National Energy Board

Reasons for Decision

Westcoast Transmission Company Limited

RH-6-85

August 1986

National Energy Board

Reasons for Decision

In the Matter of

Westcoast Transmission Company Limited

Application dated 1 December 1985, as amended, for new tolls effective 1 January 1986

RH-6-85

August 1986

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Cat. No. NE 22-1/1986-8E
ISBN 0-662-14933-5

This report is published separately in both official languages.

Ce rapport est publié séparément dans les deux langues officielles.

Copies are available on request from:
Regulatory Support Office
National Energy Board
473 Albert Street
Ottawa, Canada
K1A 0E5
(613) 998-7204

Exemplaires disponibles auprès du:
Bureau du soutien de la réglementation
Office national de l'énergie
473, rue Albert
Ottawa (Canada)
K1A 0E5
(613) 998-7204

Printed in Canada

Imprimé au Canada

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Abbreviations

AFUDC	Allowance for Funds Used During Construction
Amoco	Amoco Canada Petroleum Company Ltd.
AOR	Authorized Overrun
APMC	Alberta Petroleum Marketing Commission
B.C.	Province of British Columbia
B.C. Hydro	British Columbia Hydro and Power Authority
BCPC	British Columbia Petroleum Corporation
BCPC Agreement	Westcoast/BCPC Agreement dated 13 November 1973
BCUC	British Columbia Utilities Commission
CCA	Capital Cost Allowance
CD	Contract Demand
COFI	Council of Forest Industries of British Columbia
Cominco	Cominco Ltd.
CPA	Canadian Petroleum Association
Czar	Czar Resources Ltd.
Dome	Dome Petroleum Limited
EAA	Energy Administration Act
Energy-producing Provinces	the Provinces of Saskatchewan, Alberta and British Columbia
FERC	U.S. Federal Energy Regulatory Commission
FILO	First-in, last-off principle (used in setting priority of service)
Govier Report	Report on the Marketing of British Columbia Natural Gas - February 1983, by a study group headed by Dr. G.W. Govier
GPIS	Gas Plant in Service
GVRP	Grizzly Valley Replacement Pipeline
Hearing Order RH-6-85	National Energy Board Hearing Order RH-6-85, Directions on Procedure

ICG (B.C.)	ICG Utilities (British Columbia) Ltd.
Inland	Inland Natural Gas Co. Ltd.
IPAC	Independent Petroleum Association of Canada
ISP	Toll for Interruptible Supply Sales for each Canadian Sales Customer
IT	Interruptible
LDC	Local Distribution Company
Letter of 15 July 1985	Board's Letter of 15 July 1985, by which the Board set an interruptible toll design effective 1 August 1985
MDVO	Maximum Daily Volume Obligation
MJ/m^3	Megajoules per cubic metre
MMcfd	Million cubic feet per day
Natural Gas Agreement	Agreement Among the Governments of Canada, Alberta, British Columbia and Saskatchewan on Natural Gas Markets and Prices - 31 October 1985
NEB or the Board	National Energy Board
NEB Act	*National Energy Board Act*
NGL	Natural Gas Liquids
Northland	Northland Utilities (B.C.) Limited
Northwest	Northwest Pipeline Corporation
Northwest Natural	Northwest Natural Gas Company
NOVA	NOVA, AN ALBERTA CORPORATION
O&M	Operating and Maintenance
Ocelot	Ocelot Industries Ltd.
Peace River	Peace River Transmission Company Limited
Petro-Canada	Petro-Canada Inc.
PNG	Pacific Northern Gas Ltd.
Poco	Poco Petroleums Ltd.

Province	Province of British Columbia
PST	Pacific Standard Time
Order TG-5-79	Order made pursuant to the September 1979 Westcoast Reasons for Decision
TransCanada	TransCanada PipeLines Limited
UOR	Unauthorized Overrun
U.S.	United States of America
Wainoco	Wainoco Oil & Gas Limited
Westcoast or the company	Westcoast Transmisssion Company Limited
September 1979 Westcoast Reasons for Decision	"National Energy Board Reasons for Decision in the Matter of an Application Pursuant to Part IV of the *National Energy Board Act* (Tolls and Method of Regulation) of Westcoast Transmission Company Limited - September 1979"
August 1983 Westcoast Reasons for Decision	"National Energy Board Reasons for Decision in the Matter of an Application Pursuant to Part IV of the *National Energy Board Act* (Tolls Application) of Westcoast Transmission Company Limited August 1983"
Methodology Decision	"National Energy Board Reasons for Decision in the Matter of the Method of Regulation of the Tolls of Westcoast Transmission Company Limited - April 1985"

Definitions

Term	Definition
Base Year	1 January to 31 December 1985
CD Credit	Reduction in the demand component of a toll payable by a customer
Commodity Charge	A charge payable by a gas purchaser in a gas sales contract for each unit of gas purchased. The unit charge generally covers the commodity component of the applicable toll and the cost of gas, and may include a portion of the fixed costs of the pipeline
Commodity Component of the Toll	That part of the toll charged in respect of each unit of gas shipped
Contract Demand Toll/Daily Demand Toll	The demand component of the toll charged to firmsales/service customers
Contract Demand Volume	The maximum daily demand quantity as specified in a firm sales/service contract
Demand Charge	The fixed or monthly obligation of a gas purchaser in a sales contract. A demand charge may cover some or all of a pipeline's fixed costs and is payable regardless of volumes actually taken
Demand Component	That part of the toll charged monthly and payable regardless of the volume actually shipped, and designed to recover the fixed costs of a pipeline
Fixed Toll	A toll that does not vary with changes in throughput or expense variances
Off-line Distributor	A small-volume sales distributor whose take-off points are north of Compressor Station 2 in Northern B.C.
Test Year	1 January to 31 December 1986
Topgas	Reference to the Topgas I 1982 Agreement under which TOPGAS Holdings Ltd. assumed TransCanada's outstanding take-or-pay liabilities
Variable-cost-of-service Toll	A toll which varies from month to month to reflect actual expenses and throughput

Recital and Appearances

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

IN THE MATTER OF an application by Westcoast Transmission Company Limited dated 1 December 1985, as amended, for certain orders respecting its tolls, pursuant to the *National Energy Board Act*, filed with the Board under File No. 1562-W5-9.

HEARD

in Vancouver, British Columbia on: 4, 5, 6, 7, 10, 11, 12, 13, 14 March 1986; and

in Ottawa, Ontario on: 18, 19, 20, 21, 24, 25, 26, 27 March, and 8, 9, 10, 11, 14, 15, 16, 17, 21, 22, 23, 24 April, and 5, 6, 7, 8, 9,13,14, 15, 28, 29 May, and 16,17,18,19, 20 June 1986.

BEFORE:	A.D. Hunt	Presiding Member
	W.G. Stewart	Member
	A.B. Gilmour	Member

APPEARANCES:

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M. Belich	Czar Resources Ltd. and Wainoco Oil & Gas Limited
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A.R. Androsoff	Foothills Pipe Lines (Yukon) Ltd.

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C.K. Sheard	Northland Utilities (B.C.) Limited
D.K. Watkiss C.R. Rich	Northwest Pipeline Corporation and Kern River Gas Supply Corporation
D.G. Davies D.G. Hart, Q.C.	Ocelot Industries Ltd.
C.W. Sanderson	Pacific Northern Gas Ltd.
T.J. Ebbels D.Dawson	Pan-Alberta Gas Ltd.
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L. Keough D. Tremblay	National Energy Board

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 for it.)

1. Introduction

The Board, in its April 1985 Methodology Decision, directed that Westcoast, effective 1 January 1986, change its toll design methodology from the variable cost-of-service method to the fixed-toll method. By an application dated 1 December 1985, as amended, Westcoast applied to the Board for certain interim and final orders approving tolls based on the fixed-toll method.

The Application

The tolls proposed in the application were based on a cost of service using a base year of 1 January to 31 December 1985 and a test year of 1 January to 31 December 1986. Westcoast proposed separate tolls for Canadian sales, Canadian service and export sales. The tolls are based on Westcoast's test-year cost of service, which has been classified into fixed and variable categories. Test-year fixed costs were allocated on the basis of the contract demand volumes contained in the gas sales contracts of Westcoast's firm CD customers, with the exception of the daily demands for "off-line" distributors which were estimated based on historical takes. Westcoast has designed its Canadian tolls in such a fashion that 100 percent of the fixed costs are included in the demand component of the tolls. For export sales, Westcoast has proposed lump-sum tolls.

The Regulatory Environment

The Board's task in setting just and reasonable tolls for Westcoast is being undertaken at a time when the natural gas industry is experiencing profound changes in many aspects of its business. These changes result from fundamental policy modification by governments in both Canada and the U.S. and from an unprecedented and unexpected decline in the price of crude oil. The Board must assess the range of transportation services proposed by Westcoast in light of these developments.

2. Decisions

The Board's major decisions are summarized below.

2.1 Toll Design

Recognizing that the current transitional phase in the gas industry makes forecasting the demand for gas difficult, the Board believes Westcoast's test-year forecasts of daily demand and annual sales to be reasonable in the circumstances. As well, the Board is in general agreement with the menu of services which Westcoast proposes to make available and the methods of calculating the tolls, except as discussed below.

Authorized Overrun

With regard to the Westcoast proposal that firm customers be entitled to an authorized overrun provision which would have priority over and be priced lower than other interruptible, the Board finds that because such service is available only to shippers holding firm contracts, it is inconsistent with the move to open access. The Board therefore will require that authorized overrun be removed at the end

of the next heating season, 1 April 1987. After 1 April 1987 authorized overrun would evolve to become a higher tier of interruptible (Tier-One), with priority over other domestic interruptible sales or service (Tier-Two), and accessible to all domestic customers signing the appropriate interruptible sales or service agreement.

Displacement Toll

With respect to Westcoast's proposed displacement toll for interruptible service to the export market which displaces a system sale, the Board finds this toll inappropriate in the prevailing circumstances as it would be a constraint upon the freedom of the market to seek out alternative cheaper supply, and thus inconsistent with the desire to open up access to gas markets. The Board therefore disallows the proposed export displacement toll. In a related area, the Board has not been persuaded that for the test year there should be any reduction in the fixed costs allocated to the export market. Nor was the Board persuaded that a domestic displacement toll as requested by Inland is necessary.

Other Toll Design Matters

The Board finds that the tolls for off-line distributors should be based on the nearest field concept as this provides a balance between true cost-based tolls and what is reasonable and practicable in the circumstances. The Board agrees with Westcoast that seasonal tolls and peaking service are not required at this time.

Carrying Charges on Deficiency Payments to Amoco

Westcoast applied to include in its tolls carrying charges with respect to deficiency payments to Amoco.

In the Board's view these carrying charges do not relate to the transportation or transmission of gas, but rather they relate to the failure by Westcoast to take contracted quantities of gas and the resulting contractual obligations of the parties involved respecting the sale/purchase arrangements. The Board therefore denies Westcoast's application.

Zone 3 Cost Allocation

The Board finds that Zone 3, transmission north of Compressor Station 2, provides primarily a transmission function and for that function generally, costs should be allocated on the basis of volume adjusted for distance. Accordingly, the Board requires Westcoast to allocate costs in Zone 3 on a volume/distance basis similar to that employed in Zone 4.

Zone 4 Cost Allocation

In general the Board accepts Westcoast's proposal to allocate Zone 4 costs based on volume/distance. With regard to the method of allocating CD among multiple delivery points in Zone 4, the Board accepts Westcoast's methodology for the test year but instructs Westcoast to investigate other approaches. Further, the Board has been persuaded that the franchise areas of B.C. Hydro, Inland and PNG should be considered as sales zones and that all service into a franchise area, whether sales or transportation service, should be calculated on the basis of the same average distance allocation factors.

Method of Calculation

The Board is in general agreement with Westcoast's proposals regarding the method of calculating tolls. This includes the crediting of AOR and IT revenues to the test-year cost of service allocated to firm customers; the separate functional identification of Canadian service tolls; and the requirement that service customers provide their own fuel. The Board also accepts Westcoast's proposal to distribute to producers, revenues from IT service provided in 1985. The Board rejects the proposal that Westcoast retain five percent of revenues from IT service tolls and also rejects the proposed CD credit to the NGL plant.

AOR and IT Toll Design

The Board does not accept Westcoast's proposed AOR and IT toll design whereby AOR would have priority over but be priced lower than other interruptible. The Board requires that the IT toll for the domestic market be a one-part commodity toll derived by first adjusting the demand component of the firm toll for an 85 percent load factor and then adding the appropriate variable costs, as this provides a balance between the need for IT to make an appropriate contribution to fixed costs, and fairness. In recognition of the higher quality of AOR service, due to its priority of service over other interruptible, the Board finds it appropriate that this service make a higher contribution to fixed costs, Accordingly, the AOR toll shall be established on a similar basis but adjusted to a 75 percent load factor.

In recognition of the special features related to the export market, the IT toll for the export market will be calculated on the basis of a 75 percent load factor.

Other Toll Matters

To avoid the situation whereby an interruptible sale made by Westcoast, such as that made to Northwest Natural, does not attract an identifiable IT toll, the Board requires that such a sale bear the applicable export IT toll. Westcoast is directed to file such a toll with the Board as part of its final tariff.

2.2 Tariff Matters

During the hearing Westcoast requested the Board to approve as part of its tariffs the amended General Terms and Conditions for Sales and for Service. The Board has decided that, beginning 1 November 1986, Westcoast's export customer, Northwest, shall be subject to the General Terms and Conditions for Sales. Westcoast is required to submit any amendments necessary to deal with features unique to the export situation. In addition, the Board will require Westcoast to submit for approval by 1 December 1986 General Terms and Conditions for off-line sales.

Priority of Service

Effective 1 November 1986 the priority of service shall be: (a) firm service, (b) AOR up to 15 percent of a customer's CD, and (c) domestic and export interruptible service.

After 1 April 1987 AOR will evolve to become Tier-One domestic interruptible with priority over Tier-Two domestic interruptible and export interruptible will have the same priority as Tier-One interruptible. Within categories, Westcoast is directed to curtail on a prorata basis.

Bumping Provision

Given the existing capacity situation on Westcoast's system including Northwest's express desire to reduce its contract demand obligations, the Board rejects the bumping provision proposed by Westcoast, whereby short-term firm agreements would be subject to reduction in the event capacity was required for a new long-term agreement.

Double Demand Charge

The Board does not find it necessary to deal with this issue at this time as there were no facts presented during the hearing that indicated that conversions from sales to service, resulting in the occurrence of a double demand charge, would take place during the test-year.

Reporting and Balancing

The Board accepts as reasonable the requirement that service customers report by 1600 PST the gas delivered into the system the previous day. The Board also accepts the reporting and unauthorized overrun penalties as proposed by Westcoast. The Board accepts Westcoast's shotgunning proposal whereby the first volumes delivered into a distributor's system are deemed to be direct sales volumes, but will allow parties to make alternative balancing arrangements if acceptable to Westcoast. The Board requires Westcoast to modify the General Terms and Conditions for Sales and for Service to clearly specify that unauthorized overrun penalties will apply only during curtailment. The Board has rejected intervenor requests for a compulsory line pack provision.

Financial Matters

The Board accepts the letter of credit provision, as amended for Service and requires Westcoast to include a similar provision for Sales. The Board also accepts the billing payment periods proposed by Westcoast but requires Westcoast to modify the Sales and Service articles dealing with delinquent accounts and to make them the same for service and sales customers.

Other Tariff Matters

The Board denies requests by intervenors for an arbitration clause; for the reinstatement of certain procedures to determine raw and residue gas volumes; and for certain changes to the Pro Forma Service Agreements. However, the Board agrees that Westcoast is not entitled to receive documents containing commercially sensitive information; directs that the maximum hourly delivery rate be set at five percent for both Sales and Service; and directs that the force majeure article be modified so as to relieve either Westcoast or a shipper claiming force majeure of its contractual obligation for the duration of the event.

2.3 Matters Relating to Order TG-5-79

The Board approves $249,000 of capital cost overruns for inclusion in the average monthly rate base and the recovery of 1985 O&M budget overruns amounting to $2,480,000.

2.4 Rate Base

Grizzly Valley Pipeline Replacement Project

In its August 1983 Westcoast Reasons for Decision the Board directed Westcoast to leave the cost of the original Grizzly Valley pipeline in gas plant in service and transfer the cost of the replacement project to a deferral account pending the resolution of litigation commenced in the British Columbia Supreme Court. Westcoast, on 30 October 1985, reached a settlement of $20,250,000 with the parties to the court action and requested Board approval of the accounting and toll-making treatment it proposed. The Board denied approval of Westcoast's proposal and deterred the matter to the toll hearing. While intervenors were not opposed to the Company's proposal, they expressed concerns regarding the associated income taxes.

The Board approves Westcoast's proposed accounting treatment and agrees with Westcoast's proposed rate base treatment from the settlement date of the litigation to the effective date of Order TGI-10-85. The Board denies the Company's proposed income tax treatment and requires Westcoast to credit the cost of service with $14,302,000 amortized over a three-year period and to deduct the unamortized balance of this credit from rate base.

The Vancouver Island Project

The Board approves the recovery over three years, commencing with 1986, of all the preliminary survey costs ($1,585,000) and one-half of the hearing costs ($767,000). However, the Board disallows all of the carrying costs ($884,000) and denies the inclusion of the unamortized balance in rate base.

Cash Working Capital

The Board approves an amount for cash working capital of $7,195,000 which is based on test-year O&M expenses, employee payroll deductions and includes a mail lag of two and one-half days for O&M expenses net of salaries, wages and employee benefits.

Line pack Gas

The Board approves an amount of $5,320,000 for line pack gas and directs Westcoast to develop an alternative method of valuing line pack.

2.5 Rate of Return

The Board approves a rate of return on rate base of 12.10 percent. This rate reflects among other things, a rate of return on common equity of 13.75 percent and a deemed common equity ratio of 35 percent. The Board also approves Westcoast's proposed method of allocating debt and preferred shares between the utility and non-utility operations.

2.6 Revenue Requirement

Operating and Maintenance Expenses

The Board approves total O&M expenses of $79,495,000 comprised of $35,021,000 for salaries, wages and benefits and of $44,474,000 for other operating and maintenance expenses. The Board has limited salary and wage increases to four percent.

Depreciation

The Board approves depreciation rates as specified in Appendix V of these Reasons. In determining appropriate rates, the Board has included, in computing the reserve life index, an allowance for unconnected gas reserves and trend gas in accordance with its decision in the method of regulation hearing. The Board disallows the inclusion of future capital additions in the determination of the depreciation base.

Insurance Deductibles

The Board approves an amount for insurance deductibles of $481,000.

Cost of Gas Used in Operations and Line pack Gas

The Board approves an amount of $10,795,000 for gas used in operations after deducting $491,000 for unaccounted for gas based on Westcoast's historical experience of gas losses.

Deferral Accounts

The Board approves deferral accounts for:

(a) legislative and reassessment changes to taxes;

(b) foreign exchange;

(c) utility exchange; and

(d) gas used in operations, with some modifications.

Request for approval of deferral accounts are denied for:

(a) lost and unaccounted for gas; and

(b) gathering and processing facilities requested by outside parties which are constructed on short notice.

Variance Between Approved and Interim Tolls

Westcoast is directed to refund for the period 1 January 1986 to 1 November 1986, the in-service date of the new tolls, the variance between the approved tolls and the interim tolls, together with carrying charges on the month-end balance calculated each month at 1/12th of the approved rate of return on rate base.

Marketing Division

Westcoast is directed in future applications to segregate, and show separately from the utility cost of service, all costs associated with marketing activities. The Board has also decided that in the future the marketing activity costs shall no longer be recovered in the tolls charged for sales or for service.

Surveillance

Westcoast will be required to file, for monitoring purposes, surveillance reports in a format and content to be determined.

Chapter 1
Application

1.1 The Application

The National Energy Board (the Board), in its Reasons for Decision in the matter of the Method of Regulation of the Tolls of Westcoast Transmission Company Limited (Westcoast) dated April 1985 (Methodology Decision), directed that Westcoast change the manner in which the Company derives its tolls from the variable-cost-of-service method to a fixed-toll method, effective 1 January 1986. To this end, Westcoast was directed to file an application pursuant to Part IV of the *National Energy Board Act* (NEB Act).

By an application dated 1 December 1985, as amended, Westcoast applied to the Board under Sections 16, 50, 51 and 52 of the NEB Act for interim and final orders of the Board, effective 1 January 1986, approving the schedule of tolls contained in its application.

Westcoast also applied under Section 53 of the NEB Act for an order, effective 1 January 1986, disallowing any existing tariffs and the tolls prescribed therein that are inconsistent with the orders requested above.

In addition, Westcoast applied under Section 53 of the Energy Administration Act (EAA) for orders of the Board, effective 1 January 1986, permitting Westcoast to deduct from the price to be paid by Westcoast to purchase or otherwise acquire gas from within British Columbia, Alberta, Yukon and the Northwest Territories for export to the United States (U.S.), the amount of the approved export sales tolls.

The tolls proposed in the application were based on a cost of service using a base year of 1 January to 31 December 1985 and a test year of 1 January to 31 December 1986.

Westcoast also applied under subsection 3(2) of the NEB Rules of Practice and Procedure (Part 1, Section 5 of the Draft Rules of Practice and Procedure) for an exemption from the requirement to file information for a base year with respect to twelve consecutive months of most recently available actual experience as set forth in the definition of "base year" contained in Part V of the Schedule to the National Energy Board Rules of Practice and Procedure, insofar as the base year contained in the application utilized estimated and not actual data for the period 1 October 1985 to 31 December 1985. The Canadian Petroleum Association (CPA), in a letter to the Board dated 17 December 1985, expressed concern about Westcoast's selection of the calendar year 1985 as the base year and requested that Westcoast be required to retire its application using the twelve-month period ending 30 September 1985 as the base year. The Board, by letter dated 15 January 1986, exempted Westcoast from the requirements of Part V of the Schedule to the Draft Rules of Practice and Procedure and accepted the application as filed. Westcoast, however, was required to file actual results for the full base year by 14 February 1986.

Westcoast also applied for an order of the Board authorizing Westcoast to maintain, for accounting and toll-making purposes, deferral accounts with respect to the following accounts, to the extent that there is a difference between the actual and forecast test-year amounts of such accounts:

(a) legislative and reassessment changes to property taxes, taxes related to fuel consumption, fuel gas tax, corporate capital tax, federal and provincial surtaxes and income taxes;

(b) foreign exchange;

(c) utility exchange;

(d) gas used in operations; and

(e) toll revenue from interruptible (IT) sales and service, authorized overrun (AOR) sales and service, displacement IT and off-line sales including sales to the Natural Gas Liquids (NGL) plant;

together with carrying charges on such amounts at the allowed rate of return on rate base. In addition, Westcoast applied for approval of a deferral account to record amounts relating to depreciation, return and income tax costs for any gathering and processing plant constructed pursuant to third party requests for capital additions made during a test year.

For toll design purposes, Westcoast divided its pipeline system into the five rate zones depicted on the map found in Appendix VI.

The tolls as proposed by Westcoast include separate schedules of tolls for Canadian sales, Canadian service and export sales. The tolls for Canadian sales and export sales are based on Westcoast's test-year cost of service, which has been allocated between fixed and variable categories. Westcoast has designed its Canadian tolls in such a fashion that 100 percent of the fixed costs are included in the demand component of the tolls. With the exception of the "offline" distributors, i.e. those small-volume sales distributors whose take-off points are north of Compressor Station 2, the test-year fixed costs have been allocated on the basis of the contract demand (CD) volumes contained in the gas sales contracts of the customers.

By its Directions on Procedure RH-6-85 (Hearing Order RH-6-85), the Board set Westcoast's application down for public hearing. The hearing commenced in Vancouver on 4 March 1986 and continued for 44 days during the months of March, April, May and June 1986, concluding on 20 June 1986.

1.2 General Terms and Conditions

During the course of the hearing, considerable discussion took place regarding the terms and conditions of carriage or transportation which should be approved by the Board. Westcoast stated that it was actively engaged in contract renegotiation with the domestic distributors and, therefore did not propose to submit terms and conditions for its sales customers until these negotiations were finalized.

Westcoast maintained that in the absence of new filings, the Board should consider the terms and conditions that form part of its existing gas sales contracts, with certain exceptions, to be part of Westcoast's application. Such a situation made it difficult for the Board and interested parties to compare the proposed terms and conditions for transportation services with those for sales. Late in the hearing, Westcoast requested that the Board approve the amended General Terms and Conditions for Sales (Exhibit B-102) and for Service (Exhibit B-103) as part of its tariffs.

1.3 Grizzly Valley Pipeline Replacement Project

By letter dated 8 November 1985, Westcoast requested a certain accounting and toll-making treatment for the costs of the Grizzly Valley pipeline replacement project. The Board stated that it was desirable to consider this matter during the toll hearing and by Order TGI-10-85, dated 12 December 1985, directed that in the interim Westcoast make certain accounting entries with respect to these costs and accrue a carrying charge each month on the balance in the deferral account previously established pursuant to Order AO-20-TG-5-79.

1.4 Review of Order TGI-10-85

Subsequent to the issuance of Order TGI-10-85 in respect of the Grizzly Valley pipeline replacement project, Westcoast sought clarification of the effective date of this Order. Upon being advised that the date was 12 December 1985, Westcoast requested that the Board provide reasons for its decision, as this decision resulted in a period from 31 October 1985 to 11 December 1985 for which no order existed that would authorize the accrual of carrying charges. Finally, by letter dated 9 April 1986, Westcoast filed an application for a review of Order TGI-10-85. By letter, dated 21 April 1986, the Board notified interested parties of its decision to conduct a review of this matter as part of the toll hearing.

1.5 Carrying Charges on Deficiency Payments to Amoco

By an application dated 10 February 1986, Westcoast applied to the Board for:

(a) an Order under Sections 50, 51 and 53 of the NEB Act authorizing Westcoast to include in the tolls to be charged in each month in respect of gas produced in the Northwest Territories by Amoco Canada Petroleum Company Ltd. (Amoco) and sold to Westcoast under the terms of the Gas Purchase Agreement dated 1 November 1985, as amended, an amount equal to the carrying costs incurred in each month on the outstanding, unrecovered amount of deficiency payments made by Westcoast to Amoco under the terms of the aforementioned Gas Purchase Agreement, at a monthly rate equal to one-twelfth of the aggregate of the Royal Bank of Canada prime rate in effect each such month plus one-half of one percent, and

(b) an Order under Section 53 of the EAA, amending Yukon and Northwest Territories Export Price Order, SOR/78-99, as amended, to permit Westcoast to recover, in addition to the monthly demand charge applicable to gas produced by Amoco in the Northwest Territories, the carrying costs incurred in each month in respect of the outstanding, unrecovered amount of the deficiency payments so made to Amoco, at the monthly rate specified above.

The Board, by letter dated 25 February 1986, directed that this matter be disposed of as part of Westcoast's toll hearing.

1.6 Interim Tolls

The Board, by Order TGI-11-85 dated 18 December 1985, approved, on an interim basis, the tolls to be charged by Westcoast for gas which is gathered, processed and transported by Westcoast effective 1 January 1986. This Order approved the tolls contained in Westcoast's application, with the exception

of those tolls related to all displacement IT services. These latter tolls were set at rates equal to the equivalent non-displacement toll for IT service, as contained in Westcoast's application.

Subsequent to the issuance of this Order, the Board received applications requesting a review of this Order from the domestic off-line distributors as well as from the Ministry of Energy, Mines and Petroleum Resources of the Province of British Columbia. Based on the information contained in these applications, the Board decided to review Order TGI-11-85 and directed, by Order AO-1-RH-6-85 dated 9 January 1986, that the review be heard as a preliminary matter at the commencement of the public hearing into Westcoast's toll application on 4 March 1986.

By letter dated 30 January 1986, Westcoast advised the Board that Westcoast, the Province of British Columbia (B.C.) and the domestic off-line distributors, who had requested a review of the Board's interim toll Order, had reached an agreement on the price of gas to be paid by these distributors until a final decision is rendered by the Board with respect to the toll hearing. This agreement resulted in Westcoast deducting the interim tolls approved by the Board from the price of gas paid by the distributors, which price remained at the level it had been prior to 1 January 1986. As a result of this arrangement, the parties who requested a review withdrew their applications and the Board, by Order AO-2-RH-6-85, revoked its previous Order and announced its decision not to conduct a review of its interim toll Order.

Chapter 2
Background

2.1 The Company

Westcoast is a federally incorporated company which owns and operates facilities for gathering, processing and transporting natural gas. The Company not only buys gas from fields in British Columbia, Alberta and the Territories but also provides gathering, processing and transporting services, under contract, for gas owned by other parties. The gas which Westcoast sells is purchased by three large distribution companies and a number of small off-line distributors within B.C. and a large gas pipeline company in the U.S. Its gathering, processing and transportation services are provided to shippers who have contracted to have their gas delivered to end-users in either the domestic or export markets.

The Company's gas gathering and processing facilities are located in the Fort Nelson and Fort St. John areas of northeastern British Columbia. Its mainline transmission system extends from those areas to a point on the international boundary near Huntingdon, B.C. where it connects with the transportation facilities of Northwest Pipeline Corporation (Northwest).

2.2 The Regulation of Westcoast's Tolls by the NEB

2.2.1 Toll Hearings

In September 1977, Westcoast applied to the Board for an Order or Orders pursuant to Sections 50 and 53 of the NEB Act for tolls which the Company proposed charging for its gas gathering, processing and transportation services.

The hearing which resulted from this application was held in phases which commenced in 1978 and concluded in 1979 with the issuance of Order TG-5-79. By that Order, the Board established the variable-cost-of-service methodology by which Westcoast was to be regulated. This Order, which became effective on 1 November 1979, specified the categories of costs and the limits which could automatically be recovered in the cost of service toll, the accounting principles to be followed, the rate of return on rate base, the depreciation rates and other parameters required to determine the monthly cost of service toll.

During the period when Westcoast was regulated on a variable-cost-of-service basis, it applied to the Board on two occasions for certain changes in the tolls it could charge. In 1980, Westcoast requested changes in the manner in which its tolls were calculated and for an increase in the rate of return on rate base. In December 1982, the Company again requested an increase in the rate of return together with interim tolls effective 1 January 1983.

The latter application was heard in the spring of 1983. During that hearing, CPA and the Independent Petroleum Association of Canada (IPAC) jointly moved to have a review of the method of regulation included as an issue. They opposed the existing method of regulation and advocated regulating Westcoast under a fixed-toll regime based on a forward test year.

After considering the views of all parties, the Board concluded that a review of the method of regulation was desirable and ordered that such a review be the subject matter of a separate public hearing.

2.2.2 Method of Regulation Hearing

The hearing into the method of regulating Westcoast's tolls was held in late 1984.

The purpose of the hearing was two-fold:

(a) to examine whether circumstances affecting the industry had changed sufficiently to warrant a change in the method of regulation; and

(b) to solicit the views of all parties on the principles which should be incorporated in the design of tolls in the event that the decision was made to change to a fixed-toll regime.

The Board, in its Methodology Decision, was of the view that there had been major changes in a number of the circumstances affecting the B.C. natural gas industry as a result of the B.C. government's adoption of most of the recommendations of a report on the Marketing of British Columbia Natural Gas dated February 1983 (Govier Report). The Board concluded that a fixed-toll regime would better accommodate these changes and the changing circumstances in the export market, such as increased competition and direct sales by producers.

The Board directed that Westcoast change from a variable-cost-of-service to a fixed-toll method of regulation effective 1 January 1986. The Board also directed that the proposed toll design should include the following:

(a) fixed tolls based on a forward test year, and containing a demand component and a commodity component;

(b) 100 percent of the Company's fixed costs in the demand component by 1 November 1986;

(c) a toll for the transmission function based on volume, adjusted for distance;

(d) a Board-approved transportation toll for direct sales between producers and consumers, and

(e) separate postage stamp tolls for gathering and gas processing functions.

In addition to the toll design principles, Westcoast was also required to submit a revised depreciation study.

However, the Board decided that it would be best to deter making decisions on matters such as the appropriate number of zones, the setting of just and reasonable tolls for interruptible service, and the cost of compressor fuel until after hearing evidence on Westcoast's specific proposals.

By its application of 1 December 1985, Westcoast complied with the Board's directive.

2.3 The Regulatory Environment - A Period of Transition

The Board's task in setting just and reasonable tolls is being undertaken at a time when the natural gas industry is experiencing profound changes in many aspects of its business brought about primarily by fundamental policy modifications of governments in both Canada and the U.S. and by an unprecedented and unexpected decline in the price of crude oil.

Thus, the Board must assess the range of transportation services proposed to be offered in the light of these current and anticipated developments. In particular, the substantial reduction to date in the role of governments in natural gas pricing and their expected complete withdrawal from this field by 1 November 1986, resulting in what is generally termed market-oriented pricing, and the complementary need for open access transportation including a range of transportation services must be kept in mind.

2.3.1 Canadian Regulatory Environment

Prior to 1973, the price at which Westcoast bought gas was negotiated between Westcoast and producers. The price at which Westcoast sold gas was negotiated between Westcoast and its sales customers. The difference between the negotiated selling price and the negotiated purchase price was retained by Westcoast.

In 1973, the producing provinces and the federal government set in course a series of steps which resulted in the federal government periodically fixing the price of natural gas sold in the export market from 1975 to 1984.

On 1 November 1984, the Government of Canada revised its export pricing policy to allow Canadian companies to export gas to U.S. buyers at negotiated prices and also made provisions for short-term exports subject to certain volume limitations.

