CANADA

National Energy Board

Reasons for Decision

TransCanada PipeLines Limited

RH-3-94

March 1995

Tolls

National Energy Board

Reasons for Decision

In the Matter of

TransCanada PipeLines Limited

Application dated 29 June 1994, as amended
24 November 1994, for new tolls effective
1 January 1995

RH-3-94

March 1995

Cat. No. NE22-1/1995-2E
ISBN 0-662-23141-4

This report is published separately in both official languages.

Copies are available on request from:
Regulatory Support Office
National Energy Board
311 Sixth Avenue S.W.
Calgary, Alberta
T2P 3H2
(403) 292-4800

For pick-up at the NEB office:
Library
Ground Floor

Printed in Canada

N° de cat. NE22-1/1995-2F
ISBN 0-662-80040-0

Ce rapport est publié séparément dans les deux langues officielles.

Exemplaires disponibles sur demande auprès du:
Bureau du soutien à la réglementation
Office national de l'énergie
311, sixième avenue s.-o.
Calgary (Alberta)
T2P 3H2
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En personne, au bureau de l'Office:
Bibliothèque
Rez-de-chaussée

Imprimé au Canada

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Abbreviations

A&G	administrative and general
ACQ	annual contract quantity
Act	*National Energy Board Act*
AFUDC	allowance for funds used during construction
Agreement	Settlement Agreement
Board	National Energy Board
CAPP	Canadian Association of Petroleum Producers
CCA	capital cost allowance
CDA	Central Delivery Area
Company	TransCanada PipeLines Limited
Consumers	Consumers' Gas Company Ltd., The
DEML	Direct Energy Marketing Limited
ECR service	enhanced capacity release transportation service
EDA	Eastern Delivery Area
FERC	Federal Energy Regulatory Commission
FS	Firm Service
FST	Firm Service Tendered
FT	Firm Transportation
Gaz Métropolitain	Société en commandite Gaz Métropolitain
GJ	gigajoule
GPUC	Gas Plant Under Construction
Great Lakes	Great Lakes Gas Transmission Company
GST	Goods & Services Tax
IGUA	Industrial Gas Users Association
IS	Interruptible Service
IT	Interruptible Transportation
LT-WFS	Long-term Winter Firm Service
MDA	Manitoba Delivery Area
NDA	Northern Delivery Area
NEB Rules	*NEB Draft Rules of Practice and Procedure (1987)*

NEB	National Energy Board
Northland	Northland Power
OM&A	Operations, Maintenance & Administration
Ontario	Ministry of Energy and Environment for Ontario
ProGas	ProGas Limited
PS	Peaking Service
Quebec	Procureur général du Québec
RH	Rate Hearing, number and year (e.g. RH-4-93)
settlement	Settlement Agreement
SSMDA	Sault Ste. Marie Delivery Area
STFT	Short-Term Firm Transportation
STS	Storage Transportation Service
TBO	Transmission By Others
Tolls Task Force	Joint industry task force initiated by TransCanada
TransCanada	TransCanada PipeLines Limited
TWS	Temporary Winter Service
Union	Union Gas Limited
WFS	Winter Firm Service
WGML	Western Gas Marketing Limited

Glossary of Terms

(Explanations for certain terms used in these Reasons which appear infrequently in Board reports or which may be applicable to TransCanada only are provided for the reader's convenience.)

GH-2-93	Hearing Order in respect of TransCanada's application for 1994 and 1995 facilities.
NEB Rules of Practice and Procedure (1987)	NEB Rules which set out the procedures for making applications, representations and complaints to the Board, the conduct of hearings and generally the manner of conducting any business before the Board.
Part IV	The section of the NEB Act which deals with Traffic, Tolls and Tariffs.
Part III	The section of the NEB Act which deals with Construction and Operation of Pipelines.
Red Circle Group	A sub-committee of the Tolls Task Force
RH-1-91	Hearing Order in respect of TransCanada's application for new tolls effective 1 January 1992
RH-2-92	Hearing Order in respect of TransCanada's application for new tolls effective 1 January 1993
RH-2-94	Multi-Pipeline Cost of Capital Hearing
RH-3-94	Hearing Order in respect of TransCanada's application for new tolls effective 1 January 1995
RH-4-93	Hearing Order in respect of TransCanada's application for new tolls effective 1 January 1994
Settlement Agreement	Settlement reached by parties with respect to all components of TransCanada's 1995 revenue requirement (except those being determined by RH-2-94).
TGI-1-94	Order which established interim tolls for TransCanada effective 1 January 1995.
Time-Lag Review	A study to determine the level of funds which must be provided by investors to sustain operations from the time a utility makes certain cash operating expenditures in the provision of service to tollpayers to the time it is reimbursed through revenues.

Tolls Task Force	A joint industry Task Force initiated by TransCanada. Its membership is comprised of a wide cross-section of the natural gas industry, including representatives of the producing, marketing, brokering, pipeline, provincial government, local distribution and industrial end-user sectors.

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 TransCanada PipeLines Limited for certain orders respecting tolls under Part IV of the Act; and

IN THE MATTER OF the National Energy Board Hearing Order No. RH-3-94;

HEARD at Calgary, Alberta on 9,10,11,12 and 17 January 1995.

BEFORE:

R. Illing	Presiding Member
R. Priddle	Member
R.L. Andrew	Member

APPEARANCES:

P.R. Jeffrey	TransCanada PipeLines Limited
C.K. Yates	Canadian Association of Petroleum Producers
T. Bjerkelund	Industrial Gas Users Association
S. Sethi A. Kerr	Amoco Canada Petroleum Company Ltd.
J.H. Farrell	Consumers' Gas Company Limited, The
L.E. Smith	The Northeast Group
L.G. Keough	Northland Power
K.J. Hadley	PanCanadian Petroleum Limited
M.A.K. Muir	ProGas Limited
J.S. Bulger	Société en commandite Gaz Métropolitain
V.R. Gorr	TransGas Limited
G. Cameron	Union Gas Limited
M.J. Samuel	Western Gas Marketing Limited
H. Trainor	Alberta Department of Energy
J. Turchin	Ministry of Environment and Energy for Ontario
J. Brisson	Procureur général du Québec

Overview

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

The Application

On 29 June 1994, TransCanada applied to the Board for new tolls to be effective 1 January 1995. The Application dealt with the issues of rate base, cost of service, rate of return, toll design and tariff matters.

Settlement of Revenue Requirement Issues

On 16 December 1994, TransCanada informed the Board that the Red Circle Group had succeeded in negotiating a settlement of all components of TransCanada's 1995 revenue requirement (except those which were being determined in RH-2-94). On 5 January 1995, the Board issued a decision indicating that it accepted the substance of the Settlement Agreement as filed.

The Hearing

The hearing, which lasted five days, was held in Calgary between 9 January 1995 and 17 January 1995.

Effect of the Decision on Tolls

Effective 1 May 1995, the approved 100% load factor FT toll to the Eastern Zone will be 88.22¢/GJ. This toll can be compared to the toll of 86.32¢/GJ approved by the Board for 1994 and the toll of 91.87¢/GJ applied for by TransCanada for 1995.

Revenue Requirement

The Board has approved a 1995 net transportation revenue requirement of $1,749.6 million which is $2.7 million more than the amount applied for by TransCanada. This increase reflects a reduction of $26.1 million resulting from the approval of a lower than applied-for rate of return on rate base and increases within Miscellaneous Revenue of $0.4 million, which were offset by an increase of $29.2 million resulting from the fact that interim tolls for the first four months of 1995 were slightly lower than the approved tolls for the year.

Rate Base

The Board has approved a rate base of $6,671.4 million for 1995.

Rate of Return

As a result of decisions taken in RH-2-94, the Board has approved a rate of return on common equity of 12.25% for TransCanada in 1995. This represents an increase of 100 basis points over the previously approved rate of 11.25% and a decrease of 75 basis points from the applied-for rate of 13.0%.

Operating Costs

As per the terms of the Settlement Agreement, parties did not oppose any amounts shown on TransCanada's update to the Application (filed 24 November 1994) except for OM&A expenses in which the applied-for amount of $226.0 million was reduced by $8.0 million to $218.0 million.

Deferral Accounts

The Board approved the discontinuance of the CCA Variances on Compressors deferral account and approved the continuation of all other deferral accounts approved in RH-4-93. The Board approved the continuation of the ECR Service deferral account established pursuant to its letter dated 2 November 1994.

The Board also approved the recording of LT-WFS revenues in TransCanada's Demand Revenue deferral account for the 1995 test year.

Toll Design and Tariff Matters

The Board approved the ECR service proposed by TransCanada on the understanding that it will be offered on the basis of a one-year minimum term and that all revenues from the provision of this service will be placed in a deferral account for disposition in a future toll application. The Board denied TransCanada's revenue sharing proposal.

