CANADA

National Energy Board

Reasons for Decision

Trans Québec & Maritimes Pipeline Inc.

RH-2-86

August 1986

Reasons for Decision

In the Matter of

Trans Québec & Maritimes Pipeline Inc.

Application dated 28 February 1986, as revised, for new tolls effective 1 January 1986

RH-2-86, as amended

August 1986

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Abbreviations

Applicant Company TQM	Trans Québec & Maritimes Pipeline Inc.
Board NEB	National Energy Board
CPA	Canadian Petroleum Association
DCF	Discounted Cash Flow
Dome	Dome Petroleum Limited
GMi	Gaz Métropolitain, inc.
GPIS	Gas Plant in Service
IRR	Investors' Required Rate of Return
Ontario	Minister of Energy for Ontario
O&M	Operating and Maintenance
TSE	Toronto Stock Exchange
Test Year	1 January 1986 to 31 December 1986
TCPL	TransCanada PipeLines Limited
March 1984 Reasons for Decision	National Energy Board Reasons for Decision in the Matter of the Application under Part IV of the *National Energy Board Act* of Trans Québec & Maritimes Pipeline Inc. - March 1984
September 1985 Reasons for Decision	National Energy Board Reasons for Decision in the Matter of the Application under Part IV of the *National Energy Board Act* of Trans Québec & Maritimes Pipeline Inc. - September 1985

Recital, Appearances and Submittors

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

IN THE MATTER OF an application by Trans Québec & Maritimes Pipeline Inc. made under Part IV of the Act for certain orders respecting tolls and tariffs, filed with the Board under File No. 1562-T28-6.

HEARD in Ottawa, Ontario on 8, 9, 10 and 11 July 1986.

BEFORE:

J. Farmer	Presiding Member
R.B. Horner, Q.C.	Member
A.B. Gilmour	Member

Appearances/Submittors:

Trans Québec & Maritimes Pipeline Inc. *	L.-A. Leclerc J.H. Francis
Alberta Petroleum Marketing Commission*	W.M. Smith
Canadian Petroleum Association *	C.K. Yates
Dome Petroleum Limited	A.R. Fraser
Foothills Pipe Lines (Yukon) Ltd.	H. Hobbs
Gaz Métropolitain, inc.	R. Meunier
ICG Utilities (Ontario) Ltd *	P.F. Scully
Independent Petroleum Association of Canada	A.S. Hollingworth
le Procureur général du Québec *	J. Giroux
Minister of Energy for Ontario *	J.M. Johnson, Q.C. J.M. Pounder
NOVA, AN ALBERTA CORPORATION	J. Hopwood, Q.C.
The Consumers' Gas Company Ltd. *	J.H. Farrell P.A. Wylie
TransCanada PipeLines Limited *	T. Dalgleish
Union Gas Limited *	D.A. Sulman
Westcoast Transmission Company Limited	R.B. Maas

National Energy Board *	R. Graw

* Appeared at the public hearing held on 8, 9, 10 and 11 July 1986.

Executive Summary

NOTE: This summary is provided solely for the convenience of the reader and does not constitute part of this Decision or the Reasons.

The major decisions of the Board with respect to the TQM toll application are summarized below.

Rate Base

The Board has approved the applied-for rate base, with minor adjustments to gas plant in service, accumulated depreciation and amortization and working capital.

Rate of Return

The Board has approved a rate of return on rate base of 12.94 percent based on the applied-for capital structure of 75 percent debt and 25 percent equity. TQM had requested 13.37 percent. The approved rate reflects the applied-for cost of debt of 12.74 percent and the Board's decision to allow the requested short-term debt deferral account. However, the Board has reduced the 15.25 percent requested rate of return on equity to 13.50 percent.

Cost of Service

The 7.5 and 5.3 percent increases sought by TQM for wages and salaries respectively for the test year have been reduced to 4 percent. The Board has also reduced to 4 percent the 4.5 percent rate utilized by the Company to estimate test year inflation-related increases for certain operating expenses.

The Board has reduced directors' fees and expenses and auditing expenses by $32,600 and $16,000 respectively to reflect the completion of the downscaling program. In addition, the Company's projections for donations and community relations and Quebec capital taxes have been adjusted downwards by $21,800 and $32,000 respectively.

The Board has approved the existing depreciation rates until the end of the 1988 operating year and has directed the Company to file its depreciation study with the Board by 30 June 1989.

As a result of its decisions with respect to rate base, rate of return and cost of service, the Board has allowed a total cost of service of $81,986,000 compared to the $83,898,000 sought by TQM.

Tolls

The Board has approved the applied-for fixed toll design methodology.

As a result of its decisions in this matter, the approved monthly toll is $6,832,000 effective 1 January 1986 compared to the interim monthly toll of $7,216,000.

Chapter 1
The Application

1.1. Background

Trans Québec & Maritimes Pipeline Inc. (TQM), as mandatary for a partnership consisting of Trans-Canada PipeLines Limited (TCPL) and NOVA, AN ALBERTA CORPORATION, operates a pipeline for transmission of natural gas. The pipeline extends from the point of interconnection with the TCPL system at St. Lazare, Quebec to a point just west of Quebec City, a distance of approximately 298 kilometres.

Natural gas is transmitted by TQM for TCPL, although not all such gas is owned by TCPL. Some of the gas owned by TCPL is sold to TQM at the points of interconnection between TQM and the facilities of Gaz Métropolitain, inc. (GMi), a Quebec distributor. TQM immediately sells this gas to the distributor at the same points. The balance of the gas owned by TCPL is sold directly to GMi at the distributor's points of interconnection with TQM. The remainder of the gas transmitted by TQM is owned by GMi.

TCPL is charged the entire toll determined by the National Energy Board (the Board) to be just and reasonable in respect of transmission services rendered by TQM. Charges to TCPL by TQM are, upon approval by the Board, included in TCPL's cost of service as a component of "Transmission by Others". Thus, TQM's toll becomes an integral part of the tolls paid by TCPL's customers.