In 1985, the Governments of Canada and the energy-producing provinces of Saskatchewan, Alberta and British Columbia (the energy-producing provinces) entered into two agreements, the Western Accord and the Natural Gas Agreement, which will see Canada move from government-administered prices to a more flexible and market-oriented pricing regime for gas sold in the domestic and export markets.

Western Accord

In March 1985, the Governments of Canada and the energy-producing provinces reached a comprehensive oil and natural gas agreement. The agreement, the Western Accord, called for the total deregulation of Canadian crude oil pricing and marketing, took steps to make the natural gas industry more market-oriented and eliminated a number of federal oil and gas taxes or charges. On the natural gas side, the steps taken included freezing the Alberta border price at its then current level and establishing a task force to develop a more flexible market-sensitive pricing mechanism.

Natural Gas Agreement

In October 1985, the federal government and the governments of the energy-producing provinces reached an agreement on natural gas markets and prices. The Natural Gas Agreement, which took effect 1 November 1985, was to provide an orderly transition from government-administered prices to

a market-sensitive pricing regime. A principal feature is that, effective 1 November 1986, the prices of all natural gas in interprovincial trade will be determined by negotiation between buyers and sellers. During the one-year transition period, the benchmark Alberta border and Toronto wholesale prices will be frozen at current levels.

The Natural Gas Agreement also attempts to open up the domestic natural gas market by providing for direct sales between consumers and producers at negotiated prices, as long as transportation services are available on the distribution systems. Distributors can make similar direct sale arrangements provided full volumes of gas committed under existing contracts are taken first. The Natural Gas Agreement calls for prices for natural gas delivered under existing contracts to be renegotiated among distributors, shippers and producers prior to 1 November 1986.

On the export side, the federal natural gas pricing policy was revised by elimination of the incrementality and competing fuels tests and by use of regional prices to establish the floor for exports. The volume limitation on short-term natural gas exports was also removed.

The parties also agreed that an early and all encompassing review of the role and operations of natural gas pipelines was in order and that this review would be carried out by an impartial panel.

Pipeline Review Panel

The Pipeline Review Panel was formed in December 1985 to review the role and operations of interprovincial and international pipelines engaged in the buying, selling and transmission of gas. The Panel identified TransCanada PipeLines Limited (TransCanada) and Westcoast as being representative of such pipelines and restricted its review to these two companies. The objective of the review was to provide recommendations on how the future activities and commercial practices of the subject companies could best facilitate the transition to a more flexible and market-oriented natural gas pricing system.

While the work of this Panel was to a large extent conducted concurrently with the hearing of the Westcoast application, the Panel's Report was not released until 10 July 1986, after the close of the public hearing of the Westcoast application. Consequently, this report was not part of the record of the proceedings before the Board and there was no opportunity at the hearing for interested parties to present views or evidence respecting any recommendation of the Panel that might be pertinent to this proceeding. The Board notes that the Report has not yet been adopted by the signatories to the Natural Gas Agreement as formal policy. However, the Report does represent the views and recommendations of a panel of knowledgeable individuals who have examined the move towards market-oriented pricing and open access of gas pipelines in some detail.

While this report is not binding on the Board and does not constrain the options available to the Board in disposing of the issues before it, the Board finds it worthwhile to note that many of the Board's decisions, arrived at independently, are consistent with the views expressed by the Pipeline Review Panel.

There will be an opportunity, should any party request it, to examine any appropriate and relevant aspect of the report at a future toll hearing.

2.3.2 British Columbia Regulatory Initiatives

Institutional Framework

In 1973, the Government of British Columbia began to intervene in the domestic market to fix the price at which Westcoast sold gas to its domestic distributors.

From the time Westcoast commenced operations in 1957 until November 1973, the Company purchased or produced and then sold the B.C. natural gas transmitted by it. Effective 1 November 1973, Westcoast entered into an agreement (the BCPC Agreement) with the British Columbia Petroleum Corporation (BCPC), under which it assigned to BCPC all of its British Columbia gas purchase contracts. BCPC in turn agreed to supply Westcoast with all of its British Columbia gas requirements to the extent that B.C. gas was required to meet Westcoast's domestic and export sales commitments.

The purchase price for gas paid by Westcoast to BCPC was determined by deducting Westcoast's monthly cost of service from its monthly sales revenue. This ensured that BCPC directly, and the Government of British Columbia and the producers indirectly, received all sales revenue from B.C. gas which was in excess of Westcoast's cost of service.

While the B.C. government does not legislatively regulate the price of gas paid by the distributors in sales contracts between Westcoast and B.C. distributors, there has been an informal process in existence since 1973 whereby the price of gas specified in those contracts has been increased periodically. Once a year, the British Columbia Utilities Commission (the BCUC) has conducted an inquiry into the market prices of gas sold in B.C. and made a recommendation to the B.C. government respecting appropriate wholesale prices for the following year. If the B.C. government decided that there should be a price increase for natural gas in the province, it requested that the distributors amend their contracts with Westcoast so as to increase the commodity charge component of the wholesale price of the gas. Once the distributor contracts were amended, Westcoast filed them with the Board pursuant to subsection 51(2) of the NEB Act.

Policy Initiatives

In 1982, the Minister of Energy, Mines and Petroleum Resources of British Columbia commissioned a study group, under the chairmanship of Dr. G.W. Govier, to inquire into and report on a broad range of issues relating to the marketing of British Columbia natural gas. Early in 1983, the study group submitted the Govier Report to the provincial government, which in September 1983 released a paper entitled "A Report on the Marketing of British Columbia's Natural Gas-Decisions and Comments". In that paper, the B.C. government stated that it accepted some of the study group's recommendations, rejected others and was soliciting written comments from interested parties prior to making a decision on the remaining recommendations.

In September 1983 and July 1984, the B.C. government approved in principle the following:

(a) a wholesale pricing policy which would tie the price of gas to the refinery gate price of crude oil at Vancouver;

(b) a netback system for establishing the field price of natural gas;

(c) BCPC as no longer being the sole purchaser of gas within the province;

(d) direct sales between producers and end-users;

(e) Westcoast acting as a contract carrier and processor for future contracted gas; and

(f) producers being given the opportunity to build their own gathering, processing and transportation facilities.

On 1 July 1985, the B.C. government, by way of its Natural Gas Price Act, implemented a number of the decisions announced in September 1983 and July 1984 and formally implemented the new gas marketing system. The key features of this Act are:

(a) the establishment of the field price for natural gas paid to producers in B.C. on a netback basis by deducting the appropriate cost of service from the system average wholesale price;

(b) the establishment of a new explicit royalty system for natural gas producers;

(c) the institution of an export flowback arrangement that will allow all producers to share in the benefits from the export market; and

(d) permission for direct sales between producers and parties other than BCPC.

The export flowback arrangement was withdrawn effective 1 March 1986.

Deregulation of Natural Gas Prices Within British Columbia

On 13 June 1986, the Government of British Columbia announced its intention to move to full deregulation of gas pricing in the province by 1 November 1986. The government had earlier announced that the average wholesale price of gas was to be phased in to reach a target level of 65 percent of the energy equivalent cost of oil at the Vancouver refinery gate by 1990. The provincial government decided that the B.C. cabinet would no longer set the average wholesale price to distributors and buyers, that sellers of gas would determine the market price by negotiations, and royalties would be assessed on that price.

The provincial government acknowledged that there are some barriers, primarily private sector contractual arrangements between producers, BCPC, Westcoast, distributors and end-users, that must be overcome before full deregulation could proceed.

2.3.3 United States Regulatory Environment

As is the case in Canada, the United States gas industry is undergoing sweeping changes as it attempts to cope with deregulation, while striving to maintain its share of the total U.S. energy mix, as competition from alternative fuels intensifies and the "gas supply bubble" persists.

While at this time the U.S. gas industry is in a transitional phase and future events are unpredictable, it is apparent that the regulatory environment in the U.S. will require greater risk-taking on the part of utilities, while at the same time providing gas producers and purchasers with an array of new alternatives to the traditional utility service. It is recognized that in this new environment the industry

must be able to respond quickly to changing market conditions by being innovative and competitive, and in particular, by completing the move toward market-sensitive pricing arrangements.

In fact, the U.S. gas industry has responded to this freer market place by shifting towards short-term marketing and transportation strategies, including direct sales by producers to end-users and local distribution companies (LDC's), with the pipeline utility providing contract transportation service. Creation of this short-term spot market has led to gas cost savings and encouraged long-term suppliers to offer contracts that are more market-responsive.

In January 1985, wellhead prices for a substantial portion (i.e. approximately 60 percent) of U.S. gas were deregulated. In 1984, the Federal Energy Regulatory Commission (FERC) issued Order No. 380 and in 1985 Order No. 436, as amended, both of which have had a profound impact on the way gas is to be transported and marketed, including gas imported from Canada.

FERC Order No. 380, as amended, prohibits pipelines from using so-called "minimum bill" contract provisions to recover variable costs, such as purchased gas costs, that are not actually incurred. This effectively prevents pipelines from passing on to their customers take-or-pay charges (except financing charges) incurred pursuant to their supply contracts.

FERC Order No. 436, as amended, depends on voluntary compliance and is designed to encourage interstate pipelines to focus their efforts on "open access" gas transportation, and away from gas purchasing and marketing. Under this rule-making, end-users and LDC's will be able to negotiate for their own gas supplies directly with producers or brokers, thus paying the pipeline only a transmission charge. To help pipeline companies to move away from the gas purchase business, FERC will allow pipelines that opt for the transportation program to make certain payments to producers to extinguish producer take-or-pay claims. The cost of these payments can be included in the pipelines' rates. Similarly, existing firm pipeline customers can reduce their contract demand in steps over a five-year period to zero. Under this broadened access provision, pipelines under FERC jurisdiction must transport gas for others on a non-discriminatory basis. Most pipeline companies have filed with FERC their intention to come under Rule 436 but with exceptions to the Rule. Until all these filings have been processed, the extent and availability of open access transportation to Canadian gas exported under short-term order remain uncertain.

FERC will provide expedited certification procedures for new facilities needed to provide new service if the applicant agrees to bear the full risk of those facilities and if the applicant agrees to abide by the "open access" requirement of Order No. 436.

Notwithstanding the regulatory changes on both sides of the border, and the recent increase in direct producer-to-end-user export arrangements, it is anticipated that exports under long-term licences will continue to constitute the bulk of U.S. imports since these provide the year-round, long-term, reliable service that such Canadian exporters have traditionally provided.

With respect to other U.S. regulatory developments, recent findings by United States Administrative Law Judges permit United States pipelines to pass through to their customers the costs of imported Canadian gas on an "as-billed" basis. That is, Canadian producer fixed costs will be permitted as part of the demand charge component of the price of gas charged to the U.S. importer. Notwithstanding these recent findings, FERC is not expected to take any final action on the "as-billed" issue until it resolves the pending domestic pricing issues on old gas and block-billing.

As well, FERC, in a recent "devintaging rule", voted in principle to replace, as of 1 July 1986, the myriad of "old gas" ceiling prices with a single national ceiling price of $U.S. 2.57 per million British thermal units, believing that such action will assure more competitive gas prices for consumers, while at the same time expanding domestic supplies and thus making the U.S less dependent on imports. "Old gas" is still regulated under the Natural Gas Policy Act of 1978.

During final argument, counsel for Northwest stated that Northwest would, before the end of June 1986, be filing transportation tariffs with FERC, whereby Northwest would seek to become an open access transporter under Order No. 436. Whether, and how soon, Northwest will achieve its stated intention depends on the approval or satisfactory treatment of the conditions contained in the tariffs it has filed with FERC.

Chapter 3
Toll Design

3.1 Throughput

3.1.1 Throughput Forecast

The test-year daily demand volumes (i.e. the maximum firm supply a customer may call for on any day) and annual sales volume (i.e. the actual sales expected to be made in the year) by customer as forecast by Westcoast are summarized in Table 3-1. Daily demand is projected to be some 42 056.8 thousand cubic metres and, with the exception of the small offline distributors, is based on the contract demands specified in the gas sales contracts. The daily demand is split approximately 46 percent domestic and 54 percent export. Annual sales including interruptible are forecast to be 7 318.7 million cubic metres. Approximately 66 percent of the annual sales are expected to be consumed in the domestic market.

Table 3-1
Westcoast 1986 Test Year Forecast of Domestic and Export Deliveries*

		Daily (10^3m^3)	Annual (10^6m^3)
DOMESTIC DELIVERIES			
Firm Deliveries			
Mainline:	Inland	4 833.3	1 244.8
	PNG	2 651.4	711.9
	B.C. Hydro	10 198.0	2 512.3
Off-line:	Peace River	219.5	35.1
	ICG (B.C.)	332.2	55.9
	B.C. Hydro (Fort Nelson)	153.0	37.0
	Northland	46.5	9.6
	NGL Plant	700.0	196.0
Less: Interruptible Domestic Service		-	(28.3)
Total Firm Deliveries		**19 133.9**	**4 774.3**
Authorized Overrun Sales		-	54.3
Interruptible Domestic Service		-	28.3
TOTAL DOMESTIC DELIVERIES		**19 133.9**	**4 856.9**
EXPORT DELIVERIES			
		22 922.9	2 320.2
Firm Deliveries			
Northwest (GL-41)			
Interruptible Export Service		-	141.6
TOTAL EXPORT DELIVERIES		**22 922.9**	**2 461.8**
TOTAL DOMESTIC & EXPORT DELIVERIES		**42 056.8**	**7 318.7**

* Source: Exhibit B-18, pages 1.7 to 1.9.

Westcoast made no attempt to forecast interruptible sales or AOR service noting that these sales and services were too difficult to forecast at this time owing to the uncertainty caused by regulatory change, Westcoast did not forecast any firm service volumes for the test year.

Westcoast sells natural gas to three mainline customers: British Columbia Hydro and Power Authority (B.C. Hydro), Inland Natural Gas Co. Ltd. (Inland), and Pacific Northern Gas Ltd. (PNG), representing some 95 percent of its domestic sales. In addition, Westcoast sells natural gas to four off-line distributors: Peace River Transmission Company Limited (Peace River), ICG Utilities (British Columbia) Ltd. (ICG(B.C.)), B.C. Hydro (Fort Nelson); and Northland Utilities (B.C. Limited (Northland). Westcoast sells natural gas to the B.C. distributors in accordance with various gas sales agreements currently in effect. As well, Westcoast ships gas under a firm service agreement to the NGL plant. This plant, which is located in the Taylor complex, is jointly owned by Westcoast and Petro-Canada Inc. (Petro-Canada).

Westcoast also sells natural gas into the U.S. Pacific Northwest market to Northwest, under the authority of export Licence No. GL-41 and in accordance with a Letter Agreement dated 1 October 1984, as amended. Westcoast is currently contractually obligated to supply up to 22 922.9 thousand cubic meters per day (809 MMcfd) to Northwest. Export Licence No. GL-41 expires on 31 October 1989. Westcoast is Northwest's single largest source of natural gas supply.

Negotiations are currently under way between Northwest and Westcoast to replace the Letter Agreement with a new long-term gas sales contract. The evidence indicates that these negotiations will, among other things, review the continued need for the existing level of the firm daily CD volume of 22 922.9 thousand cubic metres per day. Northwest testified that a more appropriate level of firm daily demand might be 16 997.0 thousand cubic metres per day (600 MMcfd) based on the advice of its distributors that they are experiencing a permanent loss of market share owing to plant closures and fuel switching. Westcoast testified that should such a reduction be negotiated, it would not occur during the 1986 test year.

Decision

The Board recognizes current attempts to reduce the regulation of the gas industry in both Canada and the U.S., as more fully described in Chapter 2. The Board shares the view that the current transitional phase in which the gas industry finds itself, and the uncertainties that result from it, make forecasting the demand for gas difficult. In addition, the Board notes that, with the exception of Westcoast's forecast of off-line demand, Westcoast's forecast was for the most part unchallenged.

Thus, the Board believes Westcoast's 1986 test-year daily demand and annual sales forecasts to be reasonable, and therefore accepts these for cost allocation and toll design.

3.1.2 Heat Content Reduction Due to NGL Plant

A number of intervenors noted that there has been a reduction in the energy content of the gas stream due to the addition of the NGL plant to the Westcoast system.

These intervenors indicated that there is a two to three percent decrease in heat content which causes an increase in the volumes of gas required to maintain the same quantity of energy in the line, in effect causing a reduction in the capacity of the line and a necessity for the mainline customers to increase their CD. These intervenors felt that since the NGL plant was the cause of the increased volumes in the line it should, therefore, share some of the cost of the transportation in Zone 4.

Westcoast estimated the average heat content was 38.26 megajoules per cubic metre (MJ/m^3) after the addition of the NGL plant compared to an average actual of 39.04 MJ/m^3 for 1985. Westcoast's General Terms and Conditions for Sales state that the residue gas delivered to the buyer shall be within a range of 36.00 MJ/m^3 to 41.68 MJ/m^3; therefore Westcoast concluded that its customers have no right to demand any particular heating value in their gas stream providing the heating value falls within the specified range.

Decision

The Board notes that the heating value of the gas delivered to customers in the test year will fall within the ranges specified in the General Terms and Conditions. However, the Board is of the view that the heating value of the gas is not related to the terms of carriage but is more properly a gas sales matter subject to negotiation between parties. The Board therefore directs Westcoast to remove this provision from its General Terms and Conditions.

3.2 Availability of Services

For purposes of this report, the terms "demand component" and "commodity component" will be used to refer to the parts of a two-part toll subject to approval by the NEB. Demand component refers to that part of the toll which will be charged monthly regardless of the quantity of gas shipped; commodity component refers to that part of the toll which will be charged for each unit of gas shipped. This terminology is employed to avoid confusion with the terms "demand charge" and "commodity charge" which are used to denote the charges to a gas purchaser in a gas sales contract. Demand charge refers to the fixed or monthly obligations of the gas purchaser and may include some or all of the demand component of a pipeline company's toll. Commodity charge refers to the costs payable by the gas purchaser for each unit of gas sold. The unit commodity charge generally includes the commodity component of the toll and the cost of gas. It may include a portion of the demand component of the toll.

3.2.1 Canadian Sales Tolls

Firm

Westcoast proposed the charging of firm sales tolls to its existing firm sales customers, namely B.C. Hydro, Inland and PNG. The toll would consist of a demand component covering 100 percent of the allocated fixed costs and a commodity component covering all allocated variable costs. The percentage of fixed costs allocated to each customer was based on its firm daily CD volume contained in Westcoast's gas sales contract. Costs allocated to firm sales customers would be reduced by revenues forecast in the test year for authorized overrun sales and interruptible service. The sales tolls would be charged on the basis of residue gas and would encompass full transportation service on the Westcoast system, i.e. gathering, processing, transmission north of Compressor Station 2 and transmission south of Compressor Station 2.

Decision

The Board finds the methodology used by Westcoast to calculate firm Canadian sales tolls to be acceptable.

Authorized Overrun and Interruptible

Westcoast proposed that authorized overrun gas be provided for existing sales customers. It would replace the existing unlimited provision of overrun gas and would consist of a daily entitlement of up to 15 percent of CD volumes on an interruptible basis. The AOR toll would be a one-part commodity toll equivalent, on a unit basis, to that customer's firm sales toll at a 100 percent load factor. AOR would have priority over other forms of interruptible.

In support of the provision of AOR, Westcoast took the position that firm customers pay virtually all of the system costs that have been allocated to the domestic market and that AOR provides these "bread and butter" customers a further priority of up to 15 percent of their CD.

Westcoast also stated that it considers the provision of AOR to a firm customer to be a package deal, i.e. something the firm customer would be entitled to as part of being a firm customer. Westcoast believes that provision of such service is quite commonplace in the natural gas industry. CPA acknowledged that AOR was a service normally offered to firm customers.

While historically there had been no limit on overrun gas, Westcoast felt it necessary to set some upper limit to ensure firm customers do not obtain an unlimited priority over other interruptible customers. The level of 15 percent was chosen based on Westcoast's review of historical takes and its judgment of what would be fair. Westcoast stated that the contract with Northwest does not provide Northwest with an entitlement to overrun gas.

Inland and B.C. Hydro expressed support for the provision of AOR. B.C. Hydro felt that since all of Westcoast's fixed costs were embedded in the demand component of the toll of the CD customers, these CD customers should have the right to any existing valley. B.C. Hydro did acknowledge that, on any particular day, a CD customer making use of AOR would in fact be using someone else's valley.

A number of parties opposed AOR having priority over and being priced more cheaply than other interruptible. This is discussed more fully in Section 3.4.1. Dome Petroleum Limited (Dome) suggested that, in the event that Northwest were to reduce its contractual obligations, the upper limit on AOR be changed to ten percent of daily firm volumes to encourage parties to firm up CD.

Westcoast also proposed that existing sales customers be entitled to an interruptible service as part of their CD contract. The interruptible sales toll would be a one-part commodity toll, similar to the AOR toll, except that it would be based on a 75 percent load factor, thus making it some 33 percent more expensive on a unit basis than the comparable AOR toll.

Decision

The Board finds that because access to authorized overrun is restricted to shippers holding firm contracts, such service is inconsistent with the move to open access and would provide firm customers with priority to an interruptible service not enjoyed by those seeking interruptible service only. Such discrimination while not necessarily unjust, should not in the Board's view be continued given the existing circumstances of the natural gas market. However, recognizing existing contractual relationships and particularly the fact that parties may have entered into existing firm arrangements on the presumption that overrun gas would be available, the Board will not remove the proposed AOR service immediately, but will require that it be removed at the end of the next heating season, 1 April 1987.

In addition, as discussed more fully in Section 4.4.1, the Board finds that the higher priority given AOR makes it a service of higher quality than other interruptible service. Accordingly, the Board will require that effective 1 November 1986 the AOR toll be priced higher than other interruptible. Details of the approved AOR and interruptible toll design are found in Section 3.4.1.

3.2.2 Canadian Service Tolls

Firm

Westcoast proposed a firm transportation service which would be available to anyone signing a firm service agreement. The service would be available on either a short-term (minimum one year) or long-term (minimum 15 years) basis. In order to give proper recognition to cost causation, Westcoast proposed separate transportation service tolls for each function. Westcoast indicated that under a service agreement different parties could contract for different services with respect to the same volumes of gas. For example, a producer could contract for gathering, BCPC for processing and the end-user for transportation.

The Council of Forest Industries of British Columbia, (COFI) proposed that Westcoast supplement its menu of service by offering a "quasi-firm" transportation service. Under quasi-firm, a customer agrees to a certain defined or limited frequency of interruption in return for a price concession.

Westcoast took the position that this service is more appropriately provided by a distributor who is in a better position to manage loads because of customer load diversity.

Decision

Except for the discussion of differences between long and short-term service found in Section 4.5, the Board finds the methodology used by Westcoast to calculate firm Canadian service tolls to be acceptable. The Board notes that the proposed quasi-firm service is not generally provided by transmission companies and is not persuaded that such service is appropriate at this time.

Authorized Overrun and Interruptible

As is the case with domestic sales customers, Westcoast proposed that all domestic firm service customers be eligible for AOR at a toll equivalent, on a unit basis, to that customer's firm service at a 100 percent load factor.

In addition, Westcoast proposed IT service for each of the functions of gas gathering, processing, transportation north and transportation south. Unlike the sales side, such service would require parties to sign a separate agreement. For the export market the IT service would be available on a non-displacement and displacement basis. If the service were non-displacement, the proposed toll would consist of a one-part commodity toll equivalent, on a unit basis, to the system average firm service toll adjusted for a 75 percent load factor. Displacement tolls are discussed in Section 3.2.3.

Decision

Subject to the decisions on authorized overrun found in Section 3.2.1, the Board generally finds Westcoast's methodology for calculating authorized overrun and interruptible Canadian service tolls to be acceptable. Details of the approved IT toll design are found in section 3.4.1.

3.2.3 Displacement Tolls

Export Displacement Toll

Westcoast proposed a separate toll for a displacement sale into the export market. This toll would apply to IT service only. A displacement sale is defined as a direct sale which displaces a sale which was previously being made either by Northwest, or by a distributor who previously purchased system gas from Northwest. The time period over which this consideration would be made would be the twelve months prior to the start of such a direct sale. If, after consultation with the shipper, Westcoast was satisfied that a sale of gas would not otherwise be made, the direct sale would not be considered a displacement sale.

Westcoast proposed that the displacement toll be equivalent to the unit cost of a firm sale made to Northwest, i.e. at a load factor of approximately 30 percent. This makes the displacement toll

equivalent to what is now effectively paid on an average basis for a firm sale. Using this approach the toll contained in Westcoast's application as originally filed was 2.3 times higher than that for a non-displacement IT sale. This ratio increased to 2.7 as a result of Westcoast's amended application to reflect its alternative toll proposal for off-line distributors.

In support of this toll, Westcoast argued in terms of protecting system suppliers. In cross-examination, Northwest, who also supported this toll, acknowledged that the displacement toll could provide a mechanism for protecting its market share.

Equity Considerations

A number of intervenors opposed the displacement toll on the grounds that it is discriminatory. CPA suggested there were two aspects of discrimination in the Westcoast proposal. Firstly, the displacement toll would apply to IT service but would be based on the average cost of firm service, making the charge for different classes of service the same. Secondly, two IT services would be charged significantly different tolls depending on whether or not the sale was incremental. CPA went on to say that in assessing whether or not unjust discrimination was present, the Board should look only at the transportation service provided.

Westcoast argued that to charge anything other than a displacement toll would be unjustly discriminatory to system producers. Without displacement tolls, there would be unfair discrimination between various suppliers of gas to the export market. Northwest agreed the toll was not discriminatory. It argued that classification as a displacement sale meant, by definition, that the end-user was formerly a firm customer; therefore, the service should be considered equivalent to firm.

Northwest suggested that a transporter should bear full and fair cost responsibility. Northwest argued that Westcoast's proposed displacement toll, by requiring a displacement sale to make the same contribution to Westcoast's fixed costs as the sale it displaced, would ensure the displacement sale bore the appropriate cost responsibility. Northwest argued that the fact the displacement toll was some 2.7 times higher than the regular IT toll was an indication that something ought to be done about the costs allocated to the export market.

BCPC took the position that the displacement toll was required to protect the economic viability of the pipeline. It argued that the toll as proposed by Westcoast was not unjustly discriminatory due to the different economic contribution made by an incremental sale as compared to a displacement sale.

Policy Considerations

CPA, Poco Petroleums Ltd. (Poco) and the Alberta Petroleum Marketing Commission (APMC) argued that the displacement toll which differentiates between an incremental and displacement sale runs counter to the intent of the Natural Gas Agreement which removed the incrementality test for gas exports.

Westcoast disagreed stating there was no conflict between the displacement toll and the Natural Gas Agreement. By introducing the displacement toll, Westcoast stated it was not attempting to block sales into the export market, but rather providing for a fair and non-discriminatory allocation of the cost of service to that export market.

Intervenors argued that the effect of a displacement toll would be severe. Czar Resources Ltd. and Wainoco Oil & Gas Limited (Czar/Wainoco) and CPA argued that the proposed toll would preclude any new interruptible sales in the Pacific Northwest and shut down existing sales which might be deemed displacement by reducing the producer netback to an unacceptable level. IPAC argued that the export displacement toll could have the effect of keeping out shippers at a time when they should be building up the market.

Practical Considerations

IPAC, among others, pointed out that the flaw of the displacement toll proposal is that it presumes that the Pacific Northwest is a captive market for Canadian gas only.

An IPAC witness stated that if one were to impose a toll structure that makes it non-economic for Canadian producers to access those end-users who are looking for alternate sources of supply other than Northwest, then those customers would go to U.S. gas suppliers, and Canadian producers would lose that sale in any event and the displacement problem on the Northwest system would only be magnified.

Intervenors opposing the export displacement toll expressed concern regarding the ability to develop an appropriate definition of displacement. They opposed leaving to the discretion of Westcoast the determination of whether or not a sale was displacement. They also felt that since Westcoast could not displace itself it would have an unfair advantage in the marketing of gas. In part this would arise because the sales function is not separated from the transportation function. Further, the intervenors argued it was inappropriate to use the Northwest load factor as the basis for establishing the toll.

Northwest indicated that it has had a displacement toll in effect since 1 May 1985 and that it was working well.

BCPC did not think that the perceived difficulty in defining displacement should be a determining factor on whether or not the Board should approve a displacement toll.

Conditions in the Pacific Northwest Market

In evaluating the export displacement toll the Board finds it appropriate to assess the existing circumstances in the export market which the toll is designed to address and the likely consequences of these circumstances for Westcoast.

The rationale given by Westcoast for the displacement toll is that there is a risk that a significant portion of the firm sales market may opt for interruptible service, particularly in the export market. It believed this would undermine the firm sales market by making firm sales rates, on a per unit basis, prohibitive.

Dome shared Westcoast's concern regarding the need to discourage the market from switching to direct interruptible purchases but found the displacement toll to be too high. Dome implied that another reason Northwest could not compete was because of restrictions placed on its toll design in the U.S. IPAC agreed with Dome that Northwest would be facing stiff competition. IPAC stated that, given the movement in the United States towards freer access to gas supplies and open competition, it

was very probable that U.S. end-users would be looking for alternative sources of gas at prices different from those available from Northwest.

Consequences for Westcoast

In order to assess the possible consequences of Northwest's deteriorating market share on Westcoast, the Board found it useful to review the existing sales agreement. The main characteristics of the Westcoast-Northwest sales agreement are:

(a) Northwest has a right to purchase up to 22 922.9 thousand cubic metres (809 MMcf) per day of gas from Westcoast.

(b) Northwest pays a fixed charge of $72 million (U.S.) annually which represents approximately 65 percent of the fixed costs allocated to the export market.

(c) Northwest and Westcoast have a market share agreement whereby Northwest purchases 42.5 percent of its system gas from Westcoast.

(d) the current agreement will expire in 1989.

The Board notes that one reason that shifting from firm to interruptible in the export market would be possible is because Northwest recently has not been taking up to its current demand level of 809 MMcf per day. Northwest indicated that a demand level of 600 MMcf per day would be adequate for its needs. This suggests that some 200 MMcf per day of capacity is currently available on most days, placing a low risk of interruptibility on all interruptible service. This also suggests that one reason that Northwest gas cannot compete is because the fixed costs currently allocated to export sales (based on the firm daily CD volume of 809 MMcf) may be too high.

According to the evidence, it appears that Westcoast would be directly affected by Northwest's loss of market share only if sales deteriorated to the point that recovery of the Westcoast cost of service were jeopardized.

On the supply side, Westcoast indicated that it had no unresolved take-or-pay obligations. The Board notes that this would only be the case if the Board were to accept Westcoast's proposed resolution of the Amoco take-or-pay issue discussed in Section 3.5.2. Westcoast also stated that it has no take-or-pay commitments with BCPC or B.C. producers and it was not able to indicate what percentage of displacement would cause it to incur take-or-pay with respect to Northwest Territories or Alberta producers.

Decision

The Board is aware of current conditions in the Pacific Northwest market and is sympathetic to the plight of Northwest as it faces strong competition from both alternative fuels and direct sale gas. The Board finds, however, that the displacement toll, as proposed by Westcoast, would be a constraint upon the freedom of the market to seek out alternative, cheaper supply. As well, the displacement toll assumes that the market is a captive one for Westcoast gas. The Board finds that the toll would be clearly inconsistent with the desire to open up

access to gas markets, and therefore is not appropriate. The Board therefore disallows this toll and directs that any shippers presently being charged a displacement toll be charged the appropriate IT toll approved by the Board.

The Board recognizes that Westcoast is exposed to some risk during the current transition period to an open access, direct-sales environment. In the event Northwest were to negotiate a reduction in its daily demand obligation, spare capacity would become available. If this capacity were not absorbed by new, firm customers, there would be significant cost recovery implications for Westcoast and its remaining firm customers.

The Board is of the view, however, that the existing gas sales contracts with Northwest and with the domestic distributors provide Westcoast with a considerable measure of protection. As well, the Board notes that the $72 million (U.S.) minimum bill in the Northwest contract currently covers only some 65 percent of the fixed costs allocated to exports while domestic customers will have 100 percent of allocated fixed costs in the demand component of the tolls. At this time, the Board is not persuaded that an allocation of the fixed costs of Westcoast on a basis other than the CD volumes contained in Westcoast's gas sales agreements is appropriate.

While the Board rejects the displacement toll proposed by Westcoast, it believes that all shippers should pay their fair share of costs. In recognition of the fact that a significant proportion of Westcoast's facilities were constructed to serve the export market, and the high quality of the interruptible service on the Westcoast system due to Northwest's infrequent use of its full CD volumes, the Board finds that interruptible service to the export market should make an appropriate contribution towards system fixed costs. Details of the approved interruptible toll design for the export market are found in Section 3.4.1.

Domestic Displacement Toll

Inland and B.C. Hydro supported a displacement toll for the domestic market similar to that proposed for the export market. Inland saw the domestic displacement toll as being not dissimilar from the Topgas problem on TransCanada and found the positions of CPA and IPAC, who opposed the domestic displacement toll, to be somewhat inconsistent. In the case of TransCanada the same parties argued that the users of the system should pick up system costs and Inland suggested that the domestic displacement toll would accomplish just that. B.C. Hydro saw the domestic displacement toll as one possible means of indemnifying domestic sales customers.

It was Westcoast's position that domestic displacement tolls were not required at this time. Although conceptually the impact of direct sales would be the same in the domestic market as in the export, Westcoast believed that the circumstances were fundamentally different in that domestic producers and distributors have a fair amount of strength to protect themselves. Westcoast suggested that the domestic utilities could make arrangements which would yield essentially the same results as a system sale, such as arranging credits to demand charges. Appropriate arrangements were being discussed in negotiations between Westcoast and the domestic utilities. Westcoast suggested that the question of

indemnification and protection of the domestic utility was more a responsibility of the provincial regulatory body.