The Board approved the first tranche of LT-WFS. However, pursuant to section 19(1) of the Act, the Board's decision with respect to the LT-WFS proposal shall not come into force until such time as any facilities required to implement the proposal have been approved by the Board pursuant to Part III of the Act and the facilities have been placed in service. The Board approved a minimum term of one year rather than the proposed 10-year minimum term. With respect to the second tranche of LT-WFS, the Board was not prepared to grant approval until a future application by TransCanada under Part III of the Act with respect to the necessary facilities has been filed and approved by the Board.

The Board approved the CAPP suite of services methodology as the basis for calculating the FST differential for the 1995 test year.

Chapter 1

Background and Application

On 29 June 1994, TransCanada[1] filed an application pursuant to Part IV of the Act for new tolls to be effective 1 January 1995. TransCanada revised this application on 24 November 1994.

On 9 September 1994, the Board issued Hearing Order RH-3-94 setting down the Application for a public hearing to commence on 9 January 1995.

Hearing Order RH-3-94 was amended by letters dated 8 and 21 November 1994, and 16 December 1994 to set the location and timing of the hearing and to reflect changes to the timetable.

The public hearing held pursuant to Order RH-3-94 lasted five days. The hearing took place in Calgary between 9 January 1995 and 17 January 1995.

As set out in Order TGI-1-94, the Board established interim tolls for 1995 for TransCanada effective 1 January 1995. TGI-1-94 remained in effect until the Board rendered its final decision on the Application for 1995 tolls.

1 The Board uses abbreviations for many terms in the text of its decision. These can be found in the Abbreviations section which starts on page (iv).

Chapter 2

Settlement Agreement

On 16 December 1994, TransCanada informed the Board that the Red Circle Group had succeeded in negotiating a settlement of all components of TransCanada's 1995 revenue requirement (except those which were being determined in RH-2-94).

TransCanada indicated that the Agreement had been presented to the Tolls Task Force on 14 December 1994. Thereafter, TransCanada faxed a copy of a ballot to all Tolls Task Force participants and invited them to declare their position. TransCanada indicated that no party opposed the Agreement.

The following Points of Agreement were noted by TransCanada:

1. For purposes of calculating TransCanada's tolls for calendar year 1995, the amount to be included with respect to OM&A Expense is $218,000,000.

2. All evidence which had been filed to date in the RH-3-94 proceedings related to OM&A expenses, including information requests and responses thereto, would be withdrawn.

3. TransCanada agreed that the settlement of $218,000,000 would not be accomplished by any change resulting in deterioration of the safety and service conditions presently exercised by TransCanada.

4. All parties to the settlement would not oppose the amounts shown in the update to the Application (filed 24 November 1994) for all other cost of service components, and rate base and would not oppose any volume levels reflected in the same update to the Application.

5. All parties to the settlement agreed to the continuation of all deferral accounts that TransCanada was seeking to have continued throughout 1995 and accepted all deferral account conditions as reflected in the Update to the Application.

6. The settlement and the manner in which it was determined was not necessarily to be perceived as a precedent for any future negotiations or settlements.

7. All parties agreed that the settlement in no way precluded further discussions with interested parties with regard to alternate forms of regulation.

On 21 December 1995, the Board asked parties to RH-3-94 to indicate whether they agreed, opposed or were neutral with respect to the proposed Agreement attached to TransCanada's letter dated 16 December 1994. No parties indicated that they were opposed to the Agreement.

On 5 January 1995, the Board issued a decision indicating that it accepted the substance of the settlement as filed and as evidenced by the Settlement Agreement attached to TransCanada's letter. However, the Board denied TransCanada's request to amend its application by withdrawing from the hearing record all of its OM&A evidence pertaining to the 1995 test year.

Chapter 3

Revenue Requirement

The net transportation revenue requirement authorized by the Board for the 1995 test year is $1,749,620,630. A summary of this approved revenue requirement together with the Board's adjustments is shown in Table 3-1. In addition, the functional distribution and classification of the approved revenue requirement are set out in Appendix II to these Reasons for Decision.

Table 3-1
Transportation Revenue Requirement for the 1995 Test Year
($ 000)

	Application	NEB Adjustments	Authorized by NEB
Transmission by Others	364,973	-	364,973
Gas Related Expense	14,147	-	14,147
Operations, Maintenance & Administration	218,000	-	218,000
NEB Cost Recovery	7,615	-	7,615
Depreciation	221,634	(1)	221,633
Municipal & Other Taxes	88,188	-	88,188
Income Taxes	121,246	(11,410)	109,836
Regulatory Amortizations	13,169	-	13,169
Foreign Exchange Cost	4,382	-	4,382
Return on Rate Base	748,533	(14,680)	733,853
Gross Transportation Revenue Requirement	1,801,887	(26,091)	1,775,796
Miscellaneous Revenue	(54,930)	(402)	(55,332)
Interim Revenue Adjustment[1]	-	29,159	29,159
Net Transportation Revenue Requirement	**1,746,957**	**2,666**	**1,749,623**

[1] For details see Chapter 8 - Interim Revenue Adjustment.

Chapter 4

Rate Base and Depreciation

4.1 Gross Plant

The Board's adjustments to rate base for the 1995 test year are summarized in Table 4-1. The details of the adjustments are explained in the sections following the table.

Table 4-1
Rate Base for the 1995 Test Year
($ 000)

	Application	**NEB Adjustments**	**Authorized by NEB**
Utility Investment:			
Gross Plant	8,599,625	(30)	8,599,595
Accumulated Depreciation	(2,049,659)	-	(2,049,659)
Net Plant	6,549,966	(30)	6,549,936
Contributions in Aid of Construction	(2,487)	-	(2,487)
Total Plant	6,547,479	(30)	6,547,449
Working Capital:			
Cash	16,197	-	16,197
GST Receivable, Net	(2,546)	-	(2,546)
Materials & Supplies	49,964	-	49,964
Transmission Linepack	38,411	-	38,411
Prepayments & Deposits	2,054	-	2,054
		-	
Total Working Capital	104,080	-	104,080
Deferred Costs:			
Average Deferred Taxes	(12,645)	-	(12,645)
Miscellaneous Deferred Taxes	33,240	-	33,240
Operating & Debt Service Deferrals	3,105	-	3,105
Other Deferred Items	(3,841)	-	(3,841)
Total Deferred Costs	19,859	-	19,859
Total Rate Base	**6,671,418**	**(30)**	**6,671,388**

4.2 AFUDC And Overhead

Decision

The calculation of capitalized AFUDC and Overhead related to capital additions for the 1995 test year has been adjusted to reflect the approved rate of return on rate base (see section 7.6). In this regard, the Board has reduced the level of Gross Plant by $30,650.

4.3 Working Capital

4.3.1 Cash Working Capital

In RH-4-93, the Board directed TransCanada to file a time-lag review in its next application which would assume corresponding revenues are received in the month after an expense is recorded rather than the month after the expense is paid. The Board also directed TransCanada to use statistical sampling techniques. TransCanada provided the requested study in its application. The revised methodology was used to determine the applied-for cash working capital allowance. Since the cash working capital allowance was part of the Settlement Agreement, there was no further deliberation on the study methodology used to determine the allowance for cash working capital.

Decision

The Board accepts TransCanada's cash working capital allowance of $16,197,000 and total working capital of $104,080,000.

4.4 Depreciation

Decision

The Board has reduced depreciation expense by $601 and the accumulated depreciation by $153 to reflect the adjustment to the level of capitalized AFUDC and Overhead (see section 4.2).

Chapter 5

Operating Costs

5.1 Operating Costs

TransCanada applied for total operating costs for the 1995 test year of $705,334,000. The total operating costs includes an amount for OM&A expense of $226,029,000. The 1995 applied-for OM&A amount represents an increase of $25,341,000 over the 1994 Board-approved overall OM&A amount of $200,688,000.

Pursuant to the terms of the Agreement, parties agreed to the applied-for amounts for all operating costs with the exception of the OM&A amount. The parties agreed that, for the purposes of calculating TransCanada's tolls for calendar year 1995, the amount to be included for OM&A expenses would be $218,000,000. This amount represents an increase of $17,312,000 over the Board-approved OM&A amount for 1994 but is $8,029,000 less than the applied-for OM&A amount.

Table 5-1 below provides a comparison of the operating costs requested by TransCanada and the settlement amounts accepted by the Board.

Table 5-1
Operating Costs For the 1995 Test Year
($ 000)

	Application	Adjustments Under Settlement Agreement	Authorized by NEB
Transmission By Others	364,973	-	364,973
Gas Related Expense	14,147	-	14,147
OM&A	226,029	(8,029)	218,000
NEB Cost Recovery	7,615	-	7,615
Municipal & Other Taxes	88,188	-	88,188
Foreign Exchange Cost	4,382	-	4,382
Total Operating Costs	**705,334**	**(8,029)**	**697,305**

Decision

For tollmaking purposes, the Board approves total operating costs of $697,304,939 for the 1995 test year.

