

National Energy Board

Reasons for Decision

Westcoast Energy Inc.

RH-3-92

March 1993

Tolls

National Energy Board

Reasons for Decision

In the Matter of

Westcoast Energy Inc.

Application dated 31 July 1992, as
amended, for New Tolls
Effective 1 January 1993

RH-3-92

March 1993

Tolls

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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 Energy Inc. for certain orders respecting its tolls pursuant to subsection 19(2) and Part IV of the *National Energy Board Act*; and

IN THE MATTER OF the National Energy Board Hearing Order RH-3-92.

HEARD in Vancouver, British Columbia on 16 to 19 November 1992 and in Calgary, Alberta on 25 November 1992.

BEFORE:

C. Bélanger	Presiding Member
R. Illing	Member
R.L. Andrew	Member

APPEARANCES:

J.W. Lutes R.M. Sirett	Westcoast Energy Inc.
B. Rogers	British Columbia Provincial Council of Carpenters
H.R. Ward	Canadian Association of Petroleum Producers
S. Lutyck	Alberta and Southern Gas Co. Ltd.
A.R. Fraser	Amoco Canada Petroleum Company Ltd.
J.M. Pelrine	British Columbia Petroleum Corporation
F. Basham	BP Resources Canada Limited
S.M. Richards	BC Gas Inc.
D.C. Edie	Brymore Energy Ltd.
R.C. Beattie	CanWest Gas Supply Inc.
D. Burse	Council of Forest Industries of British Columbia, Cominco Limited and Methanex Corporation
D. Rowbotham	Enserch Development Corporation

M.M. Moseley	Export Users Group (consists of IGI Resources Inc., Grand Valley Gas Co., Northwest Natural Gas Company, Intermountain Gas Company, Washington Natural Gas Company, and Washington Water Power Company)
H. Hobbs	Foothills Pipe Lines Ltd.
R.B. Hillary	Hillary & Associates Inc.
D.A. Holgate	Husky Oil Operations Ltd.
L. Keough	J. Makowski Associates, Inc.
L. Keough	North Canadian Oils Limited
C.B. Woods	Mobil Oil Canada
L.E. Smith	Northwest Pipeline Corporation
D. Dawson R. Hunter	Pan-Alberta Gas Ltd. and Northwest Pacific Energy Marketing Inc.
S.R. Miller	Petro-Canada Inc.
R. Kline	Unocal Canada Limited
R.R. Shouldice J. Fingarson	Ministry of Energy, Mines and Petroleum Resources, acting for the Province of British Columbia
W.M. Moreland	Alberta Petroleum Marketing Commission
R. Graw L.A. Boychuk	National Energy Board

Abbreviations

10 ³ m ³	thousand cubic metres
10 ³ m ³ /d	thousand cubic metres per day
10 ⁶ m ³	million cubic metres
10 ⁶ m ³ /d	million cubic metres per day
AFUDC	allowance for funds used during construction
Amoco	Amoco Canada Petroleum Company Ltd.
APMC	Alberta Petroleum Marketing Commission
Bcf	billion cubic feet
Bcfd	billion cubic feet per day
BC Gas	BC Gas Inc.
BP Resources	BP Resources Canada Limited
CanWest	CanWest Gas Supply Inc.
CAPP	Canadian Association of Petroleum Producers
COFI	Council of Forest Industries of British Columbia, Cominco Ltd. and Methanex Corporation
Czar	Czar Resources Limited
EUG	Export Users Group
GPIS	gas plant in service
Husky	Husky Oil Operations Ltd.
LPSF	liquid products stabilization and fractionation
MMcfd	million cubic feet per day
NEB Act or the Act	National Energy Board Act
NEB or the Board	National Energy Board

NORPAC	Pan-Alberta Gas Ltd. and Northwest Pacific Energy Marketing Inc.
O&M	operating and maintenance
Petro-Canada	Petro-Canada Inc.
Province of British Columbia or the Province	Ministry of Energy, Mines and Petroleum Resources, acting for the Province of British Columbia
PY	person year
Q&A policy	queuing procedures and access criteria
ROE	rate of return on average common equity
Task Force	Joint Industry Task Force on Westcoast's Tolls and Tariffs
TransCanada	TransCanada PipeLines Limited
Union Energy	Union Energy Inc.
Unocal	Unocal Canada Limited
Westcoast, the Applicant or the Company	Westcoast Energy Inc.
WestCoast Gas	WestCoast Gas Inc.

Overview

(Note: This overview is provided for the convenience of the reader and does not constitute part of these Reasons for Decision. For details the reader is referred to the relevant sections of the Reasons for Decision.)

The Application and Hearing

On 31 July 1992, Westcoast applied for new tolls to take effect on 1 January 1993. The public hearing opened on 16 November 1992 and lasted five days. The Board heard evidence in Vancouver from 16 to 19 November 1992 and heard final argument in Calgary on 25 November 1992.

Tolls for 1993

On 18 December 1992, the Board approved the applied-for tolls on an interim basis effective 1 January 1993. These tolls were designed to yield a 2.1 percent increase for a typical service movement.

In this Decision, the Board directed Westcoast to file for approval final tolls for 1993 which are to be charged uniformly throughout the year. The Board estimated that these final tolls will be 1.9 percent higher than the tolls for 1992. The Board also directed Westcoast to refund to its customers the difference between the tolls resulting from this Decision and the interim tolls, together with carrying charges.

Settlement on Westcoast's Application

During this proceeding, Westcoast reached a settlement with certain intervenors on its application for 1993 tolls. This settlement was not contested by other intervenors. In this Decision, the Board found that the interests of parties affected by the settlement were adequately accommodated in the settlement process. The Board also determined that the settlement was an appropriate basis for making a finding of just and reasonable tolls for Westcoast in 1993.

Revenue Requirement

The Board estimated that its decisions will result in an approved revenue requirement of \$370.1 million, \$364.5 million of which will be recovered through tolls. The remainder (\$5.6 million), which represents the coloured gasoline tax, will be recovered from shippers directly.

Rate Base

The Board approved a rate base of \$1,229.4 million and directed Westcoast to remove from gas plant in service the amounts related to projects which have not, as of 1 March 1993, received approval under Part III of the *National Energy Board Act*.

Rate of Return

The Board approved Westcoast's request that the deemed common equity ratio remain at 35 percent. The Board also granted Westcoast's request that it be awarded the same rate of return on common equity as the Board would award to TransCanada PipeLines Ltd. as a result of the contemporaneous RH-2-92 proceeding, namely, a rate of return of 12.25 percent.

Operating Costs

The Board approved the requested 1993 operating and maintenance expenses of \$122.8 million. The approved amount included a reduction of \$500,000 in the operating and maintenance expenses proposed in the application (as revised on 28 September 1992) as agreed to by parties to the settlement.

Deferral Accounts

The Board approved Westcoast's proposed disposition of the 1992 year-end balances of the currently approved deferral accounts and authorized the continuation of cost of service and revenue deferral accounts as requested by Westcoast for 1993. Also, in the context of the settlement, the Board approved an unfunded debt rate deferral account for 1993.

Toll Design

The Board was not persuaded by Petro-Canada to change the approved toll design for liquid products stabilization and fractionation service. The Board directed Westcoast to continue to charge, on an interim basis, the toll for liquids recovery service which has been in effect since 1 January 1993.

Queuing and Access

The Board approved changes regarding information required from prospective shippers upon entry to the queue, first and second requirements for supporting information in order to remain in the queue, acceptance of offered service and facility expansion. The Board also approved time limits for provision of supporting information to meet the first and second requirements. The approved time limits were 18 and 12 months prior to the requested service commencement date, respectively. The simultaneous offer of attrition capacity to prospective shippers and the assignment of queue positions in limited circumstances were also approved.

The Board approved a queue entry fee equivalent to the daily demand toll applicable to the requested service. For prospective shippers accepting service at a date earlier than that identified in the Request for Service Form, the Board approved Westcoast's proposed information requirement. The Board also adopted the "10-10 & 2" proposal regarding the period for which information was required in support of facility expansions. An expansion shipper will be required to sign a 10-year contract with Westcoast and demonstrate that it has a ten-year gas supply and a market requirement of at least two years or a market for ten years and a gas supply for at least two years.

Minimum Term for Firm Service and Renewal Rights

Regarding firm service contracts for Zones 3 and 4, the Board approved minimum contract term with renewal rights of two years and minimum renewal notice period of thirteen months where such service will expire on or after 31 October 1994. The Board directed Westcoast to implement phase-in provisions. It also approved a minimum contract term for all tolling zones of one year.

Chapter 1

Background and Application

By application dated 31 July 1992, Westcoast Energy Inc. ("Westcoast", "the Applicant" or "the Company") applied to the National Energy Board ("the Board" or "NEB") under subsection 19(2) and Part IV of the *National Energy Board Act* ("NEB Act" or "the Act") for an order or orders respecting interim and final tolls for 1993. On 14 September 1992, the Board issued Hearing Order RH-3-92 which set down Westcoast's application for hearing commencing 16 November 1992 and established the Directions on Procedure and the preliminary List of Issues. On 18 December 1992, the Board issued Order TGI-6-92 (Appendix III) which allowed Westcoast to charge the applied-for tolls on an interim basis effective 1 January 1993.

By letter dated 13 October 1992, Westcoast informed the Board that it had reached a settlement on its application for 1993 tolls with the Canadian Association of Petroleum Producers ("CAPP"), the Council of Forest Industries of British Columbia, BC Gas Inc. ("BC Gas") and CanWest Gas Supply Inc. ("CanWest"). To implement the settlement, Westcoast amended its application by reducing the applied-for operating and maintenance ("O&M") expenses, applying for an unfunded debt rate deferral account and requesting a 1993 rate of return on average common equity ("ROE") equal to that to be approved for TransCanada PipeLines Limited ("TransCanada") in the then on-going RH-2-92 proceeding. As well, Westcoast requested that the Board deal with the issue of the appropriateness of the currently approved queuing procedures and access criteria by way of written submissions.

In the 13 October 1992 letter, Westcoast stated that parties to the settlement would neither be filing information requests and written evidence nor cross-examining witnesses on Westcoast's 1993 cost of service and rate base. Westcoast also requested that it be allowed to adopt the ROE evidence from the TransCanada RH-2-92 proceeding as part of the record in the RH-3-92 proceeding. Westcoast stated that it would withdraw the pre-filed evidence of the Company's expert witnesses on financial matters should the Board agree to this request.

At about the same time, the Alberta Petroleum Marketing Commission ("APMC"), BP Resources Canada Limited ("BP Resources"), CanWest, Husky Oil Operations Ltd. ("Husky") and Unocal Canada Limited ("Unocal") proposed in their interventions that the Board remove the queuing and access issue from the List of Issues and that it consider this matter through written submissions.

On 16 October 1992, the Board revised the List of Issues by issuing Order AO-1-RH-3-92. The Board added the issues of planned maintenance and demand charge credits as requested by CanWest and Czar Resources Limited ("Czar"). On its own motion, the Board also added the issue of the appropriate method to account for the drawdown and amortization of deferred income taxes. The Board decided to retain the queuing and access issue in the RH-3-92 hearing because it found that the issue was of a nature that did not easily lend itself to a thorough examination by written submissions. The Board also stated that, in recognition of the desire of intervenors for an early resolution, it was prepared to consider releasing its decision on this issue in advance of the release of its decisions on other issues to be considered at the hearing. The Board, however, was not persuaded to incorporate as a specific issue the appropriate cost allocation, toll design and general terms and conditions for the

Liquid Products Stabilization and Fractionation ("LPSF") service as requested by Petro-Canada Inc. ("Petro-Canada") because it considered that all questions relating to tolls and the general terms and conditions of any existing service are within the ambit of toll proceedings.

By letter dated 20 October 1992, Westcoast identified further parties who supported or did not oppose the settlement. Westcoast also expressed its views on the implementation of the settlement and requested that the Board delete several issues from the List of Issues.

By letter dated 26 October 1992, the Board stated that it was prepared to recognize the settlement in the upcoming hearing but that it expected Westcoast to discharge its burden of proof by filing sufficient evidence to support the various elements of the settlement. The Board added that, while the Act does not prescribe a method for determining just and reasonable tolls, the chosen method must nevertheless adhere to the principles of natural justice and the Board's decision must be supported by relevant evidence on the record.

The Board also issued Order AO-2-RH-3-92 by which it revised the List of Issues for a second time. The Board agreed with Westcoast to delete the issue raised by BP Resources about the current tariff provisions regarding treatment service because this party no longer intended to pursue the matter at the hearing and other parties as well as the Board had no concerns with the tariff provisions. The Board also agreed with Westcoast that the matter of daily billing could be deferred and deleted the issue. With respect to Westcoast's request to delete the issues related to person-year utilization and salaries, wages and benefits; cost allocation between Westcoast's utility and non-utility activities; and deferral accounts, the Board expressed the view that, even though these issues were settled, they should be examined in the hearing so as to determine whether these elements of the settlement accord with accepted rate-making principles and are not otherwise contrary to the public interest.

The Board also directed Westcoast to file evidence in support of various elements of the settlement, including a rationale for requesting an allowable ROE equal to that of TransCanada. In response, Westcoast filed supplemental evidence on 2 November 1992 and, on 12 November 1992, the Board granted Westcoast's motion to adopt the evidentiary record on ROE from the TransCanada RH-2-92 proceeding as part of the record in the RH-3-92 proceeding. Westcoast followed suit by withdrawing the evidence of its expert witnesses on financial matters.

On 16 November 1992, the Board revised the List of Issues for the third and final time. At the commencement of the hearing, the Board indicated its intention to delete the issues associated with planned maintenance and demand charge credits as CanWest and Czar had requested and, no objections being raised, the Board deleted those issues. Appendix IV shows the final List of Issues.

The Board heard evidence in Vancouver, British Columbia from 16 to 19 November 1992 and heard final argument in Calgary, Alberta on 25 November 1992.

On 10 February 1993, Westcoast sought to reduce the applied-for liquids volumes to be used in calculating 1993 tolls for contract demand liquids recovery service.

By letter dated 4 March 1993 (see Appendix II), as requested by a number of parties at the hearing, the Board released its Decision on Queuing, Access and Contract Term in advance of releasing the RH-3-92 Reasons for Decision on Westcoast's application for 1993 tolls.

Chapter 2

Settlement on Westcoast's Application for 1993 Tolls

As part of its case, by letter dated 13 October 1992, Westcoast filed a settlement on the Company's application for 1993 tolls which it had negotiated with CAPP, the Council of Forest Industries of British Columbia, BC Gas and Canwest and amended its application accordingly. While BC Gas was a participant in the settlement process and supportive of the compromise settlement generally, it took no position with respect to the appropriateness of return on equity or capital structure. On 20 October 1992 Westcoast wrote to the Board informing it that the Company had canvassed interested parties seeking support for the settlement and had received numerous replies confirming that they either supported or did not oppose the settlement. Westcoast indicated that it would continue to seek the views of other parties who had not as yet responded to Westcoast's request. By subsequent letter dated 21 October 1992, Westcoast identified several additional parties who either actively supported the settlement or who were not opposed to it.