By Order No. TG-1-85 dated 20 August 1985, the Board ordered TQM to charge, in respect of the transportation service provided to TCPL, a monthly toll of $7.216 million, commencing 1 September 1985. By Order No. TGI-12-85 dated 19 December 1985, the Board ordered that, effective 1 January 1986, the toll established by and the tariff filed in accordance with Order No. TG-1-85 be an interim toll and an interim tariff.

1.2 Application

By an application dated 28 February 1986, TQM applied under Part IV of the *National Energy Board Act* for orders to be effective 1 January 1986 fixing just and reasonable tolls that TQM might charge for or in respect of the transmission of natural gas through its pipeline facilities and disallowing any existing tolls that would be inconsistent with the tolls so fixed.

TQM suggested that its application could be dealt with by way of written submission and that the Board should only hold an oral hearing on matters it found to be not just and reasonable. In support of the written submission approach, TQM included in its application letters from eight interested parties, seven of whom indicated support for or non-objection to written submissions. The remaining party indicated that since TQM is a regulated monopoly utility, its application should be subject to an NEB public hearing. However, it suggested that if a settlement process were to be adopted, the Company's application should be filed with the Board prior to discussions aimed at resolving issues without a hearing.

1.3 Board Procedure

By Order No. RH-2-86 dated 7 April 1986, the Board decided to hold an oral hearing on rate of return, to conclude the hearing with oral argument and reply on all issues, and invited interested parties to identify issues other than rate of return that they wished to address with their preference for dealing with each issue by written submission or oral hearing.

Based on the issues identified by interested parties and their preferred method for dealing with such issues and on its own examination of the application, the Board decided that only rate of return matters would be considered during the oral portion of the hearing. The Board decided to deal with the remaining issues by way of written submission. As discussed in Section 5.1, the issue concerning the transportation by TQM of gas not owned by TCPL was not considered in this proceeding. A complete listing of the issues considered appear in Board Order No. AO-1-RH-2-86 (Appendix II).

Chapter 2
Rate Base

2.1 Introduction

The Applicant filed evidence showing its projected rate base for the 1986 test year. For reasons provided hereafter, the Board has adjusted the test period rate base as shown in Table 2-1.

Table 2-1
Average Rate Base
Test Year 1 January 1986 to 31 December 1986

	Application as Amended ($000)	Adjustments ($000)	Authorized by NEB ($000)
Gas Plant in Service	472,156	(3)	472,153
Accumulated Depreciation & Amortization	(49,352)	(15)	(49,367)
Net Gas Plant	422,804	(18)	422,786
Working Capital	3,677	(11)	3,666
Tax Benefit on Sponsors' Development Costs	(14,251)	-	(14,251)
Total Rate Base	**412,230**	**(29)**	**412,201**

2.2 Gas Plant in Service

TQM projected its average gas plant in service (GPIS) for the test year to be $472.156 million. From evidence filed, the Board reduced GPIS by $3,000 to reflect minor changes in the opening balances of NEB account 463-Measuring and Regulating and NEB account 465-Mains. In addition, accumulated depreciation and amortization was increased by $15,000 to reflect the Board's calculation of the amortization of NEB account 402-Other Project Costs (Appendix VIII).

2.3 Working Capital

TQM projected its working capital for the test year to be $3.677 million. Table 2-2 shows the Board's adjustment to working capital.

Table 2-2
Details of Adjustments to Working Capital

	Application as Amended ($000)	Adjustments ($000)	Authorized by NEB ($000)
Cash	592	(11)	581
Plant Materials	372	-	372
Transmission Line Pack	613	-	613
Prepayments	525	-	525
Downscaling	1,575	-	1,575
Total	**3,677**	**(11)**	3,666

2.3.1 Cash

The adjustment to the cash working capital allowance shown in Table 2-3 is a result of the Board disallowing a portion of TQM's operating and maintenance (O&M) expenses and reducing from 4.5 to 4 percent the escalation factor used to capture general price increases.

Table 2-3
Adjustment to Cash Working Capital Allowance

	($000)
Net Operating and Maintenance Expenses per Applicant	7,109[1]
Salaries and Benefits Disallowed	(48)
Other Operating and Maintenance Expenses Allowed	(84)
Net Operating and Maintenance Expenses Allowed	6,977
1/12 of Net Operating and Maintenance Expenses per Applicant	592
1/12 of Allowed Net Operating and Maintenance Expenses	581
NEB Adjustment	**11**

1 This amount excludes the cost of operating use gas.
2 Reference Section 4.2.1.
3 Reference Section 4.2.2.

2.3.2 Downscaling

In its September 1985 Reasons for Decision, the Board directed the Applicant to segregate the actual downscaling expenses from the forecasted amounts for 1985 and to bring forward any difference between these amounts for consideration in its next toll application. TQM requested that it be allowed to amortize the difference of $632,000 over a 24-month period commencing 1 January 1986. The Board finds the Company's request to be reasonable and approves the proposed amortization. The average unamortized balance may be included in the Applicant's test year rate base.

Chapter 3
Rate of Return

3.1 Introduction

TQM applied for a rate of return on rate base, as amended, of 13.37 percent as compared to the existing approved rate of 13.20 percent. The applied-for capital structure and the associated individual cost rates are shown in Table 3-1.

Table 3-1
Applied-for Rate of Return on Rate Base

	Capital Structure (%)	Cost Rate (%)	Cost Component (%)
Debt	75.0	12.74	9.56
Equity	25.0	15.25	3.81
	100.0		**13.37**

3.2 Capital Structure

As in its prior toll applications, TQM requested that the Board determine the Company's rate of return on rate base by reference to a capital structure consisting of 75 percent debt and 25 percent equity. No intervenor in the current proceedings objected to the use of these ratios in the determination of the Company's allowed rate of return on rate base.

The Board has decided that the applied-for capital structure continues to form an appropriate basis for the determination of the Company's allowed rate of return on rate base.

3.3 Cost of Debt

TQM's debt cost rate is a composite figure determined from a mixture of short-term and long-term financing. The cost rates associated with the Company's long-term, fixed-rate debt obligations were not at issue during these proceedings. The Board approves the applied-for cost of long-term debt of 13.10 percent.