Intervenors opposing the domestic displacement toll raised many of the same arguments discussed in the previous section on the export displacement toll. In addition they raised the following concerns specific to the domestic displacement toll.

CPA argued that the domestic displacement toll would discriminate against B.C. producers who wish to construct their own gathering and processing facilities, Alberta producers whose gas has already been gathered and processed, and parties making a direct sale in B.C. whose gas has a lower acid composition than average. COFI and APMC presented similar arguments.

APMC argued that because the domestic displacement toll would force those shipping Alberta gas to pay for processing and gathering not utilized, it could restrict the access of Alberta gas to the B.C. domestic direct sales market. Accordingly, the domestic displacement toll would constitute an interprovincial trade barrier.

Czar/ Wainoco and COFI argued that there was insufficient evidence to determine whether or not a domestic displacement toll should be implemented.

Decision

The Board notes that this issue was not discussed extensively during the hearing and is not persuaded that a domestic displacement toll is necessary. Having found that a displacement toll for the export market is inappropriate, the Board is of the view that a displacement toll for the domestic market would be equally inappropriate.

3.2.4 Firm Export Sales Tolls

Westcoast proposed three separate lump-sum export tolls which would differentiate between the province or territory of origin of the gas exported. The costs assigned to export were allocated first to gas from Alberta, Yukon and the Northwest Territories on the basis of the maximum daily volume obligations (MDVO's) contained in the gas purchase contracts, with the remainder being allocated to B.C. gas.

Westcoast indicated that, under the authority of the EAA, the Board, in the past, had fixed the purchase price of gas paid by Westcoast to its gas suppliers under its gas purchase contracts at a price equal to the selling price of the gas in the export market less Westcoast's export sales toll.

Westcoast argued that, since the current EAA Orders permitted the deduction of a total number of dollars over a given period of time, and since there was no contractual basis for inclusion of a demand and commodity charge in Westcoast's gas supply contracts, there was no need to express the export sales toll as a two-part toll with separate demand and commodity components.

Westcoast requested the Board to approve an annual toll for export sales. The Company argued that a monthly toll was not appropriate because of the large variability in monthly deliveries. Westcoast

received support on its position from IPAC. Westcoast suggested that if the Board were to approve an annual toll for exports, this would allow Westcoast the opportunity to negotiate with each producer entity an appropriate toll collection arrangement.

Decision

The Board is prepared to accept, for the test year, the implementation of an annual toll for export sales as derived by Westcoast. The Board, however, directs Westcoast to file as part of its next toll application a toll applicable to the export market on a basis consistent with the methodology used to derive the firm tolls for domestic sales and service. (See the Board's discussion and requirement respecting the separation of Westcoast's marketing activity from the provision of utility service in Section 8.12.)

3.2.5 Off-line Tolls

Westcoast's off-line customers submitted that, because of their special circumstances, the toll design proposed by Westcoast should not be applicable to them, because of their proximity to Westcoast's Zone 3 transportation lines and the heat-sensitive nature of their loads.

Westcoast's original proposal called for off-line customers to pay a two-part toll based on allocable costs for gas gathering, processing and transmission north,of Station 2. The demand component contained only one-third of the allocated fixed costs, while the commodity component contained the remaining two-thirds of the fixed costs and all the variable costs. Westcoast believed that the phase-in of the fixed costs in the demand component over a three-year period was necessary to avoid rate shock. Even with the proposed phase-in Westcoast agreed that a proposed increase of 30 to 35 percent in the wholesale price of gas would be a reasonably large shock to absorb. As part of its proposal, Westcoast requested a deferral account for variations from the off-line sales forecast, since only one-third of the fixed costs were to be recovered in the demand component.

During the proceedings, as a result of concerns expressed by off-line customers, Westcoast filed an alternative proposal which would limit to approximately ten percent the average rate of increase in the wholesale price of natural gas paid by each off-line customer. Increases for individual customers ranged from 2.50 to 13 percent. Westcoast indicated that the limit of ten percent was arrived at arbitrarily.

During cross-examination, Westcoast agreed that the toll charged by NOVA, AN ALBERTA CORPORATION (NOVA) for transportation service inside Alberta for small towns and similar off-line customers was based on the lesser of the nearest field concept or the postage stamp approach. However, Westcoast noted that this concept did not apply to gathering and processing since NOVA does not provide gathering or processing services.

Northland proposed that tolls for off-line customers be calculated based on the nearest field concept and the revenues applied as a credit to the cost of service.

In response to a Board information request, Westcoast provided tolls for off-line distributors on such a basis. Separate demand charges for transmission in Zone 3 were struck for B.C. Hydro (Fort Nelson),

ICG(B.C.) and Peace River based on the nearest adjacent processing plant, while the gathering and processing commodity component remained the same as in the previous proposal. Westcoast acknowledged that all parties to the proceeding wanted to see the off-line customers dealt with fairly.

Westcoast took the position that neither the alternative proposal nor the nearest adjacent source concept is totally cost-based, and stated that, having regard to the size of these customers and their relatively small contribution to Westcoast's cost of service, it preferred the simplicity of the alternative proposal.

ICG(B.C.) argued that both Westcoast's original and alternative proposals were inappropriate in that they did not reflect the actual costs of providing service. ICG(B.C.) preferred off-line tolls based on the nearest field concept over Westcoast's alternative proposal but had concerns about the ability to duplicate the gathering and processing portion of the toll in future years. It was therefore not willing to endorse the methodology for use in future toll proceedings.

Decision

The Board finds the off-line tolls based on the nearest field concept to be the preferred option as they provide a balance between true cost-based tolls and what is reasonable and practicable in the circumstances. The Board finds that the off-line tolls originally proposed by Westcoast, whereby off-line customers were to pay a full postage stamp toll for Zone 3, are inappropriate. Since the demand component of the off-line tolls based on the nearest field concept is minimal, and since mainline customers will effectively absorb the fixed costs originally allocated to off-line customers, the Board sees no need to implement a deferral account for variations in off-line sales. Therefore, Westcoast's application for such an account is denied.

3.2.6 Other Toll Proposals

Seasonal Tolls

A number of intervenors generally representing producer interests supported the implementation of seasonal tolls, particularly for interruptible service. They generally argued that lower off-peak tolls would allow gas to find new markets and would result in increased gas sales and greater utilization of the Westcoast system during the summer months. Westcoast did not believe seasonal tolls were required at this time and took the position that such tolls would only reduce revenues and not result in increased throughputs. It further argued that, due to the lack of storage capacity in B.C., domestic customers would not be able to increase their gas purchases during the summer months for the purpose of reducing their takes during the peak winter season.

B.C. Hydro and Inland agreed with Westcoast that seasonal tolls are not required at this time.

Decision

The Board notes that the Westcoast system is currenly, operating at capacity only on a few peak days during the winter season, and that no convincing evidence was presented to suggest that lower off-peak tolls would stimulate increased throughputs.

The Board therefore does not find it necessary to implement seasonal tolls on the Westcoast system at this time.

Peaking Service

Westcoast stated that peaking service is a firm service that is available only for a limited number of days during the winter season. Its purpose is to provide additional capacity for a short-term peak period. Westcoast's expert witness stated that such service would normally reflect the cost of storage and generally attract a higher unit rate than firm.

In Westcoast's view, peaking service is not suitable since such service is dependent upon the ability of Westcoast to provide satisfactory storage facilities in a geographically advantageous area and such storage is not available.

B.C. Hydro expressed disappointment that Westcoast had not made any attempt to provide a peaking service.

Decision

The Board agrees with Westcoast that peaking service is not required at this time.

3.3 Zoning and Cost Allocation

3.3.1 Allocation of Fixed Costs

During the period when Westcoast was regulated under a variable-cost-of-service toll methodology it was not necessary for the Board to allocate fixed costs to identifiable system users, as the total fixed costs of Westcoast, as approved by the Board, were deducted from the total revenues Westcoast received from gas sales. However, with the move to a fixed-toll regime, in order to determine just and reasonable tolls, such an allocation is necessary. As part of its application Westcoast has proposed that, for the test year, fixed costs be allocated on the basis of the firm daily contract demand volumes contained in its gas sales contracts with its firm sales customers.

Decision

As discussed in more detail in the section on displacement tolls, Section 3.2.3, the Board is of the view that for the test year, Westcoast's proposal results in a reasonable allocation of fixed costs and therefore accepts this methodology for use in the setting of just and reasonable tolls.

3.3.2 Number of Zones and Appropriateness of Zone Boundaries

Westcoast for toll design purposes proposed to divide its system into five zones:

Zone 1	gathering
Zone 2	processing
Zone 3	transmission north of station 2
Zone 4	transmission south of station 2
Zone 5	Alberta facilities

Westcoast stated that, for the most part, its zones were based on functionalization into gathering, treatment, liquids recovery and transportation. Separate zones for Alberta facilities (Zone 5) and mainline transmission south of Station 2 (Zone 4) was an obvious division to the Company. Further, consistent with past practice, the Company did not include in the design of tolls the costs and assets of Zone 5. The Company noted that gathering and processing facilities could have been zoned on the basis of individual processing plants but the Company thought it fairest to put all gathering facilities into one zone and all processing plants into another zone. Zone 2, processing, was further subdivided into treatment and liquids recovery functions to recognize that the processes are different and that the cost of each processing function varies with the raw gas composition. Zone 3 could have been split into two separate zones, but the Company felt, given the historical development of the system and its integrated nature, one zone was appropriate.

Most parties supported the five zones proposed by Westcoast. Of those opposed, Cominco Ltd. (Cominco) proposed that gathering, treatment and liquid recovery not be separately identified, while ICG(B.C.) thought that a more detailed approach was appropriate and suggested a return to the 13 sections used under Order TG-5-79.

Decision

The Board approves the five zones as proposed by Westcoast for toll design purposes.

3.3.3 Method of Allocating Costs Within Zones

Zones 1 and 2

In its Methodology Decision, the Board decided that gathering and processing costs were best allocated on the basis of volumes only. This is generally known as the postage stamp approach. In its application, Westcoast allocated costs in Zones 1 and 2 (gathering and processing, respectively) on

such a basis. ICG(B.C.), the only intervenor who opposed the use of the postage stamp approach for Zones 1 and 2, proposed that gathering and processing costs be allocated on a volume/distance basis.

Decision

The Board continues to find that the costs of gathering and processing are more appropriately allocated on a postage stamp basis.

Zone 3: Postage Stamp versus Volume/Distance

In its Methodology Decision, the Board decided that for the transmission function generally, fixed costs should be allocated on the basis of volume, adjusted for distance. For Zone 3, transmission north of Compressor Station No. 2, Westcoast proposed to allocate costs on the basis of volumes only.

Westcoast presented three basic arguments in favour of the postage stamp approach. First, it suggested that since 98 percent of the volumes transported in Zone 3 flowed out of the Zone, volume/distance was not required. Second, it argued that where a network of pipelines existed, with gas coming in from three or four sources, it was more common to use a postage stamp approach. Third, Westcoast said such an approach was appropriate because of the comingled nature of the gas stream, i.e. each gas source provides a prorata share of the total system load. Westcoast did acknowledge that, for allocation purposes, out-of-province gas was not comingled and was currently deemed to be sold in the export market. It noted, however, that this had not always been the case and might not be the case in the future.

When asked to explain the differences between Zones 3 and 4, one Westcoast witness compared Zone 3 to a sweet gas gathering system which brings all of the gas supply to one point. He believed Zone 4 to be different in that it has numerous drop-off points and the volumes at each drop-off point vary considerably.

CPA originally stated that it was neutral on the issue, but in argument came out in support of the postage stamp approach because of its simplicity and ease of administration. B.C. Hydro supported use of this approach for Zone 3 for two reasons: firstly, the situation was analogous to that found on the NOVA system in Alberta and secondly, it was consistent with the policy of the B.C. government. Inland originally supported use of volume/distance but later said it could go along with a postage stamp approach for Zone 3 if offline customers were given special treatment.

APMC, IPAC, Dome and Czar/Wainoco opposed the use of a postage stamp approach to allocate costs in Zone 3 favouring instead the use of volume/distance.

APMC submitted that the Westcoast argument that 98 percent of volumes flowed out of Zone 3 was irrelevant and that the Westcoast argument related to the comingled nature of the gas stream was not applicable in a direct sales environment or to gas sourced out-of-province. APMC also believed the Westcoast proposal to be inequitable to those using only a portion of Zone 3. Users of either of the Fort Nelson or Fort St. John mainlines ought not to pay for the other mainline.

IPAC disagreed with Westcoast's characterization of Zone 3 as a gathering system and considered the Zone to be a transmission system. Dome stated that allocating costs on the basis of volume/distance would more appropriately recognize the distance of haul for out-of-province gas.

Decision

The Board finds that Zone 3 provides primarily a transmission function and, for that function generally, costs should be allocated on the basis of volume, adjusted for distance. The Board was not persuaded by the arguments of Westcoast that there were significant differences in the functions of Zones 3 and 4 that warranted different treatment in the allocation of costs. Accordingly, the Board shall require Westcoast to allocate costs in Zone 3 on a volume distance basis similar to that employed for Zone 4. Under this allocation method Westcoast shall first derive appropriate allocation units based on CD and sales adjusted for distance, and the total costs allocated to Zone 3 will then be apportioned on the basis of these allocation units. As discussed in Section 3.2.5, off-line customers will be excluded from this allocation and will pay tolls based on the nearest field concept.

Zone 4: Allocation of Contract Demand among Delivery Points

In order to determine the appropriate volume/distance tolls for Zone 4, each customer's CD volume, which is used for cost allocation, must be allocated among the various delivery points of that customer. Because mainline customers with multiple delivery points in Zone 4 are not required to nominate their CD by delivery point, Westcoast was required to derive some method for allocating CD among delivery points. Westcoast used a non-coincident peak method, i.e. the average of three peak days in January 1985 at each delivery point, as the basis of allocating the total CD's among the various delivery points of Inland and B.C. Hydro in Zone 4.

Inland opposed the Westcoast approach and suggested instead a coincident peak method based on the three coldest days on the Inland system. Inland argued that Westcoast's selection of three days in January 1985 was not appropriate since January had not been, in the recent past, the coldest month. It also suggested that use of a moving average might smooth out possible fluctuations. Inland is more sensitive to the cost allocation method chosen because it has some 40 delivery points in Zone 4. In contrast, B.C. Hydro takes over 90 percent of its volumes at one delivery point, Huntingdon, making it relatively insensitive to the method of allocation selected. The Westcoast method assigns a considerably higher average distance factor to Inland (507.5 kilometres) than does the Inland method (477.4 kilometres) with the main cause of the difference being Inland's ability to control its takes among delivery points under peak conditions. Inland explained that when it was in a peak situation and thus under curtailment it would essentially take no gas at Kingsvale, one of its more southerly located delivery points.

Westcoast took the position that use of non-coincident peak was more appropriate than system coincident peak because the former method better recognized Westcoast's obligation to deliver CD at any one of Inland's delivery points. Inland agreed that it could take its CD at any delivery point, providing the delivery point had facilities to receive it.

In its evidence, B.C. Hydro indicated that it had anticipated the problems of allocating costs on the basis of peak day, and developed an allocation based on annual sales. It found that an allocation of costs based on this approach provided results virtually identical to those which Westcoast had developed.

Decision

The Board finds that, in allocating CD among delivery points, a method that would assign small or minimal volumes to the Kingsvale delivery point would be inappropriate. The use of coincident peak as proposed by Inland is therefore rejected. The Board accepts Westcoast's methodology for the test year but instructs Westcoast to investigate other approaches, such as annual sales or sales during the heating season, for consideration at its next toll hearing.

Zone 4: Sales Zones

As previously discussed, Westcoast's proposed toll design treated the service areas of B.C. Hydro and Inland as distinct zones for the purposes of allocating costs within Zone 4 and striking tolls for system sales.

Cominco and Inland asked that similar treatment be afforded transportation service in Zone 4, i.e. whatever distance was deemed to be appropriate for calculating the Inland sales toll should also be used to calculate the transportation service toll for Zone 4 for customers within Inland's service area. They argued that this would put sales and service tolls on a common basis and remove any distance advantage otherwise available to a direct shipper whose end-user was located north of the mid-point on a distributor's delivery system. Inland and Cominco were supported in their position by B.C. Hydro and Czar/Wainoco.

Decision

The Board is interested in eliminating any unnecessary differences between tolls for sales and tolls for transportation service. Accordingly, the Board is persuaded that the service areas of B.C. Hydro, Inland and PNG should be considered as sales zones and that all service into a franchise area, whether sales or transportation service, should be calculated on the basis of the same average distance allocation factors. The sales zones boundaries for the test year shall be determined by the existing take-off points south of Station 2 on the Westcoast system. For B.C. Hydro, the sales zone will run from kilometre-post 835.9 to kilometre-post 916.6; for Inland, from kilometre-post 58.9 to kilometre-post 747.9; and for PNG, the zone will be kilometre-post 207.6.

3.3.4 Other Cost Allocation Matters

Phase-in of Fixed Costs in Demand Component

In its Methodology Decision, the Board decided that 100 percent of the fixed costs should be in the demand component of the toll of mainline customers by 1 November 1986. In its application Westcoast included 100 percent of fixed costs in the demand component effective 1 January 1986 taking the position there would be no rate shock for mainline customers and therefore no phase-in was required.

Only Inland proposed a phase-in, suggesting that 75 percent of the fixed costs be in the demand component effective 1 November 1986 and 100 percent by 1 November 1987.

Decision

The Board accepts the Westcoast proposal that 100 percent of the fixed costs be in the demand component effective 1 January 1986.

Dome Surcharge

Dome proposed that all non-system transportation service and system sales to the export market pay a premium based on an allocation of a 50 percent surcharge on fixed costs. Dome argued that non-system sales, being new services, would use facilities of more recent vintage and thus more expensive than the average cost of facilities. On exports, Dome stated these sales are a higher risk because their duration is limited to the licence term which expires in 1989. Dome considered its proposal to be a substitute for the displacement toll.

Decision

The Board does not find it reasonable to arbitrarily increase the fixed costs allocated to non-system transportation service and to sales to the export market. Dome's proposal therefore is denied.

Payment for Additional Facilities

A number of parties took the position that, as a matter of principle, the incremental costs of any new facilities should be allocated to those serving new markets.

Westcoast stated it was in the process of establishing a policy on construction of facilities required for direct sales. The Company did indicate that, as a matter of policy, it would not construct facilities for short-term contracts unless there were some clear way of recovering those costs without jeopardizing all other users of the system, nor would it construct facilities just to provide interruptible service.

Decision

The Board finds that since Westcoast had not applied for any new facilities for direct sales, no decision is required at this time on the appropriate toll treatment for these facilities. However, the Board would expect Westcoast to have a policy in place with respect to the toll treatment of system expansions for review in its next toll application.

Payment by Producers for Gathering and Processing

Northland, Inland and ICG(B.C.) suggested that producers should pay for gathering and processing directly by paying the appropriate toll.

On the sales side, Westcoast noted that there were two facets to the issue. From a practical perspective Westcoast is bound by current contractual arrangements for system sales whereby it purchases raw gas at the point of entry into the Westcoast gathering system and must process it to provide pipeline quality gas. The second requires the determination of whether or not the by-products themselves are a valuable product or whether the processing is required primarily to make raw gas marketable. Westcoast indicated a willingness to accommodate whatever solution was determined to be best.

As was discussed earlier, Westcoast indicated it would have no objection, under a service arrangement, to a producer paying gathering and processing and an end-user paying for transportation for the same volumes of gas.

Decision

The Board agrees with the Westcoast position that, for system sales, Westcoast is bound by contractual arrangements to gather and process gas to provide pipeline quality gas. Since Westcoast is the owner of the gas as soon as it enters the pipeline, it is not possible for the gathering and processing portion of the sales tolls to be segregated and paid for by producers. The Board notes that for transportation service, the shipper/owner of the gas (who may be the producer) will pay the toll.

Treatment of By-product Revenues

In Hearing Order RH-6-85, parties were invited to comment on the appropriate treatment of by-product revenues, if such were to accrue to Westcoast.

Evidence was presented that indicated the revenues from by-products under existing contracts with BCPC are under the control of BCPC, for allocation back to producers. By-products from third party sales could be marketed either through BCPC or by the individual producer. Accordingly, none of the by-product revenues accrue to Westcoast.

Decision

The Board finds that, since none of the by-product revenues will accrue to Westcoast, no decision is required.

Metering Costs and Vancouver Departmental, General Administrative and Other Costs

CPA proposed that metering costs in Zone 4 be allocated on the basis of the number of meters, rather than on volumes as proposed by Westcoast. In cross-examination, CPA agreed that metering costs of $500,000 were not material enough to warrant special treatment. B.C. Hydro proposed the Vancouver Departmental et al expenses, which amounted to some $4.3 million, be allocated on the basis of volumes for Zone 4 rather than on volume/distance as proposed by Westcoast. Westcoast's expert witness argued that, according to studies performed on U.S. pipelines, both volumes and distance were relevant.

Decision

The Board does not find that the metering costs in Zone 4 are material enough to warrant a variation from the volume distance allocation basis used by Westcoast. The Board also accepts Westcoast's allocation of Vancouver Departmental et al costs on the basis of volume distance.

3.4 Method of Calculating Tolls

3.4.1 Interruptible Toll Design

Objectives of Interruptible Toll Design

Westcoast's objective in offering interruptible service is to maximize the utilization of its system and to provide an alternative for those customers who do not require firm service. Interruptible sales and service should serve to improve the load factor and thereby improve the overall efficiency of the system. Westcoast's expert witness stated that the design of interruptible tolls involves balancing the conflicting objectives of economic efficiency and fairness. Economic efficiency would suggest pricing at marginal cost, the incremental cost of providing service, but this would not be equitable to firm customers. The witness believed that interruptible tolls should be set somewhere between incremental cost and value of service, i.e. the most that a customer would be willing to pay. He pointed out, however, that there was no precise economic theory that indicated how to price in between these two levels. It was therefore necessary to use judgment.

In the application of judgment to derive an appropriate level for interruptible tolls, Westcoast believed that the quality of Westcoast's interruptible service should be taken into account. Because the Westcoast system has a very large valley, the probability of being interrupted during most of the year is quite low. The relatively high quality of interruptible service was an argument in favour of pricing interruptible service, on a unit basis, close to that for firm service. Westcoast did agree that, under its proposal, a high load factor direct sales customer would pay more on a per unit basis for interruptible

service than for firm service. Westcoast went on to state that in evaluating the differences between interruptible and firm tolls, the sole measure should not be just the unit commodity price. One should also consider contractual arrangements and the need for firm customers to pay on a regular basis.

Westcoast also warned that if interruptible service were provided at a very low cost and a large component of Westcoast's market switched from firm to interruptible, the financial well-being of Westcoast's remaining firm customers may be adversely affected. Westcoast received support on this position from Inland and CPA.

Most intervenors were in general agreement that, in principle, the interruptible toll should fall somewhere between a floor price of incremental cost and a ceiling price based on either value of service or avoided costs (opportunity cost).

In particular, COFI presented evidence which suggested the interruptible toll be based on a "share-the-benefits" approach and be set at the midpoint between a ceiling price, equivalent to firm service at an 85 percent load factor, and a floor price of incremental cost. The ceiling price was based on the least cost alternative faced by a typical pulp and paper customer. Sharing of the benefits was thought appropriate because both the utility and the customer would be better off. COFI's witness stated that to price interruptible properly one should look at the characteristics and load factor of the customers who would likely be applying for the interruptible service. COFI's analysis indicated that the type of customer who would likely be interested in interruptible service has a load factor in the 85 percent range or higher.

Westcoast saw COFI's proposal as another means of applying the principle of fairness in designing interruptible tolls. Westcoast did not agree with the COFI position that the firm service toll faced by a potential customer, i.e. the avoided cost, was the appropriate upper limit for pricing interruptible. It believed that the value of interruptible service could be higher than the absolute amount of the toll. Inland agreed with Westcoast that the appropriate ceiling was value of service, not the toll for equivalent firm service.

Examination of Interruptible Toll Design Proposals

As mentioned previously, intervenors could not agree on what constituted an appropriate upper limit for an interruptible toll. As a result this led to a fairly broad range of toll design proposals.

Westcoast proposed that interruptible tolls be designed on a basis equivalent to firm service adjusted for a 75 percent load factor. Using this approach a one-part commodity toll is derived by first adjusting the demand component of the firm toll for a 75 percent load factor and then adding the appropriate variable costs. AOR tolls would be designed similarly but adjusted for a 100 percent load factor.

Westcoast defended its choice of a 75 percent load factor primarily on the basis of fairness, stating that this approach results in fairness between interruptible and firm customers. The Westcoast approach results in a toll of $26.85 per thousand cubic metres for interruptible export service. By way of comparison, COFI's share-the-benefits approach results in a toll of $11.92 per thousand cubic metres for a hypothetical customer in Zone 4. CPA thought that a 100 percent load factor rate for both AOR and IT was appropriate.

Northwest proposed a different methodology entirely. It suggested the interruptible toll be based on the system average load factor, because the interruptible transportation customer should bear the same level of cost as Westcoast's sales customers. As the system average load factor is approximately 50 percent, the interruptible toll would be calculated on this basis.

B.C. Hydro advocated continuation of the present interruptible toll methodology whereby customers are charged 75 percent of the fixed costs on a per unit basis. B.C. Hydro argued that such a toll would be well above the incremental cost of delivery and any contributions above cost would be welcome. Czar/Wainoco also used a contribution-to-fixed-cost approach. It believed a reasonable method would be to take 50 percent of the fixed cost component of a firm toll at a 100 percent load factor level, and add the variable costs to derive an appropriate interruptible toll.

Westcoast agreed there were a number of ways one could characterize the interruptible toll. One could characterize it as a percentage of average system costs, which was the way the toll had been set previously; one could characterize it in terms of a toll which is equivalent to a firm toll at a certain load factor rate; or one could simply say it is a certain number and not relate it specifically to any other particular toll or cost on the system.

Westcoast indicated that the method it chose arrived at approximately the same result as the method the Board had been using formerly and that the toll under Westcoast's proposed method was easier to calculate. Another reason it chose not to characterize interruptible as a percentage contribution to fixed costs was that as system utilization increases, the average cost decreases, and accordingly the interruptible toll decreases. Westcoast contended that, if its ability to provide interruptible service was decreasing because the average utilization was increasing, the service should become more valuable. In that situation, it did not seem appropriate to Westcoast that the rate should go down.

Authorized Overrun versus Interruptible

Westcoast's arguments vis-à-vis AOR and the rationale for its proposed priority and cost advantage over other interruptible service were presented in Section 3.2.1. A number of parties representing producer interests opposed Westcoast's proposed priority and cost advantage for authorized overrun.

IPAC and CPA suggested there should be no difference between the AOR and interruptible tolls. Dome went further, suggesting the AOR toll be priced at a premium over regular IT. While B.C. Hydro indicated a willingness to pay more for AOR and interruptible sales service, as compared to interruptible transportation service, Inland was opposed to paying such a premium.

Decision

The Board recognizes the need to balance the objectives of economic efficiency and fairness in setting an appropriate interruptible toll. The Board accepts incremental cost as a lower limit for an interruptible toll and value of service as a conceptual upper limit for pricing purposes. However, the Board has some difficulty in accepting value of service as an upper limit for an interruptible toll, as this implies something other than cost-based tolls. The Board is also of the view that the IT toll should reflect the quality of service, where quality is measured in terms of the probability of interruption, and should provide a reasonable contribution to fixed costs. In light of the high quality of interruptible

service on the Westcoast system, the Board does not believe that COFI s proposal to set the toll at the midpoint between incremental cost and the equivalent cost of firm service at an 85 percent load factor would be appropriate.

As well, there is the question of how best to characterize the IT toll. The Board prefers the conceptual approach of thinking in terms of IT service making a specific contribution towards fixed costs. However it recognizes there is some advantage in expressing the IT toll in relation to a firm toll at a certain load factor due to its simplicity. The Board finds that interruptible tolls for the domestic market should make a contribution to fixed costs equivalent to that made by firm service at an 85 percent load factor as this will provide a balance between the need to make an appropriate cost contribution and fairness. Accordingly, the interruptible toll shall be established by adjusting the demand component of the firm toll for an 8.5 percent load factor and adding the appropriate variable costs. Authorized overrun tolls, in recognition of their higher quality, shall be calculated on the basis of a 75 percent load factor, effectively making a higher contribution to fixed costs.

As discussed in Section 3.2.1, the Board will phase out AOR effective 1 April 1987. AOR will be replaced by a higher tier of domestic IT service, to be called Tier-One IT, with the unit toll set on the basis of a 75 percent load factor. Because of its higher cost, Tier-One will have priority over the second tier of interruptible, to be called Tier-Two IT and be accessible to domestic shippers signing the appropriate interruptible sales or service agreement. The need to continue two tiers of interruptible tolls can be examined in the light of experience at some appropriate time in the future.

As discussed in Section 3.2.3, the Board finds it appropriate to recognize certain specific features related to the export market. Accordingly, the interruptible toll for the export market will be a single tier, calculated on the basis of a 75 percent load factor. The Board recognizes that in providing only one tier of interruptible service to the export market some differentiation exists between the tolls for service to the export and domestic markets. Taking into account the evidence presented and particularly the current circumstances in the export market, the Board considers this degree of differentiation to be appropriate.

3.4.2 Disposition of Interruptible Revenues

Existing IT Deferral Account

At the instruction of the Board proceeds from IT service provided by Westcoast in 1985 have been collected in NEB Account 279 - Other Deferred Credits. Westcoast proposed that the balance in the existing account, which amounted to some $7.1 million as at 31 December 1985, be distributed among BCPC and out-of-province producers.

Westcoast argued that, under Order TG-5-79, costs were allocated on a monthly basis back to the various producers, and because during 1985 the wholesale price of gas was established by the B.C. government, any changes in tolls did not directly affect the price paid by distributor companies. On the export side, Westcoast argued that because it assumes the price in its contract with Northwest is a market-based price, there does not seem to be any logic to having a credit against a market-based price.

At one point in the hearing, Westcoast took the position that producers should receive the proceeds in the deferral account because they effectively paid Westcoast's toll. In final argument, Westcoast stated the relevant issue in determining the disposition of the deferral account was not who paid the toll in 1985, but who would have been affected by changes in the tolls.

B.C. Hydro and Inland took issue with the Westcoast characterization that producers effectively paid the toll under the netback system and were therefore entitled to the revenues from IT service. They considered the end-user to be the ultimate tollpayer and accordingly proposed that domestic distributors and Northwest should receive the majority of the proceeds, based on their contribution to Westcoast's fixed costs. B.C. Hydro suggested that producers should receive any residual amount after the distributors' shares were determined, based on contributions to fixed costs via the demand component of the tolls in 1985.

CPA, Dome, IPAC and Czar/Wainoco agreed with Westcoast that producers should receive the proceeds in the deferral account. However, most of them preferred to credit the proceeds to the test-year cost of service. This would have the effect of further lowering the tolls for the test year and thereby increasing the field price received by the producer.

Amoco, a system gas supplier to Westcoast, wanted to recover the amounts it had paid into the deferral account for transportation service in 1985, less Westcoast's incremental costs. The balance would be distributed among other producers. Amoco argued that under Order TG-5-79 certain of Westcoast's fixed costs had been allocated to gas supplied by Amoco. Because these costs had been deducted from the sales revenues otherwise received for gas sold to Westcoast, Amoco took the position it was paying the fixed charges associated with these facilities. Accordingly, when it arranged a direct sale, Amoco believed it should not be required to pay Westcoast anything more than the incremental cost of providing service.

In cross-examination, Amoco agreed that to the extent a party does not pay any fixed costs on Westcoast's system but pays only an IT toll, the fixed cost portion of the toll should be credited to the general cost of service, as proposed by Westcoast.

Decision

In determining the appropriate disposition of IT revenues collected in 1985, the Board finds it appropriate to consider how these revenues would have been treated had they been forecast to occur when the cost of service was originally being approved by the Board. It is clear that had these revenues been forecast they would have been used to reduce the cost of service otherwise paid. The Board agrees that it is not necessary to determine who paid the toll in 1985 but rather who would have been affected by a reduction in the cost of service. The

Board accepts the Westcoast proposal to distribute the amount in the deferral account to producer entities on the basis of their MDVO's.

With respect to the arguments of Amoco, the Board finds that while Amoco has a gas supply contract with Westcoast, the existence of this contract does not give it any rights vis-à-vis transportation service on the Westcoast system.

Future Authorized Overrun and Interruptible Revenues

Westcoast proposed to credit revenues from all authorized overrun and interruptible volumes which are forecast for the test year (with the exception of five percent of IT transportation service revenues) to the cost of service otherwise allocable to firm customers. The matter of the proposed retention by Westcoast of five percent of IT revenues is discussed in the next section. Variances from the forecast revenues would be collected in a deferral account for disposition in a future period. A deferral account was said to be necessary because of Westcoast's difficulty in forecasting what level of authorized overrun and interruptible would be shipped in today's rapidly changing environment.

The positions of intervenors, with the exception of Amoco, were basically the same as those noted in the previous section. Northwest joined B.C. Hydro and Inland in proposing that all authorized overrun and interruptible volumes revenues not be credited to the cost of service but be shared among domestic and export utilities through a billing credit.

Decision

The Board finds it appropriate that all revenues from authorized overrun and interruptible volumes which are forecast to be shipped in the test year should be deducted from the revenue requirement prior to the determination of the firm tolls and thereby reduce the tolls struck for firm service. Accordingly, the Board accepts the Westcoast proposal to credit these revenues to the cost of service and to establish a deferral account for variances from the forecast revenues.