The Export Users Group ("EUG") initially was not prepared to support the settlement as it had not been invited to participate in the negotiations, nor had it been provided with the working papers and background documentation on the settlement. Accordingly, EUG was of the opinion that it was not in a position to properly consider the settlement package unless Westcoast was able to rectify this omission. Westcoast responded by discussing the settlement proposal with EUG and undertook to invite it to attend any future settlement discussions. As a result, EUG wrote to the Board by letter dated 20 October 1992 and indicated that it was prepared to fully support the settlement as filed in this proceeding.

The terms of the settlement were as follows:

- (a) Westcoast agreed to reduce its applied-for 1993 operating and maintenance expenses by a lump sum amount of \$500,000;
- (b) Westcoast agreed to the creation, for the 1993 test year only, of a deferral account to record any differences between the actual unfunded debt cost rate and the 9.7 percent rate utilized by Westcoast in the application. In addition, the deferral account would record any difference between the 9.7 percent cost rate utilized by Westcoast for the Series O Debentures which are included in the embedded cost of funded debt for 1993 and the actual cost rate of the issue;
- (c) Westcoast agreed that its 1993 rate of return on common equity would be equal to the rate of return on common equity which the Board approves for TransCanada PipeLines Limited in the RH-2-92 proceeding; and
- (d) Westcoast agreed to request that the Board deal with the issue of queuing and access by way of written submission.

Westcoast explained that the \$500,000 reduction to its applied-for 1993 operating and maintenance expenses was made up of a \$300,000 reallocation to Westcoast's operations not regulated by the Board to reflect increased costs associated with its recent Union Energy Inc. ("Union Energy") acquisition. The remainder of \$200,000 represented a lump sum reduction to Westcoast's "other general expenses" with the understanding that Westcoast would determine where to make the adjustment in its cost of service.

With respect to the 1993 unfunded debt rate deferral account, Westcoast stated that it had agreed to the creation of this deferral account at the request of the other parties to the settlement discussions for the purpose of protecting toll payers should the actual unfunded debt rate be less than 9.7 percent as applied for by Westcoast.

Westcoast further claimed that the basis for agreeing to a 1993 rate of return on common equity equal to the rate of return on common equity which the Board approves for TransCanada in the RH-2-92 proceeding was three-fold. Firstly, the Westcoast and TransCanada proceedings were taking place at essentially the same time and given the timing of the two hearings, litigating the rate of return in this proceeding would have involved developing essentially the same evidentiary record from the same witnesses in the two proceedings. Secondly, in 1992, the Board had determined equivalent rates of return on common equity for Interprovincial Pipe Line Inc., Trans Mountain Pipe Line Company Ltd. and Westcoast, even though the respective hearings were held at different times. This suggested to Westcoast that the Board, particularly in light of the timing of the Westcoast and TransCanada proceedings, may likely award Westcoast the same rate of return that it awards TransCanada. Thirdly, Westcoast had determined that there have been only marginal differences in the rate of return on common equity that the Board has awarded TransCanada versus that awarded to Westcoast over the past number of years and that a comparison of the allowed returns for the two companies for the period 1986 to 1991 indicated that the average rate of return on common equity awarded Westcoast and TransCanada over this period had differed by only four basis points.

In conclusion, Westcoast submitted that the Board should accept a settlement in a toll proceeding as *prima facie* evidence of the justness and reasonableness of the applied-for tolls when, as in the present case, the following circumstances exist:

- (a) interested parties either agree with the settlement, through active participation in the negotiation process or through consent, or do not oppose the settlement;
- (b) support for the settlement is broadly based and includes support from a wide cross-section of the public interest including consumers, producers, shippers and governments;
- (c) those parties who participated in negotiations all deal at arm's length with the Applicant; and
- (d) those parties who participated in negotiations are sophisticated and have the necessary resources to assess the application and the proposed agreement.

Westcoast further submitted that each of these elements was present with respect to the settlement in this proceeding.

Views of Intervenors

CAPP was fully supportive of the settlement reached with Westcoast in this particular case and thought that all interested parties had been given a fair opportunity to comment on the settlement through the Board's hearing process.

BC Gas stated that the parties that were present during the discussions were the majority of the shippers and that they had a fair opportunity to participate. BC Gas also agreed with CAPP that the Board's hearing process provided a forum for parties to express any concerns that they may have about the settlement and that the Board could weigh those concerns against the evidence in support of the settlement.

The Council of Forest Industries of British Columbia, Cominco Ltd. and Methanex Corp. ("COFI"), on the other hand, expressed the view that, while it participated in the settlement process and agreed to and was supportive of this particular settlement, it was not as enthusiastic as others about settlements in general and preferred the Board's hearing process to resolve issues and establish tolls. COFI's primary concern about the settlement process was that it was extremely time-consuming and expensive. In its view, the industrials were consumers of gas who were not in the business of running a pipeline company. Consequently, they did not possess the necessary expertise to participate in a meaningful way in task force meetings that were examining technical issues regarding the Westcoast system. As a result, they were required to retain consultants and experts to assist them in these task force discussions, while producers and Westcoast, on the other hand, could rely upon their own in-house expertise. In COFI's opinion, the hearing process and the involvement of the Board and the Board's staff helped to bridge that information gap. As users of the pipeline's services, they could rely upon the Board's expertise and the involvement of the Board through the hearing process to ensure that their interests are protected.

Westcoast responded to the comments of COFI by saying that while it appreciated the concerns of the industrials, it was not necessary that every member of the task force have the same input to all of the issues as every other member of the task force. In Westcoast's view, COFI had a role to play in the task force process, but that did not mean that it had to be a full-time role, and that there were other members of the task force on whom it could rely as full-time members. Westcoast cautioned that COFI should not view the work of the task force negatively simply because it felt that it could not participate in it on a full-time basis.

The Ministry of Energy, Mines and Petroleum Resources, acting for the Province of British Columbia ("Province of British Columbia" or "the Province"), in final argument, while indicating overall support for the settlement process in this proceeding, expressed some general concerns about the settlement process. Specifically, the Province said that it was not persuaded that the settlement process was public enough, that there may be a public perception that "backroom deals" are being made by the major players, and that there is a lack of a complete and proper record. Furthermore, the Province was concerned that there may be unequal bargaining leverage through the settlement process particularly with respect to Westcoast's control of the process and the influence that it might have on the ultimate settlement agreement. Lastly, the Province indicated that it was concerned about the lack of Board involvement in the settlement process.

To alleviate these concerns, the Province made several recommendations which, if adopted, it believed would establish a fair and open process that would satisfy the public interest and would be appropriately perceived by the public. These recommendations included the following:

- There should be full and complete advertising of the intention of the parties to initiate settlement discussions;
- The Board should give consideration to how the selection of the task force chairman and secretary is made and that those individuals should be independent of the Applicant;
- The Board's staff should participate in the settlement negotiations;
- A full and complete record should be created and disseminated in the process, which should include reports, studies and other materials introduced by interested parties; and
- A defined set of settlement procedures and rules should be adopted, documented and filed with the Board.

Westcoast responded to the Province's recommendations for improving the settlement process by pointing out that the recommendations were already fundamental tenets of the Board's own hearing process, which by its nature was a settlement process as well and which was always available to the parties. There was, therefore, no need to duplicate these features in the settlement process.

Views of the Board

The Board acknowledges the initiatives taken by the parties to this hearing to resolve toll and tariff issues through consultation and negotiation and encourages their continued efforts in the development of a settlement process that will assist the Board in determining just and reasonable tolls for the Westcoast system.

The negotiated settlement filed in this proceeding raised two issues for consideration by the Board: firstly, whether the settlement process provided a fair opportunity for affected parties to participate and have their interests recognized; and secondly, whether the settlement package contained elements which in the Board's judgement would result in tolls which were not just and reasonable.

With respect to the first issue, the Board notes that the settlement process was conducted among a few select parties and that the participation of other parties was limited to either accepting or rejecting the final package as presented to them by Westcoast. The Board would normally have preferred a much more open process where all affected parties would have been invited in some fashion to participate in the actual settlement negotiations and that the process be governed by formal policies and procedures.

However, the Board recognizes that the time frame for achieving a settlement in this case was limited given that the hearing order in respect of this proceeding was issued less than one month after the release of the Board's decision in the RH-1-92 proceeding and that the date set for the start of this hearing was imminent when negotiations commenced. In these circumstances, the actions taken by Westcoast to canvass all other parties concerning the settlement and to satisfactorily address the concerns raised by EUG give the Board some comfort. In addition, the hearing conducted by the Board provided interested parties with an opportunity to cross-examine Westcoast and others on the settlement process and the

application as well as present final argument to the Board. Taking these considerations into account, the Board is satisfied that the settlement filed in this proceeding was arrived at fairly.

With respect to the second issue, the Board notes that all parties recognized that a settlement does not fetter the Board's discretion under the Act to accept or reject it, although the view was expressed that if a settlement which is negotiated at arm's length were to be changed in a significant way, it could prove detrimental to the development of the settlement process. The Board is cognizant of this concern and fully recognizes that any settlement is likely the product of compromise on all sides. The Board's concern over "package deal" negotiated settlements in this case is not in any way directed at prohibiting legitimate compromise which is to be expected in settlement negotiations. The Board's task was to scrutinize the settlement to ensure that parties had not entered into an agreement which contains provisions that were illegal, contrary to the National Energy Board Act or acceptable rate-making principles, or otherwise contrary to the public interest. Having examined the settlement in this light, the Board is satisfied that it contains no unacceptable provisions.

Decision

The Board finds that the settlement filed by Westcoast forms an appropriate basis for making a finding of just and reasonable tolls for the 1993 test year.

Chapter 3

Revenue Requirement for 1993

A summary of the 1992 forecast, 1993 applied-for and 1993 approved (as estimated by the Board) test year revenue requirement is shown in Table 3-1. The 1993 applied-for revenue requirement represents an increase of 6.1 percent over the 1992 forecast. The Board has made adjustments to certain 1993 cost of service items. These adjustments are primarily consequential changes arising from the Board's determination that the settlement on Westcoast's application for 1993 tolls is an appropriate basis for making a finding of just and reasonable tolls for 1993. The adjustments are discussed in the following chapters. Based on these adjustments and subject to further filings by Westcoast as detailed in Chapter 11, the Board has estimated that the 1993 test year revenue requirement will be \$370.1 million. Of the \$370.1 million, \$364.5 million is to be recovered through tolls and the remainder (\$5.6 million), which represents the coloured gasoline tax, will be recovered directly from shippers pursuant to section 11.2 of the RH-1-92 Reasons for Decision.

Table 3-1
1992 Forecast, 1993 Test Year Applied-for and Approved
Revenue Requirement
(\$000)

	1992 Forecast	Change	1993 Applied-for¹	Board Adjustments	1993 Approved (Estimated)
Operating and Maintenance Expenses	122,135	621	122,756	-	122,756
Regulatory Costs	3,372	118	3,490	-	3,490
Depreciation	39,725	3,791	43,516	-	43,516
Amortization	204	(35)	169	-	169
Deferred Tax Drawdown	-	(11,532)	(11,532)	4,400	(7,132)
Taxes Other Than Income Taxes	52,286	4,213	56,499	-	56,499
Miscellaneous Operating Revenue	(710)	(76)	(786)	-	(786)
Insurance Deductibles	-	908	908	-	908
Foreign Exchange on Debt	832	(96)	736	-	736
Gas Substitution Costs	1,092	(14)	1,078	-	1,078
Gas Used in Operations	248	(247)	1	-	1
Income Tax Expense	4,369	(1,576)	2,793	-	2,793
Return on Rate Base	128,216	13,784	142,000 ²	(4,554)	137,446 ³
Deferrals	<u>(2,927)</u>	<u>11,572</u>	<u>8,645</u>	<u>-</u>	<u>8,645</u>
Revenue Requirement	348,842	21,431	370,273	(154)	370,119

1 Application dated 31 July 1992, as amended on 13 October 1992

2 Calculated using ROE of 13.25 percent

3 Calculated using ROE of 12.25 percent

Note: Totals may not add due to rounding

Chapter 4

Rate Base

A summary of Westcoast's forecast rate base for 1992, and applied-for and approved (as estimated by the Board) rate base for the 1993 test year is presented in Table 4-1. For computing the test year rate base the Company used the 13-month average methodology approved by the Board.

Table 4-1
1992 Forecast, 1993 Test Year Applied-for and Approved
Average Rate Base¹
(\$000)

	1992 Forecast	1993 Applied-for²	Board Adjustments	1993 Approved (Estimated)³
Gas Plant in Service	1,806,964	1,949,212	-	1,949,212
Accumulated Depreciation	<u>(644,365)</u>	<u>(682,643)</u>	<u>-</u>	<u>(682,643)</u>
Net Plant in Service	1,162,599	1,266,569	-	1, 266,569
Net Plant in Service Adjustment		(14,201)	-	(14,201)
Contributions in Aid of Construction	<u>(4,410)</u>	<u>(4,257)</u>	<u>-</u>	<u>(4,257)</u>
Plant Investment	1,158,189	1,248,111	-	1,248,111
Materials and Supplies	26,192	30,422	-	30,422
Line Pack Gas	3,910	3,974	-	3,974
Prepaid Expenses	3,570	2,152	-	2,152
Deferrals	3,467	4,322	-	4,322
Deferred Income Taxes	<u>(73,733)</u>	<u>(67,963)</u>	<u>(2,204)</u>	<u>(70,167)</u>
Average Rate Base Exclusive of Cash Working Capital	1,121,595	1,221,018	(2,204)	1,218,814
Cash Working Capital	<u>10,644</u>	<u>10,552</u>	<u>0</u>	<u>10,552</u>
Average Rate Base	1,132,239	1,231,570	(2,204)	1,229,366

1 Net of Alberta (Zone 5) Facilities

2 Application dated 31 July 1992, as revised on 13 October 1992

3 The impact of certain Board decisions which affect rate base, including the removal of certain capital projects from GPIS, has not been included.

Note: Totals may not add due to rounding.

In respect of plant additions to be included in 1993 rate base, Westcoast provided a report on capital projects that had a cost overrun in excess of \$50,000 or 10 percent of the estimated cost provided to the Board at the time Westcoast applied for these facilities. An explanation for each cost overrun was included. One of the items in this report was the Beg-Jedney Booster Station project. When Westcoast applied for approval under Part III of the Act, it estimated the capital cost for this project at \$9.3 million. By the time this project was completed, Westcoast had incurred an overrun of \$1.4 million (or 15 percent), based on the original estimate.

Westcoast also provided a list of construction projects that it expected to complete in 1993 and estimates of completed plant costs to be transferred each month to gas plant in service ("GPIS"). The estimated plant additions for 1993 included certain projects which have not yet received Board approval under Part III of the Act.

In this proceeding, the British Columbia Provincial Council of Carpenters took issue with Westcoast's contracting practices for capital projects including bidding policy and the hiring of construction labour. Westcoast rejected the assertions and suggestions of this intervenor. Other intervenors did not express concerns with the proposed rate base for 1993.