During the hearing, short-term rates were discussed at length. In addition, TQM requested that a deferral account be granted in respect of this short-term debt. These matters are discussed below.

3.3.1 Short-Term Debt Deferral Account

In its application, TQM requested that the Board approve a deferral account on its short-term debt in light of the recent volatility in short-term interest rates and the difficulty of accurately forecasting an appropriate rate. This account would capture any variances between the actual cost of its short-term debt and the amount approved by the Board. TQM further requested that carrying charges on any such variances be calculated using the approved rate of return on rate base, with these amounts being amortized in future tolls.

In argument, the Canadian Petroleum Association (CPA) indicated that it concurred with TQM's request for a deferral account in respect of short-term debt. In support of this position, the CPA's expert witness indicated that he felt the amount of TQM's debt subject to variable rates was no longer unreasonable and as such he agreed with TQM's request for deferral account treatment of any shortfall or surplus.

The Minister of Energy for Ontario (Ontario) took an opposing position on this matter and recommended that TQM not be granted a deferral account. Ontario suggested that TQM's decision not to lock in its outstanding short-term debt was not sufficient justification for allowing a deferral account. Ontario also pointed out that in the previous test year TQM neither sought nor received a deferral account when the amount of outstanding short-term debt was greater than that forecast for the current test year.

In argument, Ontario took the position that if a deferral account for TQM's short-term debt was established because of the circumstances of this case, such an account should be established for the test year only. It also suggested that the carrying charges on any variances included in the deferral account should be calculated using a rate of prime less five basis points and not the rate of return on rate base.

Le Procureur général du Québec argued that TQM should be granted a deferral account but only on a temporary basis.

The Independent Petroleum Association of Canada supported the Company's deferral account request.

The Board recognizes the recent volatility in short-term interest rates and the inherent difficulty in attempting to forecast such rates. After consideration of the evidence presented, the Board approves the deferral account requested by TQM for the 1986 test year. Any variances recorded in the deferral account will incur carrying charges calculated using the authorized rate of return on rate base.

3.3.2 Short-Term Debt

TQM initially requested that it be allowed to cost its short-term debt at a rate based upon a prime rate of 12 percent. During the hearing, TQM revised its request to a cost rate based upon an average prime rate for the test year of 10.75 percent. An effective cost rate for short-term debt of 10.70 percent resulted from the fact that 90 percent of TQM's short-term debt incurs costs at prime while the remaining 10 percent incurs costs at a rate of prime minus one-half of one percent.

The position taken by the CPA's expert witness was that the cost rate applicable to TQM's short-term debt should reflect actual charges to date and a prime rate of 10.25 percent for the remainder of the test year, a rate that he felt was reasonable to apply to such debt prospectively. In argument, the CPA submitted that a rate of 10.25 percent for the remainder of the year would be reasonable in costing TQM's short-term debt. The CPA also submitted that a rate of 10.25 percent applied for the whole test year would not be unworkable.

Ontario argued that a rate based upon 11 percent for the first half of 1986 and 10.25 percent for the balance of 1986 would be appropriate. However, Ontario indicated it would not object greatly to the use of TQM's actual cost rate for the first half of 1986. If TQM were granted a deferral account, it was Ontario's position that a rate of 10.75 percent should be used.

The Board is of the view that the approved cost rate should reflect TQM's actual cost of short-term debt for the first half of 1986. In this regard, TQM indicated that the prime rate averaged 11.31 percent during this period. The Board finds it reasonable to base TQM's cost of short-term debt for the remainder of the test year on a prime rate of 10.25 percent, as requested by TQM.

Having reviewed all of the evidence, and taking into account its decision on the short-term debt deferral account, the Board approves an overall cost rate for short-term debt of 10.70 percent. In reaching its decision, the Board recognizes that the Company incurs interest at the Canadian bank prime rate on 90 percent of its short-term debt and at prime minus one-half of one percent on 10 percent of its outstanding term loans.

Based on its decisions with respect to the cost rates for long-term and short-term debt, the Board approves TQM's applied-for composite cost of debt of 12.74 percent (see Table 3-1).

3.4 Rate of Return on Equity

TQM originally applied for a rate of return on equity of 15.50 percent. This rate was amended to 15.25 percent to reflect changes that had occurred in the capital markets in the intervening period between the filing of the application and the time of the hearing. The requested rate compares to the currently allowed rate of 14.75 percent. In support of this rate, TQM submitted the evidence of its expert witness who employed the equity risk premium and discounted cash flow (DCF) approaches to estimate the cost of equity capital. His analyses indicated that 15.25 percent represented the cost of equity capital to TQM.

The CPA recommended a rate of return on equity of 13.25 to 13.50 percent based upon the evidence of its expert witness. In estimating the cost of equity capital, the witness for the CPA employed the DCF and equity risk premium approaches.

Ontario recommended a rate of return on equity of 13 to 13.25 percent based on the testimony of its expert witness. In estimating the cost of equity capital, the expert witness for Ontario relied upon the equity risk premium, DCF and comparable earnings approaches.

As part of his equity risk premium approach, the Company's expert witness updated two studies he used in last year's proceedings to establish what he felt to be an appropriate equity risk premium. He concluded that, on average, a premium in the range of 4.25 to 4.50 percentage points over long-term Government of Canada bond yields and 5.10 percentage points over preferred share yields was warranted. When combined with his forecasts of long-term Government bond and preferred share yields, he estimated the "bare-bones" cost of equity capital to be 13.85 percent.

In applying the DCF technique, this witness estimated the cost of equity capital for four groups of stable industrials, three non-diversified electric-gas distributors, GMi and a group of five telephone companies. In his view, these studies suggested a "bare-bones" cost of about 13.75 percent for the utilities and industrials examined. This rate included a 50 to 75 basis point adjustment to reflect the witness' views of TQM's risk relative to the high-grade utilities in his sample. After adjusting his risk premium and DCF "bare-bones" results by a 10 percent factor for flotation costs and to allow TQM to achieve a market-to-book ratio of 120 percent, he concluded that the cost of equity capital was 15.20 percent.