Retention by Westcoast of Five Percent of IT Revenues

Westcoast proposed to retain five percent of revenues from IT service tolls, on the grounds that the revenues would provide a reward for operating the system in a manner that will maximize revenues from service and would compensate Westcoast for any unanticipated expenses in the areas of administration and operations.

Westcoast's expert witness suggested that it was not uncommon for a portion of revenues to be retained by a utility and cited the situation in the electric industry where public utility commissions allow an absolute percentage of revenues to be retained. Westcoast admitted that although the five percent was not arrived at precisely, it represented what the Company thought would be appropriate. Westcoast did not consider the five percent to have any link to marketing, preferring to characterize it as an incentive to facilitate IT service transactions.

Westcoast agreed that if it earned its allowed rate of return and received the five percent of IT service revenue it was requesting, it would be exceeding its allowed rate of return by a slight amount.

Most intervenors opposed the Westcoast proposal. In general they argued that to the extent there were additional costs associated with providing transportation service, these were already included in the Company's revenue requirement. Secondly, they found it unnecessary to provide Westcoast with any additional incentive over the allowed return on equity.

B.C. Hydro agreed in general with the retention by Westcoast of a portion of IT service revenues stating that it is requesting the same principle be applied in its own IT service. It found the five percent to be somewhat high and suggested a figure somewhere between the incremental costs associated with providing transportation service and five percent.

Inland agreed that Westcoast should keep the five percent but saw the activity as something beyond regular utility activity. Inland believed that the revenues should cover incremental and administrative costs only.

Decision

The Board believes that to give Westcoast five percent of IT service revenues as an incentive to provide transportation service is inappropriate. The Board therefore denies Westcoast's request to retain five percent of IT revenues. The Board expects that any costs related to the provision of transportation service have already been included by Westcoast in its cost of service for the test year.

3.4.3 Differences Between Sales and Service Tolls

Westcoast indicated there were four basic differences between the proposed test-year tolls for sales customers and the tolls for service customers. These were:

(a) sales tolls were based on average gas quality while service tolls would be based on the quality of the particular gas stream;

(b) service customers would provide their own fuel;

(c) service tolls did not receive the AOR and IT credit; and

(d) service tolls in Zone 4 were based on actual distance travelled. (The Board's decision on sales zones in Section 3.3.3 has removed this difference between sales and service tolls.)

Units of Measure

Westcoast proposed to use system average residue gas equivalents to allocate costs to sales customers and thus determine system sales tolls on the basis of average system gas quality. Service tolls, however, would be split by function and calculated on the basis of the particular gas stream quality by using raw gas, acid gas, liquids residue gas equivalent and residue gas volumes as appropriate.

The Company stated that this would permit a more accurate tracking of costs for transportation service, as costs can vary significantly according to gas quality. No one opposed the Westcoast proposal.

Decision

The Board finds the Westcoast proposal to set service tolls by function on the basis of raw gas, acid gas, liquids residue gas equivalent and residue gas volumes to be inappropriate.

Fuel Excluded From Service Tolls

For system sales tolls Westcoast proposed to include the cost of the fuel. For service tolls the cost of fuel would be excluded and the shipper would be required to provide its own fuel. Westcoast felt this was appropriate because in many cases a shipper might be able to obtain gas more cheaply than Westcoast system gas.

IPAC and CPA opposed the Westcoast proposal suggesting that Westcoast provide all fuel as this would be consistent with the approach used by TransCanada. Dome thought it would be more convenient if Westcoast provided all fuel but said it would have no problem providing its own.

Decision

The Board agrees that in the case of transportation service, the shipper should provide its own fuel.

Credit for Authorized Overrun and Interruptible Revenues

As discussed earlier, Westcoast employed a toll design methodology whereby firm tolls were based on a net cost of service, i.e. one which had been reduced by the revenues expected from authorized overrun and interruptible volumes forecast for the test year. Because the AOR and ISP tolls to these firm customers were in turn based on each customer's firm toll adjusted for either a 100 percent or 75 percent load factor, this means sales customers using AOR or ISP service would receive the benefit of the credit to the overall cost of service. However, the tolls of a transportation service customer requesting only IT service would not receive the benefit of the credit. Westcoast argued that the difference between the tolls for sales and for service was minor and occurred because no firm service customers had been identified for the test year.

Westcoast indicated that over time, as firm service customers appeared, this difference would disappear as future firm service customers would be entitled to the authorized overrun and interruptible credit.

Decision

The Board agrees that the difference between the sales and service tolls for authorized overrun and interruptible is minor and that some of the difference will be eliminated over time as firm service customers come on the system. However,

the Board is not convinced that, under Westcoast's proposed methodology, a service customer seeking only interruptible service would ever be on an equal footing with sales customers. The Board therefore directs Westcoast to calculate its authorized overrun and interruptible tolls based on a cost of service which does not take into account the revenues from AOR and IT volumes forecast for the test year. This will have the effect of increasing slightly the level of AOR and interruptible sales tolls.

3.4.4 Contract Demand Credit for the NGL Plant

The NGL plant (sometimes called the Straddle Plant) is a non-utility operation which is jointly owned by Westcoast and Petro-Canada Inc. (Petro-Canada). The plant removes natural gas liquids from the gas processed through the McMahon processing plant and is designed to operate at about 80 percent of the capacity of the McMahon plant. In the removal of the liquids, the heat content of the feedstock gas is reduced and the owners of the NGL plant are required to provide "make-up volumes" in order to return the heat content removed in the plant. Because the NGL plant is premised and presumably designed on the basis of receiving feedstock exclusively from the McMahon processing plant, it cannot operate at capacity when the quantity of gas flowing through the McMahon plant is reduced. Therefore, when the feedstock of the NGL plant is reduced, the plant operators will not require Westcoast to deliver the full volumes of make-up gas.

In calculating the cost of service for the test year Westcoast has taken into account a CD credit of some $750,000 for the NGL plant. The credit to the demand component of the tolls has the effect of reducing the fixed costs otherwise allocated to the NGL plant.

Westcoast argued that the CD credit is a standard provision to which all firm customers are entitled when Westcoast is unable to deliver the volume of gas requested. This inability to deliver would occur because of the need to prorate the various gas supplies throughout the Westcoast system in B.C., in accordance with instructions received from BCPC. Because it was not able to estimate with any certainty how often this interruption would occur, Westcoast also proposed that a deferral account should be established to collect revenues over or under its forecast revenues from the NGL plant.

CPA and B.C. Hydro opposed the provision of a CD credit for the NGL plant. CPA argued that it was not a question of Westcoast being unable to deliver gas to the plant as Westcoast would remain able to deliver make-up gas even if there was no feedstock gas flowing through the McMahon plant. If Westcoast did not transport make-up gas, it was because the NGL plant had not requested it due to a lack of feedstock. A CD credit therefore was not appropriate. B.C. Hydro argued that the CD credit should only be provided when the McMahon plant was completely shut down.

Decision

The Board concurs with the arguments of CPA and B.C. Hydro and therefore finds that Westcoast should provide a credit to the demand component of the toll only in the event it is not capable of delivering the make-up volumes. The CD credit should not be based on the level of stock available through the McMahon plant. The Board directs Westcoast to remove the proposed CD credit from the calculation of the test-year costs allocated to firm customers. Consequently,

Westcoast's request for a deferral account for revenues over or under NGL plant revenues is denied.

3.5 Other Toll Matters

3.5.1 Westcoast as Tollpayer

During discussions on the proposed displacement toll, Westcoast indicated that a direct sale made by Westcoast would not be subject to the displacement toll on the reasoning that Westcoast could not displace itself. Further, in respect to a sale it was making to Northwest Natural Gas Company (Northwest Natural) in the U.S., Westcoast indicated that, although the sale contributed to Westcoast's export revenue, there was no identifiable toll.

CPA objected stating that such a situation placed Westcoast in a very advantageous position vis-à-vis other would-be sellers.

Decision

With respect to the collection of the tolls applicable to the export market, the Board finds that it is increasingly important to distinguish between the sale functions of Westcoast and the regulated utility functions. In the past, under the authority of the EAA, the Governor in Council had fixed the purchase price of gas paid by Westcoast to its gas suppliers under its gas purchase contracts at a price equal to the selling price of the gas in the export market less Westcoast's export toll. Westcoast in effect shipped the gas itself and collected the toll by the retention of the appropriate amount of the revenues derived from the export sale. This toll was applicable only to volumes shipped to its firm system sales export customer. Any other volumes shipped to the export market, whether by Westcoast as an interruptible system sale or by a shipper under an interruptible transportation service agreement, would not be covered by this toll. Therefore, the Board finds that gas shipped under any interruptible system sale, such as the sale to Northwest Natural, must bear the applicable export interruptible toll in the same fashion as any other IT transportation service customer shipping to the export market. Westcoast is directed to file such a toll with the Board as part of its final tariff and to include any revenues from its application in the deferral account established for IT service revenues for final disposition at the next toll hearing.

3.5.2 Carrying Charges on Deficiency Payments to Amoco

By an application dated 10 February 1986, Westcoast applied to the Board to include carrying charges with respect to take-or-pay obligations with Amoco in its tolls. This matter was included in the items to be discussed as part of Westcoast's toll hearing and was dealt with by parties in final argument. The arguments focussed upon whether or not these payments come within the definition of toll' as defined in the NEB Act and in particular paragraph (c) of that definition. The definition of toll reads as follows:

"Toll includes any toll, rate, charge or allowance charged or made... (c) in respect of the purchase and sale of gas that is the property of a company and that is transmitted by the company through its pipeline, excluding the cost to the company of the gas at the point where it enters the pipeline."

Decision

The Board is of the view that these carrying charges relate to the failure by Westcoast to take contracted quantities of gas and the resulting contractual obligations of the parties involved respecting the sale/purchase arrangements, including the price for the gas, and do not relate to the transportation or transmission of the gas through the Company's pipeline and as such cannot properly be viewed as coming within the definition of a toll. Therefore, Westcoast's application of 10 February 1986 is denied. In view of the foregoing, the Board finds it unnecessary to comment on the matters of who should bear the burden of these carrying charges should they be included in Westcoast's tolls and the timing of their inclusion in the tolls.

3.5.3 Need for Other Revenue Deferral Accounts

As discussed previously, Westcoast proposed a deferral account for variations in revenue above or below that forecast in the test year for authorized overrun and interruptible volumes. Intervenors suggested that a similar deferral account be established for firm transportation service to ensure Westcoast shareholders did not benefit if a firm service contract were arranged during the test year.

Westcoast opposed a deferral account for firm transportation service stating no such service was forecast for the test year. It further argued that since such arrangements took a long time to develop, suitable arrangements could be made if a firm agreement were signed.

Decision

The Board notes that with the exception of the NGL plant, Westcoast has not forecast that any firm transportation service agreements would be in place for the test year. However, movements of gas under such agreements could start as soon as 1 November 1986. The Board accepts that such arrangements for any new incremental movements of gas have a significant lead time and that Westcoast has undertaken to apply promptly for a suitable deferral account should any firm service agreement be signed. Consequently, except as noted in Section 4.6, the Board will not establish a deferral account for firm transportation service at this time.

3.5.4 Demand Charge Credit for Northwest

Northwest proposed that it receive such a demand charge credit, as is available to Westcoast's other firm CD customers, in the event Westcoast cannot deliver its CD commitment. The Board wishes to clarify that what is contemplated by this provision is a credit to the demand component of the customer's toll.

Decision

The Board does not see any justification for the exclusion of Northwest from the application of this provision and directs that this issue be examined as part of Westcoast's next toll hearing, including the mechanism by which this provision would be made available to Northwest.

Chapter 4
Tariff Matters

4.1 The Board's Jurisdiction to Deal with the Domestic Distributors' Contracts with Westcoast

The mandate of the Board, pursuant to Section 50 of the NEB Act, is to make orders with respect to all matters relating to traffic, tolls or tariffs. This power gives the Board the jurisdiction to, among other things, set the terms and conditions of carriage or transportation for products carried through Westcoast's pipeline. The Board is of the view that the terms and conditions of carriage or transportation are distinct and severable from contractual obligations relating to the sale of gas. The Board wishes to make clear that the tariff approved by the Board will contain the tolls which Westcoast is authorized to charge as well as the terms and conditions of carriage or transportation. To the extent that any term or condition of the gas sales contracts between Westcoast and its distributor customers is inconsistent with the tariff established by the Board, the tariff prevails.

The Board, with respect to the domestic distributor's contracts, is of the view that matters relating to CD quantities, take-or-pay provisions, minimum bill provisions and exclusivity clauses relate to the purchase and sale of gas and are beyond the jurisdiction of the Board. Therefore, the Board has concluded that it is unable to make orders relating to these matters.

4.2 Applicability of General Terms and Conditions

4.2.1 General Terms and Conditions for Export Sales

In its application, Westcoast did not propose General Terms and Conditions for export sales. The Company was of the view that the terms and conditions governing Westcoast's sale to Northwest should continue to be in accordance with the contract between Westcoast and Northwest dated 10 October 1969 (the Fourth Service Agreement).

Decision

The Board does not agree with this proposal. In the Board's view, sales shippers, like service customers, be they domestic or export, should be governed by the same terms and conditions of carriage or transportation. Consequently, the Board has decided that, beginning 1 November 1986, Northwest shall be subject to the same General Terms and Conditions for Sales as Westcoast's domestic shippers. The Board recognizes that certain terms and conditions may have to be modified or expanded to reflect differences, such as the start of the gas day, and directs Westcoast to make the necessary changes as part of the filing of its revised tariffs.

4.2.2 General Terms and Conditions for Off-line Distributors

In argument, ICG(B.C.) stated that the General Terms and Conditions for off-line distributors were still being negotiated with Westcoast, and consequently ICG(B.C.) was unable to take a position on them at this time. Peace River and Fort Nelson Gas Ltd. added that they opposed superimposing the General Terms and Conditions for Sales upon the present off-line sales contracts. They believed that it would be inappropriate to negotiate terms and conditions for off-line sales prior to knowing what off-line toll methodology the Board would find acceptable. These intervenors noted that the reference to CD as found in the General Terms and Conditions for Sales might not be proper for off-line distributors. In particular, it is noted that Westcoast does not deliver gas to Peace River at the pressure specified in Article 4.01 for Sales.

Decision

The Board recognizes that certain terms and conditions contained in the General Terms and Conditions for Sales may not be available to off-line distributors. The Board also recognizes that the terms and conditions for off-line distributors are currently under negotiation. The Board therefore requires Westcoast to submit for Board approval, as soon as possible but no later than 1 December 1986, General Terms and Conditions for off-line distribution. To the fullest extent possible, the Board expects these term and conditions to be similar to those for Sales.

4.3 Decisions of the Board

Except as otherwise noted in these Reasons for Decision, the Board accepts as part of the tariff the articles in the General Terms and Conditions as submitted by Westcoast for Sales and Service, and the Pro Forma Service Agreements.

4.4 Priority of Service

4.4.1 Priority Among Categories

In Article 2.01 of its General Terms and Conditions for Sales and for Service, Westcoast proposed that the highest priority be given to firm CD customers because they pay for uninterrupted service.

Westcoast proposed that AOR should be given priority over interruptible to recognize that the firm CD customers are committed to pay the majority of the costs relating to the Westcoast system. Westcoast also pointed out that the gas sales agreements with the distributor customers have historically provided for overrun sales and noted that previously, such sales were limited only by the availability of gas and capacity. As discussed more fully in Section 3.2.1, Westcoast proposed that AOR be continued and extended to firm CD service customers.

Westcoast proposed that least priority be given to all IT sales and service customers because these customers have no right to utilize the facilities of Westcoast on a continuous basis and, therefore, no obligation to make payments for provision of such service other than when it is utilized by them.

All intervenors supported firm customers having highest priority, and several intervenors supported Westcoast's proposal that AOR should have higher priority of deliveries than interruptible. Generally, it was argued that, because the CD customers pay all of Westcoast's fixed costs, they should have first right to access any valley (or spare capacity) caused by the diversity of their daily nominations. Inland refined that argument by suggesting that there are two types of interruptible service: AOR which results from the non-coincidental peak day requirements of the CD customers, and interruptible which results from the valleys of the summer loads.

COFI stated that, if AOR deliveries are to be given priority over the interruptible deliveries, then the AOR toll should be higher than the interruptible toll. B.C. Hydro stated that it would be willing to pay such a premium.

IPAC disagreed with Westcoast's proposal regarding priority being given to AOR. IPAC's position was that, even though the firm customers commit themselves to paying the fixed costs of Westcoast's system, this should not entitle them to receive a bonus of priority on overrun volumes.

IPAC believed that the AOR and interruptible tolls should be set at the same level, and that these services should have the same priority of delivery. Finally, IPAC noted that the distributor customers historically had effective priority for overrun service simply because they were the only customers on the system. In IPAC's view, times are changing because of the presence of service customers and it is necessary to change with the times.

Decision

The Board believes that priority of service should be based on the relative potential or likelihood of being interrupted on a given day, with highest priority being given to firm agreements. It is also the Board's view that the degree of firmness should be reflected in the tolls charged. Consequently, the Board believes that the AOR service as proposed by Westcoast is clearly inappropriate as AOR would have a higher degree of firmness but be charged a lower toll than IT service. It shippers desire a higher quality IT service, namely one that has a higher priority over other interruptible service in a curtailment situation, the Board believes that they should be willing to pay a higher toll. Consequently, the Board has decided that, effective 1 November 1986, the priority of service shall be as follows:

(a) firm volumes shall receive the highest priority;

(b) AOR, up to 15 percent of a firm customer's CD, shall be entitled to priority over other interruptible services; and

(c) domestic and export interruptible services shall receive the lowest priority.

As discussed in Section 3.2.1, after 1 April 1987, AOR would evolve to become Tier-One interruptible, priced higher (at the same rate as AOR) with priority over Tier-Two interruptible, and accessible to all those signing the appropriate

domestic sales or service agreement. After 1 April 1987, export interruptible service shall have the same priority as Tier-One interruptible. The Board is aware that during the AOR phase out period some degree of inequity will exist to the extent that the export IT service will be charged a higher toll but will have the same priority as domestic IT service but feels it is justified in the circumstances.

4.4.2 Priority Within Categories

Westcoast proposed that priority of service within the AOR and interruptible categories be established on a first-in last-off (FILO) basis, determined by reference to the time of first flow of firm and interruptible volumes, respectively.

Westcoast recognized that the FILO method of curtailment of AOR and interruptible volumes is only one of two methods, the other one being to prorate each party's requirement based on its share of the morning nominations. Westcoast chose to allocate on the basis of the first flow of volumes for the following reasons:

(a) Westcoast believed that customers who have been on the system the longest should have their longer-term commitment to their markets recognized;

(b) Westcoast believed that the historical availability of AOR and ISP gas to Westcoast's existing sales customers should be recognized. It was also concerned that anything which interferes with the mix of AOR and IT gas could affect the domestic market for gas;

(c) Westcoast believed that use of FILO would avoid the operating complexities of a prorated curtailment. Westcoast explained that the operating difficulty mainly referred to the complication of changing the field orders and the need to increase the staff to accomplish these changes; and

(d) Westcoast believed that, if gas were allocated on a prorata basis, most end-users with dual-fuel capability would in many cases be forced to switch to their alternative fuel, and that other end-users would simply need all of their gas or none of it. Accordingly, a prorata system could result in an endless iteration of both the availability of interruptible service and gas supply orders.

Westcoast also noted that, even under FILO, it may not be possible to curtail in accordance with the priority ranking established because of potential supply constraints. It explained that the person with the highest priority may not have gas available to him because much of the gas that is at present being delivered under direct sales contracts is gas released by BCPC, and BCPC retains first call on this gas.

B.C. Hydro and Inland supported Westcoast's proposal. B.C. Hydro stated that the FILO principle is well founded in regulatory precedent. Inland argued that it reflects historical relationships. In addition, they both highlighted Westcoast's perceived problems with a prorata approach.

The other intervenors who addressed this issue all preferred the prorata method because it would treat all parties on an equitable basis. Czar/Wainoco argued that the effect of the FILO proposal is to give discriminatory economic advantage to the earlier vintage shippers. The shippers of later vintage would

be continuously turned off and on during the winter season, while those shippers with earlier vintage contracts could continue to obtain their full contractual quantities with few curtailments. They also argued that the later vintage shippers would be provided with a lower quality of service while having to pay the same toll as earlier vintage shippers.

Some intervenors recognized that Westcoast might encounter some problems in implementing a prorata method. However, one of them stated that the onus should be on Westcoast to demonstrate that a prorata system is unworkable.

Decision

The Board recognizes that Westcoast may encounter some operational difficulties in curtailing volumes on a prorata basis. However, having reviewed the merits of each method, the Board is of the view that the prorata method is more appropriate in the circumstances and more in keeping with the move to open access transportation than the FILO approach. Consequently, the Board has decided that, effective 1 November 1986, Westcoast shall curtail on a prorata basis.

Regarding actual difficulties that Westcoast may encounter in applying the prorata method, Westcoast is invited to document any such difficulties for review by the Board in a future toll hearing, if Westcoast so desires.

4.4.3 Priority to Canadians

Inland proposed that Canadian customers should have priority over U.S. customers in obtaining gas supply in emergencies. Inland defined emergency as a pipeline failure and defended its proposal by saying that the security of supply is higher in the U.S. than in Canada because of the alternate sources of gas supply available in the U.S.

In the General Terms and Conditions, Westcoast did not propose to differentiate between domestic and export shipments in determining the priority of service.

In a force majeure situation which would require curtailment, Westcoast stated that it would prorate the available supply and/or capacity on the basis of the expressed firm needs of the individual sales customers and service shippers on such a day.

B.C. Hydro agreed in principle with Westcoast's prorationing approach in an emergency situation. However, a witness for B.C. Hydro stated that he could see the possibility of an emergency situation arising where all parties would have to sit down and see what they could do to resolve it.

Northwest took the position that it should receive equal treatment with others who are paying for firm service. In a curtailment situation, Northwest stated that the available gas should be allocated prorata among firm customers. Northwest also said that in the event of an emergency it did not believe that any interruptible industrial class of customers should be served on either side of the border.

Decision

The Board recognizes that in the case of an emergency there is a need for all parties to cooperate fully to mitigate any negative implications. However, the Board does not believe that it would be appropriate to set priority of service among firm shippers based solely on the location of markets. The Board therefore does not accept Inland's proposal.

4.5 Reduction in Contract Demand

Westcoast, in Article 12 for Sales and Article 16 for Service, has proposed a provision, which during the hearing became known as the bumping provision, whereby the CD of short-term firm agreements would be reduced prorata if pipeline capacity was required for a long-term firm agreement.

Westcoast has defined a short-term agreement to mean a firm sales or firm service agreement which has a term of not less than one year and is not a long-term agreement. A long-term agreement has been defined as a firm sales or firm service agreement which has an original or extended term of 15 years or more; or, any firm sales or firm service agreement which replaces or extends in whole or in part an existing gas sales agreement between Westcoast and one of its distributor customers.

Decision

The Board is of the view that the purpose of these provisions is not to permit the Board to change the CD volumes contained in firm sales/service agreements between Westcoast and its shippers, but rather to establish an apportionment and priority of access system for firm capacity in circumstances where an expansion to the Westcoast system may not be justified due to the short-term nature of some of the contracts.

Given the capacity situation on the Westcoast system, including the express desire of Northwest to decrease its contract demand volume, the Board does not perceive a real capacity problem at this time and therefore does not find these provisions necessary. Accordingly, Westcoast is directed to delete Articles 12 and 16 from the Sales and Service General Terms and Conditions, respectively.

The Board is aware of Westcoast's concerns in this regard and invites the Company to monitor this situation and approach the Board when confronted with a capacity problem. However, the Board does not find the proposal put forward by Westcoast to be an appropriate solution.

Since the Board's decision to require Westcoast to eliminate the bumping provision effectively removes the distinction between short-term and long-term agreements, the Board questions the need to determine the appropriate length of such agreements at this time. In the light of recent and proposed changes that will affect the marketing of gas, changes in existing contractual relationships, and the increased risks that could be faced by pipeline companies, in the Board's view, the 15-year minimum term for a long-term agreement may not be appropriate. The Board therefore invites Westcoast to give the matter further consideration.

4.6 Conversion from Sales to Service

In its application, Westcoast made no allowance for revenues from firm transportation service during the test year. Several intervenors raised the possibility of such transportation service arrangements occurring in the domestic market, particularly after 1 November 1986 when several large industrial customers will have this option available to them. Near the end of the evidentiary phase of the hearing, Westcoast stated that the NGL plant is now a firm transportation service customer.

The full implication of a switch by an existing domestic end-use customer from sales to firm transportation service is not yet known.

Inland indicated that it had included in its tariff an indemnity provision to protect its remaining customer base from a higher allocation of costs should one of its customers switch to transportation service. The inclusion of a similar provision in the tariffs of the other domestic distributors and the acceptance of this provision by the BCUC is uncertain at this time. The final outcome of these matters will have a bearing on the potential for the occurrence of a complete or partial duplication of the payment of the demand component of Westcoast's tolls.

A duplication of the payment of the demand component of Westcoast's tolls by the end-use customer could occur if, in addition to the firm service toll paid by the shipper to Westcoast, this shipper was required to indemnify the distribution utility in whose franchise area the load is taken. This indemnity payment would be equivalent to the demand component of Westcoast's tolls associated with the volumes of gas previously shipped by the distributor to this end-use customer, assuming that the distributor is still obliged to pay Westcoast the original firm sales toll.

In a situation where 100 percent of the test-year fixed costs have been allocated to the existing firm sales customers of Westcoast, any revenues from a firm transportation service customer would result in an over-collection of revenues by Westcoast. The appropriate disposition of this excess revenue or the reallocation of the fixed costs currently borne by any sales customer would depend on the specific circumstances surrounding the transaction. Given the options available to an end-use customer, it is possible that the firm transportation service would not make use of the same services or facilities of Westcoast that were utilized when the end-use customer was obtaining system gas. Thus, it is possible that only a partial duplication of the payment of the demand component of Westcoast's tolls would occur.

As well, the toll which Westcoast proposes to charge an existing distributor customer should it convert to firm transportation service would not appear to be included in the menu of tolls proposed by Westcoast. Westcoast indicated that it would permit such a switch only if the distributor customer continued to make the same contribution to Westcoast's fixed costs. This would not be consistent with the tolls as filed, if the firm transportation service did not require certain of the services offered by Westcoast, such as gathering and processing. Such a toll is not presently part of Westcoast's application and has not been considered by the Board in dealing with this application.

To avoid any duplication in the collection of the demand component of its tolls, Westcoast proposed to credit the revenues obtained from firm transportation service to the distributor which had previously

made a system sale to this end-use customer. This proposal was rejected by many intervenors and various other proposals were put forward.

Decision

The Board does not find it necessary to deal at this time with the issues raised by conversion from sales to service, including the problem of the double demand charge, as there were no facts presented during the hearing which indicated that such issues presently exist. Should any firm transportation service revenues accrue to Westcoast as a result of conversion from sales to service during the test year, the Board directs, as an interim measure, that these revenues be credited to a deferral account and accrue a carrying charge each month on the month-end balance in the account at a rate equal to one-twelfth of the rate of return on rate base, for disposition at the next Westcoast toll hearing. At that time, parties will be provided an opportunity to present their views on an appropriate manner to deal with these matters should such parties conclude that the Board rather than the provincial regulatory authority is the appropriate body to deal with the issue.

4.7 Allocation of Available Capacity

In Hearing Order RH-6-85, the Board stated that it intended to examine the procedure to be used for the allocation of available pipeline capacity, referring to a situation where Westcoast would have insufficient capacity to meet all firm requirements.

Decision

The Board notes that some intervenors commented on this matter. However, given Northwest s desire to reduce its daily demand obligation, thus making capacity readily available, the Board does not find the allocation of available capacity to be a problem at this time.

4.8 Reporting Requirements

4.8.1 Daily Reporting of Upstream Deliveries

In Article 3.02 for Service, Westcoast proposed that shippers notify Westcoast each day prior to 1600 Pacific Standard Time (PST) of the residue gas volume that was delivered to Westcoast during the preceding day. Given that the gas day ends at 0800 PST, shippers would be allowed eight hours to report. However, Westcoast stated that system gas suppliers are required to report similar information only by 1000 PST the second day following the end of the gas day, an allowance of 26 hours.

Westcoast explained that the quicker reporting time is essential for service agreements to allow Westcoast time to make adjustments to each day’s order of gas to the shipper’s supplier, to reflect not only the shipper’s daily entitlement as determined by Westcoast, but also the shipper’s current supply imbalance with Westcoast. Westcoast further explained that a prompt adjustment of the ordering for

any supply imbalance should minimize instances where the shipper may under-deliver gas, thus avoiding the need to be backstopped by somebody else's gas.

For system sales, Westcoast explained that balancing is done on a yearly basis, effectively under instructions from BCPC. Westcoast can order gas from the various system suppliers as it deems appropriate, so long as it achieves the uniform load factor specified in the supply agreements with BCPC. Because of this annual requirement, Westcoast said that it does not have to balance on a short-term basis. If it sells too little of a producer's gas in one month, it corrects the situation in the next month.

Westcoast considered the 1600 PST reporting time reasonable and said that, operationally, there is no difference in the reporting procedure followed by a system producer and a service producer. Westcoast stated that, if the supply agreements with the system producers were under its direct control rather than under BCPC's control, it would probably request earlier reporting times by system producers as well. Finally, Westcoast acknowledged that if a party could not meet the reporting time because of inaccessibility of its wells, the force majeure provision could apply.

Czar/Wainoco, Dome and Ocelot Industries Ltd. (Ocelot) believed that the reporting provision discriminates against service shippers, and that the reporting times should be the same for all suppliers. Intervenors suggested that the uniform reporting time should be 0800 PST the day following the end of the gas day. Czar/Wainoco stated that they may not be able to meet Westcoast's reporting requirements considering that it may take two or three days to reach a well or delivery point located in a remote area. They also believed that more accurate information would be provided if a full day were allowed and noted that there is no operational difference in the reporting for system and service gas.

Decision

The Board agrees with Westcoast that the Company, for operational purposes, must know as quickly as possible the volumes of gas delivered into its system. The Board therefore considers the proposed 1600 PST reporting time for service customers to be reasonable. Because the Board believes that, where practicable, the General Terms and Conditions for both Sales and Service should be identical, the Board directs Westcoast to take steps to make the rating requirements of its sales suppliers the same as those for service shippers, namely 1600 PST.

4.8.2 Reporting Penalties

In Articles 5.01 to 5.05 for Service, Westcoast proposed that daily reporting penalties be incurred by a shipper if the difference between delivered volumes as determined by Westcoast, and reported volumes, as provided by the shipper, exceeded certain tolerances. For delivery volumes up to 700 thousand cubic metres, the tolerance would be 25 percent; for delivery volumes from 701 to 2 800 thousand cubic metres, the tolerance would be ten percent; and for delivery volumes greater than 2 800 thousand cubic metres, the tolerance would be five percent. Differences in excess of the tolerance would be forfeited to Westcoast if deliveries exceed the volume reported, or deemed to be purchased at 1.5 times Westcoast's average cost of gas if deliveries were less than the volumes reported. Westcoast also proposed monthly reporting penalties. If aggregate deliveries were less than aggregate reported volumes by more than five percent, the gas would be deemed to be purchased at

Westcoast's average cost of gas. If aggregate deliveries exceeded aggregate reported volumes by ten percent, the volumes in excess of tolerance would be forfeited to Westcoast.

Westcoast explained that the reporting penalties are required to ensure that the shippers have an incentive to report reasonably accurate information. Westcoast believed that the proposed tolerances are sufficiently generous to ensure that penalties do not arise because of measurement errors, but will arise only when shippers are indifferent to their responsibility to report accurately. Regarding monthly penalties, Westcoast explained that they are required to ensure that shippers do not systematically under-report within the daily tolerance levels.

A number of intervenors argued against the reporting penalties. They proposed that a balancing provision similar to that used by NOVA be instituted for Westcoast, thereby avoiding the need for reporting penalties. Article 9.2 of NOVA's tariff states:

> "Due to variations in operating conditions, the aggregate daily and monthly volumes of gas delivered to Customer at all of Customer's Delivery Points, adjusted as provided for in 9.1, will differ from the aggregate of the corresponding daily and monthly volumes of gas received from Customer. Customer and Company shall cooperate to keep such differences to the minimum permitted by operating conditions and to balance out such differences as soon as practicable." (Source: Exhibit C-94, page 16)

In support of the adoption of NOVA's balancing provisions, COFI/Cominco suggested that the reporting penalties proposed by Westcoast may prevent direct sales. Czar/Wainoco suggested that these provisions are not required and are not reasonable and indicated that a shipper is generally outside the monthly tolerance level suggested by Westcoast.

With respect to NOVA's balancing provision, Westcoast stated that NOVA is having problems on its system because of the terms of its balancing provision and that shippers are not providing sufficient gas into NOVA's system.

Intervenors also stated that, if the reporting penalties are found acceptable by the Board, five to ten grace days be granted to allow non-reporting in what was categorized as borderline force majeure cases. These could include minor illnesses, breakdowns, new employees, and poor weather but not storms.

However, Westcoast was of the view that the proposed daily reporting tolerances should ensure that competent operators are not penalized and that the force majeure provision would cover events beyond the operator's control. Further, Westcoast agreed that in applying its tolerances it would look at the well production in total to see whether a penalty would apply. To this end, it revised Article 5 to make reference to production from one or more production agreements.

