase of 1.5% for the 1996 Test Year is more appropriate. The Board notes that a salary increase of 1.5% is unlikely to have a negative impact on TQM's ability to attract qualified personnel in its marketplace.

Decision

The Board approves an all-inclusive salary increase of 1.5% for the 1996 Test Year to be applied to the $3,102,000 salary amount previously approved by the Board in RHW-1-94 for 1995. This results in an all-inclusive salary amount of $3,149,000 for 1996 which is a reduction of $39,000 from the 1996 applied-for amount.

6.3 Non-Salary Escalation Factor

For the 1996 Test Year, TQM calculated its non-salary O&M expenses by adjusting its actual current-year expenditures for inflation (i.e. using the Autumn 1995 Conference Board of Canada forecast of the increase in the Consumer Price Index ("CPI") and then making a number of other specific adjustments). Accordingly, TQM applied a 2.8% inflation factor to a base of $3,250,000 which was the actual Non-Salary Expenditures for 1995. TQM then made specific adjustments which included expenses related to: the Stress Corrosion Cracking Identification and Investigation Program; the operation of additional facilities concerning the South Shore Crossing of the St. Lawrence River; updates to the SCADA software system; a membership in CEPA; additional Insurance Expenses;

additional Regulatory Expenses as per a RHW-1-94 Board Directive; and decreased Office Rental Expenses.

CAPP and IGUA were opposed to the level of the Non-Salary inflation factor being applied-for by TQM.

Views of the Board

The Board is of the view that the inflation rate used by TQM for increasing the current year Non-Salary expenses to 1996 levels should be calculated using the most recent Conference Board of Canada's forecast of the increase in the CPI as a guide. The Board notes that the Spring 1996 Forecast has projected the CPI increase to be 1.4% for 1996.

Decision

The Board approves an inflation rate of 1.5% as the basis for estimating Non-Salary O&M expenses for the 1996 Test Year which is to be applied to a base of the actual 1995 Non-Salary expenses of $3,250,000 (i.e. Total O&M Expenses less Salaries and Direct Benefits). Accordingly, the applied-for Non-Salary O&M expenses have been reduced by $42,000.

6.4 SCC Identification and Investigation Program

After studying its pipeline system for Stress Corrosion Cracking ("SCC") susceptibility, TQM determined that the section between TransCanada's system and Boisbriand's extension might be susceptible to SCC. In order to establish whether the section is affected by SCC, TQM has proposed to undertake a program that includes the installation of a pig launcher and receiver, pigging, the development of a soil model by a consultant, and nine investigative excavations. TQM is planning to spend $1,256,000 in the 1996 Test Year for its SCC Identification and Investigation Program, of which $931,000 is to be included in 1996 O&M expenses.

No intervenor contested the appropriateness of funds being allocated to the SCC Identification and Investigation Program.

Views of the Board

In light of the concern regarding SCC and its causes, the Board considers it appropriate to approve the expenditures identified by TQM for its SCC Identification and Investigation Program.

Decision

The Board approves the expenditure of $931,000 in the 1996 Test Year for the O&M expense portion of the SCC Identification and Investigation Program.

6.5 Summary of Operating and Maintenance Expenses

Table 6-2 summarizes the adjustments made by the Board to TQM's applied-for O&M expenses.

Table 6-2
Summary of Operating and Maintenance Expenses for 1996
($ 000)

	Application as Revised	NEB Adjustments	Authorized by NEB
Salaries	**3,188**	**(39)**	**3,149**
Benefits	**752**	**-**	**752**
All other O&M Expenses	**4,675**	**(42)**	**4,633**
Total O&M Expenses	**8,615**	**(81)**	**8,534**

Chapter 7

Deferral Accounts

7.1 Existing Deferral Accounts

TQM requested that the net balance of its two existing deferral accounts as at 31 December 1995 be recovered from TransCanada. However, the Board, by Interim Order TGI-4-95, directed TQM to continue its deferral accounts using the parameters previously approved by the Board until such time as the final order with respect to RHW-1-96 came into effect. No intervenor commented on the applied-for disposition of TQM's deferral accounts. The forecasted accumulated balances in TQM's deferral accounts as at 31 December 1995 are shown in Table 7-1.