In applying the DCF technique, the witness for the CPA utilized the data from three samples of low-risk Canadian non-utilities. From these studies, he concluded that the current and prospective rate of return required by equity investors in long-established gas transmission companies was no more than 12.75 percent as of May 1986. He then added a risk premium of 50 basis points to account for TQM's relative risk compared to such companies in arriving at the investors' required rate of return (IRR) of no more than 13.25 percent.

In his equity risk premium approach, the expert witness for the CPA noted that for the most part he followed the approach used by the witness for TQM. However, he indicated there were important differences in both the results and interpretation. The major area of disagreement revolved around the beta value to be utilized in determining the appropriate equity risk premium to be added to the long-term Government of Canada bond rate. The witness for the CPA used a beta value of .60, as opposed to the beta value of .85 used by TQM's expert witness.

Because of differing beta values, the CPA's witness suggested as appropriate an equity risk premium of 3 percentage points as contrasted to the 4.25 to 4.50 percentage point range of TQM's witness. The CPA witness further stated that an equity risk premium of three percentage points was, in his view, on the generous side. He concluded from adding his equity risk premium of 3 percentage points to a long-term Government of Canada bond yield estimate of 9.50 percent that the IRR for TQM was no more than 12.50 percent, as measured by the equity risk premium approach.

Giving approximately equal weight to the results of his two tests, the witness for the CPA arrived at an IRR range of 12.75 to 13 percent to which he added a 50 basis point increment to cover a number of factors which he considered in developing what he thought to be a fair rate of return on equity.

In his equity risk premium approach, the expert witness for Ontario studied the historical risk premiums achieved in different classes of stock investments on the Toronto Stock Exchange (TSE) over the yields on long-term Canada bonds over the period 1965 to 1985. He concluded that the required equity risk premium for an investment with risk comparable to that of the average stock on the TSE required a premium of 3 to 3.50 percentage points over the 15-year Canada bond rate. Adding this premium to an estimated long-term Government of Canada bond yield of 8.85 percent resulted in a base cost of equity capital of 11.85 to 12.35 percent. The witness was of the view that no adjustment to this range was required for the risk of TQM relative to the average stock on the TSE.

The witness for Ontario applied the DCF approach to a sample of Canadian utilities. The observed dividend yield range of his sample was 6.38 to 6.60 percent. His analysis further indicated that the prospective growth rate of the sample was between 6 and 6.50 percent. Thus, he concluded that TQM's basic cost of equity as measured by the DCF test lay in a range of 12.38 to 13.10 percent. In his comparable earnings analysis, Ontario's witness reviewed historical returns on book equity for both his low-risk industrial and utility samples for time periods encompassing the years 1975 to 1985. The cost of equity capital as measured by this approach was in the range of 11.62 to 13.49 percent for the low-risk industrials, after giving effect to a 10 basis point reduction for TQM's perceived lower risk relative to these companies. The results of his utility sample ranged from 11.94 to 14.06 percent.

After assessing the results from all of his cost estimation techniques, in particular those from his DCF and risk premium tests, Ontario's witness concluded that the cost of equity to TQM before adjustment for market pressure was in the range of 11.75 to 13.25 percent. This estimate was increased by 50 basis points to a level of 12.25 to 13.75 percent after adjusting for market pressure considerations. Ontario's witness subsequently recommended that, because of the significant decline in capital market yields, TQM be allowed to earn a rate of return on common equity of 13 to 13.25 percent.

The Board notes that there was discussion regarding the risk level of TQM relative to other established gas transmission companies. The Board is not convinced by various statements made that the investment risks faced by TQM are greater than those experienced by such companies.

With respect to the rates of return on equity recommended by the various parties, the Board notes that the rates recommended by the expert witnesses representing TQM and Ontario are somewhat lower than their corresponding positions last year. The Board further recognizes the decrease in interest rate levels between this year and last.

The Board remains of the view that the determination of an appropriate rate of return on equity involves the use of methods which are necessarily indirect and subject to the exercise of judgment. Having considered the evidence, giving particular consideration to experienced interest rate levels and the current prospect for such rates, the Board finds 13.50 percent to be a fair and reasonable rate of return on equity.

3.5 Rate of Return on Rate Base

Based upon the Board's findings with respect to the rates of return on debt and equity, the overall rate of return on rate base is 12.94 percent as shown in Table 3-2.

3.6 Computation of Allowed Return on Rate Base

Based on the Board's decisions with respect to rate base and rate of return matters, the total return allowed the Company for the 1986 test year is $53,339,000. The derivation of this amount is shown in Table 3-3.

Table 3-2
Approved Rate of Return on Rate Base

	Capital Structure (%)	Cost Rate (%)	Cost Component (%)
Debt	75.0	12.74	9.56
Equity	25.0	13.50	3.38
	100.0		**12.94**

Table 3-3
Allowed Return on Rate Base

	($000)
Rate Base per Section 2.1	**412,201**
Total Allowed Return (12.94 percent x 412,201)	**53,339**

Chapter 4
Cost of Service

4.1 Introduction

The Applicant filed evidence showing its projected cost of service for the 1986 test year. For reasons provided hereafter, the Board has adjusted TQM's cost of service as shown in Table 4-1.

Table 4-1
Authorized Cost of Service
Test Year 1 January 1986 to 31 December 1986

	Application As Amended ($000)	Adjustments ($000)	Authorized By NEB ($000)
Operating and Maintenance Expenses	7,113	(132)	6,981
Depreciation and Amortization	19,428	35	19,463
Taxes Other Than Income Taxes	2,242	(39)	2,203
Income Taxes	-	-	-
Return on Rate Base	55,115	(1,776)	53,339
Total Cost of Service	**83,898**	**(1,912)**	**81,986**

4.2 Operating and Maintenance Expenses

Because of its downscaling program, TQM, as in 1985, estimated its test year O&M expenses employing a zero-based budgeting methodology. The amounts disallowed by the Board total $131,800 as shown in Table 4-2.

4.2.1 Wages, Salaries and Employee Benefits

Person-years

TQM projected an average of 76 employees for the test year, down from 93 in the base year. The test year complement of permanent staff included 56 salaried employees and 15 wage earners. The Company also expected to hire 5 to 15 temporary employees during the months of May to October or an average of 5 for the test year. The Board accepts the test year level of staff as applied for by TQM.