Intervenors also suggested that the monthly tolerances be set uniformly at ten percent; the penalty level be reduced to 1.0 times Westcoast's average cost of gas in the case of under-delivery; and a penalty be instituted based on the value of the gas either under- or over-delivered. It was also suggested that Westcoast define the term "gas production agreement" which it made reference to in its latest revision to Article 5.

Decision

The Board has considered all the evidence on this matter and accepts as reasonable Westcoast's proposed reporting penalties given the proposed reporting tolerances and Westcoast's willingness to look at the total well production in applying these tolerances. Given the magnitude of the tolerances, the Board is not convinced of the need for grace days to allow for non-reporting in cases other than force majeure. In addition, the Board directs Westcoast to provide a definition of the term "gas production agreement".

4.9 Gas Balancing

4.9.1 Shotgunning

To account for direct sales deliveries, Westcoast, in Article 3.06 for Service, proposed that out of the daily deliveries to a distributor, the first volumes through the meter of the distributor's system be deemed to be the volumes redelivered to the direct purchaser. It referred to this assumption as shotgunning and justified the approach on two grounds. First, according to the service agreement, Westcoast is under the obligation to redeliver a quantity of gas exactly thermally equivalent to the gas delivered by the shipper. The shotgunning assumption would fulfill this obligation automatically. Second, Westcoast suggested that the approach is consistent with the approach that it is now using for deliveries of out-of-province gas into the export market.

COFI/Cominco and Czar/Wainoco criticized the shotgunning approach stating that it was unreasonable to assume that the shipper would take exactly the volume that it had nominated that day. Czar/Wainoco felt that shotgunning was not necessary during times of non-curtailment, and that Westcoast could wait until the day after to be advised of the actual takes.

The same intervenors pointed out that shotgunning would transfer to the distributors the problems of balancing the shippers' takes with their nominations. However, Westcoast indicated that, because the distributor would become the custodian of the gas beyond the redelivery point on Westcoast's system, such balancing would be a matter for the distributor and the shipper to address.

As an alternative to shotgunning, COFI/Cominco proposed the measured redelivery approach, an approach which would rely on the distribution utility to provide Westcoast with the previous day's measured redeliveries to the shippers. For Westcoast's purposes this redelivery volume would be considered final and any subsequent balancing would be handled between the distribution utility and the end-user. Czar/Wainoco and Petro-Canada supported the proposal, while Westcoast disagreed with it. Westcoast initially indicated that the proposal would unnecessarily complicate its balancing. Later, Westcoast admitted that the measured redelivery approach would not cause any balancing or billing problems but doubted that Inland could provide the required reporting.

In final argument, COFI/Cominco proposed an addition to Article 3 of the General Terms and Conditions for Service which would accept shotgunning unless an alternative agreement is reached by the shipper, distributor and Westcoast. The addition, which was supported by Inland, would read:

> "The redelivery volume shall be the volume of gas nominated pursuant to Article 3.02 unless the shipper enters into an agreement, acceptable to Westcoast, with the distributor under which the distributor undertakes to provide Westcoast with the redelivery volume."

The change was opposed by Westcoast.

Decision

The Board finds that presently there does not appear to be any viable alternative to shotgunning. Nevertheless, the Board sees some merit in the measured redelivery approach. Consequently, while the Board accepts Westcoast's proposed shotgunning assumption, it directs Westcoast to insert suitable wording in Article 3 that will reflect the addition proposed by COFI/Cominco.

4.9.2 Line pack Provision

Some intervenors suggested that shippers be allowed to put in line pack three to four days of deliveries as a cushion to balance day-to-day differences between deliveries-in and redeliveries-out of the Westcoast system.

Westcoast was opposed to a compulsory line pack provision as proposed by intervenors. Westcoast took the position that the purpose of line pack was to adjust for differences in hourly delivery rates and to compensate for changes in operating conditions It was not the purpose of line pack to keep an inventory to allow a producer/shipper to smooth out deliveries.

Decision

The Board agrees with Westcoast that it is not the primary purpose of line pack to act as an inventory to allow a producer and/or shipper to smooth out deliveries. Accordingly, the request for the right to a line pack provision as described above is denied.

4.9.3 Balancing in Kind

As set out in Article 5.08 of the General Terms and Conditions for Service, Westcoast proposed that any supply imbalance at month-end be corrected in the following month.

Czar/Wainoco recommended that the shipper have a full month after receipt of the monthly gas balance data from Westcoast to correct the prior month's imbalance. Czar/Wainoco pointed out that the monthly gas balance data would not be provided by Westcoast until the 20th day of the following month, thus allowing only 10 to 11 days for the shipper to correct the imbalance. Czar/Wainoco pointed out that, in fact, a shipper might not even be producing or transporting gas during that period.

Decision

The Board recognizes that there may be situations when it may not be possible to correct a previous month's imbalance within the stipulated time; however, the Board expects parties to cooperate to the fullest extent possible in correcting these imbalances. Accordingly, Czar/Wainoco's request is denied.

4.10 Curtailment Procedures

4.10.1 Curtailment Level

In Article 3.01 of the General Terms and Conditions for Sales, Westcoast indicated that, in a curtailment situation, it would curtail customers down to their CD level with an immediate release of additional gas as appropriate, Inland argued that such a procedure creates uncertainty about the availability of volumes of gas released above CD levels.

Inland proposed that the article be modified to allow curtailment to levels higher than the customers CD's.

Westcoast did not accept Inland's proposed change in wording stating that it required some flexibility in its procedures. Westcoast also noted that the current curtailment procedures had been in place for ten years.

Decision

The Board agrees with Westcoast that some flexibility is required in Westcoast's curtailment procedures, and that the current procedures have operated effectively for some period of time. Inland's proposal is therefore denied.

4.10.2 Unauthorized Overrun Penalties

Westcoast proposed that unauthorized overrun (UOR) penalties be incurred if, on a day when deliveries have been curtailed, a customer takes in excess of the volumes that had been specified by Westcoast. For a quantity up to 102.5 percent of the specified volume, the AOR toll would apply; for that portion between 102.5 percent and 105 percent, the penalty would be 10 times the daily demand toll; for that portion between 105 and up to and including 110 percent, the penalty would be 20 times the daily demand toll; and for that portion in excess of 110 percent, the penalty would be 30 times the daily demand toll. Later in the hearing, in recognition of the occasional operating problems faced by its customers, Westcoast introduced a provision which would waive UOR penalties for the first day in a year that a customer exceeded the limit. The provision would apply only in situations where Westcoast was not obligated to provide an offsetting CD credit.

In Westcoast's opinion, UOR penalties are required so as to ensure that firm customers nominate CD in sufficient quantity to meet their reasonable daily needs and further to provide discipline in times of curtailment, particularly since it is the customer who ultimately controls the quantity of gas taken. Westcoast referred to a possible situation where, under heavy loads, customers might take so much UOR gas as to unduly lower the line pack level, thus preventing Westcoast from making deliveries the next day. Regarding the level of UOR penalties, Westcoast stated that they had to be high enough to

have their desired effect. Westcoast also said that it did not expect parties to incur UOR penalties. It therefore expected any revenues from UOR penalties to be immaterial.

At the hearing, intervenors were in general agreement that UOR penalties are required; however, not all of them agreed with the proposed levels. COFI/Cominco, B.C. Hydro and Inland proposed lower penalties of 10 times the daily demand toll for takes between 102.5 and 107.5 percent of the specified volume, and 15 times the daily demand toll for takes above 107.5 percent. In general, they argued that these lower magnitudes were sufficient because the taking of UOR gas in their opinion had not been a serious problem for Westcoast in the past.

Only IPAC found the levels of Westcoast's proposed penalties to be reasonable.

Both CPA and IPAC opposed the one-day waiver of UOR penalties, stating it might lead to serious problems if that day happened to coincide for several of Westcoast's customers. B.C. Hydro and Inland supported the one-day waiver proposal.

Decision

The Board finds the UOR penalties proposed by Westcoast to be reasonable given that their purpose is to provide discipline in times of curtailment. The Board accepts Westcoast's proposal for a one-day waiver from UOR penalties, in recognition of the operating problems occasionally faced by its customers.

4.10.3 Applicability of Unauthorized Overrun Penalties

Westcoast explained that, in days of non-curtailment, if a firm sales customer were to take more than the interruptible volume authorized by Westcoast, the excess would be treated as interruptible instead of UOR gas. However, for a firm service customer, the excess would be treated as UOR unless the service customer had signed a separate interruptible service agreement to cover such a possibility.

Westcoast said that it decided to offer the interruptible sales privilege to its firm sales customers in recognition that the current sales contracts provide for unlimited overrun gas and that Westcoast now proposes to limit that entitlement to 15 percent of CD.

Ocelot suggested that the language of Article 7 of the General Terms and Conditions for Service should explicitly state that charges for unauthorized service are applicable only during times of curtailment on the system.

Decision

The Board agrees with Ocelot's proposal and therefore directs Westcoast to modify Article 7 of the General Terms and Conditions for Service and Article 6 of the General Terms and Conditions for Sales to clearly specify that UOR penalties will apply only during times of curtailment.

4.11 Other Tariff Matters

4.11.1 Maximum Hourly Deliveries

In Article 3.05 for Service, Westcoast proposed that it should not be obligated to deliver in any one hour more than five percent of the volume of gas which a shipper is entitled to receive on any day. However, in Article 3.05 for Sales, the Company has proposed that consistent with its existing sales agreements the hourly obligation should be seven percent.

During cross-examination, Westcoast indicated that there are no penalties associated with these articles and that Westcoast has no control over the volume of gas taken in one hour. Westcoast explained that these articles are required because the hourly obligations have an impact on the size and design of its system.

Westcoast indicated that the seven percent level was high when compared to levels used by other pipelines. Westcoast further explained that it had tried unsuccessfully during recent negotiations with its sales customers to reduce the level to five percent. Westcoast also indicated that, while it would like to reduce the level, the Company does deliver at rates higher than five or seven percent during start-ups of plant and that, for most end-users, the maximum hourly deliveries would depend upon the contract the end-users could negotiate with the local distributor.

Finally, Westcoast stated that, based on current load profiles, the Company would be able to deliver at the seven percent rate, except at certain delivery points where metering limits prevent deliveries at such a high rate.

Intervenors were of the view that the maximum hourly delivery rate should be set at seven percent for both sales and service customers. They argued that there is no evidence that operating problems, either now or in the foreseeable future, would occur if a seven percent rate were adopted for both sales and service. Czar/Wainoco suggested that the difference in hourly deliveries between sales and service is a form of discrimination that should not be accepted by the Board.

Decision

The Board believes that the hourly rate should be the same for both Sales and Service. In addition, the Board agrees with Westcoast that the seven percent rate is high when compared to rates used by other pipelines and that a five percent delivery obligation would in the long run result in more economical facilities. Accordingly, the Board has decided that the maximum hourly delivery rate should be five percent for both Sales and Service. Westcoast is directed to appropriately modify Article 3.05 for Sales.

4.11.2 Letter of Credit

Westcoast, in Article 9.01 for Service as revised, stated that it may require a shipper to provide a letter of credit or some other form of security acceptable to Westcoast. If necessary, the letter of credit would be for an amount equal to the maximum amount payable by the shipper under the service agreement for 55-days service. Westcoast has not proposed a similar requirement in its sales agreements because it believed that the creditworthiness of the existing sales customers is not an issue.

Westcoast stated that it required the letter of credit article to protect the financial integrity of the system and to avoid penalizing other users by unduly jeopardizing Westcoast's financial position.

In general, intervenors found the article, as revised by Westcoast, to be reasonable provided that a shipper can retain the right to negotiate with Westcoast the extent of the security requirement. Some intervenors suggested that an arbitration provision should be included to resolve areas of potential dispute including the issue of letters of credit.

Decision

The Board accepts Article 9 for Service as reviised by Westcoast. However, the Board requires Westcoast to include a similar letter of credit provision in the General Terms and Conditions for Sales. Regarding the need for an arbitration clause, the Board's decision is to be found in Section 4.11.5.

4.11.3 Statements and Payments

Payment Period

In Article 7.02 for Sales, Westcoast proposed that the sales customer's bill for the previous month's deliveries be provided to the buyer by the 10th day of the following month and that its payment be required ten days later by the 20th day. In Article 8.02 for Service, the bill would be provided by the 20th day with payment required five days later. If the payment date falls on a weekend or holiday then the date for payment will be the first business day following the payment date.

Westcoast stated that it took longer to prepare the billings for service than for sales transactions, because it is necessary to analyze that information received from shippers before calculating the bill. Westcoast also stated that it did not find the five-day payment period to be unreasonably short because it felt that a shipper should already have a reasonable idea of the amount of the bill. Westcoast also suggested that another reason for the short payment period was to minimize the amount of security required pursuant to the letter of credit. Finally, Westcoast noted that, if uniform billings were imposed so that sales and service customers were billed by the 10th day and all customers were to pay by the 20th day, the service customers would in fact lose their current five-day advantage in terms of the timing of actual payments.

COFI/Cominco argued that the five-day period for the payment of service bills was too short. They suggested that it should be extended to ten days.

Decision

The Board accepts Westcoast's explanation that more time is required to prepare the bills of service customers as reasonable grounds for the difference in the billing dates for sales customers and service customers. In addition, the shorter payment period allowed service customers is somewhat offset by being permitted to pay five calendar days later than sales customers. Accordingly, the Board denies the COFI/Cominco proposal.

Delinquent Accounts

In the case of late payment by either a sales or service customer, Westcoast proposed that interest be applied at a rate equal to prime plus five percent.

For sales customers, Westcoast indicated that if default of payment were to continue for 30 days, deliveries could be suspended, and, after a further 1 5 days the sales agreement could be terminated, provided that Westcoast were to give 15 days written notice of its intentions to suspend and/or terminate, For service customers, Westcoast proposed that it be allowed to suspend deliveries and/or terminate an agreement it default of payment were to continue for more than 48 hours, without the necessity of a written notice.

COFI/Cominco challenged the proposed interest rate on delinquent accounts. They found it excessive given that bills must be paid within a five- or ten-day period. They suggested two percent over prime as being more in line with general commercial practice. Westcoast replied that the interest rate on delinquent accounts should not be confused with a loan rate, and pointed out that the distributor customers of Westcoast had not objected to the prime plus five percent rate.

COFI/Cominco also challenged the proposal to suspend deliveries or terminate a service agreement after 48 hours of default of payment. They saw no reason to treat the sales and service customers differently and did not accept any differentiation based on historical relationships. They proposed that sales and service customers receive the same treatment and that Westcoast be allowed to suspend deliveries to either a sales or service customer after seven days of default of payment, if Westcoast has given 48 hours written notice of its intention to suspend.

Westcoast replied that the service customers are treated more severely than the sales customers because of the lesser creditworthiness of the service customers. Westcoast said that if a longer period of notice were adopted for service customers, this would create the need for more security.

Decision

With regard to the interest rate on delinquent accounts, it is the Board's view that Westcoast's proposal of prime plus five percent is too severe. Accordingly, the Board approves a rate of prime plus two percent as it finds this rate more reasonable.

The Board has been persuaded that a reasonable period of time must elapse before Westcoast should be entitled to consider remedies to secure the payment of delinquent accounts and that 48 hours, as proposed by Westcoast, is not a reasonable period of time. In addition, as stated previously, the Board is of the view that wherever possible there should be no difference in the terms and conditions of sales customers as compared to those of service customers. Therefore, the Board has decided that uniform remedies shall apply in cases of delinquent accounts by Westcoast's customers and that, following the suggestion of COFI/Cominco, Westcoast shall incorporate the following words in the respective General Terms and Conditions for Sales and Service:

"If a failure by Buyer/Shipper to pay continues for 7 days, then, in addition to any other remedies Westcoast may have, Westcoast may thereafter suspend deliveries of gas. If such default by Buyer/Shipper continues for a further 30 days, then in addition to any other remedies Westcoast may have, Westcoast may terminate the Sales/Service Agreement with Buyer/Shipper. In order for Westcoast to have the right to suspend deliveries or to terminate the Sales/Service Agreement pursuant to this section (appropriate number), Westcoast must first give Buyer/Shipper 48 hours written notice of its intention to exercise either or both of such rights and give buyer/shipper the right to pay the amount due to Westcoast within that 30-day period."

4.11.4 Force Majeure

A number of intervenors took issue with the proposed wording of the force majeure provision contained in Westcoast's General Terms and Conditions. COFI/Cominco and Ocelot submitted that this article be modified to provide relief from the payment of Westcoast's tolls when a force majeure occurred on or outside Westcoast's system. It was submitted that an application of the present wording would relieve Westcoast of its contractual obligations should force majeure occur on the Westcoast system, but if the event occurred outside the Westcoast system the shipper claiming force majeure would still be required to make monthly toll payments per the service agreement with Westcoast.

Westcoast submitted that the force majeure article provides a fair sharing of responsibilities between itself and the shipper. Westcoast would be obliged to provide a credit to the demand component of its tolls if a force majeure occurred on Westcoast's system, whereas the shipper would still pay Westcoast's toll, if a force majeure occurred on the shipper's system.

Decision

The Board is of the view that the purpose of a force majeure provision is to relieve a party claiming force majeure from its contractual obligations for the duration of the event because it is faced with an event beyond its control. Therefore, the Board directs that the Sales and Service General Terms and Conditions respectively be amended as follows:

(1) Article 14.03 - Sales (Article 18.03 - Service)

(a) Notwithstanding Article 5.01 - Sales (Article 6.01 - Service) in the event of either Westcoast or a shipper being rendered unable, wholly or in part, by force majeure, to perform or comply with any condition or obligation hereof or any condition or obligation of the Sales/Service agreement between the parties, such conditions or obligations, so far as they are affected by such force majeure, shall be suspended during the continuance of any inability so caused.

(b) **Notwithstanding Article 14.03(a) - Sales (Article 18. 03(a) - Service) force majeure shall not relieve any party from any obligation unless such party shall give notice of the cause of the force majeure in writing to the party with reasonable promptness and like notice shall be given upon termination of such cause, nor shall such cause continue to relieve such party from such other obligation after the expiration of a reasonable period of time within which, by the use of due diligence, such party could have performed its obligations.**

4.11.5 Arbitration Clause

Czar/Wainoco and Ocelot recommended the addition of an arbitration clause to the General Terms and Conditions for Service. Czar/Wainoco suggested that the clause should require the parties and arbitrators to deal with any issues within a reasonable and specified period of time. Czar/Wainoco also believed the clause would reduce the necessity of parties coming to the Board every time a problem arises.

Westcoast believed that such a clause was not necessary or even perhaps workable and that parties should be able to resolve any differences between themselves.

Decision

The Board is not convinced that an arbitration clause is necessary at this time. The Board therefore denies the intervenors request for an arbitration clause.

4.11.6 Deletion of Commercially Sensitive Information

Article 17.02 of the General Terms and Conditions for Service specifies that, upon request, the shipper is to provide Westcoast with copies of all authorizations, permits, licences, certificates and agreements that are necessary for the delivery and redelivery of gas under a service agreement.

Petro-Canada submitted that, from the perspective of a free market system and considering that Westcoast plans to set up a separate body to carry out its marketing function, a shipper should be able to delete from gas sales contracts any provisions which it regards as commercially sensitive.

Westcoast did not comment on the matter, nor did other intervenors.

Decision

While the Board agrees that Westcoast should have the right to be reasonably assured that all the necessary documents and authorizations are in place to permit the service to commence, it does not believe that such assurance should entitle Westcoast to obtain copies of such material that may contain commercially sensitive information. The Board therefore requires Westcoast to delete the last sentence of Article 17.02 of the General Terms and Conditions for Service which reads as follows:

"Shipper shall upon request provide Westcoast with copies of all such authorization, permits, licences, certificates and agreements."

4.11.7 Determination of Raw and Residue Gas Volumes

Westcoast, as part of its original filing, provided in Article 10 in the General Terms and Conditions for Service, procedures to determine the quantity of residue gas that was obtained from the processing of the raw gas delivered by the shipper. Westcoast proposed one set of procedures to be used at the Taylor and Boundary Lake processing plants, and another set for the Fort Nelson and Pine River processing plants.

In its final version of the General Terms and Conditions for Service, Westcoast removed the article entirely. Westcoast explained that the allocation procedures proposed for the Taylor and Boundary Lake processing plants were inappropriate as they would assume uniform shrinkage for all gas processed. This would be inconsistent with the provision in the service agreement which requires shippers to pay for processing and gathering based upon the actual composition of their gas. Westcoast removed the procedures for the Fort Nelson and Pine River processing plants because it felt that there are other words in the General Terms and Conditions for Service which specify that the allocation of residue gas to the shipper would be based upon its gas composition.

Czar/Wainoco and Ocelot submitted that the residue gas allocation procedure is not adequately or clearly explained in the revised General Terms and Conditions for Service. They proposed that the allocation procedure originally proposed for the Fort Nelson and Pine River processing plant (based on methane and ethane content) be reinstated and that it be made applicable to all of Westcoast's processing plants.

Decision

In reviewing this matter, the Board is of the view that Article 13 in the final version of the General Terms and Conditions for Service adequately addresses the manner in which Westcoast will determine the residue gas equivalent of a shipper's gas. Accordingly, the Board denies the intervenors requests to reinstate these procedures.

4.11.8 Monies from Penalties

Westcoast proposed that it be allowed to keep any monies from UOR and reporting penalties. It justified its position by stating that the purpose of penalties is to provide discipline. In fact, Westcoast said that it does not expect to realize any money from penalties. In the case of UOR penalties, Westcoast argued that a credit to the cost of service would seem to negate the effect of the penalty in as much as the offending party might get part of the funds back.

IPAC submitted that UOR penalties should be used to offset any CD credits that Westcoast may be required to pay to Northwest in the future. Further, IPAC submitted that the penalties should be

credited to the cost of service if such CD credits are not required or if penalties exceed the amount of the CD credits.

A number of intervenors took the position that Westcoast should not be entitled to retain any penalty revenues. Two intervenors suggested that if penalty revenues are realized, they should either accrue to system gas producers, if the system gas backstopped the shipper's redeliveries, or be debited to the system sales cost of service if the shipper backstopped system sales.

Decision

The Board believes that Westcoast's penalty provisions are sufficiently harsh to provide the necessary incentive to shippers to avoid the incurrence of such penalties. The Board therefore has decided to allow Westcoast to keep monies it may receive from penalties and will require the Company to record separately any penalty revenue.

4.11.9 Changes to Pro Forma Service Agreements

In their supplementary direct evidence, Czar/Wainoco expressed concern with Article 2.01 of the Pro Forma Service Agreement, which describes the service to be provided by Westcoast, and Article 4, which sets out the delivery and redelivery points.

Czar/Wainoco proposed that Article 2.01 be restated in terms of the applicable functions (gathering, processing and transmission); the conversion of raw gas volumes to residue gas volumes; and the impact of energy balancing on the contractual volumes. Czar/Wainoco also recommended that a provision be included in Article 4 whereby Schedule A, which sets out the delivery points, and Schedule B, which sets out the redelivery points, could be amended.

Decision

The Board notes that neither Westcoast nor other intervenors commented on the concerns raised by Czar/Wainoco.

The Board, having reviewed the Pro Forma Service Agreements filed by Westcoast, is not convinced that it is necessary to institute the changes suggested by Czar/Wainoco. Accordingly, the Board has denied the changes proposed by Czar/Wainoco.

Chapter 5
Matters Relating to Order TG-5-79

5.1 Overruns

Order TG-5-79, as amended, authorized Westcoast to automatically include, in its average monthly rate base or cost of service toll, costs which had either been previously approved by the Board or which had been determined pursuant to methods or parameters which the Board had approved. Costs in excess of amounts previously approved could not be included in the rate base or cost of service prior to Board approval following its review of an application by Westcoast which provided the amounts of the overruns and the reasons they were incurred.

Although the current hearing was held for the purpose of determining the appropriate tariffs and tolls which should apply to Westcoast under a fixed-toll regime, the Board decided to review the Company's overrun applications as part of these proceedings. The Board's decisions in these matters follow under Sections 5.2 and 5.3.

5.2 Request for Additions to Rate Base

By an application dated 21 March 1986, Westcoast requested approval to include in the average monthly rate base $225,000, representing project costs which were in excess of the greater of $25,000 or 105 percent of the estimated cost of facilities approved under Part III of the NEB Act. On 11 April 1986, Westcoast submitted a supplementary request for approval of further rate base additions amounting to $24,000. Both applications were filed pursuant to Paragraph 16 of Schedule A to Order TG-5-79, as amended. Intervenors did not question the prudency of the overruns nor did they object to their inclusion in the average monthly rate base.

Decision

The Board approves the amount of $249,000 for inclusion in the average monthly rate base.

5.3 1985 Operating and Maintenance Budget Variance Report

In accordance with both Paragraph 14(b) of Schedule A and Paragraph 41 of Order TG-5-79, as amended, Westcoast, on 28 February 1986, filed its 1985 Budget Variance Report and application. By that submission, Westcoast requested Board approval to recover in its monthly cost of service toll O&M overruns totalling $2,579,000 for certain cost centres together with carrying charges calculated in accordance with Paragraph 9.5 of Order TG-5-79, as amended. A Company witness stated that $99,000 relating to legal costs on the Kingsgate system in southern Alberta should be deducted from this amount (see Table 5-1).

Table 5-1
Westcoast's 1985 O&M Budget Overrun Application
($000)

Cost Centre	Salaries, Wages & Benefits	Other Expenses	Contingencies	Total
		113		
Northern District	99		-	212
Southern District	-		-	-
Fort Nelson Plant	319		-	324
McMahon Plant	-	734		734
Taylor Sulphur Plant	63	77		140
Pine River Plant	-	16	-	16
Other Cost Centres	-	-	-	-
Vancouver Departmental	-	30	-	30
General Administrative	-	1,123	-	1,123
Subtotal	**481**	**2,093**	**5**	**2,579**
Overrun Adjustment	-	(99)	-	(99)
Total	**481**	**1,994**	**5**	**2,480**

Intervenors questioned Company witnesses on various expenses which overran the approved budgets; however, no intervenor opposed their recovery.

Decision

The Board approves the recovery of $2,480,000 being $2,579,000 less $99,000, plus-carrying charges to 15 August 1986, calculated in accordance with Paragraph 9.5 of Order TG-5-79, as amended. This amount shall be recovered as part of the December 1985 cost of service pursuant to Paragraph 41 of such Order.

Chapter 6
Rate Base

The Board's adjustments to rate base for the test year ending 31 December 1986 are shown in Table 6-1. The details of the adjustments are explained in the sections following.

6.1 Grizzly Valley Pipeline Replacement Project

6.1.1 Westcoast's Proposed Accounting Treatment

The Grizzly Valley pipeline failed while in sour gas service in July 1981. Westcoast replaced the failed sections and in December 1982 applied for Board authorization to treat the cost of the abandoned line as an extraordinary retirement and include the replacement line in gas plant in service (GPIS).

Table 6-1
Average Rate Base
Test Year Ending 31 December 1986
($000)

	Application[1]	Application as Revised[2]	NEB Adjustments	Authorized by NEB
Gas Plant in service	1,258,543	1,254,850	(132)	1,254,718
Accumulated depreciation	(502,528)	(502,495)	5,860	(496,635)
Net plant in service	**756,015**	**752,355**	**5,728**	**758,083**
Extraordinary plant loss - Grizzly Valley	3,391	3,391	-	3,391
Preliminary surveys and investigations - Vancouver Island Project	3,169	3,169	(3,169)	-
Income tax adjustment - Grizzly Valley	-	-	(11,324)	(11,324)
Contributions in aid of construction	(3,780)	(3,780)	-	(3,780)
Plant investment	**758,795**	**755,135**	**(8,765)**	**746,370**
Materials and supplies	15,829	15,829	-	15,829
Line pack gas	5,881	5,320	-	5,320
Prepaid expenses	2,376	2,376	(996)	1,380
Deferred income taxes	(75,531)	(75,531)	-	(75,531)
	707,350	**703,129**	**(9,761)**	**693,368**
Cash working capital	16,020	16,016	(8,821)	7,195
Average rate base	**723,370**	**719,145**	**(18,582)**	**700,563**

1 Application dated 1 December1985, as revised by Westcoast on 26 February 1986.
2 On 16 June 1986, Westcoast filed Exhibit B-108 updating the application to reflect various changes based on matters raised during the hearing.

Westcoast also commenced a court action to recover the cost of the replacement line from various companies which it claimed were responsible for the failure. The amount sought, $22,032,000 plus interest, was based on the estimated cost of the replacement project.

Westcoast's application for approval of its proposed accounting treatment was addressed in 1983 during the public hearing into the Company's tolls. After consideration of the views of all parties the Board issued Order AO-20-TG-5-79 which directed Westcoast to leave the cost of the original line in GPIS and, effective 1 September 1983, place the cost of the replacement project, less accumulated depreciation, in a deferral account, with carrying charges, until the earlier of the resolution of the action commenced by Westcoast in the B.C. Supreme Court, or 31 December 1985.

On 8 November 1985, Westcoast informed the Board that on 30 October 1985 it had reached a settlement with the parties to the litigation. The Company had received in settlement an amount of $20,250,000. At the same time Westcoast also applied for an order approving its proposal to treat the original Grizzly Valley pipeline as an extraordinary retirement and include the net cost of the replacement project in rate base. This would have allowed Westcoast to recover the undepreciated cost of $4,135,396 of the original line in the cost of service during November and December 1985 and to transfer the net cost of the replacement line, $10,732,239, from the deferral account to GPIS.

Interested parties did not object to the Company's proposal. However, they raised the issue of possible income tax implications and BCPC, in particular, requested that the Board not rule on the application until it had been given an opportunity to make a submission addressing this issue. The Board denied the Company's application and on 12 December 1985 issued Order TGI-10-85 which directed Westcoast to place the unrecovered cost of the replacement project in a deferral account, with carrying charges, pending disposition of the matter as part of the forthcoming Westcoast toll hearing.

In its current application, Westcoast again proposed including, effective 1 January 1986, the net cost of the replacement project in rate base and treating the original line as an extraordinary retirement with the undepreciated cost being recovered in the Company's tolls over a three-year period. The Company also proposed including the unamortized balance in rate base.

Intervenors believed that Westcoast had pursued the court action against the companies responsible for the manufacture of the original pipe in a diligent manner and had concluded a satisfactory settlement. There was therefore general agreement with the proposed accounting and toll-making treatment of both the original Grizzly Valley pipeline and the replacement project.

Intervenors, however, were opposed to the manner in which Westcoast was proposing to treat the income tax implications related to the Grizzly Valley pipeline replacement project. For a discussion of this issue and the Board's decision refer to Section 8.8.1.

Decision

The Board has considered the evidence submitted by Westcoast in support of its proposed accounting and tollmaking treatment relating to the original Grizzly Valley pipeline and the replacement project.

The Board believes that Westcoast actively pursued its case in the court action against the various parties responsible for the manufacture of the pipe and reached an equitable settlement in its agreement with these parties. The Board also notes that intervenors were in general agreement with the treatment

proposed by Westcoast for the disposition of the Grizzly Valley issue. Accordingly, the Board has approved Westcoast s proposal, effective 1 January 1986, as follows:

(a) the cost of the original Grizzly Valley pipeline in the amount of $6.763 million shall be removed from Account 100 - Gas Plant in Service;

(b) an amount of $2.695 million relating thereto shall be removed from Account 105 - Accumulated Depreciation;

(c) an amount of $4.068 million shall be placed in Account 171 - Extraordinary Plant Losses and amortized to the cost of service in equal amounts each month over a period of 36 months;

(d) the unamortized balance in Account 171 shall be accorded rate base treatment during the amortization period; and

(e) the net cost of the replacement project amounting to $10.599 million shall be placed in Account 100 Gas Plant in Service and included in the calculation of average rate base.

6.1.2 Review of Order TGI-10-85

Upon receipt of an application for review from Westcoast as mentioned in Section 1.4, the Board decided to review its Order TGI-10-85 which dealt with the accounting treatment for the costs associated with the Grizzly Valley pipeline replacement project. The request for a review arose because of the fact that the settlement of the Grizzly Valley court action occurred on 30 October 1985 and the Board did not issue the above-referenced Order until 12 December 1985. Based on the Board's interpretation of the original Order AO-20-TG-5-79, it concluded that the original Order terminated on 30 October 1985 with the settlement of the litigation. The Board also concluded that the effective date of Order TGI-10-85 had to be 12 December 1985, since to find otherwise would amount to retroactive rate-making. As a result, there was a period of approximately six weeks during which these costs were not included in a deferral account and therefore carrying charges did not accrue.

In its application for review dated 9 April 1986, Westcoast argued that to permit carrying charges on the deferral account for the period commencing 31 October 1985 would not constitute retroactive rate-making. The Company further submitted that, even if the Board were to conclude that the applied-for treatment would constitute retroactive rate-making, the Board had the jurisdiction to make such a retroactive order.

In its letter to the Board dated 18 December 1985 wherein Westcoast sought clarification of the effective date of Order TGI-10-85, it was submitted that if the Board concluded that the effective date of the Order was 12 December 1985 the following results would have occurred:

(a) The Grizzly Valley replacement project would automatically have been returned to GPIS, by the operation of Paragraph 1(c)(iii) of Schedule 8 to Order TG-5-79, on 30 October 1985 where it would have earned a return and have been subject to depreciation;

(b) On 12 December 1985 the balance of the Grizzly Valley replacement project would have been transferred from GPIS to the new interim deferral account (established by Order TGI-10-85); and

(c) Carrying charges would have accrued on the amount transferred commencing 12 December 1985 as set out in Paragraph 3 of Order TGI-10-85.