Views of the Board

The Board recognizes that having accepted the terms of the settlement intervenors did not express concerns regarding the test year rate base. Regarding the Beg-Jedney Booster Station project, while the Board recognizes that regulatory approvals under Part III of the Act are often based on very preliminary engineering and cost estimates, and notes that a difference between an original cost estimate and the final cost is not in and of itself evidence of poor cost control or imprudence, the Board does note that the planning of this project was such that Westcoast was required to proceed with construction well before final design had been completed. As a result, design modifications during construction, plus additional installation costs and engineering consulting services were necessary.

Based on its own examination, the Board accepts Westcoast's explanation of the cost overrun on the Beg-Jedney Booster Station project and other cost overruns. However, the Board urges Westcoast to take all reasonable steps to minimize cost overruns. As well, the Board accepts the net plant in service adjustment factor proposed by Westcoast. In respect of plant additions forecast for 1993, the Board is of the view that projects which have not been approved by the Board under Part III of the NEB Act at the time the Board rendered its decisions in this proceeding should be excluded from the test year rate base.

Decision

The Board approves for inclusion in GPIS the cost of capital projects included in Westcoast's capital cost overrun report. The Board directs Westcoast to remove from the applied-for GPIS the forecast amounts for projects which have been denied or which have not been approved by the Board under Part III of the NEB Act as of 1 March 1993.

Chapter 5

Capital Structure and Cost of Capital

5.1 Common Equity Ratio

Westcoast applied to maintain its deemed common equity ratio at the currently approved level of 35 percent.

In support of its position, Westcoast submitted that an appropriate deemed common equity ratio is principally determined by examining the underlying risks to which utility assets are exposed. For this test year, Westcoast was of the view that its business risks are similar to those which were considered by the Board in the RH-1-92 proceeding. However, Westcoast expressed concern with what it considered to be an increase in regulatory risks as a result of certain decisions of the Board in the RH-1-92 proceeding.

Westcoast added that the 35 percent common equity component is required having regard to the level of financial risk implicit in its capital structure and to the level of both its debt and preferred equity. On the question of whether there is an appropriate balance between the common equity financing attributed to the utility¹ and the portion left implicitly underpinning non-utility activities, Westcoast noted that the unconsolidated debt ratio for its non-utility assets, including deferred income taxes and excluding WestCoast Gas Inc. ("WestCoast Gas"), is forecast to be below 35 percent. Westcoast also stated that the equity supporting its investment in WestCoast Gas continues to increase as Westcoast re-invests earnings to finance the growth of its Centra distribution operations.

At about the time of the RH-3-92 proceeding, Westcoast acquired Union Energy, at a cost of some \$600 million. To fund this acquisition, Westcoast arranged bridge financing with two Canadian banks. Permanent financing is to be provided by the take-up under a cash or share offer to Union Energy shareholders, the issuance of common shares of Westcoast and the sale of approximately \$200 million of non-strategic assets.

Westcoast stated that, since it intends to finance the Union Energy acquisition with equity, the acquisition would not result in cross-subsidization of Westcoast's non-utility activities by the utility.

Under the terms of the settlement on Westcoast's application for 1993 tolls, the applied-for deemed common equity ratio of 35 percent was not contested. Intervenors who have made their views known to the Board did not address the issue of common equity ratio.

Views of the Board

The Board is of the view that, since the RH-1-92 proceeding, the business risks of Westcoast's utility operations have remained essentially unchanged. Based on this determination and the

¹ In these Reasons for Decision, "utility" means Westcoast operations regulated by the Board, while "non-utility" refers to Westcoast's other operations.

Board's assessment of the level of financial risk implicit in Westcoast's deemed capital structure, the Board finds that a deemed common equity ratio of 35 percent continues to be reasonable for 1993.

Decision

The Board approves a deemed common equity ratio of 35 percent for the 1993 test year.

5.2 Rate of Return on Common Equity

As part of the settlement, Westcoast requested that the Board approve a 1993 rate of return on common equity equal to the ROE which the Board approves for TransCanada in the RH-2-92 proceeding.

In support of its request, Westcoast submitted that the Westcoast RH-3-92 and TransCanada RH-2-92 proceedings were occurring at essentially the same time; that, in 1992, the Board prescribed the same ROE (of 12.5 percent) for Interprovincial Pipe Line Inc., Trans Mountain Pipe Line Company Ltd. and Westcoast, even though their respective hearings were held at different times; and that there were only marginal differences in the ROE awarded to TransCanada and Westcoast in the last six years (1986 to 1991).

In its evidence, CAPP commented that it found Westcoast's proposal acceptable. It submitted that its testimony on ROE in the Westcoast proceeding would have been very similar to that which it would advance in the TransCanada proceeding given that both proceedings were being conducted at the same time and that the evidence filed by Westcoast's expert witnesses would have been similar to that filed by TransCanada's expert witnesses.

Other intervenors who made their views known to the Board stated that they either supported or were not opposed to the settlement on Westcoast's application for 1993 tolls, including the applied-for rate of return on common equity.

The Board recently released the RH-2-92 Reasons for Decision in which it approved a rate of return on common equity of 12.25 percent for TransCanada for 1993.

Views of the Board

The Board accepts the rationale advanced by Westcoast for the same ROE as that of TransCanada in the 1993 test year. The Board was particularly persuaded by the fact that the RH-2-92 and RH-3-92 proceedings dealing with 1993 tolls for TransCanada and Westcoast respectively took place at virtually the same time. As a result, the Board would have examined very similar evidence from expert witnesses in both proceedings and would likely have reached similar conclusions.

For this reason and the fact that the requested ROE formed part of the settlement which was either supported or unopposed by all parties in this proceeding, the Board approves an ROE for Westcoast in 1993 equal to the ROE which the Board has approved for TransCanada for

1993. The Board is of the view that an ROE of 12.25 percent would be fair to shareholders and tollpayers and would allow Westcoast to maintain its financial integrity and its ability to attract capital on reasonable terms.

Decision

The Board approves a rate of return on common equity for Westcoast for 1993 of 12.25 percent.

5.3 Other Capital Cost Rates

5.3.1 Funded Debt

Westcoast applied for a rate of 10.82 percent on its forecast funded debt balance of \$736.9 million for 1993. The dollar amount of funded debt and the associated cost rate were determined using the net proceeds methodology approved by the Board in the RH-1-90 Reasons for Decision. No intervenor objected to the applied-for amount of funded debt or the associated cost rate.

Decision

The Board approves funded debt in the amount of \$736.9 million and a cost rate of 10.82 percent for the 1993 test year.

5.3.2 Unfunded Debt

Westcoast applied for a cost rate of 9.70 percent on its forecast unfunded debt balance for the 1993 test year. Westcoast explained that the rate is based on projections of 20-year interest rates and issue spreads. Westcoast projected that long-term Government of Canada bond rates for 1993 would average 8.40 percent and that the issue spread would be 130 basis points. Westcoast expected that the long-term debt issue planned for the fall of 1992 would be undertaken at 9.70 percent. No intervenor objected to the applied-for unfunded debt cost.

Views of the Board

In light of the fact that parties to the settlement agreed to an unfunded debt rate deferral account and that the Board approves the requested deferral account for the 1993 test year (see section 7.3), the Board finds acceptable the applied-for unfunded debt cost rate of 9.70 percent.

Decision

The Board approves an unfunded debt cost rate of 9.70 percent for the 1993 test year.

5.3.3 Preferred Share Capital

As it has done since the shares were originally issued in 1985, Westcoast continued to allocate the entire \$35 million issue of 7.68 percent preferred shares to the utility operation of the Company. Using the modified net proceeds method approved by the Board in its RH-2-89 Reasons for Decision, Westcoast applied for a cost rate of 7.95 percent on a preferred share balance of \$34.8 million for the 1993 test year.

Decision

The Board approves preferred share capital in the amount of \$34.8 million and a cost rate of 7.95 percent for the 1993 test year.

5.4 Rate of Return on Rate Base

Decision

Based on the decisions contained in these Reasons for Decision, the Board approves a rate of return on rate base of 11.18 percent for the 1993 test year. The approved capital structure and overall rate of return as estimated by the Board are shown in Table 5-1.

**Table 5-1
Approved Deemed Average Capital Structure and
Rate of Return for 1993 Test Year**

	Amount (\$000)	Capital Structure (%)	Cost Rate (%)	Cost Component (%)
Debt - Funded	736,877	56.66	10.82	6.13
- Unfunded	<u>73,700</u>	<u>5.67</u>	9.70	<u>0.55</u>
Total Debt Capital	810,577	62.33		6.68
Preferred Shares	34,802	2.68	7.95	0.21
Common Equity	<u>455,204</u>	<u>35.00</u>	12.25	<u>4.29</u>
Total Capitalization	1,300,583	100.00		
Rate of Return on Rate Base				11.18

Note: Totals may not add due to rounding

5.5 Income Tax Provision on Flow-through Basis

Regarding Westcoast's income tax calculation for 1993, the Board has adjusted the "return related to equity" amount (see Table 5-2) to reflect the rate of return on equity approved by the Board. Further, in order that Westcoast's utility taxable income remain at zero in accordance with the Board's decision concerning deferred income tax drawdown in chapter 6 of the RH-1-92 Reasons for Decision, the Board has also made an estimated reduction of \$4.4 million in the amount of the drawdown of deferred income taxes.

With respect to the issue of the appropriate method to account for the drawdown and amortization of deferred income taxes, the Board confirms that Westcoast's interpretation of the RH-1-92 Decision concerning 1992 utility income taxes is correct, in that the drawdown is to be applied solely to the reduction of the test year utility taxable income. The drawdown of deferred income taxes is not to be applied to income taxes arising from reassessment of a prior period return.

Decision

The Board has adjusted Westcoast's 1993 income tax provision on a flow-through basis to reflect the decisions contained in these Reasons for Decision (see Table 5-2). For the 1993 test year, the utility income tax provision is composed only of the large corporations tax, which is estimated at \$2.8 million.

Table 5-2
Utility Income Tax Allowance
for the 1993 Test Year
(\$000)

	Application ¹	Board Adjustments	Approved (Estimated)
Return Related to Equity	59,722	(4,398)	55,324
ADD (DEDUCT):			
Prior Year Deferral Carrying Charge	1,286	-	1,286
AFUDC - Interest Portion	(3,975)	-	(3,975)
Depreciation	43,516	-	43,516
Amortization	169	-	169
Deferred Tax Drawdown	(11,536)	4,404	(7,132)
Amortization of Issue Costs	949	-	949
Financing Expenses	(1,230)	-	(1,230)
Capital Cost Allowance	(85,380)	-	(85,380)
Overhead During Construction	(6,768)	-	(6,768)
Cumulative Eligible Capital	(55)	-	(55)
Foreign Exchange Loss on Debt Redemption	594	(6) ²	588
Pension Payments	(4,696)	-	(4,696)
Pension Accrual	4,696	-	4,696
Disallowable Expenses	265	-	265
Large Corporations Tax	2,793	-	2,793
Rate Case Expense Payments	<u>(350)</u>	<u>-</u>	<u>(350)</u>
Utility Taxable Income	0	0	0
Income Taxes	0		0
Add: Large Corporations Tax	<u>2,793</u>		<u>2,793</u>
Utility Income Tax Provision	2,793		2,793

1. As revised on 28 September 1992

2. Related to Alberta facilities

Note: Totals may not add due to rounding

Chapter 6

Operating Costs

In the revised application dated 28 September 1992, Westcoast requested O&M expenses for 1993 of \$123.3 million, representing an increase of 0.9 percent over forecast 1992 O&M expenses. As part of the settlement on its application for 1993 tolls, Westcoast agreed to a lump sum reduction of \$500,000 to its applied-for 1993 O&M expenses, which would result in a year-over-year O&M increase of 0.5 percent. In this chapter, the Board will deal with issues related to this reduction and other matters concerning operating costs.

6.1 Salaries, Wages and Employee Benefits

In the revised application, Westcoast projected a utilization of 1,131 person years ("PY") for 1993. This estimate was an increase of one PY over the 1992 approved PYs. Westcoast also proposed year-over-year salary and wage increases of two percent.

The two percent increase in salaries was based on 1992 actual salaries rather than those approved in the RH-1-92 Reasons for Decision. Westcoast contended that calculating 1993 test-year salaries on the basis of what the Board approved for 1992 would impair its ability to attract qualified personnel. For the 1993 test year, projected salaries would have been \$180,000 lower had they been based on 1992 approved salaries.

For the 1993 test year, Westcoast estimated employee benefits at 18 percent of salaries and wages compared to 15 percent in previous years. The Company explained that the increase in employee benefits for 1993 was mainly the result of an increase in pension costs following actuarial evaluations.

Of the \$500,000 reduction in O&M expenses agreed to in the settlement, Westcoast stated that \$200,000 were salary-related and arose from discussions during the settlement process in respect of using approved rather than actual base year figures as the basis for calculating test-year salaries (referred to by Westcoast as "the ramping issue"). Those discussions resulted in Westcoast agreeing to remove \$200,000 from applied-for "Other General Expenses".

No intervenor expressed concerns about the applied-for salaries, wages and employee benefits.

Views of the Board

The Board notes that the increases in salaries, wages and employee benefits requested by Westcoast for 1993 are relatively moderate. In view of this and the Board's determination that the settlement on Westcoast's application is an appropriate basis for making a finding of just and reasonable tolls for 1993, the Board finds the salaries, wages and employee benefits requested for 1993 to be reasonable. In reaching this conclusion, the Board has taken into consideration Westcoast's statement that the \$200,000 reduction to "Other General Expenses" agreed to by parties to the settlement arose from discussions concerning the ramping issue.

Decision

The Board approves the salaries, wages and employee benefits requested for 1993.

6.2 Other O&M Expenses and Operating Costs

For 1993, Westcoast's proposed O&M expenses included no increases for materials or chemicals and no inflation adjustments to non-labour related O&M expenses. Regarding insurance deductibles, Westcoast presented the 1993 test-year requested amount of \$908,000 as a separate cost of service item. However, the 1991 base-year actuals and 1992 forecast amounts were blended with O&M expenses. Westcoast agreed that presenting information on insurance deductibles in this manner could be confusing and that the Company would consider changing the presentation.

Views of the Board

The Board notes that the other O&M expenses and operating costs requested by Westcoast for 1993 represent moderate increases over 1992. Having regard to this and the Board's determination that the settlement is an appropriate basis for making a finding of just and reasonable tolls for 1993, the Board is prepared to accept the proposed expenses.

The Board is of the view that insurance deductibles should be consistently presented as a separate cost of service item.

Decision

The Board approves the applied-for other O&M expenses and operating costs for 1993.

6.3 Allocation of Costs to Non-utility Activities

In its revised application dated 28 September 1992, Westcoast followed the methodology approved by the Board in the RH-1-92 Reasons for Decision for allocating costs to its non-utility activities. In accordance with the terms of the settlement, Westcoast proposed to increase the allocation to non-utility by \$300,000 to reflect the Union Energy acquisition. The Company explained that the \$300,000 reduction to the utility operating and maintenance expenses would be allocated to Other Cost Centres, Vancouver Departments, and General and Administrative.

None of the intervenors expressed concerns regarding the proposed allocation of costs to non-utility activities.