Wages and Salaries

TQM's estimated test year wage expense reflected an increase of $30,800 over the base year because of an overall 7.5 percent increase in the average wage rate. The 7.5 percent included 4 percent for economic, 2 percent for progression and 1.5 percent for promotion increases.

TQM projected an overall 5.3 percent increase in the salary level for the test year. This amounted to a $103,700 adjustment to the base year salaries expense after allowing for changes in staff level. The 5.3 percent increase was made up of a 4.9 percent merit increase and a 0.4 percent promotion increase.

In support of the requested increase in salaries and wages, TQM presented a consultant's assessment of the external competitiveness of TQM's current salaries, benefits and other elements of compensation, and of forecasted salary movements in the Canadian marketplace for 1986. The consultant recommended an overall increase of 5.2 percent in salaries for the test year.

The Board notes that current wage and salary settlements in the industry have ranged from 3.6 to 5.5 percent. In its most recent decisions in respect of jurisdictional pipelines, the Board has allowed four percent all-inclusive increases for 1986 salaries and wages. Taking into consideration recent settlements and current economic conditions in the oil and gas industry, the Board believes that a four percent average increase inclusive of economic, merit, promotion and progression increases is reasonable. Consequently, the Board approves a four percent all-inclusive increase for both salaries and wages. This adjustment results in a disallowance of $39,800 in salaries and wages.

Employee Benefits

TQM's consultant concluded that the Company's employee benefits package was very close to the median of the marketplace. TQM made no changes to its employee benefit plans in the base year and anticipated no changes for the test year. However, TQM estimated that employee benefits would represent 19.3 percent of salaries and wages in the test year compared to 16.5 percent for the base year. TQM explained that the costs of employee benefits did not decrease as much as the reduction in salaries and wages from the base year to the test year. It also indicated that the cost of certain benefits increased due to employee seniority, while others related to insurance have had increases in premiums.

The Board finds the level of benefits TQM provides to its employees to be reasonable. However, since the Board adjusted the test year salaries and wages as described in the preceding section, it has reduced the employee benefits expense for the test year by $7,680.

4.2.2 Forecasts of Other O&M Expenses

In forecasting other O&M expenses for the test year, TQM gave consideration to changes resulting from reduced levels of activity and general price escalation.

Escalation Factor

TQM used an escalation factor of 4.5 percent to cover general price level increases for the test year. This estimate was based on the inflation rate projected for 1986 by various organizations which ranged from 3.5 to 6 percent. Ontario estimated an inflation rate of 3.8 percent for 1986. The Board has decided that an escalation factor of four percent should be used to cover general price level increases in estimating O&M expenses for the 1986 test year. This reduces O&M expenses by $15,600, exclusive of (i) directors' fees and expenses, (ii) auditing, and (iii) donations and community relations.

Directors' Fees and Expenses

In its application, TQM projected directors' fees and expenses of $112,600 based on the 1985 forecast of fees for nine directors as well as expenses for one annual, two board and six executive committee meetings. The Board finds that given the completion of the downscaling program, an amount of $80,000 is sufficient for the test year.

Auditing

The Applicant forecasted auditing expenses of $76,000 for the 1986 test year, an increase of $20,000 from 1985 actual costs incurred. Evidence filed during the proceeding indicated that $9,480 of audit work performed in 1985 was invoiced to TQM in 1986. The Company maintained that this late invoicing resulted in an understatement of 1985 actuals. The Board has considered the evidence filed by TQM and has decided that because of the completion of the downsizing program, the auditing expenses for the 1986 test year should be similar to those of 1985. Accordingly, the Board allows an amount of $60,000 for auditing purposes.

Donations and Community Relations

TQM projected an amount of $141,800 to cover donations and community relations. In evidence filed with the Board, the Applicant indicated that 1985 obligations totalling $10,600 were paid for in 1986, which resulted in an understatement of 1985 actuals. The Board has considered TQM's normal obligations as a corporate member of the various communities within which it operates and has decided to allow an amount of $120,000 for this purpose.

Table 4-2
Adjustments to Operating and Maintenance Expenses

	Application As Amended ($000)	Adjustments ($000)	Authorized By NEB ($000)
Salaries and Wages	2,659.7	(39.8)	2,619.9
Employee Benefits - Direct	485.7	(7.7)	478.0
Directors' Fees & Expenses	112.6	(32.6)	80.0
Auditing	76.0	(16.0)	60.0
Donations and Community Relations	141.8	(21.8)	120.0
Other	3,637.5	(13.9)[1]	3,623.6
Totals	**7,113.3**	**(131.8)**	**6,981.5**

1 Reflects capitalized credits of $1,700 in salaries, wages and employee benefits

4.3 Depreciation and Amortization

Appendices VII and VIII respectively provide details of the Applicant's approved accumulated depreciation and amortization expense and the approved monthly depreciation and amortization expense for the 1986 test year.

4.3.1 Depreciation

In its September 1985 Reasons for Decision, the Board approved TQM's existing depreciation rates for the 1985 test year. However, the Applicant was required to submit a depreciation study in accordance with the Board's letter dated 21 November 1984 and was directed to inform the Board of the date it would submit this depreciation study.

In its application, TQM requested that a depreciation study not be undertaken before actual data for the 1988 operating year could be gathered. The Company indicated that a period of five years of experience is usually required before such depreciation studies can be successfully carried out. TQM suggested that circumstances were virtually unchanged from last year because of the present lack of data to support retirement patterns of its various asset categories.

The Board agrees with this position and with the proposal put forth by the Applicant. Unless circumstances change, the Board approves the existing depreciation rates of the Company until the end of the 1988 operating year. TQM is directed to file its depreciation study with the Board by 30 June 1989.

4.4 Municipal and Other Taxes

In its application, TQM forecasted municipal and school taxes of $1,248,000 and Quebec capital taxes of $994,000. The Applicant used an escalation factor of five percent in determining school taxes for the period 1 July to 31 December 1986. Ontario queried TQM on its calculation of capital taxes. In response, the Company provided calculations indicating no forecast change in the level of capital taxes between the base and test years. However, TQM subsequently noted that the Quebec capital tax rate had increased as a result of the provincial budget from 0.45 to 0.48 percent effective 1 May 1986. TQM's application update allowed for an increase of $58,000 to Quebec capital taxes.