Chapter 6

Deferral Accounts

6.1 Enhanced Capacity Release Service Deferral Account

In response to a Board directive, TransCanada established a deferral account to record any ECR Service revenues earned by TransCanada during November and December 1994. During the proceeding, TransCanada indicated that no revenues were accrued for ECR Service in 1994.

TransCanada requested that the ECR Service deferral account be continued in 1995, to allow it to record any revenues collected in 1995 from the ECR service, for disposition in a future tolls application. No parties were opposed to this request.

Decision

The Board approves the continuation of the ECR Service deferral account for the 1995 test year.

6.2 Deferral Account Treatment for LT-WFS

LT-WFS service is expected to begin 1 November 1995. TransCanada did not forecast any volumes or revenues resulting from this service in its application. TransCanada has requested that any LT-WFS revenues be recorded in its Demand Revenue deferral account for disposition in a future tolls application. No parties were opposed to this request.

Decision

The Board approves the recording of LT-WFS revenues in TransCanada's Demand Revenue deferral account for the 1995 test year.

6.3 Other Deferral Accounts

TransCanada sought continuation throughout the 1995 test year of all deferral accounts which the Board approved in RH-4-93, with the exception of the CCA Variance on Compressors deferral account.

Under the terms of the Settlement Agreement dated 16 December 1994, regarding all components of TransCanada's 1995 revenue requirement, parties agreed to the continuation of all existing deferral accounts throughout 1995. Parties also accepted all deferral account conditions as reflected in TransCanada's 24 November 1994 update to its 1995 tolls application.

Decision

In accordance with the Board's decision to accept the Agreement regarding all components of TransCanada's 1995 revenue requirement, the Board approves the continuation of the following deferral accounts for the 1995 test year:

Great Lakes Rates
Great Lakes Exchange
Great Lakes Refund
Great Lakes Demand
Union Rates
Union Demand
Union Commodity
Trans Québec and Maritimes Pipeline Inc. Toll
Demand Revenue
Income Tax Reassessment
Municipal Taxes
Future Legislative Changes to Various Taxes
Compressor Fuel
Debt Service

The Board approves the discontinuance of the CCA Variances on Compressors deferral account.

Chapter 7

Cost of Capital

Rate of return on common equity, the appropriate capital structure, and preferred shares were issues examined as part of the RH-2-94 proceeding held between 24 October 1994 and 20 December 1994. Only the relevant decisions from that proceeding have been brought forward and incorporated in these Reasons. Further details on the Board's views on these items can be found in the Board's Reasons for Decision for RH-2-94.

TransCanada applied for a rate of return on rate base of 11.22% for the 1995 test year, 62 basis points higher than the approved rate of 10.6% for 1994. The applied-for rate of return on common equity for the 1995 test year was 13.0%, 175 basis points higher than the 11.25% rate approved for 1994. TransCanada applied for a deemed common equity ratio of 30% unchanged from the approved level for 1994.

Details of the applied-for deemed average capital structure and rates of return are shown in Table 7-1 and discussed in detail in sections 7.1 to 7.5.

Table 7-1
Applied-for Deemed Average Capital Structure and Rates of Return for the 1995 Test Year

	Amount ($ 000)	Capital Structure (%)	Cost Rate (%)	Cost Component (%)
Funded Debt	4,026,502	59.91	10.86	6.51
Unfunded Debt	65,399	0.97	8.15	0.08
Total Debt Capital	4,091,901	60.88		6.59
Preferred Shares	612,648	9.12	7.97	0.73
Common Equity	2,016,235	30.00	13.00	3.90
Total Capitalization	**6,720,784**[1]	**100.00**		
Rate of Return on Rate Base				**11.22**

[1] Rate Base $6,671,418 + GPUC $49,366 = Total Capitalization $6,720,784.

7.1 Funded Debt

The funded debt component of TransCanada's deemed capital structure is comprised of bonds, debentures and medium-term notes with varying maturities. These debt instruments are denominated in Canadian and foreign currencies.

TransCanada applied for an average funded debt amount of $4,026,502,000 at a cost rate of 10.86%. The funded debt balance accounts for 59.91% of the applied-for deemed average capitalization for the 1995 test year.

Decision

The Board approves TransCanada's applied-for funded debt amount of $4,026,502,000 at a cost rate of 10.86% for the 1995 test year.

7.2 Unfunded Debt

Unfunded debt represents that portion of TransCanada's capital structure which remains to be raised by the issuance of long-term debt. The average unfunded debt balance is derived by subtracting the average funded debt, preferred share and common equity capital from the total average capitalization for the test year.

TransCanada applied for an average unfunded debt amount of $65,399,000 at an average cost rate of 8.15%. This unfunded debt rate was calculated according to the Board's approved methodology which allows the use of projected short and long-term interest rates for the test year.

The Board has reduced the unfunded debt balance by $33,265 to reflect the Board's reduction to TransCanada's approved total capitalization (see Tables 7-1 and 7-2).

Decision

The Board approves an unfunded debt amount of $65,365,735 at a cost rate of 8.15% for the 1995 test year.

7.3 Preferred Shares

TransCanada applied for a preferred share amount of $612,648,000 at an average cost rate of 7.97% for the 1995 test year. The preferred share component of TransCanada's overall cost of capital was an issue in RH-2-94. However, no changes were made to this component of TransCanada's cost of capital in that proceeding. The only issues before the Board in RH-3-94 related to the balance of and the appropriate cost rate for the preferred shares.

Decision

The Board approves TransCanada's applied-for preferred share amount of $612,648,000 at an average cost rate of 7.97% for the 1995 test year.

7.4 Common Equity Ratio

TransCanada applied for a deemed common equity ratio of 30%, unchanged from the currently-approved level. In RH-2-94, the Board approved the continuation of a 30% common equity ratio for TransCanada.

7.5 Return on Common Equity

TransCanada applied for a rate of return on common equity of 13.0%. In RH-2-94, the Board approved a rate of return on common equity of 12.25% for TransCanada.

7.6 Rate of Return on Rate Base

Decision

The Board approves a rate of return on rate base of 11.0% for TransCanada for the 1995 test year. The approved capital structure and overall rate of return is shown in Table 7-2.

Table 7-2
Approved Deemed Average Capital Structure and Rate of Return for the 1995 Test Year

	Amount ($ 000)	**Capital Structure** (%)	**Cost Rate** (%)	**Cost Component** (%)
Funded Debt	4,026,502	59.91	10.86	6.51
Unfunded Debt	65,366	0.97	8.15	0.08
Total Debt Capital	4,091,868	60.88		6.59
Preferred Shares	612,648	9.12	7.97	0.73
Common Equity	2,016,221	30.00	12.25	3.68
Total Capitalization	**6,720,737**[1]	**100.00**		
Rate of Return on Rate Base				**11.00**

1 Rate Base $6,671,388 + GPUC $49,349 = Total Capitalization $6,720,737.

7.7 Income Taxes

The Board notes that the recent Federal Budget increased in the rate of tax on large corporations payable under Part I.3 of the Act from 0.2% to 0.225% for taxation years that end after 27 February 1995. The 1995 impact of this tax change should be captured by TransCanada in its legislative tax change deferral account and parties will have the opportunity to comment on the disposition of any variance in TransCanada's next tolls application.

Decision

The Board has reduced TransCanada's 1995 income tax provision from $121,246,000 to $109,836,374, a decrease of $11,409,626 as a result of the Board's decisions in Chapter 3 and this Chapter (see Table 7-3) in respect of rate base and rate of return on rate base.

Table 7-3
Utility Income Tax Allowance for the 1995 Test Year
($ 000)

	Application	NEB Adjustments	Authorized by NEB
Equity Component	308,887	(14,679)	294,208
Depreciation	221,634	(1)	221,633
Large Corporation Tax - 1994	13,709	-	13,709
Preferred Share Dividend Tax	295	-	295
Drawdown of Deferred Taxes	(25,290)	-	(25,290)
Non-allowed Amortization of Debt Discount & Expense and Foreign Exchange Costs	8,605	-	8,605
Non-allowed Expenses	3,930	-	3,930
Capital Cost Allowance	(352,700)	-	(352,700)
Benefits Capitalized	(2,513)	-	(2,513)
Eligible Capital Expenses	(81)	-	(81)
Interest AFUDC	(3,444)	-	(3,444)
Interest Component of Income Tax Reassessment Deferral Account Carrying Charges	(1,028)	-	(1,028)
Issue Costs	(6,225)	-	(6,225)
Taxable Income	**165,779**	**(14,680)**	**151,099**
Taxes at 0.43732 ÷ (1-0.43732) x Taxable Income	128,845	(11,410)	117,435
Income Tax Reassessment Deferrals	3,687	-	3,687
Recovery of Large Corporation Tax	13,709	-	13,709
Income Tax on Preferred Share Dividends	295	-	295
Less: Deferred Tax Drawdown	(25,290)	-	(25,290)
Utility Income Tax Allowance	**121,246**	**(11,410)**	**109,836**

Chapter 8

Interim Revenue Adjustment

8.1 1995 Revenue Deficiency

The estimated 1995 test-year revenue deficiency is $28,225,410 for the period 1 January 1995 to 30 April 1995. This amount represents the difference between the projected transportation revenue from the interim tolls and the approved test-year revenue requirement, as shown in Table 8-1. In its letter dated 1 December 1994, when the Board established interim tolls for TransCanada, it also approved the continuation of all existing deferral accounts. Included in these accounts was the deferral account established in RH-4-93 (section 6.7) to capture any revenue variance between interim and final tolls.