Table 7-1
Deferral Account Balances as at 31 December 1995
($)

	Principal	Carrying Charges	Total
Funded Debt	448,211	25,521	473,732
Unfunded Debt	(1,191,756)	(77,359)	(1,269,115)
Total	**(743,545)**	**(51,838)**	**(795,383)**

Views of the Board

The Board is of the view that TQM should be allowed to dispose of the accumulated balances in its existing deferral accounts as at 31 May 1996. In accordance with Interim Order TGI-4-95, TQM should calculate carrying charges on these balances from 1 January 1996 up to 31 May 1996, using the approved rate of return on rate base for the 1996 Test Year.

Decision

The Board approves the disposition of the deferral account balances listed in Table 7-1 and the use of the 1996 rate of return on rate base for calculating carrying charges from 1 January 1996 up to 31 May 1996.

7.2 Continuation of Deferral Accounts for 1996

TQM requested that an Unfunded Debt deferral account be approved by the Board for 1996 to record any variances between forecast and actual interest rates for unfunded debt.

TQM indicated that it did not require a Funded Debt deferral account for 1996.

Views of the Board

The Board notes that the proportion of unfunded debt to total capital for the 1996 Test Year has declined considerably from its level in 1995. The Board also notes that the Prime Bank Rate is forecast to be relatively stable during 1996.

Decision

The Board denies TQM's request for an Unfunded Debt deferral account in 1996 on the basis that the potential variance does not satisfy the Board's materiality criterion respecting deferral accounts for TQM.

In addition, the Board approves the discontinuance of the Funded Debt deferral account.

Chapter 8

Tariff Matters

8.1 Toll Design for Pointe-du-Lac SGT Service

Pointe-du-Lac Storage Gas Transportation ("SGT") service is designed to allow the transportation of storage gas for Gaz Métropolitain from Pointe-du-Lac, Québec to various delivery points on TQM's mainline. This service has been in effect since 9 January 1991.

In RHW-1-94, the Board directed TQM to develop a new toll design which would be applied to Pointe-du-Lac SGT service for 1996. The Board specified that this toll design must recover an appropriate share of mainline costs and reflect the distance travelled by storage gas.

In TQM's view, its proposed SGT toll methodology meets both of the Board's criteria. The toll design for Pointe-du-Lac SGT Service is based on an allocation of TQM's mainline costs on the basis of the volume-distance (10^3m^3-km) methodology. TQM stated that the proposed toll design reflects that the delivery volume of Pointe-du-Lac could, for the most part, be consumed at the next downstream delivery point at Trois-Rivières. As well, TQM noted the possibility that Gaz Métropolitain might construct alternate facilities if the SGT toll is set too high.

With these considerations in mind, TQM developed a toll methodology whereby two separate tolls are calculated for Pointe-du-Lac storage gas: one for deliveries to the next delivery point Trois-Rivières, to which storage gas volumes are deemed to be delivered; and one for points downstream of Trois-Rivières for deliveries of storage gas in excess of the total daily deliveries at Trois-Rivières. The Trois-Rivières toll has been calculated by allocating a portion of mainline costs on a volume-distance basis. A load centre delivery point methodology, representing the weighted average distance travelled of gas deliveries under various services, has been used to calculate the SGT toll for delivery points downstream of Trois-Rivières.

The Consumers' Gas Company Ltd. ("Consumers Gas") considered that it would be preferable for the Board to adopt a "customized" toll design which would ensure continuation of the service, rather than a "theoretically accurate" toll design, which might not. Consumers Gas supported TQM's proposed toll design for Pointe-du-Lac SGT service on the basis that the proposed tolls would recover an appropriate share of mainline costs while still remaining economically attractive to Gaz Métropolitain.

CAPP, Intragaz inc. and le Procureur général du Québec expressed the view that the proposed SGT toll methodology meets the criteria as set out in the Board's directive in RHW-1-94 and that the proposed toll design should be approved.

Views of the Board

The Board is of the view that the proposed toll design meets the criteria as set out in its directive in RHW-1-94.

Decision

The Board approves the proposed Pointe-du-Lac SGT toll design. For the 1996 Test Year, the SGT toll to Trois-Rivières is set at $\$2.28/10^3m^3$ and $\$8.94/10^3m^3$ for points downstream of Trois-Rivières.

Chapter 9

Disposition

The foregoing chapters, together with Board Order TG-6-96, constitute our Reasons for Decision and our Decision in this matter.