The Board has considered the evidence filed and has decided to allow a four percent escalation factor in calculating the Company's school taxes. The resulting adjustment of $7,000 reduces the Applicant's municipal and school taxes to $1,241,000. The Board finds that the adjustment to the Quebec capital tax rate does not justify the requested increase of $58,000, but only an increment of $26,000. Accordingly, the Board limits this increase to $26,000.

4.5 Income Taxes

In its March 1984 Reasons for Decision, the Board estimated TQM's income tax losses carried forward for toll purposes at 31 December 1983 to be $79,646,241. The Board also required TQM to file certain income tax schedules by 31 July of each year for its previous fiscal year. For the years 1983 and 1984 TQM's filings showed the amounts of losses carried forward for toll purposes to be $80,645,000 and $75,628,000 respectively. The Applicant has since revised its 1984 income tax losses carried forward to $74,224,000. The difference of $1,404,000 resulted from the addition of the 1984 amortization of downscaling costs to net income.

For the test year, TQM estimated its losses carried forward for toll purposes at 31 December 1986 to be $44,173,000. The Board has revised this estimate to $45,774,000 on the basis of the following:

1. TQM's income tax filings with the Board for the years 1983 and 1984.

2. TQM's responses to NEB information requests.

3. The Board's decisions for the test year 1986.

A schedule of income tax losses carried forward for toll purposes for the years 1983 to 1986 inclusive is shown in Appendix IX.

Chapter 5
Tariff Matters and Toll Design

5.1 Tariff Matters

In its letter of 13 March 1986, Dome Petroleum Limited (Dome) again raised the issue of access to the TQM pipeline by shippers other than TCPL. In particular: (i) whether TCPL can transport gas it does not own pursuant to its transportation service contract with TQM; and (ii) whether the rates charged by TCPL for such service should be sufficient to recover the costs it would incur. Dome agreed that it would not pursue this issue in the 1986 TQM toll application on the assumption that it would be addressed in TCPL's next toll application.

The Board acknowledges the issue raised by Dome but gives no assurances as to when the matter will be dealt with. However, the Board is of the opinion that this matter would best be addressed in a TCPL toll application or in a separate proceeding.

5.2 Toll Design

TQM requested that the Board approve a fixed toll for the twelve-month period 1 January to 31 December 1986. In developing the toll, the Applicant used the 1985 calendar year as its base period. As in previous years, the Board considers this toll design method to be the most appropriate one for the Company. Table 5-1 summarizes the approved cost of service. The approved monthly toll to be charged by TQM effective 1 January 1986 is $6,832 million.

Table 5-1
Approved Cost of Service
Test Year 1 January 1986 to 31 December 1986

	Authorized By NEB ($000)	**Reference**
Operating and Maintenance Expenses	6,981	Section 4.2
Depreciation and Amortization	19,463	Section 4.3
Taxes Other Than Income Taxes	2,203	Section 4.4
Income Taxes	-	Section 4.5
Return on Rate Base	53,339	Section 3.5
Total Cost of Service	**81,986**	

Chapter 6
Disposition

The approved monthly toll to be charged by TQM effective 1 January 1986 is $6.832 million compared to the interim monthly toll of $7.216 million.

The foregoing, together with Board Order No. TG-3-86, constitute our Reasons for Decision and our Decisions on this matter.

J. Farmer
Presiding Member

R.B. Horner, Q.C.
Member

A.B. Gilmour
Member

Ottawa, Canada
August 1986

Appendix I

HEARING ORDER RH-2-86

DIRECTIONS ON PROCEDURE

Trans Québec & Maritimes Pipeline Inc. (TQM)
Application for Tolls Effective 1 January 1986

By application dated 28 February 1986, Trans Québec & Maritimes Pipeline Inc. ("TQM" or "the Applicant") applied to the National Energy Board ("the Board") for certain orders respecting tolls under Sections 50, 51 and 52 of the *National Energy Board Act*. On 19 December 1985, the Board issued Order TGI-12-85 to TQM authorizing interim tolls to be charged by TQM for the period commencing 1 January 1986 and ending on a date to be specified in the Board's Decision with respect to the forthcoming toll hearing.

TQM suggested that its application could be dealt with by way of written submission and that the Board should only hold an oral hearing on matters it found to be not just and reasonable. In support of the written submission approach, TQM included in its application letters from eight interested parties, seven of whom indicated support for or non-objection to written submissions.

Having considered the application, the Board is of the view that proceeding in the manner suggested by TQM would prejudge the application before hearing the views of all interested parties. Accordingly, the Board is not prepared to adopt this method of proceeding. Rather, the Board has decided to proceed as follows:

(a) the Board will hold an oral hearing on rate of return;

(b) the hearing will conclude with oral argument and reply on all issues;

(c) interested parties are invited to identify issues other than rate of return that they wish to address and to indicate their preference for dealing with each issue by written submission or oral hearing;

(d) the Board will decide whether the issues identified by interested parties and by the Board in its own examination of the application will be considered by oral hearing or by written submission; and

(e) interested parties will be invited to file submissions on those issues that the Board decides to consider by means of written submission.

Therefore, the Board directs as follows:

1 . The Applicant shall deposit and keep on file, for public inspection during normal business hours, a copy of the application in its offices at 870, boulevard de Maisonneuve est, Montréal, Québec, H2L 1Y6. A copy of the application is also available for viewing during normal

business hours in the Board's Library, Room 962, 473 Albert Street, Ottawa, Ontario, K1A 0E5 and at the Board's Calgary office, 4500-16th Avenue, N.W., Calgary, Alberta, T3B OM6.

2. Interventions and letters of comment are required to be filed with the Secretary by 24 April 1986 and served on all other parties as soon as possible. Interventions should include:

   (a) the specific areas or issues a party wishes to address and the reasons therefor; and

   (b) for each issue excluding rate of return, whether it feels that its concerns should be dealt

3. Intervenors wishing to raise matters not addressed in TQM's application should so indicate at the time of filing their intervention.