Table 8-1
NEB Determination of the Revenue Deficiency for the 1995 Test Year
($)

Transportation Revenue Under Interim Tolls	1,688,690,400
Miscellaneous Revenue Under Interim Tolls	(52,902,700)
Adjusted Transportation Revenue Under Interim Tolls	1,635,787,700
Approved 1995 Revenue Requirement (net of Miscellaneous Revenue)	1,720,463,930
Revenue Deficiency for 1995	84,676,230
Revenue Deficiency for the Period 1 January 1995 to 30 April 1995	**28,225,410**

8.2 Carrying Charges

The Board is of the view that the test-year Revenue Deficiency deferral account is a special deferral account and hence carrying charges should be calculated at a short-term rate. The Board considers a short-term rate of 6.5% to be appropriate for this purpose.

Decision

The Board approves the use of a short-term rate of 6.5% for the determination of carrying charges with respect to the test-year Revenue Deficiency deferral account.

8.3 Allocation of Interim Revenue Adjustment

Carrying charges of $933,562 have been added to the revenue deficiency of $28,225,410 in arriving at the total interim revenue adjustment of $29,158,972. As the new tolls will be in effect for only eight months of the 1995 test year, the amount of the adjustment should be multiplied by 1.5 to permit the full amount of the adjustment to be reflected in the tolls.

Decision

The tolls, effective 1 May 1995, have been set based on the allocation of the interim revenue adjustment over the last eight months of the 1995 test year. For the purposes of calculating tolls, the interim revenue adjustment of $29,158,972 has been multiplied by 1.5 to reflect the allocation over eight months of the test period.

Chapter 9

Toll Design/Tariff Matters

9.1 Throughput Forecast

TransCanada's throughput forecast for the 1995 test year, as updated in its Revision of 24 November 1994, was 63 505 10^6m^3 (2,242 Bcf) of which 31 167 10^6m^3 (1,100 Bcf) was forecast for the domestic market and 32 338 10^6m^3 (1,142 Bcf) was forecast for the export market.

TransCanada's forecast continues to be based upon discussions with its shippers, the responses to its shipper questionnaire, historical performance, and TransCanada's own assessment of the markets served by its system.

Decision

The Board accepts TransCanada's throughput forecast for cost allocation and toll design purposes.

9.2 Enhanced Capacity Release Transportation Service (ECR Service)

On 27 October 1994, TransCanada applied to the Board seeking approval of ECR Service. TransCanada indicated that it intended to offer the service, effective 1 November 1994, as a tariff in effect, pursuant to Section 60(1)(a) of the National Energy Board Act, on the terms specified in the ECR Service Toll Schedule and ECR Service contract filed as part of its application. The Board decided that the ECR Service Toll Schedule, pro forma contract and related surcharge should be made interim effective 2 November 1994 and that a final decision on the ECR Service would be considered as a specific issue in the RH-3-94 proceeding.

TransCanada stated that ECR Service would be available to TransCanada's long-term FT service customers with at least five years remaining in the term of their contracts and who have delivery points in TransCanada's Eastern Zone or at an export delivery point downstream of St. Clair, Ontario.

In TransCanada's view, the ECR Service would allow customers access to some of TransCanada's Great Lakes FT004 capacity and this, in turn, would provide shippers with an opportunity to deliver gas to markets accessible from the Great Lakes system. The customer would then replace those gas volumes with equivalent volumes at St. Clair or Dawn in order to keep their Eastern Canadian or export markets whole. The ECR Service would provide the customer with the opportunity to make two deliveries or sales on a single TransCanada transportation contract.

TransCanada calculated the ECR toll for the second receipt and delivery points by subtracting the Eastern Zone toll from the sum of the individual tolls for segmented transportation on the component parts of TransCanada's integrated system; namely Empress to Emerson, Great Lakes, and St. Clair to the Central Delivery Area. A credit representing 50% of the TransCanada's current A&G expenses is then deducted from this figure. The net amount represents the ECR Service Surcharge.

TransCanada submitted that the surcharge revenue should be shared on a 50/50 basis between its shareholders and its tollpayers. This position was taken by TransCanada on the basis that the ECR service was the result of innovative and creative thinking at TransCanada which capitalized on the changed regulatory circumstances in the United States and which would bring additional profit opportunities to the Canadian natural gas industry. The Company expressed the view that it is not fair that a party which creates benefits for many other parties is not able to benefit from its creativity. In the case of the ECR Service, TransCanada submitted that it is a new and innovative service which goes beyond the norm of what could reasonably be expected of an efficient pipeline. TransCanada indicated, however, that the application for the ECR Service would not be withdrawn if its share of the revenue was reduced from that requested or if the concept of revenue sharing was denied.

Finally, TransCanada indicated that although it had applied for a minimum five-year term provision, it would be prepared to offer the service if a minimum one-year term was approved.

A number of parties commented on the ECR Service with all of them supporting the basic concept of the new service. The major concern with TransCanada's proposal was the requirement for a minimum five-year term. The parties were essentially split between a requirement for a one-year term or no minimum term at all. As far as the ECR Service Surcharge was concerned, with one exception, all parties agreed with the concept of a surcharge for the service. Consumers raised a concern about the inconsistency in the tolling treatment of the A&G expenses between the proposed ECR Service and the current STS service. Consumers argued that TransCanada's treatment of A&G expenses for the ECR Service was inconsistent with the Company's treatment of A&G expenses for STS where 50% of these volume-related costs are included in the calculation of the STS toll.

As far as the concept of revenue sharing was concerned, most parties were opposed to the proposal. One party agreed with the principle but suggested that a 50/50 split was excessive. A number of parties felt that it was inappropriate to look at revenue sharing at this time in light of the discussions currently taking place with respect to incentive regulation.

Views of the Board

The Board agrees that there is a potential demand for the ECR Service because it will allow shippers access to new markets linked to the Great Lakes system. The Board accepts the methodology for calculating the ECR surcharge as proposed by TransCanada. With respect to the requirement for a minimum five-year term, the Board is of the view that this provision does not provide sufficient flexibility for shippers and considers that a one-year minimum term is more reasonable. In light of the fact that a revenue deferral account has already been established for the ECR Service, the Board considers that this account should remain in place to capture any revenues generated as a result of TransCanada providing ECR Service to shippers in 1995.

As to the proposal for revenue sharing, the Board is not prepared to approve TransCanada's request. The Board encourages and expects innovative thinking from TransCanada in tolling and other matters. However, the Board is not convinced that the sharing of additional revenues from the ECR Service with the Company's shareholders is necessary to provide an incentive to employees in this area. From the Board's perspective, for any revenue sharing arrangement to be acceptable, would require that the Company be exposed to an element of risk as a result of implementing a new service. In the case of the ECR Service, there is no risk being assumed by TransCanada and it is difficult to justify the use of a revenue sharing concept in this situation. The Board is also of the view that the revenue sharing proposal, as presented, did not fall into the category of an incentive ratemaking scheme.

Decision

The Board approves the ECR Service proposed by TransCanada on the understanding that the service will be offered on the basis of a one-year minimum term and that all 1995 revenues derived from the provision of this service will be placed in a deferral account for disposition in a future toll application. The Board denies TransCanada's revenue sharing proposal.

9.3 Long-term Winter Firm Service (LT-WFS)

TransCanada stated that some of its customers had indicated a need for winter service which was much longer in duration than the currently available WFS which is available for one- or two-year terms. Concurrent with those requests, TransCanada recognized that, partially as a result of its system design change, it had pockets of excess winter capacity on the Western and Central sections of its pipeline system. In order to match the excess of winter season capacity and the long-term market demand for this winter season capacity, TransCanada proposed the introduction of a new winter season service known as LT-WFS. TransCanada indicated that, with only minor facilities additions on the North Bay Shortcut/Montreal Line, system bottlenecks could be removed, permitting the Company to offer this new longhaul transportation service.

TransCanada scheduled a one-time "open season" for bidding for this service in February 1995 and would consider committing up to 50 Mcf per day for each of two capacity tranches. The first tranche would commence in the 1995/96 season and the second in the 1996/97 season (i.e. a total of 100 Mcf). The bids would be assessed on the basis of maximizing the net present value of the per unit bid over the contract life.