Views of the Board

Based on the Board's conclusion that the settlement is an appropriate basis for making a finding of just and reasonable tolls for 1993, the Board is of the view that the overall amount allocated to non-utility activities for the 1993 test year is reasonable. The Board notes that, as directed in the RH-1-92 Reasons for Decision, Westcoast's method of allocating costs

between utility and non-utility activities is currently the subject of an independent external review. It is expected that the review report will be available for examination by the Board in a proceeding in connection with the Company's 1994 toll application.

Decision

The Board approves the proposed allocation of costs to non-utility for the 1993 test year.

Chapter 7

Deferral Accounts

7.1 Disposition of Existing Deferral Account Balances

In its RH-1-92 Reasons for Decision, the Board authorized certain cost of service and revenue deferral accounts for the 1992 test year. Westcoast provided forecast balances of these deferral accounts as at 31 December 1992. With respect to the disposition of the 1992 year-end deferral account balances the Company proposed to credit or debit them to the 1993 cost of service of the appropriate toll zones and functions. In particular, the Grizzly Valley Tax Reassessment deferral account balance was credited to the 1993 cost of service in Zone 1.

In respect of any differences between forecast and actual deferral account balances for 1992, Westcoast applied for authorization to record such differences in the respective cost of service and revenue deferral accounts authorized for 1993.

None of the intervenors commented on the proposed disposition.

Views of the Board

The Board accepts the disposition of the deferral account balances as at 31 December 1992 as proposed by the Applicant. In cases where actual account balances of specific deferral accounts authorized for 1992 are not available at the time Westcoast files for final tolls following the release of these Reasons for Decision, the Board is prepared to allow Westcoast to record, in the respective cost of service and revenue deferral accounts authorized for 1993, any variances between the forecast amounts reflected in tolls and the actual account balances.

Decision

The Board approves the disposition of the existing deferral account balances as at 31 December 1992, including the deferral of variances between the actual and forecast account balances, as proposed by Westcoast.

7.2 Continuation of Existing Deferral Accounts

For the 1993 test year, Westcoast applied for authorization to continue the cost of service and revenue deferral accounts listed below. All deferral accounts, except for a new Unfunded Debt Rate Deferral Account as described in the following section, were previously approved. Westcoast did not seek to renew the deferral account for LPSF cost of service.

Cost of Service Deferral Accounts

Property Taxes
Tax related to Fuel Consumption
Federal Surtaxes and Income Taxes
Provincial Surtaxes and Income Taxes
Corporation Capital Tax
Foreign Exchange
NEB Cost Recovery
Zone 2 Demand Charge Credits
Pressure Vessel Inspections and Repairs
Swing Gas

Revenue Deferral Accounts

Contract Demand Volumes
Interruptible Revenue
Liquid Products Stabilization and Fractionation Service Revenue Variances

None of the intervenors expressed concerns regarding the continuation of these deferral accounts.

Decision

The Board approves the continuation of the cost of service and revenue deferral accounts listed above for the 1993 test year.

7.3 Unfunded Debt Rate Deferral Account

As part of the settlement, Westcoast requested, for the 1993 test year only, a deferral account to record any difference between the actual unfunded debt cost rate and the 9.7 percent cost rate utilized by Westcoast in its application. Further, should the Series O Debentures which Westcoast expects to issue before the end of 1992 not be issued by the time that the Board renders its RH-3-92 decision, this account would also be used to record any difference between the 9.7 percent cost rate utilized by Westcoast for the Series O Debentures in estimating the embedded cost of funded debt for 1993 and the actual cost rate of the issue. Westcoast stated that it agreed to the account at the request of other parties to the settlement.

Westcoast's request for the unfunded debt rate deferral account was not contested in this proceeding by parties who made their views known to the Board. CAPP explained in its evidence that, while parties to the settlement could not agree on the interest rate that should be applied to unfunded debt, they could agree on the deferral account because no party would win or lose on the cost of unfunded debt portion of the cost of service.

Views of the Board

In view of the Board's determination that the settlement is an appropriate basis for making a finding of just and reasonable tolls for 1993, the Board is prepared to approve the requested unfunded debt rate deferral account for 1993 only.

Decision

The Board approves the requested deferral account for unfunded debt rate for the 1993 test year.

Chapter 8

Toll Design and Miscellaneous Tariff Matters

8.1 Throughput Forecast

Westcoast estimated an annual system throughput for the 1993 test year of 14 288.6 10⁶m³ (504.4 Bcf). Approximately 46 percent of this annual throughput is forecast for the export market.

Decision

The Board finds Westcoast 1993 test year throughput forecast to be reasonable and accepts the forecast for cost allocation and toll design purposes.

8.2 Liquid Products Stabilization and Fractionation Service

Westcoast has been providing LPSF service to shippers at the McMahon Plant since its purchase of LPSF facilities from Petro-Canada was completed at the beginning of 1992. The toll design for this service is based on the current dollar allocation methodology approved in the RH-1-92 Reasons for Decision.

In this proceeding, Petro-Canada proposed a change from the currently approved toll methodology to one of the toll methodologies advanced by it during the RH-1-92 proceeding. Under Petro-Canada's proposal, the LPSF service toll would be based on the processing fee that Petro-Canada charges Amoco Canada Petroleum Company Ltd ("Amoco") for LPSF service under an agreement between Petro-Canada and Amoco. Any shortfall in revenue would be recovered as part of the revenue requirement for the liquids recovery function.

As it did in the RH-1-92 proceeding, Petro-Canada explained that it has had since 1980 a contractual obligation to provide LPSF service to Amoco for a fee. Since 1 January 1992, it has fulfilled this contractual obligation by obtaining LPSF service from Westcoast. As Westcoast LPSF tolls are significantly higher than the fee it charges Amoco, Petro-Canada estimated that it would incur a cumulative shortfall of about \$10 million by the year 2005.

Petro-Canada argued that having assumed jurisdiction over Westcoast's LPSF facilities at the McMahon Plant, the Board should ensure that parties to pre-existing contractual obligations are not unfairly burdened as a result of the transition from unregulated to regulated service. Petro-Canada contended that it should be relieved of the burden on it which has been created as a result of the fact that regulated tolls are greater than the processing fee specified in its contract with Amoco.

Westcoast stated that, in its view, Petro-Canada has presented the same evidence in this proceeding as it did in the RH-1-92 proceeding. There was, therefore, no new evidence to question the appropriateness of the Board's decision.

BC Gas was of the opinion that the Board should deny Petro-Canada's request for a reconsideration of the LPSF service toll. BC Gas stated that, where the Board asserts regulatory jurisdiction, the Board must set tolls based on established tolling methodology that relates tolls to utility costs, approved rate base and approved rate of return. CanWest argued that the LPSF tolling issue was thoroughly vetted at the RH-1-92 hearing and that nothing has been introduced at this hearing to cause the Board to alter its decision.

Views of the Board

The Board is of the view that no new facts were introduced and no changed circumstances were identified in this proceeding which would warrant a variance to the currently approved toll methodology for the LPSF service.

8.3 Liquids Recovery Service

By letter dated 10 February 1993, Westcoast sought to reduce the applied-for liquids volumes to be used in calculating 1993 tolls for contract demand liquids recovery service. Westcoast stated that several shippers requested reductions in levels of contracted service after the RH-3-92 hearing had closed.

Westcoast explained that, in the RH-1-92 Reasons for Decision, the Board directed the Company to change the basis for calculating the liquids recovery tolls from residue gas to liquids content. To reflect that decision, Westcoast filed tolls based on liquids units derived mathematically from the "liquids residue gas equivalent" figures provided to Westcoast by those shippers contracting for that service. Westcoast stated that each shipper's liquids residue gas equivalent is specified in its service agreement with Westcoast and is intended to reflect the liquids content of that shipper's gas on a peak day basis.

Certain shippers have advised Westcoast that the change in the basis for calculating the tolls caused a significant increase in their charges payable for liquids recovery service. These shippers indicated that the contract demand volumes currently used by Westcoast to calculate their liquids recovery tolls overstate the level of service that they require because the liquids residue gas equivalents provided by them do not accurately reflect the liquids composition of their respective gas streams.

Westcoast proposed that the current interim tolls for liquids recovery service remain unchanged and that appropriate adjustments be made at such time as the Board makes an Order approving Westcoast's final tolls for 1993.

Views of the Board

As Westcoast's 10 February 1993 application concerning liquids recovery tolls raises a number of issues not considered during the RH-3-92 proceeding, the Board is of the view that this application should be examined separately. In order that the issues can be examined in the context of the whole test year, the Board is of the view that the liquids recovery toll which has been in effect since 1 January 1993 should continue to be charged on an interim basis pending final disposition of Westcoast's 10 February 1993 application by the Board.

Decision

Westcoast shall continue to charge, on an interim basis, the toll for contract demand liquids recovery service and interruptible liquids recovery service which has been in effect since 1 January 1993, pending the Board's final disposition of Westcoast's application of 10 February 1993.

8.4 Shrinkage Factors for Boundary Lake Liquids

Petro-Canada was concerned that liquid products from the Boundary Lake plant owned by Imperial Oil may not continue to be processed at the McMahon facility as a result of what Petro-Canada considered to be a high toll level for the LPSF service and the shrinkage factors accorded to these volumes by Westcoast. Since Petro-Canada brought these concerns to the Company's attention during this proceeding, Westcoast has been reviewing with Petro-Canada the simulation studies which are the basis for calculating the Boundary Lake liquids shrinkage factors. According to Petro-Canada, Westcoast undertook to adjust the shrinkage factors should the verification of these simulation studies indicate that the currently used shrinkage factors are too high.

Petro-Canada requested that the Board acknowledge in its decision that the shrinkage factors for the Boundary Lake liquids are an issue of concern which may require retroactive adjustment. In argument, Westcoast objected to any retroactive revisions to the shrinkage factors.

Views of the Board

The Board is of the view that the requested shrinkage factors remain appropriate for the purposes of determining LPSF service tolls for 1993. However, the Board is prepared to examine proposed refinements to the estimation procedure for shrinkage factors for Boundary Lake liquids should such proposals be brought before it for consideration.

8.5 Receipt and Delivery of Gas

On 2 October 1992, Westcoast filed tariff amendments to Article 4 of the General Terms and Conditions for Service, "Receipt and Delivery of Gas", which took effect on 8 October 1992. These tariff revisions included changes to nomination and authorization schedules.

In this proceeding, BC Gas indicated that, while it was in general agreement with the direction of the changes, its support was contingent on the availability of renomination procedures. BC Gas also indicated that it expected that the principle of renomination would be re-affirmed by Westcoast and that it would advise the Board of further problems should they arise. No other intervenor commented on these tariff amendments.

Views of the Board

It is the Board's understanding that Westcoast has initiated discussions with concerned parties on the issue of renomination. Further, the Board understands that Westcoast plans to add

renomination services capability to the company's Gas Management System in 1993. This capability would allow downstream interconnected pipelines and shippers such as BC Gas to change nominations after initial authorizations have been established the previous day. The Board awaits the filing of tariff changes regarding renomination by Westcoast.

Chapter 9

Queuing, Access and Contract Term

9.1 Background

Westcoast's current queuing procedures and access criteria (the "Q&A policy") were first approved by the Board in the RH-1-89 Reasons for Decision and certain aspects of the Q&A policy were amended in the RH-1-90 proceeding. Since the Q&A policy came into effect, long service queues have developed on certain sections of the Westcoast system. Many shippers have expressed concern that these lengthy queues make it difficult to be certain when firm service would be available. Westcoast also found that the long service queues cannot be relied on for system expansion purposes. As an indication of how the current Q&A policy has resulted in queue speculation with potential shippers making service requests for any and all possible service requirements, Westcoast pointed out that requests for service in the Zone 4 queue total $79.76 \times 10^6 \text{m}^3/\text{d}$ (2.8 Bcfd), a figure which far exceeds the current capacity in Zone 4 of $44.1 \times 10^6 \text{m}^3/\text{d}$ (1.6 Bcfd).

In late 1991, as part of its examination of the problems associated with long queues for service, Westcoast retained a consultant, Mr. D.E. Esau, to study the current Q&A policy. In March 1992, the results of the Esau study were released. The study contained a number of proposals to address problems that had been identified. In order to address these problems, a subcommittee of the Joint Industry Task Force on Westcoast's Tolls and Tariffs (the "subcommittee") was formed. The subcommittee consisted of some thirty participants including shippers, gas producers, marketers, industrial customers, industry associations and provincial agencies. The subcommittee was chaired by Westcoast.

In addition to queuing procedures and access criteria, the subcommittee also addressed issues related to short-term renewable contracts, renewal notice period and facilities expansion policy. On 25 September 1992, the subcommittee released a document called, "Report on Proposed Changes to Queuing Procedures and Access Criteria on Westcoast Energy Pipeline" (the "Subcommittee Report"). This report, which covered only Zone 3 and Zone 4 matters, identified issues on which agreement was reached by the participants and areas which remained unresolved. The Subcommittee Report was filed by Westcoast in this proceeding as part of its direct evidence.

In this proceeding, Westcoast proposed extensive amendments to its Q&A policy as well as changes to provisions in its tariffs regarding contract term and renewal rights. Many of the proposed amendments were based on agreements reached by the subcommittee. Other proposed revisions dealt with issues upon which participants in the subcommittee took different views. The Company's proposed amendments dealt with Zone 3 and 4, except for certain changes affecting Zones 1 and 2 that were mainly of a consequential nature.

Westcoast explained that its Q&A policy for Zone 2 is currently being reviewed in the context of the proposed Pine River Processing Plant expansion and that this review would include consideration of minimum contract term with renewal rights for existing and expansion shippers at the Pine River Plant. With respect to Zone 1, Westcoast stated that the subcommittee participants believed that the

"Raw Gas Transmission Facility Expansion Policy", as currently set out in its tariff, continues to operate effectively. Westcoast submitted that, while it concurs with this view, it believes that key issues such as minimum contract term with renewal rights and the renewal notice period need to be addressed for Zone 1. Westcoast indicated that it will consult further with the subcommittee on Zone 1 issues.

9.2 Queuing and Access

In support of the requested changes to its Q&A policy, Westcoast submitted that the overall objectives of this policy are to ensure that existing and prospective shippers have: (a) certainty of service on a timely basis, (b) fair and equitable access to the Westcoast system, and (c) a pipeline system that is optimally sized and used. These same objectives were adopted by the subcommittee.

Westcoast's proposed Q&A policy changes were based on the view expressed in the Subcommittee Report that these objectives could best be achieved by requiring potential shippers requesting service and existing shippers requesting increases in their level of service (referred to collectively as "prospective shippers") to provide Westcoast with gas supply, market and other information which is increasingly more rigorous as the requested service commencement date approaches. This approach was referred to by parties as "the concept of progressive rigour". Westcoast's proposed changes to the Q&A policy were also based on the view, as participants in the subcommittee had agreed, that the three objectives would be achieved in part by implementing procedures which facilitate the assignment of queue positions

The subcommittee was able to reach agreement on six queuing matters, which Westcoast included in the requested changes. These six areas were not contested by intervenors to the RH-3-92 proceeding. They are discussed in section 9.2.1.

Westcoast also applied for changes to three queuing related matters, which were considered by the subcommittee but upon which no agreement was reached. These three areas, which are discussed in section 9.2.2, were contested by intervenors.