4. The Secretary will issue a list of intervenors shortly after 24 April 1986.

5. Any reply by the Applicant should be filed with the Secretary and served on parties who have made a submission pursuant to paragraph 2 by 1 May 1986.

6. The Board will release a decision specifying the issues and how they will be considered on or before 7 May 1986.

7. The Applicant's additional written evidence, including its written submission on all issues not being considered in the oral portion of the hearing, shall be filed with the Secretary and served on all other parties by 14 May 1986,

8. Information requests addressed to the Applicant are required to be filed with the Secretary and served on all other parties by 21 May 1986.

9. The Applicant's responses to information requests received within the specified time limit shall be filed with the Secretary and served on all other parties by 28 May 1986.

10. Intervenors' written evidence, including written submissions on all issues not being considered in the oral portion of the hearing, is required to be filed with the Secretary and served on all other parties by 5 June 1986.

11. Information requests to Intervenors are required to be filed with the Secretary and served on all other parties by 11 June 1986.

12. Intervenors' responses to information requests received within the specified time limit shall be filed with the Secretary and served on all other parties by 18 June 1986.

13. The oral portion of the public hearing will commence in the Board's hearing room, 473 Albert Street, Ottawa, Ontario, on Tuesday, 8 July 1986 at 9:30 a.m.

14. The proceeding will be conducted in either of the two official languages and simultaneous interpretation will be provided.

15. The Applicant shall serve one copy of these directions with the attached public notice and a copy of the application forthwith on those parties who intervened in the proceedings held on TQM's tolls under Order RH-4-85, as amended, and on those parties listed in Appendix I, should any of these parties not already have been served.

16. TQM is required to publish forthwith the attached public notice in the following publications:

"The Herald"	in Calgary, Alberta
"The Journal", and "Le Franco-Albertain"	in Edmonton, Alberta
"The Leader-Post", and "Journal L'eau-Vive"	in Regina, Saskatchewan
"The Winnipeg Free Press", and "La Liberté"	in Winnipeg, Manitoba
"The Globe and Mail", "The Toronto Star", "Financial Times of Canada", "The Financial Post", and "L'Express"	in Toronto, Ontario
"The Citizen", "Le Droit", and "The Canada Gazette"	in Ottawa, Ontario
"The Gazette", "Le Devoir", and "La Presse"	in Montreal, Quebec
"Le Soleil", and "Journal de Québec"	in Quebec City, Quebec

17. Where parties are directed by this order to file with the Board or serve documents on other parties, the following shall apply:

    (i) 35 copies of the document are to be filed with the Board;
    (ii) 3 copies of the document are to be served on the Applicant; and
    (iii) 1 copy of the document is to be served on Intervenors.

18. Persons filing letters of comment should serve one copy of the documents on TQM and file one copy with the Board, which in turn will provide copies for all other parties.

19. For the purpose of the oral hearing of evidence the following procedure shall apply:

    (i) TQM shall present its evidence on the item;
    (ii) Intervenors and Board Counsel shall have the right to cross-examine TQM's witnesses on that item;
    (iii) Intervenors shall present their evidence on that item in an order to be specified at the commencement of the proceedings;

(iv) After each Intervenor has presented its evidence, other Intervenors, TQM and Board Counsel shall have the right of cross-examination; and

(v) TQM shall present its final argument on all items, followed by Intervenors, after which TQM shall be entitled to rebuttal.

20. The procedures to be followed in this proceeding shall, unless the Board otherwise directs, be governed by the Draft NEB Rules of Practice and Procedure dated 18 February 1985.

21. All parties are asked to quote Order No. RH-2-86 when corresponding with the Board in this matter.

J.S. Klenavic
Secretary

Appendix I
To Order RH-2-86

Attorney General of the Province of Alberta
227 Legislature Building
Edmonton, Alberta
T5K 2B6

Attorney General of the Province of Saskatchewan
Legislative Buildings
Regina, Saskatchewan
S4S 0B3

Attorney General of the Province of Manitoba
9th Floor
405 Broadway Avenue
Winnipeg, Manitoba
R3C 3L6

Attorney General of the Province of Ontario
18 King Street East
Toronto, Ontario
M5C 1C5

and

John M. Johnson, Q.C.
Director, Legal Services Group Ministry of Energy for Ontario
12th Floor
56 Wellesley Street West
Toronto, Ontario
M7A 2B7

Procureur général de la province de Québec
Édifice Delta
1200, route de l'Église
Ste-Foy (Québec)
G1R 4X7

and

Me Jean Giroux, avocat
Service juridique du Ministère
de l'énergie et des ressources
de la province de Québec
200B, Chemin Ste-Foy
Québec (Québec)
G1R 4X7

Appendix II

Order AO-1 -RH-2-86
(Amending Hearing Order RH-2-86)
Amendments to Directions on Procedure
Trans Québec & Maritimes Pipeline Inc.
Issues to be Considered In the Oral Portion
of the Hearing and by Written Submission

On 7 April 1986 the Board issued Order No. RH-2-86, requesting the comments of interested parties on the appropriate means of proceeding with the application dated 28 February 1986 by Trans Québec & Maritimes Pipeline Inc. (TQM) for new tolls effective 1 January 1986.

The Board has considered the issues identified by interested parties and their indicated preferences for dealing with particular issues by oral hearing or written submission. Based on these views and on its own examination of the application, the Board has decided that all rate of return matters will be considered in the oral portion of the hearing. It has further decided to deal with the remaining issues raised by interested parties and by the Board itself by way of written submission, exclusive of the issues associated with the shipment of gas volumes not owned by TransCanada PipeLines Limited on the TQM system, which will not be considered in this proceeding.