TransCanada stated that only facilities which have already been certificated would need to be built to enable it to deliver the first tranche of 50 Mcf per day commencing 1 November 1995. The Company noted that the justification for the construction of these facilities for purposes other than what they had been certificated for would be part of a release application which would be filed with the Board prior to the commencement of construction in the summer of 1995. However, it would still be necessary for TransCanada to seek certification of, and to construct, the additional facilities required to meet the aggregate requirements included in the second tranche, scheduled to commence 1 November 1996. TransCanada noted that the facilities in the second tranche would be subject to a review in a future Part III proceeding.

TransCanada noted that because new facilities would be needed to meet the demand, it considered that a minimum contract term of 10 years was required.

In order to ensure that the approval of LT-WFS would not adversely affect the need for additional facilities, TransCanada stated that should additional facilities need to be constructed to meet the additional year-round service requirements, the seasonal capacity available for LT-WFS would not diminish, but in fact may increase.

TransCanada indicated that it would undertake: to report the FT toll impact of the LT-WFS bids and resulting facilities costs for service commencing in each of the 1995/96 and 1996/97 contract years; to record LT-WFS revenues received in November and December 1995 in a deferral account for disposition in the 1996 tolls proceeding; and to provide the Board with the LT-WFS tariff and contract at the same time that they are sent out to prospective bidders.

TransCanada requested that the Board approve LT-WFS whereby:

a) TransCanada would conduct on a one-time basis, two open season bids for 50 Mcf per day of service commencing 1 November 1995, with a further 50 Mcf per day of service commencing 1 November 1996;

b) the range of toll bids would be from the 100% load factor toll to 1.4 times the 100% load factor toll at that delivery point or delivery area;

c) the service would be provided for a minimum 10-year term; and

d) successful bids would be determined on the basis of the net present value per "contract unit demand" of the bids received subject to the Company's undertakings noted above.

CAPP, Consumers/Union and ProGas expressed concern that TransCanada was proposing, effectively for the first time, to build facilities for a seasonal service. CAPP noted that TransCanada is proposing to use facilities that were certificated for one purpose to actually effect another purpose. CAPP also stated that TransCanada is requiring a long-term contractual commitment for a service that is not only seasonal, but primarily utilizes existing facilities and can be contracted for on a one-time basis only.

CAPP expressed its support of initiatives that would enhance the optimization of facilities utilization on the system. However, CAPP stated that in the longer term, seasonal services like LT-WFS, may have to be a part of the resolution of the overall FST issue. CAPP suggested that parties should be given the opportunity to express their views after the open season has been held, the demand determined, and the facilities planning completed but before construction takes place.

Consumers/Union stated that they support the idea of using otherwise excess capacity in order to provide a seasonal service such as LT-WFS. However, Consumers/Union stated that their support is not unconditional and they would require a demonstration that the additional facilities would not adversely affect firm service shippers by way of higher tolls, higher fuel ratios, or both. As a result, Consumers/Union asked for a commitment from TransCanada to provide a toll impact analysis in the release package for the certificated facilities and a procedure whereby parties would be able to provide comments to the Board.

Gaz Métropolitain noted that TransCanada had indicated that there would be a positive impact on tolls for the first tranche of LT-WFS commencing 1 November 1995 and a potentially negative impact on tolls for the second tranche of service commencing 1 November 1996. As a result, Gaz Métropolitain supported the provision of LT-WFS in 1995, but reserved comment on the second tranche for a future tolls application.

ProGas noted that TransCanada did not indicate which parties had requested LT-WFS, or the long-term markets or reserves which would underpin the facilities required to provide this long-term firm service to these parties. ProGas also had concerns about a long-term firm service being offered on a bid basis and not on a cost-of-service basis. ProGas stated that the Board has consistently attempted to use cost-based tolling, with the exception of FST, for the tolling of long-term firm services.

ProGas also stated that TransCanada has not demonstrated that LT-WFS will maximize revenue to tollpayers on the TransCanada system for 1995 or following years compared to the revenue that is likely to be generated by offering this excess capacity as WFS, FST, STFT or IT service. Therefore, ProGas is opposed to TransCanada constructing facilities for LT-WFS, and would support TransCanada continuing to offer any excess firm winter capacity as WFS, FST, STFT or IT service.

ProGas further noted that TransCanada did not provide evidence regarding the cost of providing LT-WFS beginning 1 November 1996, and suggested that if the Board decides to approve LT-WFS, it should only approve the first tranche beginning 1 November 1995.

Views of the Board

The Board notes that the two major concerns expressed in regards to TransCanada's proposal to introduce LT-WFS were that TransCanada would have to construct additional facilities for a seasonal service and that the cost of these facilities might have a negative impact on the overall costs of using the system.

The Board notes that the first tranche of LT-WFS can be provided by construction, subject to the approval of the Board, of a 10.3 km loop on the North Bay Shortcut at an estimated cost of approximately $16 million and that the service will be provided primarily by existing facilities. Given the evidence, the Board accepts that if TransCanada is able to obtain contracts for the full 50 Mcf in the first tranche, there will be no negative impact on tolls. The Board believes that the construction of the limited amount of facilities required for the first tranche, if approved, would enable TransCanada to meet the needs of those customers who are presently seeking a longer-term winter service. At the same time, it would allow TransCanada to introduce a new service which should provide a positive contribution to the overall costs of the system.

The Board continues to be of the view that the market is demanding greater rather than less transportation flexibility and, therefore, has not been persuaded that the proposed minimum 10-year contract term is in the best interests of users of the pipeline system. The Board considers that a minimum one-year contract term combined with successful bids being determined on the basis of the net present value per contract unit demand will provide ample opportunity for TransCanada to achieve longer term contracts if the market so desires.

With respect to the second tranche of LT-WFS, the Board does not believe that enough information has been provided for the Board to approve the service at this time.

Decision

The Board approves the first tranche of the LT-WFS proposal under the conditions listed below. However, pursuant to section 19(1) of the Act, the Board's decision with respect to the LT-WFS proposal shall not come into force until such time as any facilities required to implement the proposal have been

approved by the Board pursuant to Part III of the Act and the facilities have been placed in service.

a) TransCanada shall conduct two open-season bids, one for 50 Mcf per day of service commencing 1 November 1995, and the second for a further 50 Mcf per day of service commencing 1 November 1996;

b) the range of toll bids are to be from the 100% load factor toll to 1.4 times the 100% load factor toll at that delivery point or delivery area;

c) the service shall be provided on the basis of a minimum one-year term rather than the proposed 10-year minimum term; and

d) successful bids will be determined on the basis of the net present value per contract unit demand of the bids received.

Based upon the conditions approved in a) to d) above, the Board recognizes that it may be necessary for TransCanada to seek additional bids should excess capacity, within the approved amounts, become available in future years due to the reduction in the approved minimum term.

The Board directs TransCanada to report the FT toll impact of the LT-WFS bids and resulting facilities' costs for service commencing in each of the 1995/96 and 1996/97 contract years.

The Board further directs TransCanada to record any LT-WFS revenues received in November and December 1995 in a deferral account for disposition in a future tolls proceeding.

With respect to the second tranche of LT-WFS, the Board is not prepared to grant approval for this portion until an application by TransCanada under Part III of the Act with respect to the necessary facilities has been filed and approved.

9.4 Firm Service Tendered (FST)

TransCanada provides, on each and every day, FT service up to a shipper's contract demand. The shipper pays a fixed monthly demand charge plus a commodity charge. With this service, a shipper nominates each day, the amount of gas it will take up to its contractual maximum.

TransCanada also offers FST Service which is firm service in nature but is structured differently than FT service. Under FST, TransCanada provides, on an annual basis, transportation service to a shipper up to the shipper's ACQ. FST is unique in that it is TransCanada, not the shipper, who decides what the daily capacity and volumes available for transportation will be. On each day, TransCanada tenders to the shipper a portion of the ACQ to be transported. Due to the fluctuations in transportation capacity tendered, the shipper would normally require storage to properly utilize the service. The shipper is compensated, by means of the FST differential, for giving TransCanada this flexibility by paying a lower toll than otherwise would be payable for FT service.

The FST differential is intended to reflect the costs avoided by TransCanada, but that it would otherwise have to incur, for the purpose of translating an FST delivery pattern into an FT delivery pattern while maintaining the same level of operating flexibility that FST now provides to TransCanada. To this point, the avoided costs have been based on the cost of storage (including inventory) and related transportation costs that TransCanada would require for this purpose, both upstream and downstream of TransCanada's system.

The FST methodology was last adjusted in the RH-1-91 proceeding when the Board accepted a change to the valuation of the storage component in the FST downstream differential.

CAPP requested that the methodology of calculation of the FST differential be examined in RH-3-94. CAPP submitted that a review of the methodology for calculating the FST differential was required due to significant changes which have occurred since RH-1-91. This position was based on a number of factors which included: changes in system design from a winter to a summer basis; the commoditization of natural gas markets; the expansion of storage facilities in Alberta; and the availability of FST diversions. CAPP concluded that using the avoided-cost approach as the basis of the methodology for calculation of the FST differential was no longer appropriate.