9.2.1 Uncontested Issues

9.2.1.1 Entry into the Queue

Under Westcoast's existing Q&A policy, a prospective shipper would enter a queue for firm service by completing and submitting to the Company a Request for Service Form indicating, among other things, whether it represents a firm gas supply or a firm market.

Westcoast proposed to amend its Q&A policy to also require the prospective shipper to warrant that its gas supply or market has not been designated as being in support of any other request for service or specified in an existing firm service agreement to which the prospective shipper is a party and having the same receipt points and delivery points as the Zone 3 service or Zone 4 service requested by the prospective shipper in its Request for Service Form (i.e. that there is no "double dedication"). Westcoast indicated that this change was intended to eliminate multiple requests by a prospective shipper for the same supply or market.

Westcoast explained that this provision would not preclude several prospective shippers from submitting requests for service to the same market. However, Westcoast was of the view that only one request for service would remain in the queue as the concept of progressive rigour is applied, since a single source of gas supply can only be warranted to one market and vice versa as commercial arrangements firm up. The other requests for service would either be removed from the queue or be identified with an alternative market.

In addition, Westcoast proposed that a prospective shipper be required to provide a regulatory plan identifying all of the authorizations necessary for the removal, transportation and use of the gas as well as a schedule identifying the dates by which the prospective shipper anticipates making applications for and obtaining these authorizations.

Finally, Westcoast proposed that the request for service be accompanied by a deposit equal to the daily demand toll for the requested service (refer to section 9.2.2.1, "Queue Entry Fee").

9.2.1.2 Supporting Information - First Requirement

Under its existing Q&A policy, no gas supply or market information, beyond the simple representation that the prospective shipper represents a firm gas supply or a firm market when it applies for service, is required from the prospective shipper before service commences.

In its application, Westcoast proposed that in order for a prospective shipper to remain in the queue, it must provide Westcoast with additional information on gas supply or markets on the earlier of the date of acceptance of an offer of service or 24 months prior to the requested service commencement date. A prospective shipper representing supply would provide information which includes supply location, reserves and deliverability. A prospective shipper representing market would provide information which includes the location, requirements and details of its market. All prospective shippers must also confirm no double dedication and provide an update of their regulatory plan. This first requirement for supporting information is a step in applying the concept of progressive rigour which is intended to deter speculative requests for service.

Westcoast explained that the 24-month time limit is premised on its proposed 18-month contract renewal notice period. However, Westcoast and intervenors agreed that should the Board approve a different contract renewal notice period, there should be a change to the time limit by which the required supporting information is provided to Westcoast. For example, the 18-month time limit discussed in the Subcommittee Report was premised on a 13-month contract renewal notice period.

9.2.1.3 Supporting Information - Second Requirement

In order to continue to stay in the queue, Westcoast proposed that the prospective shipper be required to update the gas supply or market information previously provided to Westcoast and to submit further gas supply or market information, as the case may be, on the earlier of the date of acceptance of an offer of service or 18 months prior to the requested service commencement date. A prospective shipper indicating supply would furnish information including established reserves equal to 100 percent of the term of service requested, confirmation of deliverability for 50 percent of term and a development plan for maintaining deliverability over remaining term. A prospective shipper indicating market must demonstrate that it is a firm market (e.g. a local distribution company) or provide a

signed firm gas market agreement. All prospective shippers must reconfirm that their gas supply or firm market is not double dedicated and must update the status of all applications for regulatory and other approvals.

The Company explained that this additional information requirement is in keeping with applying the concept of progressive rigour. While Westcoast would undertake to keep information which is not publicly available confidential, the Company might have to make it public, should it be required in support of a facilities application. Westcoast undertook to notify the prospective shipper prior to doing so.

Westcoast explained that the 18-month time limit is premised on its proposed 18-month contract renewal notice period. However, Westcoast and intervenors agreed that should the Board approve a different contract renewal notice period, there should be a change to the time limit by which the required supporting information is provided to Westcoast. For example, the 12-month time limit discussed in the Subcommittee Report was premised on a 13-month contract renewal notice period.

9.2.1.4 Acceptance of Offered Service

Under its existing Q&A policy, when Westcoast determines that capacity is available, or will become available, through non-renewal of service ("attrition capacity"), it would offer the capacity sequentially to prospective shippers in the queue until the capacity was fully committed. Westcoast would then forward to the prospective shipper a firm service agreement for execution. This agreement would contain a representation and a warranty that the prospective shipper will have, as of the date of commencement of service, all authorizations, permits, licences, certificates and agreements necessary for the delivery and redelivery of the gas under the service agreement. The prospective shipper must execute and return the firm service agreement to Westcoast within 21 days of receipt. A prospective shipper who failed to do so would be removed from the queue.

The Company proposed that for Zones 3 and 4 as well as Zones 1 and 2, in the interest of expediting the process of making service offers, Westcoast may, at its option, offer service to more than one of the prospective shippers simultaneously with each such offer being conditional upon the failure of prospective shippers occupying higher positions in the queue to take up the service offered to them.

In this application, Westcoast also proposed a number of changes dealing with service offered on terms and conditions different from those requested. First, if the service offered to the prospective shipper is for a smaller volume than had been requested (this would include a situation where Westcoast was able to offer service in a specific zone but was not able to provide matching service in another zone as requested), the prospective shipper may decline the offer and remain in the queue for the volume requested, including the queue for any requested matching service. At the option of the prospective shipper, it may accept the smaller volume offered and remain in the queue for the remainder of the volume requested, including the queue for the remainder of any requested matching service, based on the original date of entry into the queue. The existing Q&A policy has no matching service provisions.

Second, if the service commencement date offered is different from that requested, the prospective shipper may choose to accept the offered service, but must provide Westcoast with the gas supply or market information described under "Supporting Information - Second Requirement", at the time that it

returns the executed firm service agreement (refer to section 9.2.2.2 "Service Accepted at a Date Earlier than Identified in the Request for Service Form").

Third, a prospective shipper not offered service at all will remain in the queue, provided the first and second information requirements discussed above are satisfied. It will be given the opportunity to participate as an expansion shipper when there is a facilities expansion (refer to section 9.2.2.3, "Period for which Information is Required for Expansion Service Agreements").

9.2.1.5 Facility Expansion

Under its existing Q&A policy, when Westcoast determines that requested capacity is unavailable or is unlikely to become available, and thus additional facilities are required, the Company will notify the prospective shipper and advise it of the additional information and documentation which Westcoast may require to support a facilities application. This may include evidence that the intended market and underlying supply are secure and long term and that the prospective shipper will obtain all associated regulatory approvals in a timely manner. This determination of service requests that cannot be satisfied from attrition capacity is done by reviewing the queue and conducting an overall assessment of supply availability and market demand ("macro study of supply and market").

Westcoast then forwards a firm service agreement to the prospective shipper for a term sufficient to ensure the financing of the facilities expansion. The prospective shipper must execute and return the firm service agreement within 21 days. Westcoast then sizes the facilities expansion to the least of its overall assessment of supply availability, market demand or the amount of expansion capacity subscribed for as evidenced by executed service agreements. If macro market or supply are the determining factors, expansion capacity, when approved, would be allocated on a first-come-first-served basis. Upon approval by the Board of the facilities expansion, Westcoast reorders the queue and advances to the head of the queue, in the order of their original entry into the queue, those shippers who have executed an agreement and who will be provided service as a result of the facilities expansion.

In its application, Westcoast indicated that it would continue to assess the need for facilities expansion in this fashion. However, Westcoast proposed, as agreed to by the subcommittee, that a prospective shipper in the queue for whom additional pipeline capacity will have to be constructed to provide the service requested (an "expansion shipper") be required to enter into a ten-year service agreement. Along with executing a ten-year firm service agreement, an expansion shipper would be required to submit information sufficient to demonstrate that it has a firm supply and a firm market and provide a plan for the acquisition of upstream and downstream transportation for the full ten-year term. The supply information to be provided at this stage would include specific established reserves, deliverability, shrinkage, a supply/demand balance and reconfirmation of no double dedication. The market information would include location, requirements and a reconfirmation of no double dedication.

However, Westcoast was unable to reach a consensus with its shippers and other concerned parties on the period for which this gas supply and market information is to be provided to the Company in support of a facility expansion application (refer to section 9.2.2.3, "Period for which Information is Required for Expansion Service Agreements").

Views of Intervenors

COFI, CAPP, Husky Oil Operations Ltd. ("Husky"), Pan-Alberta Gas Ltd. and Northwest Pacific Energy Marketing Inc. ("NORPAC") and Unocal Canada Ltd. ("Unocal") fully supported the concept of progressive rigour as a means of reducing the current lengthy queues for service and of enhancing the credibility of these queues. They also concurred with the proposed changes to Westcoast's Q&A policy which are designed to put the concept of progressive rigour into practice, as described in subsections 9.2.1.1 to 9.2.1.5 with the exception of the time limits associated with the first and second requirements for supporting information. Parties which supported a revised notice period for exercising renewal rights of 13 months, including CAPP and Unocal, proposed that the time limit for the first and second supporting information requirement should be 18 months and 12 months prior to the requested service commencement date, respectively.

Views of the Board

The Board recognizes that the current queuing procedures and access criteria allow potential shippers to enter a service queue and stay in the queue having met few requirements. As a result, some potential shippers have been making service requests which are beyond legitimate and foreseeable service requirements. The Board agrees with parties that the resulting situation of unreasonably long queues must be rectified. The Board agrees with the changes to the Q&A policy for Zones 3 and 4 proposed by Westcoast and discussed in sections 9.2.1.1 to 9.2.1.5, with the exception of the proposed time limits for providing supporting information to Westcoast. Regarding the latter, given the Board's decision concerning contract renewal notice period in section 9.3.2, the Board finds 18 months prior to the requested service commencement date for meeting the first supporting information requirement and 12 months prior to the in-service date for the second requirement appropriate.

The Board is of the opinion that these changes to the Q&A policy will legitimize the queues by reducing queue speculation and, consequently, the length of these queues. This should assist Westcoast in planning new facilities and give potential shippers greater assurance that service will be available on a timely basis.

Similarly, the Board agrees with the changes proposed for Zones 1 and 2 which provide for the simultaneous offer of attrition capacity to prospective shippers in the Zone 1 and 2 queues as well as those changes which are required to maintain matching service provisions.

Decision

With respect to changes to the queuing procedures and access criteria for Zone 3 and Zone 4 proposed by Westcoast to implement the concept of progressive rigour and which were not contested by parties, the Board approves the requested amendments regarding information required upon entry to the queue, supporting information - first requirement, supporting information - second requirement, acceptance of offered service and facilities expansion.

Regarding the time limit for providing supporting information to Westcoast, in the light of the Board's decision concerning contract renewal notice period, the Board directs that 18 months prior to the requested service commencement date, the prospective shipper shall provide Westcoast with information pertaining to supporting information - first requirement and that 12 months prior to the requested service commencement date, information pertaining to supporting information - second requirement shall be provided.

Regarding Zone 1 and Zone 2 service, the Board approves Westcoast's proposal to offer capacity which is available or will become available simultaneously to more than one of the prospective shippers in the queue, with each such offer being conditional upon the failure of prospective shippers occupying higher positions in the queue to take up the capacity offered to them. As well, the Board approves the changes proposed by Westcoast which are required to maintain the matching service provisions.

9.2.1.6 Assignment of Queue Positions

The current Q&A policy specifies that positions in a service queue are not assignable. In this application, Westcoast proposed that, should the gas reserves or market assets dedicated to a queue position be sold, the purchaser may assume the queue position of the seller. Westcoast indicated that this provision is not intended to encourage the trading of queue positions.

The Company's proposal regarding assignment of queue position was agreed to by the subcommittee and during this proceeding no intervenor objected to it.

Views of the Board

The Board is of the view that Westcoast's proposal to permit assignment of queue positions when the underlying gas reserves or market assets are sold is sensible.

Decision

The Board approves Westcoast's proposal to allow a seller of gas reserves or market assets dedicated to a particular queue position to assign that queue position to the purchaser of the reserves or market assets.

9.2.2 Contested Issues

9.2.2.1 Queue Entry Fee

Under the current Q&A policy, no queue entry fee is imposed on a potential shipper. Westcoast proposed that a request for service submitted by a prospective shipper must be accompanied by a deposit equivalent to the daily demand toll applicable to the Zones 3 and 4 services requested by the prospective shipper. For example, based on the applied-for tolls for 1993, Westcoast indicated that the queue entry fee for 10 MMcf of T-South-Export service and of T-North service would be \$2,060 and

\$645, respectively. The purpose of the proposed queue entry fee is to dissuade queue speculators and to reduce the length of the current queues for service.

Westcoast explained that the deposit would be used by Westcoast to reduce the unfunded debt component of its utility capital structure and would be credited, without interest, against the first month's demand charge payable by the prospective shipper when service commences. Westcoast indicated that the deposit would be returned to the prospective shipper without interest on a pro rata basis to the extent that the prospective shipper reduces the amount of requested service at any time prior to the day it is required to comply with "Supporting Information - First Requirement". The deposit would be forfeited on a pro rata basis to the extent that the prospective shipper reduced the amount of requested service at any time after the day it is required to comply with "Supporting Information - First Requirement" or was otherwise removed from the queue, e.g., if the requested service was offered by Westcoast but declined by the prospective shipper.

Westcoast acknowledged that, while the level of the queue entry fee required to dissuade queue speculators was a matter of judgement, it was prepared to start with a fee based on the daily demand toll which it believed would be large enough to dissuade queue speculators without being onerous. Westcoast proposed to monitor the impact of such a fee on the length of the queues over time.

Views of Intervenors

BC Gas supported the concept of a queue entry fee. While it did not make a specific proposal, BC Gas recommended that a higher fee than the daily demand charge be applied to dissuade speculators and to reduce the size of the artificial queues for Zones 3 and 4. Although it supported the daily demand toll as the minimum acceptable amount, BC Gas recommended incremental increases in queue entry fees if the queues are not shortened as a result of the progressive rigour measures proposed by Westcoast.

COFI submitted that there is currently no disincentive for queue speculation since prospective shippers can occupy a queue position at no cost. COFI proposed that the fee should initially be set at the daily demand charge for the requested service and that the appropriateness of that fee level should be examined in a future proceeding based upon actual operating experience.

NORPAC, Unocal, and the Province of British Columbia supported the imposition of a queue entry fee as proposed by Westcoast. These parties similarly agreed that the effect of the proposed fee on reducing the size of the queues should be monitored to assess the need to increase the fee at some future date.

Views of the Board

The Board concurs that speculative requests for service in Zones 3 and 4 should be deterred. The Board is of the view that the adoption of a queue entry fee may assist in discouraging speculative queue entries and that a deposit equivalent to the daily demand toll should be implemented. The Board also notes that Westcoast and other parties undertook to monitor the efficacy of the proposed queue entry fee in reducing speculative requests for service.

The Board agrees with Westcoast's proposals for administering the queue entry fee. However, in light of the Board's decision concerning contract renewal notice period, the Board finds that the cut-off date for determining whether a deposit would be repaid by Westcoast or forfeited by the prospective shipper should be consistent with the time limit approved by the Board for "Supporting Information - First Requirement".