Interested parties were given an opportunity to speak to this matter in final argument but only Inland, who supported the application by Westcoast, spoke to this matter.

Decision

The Board has considered the arguments presented by Westcoast both in its written application for review and in final argument and is not persuaded that the interpretation originally given Order TGI-10-85 is incorrect. However, the Board concurs with the accounting treatment detailed by Westcoast in its letter of 18 December 1985, as it is of the view that when Order AO-20-TG-5-79 terminated on 30 October 1985 the treatment detailed by Westcoast resulted from the normal operation of Order TG-5-79. The Board notes that in final argument Westcoast stated that if this accounting treatment were acceptable to the Board, the Board could consider its application for review as being withdrawn.

Therefore, the Board accepts the withdrawal of the application for review by Westcoast and will make no further ruling on this application.

6.2 The Vancouver Island Project

In its August 1983 Westcoast Reasons for Decision, the Board directed Westcoast to record all present and future costs relating to the Vancouver Island project in two deferral accounts. In one account Westcoast was to place all hearing costs while the second would contain all costs which were not hearing related. Both accounts were to accrue carrying charges calculated at the Company's authorized rate of return on rate base. In June 1984, the BCUC, after a lengthy hearing into the proposed construction of a pipeline to transport natural gas to Vancouver Island, decided that such a project should be built by B.C. Hydro.

In its current toll application, Westcoast applied for recovery of certain Vancouver Island project costs which amounted to $4.002 million including carrying costs. The breakdown of these amounts are shown in Table 6-2. During cross-examination, a Company witness informed the Board that salaries and wages of $768,921 related to this project had already been recovered through the monthly cost of service toll.

Table 6-2
Vancouver Island Project Costs
($000)

	Project Costs	Carrying Costs	Total
Hearing	1,533	365	1,898

Preliminary Survey	1,585	519	2,104
Total	**3,118**	**884**	**4,002**

Westcoast proposed recovering the costs over a period of three years, commencing 1 January 1986, with the unamortized balance being included in rate base.

The project Westcoast proposed consisted of a pipeline from Williams Lake to Powell River, where it intended locating a world-scale fertilizer plant, with an underwater pipeline to Comox on Vancouver Island.

Westcoast argued that projects such as this, which would benefit all users of the Westcoast system, should be paid for by those users whether the project proceeded or not. The Company also stated that it did not believe that its approved utility rate of return on equity compensated its shareholders for the risks assumed on utility projects applied for, but not constructed due to a denial of regulatory approval.

Westcoast believed that, as a major gas utility, expanding the market for B.C. natural gas to Vancouver Island was a proper part of its utility activity and one it should pursue because of the benefits that would accrue to the producers, distributors and consumers in the province.

Westcoast had ceased all work on the project after the B.C. government decided in February 1981 that the pipeline should be constructed by B.C. Hydro. However, in April 1982, the Company was informed by letter from the B.C. Minister of Energy, Mines and Petroleum Resources that applications were being sought from interested parties in order to evaluate the project in a public hearing to be held before the BCUC. In response to this notification the Company made an application to the BCUC.

CPA indicated that it had consistently opposed the construction by Westcoast of a pipeline to Vancouver Island. It claimed that the operation of the pipeline would have resulted in a cumulative revenue deficiency which would place an additional burden on the tollpayers of the existing system by virtue of rolled-in pricing. CPA also stated that if the Board allowed Westcoast to recover its preliminary costs, it would allow the utility to have a competitive advantage over a non-regulated company and, as an example, cited the Company's recovery of approximately $769,000 of direct salaries and wages.

COFI did not believe that the proposed pipeline to Vancouver Island was a simple expansion of the existing system but was, rather, a major extension into a new market area. IPAC pointed out that Westcoast proceeded with its application before the BCUC, using field prices which it considered to be realistic but which, however, were not the prices which the provincial government had previously determined should be used by the applicants in their submissions.

B.C. Hydro was opposed to the recovery of any costs that had not previously been recovered in the cost of service.

In summary, the intervenors took the position that if a regulated utility such as Westcoast were to decide to apply for a reasonably risky project such as a pipeline to Vancouver Island it would, if

successful, benefit from the addition of the facilities to rate base. If, however, the project were not to go ahead, then Westcoast's shareholders should be prepared to absorb any costs associated with it.

Decision

The Board agrees with CPA that in most circumstances a regulated utility would have an advantage over an unregulated company if the regulator were to allow the utility to recover the preliminary costs of projects which were proposed but never constructed. Such a situation would discriminate against the unregulated company and, indeed, might discourage it from pursuing utility projects in competition with a regulated utility if it believed the regulated utility would not be at risk for the recovery of its costs. The issuance of a certificate of public convenience and necessity by the Board to construct and operate a particular pipeline is not intended to give that company a competitive advantage respecting all possible proposals to extend that pipeline or to build new unconnected pipelines.

The Board, however, does not believe that the Vancouver Island project is typical, in that there were other factors involved which the Board must consider in arriving at its decision. One of these factors was the B.C. government's decision, after initially deciding that B.C. Hydro should construct the pipeline, to have the BCUC evaluate the project through the public hearing process. As a result of this decision, Westcoast, for all practical purposes, was invited to submit an application for consideration by the BCUC. Another factor the Board must consider was the encouragement companies were receiving from governments during that period to extend pipelines and make natural gas available to consumers from coast to coast, thus reducing Canada's dependence on oil. In this respect, it should be noted that under the former National Energy Program, subsidies were to be made available to help reach this goal.

The Board also notes that Westcoast has already recovered, through the cost of service toll, direct salaries and wages of $768,921 relating to the Vancouver Island project, in addition to having taken advantage of various expenses available as deductions for income tax purposes.

The Board has concluded that the Vancouver Island project is not representative of the type of project whose risks should be borne entirely by the shareholders. Accordingly, the Board has decided that there should be an equitable sharing of the project costs between the shareholders and the tollpayers. Having given consideration to all of the evidence, the Board approves the recovery of all of the preliminary survey costs of $1.585 million and one-half, or $767,000, of the hearing costs over a period of 36 months commencing 1 January 1986. However, the Board disallows all of the carrying costs amounting to $884,000 and denies the inclusion of the unamortized balance in the calculation of average rate base.

6.3 Gas Plant in Service

6.3.1 Forecasted Plant Additions

Westcoast, in its final update dated 14 May 1986, applied to include in average GPIS for the test-year forecasted plant additions amounting to $48.532 million. This figure included the estimated costs of the "Sikanni Pipeline" project, $6.952 million and the "McMahon Plant Sour Condensate Piping" project, $675,000. Neither of these projects had received Board approval under Part III of the NEB Act at the close of the hearing.

Westcoast was of the opinion that rate base should include the most likely forecast of test-year capital additions notwithstanding the fact that one or more of such capital additions had not yet been approved by the Board.

Inland took the position that none of the costs associated with the Sikanni project should be included in rate base until the project had received Board approval. Inland noted that if the Board were to approve Westcoast's proposed deferral account for unexpected capital additions and were to extend it to include forecast additions not yet approved, this would provide adequate protection to Westcoast.

Decision

The Board approves the inclusion in the test year of the cost of all the projects which had received the Board's approval under Part III of the Act prior to the close of the evidentiary portion of the hearing. In addition, the Board approves the inclusion of the forecasted costs for the Sikanni Pipeline project. With respect to the McMahon Sour Condensate Piping project, however, the Board notes that, by letter dated 10 July 1986, Westcoast withdrew its facilities application filed under Part III of the NEB Act. Accordingly, the Board has reduced the average test-year GPIS by $132,000 to reflect the removal of the capital costs of this project.

6.3.2 Rate Base Information

The Board notes that, during this hearing, Westcoast was not able to provide complete responses to certain of the Board's requests for rate base information in view of the amount of time required to prepare this information.

Decision

The Board directs Westcoast to provide in its next toll application details of every project for which costs were transferred to or are expected to be transferred to GPIS during the base and test years. For each project, the detailed tabulation should indicate:

(a) project number and title-as filed under Part III at of the Act;

(b) authorizing Board Order number;

(c) **cost estimate as applied for under Part III of the Act;**

(d) **first date placed in service;**

(e) **cost transferred to gas plant in service during the base and/or test year;**

(f) **total cumulative booked cost as at the end of the base and/or test year;**

(g) **estimated additional cost required to complete the project beyond the test year;**

(h) **estimated or actual date of account closure; and**

(i) **total estimated cost of the project.**

6.4 Accumulated Depreciation and Unamortized Balances

6.4.1 Accumulated Depreciation

The Board has adjusted the test-year average accumulated depreciation to reflect its decisions on depreciation rates and expense as detailed in Section 8.2.2. The debit adjustment is shown in Table 6-3.

Table 6-3
NEB Adjustments to Accumulated Depreciation
($000)

Average accumulated depreciation added during the test year:	
per Application	18,698
per NEB	12,838
NEB Adjustment	**5,860**

6.4.2 Unamortized Balances

The Board has removed $3.169 million from average rate base to reflect its decision in Section 6.2 to deny rate base treatment of the Vancouver Island project costs. The Board has also included a credit to rate base of $11.324 million which represents the average unamortized balance of the Grizzly Valley income tax adjustment as explained in Section 8.8.l.

6.5 Line pack Gas

In its final revision to its application, Westcoast estimated the average value of line pack to be $5.320 million for the test year. Westcoast indicated that the test-year volumes of line pack gas were determined by analyzing historical measurement records for the past three years and from simulations

using test-year throughput projections. The Company also acknowledged that there is a great deal of difficulty in trying to determine the volume of line pack at any given point in time in its system.

During cross-examination and in final argument, intervenors noted the difficulty that Westcoast appeared to have in estimating its line pack volumes and price. CPA suggested that this uncertainty and complexity could be avoided by Westcoast adopting what the intervenor believed to be the approach used by TransCanada, whereby Westcoast would calculate the average line pack for the test year and capitalize it at the forecast average cost of system gas and adjust the rate base for changes in price. The effect of this proposal would be for Westcoast to derive a normalized line pack number and adjust it only for price changes.

A witness for Westcoast stated that such an approach would be worthy of consideration.

B.C. Hydro took the position that line pack should be amortized out of rate base. However, if this were not to be the case, the intervenor believed that Westcoast should examine the possibility of buying line pack at a discount.

Both B.C. Hydro and Inland expressed the concern that Westcoast's estimated line pack volume was overstated because it does not reflect the fact that Westcoast will no longer be providing line pack for shippers moving gas under direct transportation arrangements.

Decision

On the evidence presented, the Board is satisfied that Westcoast's estimates of line pack volume and cost for the test year are reasonable. However, the Board directs Westcoast to develop an alternative approach to valuing its line pack which would remove much of the complexity surrounding the current method.

6.6 Prepaid Expenses

Westcoast included in the test-year prepaid expenses an amount for special deposits averaging $996,000. Included in this amount were such items as temporary employee advances, imprest cash accounts, employee housing receivables and student loans. The Company believes these items qualify as expenses on the basis of being prepaid and, therefore, should form part of rate base.

CPA questioned their inclusion in rate base noting that the Board had disallowed them in a previous hearing.

Decision

The Board notes that the items comprising special deposits are in the nature of cash advances or receivables. The Board considers that the Company is already compensated for items of this type by the inclusion in rate base of an allowance for cash working capital. Westcoast's application to include an average amount of $996,000 for special deposits in its test-year prepaid expenses is therefore denied.

6.7 Cash Working Capital Allowance

The Lead/Lag Study

The Board, in its August 1983 Westcoast Reasons for Decision, directed Westcoast to submit a lead/lag study as part of its next toll application. The study, in addition to determining the leads and lags associated with revenues and operating expenses, was to include details of long-term debt interest payments and preferred share dividends.

On 18 October 1985, Westcoast filed such a study as part of its current toll application. The study had been compiled utilizing actual 1984 data and the same methodology that had been employed in a 1979 study; that is, it attempted to measure the average delay in days between the date when funds were disbursed and the date when they were recovered in revenues. In response to the Board's directive, the Company included details of interest payments on long-term debt and preferred share dividends. This information, although included as part of the lead/lag study, was not used to calculate, and thus determine, the cash working capital allowance.

When determining the number of lag days between the date when O&M expenses are charged to the cost of service and their recovery in the Company's revenues, Westcoast included items such as materials and supplies issued from inventory and the removal of insurance from prepaid expenses. In addition, taxes other than income taxes, on both a cash and accrual basis, and the lag in the recovery of the cost of foreign exchange were included in total operating costs. Also included in the study was a provision for the delay in the recovery of depreciation and amortization between the average time they are removed from rate base, and thus do not earn a return, and their recovery.

Cash Working Capital Allowance

Westcoast originally included in its toll application a test-year average cash working capital allowance of $16.020 million, an increase of $8.450 million over the base year. The application was subsequently amended and the final average cash working capital allowance requested was $16.016 million. The methodology employed in calculating the cash working capital allowance was identical to that used when preparing the lead/lag study.

Intervenors opposed the large increase in the cash working capital allowance requested by Westcoast believing it to be excessive. They noted on the revenue side that while the average distributor submits payment for its gas purchases 24 days after the end of the period in which service is provided, PNG, a Westcoast subsidiary, is granted an additional 17 days. Westcoast replied that the lead/lag study was factual and based on conditions which actually exist.

On the expense side, intervenors pointed out that issues from materials and supplies inventory, expensing of prepaid insurance and taxes other than income taxes on an accrual basis do not require the outlay of funds. In addition, because they are included in rate base where they earn a return, they should not be included in the cash working capital allowance. Intervenors also questioned the inclusion in the study of the provision for the lag which the Company claims exists between the booking of depreciation and amortization and their recovery.

Other issues raised in cross-examination were: the inclusion of a lag relating to foreign exchange which intervenors maintained was a financing cost and, the omission of the funds which Westcoast has available which result from the collection, as part of the return on rate base, of amounts used to cover interest payments on long-term debt and preferred share dividends.

Intervenors also questioned the omission of the lag between the date payments are mailed and their subsequent receipt by the supplier stating that Westcoast continued to have the use of the funds during this period. A Company witness agreed that the inclusion of a "mailing lag" in the lead/lag study appeared reasonable but stated that Westcoast had not undertaken a study to determine the actual length of such a lag.

Decision

The Board believes that an allowance for cash working capital is established to provide Westcoast's shareholders with a return on the funds they have invested, in addition to those invested in plant and inventories, which the Company requires to conduct its utility operations. These funds are typically used to pay employees' salaries and wages, purchase outside services and various other supplies and services which the Company requires in its daily operations.

Because such funds are, in the Board's opinion, operations-oriented, they bear a direct relationship to the utility s O&M expense. Many of the items which Westcoast has included in its cash working capital allowance such as materials and supplies withdrawn from inventory, expensing of prepaid insurance, and the accrual of taxes other than income taxes, are non-cash items and, in addition, are already being accorded rate base treatment. The delay in the collection of depreciation and amortization, which is also a non-cash expense, and the recovery of foreign exchange, which is a financing expense, are implicitly compensated for in the rate of return.

With regard to the payment of interest on long-term debt and preferred share dividends, the Board is of the opinion that these items, which are not a function of operations but of the financing of the Company, are components of the rate of return. Furthermore, they relate to contractual obligations entered into between Westcoast's shareholders and the Company's other investors. As such, they do not involve the day-to-day operations of the Company, and do not properly belong in the calculation of the cash working capital allowance.

In summary, the Board has decided that an appropriate cash working capital allowance shall be established on the basis of the first-year O&M expense with adjustments for employee payroll deductions, which bear a direct relationship to O&M expenses, and a mailing lag of 2.5 days for O&M expenses net of salaries, wages and employee benefits. The Board has adjusted the number of lag days relating to O&M expense by deducting from the calculation in the lead/lag study, materials and supplies issued from inventory and prepaid insurance charged to the cost of service. The Board has also disallowed taxes other than income taxes, foreign exchange and, depreciation and amortization.

Accordingly, the approved average cash working capital allowance for the test year is $7.195 million as shown in Table 6-4.

6.8 Allocation to Toll Zones

Westcoast has, for the purpose of determining the tolls it will charge for the various types of sales and services it offers, segregated its system on a functional basis into five toll zones.

The five zones are based on the 13 rate base sections prescribed by Schedule C to Order TG-5-79, with the exception of Section 13, Grizzly Valley, which is further subdivided into Sections 13(a) Gathering, 13(b) Pine River Plant and 13(c) Transmission to Station 2.

As a first step in allocating its cost of service to the five toll zones, the Company first allocates rate base to the 13 rate base sections to enable it to determine the return on rate base by section. In its application, Westcoast allocated the various items which make up the test-year rate base in accordance with Order TG-5-79 with the exception of deferred income taxes. Under Order TG-5-79, deferred taxes were allocated to the 13 zones prorata on the same basis as the rate base. Westcoast has now requested the Board to authorize a change so that the balance of deferred income taxes will be allocated on an "as paid" basis. The "as paid" basis, unlike the "rate base" method, approximates the contribution each rate base section has made to the deferred income tax balance by determining the timing differences between depreciation and capital cost allowance (CCA) for each rate base section during the period when the Company was calculating income taxes on a normalized basis.

Table 6-4
NEB Adjustment to Cash Working Capital Allowance
($000)

	Application as Revised	NEB Adjustments	Authorized by NEB
Operating and Maintenance[1]	8,747	(27)	8,720
Taxes other than income taxes:			
Cash basis	70	(70)	-
Accrual basis	3,833	(3,833)	-
Foreign exchange	390	(390)	-
Employee payroll deductions	(1,300)	-	(1,300)
Delay in collection of:			
Depreciation	4,031	(4,031)	-
Amortization of rate base items	242	(242)	-
Adjustments for:			
Sikanni	2	(2)	-
McMahon	1	(1)	-
Mail lag - 2 1/2 days[2]	-	(225)	(225)
Cash working capital allowance	**16,016**	**(8,821)**	**7,195**

1 Adjusted to comply with the Board's decision respecting salaries, wages and benefits in Section 8.1.1.
2 Calculated on the basis of O&M expenses less salaries and wages which are deposited directly to employees' bank accounts.

The Company believes that this method allocates the contribution each section has made to the deferred income tax balance in a more equitable manner than the method prescribed by Order TG-5-79.

CPA objected to Westcoast's proposal stating that calculating CCA on the basis of toll zones or rate base sections is hypothetical and inconsistent with the Income Tax Act.

Decision

The Board recognizes that calculating CCA by function or zone is inconsistent with the "pooling concept" prescribed by the Income Tax Act. However, the Board believes that, for toll-making purposes, the resulting allocation is more representative of the contribution each toll zone has made to the deferred income tax balance. Accordingly, the method proposed by Westcoast for allocating the deferred income tax balance is approved.

The Board also approves the allocation of the balance of the rate base components as per the methodology prescribed by Order TG-5-79.

6.9 Rate Base Deferral Accounts

Westcoast applied for a deferral account covering requests from outside parties for Westcoast to construct gathering and processing facilities on short notice. Under the previous variable-cost-of-service method of regulation when Westcoast received a leave to-open Order, the cost of the facilities, within certain limits, automatically flowed into the calculation of the average rate base. Westcoast believed that if it were to construct facilities on short notice under a fixed-toll method of regulation, it would require a deferral account to protect it from a loss of return on rate base, associated income taxes and depreciation.

Intervenors were not opposed to Westcoast having deferral accounts to protect it from expenses over which it has no control. However, they described a deferral account for facilities which the Company may be requested to construct as being more in the nature of a contingency item. They also stated that, whereas in the past the Company had constructed such facilities at the request of BCPC, this was not as likely to occur in the future because BCPC is no longer the sole seller of gas in B.C. and other parties now have the option of constructing their own facilities.

Decision

The Board agrees that under the provincial government's new gas marketing policy, which permits parties other than BCPC to request Westcoast to construct gathering and processing facilities, the likelihood of Westcoast being requested to provide facilities on short notice has decreased. To control the use of deferral accounts, the Board prefers to review their need on a case-by-case basis. In addition, if such requests for facilities are forthcoming, the Board believes that Westcoast will have sufficient advance notice to apply to the Board for approval of an appropriate deferral account. Westcoast's application therefore is denied.

Chapter 7
Rate of Return

Westcoast applied for a rate of return on rate base, as amended, of 12.18 percent for the test year ending 31 December 1986, as compared to the existing approved rate of 12.05 percent. The applied-for rate of return is based on a deemed average capitalization that equates to the average rate base plus average construction work in progress 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 7-1 and discussed in succeeding sections of this chapter.

Table 7-1
Applied-for Deemed Average Capitalization
& Overall Rate of Return for the Test Year
Ending 31 December 1986

	Amount ($000)	Capital Structure (%)	Cost Rate (%)	Cost Component (%)
Long-term Debt				
- Pre- 1986 Issues	429,994	57.67	11.48	6.62
-1986 Issues	20,458	2.74	10.69	.29
Preferred Equity	34,200	4.59	8.09	.37
Common Equity	260,967	35.00	14.00	4.90
Total Capitalization	**745,619**	**100.00**		
Rate of Return on Rate Base				**12.18**

7.1 Allocation of Debt and Preferred Shares Between Utility and Non-utility Operations

In its application, Westcoast proposed changing the method of allocating long-term debt and preferred shares between its utility and non-utility operations. Being concerned about the possible effects of its recent diversification into non-utility investments, Westcoast put forward a proposal that, in its view, ensured a fair allocation of debt and preferred shares between its utility and non-utility operations.

With respect to the allocation of currently outstanding long-term debt, Westcoast first determined an allocation factor for each debt issue placed prior to 1 January 1984. In doing so, the Company calculated an allocation factor of 86.92 percent for all such issues. This factor was determined by dividing the long-term debt component approved by the Board in its August 1983 Westcoast Reasons for Decision of $443.182 million by the total amount of Westcoast’s forecast corporate debt for 1983 of $509.891 million.

Having established 1983 as the starting point for its allocation proposal, Westcoast set forth a procedure for allocating subsequent debt issues which would, in its view, fairly allocate such issues between its utility and non-utility investments. The methodology involved determining the notional year-end unfunded debt component of the utility capital structure in a given year and then permanently allocating a portion of all long-term debt issues placed in that year to the Company's utility operations. This procedure resulted in an allocation factor of 25.18 percent for 1985, which was applied to the long-term debt issued in that year. A similar procedure is to be used to allocate the Company's long-term debt issues placed in the test year.

Both Dome and IPAC commented in their evidence that Westcoast's first mortgage pipeline bonds should be allocated entirely to the utility. While no intervenor questioned the Company's debt allocation proposal during cross-examination, CPA expressed dissatisfaction in argument with the Company's allocation of debt between utility and non-utility investments arising out of Westcoast's last toll hearing. Since, in CPA's view, the current debt allocation proposal perpetuates the 1983 toll application, CPA considered the Company's current proposal to be defective.

Decision

The Board notes that if the Company's first mortgage pipeline bonds were allocated entirely to the utility as suggested by various intervenors, the cost rate of long-term debt would be reduced from the applied-for level but that the reduction would essentially be offset by increased foreign exchange losses associated with these issues. The Board also notes that the Company's highest cost debt is due to be retired in 1987. Having regard to all of the evidence presented, the Board is of the view that under the circumstances the Company's proposal for allocating debt between utility and non- utility operations is reasonable. Therefore, the Board accepts the Company's proposal.

With respect to the allocation of preferred shares, Westcoast indicated that in 1985 it purchased or redeemed all of its outstanding 8.50 percent Series A preferred shares, all of which had been previously allocated to the utility. In November 1985, the Company replaced this issue by selling $35 million of 7.68 percent preferred shares, these shares also being allocated entirely to Westcoast's utility operations. A witness for the Company confirmed during cross-examination that the proceeds from this issue were used to repay short-term debt incurred in connection with the Company's pipeline system. No intervenor objected to the allocation of this particular issue to the utility operations of Westcoast.

Decision

The Board accepts the Company's allocation proposal for its currently outstanding preferred shares.

7.2 Funded Debt

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

In its final revision, Westcoast applied for a cost rate of 11.48 percent, using a net proceeds method[1] to calculate the cost of funded debt. This rate was calculated in a manner consistent with the Company's last toll application. No intervenor objected to the methodology used or the applied-for cost rate.

Decision

The Board accepts the applied-for cost rate of 11.48 percent.

7.3 Unfunded Debt

Westcoast applied for a cost rate on its forecast unfunded debt balance of 10.69 percent, as amended. In determining this rate, the Company used as a benchmark its revised forecast long-term Government of Canada rate for the test year of 9.50 percent. An additional 100 basis points was then added to this base rate, representing the Company's view as to the appropriate spread between long-term Canada and "A"-rated utility rates. This rate was further adjusted to reflect the amortization of expected issuance costs.

With respect to the forecast long-term Canada rate of 9.50 percent, Westcoast argued that there did not seem to be much dispute that this rate was the appropriate point of departure in determining the appropriate cost rate for unfunded debt. The Company did note that there was disagreement concerning the appropriateness of a 100 basis point spread between long-term Canada's and Westcoast's "A"-rated corporate issue rate. In this regard, a witness for Westcoast stated that he had been advised that the more appropriate spread to use was 115 basis points, this being the then current spread provided to him by an investment banker. He further stated that his use of a 100 basis point spread may have been conservative at that time.

CPA argued that the prospective cost rate for the utility's share of debt to be issued later in 1986 should be reduced by some 25 basis points, this adjustment approximating the average spread in 1985 between "A" and "A+"-rated bonds. In support of its position, CPA's argument focussed on two points: firstly, that Westcoast had adopted a spread above the projected long-term Canada rate which was at the upper end of historical spreads and secondly, that recent developments suggest that the substantial increases in Westcoast's oil and gas activities have adversely affected the Company's level of risk and, hence, the cost rate of its debt. B.C. Hydro supported the argument put forward by CPA.

BCPC argued that there was no evidence to support the forecast long-term Canada rate of 9.50 percent. BCPC also questioned the validity of the 100 basis point spread used by the Company in arriving at its applied-for cost rate of unfunded debt. In argument, BCPC suggested that 10.10 percent was about as high as the rate will likely be and that the Company can, by appropriate timing, get its issues placed at a rate of 10 percent or less.

Decision

The Board notes that a Company witness stated that Westcoast intends to place an additional long-term debt issue in late summer or early fall. Having considered

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1 Under Westcoast's applied-for approach, the cost of funded debt is calculated by dividing financial charges, including amortization of debt discount and expense and gains on sinking fund purchases, by the net proceeds of debt outstanding.

all of the evidence, giving particular consideration to current and prospective interest rates and the expected timing of the Company's test-year long-term debt issue, the Board has decided to cost the unfunded debt component of the allowed capitalization at a rate of 10.25 percent.

7.4 Preferred Shares

Westcoast applied for a cost rate on its preferred shares of 8.09 percent. This rate was calculated using a net proceeds approach[1], which is consistent with the method used by the Company to cost its funded debt. No intervenor objected to the use of this methodology in arriving at the cost of preferred shares for the test year.

Decision

The Board accepts the applied-for cost rate of 8.09 percent.

7.5 Common Equity

In its initial application, Westcoast applied for a rate of return on common equity of 15.25 percent in conjunction with a deemed common equity ratio of 35 percent. However, during cross-examination Westcoast indicated that changing circumstances during the course of the toll proceeding led Westcoast to the conclusion that the Company should reduce to 15 percent its applied-for rate of return on common equity and increase its applied-for common equity ratio to a level of 36 percent.

With this view in mind, Westcoast commenced a series of meetings with senior representatives of CPA in an attempt to negotiate a settlement on these two rate of return components. These negotiations resulted in an agreement between the two parties that Westcoast would apply for, and CPA would support, a rate of return on equity of 14 percent and a deemed common equity ratio of 35 percent. The same agreement was then reached with IPAC and BCPC. All other intervenors who actively participated in the toll proceeding were then approached. Such parties either agreed to or did not oppose the negotiated settlement.

The Company's applied-for common equity ratio and associated rate of return are discussed in more detail in Sections 7.5.1 and 7.5.2.

7.5.1 Common Equity Ratio

As stated previously, Westcoast applied for a deemed common equity ratio of 35 percent after first negotiating this particular return element with CPA, then having other interested parties agree to accept or not oppose this position. This agreed-upon ratio is in contrast to the pre-negotiation positions of Westcoast and CPA which were 36 and 32 percent respectively.

In assessing the reasonableness of a deemed common equity ratio of 35 percent for Westcoast in the test year, the Board has given consideration to the level of the Company's business risks, the implicit

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1 Under the Company's applied-for approach, the cost of preferred shares is calculated by dividing the dividend required plus the yearly amortization of issuance expense by the net proceeds of the preferred shares.

capital structure underlying the Company's nonjurisdictional activities and the requirement to have an appropriate balance between the different components of the deemed capital structure.

With respect to business risk, a Company witness stated that Westcoast's business risks had increased substantially since its last toll hearing in 1983. In support of this view, the witness noted that there had been several significant developments in recent years which had affected Westcoast's utility business. Westcoast further took the position during the hearing that the level of business risk facing the Company had increased since the time its original application was filed, citing considerable changes in the competitive position of gas as a result of the recent dramatic decline in crude oil prices, such changes resulting in additional uncertainties in Westcoast's export market.

When asked to comment on whether CPA had agreed during the negotiation process with Westcoast's perception regarding business risk changes, the witness stated that there was little discussion on the subject. He further stated that after the Company's position on the appropriate common equity ratio was put to CPA, discussion soon focussed on "a standstill situation" with respect to this return component. In summary, Westcoast argued that the applied-for common equity ratio of 35 percent could be found to be reasonable given its view that the business risks facing the Company's utility operations have increased somewhat since the Board's August 1983 Westcoast Reasons for Decision.

The Company also argued that the applied-for common equity ratio was reasonable after giving consideration to the implicit capital structure of its nonjurisdictional activities. It was noted that the amount of debt allocated to the non-jurisdictional activities of Westcoast in the test year was forecast to represent approximately 30 percent of the total amount of capital allocated to the non-utility. It was Westcoast's view that the forecast non-utility capital structure for the test year was reasonable in the light of the business risks facing these investments and thus no cross-subsidization of the Company's non-utility activities exists.

With respect to the maintenance of an appropriate balance among the different components of the utility's deemed capital structure, it was the view of a Company witness that the applied-for capital structure was reasonable in light of general prevailing financial conditions.

The Board notes that no evidence was presented that the use of a 35 percent deemed common equity ratio has adversely affected the financial flexibility or creditworthiness of Westcoast's utility operations.

Decision

Having regard to all of the evidence, the Board is not convinced that a change in the Company's deemed common equity ratio is warranted. Accordingly, the Board approves a deemed common equity ratio of 35 percent for the test year.

7.5.2 Rate of Return on Common Equity

Westcoast initially applied for a rate of return on common equity of 15.25 percent, which contrasted with the currently approved rate of 14.75 percent. In light of changing circumstances subsequent to the commencement of the hearing, the Company concluded that it should reduce its applied-for rate of return on common equity to a level of 15 percent. Finally, Westcoast applied for a rate of 14 percent. This rate was part of the negotiated settlement with intervenors referred to previously. Westcoast argued that the settlement in itself, having met certain criteria, is evidence upon which the Board could find the applied-for rate of return on equity to be reasonable. When asked to comment on the factors

taken into account by the Company in arriving at the negotiated rate of 14 percent, a Westcoast witness indicated that the negotiations took place at very senior levels and that the merits of specific numbers were not looked into to a great extent. Rather, the overall package proposed by the Company seemed to be acceptable to all parties.

In reaching this negotiated settlement, Westcoast met with senior representatives of CPA. It was noted during cross-examination that the original position of CPA's financial advisor prior to the negotiation process was 13.75-14 percent. During the negotiation process, CPA indicated that its updated advice would have resulted in a reduction in that rate of return on equity of some 50 to 75 basis points. As stated by a Company witness, such a reduction resulted in a revised position for CPA of 13.25 to 13.50 percent.

Westcoast indicated that it received advice from its financial advisor with respect to the recommended rate of return on common equity for the test year by reference to the comparable earnings, discounted cash flow and equity risk premium cost estimation techniques. At the start of the proceeding, the results of these tests were 15.50, 14.50 to 15.30, and 14.90 percent respectively. These results were subsequently updated to 15.25, 14 to 14.70, and 14 percent respectively. It was Westcoast's opinion that these results each in themselves supported the applied-for rate of return on common equity of 14 percent. The Company further reaffirmed it's position that the comparable earnings approach must, in the long run, be given significant weight in the determination of the rate of return on common equity.

It was noted during cross-examination that prior to negotiations taking place. Westcoast was prepared to lower its applied-for rate of return on equity by 25 basis points, whereas the advice obtained by CPA would have resulted in a 50 to 75 basis point reduction in CPA's recommended rate. When asked to comment on whether there was any discussion on this point during negotiations, a Company witness stated that there was not a great deal of discussion about the technical merits of the evidence prepared by their respective expert witnesses. He further stated that it was apparent, given these pre-negotiation positions, that a compromise had to be reached that seemed acceptable to both parties. In commenting on whether the current prospective economic conditions justified the applied-for rate of 14 percent, it was the Company's view that this rate was supported by a reduction in interest rates, higher levels of economic growth and lower rates of inflation. With respect to interest rates, it was noted that Westcoast's original forecast rates for long-term Government of Canada bonds and corporate debt in the test year were 10.80 and 11.375 percent respectively. These rates were subsequently reduced to levels of 9.50 and 10.50 percent respectively. In the area of economic growth, a Company witness indicated that Westcoast gave little consideration to this factor in determining its revised position of 15 percent or its final determination of 14 percent, looking more towards the results of the previously mentioned cost estimation techniques.