CAPP proposed that the differential between the FT toll and the FST toll should be determined by reference to a suite of services that would provide TransCanada with flexibility equivalent to that of FST service. In CAPP's opinion, these services include FT, IT and TWS. In CAPP's view, the first 50% of the seasonal volume would have FT service as its proxy and the other 50% would have IT service as its proxy in the summer and TWS as its proxy in the winter.

In its evidence, CAPP calculated that revenues generated by the three components of FST service would total $146.9 million. This amount was based on the following assumptions:

a) FT component - if the FT toll were applied to 50% of the average winter day volumes and to 50% of the average summer day requirement, the toll revenue generated would be approximately $85.5 million;

b) IT component - if the summer seasonal requirements in excess of the 50% FT component were tolled on the basis of IT using the minimum IT toll at a 200% load factor, the toll revenue generated would be approximately $26.9 million; and

c) TWS component - if the winter seasonal volumes in excess of the 50% FT component were tolled on the basis of the minimum TWS toll, the amount of revenue collected by TransCanada would be approximately $34.5 million.

CAPP noted that for the 1995 test year, TransCanada forecast that it would collect approximately $102.5 million from FST shippers. In arriving at the FST toll, TransCanada calculated the FST differential to be $69.9 million based upon the avoided-cost approach. However, CAPP suggested that if its suite of services approach were to be used, TransCanada would collect $146.9 million from FST shippers. In CAPP's view, this is an indication that the current FST differential being allowed to FST shippers is too high. CAPP argued that the FST differential should be reduced by $44.4 million (the difference between the current revenue forecast of $102.5 million to be collected from FST shippers and the $146.9 million which would be generated using CAPP's suite of services approach). Accepting CAPP's approach would effectively reduce the current differential between FT and FST service from $69.9 million to $25.5 million (i.e. from 38¢/GJ to 14¢/GJ).

Consumers/Union supported the continued use of the avoided-cost methodology for calculating the FST Differential. However, Consumers/Union proposed the removal of the NOVA transportation component of the upstream differential which was valued at $14.6 million (i.e. total FST differential would be $55.3 million instead of $69.9 million) on the basis that it should not properly be considered one of TransCanada's avoided costs. In their view, TransCanada would not incur any costs in moving volumes on the NOVA system from intra-Alberta storage to TransCanada's receipt point at Empress.

Consumers/Union opposed CAPP's suite of services approach. Their position was that the suite of services would not provide TransCanada with flexibility equivalent to that provided by FST. As a result, CAPP's proposal was not an appropriate proxy for the components of FST and accordingly should not be used to price FST.

TransCanada supported the continued use of the avoided-cost approach for calculation of the FST differential and the underlying assumptions used to calculate the upstream and downstream differentials for 1995. TransCanada suggested that the avoided-cost approach should be retained because it represents the best methodology for representing the costs of a viable alternative which would provide similar operating flexibility to FST. This approach also maintains certainty and consistency of regulatory treatment for transporters, buyers and sellers of FST.

TransCanada opposed CAPP's suite of services proposal on the basis that:

a) the suite of services would provide less operational flexibility than FST;

b) the suite of services does not represent, in combination, a service with similar characteristics to FST;

c) the prices CAPP uses in its suite of services do not accord with reality;

d) the level of CAPP's FST differential (i.e. $25.5 million) is inconsistent with previous years' tolls which were determined to be just and reasonable;

e) a $25.5 million FST differential would cause Consumers/Union to convert from FST to FT service; and

f) if the suite of services approach was adopted, there would not be enough gas supplies available to meet the required delivery pattern, at a price that FST shippers would be prepared to pay.

Parties supporting CAPP's suite of services proposal were: DEML; the Northeast Group; Northland; and ProGas. These parties took the position that the current FST differential was too high and CAPP's proposal was more cost-based than the avoided-cost approach. The resulting calculation of the FST differential was closer to providing just and reasonable tolls than the current calculation.

IGUA and WGML were of the view that CAPP's proposal was inappropriate and that the current avoided-cost approach and all assumptions should be retained.

Gaz Métropolitain contended that, despite the many difficulties of calculating the avoided cost, if FST were replaced by facilities, the impact on the Eastern Zone toll would be minimal indicating that the methodology is valid and should be retained.

Ontario accepted that the upstream differential appeared to be too large but did not accept the approach put forward by CAPP. Ontario was of the view that Consumers/Union would convert their FST service if the CAPP proposal was accepted by the Board which would be an undesirable result, given the broad benefits to the system that accrue from FST service. As a result, Ontario supported the position of Consumers/Union.

Quebec supported retention of the avoided-cost approach as the basis for calculating the FST differential and suggested that a method should not be rejected simply because its results are considered too high. Quebec supported the position of Consumers/Union for a reduction of the upstream differential and was of the opinion that a further reduction of the FST differential should be made by reducing the relative share of the Michigan storage component in the downstream differential calculation.

9.4.1 Majority Views of the Board

The Board notes that the Tolls Task Force has been unable to resolve the issue of the appropriateness of the methodology for calculating the FST differential since RH-1-91 and that a decision by the Board at this time is therefore appropriate.

The Board agrees with the view of the majority of parties that the FST differential, as calculated by the avoided-cost approach, is too large. The Board notes that all parties who proposed changes to the existing methodology, with the exception of TransCanada, thought that the differential should be reduced.

With respect to calculating the FST differential on the basis of the avoided-cost approach, the Board agrees with parties that the upstream differential would likely be increased if current storage rates were utilized. On the other hand, the Board does not agree with Consumers/Union that the transportation component of the upstream differential should be eliminated completely as the Board does not believe TransCanada could obtain this capacity without incurring some cost.

While the majority of parties consider the existing FST differential to be too high, the Board concludes that a reconsideration of the basis of all the components of the FST differential would likely not result in a significant decrease in the level of the differential and that continued reliance on this methodology is therefore inappropriate.

The Board agrees with CAPP that a comparison of FST service to other services offered by TransCanada is an appropriate method for assessing the value of FST service to the TransCanada system. The Board recognizes that CAPP's suite of services have similar but not identical characteristics to the flexibility afforded by FST. However, the Board is persuaded that, on balance, the FST differential resulting from the application of CAPP's proposal provides a better estimate of the value that the FST service provides to the system than does the avoided-cost approach. The Board, therefore believes that the resulting tolls will also be just and reasonable.

The Board is cognizant that, if the FST differential is set too low, Consumers/Union may opt to convert their FST entitlement to FT. However, the Board also notes that CAPP and other parties appear ready to accept the consequences of conversion.

The Board recognizes that, if TransCanada or other parties believe that the value of FST service to its system is more appropriately reflected by an alternate suite of services from that proposed by CAPP or some other approach, there is the opportunity to bring forward a proposal either before the Tolls Task Force or in a future tolls application.

9.4.2 Dissenting Views of Mr. Illing

I agree in principle with my colleagues that the evidence put forward by the parties (except TransCanada) suggested that the level of the current FST differential was too high. In light of the various proposals to adjust different components of the existing methodology it was apparent that the avoided-cost approach was no longer appropriate and that a move away from it was desirable. However, I was not convinced by the evidence that CAPP's proposal for its particular suite of services and the resulting level of reduction to the FST differential were supportable. Consequently, I was not persuaded that an immediate move directly to CAPP's proposed suite of services approach was appropriate. One other consideration in arriving at this conclusion was the statement by Consumers/Union that the level of differential which would result from CAPP's proposal would precipitate a conversion from FST to FT service. In my view, as an interim measure, the Consumers/Union proposal to reduce the existing upstream differential by removing the transportation component would have been a reasonable basis for reducing the differential for 1995, and one which was unlikely to precipitate a conversion from FST to FT before another proposal had been developed and the costs of conversion were more clearly identified. Since the Board's decision for 1995 would only be an interim solution, I would have preferred to have the Board direct TransCanada to develop, as part of its 1996 tolls application, a suite of services that in its view would address the concerns raised by itself and other parties about CAPP's proposal and which would, in parties' views, be more reflective of a "proxy" for the current FST service.

Decision

The Board approves the CAPP suite of services methodology as the basis for calculating the FST differential for the 1995 test year. The Board has reduced CAPP's calculation of the 1995 FST differential of $25.5 million by $.1 million to reflect the amount which results from the recalculation of the 1995 tolls based on TransCanada's final revisions package.

9.5 Issues Resolved by the 1995 Tolls Task Force

9.5.1 IT Toll Design

The Tolls Task Force members agreed to make the following changes to the currently-approved IT toll design effective 1 January 1995:

a) there will be two pools, one monthly and one daily, each at 50% of the availability;

b) the ceiling will be set at 50% load factor - year round;

c) the floor will be set at 200% load factor - year round;

d) bidding will be in $/10^3m^3$ in increments of the lesser of 10% of the 100% load factor toll or $.25 per bid; and

e) there will be no change in the use of the deferral account and TransCanada will continue to forecast customer volumes based on its surveys of the customer requirements.