R. Priddle
Presiding Member

A. Côté-Verhaaf
Member

R.L. Andrew
Member

Calgary, Alberta
May 1996

Appendix I

Order TG-6-96

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

AND IN THE MATTER OF an Application by Trans Québec & Maritimes Pipeline Inc. ("TQM") for certain orders respecting tolls and tariffs made under sections 59, 60 and 65 of the Act filed with the National Energy Board ("the Board") under File No. 4200-T028-7.

BEFORE the Board on 9 May 1996.

WHEREAS by Application dated 27 November 1995, as revised, TQM sought approval from the Board, effective 1 January 1996, of fixed transportation tolls for transmission of natural gas through its pipeline facilities;

AND WHEREAS by Interim Order TGI-4-95, the Board ordered TQM to charge, in respect of the transportation service provided to TransCanada PipeLines Limited ("TransCanada"), an interim monthly toll for the 1996 Test Year of $5,302,667 commencing 1 January 1996;

AND WHEREAS the Board, in the RH-2-94 Multi-Pipeline Cost of Capital proceeding, approved for TQM a rate of return on common equity of 12.25% and a deemed common equity ratio of 30% for 1995;

AND WHEREAS the rate of return on common equity for 1996 was reduced to 11.25% pursuant to an annual adjustment mechanism approved in the RH-2-94 Multi-Pipeline Cost of Capital proceeding;

AND WHEREAS pursuant to Order RHW-1-96 the Board examined, by way of written submission, the evidence of TQM and all parties with respect to the Application;

THEREFORE IT IS ORDERED THAT:

1. For accounting, tollmaking and tariff purposes, TQM shall implement procedures conforming to the Board’s decisions outlined in the RHW-1-96 Reasons for Decision and with this Order.

2. Order TGI-4-95, which authorized the tolls to be charged on an interim basis pending a final decision on the said application, is revoked and the tolls that were authorized to be charged thereunder are disallowed as at the end of the day 30 April 1996.

3. The tolls which were in effect, on an interim basis, for the period 1 January 1996 to 30 April 1996 are final.

4. TQM shall charge, in respect of its transportation service provided to TransCanada, a monthly toll of $5,560,114 for the period 1 May 1996 to 31 December 1996. This amount is the approved net Revenue Requirement for the 1996 Test Year divided by 12 months.

5. In addition, TQM shall be reimbursed by TransCanada the aggregate amount of $1,052,152, being the amount by which tolls set by this Order are more than the tolls charged by TQM under Board Order TGI-4-95, together with carrying charges thereon to be calculated using the approved rate of return on rate base. Carrying charges on the January underpayment of $257,447 will be calculated from 20 February 1996 to 20 June 1996; carrying charges on the February underpayment of $257,447 will be calculated from 20 March 1996 to 20 June 1996; carrying charges on the March underpayment of $257,447 will be calculated from 20 April 1996 to 20 June 1996; and carrying charges on the April underpayment of $257,447 will be calculated from 20 May 1996 to 20 June 1996. TQM shall reflect this extra charge in its billing for services rendered in May 1996 by 10 June 1996.

6. TQM shall charge la Société en commandite Gaz Métropolitain ("Gaz Métropolitain"), in respect of storage services ("TS"), a toll based upon the TS tariff attached to the Transportation and Storage Service contract dated 17 March 1987, as amended, filed with the Board under covering letter dated 10 April 1987; and Amending Agreement dated 30 October 1995 which extends the Transportation and Storage Service contract to 31 October 2000.

7. TQM shall charge Gaz Métropolitain, in respect of Storage Gas Transportation ("SGT") service, a toll based upon the SGT tariff attached to the Storage Gas Transportation Service Contract dated 13 February 1990, as amended, filed with the Board under covering letter dated 20 February 1990 for the period 1 January 1996 through to 30 April 1996. Effective 1 May 1996, TQM shall charge Gaz Métropolitain, in respect of SGT service, a toll based upon the SGT toll design approved in the RHW-1-96 Reasons for Decision dated May 1996.

8. TQM shall forthwith file with the Board and serve on all parties to RHW-1-96, new gas transportation tariffs including general terms and conditions, and tolls conforming with the decisions outlined in the RHW-1-96 Reasons for Decision dated May 1996 and with this Order.

9. Those provisions of TQM's tariffs and tolls or any portion thereof that are contrary to the RHW-1-96 Reasons for Decision or to any Order of the Board including this Order are hereby disallowed.

NATIONAL ENERGY BOARD

J.S. Richardson
Secretary