Decision

The Board approves Westcoast's proposal that the Request for Service Form submitted to Westcoast by a prospective shipper requesting Zone 3 or Zone 4 service be accompanied by a queue entry fee equivalent to the daily demand toll applicable to the requested service. The Board also approves Westcoast's proposed procedures for administering the queue entry fees.

9.2.2.2 Service Accepted at a Date Earlier than Identified in the Request for Service Form

Westcoast noted that, based on the principle of first-come-first-served, it is sometimes in a position to offer service to a prospective shipper commencing on a date earlier than that identified in the Request for Service Form. Westcoast proposed that if the prospective shipper was prepared to accept the service, it had to provide Westcoast with the information required on gas supply or market related to the term of service offered. In the Company's opinion, this would ensure that the service is being made available to a shipper in need of it.

Views of Intervenors

COFI and BC Gas argued that a shipper should be permitted to accept service at an earlier date without having to demonstrate supply or market information in support of the revised transportation term. COFI submitted that the commitment to pay the demand charge should be a sufficient indication of the need for that service.

Other intervenors were not opposed to Westcoast's position with respect to requiring the appropriate level of information for service accepted at a date earlier than that originally requested.

Views of the Board

The Board is of the view that a prospective shipper should provide Westcoast with gas supply or market information relating to the term of service offered if it accepts the service at an earlier date than that specified in the original request for service form. In the Board's opinion, this would be consistent with the objectives of reducing queue speculation and optimizing allocation of pipeline capacity.

Decision

The Board approves Westcoast's proposal that, when service is offered at an earlier date than that identified in the original Request for Service Form, prospective shippers provide the Company with the information required on gas supply or market related to the term of service offered.

9.2.2.3 Period for which Information is Required for Expansion Service Agreements

As discussed in section 9.2.1.5, while participants in the subcommittee agreed that, in support of a facilities expansion, an expansion shipper should contract for a minimum ten-year term and should demonstrate that it has a firm gas supply and a firm market, there was no agreement with respect to the period for which gas supply and market information should be provided to Westcoast.

Westcoast proposed that an expansion shipper with a ten-year gas supply should be required to demonstrate the existence of a market requirement for at least two years or, conversely, that an expansion shipper representing a market for ten years should be required to demonstrate a two-year gas supply. This proposal was referred to as the 10-10 & 2 approach. Westcoast believed the 10-10 & 2 approach would be the minimum required to allow Westcoast to assess the gas supply and markets underpinning a facility expansion and to ensure that service is allocated to those parties who have a real need for the capacity. Westcoast also believed that this approach reflects current contracting practices.

Westcoast added that, notwithstanding the requirement that an expansion shipper execute a minimum ten-year expansion service agreement and the requirement to demonstrate long-term gas supply or long-term gas market arrangements, it would not proceed with a facilities expansion unless such an expansion could be supported by its macro gas supply and market studies for the full ten-year period.

Views of Intervenors

BC Gas, NORPAC and Unocal supported Westcoast's proposal. COFI recommended a 10-10 & 1 approach which, in its opinion, would give Westcoast adequate assurance of the long-term nature of the shipper's commitment to the pipeline system and is more reflective of current market realities. Husky submitted that it was prepared to support Westcoast's 10-10 & 2 approach on the understanding that Westcoast would construct facilities in a timely fashion for a specified in-service date. In the alternative, Husky suggested a 10-10-10 approach which would require expansion shippers to execute 10-year firm service agreements and to provide Westcoast with both the specified gas supply and market information for the 10-year period. Husky explained that, while the 10-10 & 2 approach would significantly reduce the uncertainty regarding the availability and timing of pipeline capacity, it would not reduce the risk faced by Westcoast that a vast majority of its capacity comes up for renewal annually and that shippers may choose not to renew their contracts on short notice ("base case risk"). Further, existing shippers are only required to sign one year contracts which have what amounts to perpetual renewal rights, while expansion shippers must contract for ten years. Husky argued that there is, consequently, an inequitable allocation of risks and obligations between existing and expansion shippers.

The Province of British Columbia argued for a 10-10-10 approach, stating that anything less would result in an unreasonable shift in financial risk to long-term system users resulting from the possible over-expansion of the Westcoast system. The Province argued that such over-expansion would result in lower netbacks to British Columbia producers and in lost revenue to the Province.

Views of the Board

The Board agrees with Westcoast's 10-10 & 2 proposal. The Board is of the view that the link between the requirement to execute a minimum ten-year service agreement and to demonstrate either the existence of ten years of gas supply and two years of market requirements, or ten years of market requirements and two years of gas supply, will go a long way towards reducing queue speculation and providing Westcoast with a means to properly assess the need for facility expansion based upon legitimate service requests.

The Board has not been persuaded that the alternative 10-10-10 approach would provide significant additional assurance that the expansion capacity is needed.

Decision

The Board approves Westcoast's proposal requiring an expansion shipper representing a ten-year gas supply to demonstrate the existence of a market requirement of at least two years and an expansion shipper having a market for ten years to show a gas supply for a minimum of two years.

9.2.3 Transitional Provisions

Westcoast acknowledged that it had not proposed transitional provisions setting out the rights and obligations of prospective shippers already in the queue in the event that it received Board authorization to amend its Q&A policy as applied-for. However, Westcoast stated that all prospective shippers in existing queues would be given the opportunity to comply with the requirements of the amended policy and retain their queue positions. Once the Board renders its decisions, Westcoast intends to establish, among other things, a date by which new requirements are to be met.

Views of the Board

In light of the large number of tariff changes concerning Westcoast's Q&A policy which the Board intends to approve, the Board is of the view that prospective shippers already in the queue should be given a reasonable length of time to comply with the amended requirements and thereby retain their position in the queue.

Decision

The Board directs Westcoast to include transitional provisions in the tariffs it proposes, for Board approval, reflecting these decisions. These transitional provisions should provide for a reasonable length of time for prospective shippers already in the queue to comply with the amended queuing procedures and access criteria.

9.3 Minimum Term for Firm Service and Renewal Rights

9.3.1 Minimum Contract Term

Westcoast's current practice is to execute firm service agreements with a minimum term of one year or to 31 October of the current gas year. The Company's current tariff allows a shipper which has contracted for firm service the right to renew its agreement upon giving Westcoast not less than six months prior notice that it wishes to extend the term of the agreement. Westcoast noted that 80 percent of the firm service capacity in Zone 4 is held under one-year, renewable service agreements. Westcoast stated that this preponderance of one-year service agreements has caused extensive public scrutiny of its expansion applications as some intervenors have not been confident that existing one-year service agreements, making up a large part of Westcoast's base case, will all be renewed.

Westcoast submitted that the short-term nature of its service agreements, coupled with the shipper's automatic right to renew, gives the shipper perpetual rights to service. This has created the situation where prospective shippers requiring service have little or no certainty that attrition capacity will become available or that new capacity will be constructed to allow Westcoast to satisfy their service requests.

Westcoast pointed out that this uncertainty prevents it from achieving the objectives for queuing and access discussed in section 9.2. Westcoast submitted that longer-term service agreements would result in more prudent system planning by reducing its base case risk, and would provide greater confidence that its facilities will be used and useful over the long term. Westcoast proposed that to encourage shippers to contract for longer-term service, renewal rights should only be available for terms of service of five years or more. Westcoast acknowledged that its choice of five years was a matter of judgement and that it reflects, in part, its proposal to require an expansion shipper to execute a ten-year firm service agreement in support of a facilities expansion (refer to section 9.2.1.5 "Facility Expansion"). Westcoast believed that there should be an equitable allocation of responsibility and risk between existing and expansion shippers.

Westcoast also proposed that a shipper unable or unwilling to enter into a five-year agreement for Zone 3 or Zone 4 service could enter into a service agreement with a term of between one and four years but that such an agreement would have no renewal rights.

Westcoast also proposed that the contract term for firm service agreements for all tolling zones shall be no less than one year in duration unless the contract expires on 31 October or service was made temporarily available by Westcoast as a result of a delayed start date or a future step-up in the level of service of another shipper.

Views of Intervenors

CAPP argued that the existing Q&A policy is not working and this is evidenced by the fact that Zone 4 has a queue which is over one and a half times the existing Westcoast capacity. CAPP argued that the present situation creates uncertainty as to when service will be available and makes retention of the status quo unacceptable. While it supports a change to the Q&A policy, CAPP submitted that such a

change should take into consideration the concerns of the gas producers and marketers and should be made in a gradual way so that commercial arrangements already in place are not disrupted.

CAPP noted that the five-fold increase in the minimum contract term proposed by Westcoast was excessive and has received very little support. CAPP believed that Westcoast's proposal is unnecessary and inconsistent with current market realities. CAPP believed that an increase in the current one-year minimum term is necessary to provide more certainty to the Westcoast system and that an increase to two years is appropriate for this purpose. CAPP submitted that, while some shippers have long-term gas markets and could elect to contract for periods longer than two years, a number of shippers have made shorter-term business arrangements and would have difficulty committing for a minimum five-year term.

CAPP also submitted that when a shipper makes a commitment for firm service, the only available toll information is with respect to the annual tolls then in place. CAPP therefore believed that by contracting for a longer term, a shipper would be required to assume a greater risk associated with the uncertainty of future tolls escalation.

CAPP concluded that its two-year minimum term with a phasing in provision is appropriate and that anything longer than that would create problems for the Westcoast shippers. CAPP also concluded that Westcoast has failed to establish a need for a five-fold increase in the minimum term and, accordingly, recommended that Westcoast's request be denied.

CAPP did not support NORPAC's bidding proposal because it believed that bidding would result in parties with the most financial resources gaining access to the system and that this would therefore not result in fair and equitable access.

While BC Gas expressed concern over the length and the reliability of the existing queues for Westcoast service, it submitted that the Board should confirm the existing one-year minimum contract term with renewal rights. BC Gas argued that a move to a minimum five-year term with renewal rights would be unduly discriminatory and anti-competitive, and would result in an unnecessary intrusion into the contracting practices of producers and gas sales customers. BC Gas submitted that by implementing the concept of progressive rigour and by providing for a significant queue entry fee, Westcoast's minimum five-year term would not be needed to achieve the objectives of queue reduction and system access certainty. BC Gas also opposed NORPAC's "open season" concept to allocate capacity since it would violate the principle of first-come-first-served, allow bumping of short-term markets in favour of long-term markets, and confiscate capacity allocated to existing markets.

COFI argued that the existing one-year minimum term with renewal rights should be maintained since it has been this type of one-year contract that has recently kept the Westcoast system operating at capacity. In COFI's view, five-year service agreements would not provide any greater assurance than one-year agreements that facilities will be used and useful over the long term because pipeline facilities have an economic life of fifty years or more. Moreover, retaining the one-year service agreements would allow its members to change their gas supply sources, thereby ensuring access to the most-competitively priced gas supply. In this regard, COFI submitted that under most gas purchase contracts, gas prices are negotiated only months in advance of a contract year and are usually only set for one year.

Husky supported Westcoast's five-year proposal for the same reasons cited by Westcoast. This support was provided on the assumption that the concept of progressive rigour would be approved by the Board. Husky argued that the one-year renewable service agreements create base case risk which has resulted in Westcoast's reluctance to construct facilities for those in the queue. Specifically, Husky noted that Westcoast's current policy has contributed to a lack of Westcoast capacity to serve incremental, high-value, long-term markets for gas from British Columbia. Husky noted that the lack of transportation capacity and the inability to get gas to market may affect Husky's exploration and development programs beyond 1993.

Husky explained that it is currently in the Westcoast queue for service but that there is no certainty that either attrition capacity or expansion capacity will become available. Husky indicated that it has had to forego market opportunities because of its inability to satisfy the concerns of potential customers with respect to the availability of transportation capacity on the Westcoast system. Husky argued that any change to a minimum contract of less than five years would be "cosmetic" and, for that reason, did not support the two-year proposal put forth by CAPP.

Husky argued that there is nothing about the five-year minimum term that is inconsistent with the current marketplace, noting that a five-year service agreement does not prevent a shipper from entering into a gas purchase or a gas sales contract for a shorter term or, alternatively, assigning any unwanted capacity. Husky noted that transportation capacity assignments between the two Zone 3 mainlines will allow BC Gas and British Columbia industrial shippers to switch between these two supply points, thus preserving the advantages associated with gas supply diversity.

With respect to the NORPAC bidding proposal, Husky indicated that, while it did not have a problem with such a proposal, it was not sure that the term of service was the appropriate bidding mechanism to allocate capacity.

NORPAC argued that one-year contracts with automatic renewal rights lead to uncertainty in predicting the amount of expansion capacity needed because Westcoast has had difficulties in determining attrition capacity. NORPAC explained that the inability to access the Westcoast system has resulted in its relying on assignment of capacity. This puts it at risk of losing markets since assigned capacity is only available on a short-term basis. NORPAC stated that it is currently in the advanced stages of negotiating long-term gas sales arrangements which are conditional upon acquiring firm, long-term transportation service on the Westcoast system. NORPAC concluded that, given its current position in the Westcoast queue, the chances are slight that it will obtain the required Westcoast capacity under the current Q&A policy. NORPAC stated that the five-year term proposed by Westcoast is both arbitrary and inflexible and not responsive to market conditions.

NORPAC proposed that, instead of imposing a fixed minimum contract term with renewal rights, a bidding mechanism should be developed to allocate capacity based on the length of term of the contract. Under this system, there would be no minimum contract term to which renewal rights would apply. Instead, a shipper holding capacity would be able to renew its service contract as long as it was prepared to meet the conditions that prevailed in the market at the time the contract was renewed.

NORPAC proposed that during a transitional period, shippers would be permitted to set the initial contract term to meet their needs. After the transitional phase, at a specified time before the expiration

of the service contract, capacity would be allocated either to the existing shipper or prospective shippers in the queue through a bidding process. Capacity would be awarded on the basis of the length of term of the bid. Tied bids would be resolved by reference to queue positions, with the existing capacity holder's bid taking precedence over all bids of the same term. Under the proposed bidding process the maximum term would be five years.

NORPAC believed that the principal advantage of the bidding proposal would be its flexibility since current or prospective shippers would determine the maximum term for which they are able to hold capacity and bid accordingly. NORPAC argued that its proposal substitutes the collective judgement of the marketplace for the individual judgement of parties with vested interests in decisions regarding the appropriate contract term. NORPAC also argued that the bidding mechanism would enable Westcoast to better evaluate the need for expansions since bids, which are consistently at the high end of the five-year range, would tend to support the need for system expansion whereas, if short-term bids were more prevalent, this would indicate that shippers were uncertain about future need for capacity. NORPAC submitted that in either case, Westcoast's ability to assess the need for additional facilities would be enhanced.

NORPAC argued that its bidding proposal does not violate the principle of first-come-first-served since it would grant service to those shippers who entered the queue first, provided they were willing to commit to paying for the service for a period that is consistent with the demand for pipeline capacity.

Unocal, which favoured a minimum term of two years, believed that the system should gradually move toward longer term contracts to provide more security to the Westcoast system. Unocal submitted that it would be too onerous for shippers to commit to longer term contracts in a market environment where most gas sales and gas purchase arrangements are currently being concluded on a short-term basis.