As a separate item, it was also resolved that shippers walking away from authorized nominations leaving unused capacity will face a two-day penalty as specified in the IT toll schedule.

These resolutions were unopposed by Tolls Task Force members. However, this issue is to be re-visited as part of the 1996 Tolls Task Force process.

Decision

The Board approves the requested changes to TransCanada's IT toll Design.

9.5.2 Sales Meter Station Charges

Effective 1 January 1995, the General Terms and Conditions, Section VII - "DELIVERY POINT" will be amended to lower the threshold volume to 100 10^3m^3 from 1 250 10^3m^3 for services commencing on or after 1 January 1995.

This resolution was unopposed by Tolls Task Force members.

Decision

The Board approves the requested change to TransCanada's General Terms and Conditions, Section VII.

9.5.3 Tariff Amendment - Mountain Time

Tolls Task Force members agreed to tariff changes to show deadlines referenced in Mountain Time rather than Mountain Standard Time. This will ensure that deadlines fall at the same point in the working day throughout the year.

This resolution was unopposed by Tolls Task Force members.

Decision

The Board approves the requested amendment to TransCanada's Tariff.

9.5.4 Tariff Amendment - Effective Start and End Time

Tolls Task Force members agreed to have shippers, when submitting a backhaul nomination, include in writing the effective start and end time for the requested service. It was also agreed that TransCanada will accept intra-day nomination changes for backhaul services provided that TransCanada has the physical transportation capacity required and can confirm the nomination changes with upstream and downstream operators.

These resolutions were unopposed by Tolls Task Force members.

Decision

The Board approves the requested change to TransCanada's Tariff.

9.5.5 Tariff Amendments - Definitions

Tolls Task Force members agreed to definitions for the following terms:

a) The term "volume" as it applies to the custody transfer of gas is added to recognize TransCanada's calculation of "Energy in Transit";

b) "EDI"; "EDI Format" is added to legitimize the use of Electronic Data Interface; and

c) "Mountain Time".

Tolls Task Force members also accepted a wording change to Section XXII - Nominations and Unauthorized Volumes regarding EDI format.

There was unanimous acceptance of the above-mentioned definition changes by Tolls Task Force members.

Decision

The Board approves the requested changes to TransCanada's General Terms and Conditions.

9.5.6 Tariff Amendment - Measurements

Tolls Task Force members agreed to a tariff change regarding the measurement of gas received into and delivered from the TransCanada system. The intent of this tariff change is to include receipt points and require a more accurate barometric pressure calculation by the actual elevation of the individual metering point.

There was unanimous acceptance of the above-mentioned change by Tolls Task Force members.

Decision

The Board approves the requested change to TransCanada's General Terms and Conditions.

9.5.7 Tariff Amendment - Delivery Pressure Recourse

Tolls Task Force members agreed to a tariff change which will allow TransCanada to reduce the actual delivery pressure below the minimum specified by the tariff or contract where a downstream interconnect takes more gas than nominated.

This resolution was unopposed by Tolls Task Force members.

Decision

The Board approves the requested change to TransCanada's General Terms and Conditions.

9.5.8 Tariff Amendment - TWS/STS Overrun Priority

Tolls Task Force members agreed to Tariff Amendments to Section XV - Impaired Deliveries. The priority of TWS Service remains unchanged while the relative priority of IT versus STS Overrun was clarified.

This resolution was unopposed by Tolls Task Force members.

Decision

The Board approves the requested amendment to TransCanada's General Terms and Conditions, Section XV.

9.5.9 STS Overrun

Since the addition of the new diversions policy and the multi-tiered interruptible services, the priority of STS overrun is unclear.

The toll for STS Overrun is the 100% load factor toll. The priority of STS Overrun with respect to IT service is determined by the relationship of the STS Overrun toll level to the IT toll level. When STS Overrun is tolled at an equal or higher price than IT service, then the priority of STS Overrun is higher. When STS Overrun is at a lower price than IT service, then the priority of STS Overrun is lower.

Tolls Task Force members were unopposed to the resolution.

Decision

The Board approves the requested change regarding the priority of STS Overrun.

9.5.10 Tariff Amendment - Determination of Daily Deliveries

Tolls Task Force members agreed to Tariff Amendments to Section XVI - Determination of Daily Deliveries. The first change was proposed in order to recognize the practice of letting the operator of the downstream interconnect allocate the meter. The second change is related to shippers taking more gas than nominated and is designed to be more practical to administer

It was also agreed that TransCanada will accept intra-day changes provided that TransCanada has the capacity to do so, and can confirm the nomination changes with upstream and downstream operators.

Tolls Task Force members were unopposed to the above-mentioned changes.

Decision

The Board approves the requested changes to Section XVI of TransCanada's General Terms and Conditions.

9.5.11 Tariff Amendments - Nominations and Unauthorized Volumes

Tolls Task Force members agreed to Tariff Amendments to Section XXII - Nominations and Unauthorized Volumes. The first change will allow the loss of throughput due to loss of capacity resulting from low linepack, to be attributed back to the cause of that low linepack for the purposes of assigning penalties. The other changes will reduce the size of the penalty to a more reasonable level.

Tolls Task Force members were unopposed to the above-mentioned changes.

Decision

The Board approves the requested changes to Section XXII of TransCanada's General Terms and Conditions.

9.5.12 Tariff Amendment - Nomination Time Change

Tolls Task Force members agreed to a Tariff Amendment regarding the IT toll Schedules. The change represents a one hour shift in authorizing discretionary volumes and is recommended to more accurately reflect what is reasonable given the volume of nominations and the complexity of the allocations.

Tolls Task Force members were unopposed to the above-mentioned changes. However, it was further agreed to re-visit this issue as part of the 1996 Tolls Task Force process.

Decision

The Board approves the requested changes to TransCanada's Transportation Tariff and IT toll Schedules.

9.5.13 Billings and Payments

Tolls Task Force members agreed that the current payment dates of the 20th of the month for domestic shippers and the 25th of the month for export shippers will be retained for the 1995 test year.

This item will be included on the agenda for the 1996 Tolls Task Force.

Tolls Task Force members were unopposed to the continuation of currently prescribed dates. However, it was further agreed to re-visit this issue as part of the 1996 Tolls Task Force process.

Decision

The Board agrees to the continuation of the current prescribed billing and payment dates.

9.5.14 Firm Backhaul Service

The Tolls Task Force initially approved interruptible backhaul service tolling. In response to further inquiries, TransCanada now proposes to offer firm backhaul service. This service will be tolled at the full 100% load factor forward haul demand component of the FT toll, on a demand charge basis, with no commodity charge and no fuel component. Firm Backhaul Service and upstream diversions will both be firm and have an equal priority in the winter. The proposed toll would represent a pricing premium for firm backhaul service over interruptible service of about 40%.

Tolls Task Force members were unopposed to the proposed tolling for Firm Backhaul Service subject to the following conditions:

a) the tolling proposed for this service is not to be viewed as a precedent for toll design purposes;

b) Firm Backhaul will only be authorized when TransCanada's Gas Control department has indicated that it could be offered; and

c) Firm Backhauls will be assignable.

Decision

The Board approves the proposed tolling for Firm Backhaul Service subject to the above-mentioned conditions.

Chapter 10

Disposition

With the exception of the majority's reasons and decision respecting the appropriate methodology for calculating the FST differential, I concur fully with the reasons and decisions set out herein.

R. Illing
Presiding Member

The foregoing chapters, with the exception of the views of the Presiding Member on the FST issue, together with Order No. TG-1-95 constitute our Decision and Reasons for Decision on this matter.

R. Priddle
Member

R.L. Andrew
Member

Calgary, Alberta
March 1995

Appendix I

Order TG-1-95

ORDER TG-1-95

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

IN THE MATTER OF an application dated 29 June 1994, as amended, by TransCanada PipeLines Limited (“TransCanada”) pursuant to Part IV of the Act for certain orders respecting its tolls; filed with the National Energy Board (“the Board”) under File No. 4200-T001-9.

BEFORE the Board on 6 March 1995.