Decision

The Board is of the view that the settlement negotiated between the Company and interested parties should be given weight in the determination of a just and reasonable rate of return on common equity for Westcoast. However, given the Board's mandate, the existence of such an agreement cannot be the sole basis for determining the justness and reasonableness of the rate of return on equity component of the tolls applied for. This was acknowledged by Westcoast in its presentation of the settlement.

The Board notes that the initial interest rate forecasts in this proceeding were somewhat lower than the rates forecast at the time of the Company s last toll hearing. The Board also notes that during the hearing the Company s financial advisor further reduced his interest rate forecasts for the test year on long-term Government of Canada bonds and corporate debt by 130 and 88 basis points respectively.

The Board remains of the view that the determination of an appropriate rate of return on equity involves the exercise of judgment. Having regard to all of the evidence, including the negotiated settlement, and giving particular consideration to the decrease in interest rate levels since the time of the last toll hearing, recently experienced interest rates and the current outlook for such rates, the Board finds 13.75 percent to be a fair and reasonable rate of return on common equity.

7.6 Rate of Return on Rate Base

Based upon its findings with respect to capital structure and cost rates for debt and equity, the overall rate of return on rate base is 12.10 percent. The deemed capitalization and the derivation of the allowed rate of return are shown in Table 7-2.

Table 7-2
Deemed Average Capitalization and Overall Rate of Return Approved for the Test Year Ending 31 December 1986

		Amount ($000)	Capital Structure (%)	Cost Rate (%)	Cost Component (%)
Debt	- Funded	429,994	59.14	11.48	6.79
	- Unfunded	8,380	1.15	10.25	0.12
Total Debt Capital		438,374	60.29		6.91
Preferred Shares		34,200	4.71	8.09	0.38
Common Equity		254,463	35.00	13.75	4.81
Total Capitalization		**727,037**[1]	**100.00**		
Rate of Return on Rate Base					**12.10**

		($000)
1	Rate Base	700,563
	Construction Work in Progress	26,474
	Total Capitalization	**727,037**

Chapter 8
Revenue Requirement

Westcoast submitted its estimated revenue requirement (cost of service) for a test year commencing on 1 January 1986 and revised its estimate during the course of the hearing.

A summary of the approved revenue requirement is shown in Table 8-1. Details of the Board's adjustments to the cost of service are provided in this chapter. Details of adjustments made to rate base and rate of return are found in Chapters 6 and 7 respectively.

8.1 Operating and Maintenance Expenses

8.1.1 Salaries, Wages and Employee Benefits

Test-year Escalation Factors

Westcoast's estimate of test-year salaries and wages provides a 4.5 percent increase to cover the Company's pay-for-performance program for salaried staff and a 4.25 percent increase to cover negotiated settlements for wage earners, including normal employee reclassifications. These increases were based on data which were obtained from other members of the industry concerning what Westcoast considers to be comparable 1986 salary and wage negotiations and anticipated settlements. The Company also provided a summary of a salary and wage survey which demonstrated that the salary and wage rates of Westcoast employees were within the range of rates paid by other companies in the industry.

Table 8-1
Transportation Revenue Requirement
Test Year Ending 31 December 1986
($000)

	Application[1]	Application as Revised[2]	NEB Adjustments	Authorized by NEB
Oprating and maintenance expenses	79,562	79,815	(320)	79,495
Depreciation	37,841	37,751	(11,984)	25,767
Amortization	3,166	3,166	(5,317)	(2,151)
Taxes other than income taxes	38,749	38,016	-	38,016
Miscellaneous operating revenue	(5,740)	(5,740)	-	(5,740)
Insurance deductibles	830	481	-	481
Foreign exchange on debt	4,166	4,185	-	4,185
Gas used in operations	13,761	11,286	(491)	10,795
Income tax expense	39,481	32,869	(15,046)	17,823
Total transport cost	211,816	201,829	(33,158)	168,671
Return on rate base:				
at 12.63%	91,362	-	-	-
at 12.18%	-	87,592	(87,592)	-
at 12.10%	-	-	84,768	84,768
Total transportation revenue requirement	**303,178**	**289,421**	**(35,982)**	**253,439**

1 Application dated 1 December 1985, as revised by Westcoast on 26 February 1986.
2 On June 16 1986, Westcoast filed Exhibit B-108 updating the application to reflect various changes based on matters raised during the hearing.

Decision

The Board notes that current wage and salary settlements in the industry ranged from 3.6 to 5.5 percent and that Trans Mountain Line Company Ltd. in its current toll application requested a salary and wage adjustment limited to a four percent average increase inclusive of economic, merit, promotion and progression. Taking into consideration recent settlements and the current economic conditions in western Canada, the Board believes that a four percent average increase in salaries and wages, inclusive of economic, merit, promotion and progression, is reasonable for the test year.

Employee Benefits

With respect to employee benefits, Westcoast stated that the changes were primarily caused by the increase in the Company's salary and wage base. Westcoast indicated that employee benefits are 15 percent of salaries and wages paid.

Decision

The Board accepts the 15 percent rate as being reasonable for the test year.

As a result of the above-noted decisions, the applied-for test-year allowance for salaries, wages and employee benefits has been reduced in total by $200,000.

Person-years

For 1986, Westcoast projected a net utility operating and maintenance utilization of 718 person-years. This represents an increase of 11 person-years over the 1985 actual utilization of 707 person-years. The additional 11 person-years are primarily related to expected increases to meet anticipated workloads in gas control measurement, toll design, and marketing activities, and an increase resulting from a lower allocation of person-years to non-utility activities primarily due to the completion of construction of the NGL plant.

Decision

On the basis of the evidence presented, the Board accepts for inclusion in the test-year cost of service the projected person-year utilization as applied for by Westcoast.

Retainer Fees

The Board notes that Westcoast utilizes the services of its regular, technical and professional staff to work on non-utility projects. The associated salaries, wages and benefits are then credited against the utility cost of operations. As mentioned above, the Company's increase in net O&M person-year utilization was partly due to a lower recovery for non-utility work.

Decision

The Board believes that, in addition to the allocated salaries, wages and benefits, a retainer fee of $120,000 should be credited to the test-year cost of service to recognize the benefit the non-utility derives from having ready access to this pool of talent for non-utility work.

8.1.2 Other Operating and Maintenance Expenses

The revised test-year amount requested for Other O&M Expenses was $44.474 million. A Company witness stated that while recent budget applications have contained a provision for "contingencies", there was no such provision in the present application because the test-year forecast for Other O&M Expenses provides for all maintenance which the system will require.

Intervenors cross-examined on many areas of Other O&M Expenses and most appeared satisfied with the responses they received. In argument, it was COFI's opinion that any increase in Other O&M Expenses during the test year should be limited to 4 percent while Inland believed that Westcoast had not demonstrated sufficient restraint when preparing its forecast of Other O&M Expenses.

Decision

The Board accepts the ten year forecast for Other O&M Expenses submitted by the Company. Accordingly, the forecast amount of $44.474 million is approved.

The Board notes that under the variable-cost-of-service method of regulation formerly in place, which required the Company to submit an O&M budget each year for Board approval, Westcoast could automatically flow O&M expenses into the cost of service up to the approved amounts. Overruns of the approved budgets required Board approval prior to the recovery. For purposes of budgeting control, Westcoast was required to present both its budget application and its budget variance report segregated into nine cost centres. In the Board's opinion, such a system is no longer relevant under a fixed-toll regime. The Board therefore believes that Westcoast should consider converting to a system which would allocate O&M costs by rate base section in future toll applications. Prior to the submission of its next toll application, the Board would appreciate receiving any comments the Company might have on this proposed change.

8.1.3 Adjustments to Operating and Maintenance Expenses

The Board's adjustments to O&M expenses are summarized in Table 8-2.

Table 8-2
NEB Adjustments to
Operating and Maintenance Expenses
($000)

	Salaries, Wages and Benefits ($000)	Other O&M Expenses ($000)	Total O&M Expenses ($000)
O&M expenses per application	35,341	44,474	79,815
NEB adjustments:			
-limitation of salary and wage increases to 4%	(200)	-	(200)
-implementation of retainer fee	(120)	-	(120)
O&M expenses per NEB	**35,021**	**44,474**	**79,495**

8.2 Depreciation

8.2.1 The Depreciation Study

Westcoast originally submitted a depreciation study to the Board in March 1984. The concepts which the Company had employed in the study were reviewed during the method of regulation hearing and, in its Methodology Decision, the Board directed Westcoast to revise the study to incorporate the following criteria in the calculation of appropriate depreciation rates:

(a) the study should not differentiate between the export and domestic markets;

(b) provision should be made for unconnected proven reserves and trend gas when determining the reserve life indicies; and

(c) the study should make no provision for the recovery of negative salvage.

The revised study was filed in November 1985 and incorporated the changes required in accordance with the Board's Methodology Decision. However, Westcoast, when determining the depreciation base, included $487.609 million to provide for the addition of future gathering facilities, mainline upgrades and minor capital additions. The Company claimed that if unconnected reserves and trend gas are included, future capital additions must also be factored in to ensure a proper matching of revenues and expenses. When calculating the reserve life index, the Company determined its reserves at 31 December 1984 and added those reserves it estimated would be required during the following ten years. The reserve life index was then calculated by dividing the result by the estimated 1985 production, with a limit of 40 years placed on the resulting reserve life index. The composite depreciation rate so determined was 3.3 percent.

8.2.2 Rates Contained in the Application

When Westcoast submitted its toll application, it included a request for the approval of new depreciation rates. These rates were based on estimated 1985 production and on connected reserves only, with no provision made for the connection of additional proven reserves or trend gas. The resulting composite rate was three percent and resulted in a depreciation expense during the test year of $37.841 million which was subsequently amended during the hearing to $37.751 million. In its written evidence, the Company stated that it had not included additional reserves or trend gas because such an exercise is highly judgmental and the results are conjectural, particularly considering recent actions by governments to deregulate the natural gas industry in Canada.

Intervenors objected to both the inclusion in the study of future capital additions and, in the application, of the lack of a provision for unconnected reserves and trend gas. They claimed that including future capital additions before such facilities are actually constructed places an additional burden on the present generation of tollpayers and, if such facilities are never added to the system, results in the undepreciated cost of existing facilities being recovered over a shorter period of time. In the case of future gas supplies being omitted, intervenors argued that it was highly unlikely that the pipeline would cease to operate when currently connected reserves are exhausted. They were also of the view that by not including future gas reserves in the calculation of the reserve life indices, Westcoast was disregarding the Board's April 1985 directive.

Decision

It is the Board's opinion that the likelihood that the Westcoast system will cease to operate when the reserves which are presently connected are exhausted is remote. The Board believes that, as producers continue to explore and new gas mines are established, Westcoast, which operates the only transmission system within B.C. capable of transporting large volumes of gas from remote regions and delivering them to consumers in the export and domestic markets, will continue to be called upon to provide this service. The Board therefore continues to maintain that when setting depreciation rates which are appropriate for the Westcoast system, some allowance should be made for the addition of unconnected proven

reserves and trend gas, as was done in the Company's November 1985 depreciation study.

The addition of future capital additions to the depreciation base when calculating new rates, however, results in rates which are excessive relative to the facilities which presently exist, thus introducing the element of intergenerational inequity, with current tollpayers bearing a portion of the cost of such facilities before they are constructed. In the event that the forecast facilities are never constructed, the recovery of the cost of existing facilities is accelerated because the depreciation rates in use will then have been set at a higher level than would otherwise have been the case.

The Board has therefore approved new depreciation rates for Westcoast, effective 1 January 1986, which are based on the information in the Company's depreciation study after deducting the estimated cost of the future capital additions. The schedule of approved rates is included in these Reasons for Decision as Appendix V.

Accordingly, the Board has reduced the test-year depreciation expense from $37.751 million to $25.767 million to reflect the approved rates and the withdrawal by Westcoast of the McMahon plant sour condensate piping project (see Table 8-1).

8.3 Amortization Expense

Details of the Board's adjustments to the amortization expense are shown in Table 8-3.

Table 8-3
NEB Adjustments to Amortization Expense
($000)

	Application as Revised ($000)	NEB Adjustments ($000)	Authorized by NEB ($000)
Rate case expense	900	-	900
Contributions in aid of construction	(424)	-	(424)
Vancouver Island project	1,334	(550)	784
Grizzly Valley:			
extraordinary plant loss	1,356	-	1,356
income tax adjustment	-	(4,767)	(4,767)
Total amortization	**3,166**	**(5,317)**	**(2,151)**

8.3.1 Grizzly Valley Pipeline Replacement Project

Westcoast included $1.356 million in the test-year cost of service under extraordinary plant loss for the amortization of one-third of the extraordinary retirement of the original Grizzly Valley pipeline. The Board has approved this amount as detailed in Section 6.1.1.

8.3.2 The Vancouver Island Project

Westcoast proposed amortizing the costs relating to the Vancouver Island project over three years, with $1.334 million amortized in the test year. In view of the Board's decision respecting this issue, which is found in Section 6.2, this amount has been reduced to $784,000 (see Table 8-4).

Table 8-4
NEB Adjustments to the Amortization of the Vancouver Island Project Costs ($000)

	Application as Revised ($000)	NEB Adjustments ($000)	Authorized by NEB ($000)
Hearing costs	1,533	(766)	767
Carrying costs	365	(365)	-
Subtotal	**1,898**	**(1,131)**	**767**
Preliminary survey costs	1,585	-	1,585
Carrying costs	519	(519)	-
Subtotal	**2,104**	**(519)**	**1,585**
Total	**4,002**	**(1,650)**	**2,352**
Test-year amortization	**1,334**	**(550)**	**784**

8.4 Insurance Deductibles

Westcoast included an amount of $830,000 in the cost of service to compensate it for losses which are no longer recoverable under its insurance coverage. Prior to the test year there had been an amount of $50,000 deductible per insurance claim; however, the Company was informed by its insurance broker that coverage with a deductible amount of less than $250,000 was no longer available.

Westcoast determined that $830,000 was the appropriate amount to include in the cost of service by reviewing its insurance claims for the four-year period 1982 to 1985, adjusting the losses for inflation and assuming that there had been a deductible amount of $250,000.

Intervenors cross-examined Company witnesses concerning the method used to calculate the $830,000 and the reasons for the $200,000 increase in the amount of the deductible. Inland's cross-examination centred on the question of Westcoast's treatment of the deductible amount when a loss relates to a capital asset and should not, therefore, be recoverable through operating and maintenance expense. Westcoast then undertook to review its analysis of the four year period and, after making adjustment for capital items, amended the amount requested for insurance deductibles to $481,000.

CPA also suggested that Westcoast consider using a self-insurance reserve fund.

Decision

In the Board's opinion an amount for insurance deductions, covering losses chargeable to O&M expense, calculated in the manner suggested by the Company is preferable to the use of a self-insurance reserve fund as recommended by CPA. While the extensive cross-examination indicated the difficulty of determining the appropriate amount for insurance deductibles, there was nothing to suggest that an amount which might be approved for a self-insurance reserve fund would be more precise.

The Board therefore approves an amount of $481,000 to be included in the cost of service for insurance deductibles. The Board, however, intends to monitor the Company's experience in this area to satisfy itself that the methodology used to determine the amount for insurance deductibles continues to be appropriate.

8.5 Foreign Exchange on Debt

Included in the test-year cost of service was an amount of $4.166 million for foreign exchange on the Company's U.S. debt. This amount was subsequently increased to $4.185 million. Both estimates were based on the Company's projection of $1.00 U.S. equaling $1.40 Canadian during the test year.

Decision

The Board approves the amount of $4.185 million covering foreign exchange on U.S. debt.

8.6 Gas Used in Operations

8.6.1 Cost of Gas Used in Operations

The total gas used in operations as estimated by Westcoast for the test year was 138 556 thousand cubic metres resulting in an estimated cost of $11.286 million, excluding gas capitalized.

The cost of gas used in operations is made up of a line pack change component of $1.096 million and a fuel gas component of $10.190 million. Fuel gas, which accounts for almost 98 percent of the gas used in operations, includes compressor fuel, heating fuel, gas used for startup, blowdowns, pigging, purging, and for gas plant turnarounds as well as unaccounted for losses or gains.

In determining the cost of gas used in operations, Westcoast multiplied the monthly estimates of the volumes of gas used in operations by the average cost of gas determined monthly. The estimated

monthly cost of gas for the test year ranged from a high of $86.65 per thousand cubic metres in January to a low of $53.04 per thousand cubic metres in August.

Intervenors expressed concern regarding the estimates of compressor fuel and lost and unaccounted for gas.

8.6.2 Compressor Fuel Gas

A Westcoast witness stated that forecasting fuel gas requirements for the system is rather difficult because fuel gas has an exponential relationship to throughput and because fuel gas requirements can vary significantly depending on the particular load pattern.

Westcoast indicated that it presently supplies compressor fuel gas for system sales, whereas transportation service shippers provide their own compressor fuel gas.

One intervenor questioned whether it would be more efficient for Westcoast to provide all of the compressor fuel for transportation including that for service volumes. Another intervenor suggested that Westcoast should be directed to attempt to obtain discount fuel gas.

Regarding the issue of whether Westcoast should provide all fuel gas for sales and transportation service, Westcoast acknowledged that from an operations point of view, this would be more convenient since less accounting would be required. However the Company indicated that the net administrative savings would not be significant. In final argument, Westcoast noted that none of the transportation service shippers had argued that they wanted Westcoast to buy and provide this fuel. Westcoast was of the view that it this is to be a free market, the transportation service shippers should not be required to purchase their fuel requirements from Westcoast.

Turning to the second concern, Westcoast indicated that it had considered obtaining discount gas to meet its fuel requirements. However, Westcoast did not see the purchasing of discount gas as a viable alternative to its current method of purchasing fuel gas essentially from all its system suppliers. The Company noted that fuel gas must be available on a firm rather than an interruptible basis, and with a load factor of probably less than 10 percent, it did not think such a sale would be very attractive to a firm seller.

In final argument, BCPC was of the view that the price of fuel gas payable by domestic utilities should be based on the price of gas produced to serve domestic utilities rather than using a weighted average cost of the gas that Westcoast buys in B.C., Alberta and the Northwest Territories.

Decision

Based on the evidence, the Board finds Westcoast's final estimate of compressor fuel costs acceptable as well as its cost estimates for other gas used in operations. However, the Board has concerns regarding the manner in which Westcoast obtains its compressor fuel. Where compressor fuel gas is supplied by Westcoast, the Company has an obligation to its shippers to acquire this gas at a minimum cost. Costs might be reduced if Westcoast were to call for tenders on the supply of fuel. In future, Westcoast will be required to call for such tenders and provide cost of gas used in operation estimates on this basis.

The Board notes that Westcoast has requested a deferral account for compressor fuel and other gas used in operations. This matter is discussed in Section 8.9.4.

8.6.3 Unaccounted for Gas

In its evidence, Westcoast defined unaccounted for gas as the unaccounted for gain or loss of gas volumes that are required to balance gas receipts with gas deliveries after accounting for all components of fuel gas and line pack change.

Westcoast indicated that they had estimated a zero value for unaccounted for gas in the test year. The Company proposed that, with a zero estimate for unaccounted for gas, any gains or losses on the transmission system would be recorded in the deferral account for gas used in operations. In the base year, the unaccounted for gas had been netted back to the producer under the provisions of Order TG-5-79.

A number of intervenors argued that unaccounted for gas should be estimated from historical data and suggested that Westcoast use a three-year average.

During cross-examination, Westcoast acknowledged that TransCanada utilizes a three-year average for estimating unaccounted for gas on its transmission system. Westcoast indicated that the average of unaccounted for gas for the years 1983, 1984 and 1985 was 0.0933 percent. If this percentage were applied to the forecasted test-year throughput, an estimated gain of 6 828 thousand cubic metres would result. Multiplying the volume gain by the average gas cost estimate of $71.97 per thousand cubic metres for the test year, Westcoast calculated the gain to be $491,000.

Decision

The Board does not find Westcoast's estimate of zero for unaccounted for gas to be reasonable given the Company s historical experience. The Board therefore has decided to include a credit to the cost of service in the amount of $491,000. The Board requires Westcoast in future applications to calculate unaccounted for gains or losses using an average of the most recent three years of actual experience.

8.7 Return on Rate Base

Based on the Board's decisions with respect to rate base and rate of return matters, the total return allowed the Company for the 1986 test-year is $84.768 million. The derivation of this amount is shown in Table 8-5.

Table 8-5
Allowed Return on Rate Base
($000)

Rate Base Per Table 6-1	**700,563**
Total Allowed Return **(12.10 percent x 700,563)**	**84,768**

8.8.1 Grizzly Valley Replacement Pipeline

In its August 1983 Westcoast Reasons for Decision, the Board decided to place the costs of the Grizzly Valley Replacement Pipeline (GVRP) in a deferral account pending the resolution -of certain litigation in progress at that time. The Board also authorized the Company to accrue carrying charges on the deferral account at the authorized rate of return on rate base. These costs were maintained in the deferral account for the periods 1 September 1983 to 30 October 1985 and 12 December to 31 December 1985[1]. During that time Westcoast used the tax deductions related to the GVRP for the benefit of its non-utility operations. Westcoast's reasons for this treatment were:

(a) The GVRP was not in rate base.

(b) Unlike an asset during construction, which is fully anticipated to be in rate base, the GVRP was in suspense and there was not any certainty as to its ultimate inclusion in rate base.

(c) Questions of negligence and prudence were the principle factors which led the Board to order Westcoast to transfer the GVRP from GPIS to a deferral account.

The tax deductions used by Westcoast for the benefit of the non-utility operations while the GVRP was in the deferral account amounted to $8.197 million of CCA and $3.820 million of interest. The Company's proposals respecting these tax deductions follow:

(a) CCA to reduce the cost of service income taxes would recommence 1 January 1986.

(b) A $1.335 million interest deduction would be used to reduce the cost of service income taxes in 1986. This amount represents the interest component of the carrying costs which remain after subtracting the interest recovered in the out-of-court settlement from the total carrying costs accrued in the deferral account.

CPA disagreed with Westcoast's treatment of the GVRP in the deferral account as a non-utility asset for the following reasons:

(a) The Board approved the GVRP and granted the certificate and leave-to-open.

(b) The GVRP was placed in a utility deferral account which was set up under a Board Order related to utility assets.

(c) While the GVRP was in the deferral account, it was used and useful for utility service.

(d) The Board permitted Westcoast to earn carrying costs on the GVRP in the deferral account at the authorized rate of return on rate base.

(e) Westcoast admitted that its normal practice is to treat overruns as utility items and to give the utility CCA treatment on these overruns although such costs are not in rate base until they are approved. CPA argued that the situation pertaining to the GVRP in the deferral account is completely analogous to that of the cost overruns.

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[1] The Board revised Schedules (a) and (b) of Exhibit C-156, CPA's response to NEB Information Request Exhibit A-35, dated 22 May 1986, to exclude the amounts related to the period 1 November to 11 December 1985 according to its Decision in Section 6.1.2 of this report.

CPA claimed that the tollpayers could have saved an amount of cost of service income taxes slightly greater than the amount of the GVRP tax deductions if these deductions had been taken for utility purposes. This results from the revenue gross-up in a utility situation and the fact that Westcoast's tax rate is greater than 50 percent. On that basis, CPA calculated the increase in the utility revenue requirement during that period to be $12.800 million. To allow for the time value of money, CPA claimed that the tollpayers should earn carrying costs on that increase in the revenue requirement. CPA calculated these carrying costs, using a 15 percent rate (assumed to be the producers cost of capital), to be $2.443 million. Westcoast rejected this assumed rate as lacking supportive evidence.

Since the increase in the revenue requirement during that period exceeded the tax deductions available, this excess was taxable in Westcoast's hands. At the request of the Board, CPA calculated the net (after-tax) benefit to Westcoast to be $12.396 million and the carrying costs thereon at the then authorized rate of return (12.05 percent) to be $1.906 million.

In final argument, CPA stated that the uncertainty related to the GVRP had been resolved and Westcoast should not be permitted to retain the tax benefits arising from this utility asset. CPA also stated that if the Board decided to spread the credit for the GVRP tax benefits over a period of time instead of allowing that credit entirely in the test year, the tollpayers should be entitled to recover the additional carrying costs over the period specified by the Board. Several intervenors adopted CPA's position in their final arguments.

Decision

The Board was not persuaded by Westcoast's reasons for treating the GVRP in the deferral account as a non-utility asset and believes that the cost of service should be credited with the amount of benefits received by Westcoast during that time with appropriate carrying charges on these benefits.

The Board notes that CPA's proposal to compensate the tollpayers with the full amount of the increase in the utility revenue requirement, while the GVRP was in the deferral account, does not keep Westcoast whole since it ignores the fact that the excess of revenue over the tax deductions available was taxable in Westcoast's hands. Also, the carrying cost rate of 15 percent, assumed by CPA to be the producers cost of capital, was not supported by evidence.

The Board has decided that the cost of service be credited with $14.302 million amortized over a period of 36 months commencing 1 January 1986. This credit represents the net (after-tax) benefit to Westcoast and carrying costs thereon at the then authorized rate of return on rate base of 12.05 percent. The unamortized balance of this credit should be deducted when calculating the rate base to allow the tollpayers a return on the amounts outstanding during the amortization period.

8.8.2 Other

In its updated application, Westcoast calculated its test-year income tax expense on a flow-through basis to be $39.481 million. This amount was subject to amendments throughout the hearing. In its final revision, Westcoast calculated this expense to be $32.869 million (per Exhibit B-110 filed 20 June 1986).

Decision

On the basis of Westcoast's final revision, the Board has computed $17.823 million as the amount of income taxes to be included in the Company's revenue requirement. This computation reflects the Board's decisions which relate to the income tax calculation and is shown in Table 8-6.

Table 8-6
Income Tax Calculation
($000)

Utility income after tax	36,287[1]
Adjustments to utility income after tax - Add (Deduct):	
Vancouver Island - prior year deductions and interest	(1,336)[2]
Grizzly Pipeline - prior year CCA and interest	—[3]
AFUDC - interest portion	(1,479)[4]
Depreciation and amortization	23,416[5]
Amortization of issue costs	847
Financing expenses	(213)
Capital cost allowance	(37,239)[6]
Investment tax credit (ITC)	(2,335)
Recapture for ITC	694
Overhead during construction	(3,082)
Cumulative eligible capital	(90)
Foreign exchange loss on debt redemptions	2,563
Excess pension and savings plan	100
Book gains on debt redemptions	(473)
Inventory allowance	*(33)*
Utility income after tax as adjusted	**17,627**
Utility income tax before ITC $\frac{.5333}{1 + .5333} \times 17{,}627$	20,142
Less: ITC	*(2,335)*
Westcoast utility income taxes	17,807
Westcoast (Alberta) income taxes	16
Total utility income taxes	**17,823**

1 Based on rate base (excluding Westcoast Alberta) of $699,171,000 and the sum of the weighted average costs of equity capital of 5.19 percent. See Tables 6-1 and 7-2.
2 Reflects Board decision in Section 6.2.
3 Reflects Board decision in Section 8.8.1.
4 Interest AFUDC is adjusted to reflect the Board's rate of return decisions (Table 7-2) and Westcoast's withdrawal of the McMahon sour condensate piping project (Section 6.3.1).
5 Revised to reflect Board decisions in Sections 8.2.2, 8.3.2 and 8.8.1.
6 Reflects Westcoast's withdrawal of the McMahon sour condensate piping project (Section 6.3.1).

8.9 Cost of Service Deferral Accounts

Included in Westcoast's toll application was a request for approval of a number of deferral accounts for cost of service items. The Company claimed it requires deferral accounts to protect it from differences between actual test-year costs and those recovered in its tolls which are based on estimates. Without such deferral accounts, Westcoast shareholders would be at risk for cost variances over which the Company has little or no control.

Intervenors did not oppose the approval of deferral accounts for costs which are clearly beyond the Company's control. They were not, however, in favour of deferral accounts which would effectively shield Westcoast from variances which can be predicted with a reasonable degree of precision and could be built into the test-year forecast.

8.9.1 Legislative and Reassessment Changes to Various Taxes

These deferral accounts would record differences between forecast and actual costs used by legislative and reassessment changes to property taxes, taxes related to fuel consumption, corporate capital tax, federal and provincial surtaxes and income taxes.

CPA opposed these deferral accounts on the grounds that they relate to costs which may not be incurred during the test year. In the event they do materialize, CPA believes that Westcoast should seek authorization of a deferral account at that time.

Decision

In the Board's opinion, the type of costs for which Westcoast seeks deferral accounts are clearly beyond the Company's control and can be levied by various levels of government on very short notice. In these circumstances such deferral accounts, in the Board's opinion, are justified. Accordingly, the following deferral accounts are approved covering legislative and reassessment changes to:

(a) property taxes;

(b) taxes related to fuel consumption;

(c) federal surtax and income taxes;

(d) provincial surtax and income taxes; and

(e) corporate capital tax.

8.9.2 Foreign Exchange

As explained in Section 8.5, Westcoast estimated the foreign exchange costs on principal and interest payments of its U.S. debt on the basis of $1.00 U.S. being equal to $1.40 Canadian during the test year. The Company, knowing the difficulty of forecasting the relationship of the two currencies a year or more into the future, requested a deferral account covering this item.

Decision

The Board believes that foreign exchange is a test-year cost which cannot be forecast with precision and is therefore beyond the Company's control. Accordingly, a deferral account covering variances between the actual and the forecast cost of foreign exchange is approved.

8.9.3 Utility Exchange

The McMahon plant, which is adjacent to a Petro-Canada refinery, supplies to Petro-Canada certain utility services which are surplus to its needs, such as compressed air, cooling water, electric power, fuel gas and steam. In return, Westcoast receives utility services such as vent gases, absorption oil, and boiler oil from Petro-Canada. The net difference is then billed by Westcoast to Petro-Canada. Westcoast has also negotiated a similar arrangement for the exchange of electrical power between the Fort Nelson plant and B.C. Hydro. Because of the difficulty of forecasting the requirements of the various parties to these exchange agreements, Westcoast has requested approval of a deferral account to record any variances between actual and forecast costs.

Decision

The Board agrees with the Company that utility exchange requirements are difficult for the contracting parties to forecast and notes that the majority of intervenors were not opposed to Westcoast being granted approval of such an account. The Board therefore approves a deferral account for utility exchange variances.

8.9.4 Gas Used in Operations

Westcoast requested a deferral account for gas used in operations claiming it was required because the Company had no control over either the price or the volumes used in operations. It stated that this was particularly so under the B.C. government's new gas marketing policy which encourages direct sales between producers and end-users and also the conditions which exist in the highly competitive export market.

Intervenors, led by CPA, were of the opinion that the Company should be entitled to a deferral account for fuel gas but not for other company-use gas or lost and unaccounted for gas which they claimed were within Westcoast's ability to control.

Decision

In the Board's opinion, the transition to market responsive pricing has introduced increased uncertainty in respect of the volumes of gas sold and the prices at which it will be sold during the test period. Accordingly, the Board has approved for inclusion in a deferral account the following:

(a) for compressor fuel gas: variances due to both price and volume changes; and

(b) for line pack changes and for other fuel gas requirements, excluding lost and unaccounted for gas: variances due to changes in price only.

The Board believes that Westcoast can reasonably forecast the volumes of fuel requirements other than for compressor fuel.

Given its decision in Section 8.6.3, in the Board's view, Westcoast does not require a deferral account for lost and unaccounted for gas. Accordingly, the Company's request for a deferral account for this item is denied.

The deferral accounts approved in Sections 8.9.1, 8.9.2, 8.9.3 and 8.9.4 shall accrue a carrying charge each month on the month-end balance in the account at a rate equal to 1/12th of the approved rate of return on rate base and the accumulated costs are to be included in the Company's next toll application for disposition by the Board.

8.10 Allocation to Toll Zones

As explained in Section 6.8, Westcoast has allocated the cost of service to the five toll zones on the basis of the thirteen sections prescribed by Order TG-5-79 with the exception of income tax expense which it has requested the Board approve on an "as paid" basis.

Decision

Consistent with its decision regarding the allocation of the rate base components, the Board approves Westcoast's method of allocating the cost of service to the five toll zones.

8.11 Variance Between the Approved Tolls and Interim Tolls

Since 1 January 1986 Westcoast has recovered, out of revenues from sales and transportation services, interim tolls as prescribed by Order TGI-11-85.

Decision

The Board, having considered all of the evidence has issued Order No. TG-4-86 giving effect to its decisions in respect of Westcoast's toll application, as amended. With the issuance of the Board's final Order in these proceedings, Westcoast is required to recalculate the tolls for sales and transportation services for each month from 1 January 1986 and refund the difference between those tolls and the interim tolls, together with a carrying charge, to the tollpayers. The carrying charge, calculated at 1/12th of the approved rate of return on rate base, shall be added to the balance outstanding at each month-end up to the date the refund is made.

The Board believes that the amount of the refund will be substantial due to the overall reduction in the revenue requirement resulting from Board decisions and revisions which Westcoast made to its application. The Board therefore recognizes that refunding such a large sum in a single payment may result in cash flow problems for the Company. Accordingly, Westcoast may, at its option, make the refund together with carrying charges as a single payment on or before 31 December 1986 or in equal monthly installments over a period not exceeding six months.

8.12 Separate Marketing Division

During cross-examination, Westcoast stated that the Company was examining the question of establishing a corporate entity which would enter into the buying and selling of natural gas, and that this entity would be corporately separate from Westcoast's pipeline activity. In its current toll application, Westcoast has treated the expenses associated with the purchase and sale of natural gas as part of Westcoast's regulated activities. Westcoast argued that it does not obtain any benefits associated with the purchase and sale of natural gas other than the recovery of expenses as provided for by the Board. In addition, Westcoast argued that a great number of contractual changes between Westcoast and its customers and producers would be required before any changes can be made to the current system.