Although the Province of British Columbia did not adduce evidence in this proceeding to support its position on this issue, in argument it advocated a minimum three-year contract term. The Province believed that this would help to reduce the size of the lengthy queues and help to properly allocate risk between the long-term and the short-term shippers and between those with existing capacity and those wanting capacity. The Province submitted that its proposal would not disrupt the marketplace and the contractual arrangements that have been established.

Westcoast's Reply Comments

In response to the concerns expressed by CAPP, COFI and BC Gas regarding minimum contract term with renewal rights, Westcoast argued that if the markets currently being served by BC Gas, or associated with COFI members, are truly long term, or if the associated gas supply is likewise long term, as these parties argued, then increasing the minimum term to five years should have no significant impact on the existing shippers.

Westcoast noted that BC Gas has long-term gas supply contracts to serve its core market customers and that the average term of those contracts is almost thirteen years. Westcoast further noted that under its phase-in proposal, BC Gas would acquire the right to renew, or not to renew, 20 percent of its Zone 3 and 4 capacity on an annual basis (refer to section 9.3.3, Phase-in Provisions). Westcoast pointed out that BC Gas would have to experience displacement of more than 20 percent of its core

market in one year before it would incur any unabsorbed demand charges associated with any unused Westcoast capacity. Westcoast concluded that any idled capacity could be assigned by BC Gas or identified as attrition capacity to serve incremental British Columbia gas markets.

In response to COFI's concern that a switch to longer term service agreements would reduce the flexibility of COFI's members to contract with other producers at alternative field locations, Westcoast argued that the proposed amendments to its Q&A policy only relate to Zones 3 and 4 and, therefore, would not reduce any flexibility that those members may have now to switch the location of their gas supply or to contract with other gas producers. Westcoast pointed out that COFI members do not now have the ability to switch their Zone 3 receipt point since service agreements do not give shippers the right to change receipt points within the zone. Westcoast noted that such a switch could only occur if there was no queue for service at the requested receipt point.

Westcoast indicated that it would be prepared to consider NORPAC's bidding proposal, but it would not propose such a change without a consultative process. Westcoast noted that it had not discussed the bidding mechanism with its shippers and other intervenors.

Views of the Board

The Board shares the view of some parties that the preponderance of one-year service agreements with renewal rights creates uncertainty with respect to the level at which Westcoast's existing service agreements will be renewed. The Board concurs with the opinion of these parties that this uncertainty creates difficulties for Westcoast in assessing the amount of available attrition capacity and, in turn, in properly sizing future facility expansions.

While the Board agrees that retention of the status quo would not be desirable in these circumstances, it has not been persuaded that a five-fold increase in the minimum term, as proposed by Westcoast, is required. The Board shares the opinion expressed by some intervenors that such a significant shift does not reflect the contracting realities of the market place and is not responsive to the concerns expressed by parties.

The Board considers CAPP's proposal to increase the minimum term with renewal rights to two years with a phase-in provision to be appropriate. The Board believes that such a minimum term takes into account the interests of both Westcoast and its shippers. The Board also believes that a gradual change from the status quo is appropriate to avoid any possible disruption in the market place. As with any change of this nature, the Board is satisfied that Westcoast and its shippers will monitor the situation to determine whether the new minimum contract term of two years is having the desired effect in providing timeliness and certainty of service and ensuring optimum system sizing and utilization of the Westcoast system.

The Board was not persuaded that the NORPAC bidding for capacity proposal would have the desired result of reducing uncertainty with respect to the need for pipeline capacity expansion, particularly in the short run. Although a bidding mechanism may have some merit in terms of allocating system capacity efficiently over the longer term, the Board recognizes Husky's concern that the length of the term of the contract may not be the most appropriate criterion to determine the value that shippers place on the service.

The Board also notes the concern expressed by several parties that they did not have an opportunity to thoroughly review and discuss the NORPAC bidding proposal with other intervenors.

Regarding minimum contract term, the Board considers as reasonable Westcoast's proposal that contract term for firm service agreement shall be no less than one year unless the contract expires on 31 October or service was made available temporarily. In taking this view, the Board recognizes that this is already the current practice on the Westcoast system.

Decision

The Board directs that contracts for Zone 3 and Zone 4 firm service with the right to renew should have a term of no less than two years in duration. Contracts for Zone 1 and Zone 2 firm service with a term of no less than one year will continue to have renewal rights.

The Board directs that, for all tolling zones, a firm service agreement should have a term of no less than one year in duration unless (1) such term, or any subsequent extension thereof, expires on 31 October of any year; or (2) such service was made temporarily available as a result of the delayed start-up of or a future step-up provision in another shipper's firm service agreement.

9.3.2 Notice Period For Exercising Renewal Rights

Westcoast proposed that a shipper should have the right to extend the term specified in a Zone 3 or Zone 4 firm service contract by giving Westcoast notice not less than eighteen months prior to the expiry date of the current term as opposed to the six months currently provided for in its tariff.

Westcoast explained that the current six-month notice period was incompatible with its planning period or design cycle for facility expansion. The identification and allocating of attrition capacity are prerequisites to facility planning and to filing facility expansion applications. Westcoast stated that its current design cycle for a looping project is 16 months and noted that, except for a single compressor unit at Station 4B, most of its future capacity additions would take place through looping. Further, it requires two months to assess the availability of attrition capacity and to offer that attrition capacity to those in the queue, before it begins the 16-month design cycle.

Westcoast submitted that the need for a 16-month design cycle for the construction of additional looping was not seriously challenged, adding that the timing of many of the steps in its design cycle (e.g., environmental assessment, land acquisition, and obtaining regulatory approvals) are largely controlled by other parties and, therefore, beyond its immediate control. Westcoast concluded that there is very little opportunity to reduce its current 16-month design cycle.

Westcoast added that, while it could accept a minimum contract term with renewal rights for a period of less than five years, it was not prepared to compromise on the 18-month renewal notice period, noting that 18 months is required to fully accommodate its 16-month design cycle.

Views of Intervenors

CAPP, Husky, NORPAC, Unocal, CanWest and EUG all agreed that a link exists between the renewal notice period and Westcoast's facility design cycle and that an extension of the renewal notice period was therefore warranted.

CAPP submitted that the current six-month notice period provides Westcoast with insufficient time to assess the need for, and to properly size, a facility expansion. CAPP therefore recommended moving to a 13-month renewal notice period. CAPP argued that its proposal was appropriate since it would, among other things, recognize the following factors:

- the need for British Columbia gas producers to be able to take into account the drilling results of both the winter and summer drilling seasons to ensure that the most-current test data are available at the time they must decide whether or not to renew their Westcoast service agreements;
- the difficulty in assessing gas deliverability 18 months in advance, should decline rates be high or unpredictable;
- the current gas market realities which reflect short-term contracting practices;
- the increase in risk and liability to the Westcoast shippers associated with extending the renewal notice period beyond the 13 months;
- Westcoast incurs few substantial expenditures in the early months of its design cycle;
- the uncertainty regarding toll escalation associated with a longer renewal notice period and a longer minimum contract term; and
- the need for Westcoast to have an adequate notice period within which to make the necessary validity check for any available attrition capacity resulting from the non-renewal of service agreements.

CAPP further argued that Westcoast could function with a 13-month renewal notice and that this could be accomplished by Westcoast conducting some preliminary aspects of the design cycle in advance and by taking advantage of the fact that certain information in support of a facilities application has to be provided to Westcoast 18 months in advance in accordance with the concept of progressive rigour. Finally, CAPP submitted that anything beyond 13 months would be unfair, inequitable, and contrary to the interests of the Westcoast shippers.

CanWest, Unocal and EUG also supported a 13-month notice period, noting that this is a reasonable compromise given the respective planning requirements of Westcoast and its shippers.

The Province of British Columbia argued that a 13-month renewal notice would be adequate for Westcoast to obtain the necessary regulatory approvals and carry out its planning process. The Province indicated that it was prepared to discuss with Westcoast ways of streamlining the regulatory planning process and the procedures that are currently in place so that Westcoast could shorten its facilities planning cycle.

Husky supported Westcoast's 18-month proposal given Westcoast's 16-month design cycle. NORPAC stated that it would support whatever renewal notice period the Board found to be fair and reasonable.

BC Gas and COFI expressed the view that the current six-month renewal notice period remains appropriate. BC Gas argued that the current six-month period reflects the current gas market and the current gas purchase and sales contracting practices. Specifically, it submitted that there is no market evidence to support extending the notice renewal period and that it is inappropriate to tie pipeline construction and design cycle issues to the issue of contractual rights. BC Gas noted that in the last two years most shippers have elected to renew their one-year contracts and that, as a result, very little attrition capacity has become available in Zones 3 and 4. COFI maintained that, as with the one-year minimum term to which renewal rights are attached, the current six-month renewal notice period appears to be working. COFI expressed doubt that Westcoast needs any greater certainty.

Views of The Board

The Board accepts Westcoast's position that the design cycle for most of the Company's major capital projects is in the order of 16 months. In the light of Westcoast's design cycle and given that a vast majority of Westcoast's capacity comes up for renewal annually, the Board is persuaded that the current six-month notice period for renewal does not give Westcoast sufficient time to identify attrition capacity that could become available in periods of capacity expansion. As a result, Westcoast is hampered in carrying out its facilities planning activities and allocating its capacity. In the Board's view, extending the notice period for exercising renewal rights would assist Westcoast in determining the optimal size of its facility expansion and would contribute to the optimal utilization of the Westcoast system.

However, the Board is not persuaded that it should prescribe a notice period for exercising renewal rights which fully accommodates the facilities design cycle of the Company, having regard to the fact that many of the activities undertaken by Westcoast at the early stages of its design cycle are of a preliminary nature. Moreover, the Board is cognizant of the fact that the current gas market is more supportive of short-term contracting practices. As well, the Board considers it appropriate to give weight to CAPP's submissions which indicated that gas producers would have greater difficulty in assessing gas deliverability, making production decisions and would be exposed to greater operating uncertainties should the renewal notice period be lengthened. The Board also notes the Province's indication of its preparedness to discuss ways of streamlining the regulatory planning process with Westcoast. Having considered all of the evidence before it, the Board is of the view that a 13-month renewal period would serve to alleviate the problem faced by Westcoast of not having sufficient time to identify attrition capacity and would appropriately balance the interests of all concerned parties.

Decision

Subject to the phase-in provisions approved in section 9.3.3, the Board directs that a shipper which has contracted for firm service in Zone 3 and Zone 4 should have the right to renew such service by giving Westcoast not less than 13 months notice prior to the expiry date of the contract term, where such service will expire on or after 31 October 1994.

9.3.3 Phase-in Provisions

In advancing its proposal for an increase in the minimum contract term with renewal rights to five years and the renewal notice period to 18 months, Westcoast also suggested a five-year phase-in period. Westcoast was of the view that if the Board should increase the minimum contract term to less than five years, phasing in the change over the new minimum contract term would still be appropriate.

CAPP also proposed a phase-in period which is tied in to its proposed minimum contract term of two years. Under CAPP's proposal, a shipper will have renewal rights for currently contracted service which will expire on 31 October 1993, if the shipper extends the term of such service for not less than two years on or before 1 May 1993 or, in the alternative, extends 50 percent of such service for a period of one year from the expiry date and the remaining 50 percent for a period of 2 years from the expiry date. CAPP indicated that its phase-in proposal operates in much the same way as Westcoast's proposal and was simply designed to support different periods of time for the minimum contract term and the renewal notice period. The Association submitted that the phase-in approach would avoid unnecessarily disrupting the commercial arrangements that may already be in place for the upcoming gas year.

EUG and CanWest supported CAPP's position. The Province of British Columbia was of the view that any changes to the minimum contract term and the renewal notice period should be phased in and that either the Westcoast or the CAPP proposal would be acceptable.

COFI submitted that it opposed any change to the minimum contract term and the renewal notice period. COFI noted, however, that it would support a phase-in approach if the Board found that longer minimum contract term and renewal notice period were required.

Views of the Board

The Board is of the view that a phase-in period which matches the revised minimum contract term with renewal rights of two years will provide shippers with the required flexibility and minimize the disruption to existing commercial arrangements. The Board notes that no parties were opposed to a phase-in approach and that Westcoast agreed that the phase-in period should correspond to the minimum contract term with renewal rights.

Decision

The Board directs that phase-in provisions for the revised minimum contract term for firm service in Zone 3 and Zone 4 and notice period for exercising renewal rights be implemented as follows:

For service which will expire on or before 31 October 1993, renewal notice should be given to Westcoast no less than 6 months before the expiry date. For service which will expire at any time during the period commencing on 1 November 1993 and ending on 30 October 1994, renewal notice should be given no less than 6 months before the expiry date and in any case no later than 30 September 1993.

A shipper who gives notice to Westcoast as described above shall have the right to extend the term of service, provided that the shipper extends the term of such service for a period of not less than two years or as an alternative, extends 50 percent of such service for a period of 1 year from the expiry date and the other 50 percent of such service for a period of 2 years from the expiry date.

9.4 Tariff Filing

By letter dated 4 March 1993 (see Appendix II), as requested by a number of parties at the hearing, the Board released its Decision on Queuing, Access and Contract Term in advance of releasing the RH-3-92 Decision on Westcoast's application for 1993 tolls. In the 4 March letter, the Board required Westcoast to file for approval revised tariffs reflecting the Board's decisions set out in the attachment to that letter. Those tariff revisions were to be filed with the Board forthwith and served on intervenors to the RH-3-92 proceeding, shippers and prospective shippers.

Chapter 10

Interim and Final Tolls

By Order TGI-6-92 dated 18 December 1992, the Board approved tolls that the Company may charge for services provided to customers on the Westcoast system on an interim basis effective 1 January 1993. These interim tolls were designed to yield the applied-for increase of 2.1 percent for a typical service movement from Zone 1 to the export point of Zone 4.

As it did for 1992, the Board is of the view that final tolls for 1993 should be uniform, i.e., be charged at the same level throughout 1993. The Board has estimated that final tolls for 1993 set in this manner would be slightly lower than the applied-for tolls and would represent an increase of 1.9 percent over 1992 tolls for a typical service movement from Zone 1 to the point of export in Zone 4. Accordingly, Westcoast will be required to refund to its customers the difference between the tolls resulting from these Reasons for Decision and those approved in Order TGI-6-92, together with carrying charges at the approved rate of return on rate base.

Decision

The Board intends to approve final tolls for 1993 which are uniform throughout the 1993 calendar year. Once final tolls for 1993 have been approved, Westcoast is required to refund to its customers, the difference between the tolls resulting from these Reasons for Decision and those approved in Order TGI-6-92, together with carrying charges at the rate of return on rate base approved for 1993.

Chapter 11

Further Filings by Westcoast

In these Reasons for Decision, the Board has estimated the impact of its decisions on 1993 cost of service and tolls on the basis of information available to it in this proceeding. The Board has not included a final approved rate base, cost of service or tolls for the 1993 test year in these Reasons for Decision.