WHEREAS TransCanada filed an application dated 29 June 1994, as amended, for an order fixing just and reasonable tolls that it may charge for or in respect of transportation services rendered effective 1 January 1995;

AND WHEREAS the Board, expecting that its final decision on TransCanada's application would not be rendered until after 1 January 1995, issued Order TGI-1-94 on 1 December 1994, which authorized TransCanada to charge, on an interim basis, effective 1 January 1995, its existing tolls as authorized by the Board in RH-4-93, pending the Board's final decision on the said Application;

AND WHEREAS a public hearing pursuant to Hearing Order RH-3-94, as amended, was held in Calgary, Alberta during which tim^N the Board heard the evidence and argument presented by TransCanada and all interested parties;

AND WHEREAS the Board's decisions on the Application are set out in its Reasons for Decision dated April 1995, and in this Order;

IT IS ORDERED THAT:

1. TransCanada shall, for accounting, tollmaking and tariff purposes, implement the decisions outlined in the Reasons for Decision dated March 1995 and in this Order;

2. Order TGI-1-94, which authorized the tolls to be charged on an interim basis pending a final decision on the said Application, is revoked and the tolls that were authorized to be charged thereunder are disallowed as of the end of the day on 30 April 1995;

3. The tolls which were in effect, on an interim basis, for the period 1 January 1995 to 30 April 1995 are final;

4. TransCanada shall, for service commencing 1 May 1995, charge the tolls set out in Attachment 1 to this Order;

5. TransCanada shall forthwith file with the Board, and serve on all parties to the hearing of this application, new tariffs, including general terms and conditions, and tolls conforming with the decisions outlined in the Reasons for Decision dated March 1995 and with this Order; and

6. Those provisions of TransCanada's tariffs and tolls, or any portion thereof, that are contrary to any provision of the Act, to the Board's Reasons for Decision dated March 1995, or to any Order of the Board including this Order, are hereby disallowed.

NATIONAL ENERGY BOARD

J.S. Richardson
Secretary

TransCanada PipeLines Limited
Transportation Tolls
Effective 1 May 1995

Particulars	**Demand Toll** ($/$10^3m^3$/mo)	**Commodity Toll** ($/$10^3m^3$)
Canadian Firm Service:		
Saskatchewan Zone	207.99	0.174
Manitoba Zone	349.52	0.297
Western Zone	553.91	0.488
Northern Zone	862.13	0.773
Eastern Zone	983.64	0.955
Eastern Zone FST	-	28.155
TransGas Transportation:		
Empress & Richmound	77.04	0.035
Bayhurst & Liebenthal	61.70	0.021
Success	29.38	0.010
Export Firm Service:		
Empress to Spruce	381.27	0.328
Empress to Emerson	388.70	0.335
Empress to Niagara Falls	1,094.85	0.990
Empress to Iroquois	1,099.88	0.996
Empress to Cornwall	1,114.81	1.010
Empress to Sabrevois	1,163.90	1.055
Empress to Philipsburg	1,174.98	1.066
Empress to Napierville	1,168.34	1.059
Empress to Chippawa	1,095.51	0.991
Miscellaneous Point-to-Point Firm Service:		
Herbert to Emerson	320.91	0.272
St. Clair to Chippawa	143.31	0.107
Kirkwall to Chippawa	68.60	0.037

TransCanada PipeLines Limited
Transportation Tolls
Effective 1 May 1995

Particulars	Demand Toll ($\$/10^3m^3$/mo)	Commodity Toll ($\$/10^3m^3$)
Storage Transportation Service:		
Centra Gas (Manitoba)-MDA	73.09	0.043
Centra Gas (Ontario)-NDA	209.19	0.175
Centra Gas (Ontario)-SSMDA	186.14	0.153
Centra Gas (Ontario)-EDA	135.86	0.104
Kingston	129.40	0.098
Gaz Métropolitain-EDA	236.58	0.201
Consumers’ Gas-CDA	30.24	0.001
Consumers’ Gas-EDA	83.59	0.053
Cornwall	185.21	0.152
Philipsburg	242.96	0.208

TransCanada PipeLines Limited
Transportation Tolls
Effective 1 May 1995

Particulars	Demand Toll ($\$/10^3m^3/mo$)	Commodity Toll ($\$/10^3m^3$)
Canadian Temporary Winter Service:		
Empress to Saskatchewan Zone		8.099
Empress to Manitoba Zone		13.614
Empress to Western Zone		21.593
Empress to Northern Zone		33.622
Empress to Eastern Zone		38.434
Canadian Peaking Service:		
Empress to Saskatchewan Zone		22.210
Empress to Manitoba Zone		37.328
Empress to Western Zone		59.174
Empress to Northern Zone		92.115
Empress to Eastern Zone		105.171
Winter Firm Service:		
Empress to Saskatchewan Zone		9.968
Empress to Manitoba Zone		16.755
Empress to Western Zone		26.571
Empress to Northern Zone		41.369
Empress to Eastern Zone		47.273
Empress to Emerson		18.638
Empress to Spruce		18.281
Empress to Niagara Falls		52.545
Empress to Iroquois		52.788
Empress to Cornwall		53.505
Empress to Sabrevois		55.861
Empress to Philipsburg		56.394
Empress to Napierville		56.074
Empress to Chippawa		52.577
St. Clair to Niagara Falls		6.823
St. Clair to Chippawa		6.855
Kirkwall to Niagara Falls		3.233
Kirkwall to Chippawa		3.267
Parkway to Iroquois		8.466
St. Clair to Iroquois		12.733
Welwyn to Emerson		8.309

TransCanada PipeLines Limited
Transportation Tolls
Effective 1 May 1995

Particulars	**Demand Toll** ($/10^{3}m^3/mo)	**Commodity Toll** ($/10^{3}m^3)
Backhaul Service:		
Dawn to Sault Ste. Marie		
Winter IS		6.213
Summer IS		3.106
Emerson to Centra Gas Manitoba Load Centre		
Winter IS		2.464
Summer IS		1.232
Dawn to St. Clair		
Winter IS		1.220
Summer IS		0.610
St. Clair to St. Clair		
Winter IS		0.944
Summer IS		0.473
Niagara Falls to Union CDA		
Winter IS		2.458
Summer IS		1.229

	Demand Toll[1]	
Particulars	**Monthly** ($10^{3}m^3/mo)	**Daily Equivalent** ($/10^{3}m^3)
Delivery Pressure:		
Emerson - 1 & 2	6.0115	0.19764
Emerson - 2	1.4921	0.04906
Dawn	6.6952	0.22012
Niagara Falls	5.4943	0.18063
Sudbury	0.0000	0.00000
Iroquois	20.6259	0.67811
Chippawa	8.7915	0.28904

[1] The monthly demand toll is applicable to FS and FST and the daily equivalent demand toll is applicable to STS injections, IS, PS, TWS, WFS and diversions.

Appendix II

Functional Distribution and Classification of Revenue Requirement

($ 000)

	Total	Metering	Transmission - Fixed	Transmission - Variable	Unaccounted for Gas
Transmission by Others	364,973	-	356,775	8,198	-
Operations & Maintenance	239,762	56,385	142,493	40,884	-
Depreciation	221,633	2,607	219,026	-	-
Municipal & Other Taxes	88,188	644	87,544	-	-
Income Taxes	109,836	989	108,847	-	-
Regulatory Def. & Amortization	13,169	-	13,169	-	-
Foreign Exchange Loss	4,382	-	4,382	-	-
Other Operating Income	-	-	-	-	-
Return on Rate Base	733,853	6,612	727,241	-	-
Revenue Requirement	1,775,796	67,237	1,659,477	49,082	-
Sales Meter Station Charges	(272)	(272)	-	-	-
Downstream Diversion Revenue	(476)	-	(476)	-	-
Storage Transportation Service	(33,459)	(6,531)	(26,705)	(223)	-
Interruptible Service	(114)	(43)	(71)	-	-
Delivery Pressure Revenue	(17,410)	-	(17,410)	-	-
Winter Firm Service	(2,642)	(149)	(2,439)	(54)	-
Miscellaneous Demand Revenue	(679)	(439)	(240)	-	-
Short Term Firm Service	(280)	(53)	(221)	(6)	-
Total Miscellaneous Revenue	(55,332)	(7,487)	(47,562)	(283)	-
Interim Revenue Adjustment	43,738	1,703	42,035	-	-
Revenue Requirement for Toll Design Purposes	**1,764,202**	**61,453**	**1,653,950**	**48,799**	**-**

Appendix III

System Average Unit Cost of Transportation

Allocation Method	Functionalized ($ 000)	Applicable Allocation Units (10^3m^3)	Unit Costs	
Fixed Volume	61,451	178,093	345.05018502	$\$/10^3m^3$
Fixed Volume-Distance	1,653,949	408,354,281	4.05027964	$\$/10^3m^3$-km
Variable Volume	-	63,505,000	0.00000000	$\$/10^3m^3$
Variable Volume-Distance	48,799	149,213,188,400	0.00032704	$\$/10^3m^3$-km
Fixed FST Differential	25,393	408,354,281	0.06218375	$\$/10^3m^3$-km
Variable FST Differential	-	149,213,188,400	0.00000000	$\$/10^3m^3$-km

Appendix IV

List of Previously Distributed Documents

(a) National Energy Board Hearing Order RH-3-94

(b) Letter dated 8 November 1994 amending hearing Order RH-3-94

(c) Letter dated 21 November 1994 amending hearing Order RH-3-94

(d) Letter dated 16 December 1994 amending hearing Order RH-3-94

(e) Interim Toll Order TGI-1-94

Copies of these documents are available on request from:

Regulatory Support Office
National Energy Board
311 Sixth Avenue S.W.
Calgary, Alberta
T2P 3H2
(403) 292-4800

Facsimile: (403) 292-5503