Several intervenors were concerned with this matter and believe that with the new gas marketing regime all marketing activity and related costs should be excluded from the utility cost of service.

Decision

The Board believes that because of the evolving nature of gas marketing policy in Canada and the eventual designation of the Company's marketing activities as non-utility, all future costs associated with the marketing activity should be segregated from the utility cost of service. Accordingly, the Company is required to show such costs separately in its next toll application.

In deciding that the costs of the Company's marketing activities may no longer be recovered in the tolls charged for sales and service, the Board gives no direction respecting the appropriate corporate organization which should accompany this change. While the establishment of a "division" within the present corporate structure would be acceptable, the Board would prefer a more fundamental corporate reorganization wherein the marketing organization would be established as a separate corporate body, owned by a holding company which would also own the utility company as a separate corporation.

The Board appreciates that such a far-reaching reorganization may or may not be desirable from Westcoast's point of view.

Once the marketing functions have been separated, the marketing organization would be in a position to seek to charge for its services and to arrange transportation on the pipeline. The Board would expect the next toll application to embody the concept of the marketing organization being one more shipper on

the system, paying the utility for the gathering, processing and transportation services it receives. This concept, which would apply equally to domestic and export volumes, would obviate the need for a separate sales tariff and the tolls contained therein.

8.13 Quarterly Surveillance

During the period when Westcoast was regulated under a variable-cost-of-service toll, the Board required the Company to file monthly cost of service reports. These reports provided details of the calculation of rate base and cost of service and of the allocation of the cost of service to the various producers.

Decision

With the change to a fixed-toll method of regulation, the Board will continue to monitor Westcoast's tolls comparing the Company's actual results with those forecast in future test-year submissions. To implement this monitoring process, Westcoast will be required to file with the Board, in a form which the Board finds satisfactory, a surveillance at the conclusion of each test-year quarter. The format and content of such a quarterly surveillance report will be contained in guidelines the Board will be communicating to Westcoast in the near future.

Chapter 9
Disposition

The foregoing chapters together with Order No. TG-4-86, constitute our Reasons for Decisions and our Decision on this matter.

A.D. Hunt
Presiding Member

W.G. Stewart
Member

A.B. Gilmour
Member

Ottawa, Canada
August 1986

APPENDIX I
Order No. TG-4-86

Order No. TG-4-86

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

IN THE MATTER OF an application by Westcoast Transmission Company Limited (Westcoast) dated 1 December 1985, as amended, for certain interim and final Orders respecting tolls and tariffs under Sections 16, 50, 51 and 53 of the NEB Act, filed with the Board under File No. 1562-W5-9; and

IN THE MATTER OF an application by Westcoast, dated 1 December 1985, for certain Orders under Section 53 of the Energy Administration Act (EAA).

BEFORE:

A.D. Hunt
Presiding Member

W.G. Stewart
Member

On Friday, the 15th day of August, 1986

A.B. Gilmour
Member

WHEREAS by an application dated 1 December 1985, as amended, Westcoast applied to the Board for certain interim and final Orders under Sections 16, 50, 51 and 53 of the NEB Act fixing just and reasonable tolls which Westcoast may charge, effective 1 January 1986, for or in respect of the transportation of gas sold by Westcoast and for the transportation of gas owned by others and disallowing any existing tolls that are inconsistent with the just and reasonable tolls so fixed;

AND WHEREAS Westcoast has requested that the Board, by Order, approve for accounting and tollmaking purposes certain related procedures and deferral accounts;

AND WHEREAS the Board, by Order TGI-11-85, approved, on an interim basis, the tolls to be charged by Westcoast for gas which is gathered, processed and transported by Westcoast, effective 1 January 1986;

AND WHEREAS the Board has heard evidence and submissions of Westcoast and all interested parties with respect to the application at a public hearing held pursuant to Order RH-6-85, which commenced in Vancouver on 4 March 1986;

AND WHEREAS the Board's decisions on the application are set out in its Reasons for Decision dated August 1986 and in this Order;

IT IS ORDERED THAT:

1. Westcoast shall file with the Board and serve upon all interested parties to the hearing of this application, by 15 October 1986, new tariffs and tolls conforming with the Decisions outlined in the Reasons for Decision dated August 1986 and with this Order and Westcoast shall charge

in respect of transportation of gas sold by it or the transportation of gas for others the tolls so calculated;

2. (1) The Board directs that effective 1 November 1986 the tolls authorized herein shall be in service and form part of Westcoast's tariffs.

   (2) Pursuant to subsection 16.1 (2) and Section 52.2 of the NEB Act the Board directs that Westcoast recalculate the tolls authorized in conformity with its Reasons for Decision, dated August 1986, for the period 1 January 1986 to 31 October 1986 and refund any excess together with carrying charges either as a lump sum on or before 31 December 1986 or in equal monthly installments over a period not to exceed six months.

3. Effective 1 November 1986, the terms and conditions of carriage or transportation as amended by the Reasons for Decision shall constitute part of the tariffs applicable to the transportation of gas sold by Westcoast or the transportation of gas for others and to the extent that these terms and conditions conflict with any existing terms and conditions the terms and conditions approved herein shall prevail;

AND IT IS FURTHER ORDERED THAT:

4. (1) Westcoast's application to allocate 100 percent of its fixed costs, for the test year, on the basis of the firm daily contract demand volumes contained in its gas sales contracts with its firm sales customers is accepted;

   (2) Westcoast's application to allocate costs to the following five zones is approved:

   Zone 1 - gathering
   Zone 2 - processing
   Zone 3 - transmission north of station 2
   Zone 4 - transmission south of station 2
   Zone 5 - Alberta facilities

   (3) Westcoast's application to allocate costs within Zones 1 and 2 on a postage stamp basis is approved;

   (4) Westcoast's application to allocate costs within Zone 3 on a postage stamp basis is denied. Costs applicable to Zone 3 with the exception of the off-line distributors shall be allocated on a volume/distance basis with appropriate allocation units based on contract demand volumes and sales, adjusted for distance and the total costs allocated to Zone 3 apportioned on the basis of these allocation units;

   (5) Tolls for off-line distributors shall be based on a nearest field concept as contained in the information responses provided by Westcoast;

   (6) Westcoast's application to determine the appropriate volume/distance tolls for Zone 4 by use of a methodology which allocated each firm customer's contract demand volumes among the various delivery points of that customer based on a non-coincident peak method using the average three peak days in January 1985 is approved for the test year 1986;

(7) The service areas of B.C. Hydro, Inland and PNG shall be considered sales zones and the tolls for all service into a zone, whether system sales or transportation service, shall be calculated on the basis of the same average distance allocation factors;

(8) Westcoast's application to include 100 percent of its fixed costs in the demand component of its firm sales tolls, effective 1 January 1986, is approved;

5. The tolls for interruptible sales and service shall be calculated as follows:

(1) The interruptible toll for the export market shall be calculated on the basis of the firm sales/service toll and be a one-part commodity toll derived by first adjusting the demand component of the appropriate firm toll for a 75 percent load factor and then adding the appropriate variable costs;

(2) The tolls for authorized overrun service shall be calculated on the basis of the firm sales/service toll and be a one-part commodity toll derived by first adjusting the demand component of the appropriate firm toll for a 75 percent load factor and then adding the appropriate variable costs. The provision of this service shall expire on 31 March 1987;

(3) The interruptible toll for the domestic market shall be calculated on the basis of the firm sales/service toll and be a one-part commodity toll derived by first adjusting the demand component of the appropriate firm toll for an 85 percent load factor and then adding the appropriate variable costs;

(4) Effective 1 April 1987 a higher level of domestic interruptible service (Tier-One) shall be offered to all domestic shippers with the toll calculated in accordance with subparagraph 5(2) above;

(5) Effective 1 April 1987, the export interruptible service and the Tier-One domestic interruptible service shall rank equally in terms of priority of access to the pipeline and ahead of the lower level of domestic interruptible service (Tier-Two);

6. Westcoast's proposal for the disposition of interruptible revenues collected in NEB Account 279 from services rendered by Westcoast in 1985 is approved;

7. (1) Westcoast's proposal to credit estimated authorized overrun and interruptible revenues to the test-year cost of service is approved;

(2) Westcoast's request for an order for accounting and toll-making purposes which would allow Westcoast to record in a deferral account variations in revenue, above or below that forecast in the test year for authorized overrun and interruptible sales and transportation service is granted;

(3) Westcoast's application to include in the next test-year cost of service the balance in the deferral account authorized in 7(2) is approved.

8. Westcoast's proposal to retain five percent of revenues from interruptible service tolls is denied;

9. Westcoast's application to credit the demand charge component of the firm service toll applicable to the NGL plant by an amount of $750,000 is denied;

10. Westcoast's application, dated 10 February 1986, to include carrying charges with respect to deficiency payments to Amoco in its tolls is denied;

11. Westcoast's application, pursuant to Order TG-5-79, dated 21 March 1986, as amended, with respect to additions to rate base resulting from 1985 cost overruns is approved in the amount of $249,000;

12. Westcoast's request for approval of its 1985 Operating and Maintenance Budget Variance Report is approved. Westcoast shall recover, as part of its December 1985 cost of service, calculated pursuant to Paragraph 41 of Order TG-5-79 the amount of $2,480,000, plus carrying charges to 15 August 1986, calculated in accordance with Paragraph 9.5 of Order TG-5-79;

13. (1) Westcoast's request for an order for accounting and toll-making purposes with respect to the treatment of the original Grizzly Valley pipeline and the replacement project is granted;

    (2) The accounting treatment proposed by Westcoast, in its letter of 18 December 1985, with respect to the period 31 October 1985 to 11 December 1985 is approved;

    (3) With respect to the income tax benefits associated with the Grizzly Valley project, Westcoast shall credit to the cost of service an amount of $14,302,000, which shall be amortized over a period of 36 months commencing 1 January 1986, and the unamortized balance shall be credited to rate base.

14. An amount of $2,352,000, representing all of the preliminary survey costs and one-half of the hearing costs with respect to the Vancouver Island project shall be amortized in the cost of service over a period of 36 months commencing 1 January 1986. The inclusion of the unamortized balance in rate base is denied.

15. The average rate base for the test year shall be $700,563,000.

16. The revenue requirement for the test year shall be $253,439,000.

17. Westcoast's request for an order for accounting and toll-making purposes which would allocate the balance of deferred income taxes and income tax expense on an "as paid" basis is granted;

18. Westcoast's request for an order for accounting and toll-making purposes which would allocate the balance of the rate base components using the methodology established by Order TG-5-79 is approved. The continuance of this methodology and that used for cost of service shall not terminate with the revocation of Order TG-5-79;

19. Westcoast's request for an order for accounting and toll-making purposes which would allow Westcoast to include in a deferral account amounts with respect to the construction of gathering and processing facilities requested by others is denied.

20. Westcoast's request for an order for accounting and toll-making purposes which would allow Westcoast to record in a deferral account differences between forecast and actual costs caused

by legislative and reassessment changes to property taxes, taxes related to fuel consumption, corporate capital tax and federal and provincial surtaxes and income taxes is approved;

21. Westcoast's request for an order for accounting and toll-making purposes which would allow Westcoast to record in a deferral account variances between the actual and the forecast cost of foreign exchange is approved;

22. Westcoast's request for an order for accounting and toll-making purposes which would allow Westcoast to record in a deferral account variances relating to its Utility Exchange arrangements is approved;

23. Westcoast's request for an order for accounting and toll-making purposes which would allow Westcoast to record in a deferral account variances in lost and unaccounted for gas is denied:

24. Westcoast shall, for accounting and toll-making purposes, record in a deferral account:

    (i) for compressor fuel gas, variances due to both price and volume changes; and

    (ii) for line pack changes and for other fuel gas requirements, excluding lost and unaccounted for gas, variances due to changes in price only.

25. All deferral accounts approved herein shall accrue a carrying charge each month, on the month-end balance in the account, at a rate equal to one-twelfth of the approved rate of return on rate base and are to be included in Westcoast's next toll application for disposition by the Board, except as provided herein.

AND IT IS FURTHER ORDERED THAT:

26. Order Nos. TG-5-79, as amended and TGI-11-85 are hereby revoked.

NATIONAL ENERGY BOARD

J.S. Klenavic
Secretary

APPENDIX II
Order No. TGI-10-85

ORDER NO. TGI-10-85

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

IN THE MATTER OF an application by Westcoast Transmission Company Limited (hereinafter called "Westcoast") for an Order authorizing its proposed accounting treatment of certain amounts respecting the original Grizzly Valley pipeline and the Grizzly Valley replacement project; and

IN THE MATTER OF Order No. AO-20-TG-5-79 respecting certain costs plus carrying charges relating to the original Grizzly Valley pipeline and the Grizzly Valley replacement project which were the subject of an action instituted in the British Columbia Supreme Court. Board File Nos. 1562-W5-3 and 1562-W5-9.

BEFORE the Board on Thursday, the 12th day of December, 1985.

UPON Westcoast having applied by an application dated 8 November 1985 for authorization to treat certain amounts respecting the original Grizzly Valley pipeline as an extraordinary retirement effective 1 November 1985;

AND UPON Westcoast having also applied by the same application for authorization to include in Gas Plant in Service certain amounts in respect of the Grizzly Valley replacement project effective 1 November 1985;

AND UPON Order No. AO-20-TG-5-79 having terminated on 30 October 1985 with the settlement of the litigation instituted by Westcoast against certain parties in the British Columbia Supreme Court;

AND UPON the Board having considered it necessary that additional time be taken for the consideration of submissions of interested parties and of comments by Westcoast on such submissions;

AND UPON the Board having determined it desirable to consider Westcoast's application during the forthcoming public hearing pursuant to Part IV of the *National Energy Board Act*;

AND UPON the Board considering it desirable in the interim to permit Westcoast to continue to accrue a carrying charge each month on the balance in the deferral account established pursuant to Order No. AO-20-TG-5-79.

IT IS ORDERED THAT:

1. The cost, amounting to $6,762,709, of the original Grizzly Valley pipeline which failed in sour gas service in July 1981 shall, in the interim, remain in Gas Plant in Service.

2. The net cost, amounting to $10,732,239, of the Grizzly Valley replacement project shall, in the interim, remain in Account 179, Other Deferred Debits.

3. Westcoast shall, in the interim, include in Account 179, in respect of the net amount included in the account by virtue of paragraph 2, carrying charges on the month-end balance of the account at 1/12 of the authorized annual rate of return on rate base.

4. "In the interim" means from the effective date of this Interim Order until such time as the Board issues its decision with respect to the forthcoming public hearing which will be held to examine the application respecting the tolls to be charged by Westcoast, which Westcoast was directed to submit pursuant to the Board's April Reasons for Decision.

NATIONAL ENERGY BOARD

J.S. Klenavic
Secretary

APPENDIX III
TGI-11-85

TGI-11-85

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 Transmission Company Limited ("Westcoast") for certain interim orders respecting its tolls pursuant to the Act. Board File No.: 1562-W5-9.

BEFORE the Board on Wednesday, the 18th day of December 1985.

UPON an application by Westcoast, dated 1 December 1985, seeking interim and final Orders of the Board, effective 1 January 1986, approving the tolls set forth in Schedule B to that application;

AND UPON the Board having considered the matter of the appropriate tolls to be charged by Westcoast for the period commencing 1 January 1986 and ending on a date to be specified in the Board's Decision with respect to the forthcoming toll hearing;

AND UPON the Board, by letter dated 15 July 1985, having established the methodology whereby Westcoast is to calculate interruptible gas gathering, processing and transportation service Tolls until the Board issues a decision in respect thereof subsequent to Westcoast's forthcoming toll hearing;

AND UPON the Board, by letter dated 16 July 1985, having approved Westcoast's application to defer the revenues derived from gas gathering, processing and transportation services provided for others in NEB Account 279, together with carrying charges on the month-end balance, calculated at one-twelfth of the Company's authorized annual rate of return on rate base;

IT IS ORDERED THAT:

1. Notwithstanding Board Order No. TG-5-79, as amended, and the Board's letter of 15 July 1985, the following tolls are approved on an interim basis pursuant to Subsection 16.1(2) and Section 52.2 of the Act, for the period commencing 1 January 1986 and ending on a date to be specified in the Board's Decision with respect to the forthcoming toll hearing;

   (a) The tolls contained in Schedule B to the application filed by Westcoast, dated 1 December 1985, as amended by Westcoast's letter dated 18 December 1985, ("Schedule B") with the exception of tolls for the following:

      (i) Displacement Interruptible Field Gathering Service (DFS);

      (ii) Displacement Interruptible Treatment Service (DTRS);

      (iii) Displacement Liquid Recovery Service (DLRS)

      (iv) Displacement Interruptible Transportation Service - Northern (DTSN);

      (v) Displacement Interruptible Transportation Service - Southern (DTSS).

(b) The toll for DFS shall be the toll contained in Schedule B for Interruptible Field Gathering Service (IFS);

(c) The toll for DTRS shall be the toll contained in Schedule B for Interruptible Treatment Recovery Service (ITRS);

(d) The toll for DLRS shall be the toll contained in Schedule B for Interruptible Liquid Recovery Service (ILRS);

(e) The toll for DTSN shall be the toll contained in Schedule B for Interruptible Transportation Service - Northern (ITSN);

(f) The toll for DTSS shall be the toll contained in Schedule B for Interruptible Transportation Service - Southern (ITSS).

IT IS FURTHER ORDERED THAT:

2. Effective 1 January 1986, the requirement that Westcoast deposit the revenues derived from the tolls charged for the provision of gas gathering, processing and transportation services into a deferral account, as detailed in the Board's letter of 16 July 1985, is revoked.

NATIONAL ENERGY BOARD

J.S. Klenavic
Secretary

Appendix IV
Hearing Order RH-6-85

Hearing Order RH-6-85
Directions on Procedure

Westcoast Transmission Company Limited - Application For Tolls effective 1 January 1986

By application dated 1 December 1985, Westcoast Transmission Company Limited ("Westcoast" or "the Applicant") has applied to the National Energy Board ("the Board") for, among other things, orders respecting tolls under Sections 50, 51 and 53 of the *National Energy Board Act*. On 18 December 1985, the Board issued Order TGI-11-85 to Westcoast authorizing interim tolls to be charged by Westcoast for the period commencing 1 January 1986 and ending on a date to be specified in the Board's Decision with respect to the forthcoming toll hearing. Having considered the application, the Board has decided to hold a public hearing and directs as follows:

1. The Applicant shall deposit and keep on file, for public inspection during normal business hours, a copy of the application in its offices at 1333 West Georgia Street, Vancouver, British Columbia, V6E 3K9. A copy of the application is also available for viewing in the Board's Library, Room 962, 473 Albert Street, Ottawa, Ontario, K1A 0E5 and at the National Energy Board, 4500 - 16th Avenue, N.W., Calgary, Alberta, T3B 0M6.

2. Interventions or letters of comment are required to be filed with the Secretary by 13 January 1986.

3. The Secretary will issue a list of intervenors shortly after 13 January 1986.

4. Information requests and responses thereto are required to be filed with the Secretary and served on all parties to the proceedings.

5. Intervenor written evidence is required to be filed with the Secretary and served on all other parties by 3 February 1986.

6. Any additional written evidence that the Applicant wishes to present shall be filed with the Secretary by 12 February 1986 and served on all other parties as soon as possible.

7. The public hearing will commence at the West Commonwealth Ballroom of the Holiday Inn Harbourside, 1133 West Hastings St., Vancouver, British Columbia, on 4 March 1986 at 9:00 a.m. and will continue until 14 March 1986, following which the hearing will reconvene in Ottawa at a date to be set by the Board.

8. The Applicant shall serve one copy of these directions and the attached public notice forthwith on parties listed in Appendix I and interested parties to Board Order Nos. TG-5-79 and RH-5-83, as well as parties with whom Westcoast has entered into Interruptible Gas Gathering, Processing and Transportation ("IT Service") Agreements and any other person who, to Westcoast's knowledge, has expressed an interest in these proceedings. Westcoast is directed to file with the Board one copy of a list of all parties served.

9. The publications in which the Applicant is required to publish the public notice are as follows:

Publications	City
"Times Colonist"	Victoria, British Columbia
"The Sun", the "Vancouver Province" & "Le Soleil de Colombie"	Vancouver, B.C.
"Alaska Highway News"	Fort St. John, B.C.
"The Edmonton Journal" & "Le Franco-albertain"	Edmonton, Alberta
"Calgary Herald"	Calgary, Alberta
"Globe and Mail" & "Le Toronto Express"	Toronto, Ontario
"Canada Gazette" & "The Citizen"	Ottawa, Ontario

10. At the hearing, unless otherwise authorized by the Board, the evidence shall be heard in the following order:

    (i) Toll Design and Tariff Matters;

    (ii) Rate Base;

    (iii) Cost of Service excluding Return;

    (iv) Return and Rate of Return on Rate Base.

11. For the purpose of the hearing of evidence on each item listed in paragraph 10, the following procedure shall apply:

    (i) Westcoast shall present its evidence on the item;

    (ii) Intervenors and Board Counsel shall have the right to cross-examine Westcoast's witnesses on that item;

    (iii) Intervenors shall present their evidence on that item in an order to be specified at the commencement of the proceedings;

    (iv) After each Intervenor has presented its evidence, other Intervenors, Westcoast and Board Counsel shall have the right of cross-examination.

12. The Board intends to examine, but does not limit itself to, the following specific issues:

    (a) The appropriate types of service for Canadian Sales, Canadian Service and Export Sales for toll design purposes, including the applicability and implication of introducing seasonal tolls;

    (b) The appropriate number of zones for toll design purposes, including zone boundaries and the allocation of costs to zones;

    (c) The appropriate method to be used to calculate the tolls for each type of service;

(d) The appropriate allocation of fixed and variable costs to each type of service;

(e) The determination of the volumes of natural gas for each type of service;

(f) The appropriate conditions of service, including definition, availability and priority of service;

(g) The procedure to be used for the allocation of excess pipeline capacity and the need to ensure nondiscriminatory access for all shippers;

(h) The need to phase-in the demand charge;

(i) The need for a displacement toll and the criteria used to define such service;

(j) The appropriate treatment of revenues from the sale of natural gas by-products, if accruing to Westcoast;

(k) The disposition of the IT Service Revenue Deferral Account;

(1) The appropriate accounting and toll-making treatment of the costs associated with the original Grizzly Valley pipeline and replacement project, including the issue of the prudency of Westcoast in this matter and whether or not the pipeline failure constitutes a normal business risk;

(m) The appropriate disposition of the costs associated with the Vancouver Island project;

(n) The allowance for cash working capital particularly the principles used by the Company in its Lead/Lag Study filed with the Board by letter of 18 October 1985;

(o) The appropriate depreciation rates, having regard to Westcoast's evidence and the Company's Depreciation Study filed with the Board by letter of 26 November 1985;

(p) The appropriate methods for calculating the cost of line pack gas, compressor fuel gas and unaccountable gas losses;

(q) The principles to be applied in allocating costs to Foothills, to Capital projects and to Non-Utility activities;

(r) The disposition of the By-Products Revenue Deferral Account; and

(s) The allocation of the cost of funded debt between utility and non-utility operations.

13. Intervenors wishing to raise matters not addressed in Westcoast's application or outlined in paragraph 12 should so indicate at the time of filing their intervention.

14. Unless otherwise directed by the Board, the hours of sitting shall be from 9:00 a.m. to 12:30 p.m. and from 2:00 p.m. to 4:00 p.m.

15. Where parties are directed by these Directions on Procedure to file with the Board or serve documents on other parties, the following shall apply:

(i) 35 copies of the document are to be filed with the Board;

(ii) 3 copies of the document are to be served on the Applicant; and

(iii) 1 copy of the document is to be served on intervenors.

16. Persons filing letters of comment should serve one copy of the documents on Westcoast and file one copy with the Board, which in turn will provide copies for all other parties.

17. Subject to the foregoing, the procedures to be followed in this proceeding shall be governed by the Draft NEB Rules of Practice and Procedure dated 18 February 1985.

18. All parties are asked to quote Order No. RH-6-85 when corresponding with the Board in this matter.

19. Simultaneous interpretation will be provided at this proceeding if requested by any party. In order to facilitate the arrangement of this service, parties are asked to advise the Board by 13 January 1986 in this regard.

J.S. Klenavic
Secretary

APPENDIX I to Order RH-6-85

Mr. Geoff Ho, Barristers and Solicitor
Legal Services
Alberta Energy & Natural Resources
Petroleum Plaza - South Tower
9915 - 108 Street
Edmonton, Alberta
T5K 2C9

Mr. I.C. MacNabb
President
Canadian Gas Association
55 Scarsdale Road
Don Mills, Ontario
M5B 2R3

Executive Secretary
Industrial Gas Users Association
170 Laurier Avenue W.
11th Floor
Ottawa, Ontario
K1P 5V5

NATIONAL ENERGY BOARD

NOTICE OF PUBLIC HEARING

Westcoast Transmission Company Limited - Application for Tolls Effective 1 January 1986

The National Energy Board has decided to hold a public hearing for the purpose of examining an application, dated 1 December 1985, by Westcoast pursuant to Part IV of the *National Energy Board Act* for, among other things, orders respecting the tolls which Westcoast may charge as of 1 January 1986, for its natural gas gathering, processing and transportation services, under Sections 50, 51 and 53 of the *National Energy Board Act*.

The hearing will commence at the West Commonwealth Ballroom of the Holiday Inn Harbourside, 1133 West Hastings St., Vancouver, British Columbia on 4 March 1986 at 9:00 a.m.

The hearing will be held to obtain the evidence and views of Westcoast and interested parties on the application.

Anyone wishing to intervene in the hearing must file a written intervention with the Secretary of the Board and serve a copy on Westcoast by 13 January 1986.

Anyone wishing only to comment on the application should write to the Secretary of the Board and send a copy to Westcoast at 1333 West Georgia Street, Vancouver, British Columbia, V6E 3K9.

Information on the procedures for this hearing (Reference Number: RH-6-85) is available in both English and French and may be obtained by writing to the Secretary or telephoning the Board's

Regulatory Support Office (613) 998-7206. Please quote Order RH-6-85 when corresponding with the Board on this matter.

J.S. Klenavic
Secretary
473 Albert Street
Ottawa, Ontario
K1A 0E5

23 December 1985

Appendix V
Depreciation Rates and Provision

Table a5-1
Depreciation Rates and Provision

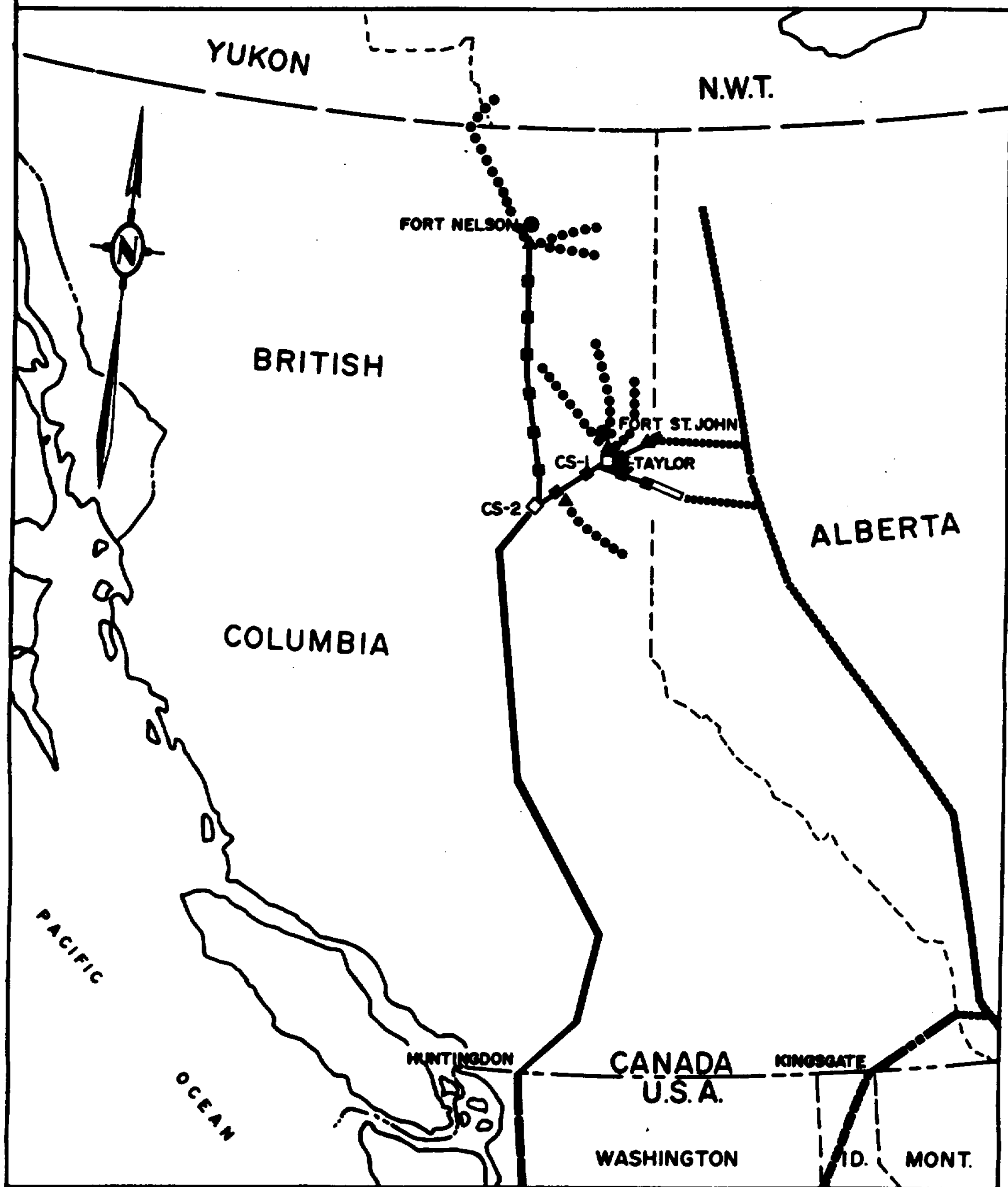
Section	Depreciation Rates %		Depreciation Provision ($000)		
	Rates Applied For	Rates Approved	Application As Revised	NEB Adjustments	Authorized by NEB
1. Mainline - Station 2 to Huntingdon	2.7	1.6	12,543	(5,109)	7,434
2. Fort Nelson Mainline	3.7	1.9	2,963	(1,431)	1,532
3. Fort Nelson Processing Plant	4.2	2.4	6,630	(2,842)	3,788
4. Fort Nelson Gathering System	4.2	2.4	3,202	(1,373)	1,829
5. Beaver River Pipeline	4.9	4.9	1,307	-	1,307
6. Pointed Mountain Pipeline	5.5	5.5	535	-	535
7. Mainline - Station 1 to 2	2.2	1.5	610	(194)	416
8. McMahon Plant (1)	1.9	1.4	1,245	(331)	914
9. Fort St. John Gathering System	2.2	1.6	2,293	(625)	1,668
10. 16" and 26" Pipelines	1.5	1.1	219	(58)	161
11. Boundary Lake Processing Plant	1.0	1.0	12	-	12
12. Alberta Pipeline System	3.2	3.2	200	-	200
13. (a) Grizzly Valley Gathering System	1.7	1.7	908	-	908
13. (b) Pine River Processing Plant	1.8	1.8	1,876	-	1,876
13. (c) Grizzly Transmission System	1.8	1.7	170	(10)	160
Subtotal			**34,713**	**(11,973)**	**22,740**
Miscellaneous Facilities	2.9	1.9	31	(11)	20
Total Pipeline Plant			**34,744**	**(11,984)**	**22,760**
General Plant					
NEB Account No.					
482 Structures and Improvements	2.5	2.5	396	-	396
483 Office Furniture and Equipment	6.3	6.3	359	-	359
484 Transportation and Equipment:					
Under 5 tons GVW	23.0	23.0	763	-	763
Over 5 tons GVW	7.9	7.9	87	-	87
Aircraft DH 125-400 (2)	-	-	-	-	-
Aircraft Islander C-FSTJ	4.7	4.7	25	-	25
485 Heavy Work Equipment	5.3	5.3	262	-	262
486 Tools and Work Equipment	10.0	10.0	656	-	656
488 Communications Equipment	10.0	10.0	369	-	369
489 Other Equipment	5.0	5.0	90	-	90
Total General Plant			3,007	-	3,007
Total Plant	**3.0**	**2.06**	**37,751**	**(11,984)**	**25,767**

(1) Adjusted to reflect the withdrawal of the McMahon sour condensate piping project (see Section 6.3.1).
(2) The Company has ceased taking depreciation until such time as the net book value exceeds the expected market value.

Appendix VI
Map of Westcoast's Pipeline System

Figure a6-1
Westcoast Transmission Company Limited
Systems Map

WESTCOAST TRANSMISSION COMPANY LIMITED SYSTEMS MAP



LEGEND

- ZONE 1 GATHERING - FORT NELSON, FORT ST. JOHN, PINE RIVER, POINTED MOUNTAIN, BEAVER RIVER
- ZONE 2 PROCESSING - INCLUDING TREATMENT, SULPHUR & LIQUIDS RECOVERY
- ZONE 3 TRANSMISSION - NORTH OF STATION 2
- ZONE 4 TRANSMISSION - STATION 2 TO HUNTINGDON
- ZONE 5 ALBERTA FACILITIES
- ALBERTA NATURAL GAS COMPANY
- NOVA AN ALBERTA CORPORATION
- NORTHWEST PIPELINE CORPORATION
- PACIFIC GAS TRANSMISSION COMPANY