Accordingly, Westcoast is required to file for Board approval revised information on rate base and cost of service together with supporting schedules reflecting the Board's decisions in Chapters 4 through 8 and Chapter 10. These revisions and the tolls and tariffs are to be filed with the Board forthwith and served on intervenors. Westcoast's filings should include detailed explanations and, where necessary, supporting tables or working papers.

Chapter 12

Disposition

The foregoing chapters, together with Order TG-2-93 (Appendix I), constitute our Decision and Reasons for Decision on matters considered in the RH-3-92 proceeding.

C. Bélanger
Presiding Member

R. Illing
Member

R. L. Andrew
Member

Calgary, Alberta
March 1993

Appendix I

Order TG-2-93

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

IN THE MATTER OF an application by Westcoast Energy Inc. ("Westcoast") dated 31 July 1992, as amended, for approval of interim and final tolls beginning 1 January 1993 pursuant to subsection 19(2) and Part IV of the Act and filed with the National Energy Board ("the Board") under File No. 4200-W005-6.

BEFORE the Board on 11 March 1993.

WHEREAS, Westcoast, by application dated 31 July 1992, as amended, applied to the Board for an order or orders under subsection 19(2) and Part IV of the Act fixing just and reasonable tolls that Westcoast may charge, effective 1 January 1993, for raw gas transmission, processing and residue gas transportation services that it provides;

AND WHEREAS the Board, in expectation that it would not render a final decision regarding Westcoast's tolls until sometime in the new year, issued Order TGI-6-92 and approved, on an interim basis, the applied-for tolls which Westcoast may charge effective 1 January 1993;

AND WHEREAS the Board held a public hearing pursuant to Hearing Order RH-3-92, as amended, in Vancouver, British Columbia commencing 16 November 1992 and in Calgary, Alberta;

AND WHEREAS the Board's decisions on the queuing, access and contract term issues considered in the RH-3-92 proceeding were released in a letter dated 4 March 1993;

AND WHEREAS the Board's decisions on other issues considered in this proceeding and its Reasons for Decision on Westcoast's application dated 31 July 1992, as amended, are set out in its RH-3-92 Reasons for Decision dated March 1993 and in this Order;

IT IS ORDERED THAT:

1. Westcoast shall calculate new tolls in accordance with the decisions set out in the RH-3-92 Reasons for Decision and with this Order and shall forthwith file with the Board for approval and serve on all intervenors to the RH-3-92 proceeding, new tariffs implementing these new tolls;

2. Westcoast shall, for accounting, toll-making and tariff purposes, implement procedures to conform with the Board's decisions outlined in the RH-3-92 Reasons for Decision;
3. Order TGI-6-92, which authorized tolls that Westcoast may charge on an interim basis pending a final decision on the above-mentioned application, is revoked and the tolls that have been authorized thereunder are disallowed as of the end of the day on 31 March 1993;
4. Westcoast shall charge on a final basis commencing 1 January 1993, for service other than liquids recovery service, tolls authorized by paragraph 1 of this Order;
5. Westcoast shall continue to charge on an interim basis, the toll for liquids recovery service which has been in effect since 1 January 1993, pending the Board's final disposition of Westcoast's application of 10 February 1993;
6. The Board's decisions set out in the attachment to the letter of the Board dated 4 March 1993 regarding queuing, access and contract term shall take effect upon approval of revised tariffs filed by Westcoast;
7. The Board's decisions set out in its RH-3-92 Reasons for Decision, and the changes to Westcoast's tariffs authorized in this Order are to take effect on a final basis as of 1 January 1993, unless the Board states otherwise;
8. Westcoast is directed to refund that part of the tolls charged by the Company under Order TGI-6-92 which is in excess of the tolls determined by the Board to be just and reasonable in this Order together with carrying charges on the amount so refunded at the rate of return on rate base approved in the RH-3-92 Reasons for Decision;
9. The refund authorized by this Order shall be effected without delay;
10. Westcoast shall file with the Board forthwith, and serve on all interested parties to the RH-3-92 proceeding, new tariffs, including general terms and conditions, and tolls conforming with the decisions set out in the RH-3-92 Reasons for Decision dated March 1993 and with this Order; and
11. Those provisions of Westcoast's tolls and tariffs, or any portion thereof, that are contrary to any provision of the Act, to the Board's RH-3-92 Reasons for Decision dated March 1993 or to any Order of the Board including this Order, are hereby disallowed.

NATIONAL ENERGY BOARD

J.S. Richardson
Secretary

Appendix II

File No. 4200-W005-6

4 March 1993

Mr. A.L. Edgeworth
Senior Vice President
Regulatory Affairs and Marketing
Westcoast Energy Inc.
1333 West Georgia Street
Vancouver, British Columbia
V6E 3K9

Dear Mr Edgeworth:

**Re: Hearing Order RH-3-92
 Westcoast Energy Inc.
 Application for Tolls Effective 1 January 1993**

Attached is the Board's Decision with respect to the Queuing, Access and Contract Term issues considered in the RH-3-92 proceeding. The Board is issuing this Decision in advance of releasing the RH-3-92 Reasons for Decision on Westcoast's application for 1993 tolls as requested by a number of parties at the hearing.

Westcoast is required to file for Board approval revised tariffs reflecting the Board's decisions set out in the attachment to this letter. These tariff revisions are to be filed with the Board forthwith and served on intervenors to the RH-3-92 proceeding.

Westcoast is directed to serve forthwith a copy of this letter, together with the attachment, on all intervenors to the RH-3-92 proceeding and all shippers and prospective shippers on the Westcoast system.

Yours truly,

J.S. Richardson
Secretary

Attach.

**National Energy Board
Decision on the
Queuing, Access and Contract Term Issues
Westcoast Energy Inc.
RH-3-92**

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

IN THE MATTER OF an application by Westcoast Energy Inc. for certain orders respecting its tolls pursuant to subsection 19(2) and Part IV of the *National Energy Board Act*; and

IN THE MATTER OF the National Energy Board Hearing Order RH-3-92.

Heard in Vancouver, British Columbia on 16 to 19 November and in Calgary, Alberta on 25 November 1992.

BEFORE:

C. Bélanger
Presiding Member

R. Illing
Member

R.L. Andrew
Member

The Board's decisions with respect to the Queuing, Access and Contract Term issues considered in the RH-3-92 proceeding are as follows:

(For the convenience of parties, these decisions are identified by the relevant chapter and section headings as they will appear in the RH-3-92 Reasons for Decision.)

9. Queuing, Access and Contract Term

9.1 Background

9.2 Queuing and Access

9.2.1 Uncontested Issues

9.2.1.1 Entry into the Queue

9.2.1.2 Supporting Information - First Requirement

9.2.1.3 Supporting Information - Second Requirement

9.2.1.4 Acceptance of Offered Service

9.2.1.5 Facility Expansion

With respect to changes to the queuing procedures and access criteria for Zone 3 and Zone 4 proposed by Westcoast to implement the concept of progressive rigour and which were not contested by parties, the Board approves the requested amendments regarding information required upon entry to the queue, supporting information - first requirement, supporting information - second requirement, acceptance of offered service and facilities expansion.

Regarding the time limit for providing supporting information to Westcoast, in the light of the Board's decision concerning contract renewal notice period, the Board directs that 18 months prior to the requested service commencement date, the prospective shipper shall provide Westcoast with information pertaining to supporting information - first requirement and that 12 months prior to the requested service commencement date, information pertaining to supporting information - second requirement shall be provided.

Regarding Zone 1 and Zone 2 service, the Board approves Westcoast's proposal to offer capacity which is available or will become available simultaneously to more than one of the prospective shippers in the queue, with each such offer being conditional upon the failure of prospective shippers occupying higher positions in the queue to take up the capacity offered to them. As well, the Board approves the changes proposed by Westcoast which are required to maintain the matching service provisions.

9.2.1.6 Assignment of Queue Positions

The Board approves Westcoast's proposal to allow a seller of gas reserves or market assets dedicated to a particular queue position to assign that queue position to the purchaser of the reserves or market assets.

9.2.2 Contested Issues

9.2.2.1 Queue Entry Fee

The Board approves Westcoast's proposal that the Request for Service Form submitted to Westcoast by a prospective shipper requesting Zone 3 or Zone 4 service be accompanied by a queue entry fee equivalent to the daily demand toll applicable to the requested service. The Board also approves Westcoast's proposed procedures for administering the queue entry fees.

9.2.2.2 Service Accepted at a Date Earlier than Identified in the Request for Service Form

The Board approves Westcoast's proposal that, when service is offered at an earlier date than that identified in the original Request for Service Form, prospective shippers provide the Company with the information required on gas supply or market related to the term of service offered.

9.2.2.3 Period over which Information is Required for Expansion Service Agreements

The Board approves Westcoast's proposal requiring an expansion shipper representing a ten-year gas supply to demonstrate the existence of a market requirement of at least two years and an expansion shipper having a market for ten years to show a gas supply for a minimum of two years.

9.2.3 Transitional Provisions

The Board directs Westcoast to include transitional provisions in the tariffs it proposes, for Board approval, reflecting these decisions. These transitional provisions should provide for a reasonable length of time for prospective shippers already in the queue to comply with the amended queuing procedures and access criteria.

9.3 Minimum Term for Firm Service and Renewal Rights

9.3.1 Minimum Contract Term

The Board directs that contracts for Zone 3 and Zone 4 firm service with the right to renew should have a term of no less than two years in duration. Contracts for Zone 1 and Zone 2 firm service with a term of no less than one year will continue to have renewal rights.

The Board directs that, for all tolling zones, a firm service agreement should have a term of no less than one year in duration unless (1) such term, or any subsequent extension thereof, expires on 31 October of any year; or (2) such service was made temporarily available as a result of the delayed start-up of or a future step-up provision in another shipper's firm service agreement.

9.3.2 Notice Period For Exercising Renewal Rights

Subject to the phase-in provisions approved in section 9.3.3, the Board directs that a shipper which has contracted for firm service in Zone 3 and Zone 4 should have the right to renew such service by giving Westcoast not less than 13 months notice prior to the expiry date of the contract term, where such contract will expire on or after 31 October 1994.

9.3.3 Phase-in Provisions

The Board directs that phase-in provisions for the revised minimum contract term for firm service in Zone 3 and Zone 4 and notice period for exercising renewal rights be implemented as follows:

For service which will expire on or before 31 October 1993, renewal notice should be given to Westcoast no less than 6 months before the expiry date. For service which will expire at any time during the period commencing on 1 November 1993 and ending on 30 October 1994, renewal notice should be given no less than 6 months before the expiry date and in any case no later than 30 September 1993.

A shipper who gives notice to Westcoast as described above shall have the right to extend the term of service, provided that the shipper extends the term of such service for a period of not less than two years or as an alternative, extends 50 percent of such service for a period of 1 year from the expiry date and the other 50 percent of such service for a period of 2 years from the expiry date.

The foregoing decisions constitute our Decision on the Queuing, Access and Contract Term issues considered in the RH-3-92 proceeding.

C. Bélanger
Presiding Member

R. Illing
Member

R.A. Andrew
Member

Calgary, Alberta
March 1993

Appendix III

Order TGI-6-92

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

IN THE MATTER OF an application dated 31 July 1992 by Westcoast Energy Inc. ("Westcoast") for approval of interim and final tolls effective 1 January 1993 pursuant to subsection 19(2) and Part IV of the Act, filed with the Board under File No. 4200-W005-6.

BEFORE the Board on 18 December 1992.

WHEREAS Westcoast has filed an application dated 31 July 1992 ("the application") for approval under Part IV of the Act to change its approved tolls to yield an increase in a typical service movement from Zone 1 to the export point of Zone 4 of 2 percent, effective 1 January 1993;

AND WHEREAS the Board expects that it will not render a decision regarding Westcoast's final tolls for 1993 until sometime in the new year;

IT IS ORDERED, PURSUANT TO SUBSECTION 19(2) AND SECTION 59 OF THE ACT, THAT:

1. Westcoast shall charge tolls based on the 1 January 1993 net tolls listed on Schedule "A", attached to and forming part of this Order, on an interim basis effective 1 January 1993;
2. For accounting and toll-making purposes, the liquid products stabilization and fractionation cost of service deferral account is not renewed for 1993. All other cost of service and revenue deferral accounts authorized in Order TG-6-92 are continued on an interim basis;
3. For accounting and toll-making purposes, Westcoast's request to: (a) record in its cost of service deferral accounts for 1993 any differences between the forecast balances in such deferral accounts charged to its 1993 cost of service and the actual amounts recorded in such accounts at 31 December 1992; and (b) record in its revenue deferral accounts for 1993 any differences between the forecast balances in such deferral accounts credited to its 1993 cost of service and the actual amounts recorded in those accounts at 31 December 1992 is approved on an interim basis;
4. For accounting and toll-making purposes, Westcoast's request to establish, for the 1993 test year only, a deferral account to: (a) record any difference between the actual unfunded debt cost rate and the 9.7 percent cost rate utilized by Westcoast in the application; and (b) record any difference between the 9.7 percent cost rate utilized by Westcoast for the Series O Debentures and the actual cost rate of the issue if these debentures are not issued before the Board renders its decision on the application is approved on an interim basis; and

5. This interim order will remain in effect until the day the Board's order concerning Westcoast's final tolls for 1993 comes into effect.

NATIONAL ENERGY BOARD

J.S. Richardson
Secretary

Schedule "A" to Order TGI-6-92

Tolls To Be Charged On An Interim Basis
Effective 1 January 1993
(Firm Tolls - Demand Portion)

Service	Net Tolls (\$/10 ³ m ³ /d)
Raw Gas Transmission	140.38
Treatment @ 10% Acid Gas	257.08
Liquids Recovery (\$/m ³ /d Liquid Products)	651.31
Liquids Stabilization & Fractionation ¹ (\$/m ³ Liquid Products)	10.841
Transportation North	
Shorthaul	4.55
Longhaul	65.45
Transportation South	
Pacific Northern Gas	50.15
BC Gas Inc.- Inland	123.27
BC Gas Inc. - Lower Mainland	221.48
Export	221.68

1 Charged on a commodity basis

Appendix IV

LIST OF ISSUES

This list is intended to assist parties in defining the issues to be addressed in the hearing. This will not preclude the Board from dealing with other issues normally raised by virtue of the Board's mandate pursuant to Part IV of the *National Energy Board Act*, including rate base, cost of service, rate of return and throughput:

At the hearing, the Board will consider, *inter alia*, the following issues:

1. Whether the currently approved queuing procedures and access criteria remain appropriate.
2. Whether the person year utilization and the salary and wage increases proposed for the 1993 test year are appropriate.
3. What is the appropriate allocation of costs between Westcoast's utility and non-utility activities for the 1993 test year?
4. Whether the cost of service and revenue deferral accounts currently authorized, including the "Swing Gas" and the "Liquid Products Stabilization and Fractionation" deferral accounts, should be continued in the 1993 test year.
5. Whether the Tariff amendments regarding Article 4 - Receipt and Delivery of Gas of the General Terms and Conditions for Service, which became effective 8 October 1992, are appropriate.
6. What is the appropriate method to account for the drawdown and amortization of deferred income taxes?

Appendix V

Westcoast Energy Inc. System Map - Tolling Zones

(See Figure a-1)

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