Accordingly, the following issues will be considered in the oral portion of the hearing:

1 . Rate of return
- rate of return on equity
- cost of short-term (unfunded) debt
- short-term debt deferral account

The following issues will be considered by written submission:

2. Cost escalation factors employed by TQM.

3. Miscellaneous cost of service items.

4. Wages, salaries and employee benefits.

5. Forecasts of operating and maintenance expenses other than 4. above.

6. The depreciation study requested in the Board's September 1985 Reasons for Decision in respect of TQM.

7. Depreciation and amortization.

8. Income taxes.

9. Miscellaneous gas plant in service.

10. Downscaling expenses.

The hearing will conclude with oral argument and reply on all issues.

J.S. Klenavic
Secretary

Appendix II
To Order RH-2-86

NATIONAL ENERGY BOARD

NOTICE OF PUBLIC HEARING

Trans Québec & Maritimes Pipeline Inc. (TQM)
Application for Tolls Effective 1 January 1986

The National Energy Board will hold a public hearing, pursuant to Part IV of the *National Energy Board Act* to consider an application dated 28 February 1986 from Trans Québec & Maritimes Pipeline Inc. for certain orders respecting tolls under Sections 50, 51 and 52 of the *National Energy Board Act*.

The Board has decided to deal with the question of rate of return, and such other issues as it will later identify, by means of an oral hearing. It will commence in the Board's hearing room, 473 Albert Street, Ottawa, Ontario, on Tuesday, 8 July 1986 at 9:30 a.m. The hearing will conclude with oral argument and reply on all issues.

Anyone wishing to intervene in the hearing must file a written intervention with the Secretary of the Board and send a copy to TQM at 870, boulevard de Maisonneuve est, Montréal, Québec, H2L 1Y6 by 24 April 1986. Interventions should identify issues other than rate of return that a party wishes to address and their preference for dealing with each issue by written submission or oral hearing.

Anyone wishing only to comment on the application should write to the Secretary of the Board and send a copy to TQM.

TQM will have until 1 May 1986 to file any reply it wishes to make with the Secretary and serve it on parties who have made a submission.

On or before 7 May 1986, the Board will release a decision specifying the issues and whether they will be considered by written submission or oral hearing.

Following this decision, the Board will invite interested parties to file submissions on those issues that the Board decides to consider by means of written submission.

Information on the procedures for this hearing (Reference Number: RH-2-86) is available in both English and French and may be obtained by writing to the Secretary or telephoning the Board's Regulatory Support Office at (613) 998-7206. Please quote Order No. RH-2-86 when corresponding with the Board on this matter.

J.S. Klenavic
Secretary
National Energy Board
473 Albert Street
Ottawa, Ontario
K1A 0E5

7 April 1986

Appendix III

Order No. TGI-I2-85

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

IN THE MATTER OF Order No.TG-1- 85 respecting tolls specified in a tariff filed by Trans Québec & Maritimes Pipeline Inc. ("TQM") pursuant to Part IV of the Act filed with the Board under File No. 1562-T28-5.

BEFORE the Board on Thursday the 19th day of December 1985.

WHEREAS by Order No. TG-1-85 dated 20 August 1985 the Board established tolls to be charged by TQM effective 1 September 1985;

AND WHEREAS the Board wishes to review the appropriateness of current tolls;

IT IS ORDERED THAT:

1. The toll established by and the tariff filed in accordance with Order No. TG-1-85 shall be an interim toll and tariff.

2. This interim order shall come into force on 1 January 1986 and remain in effect only until the Board issues its final order with respect to TQM's tolls.

Dated at the City of Ottawa in the Province of Ontario, this 19th day of December 1985.

NATIONAL ENERGY BOARD

J.S. Klenavic
Secretary

Appendix IV

Order No. TG-3-86

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

AND IN THE MATTER OF an application by Trans Québec & Maritimes Pipeline Inc. ("TQM") made under Part IV of the Act for certain orders respecting tolls and tariffs, filed with the Board under File No. 1562-T28-6.

BEFORE:

J. Farmer
Presiding Member

R.B. Horner
Member

A.B. Gilmour
Member

WHEREAS by application dated 28 February 1986, TQM sought approval by the Board, effective 1 January 1986, of a fixed transportation toll for transmission of natural gas through its pipeline facilities;

AND WHEREAS by Order No. TG-1-85, dated 20 August 1985, the Board ordered TQM to charge, in respect of the transportation service provided to TransCanada PipeLines Limited, a monthly toll of $7.216 million commencing 1 September 1985;

AND WHEREAS by Order No. TGI-12-85, dated 19 December 1985, the Board ordered that, effective 1 January 1986, the toll established by and the tariff filed in accordance with Order No. TG-1-85 be an interim toll and an interim tariff;

AND WHEREAS pursuant to Board Order No. RH-2-86, as amended by Board Order No. AO-1-RH-2-86, the Board examined and heard the written and oral evidence of TQM and all interested parties with respect to the said application;

IT IS ORDERED THAT:

1. TQM shall charge, in respect of its transportation service provided to TransCanada PipeLines Limited, a monthly toll of $6.832 million commencing 1 October 1986,

2. TQM shall refund to TransCanada PipeLines Limited on 30 September 1986 the amount of $3,605,000, being part of the tolls charged by TQM under Board Order No. TGI-12-85 that is in excess of the tolls determined by the Board to be just and reasonable together with interest thereon. This amount is comprised of principal in the amount of $3,456,000, and interest in the amount of $149,000, calculated using the approved rate of return on rate base.

3. TQM shall file with the Board and serve upon all parties to the proceedings held pursuant to Board Order No. RH-2-86, as amended, a gas transportation tariff incorporating the toll set out in paragraph 1 and in conformity with the decisions outlined in the Board's Reasons for Decision.

4. Those provisions of TQM's tariffs which specify a toll other than the toll specified in paragraph 1 are hereby disallowed, such disallowance to be effective on 30 September 1986.

Dated at the City of Ottawa, in the Province of Ontario, this 15th day of August 1986.

NATIONAL ENERGY BOARD

J.S. Klenavic
Secretary

Appendix V

Trans Québec & Maritimes Pipeline Inc.
Approved Average Rate Base for the Test Period
1 January 1986 to 31 December 1986
($000)

	1 Jan.	31 Jan.	28 Feb.	31 Mar.	30 Apr.	31 May	30 June	31 July	31 Aug.	30 Sept.	31 Oct.	30 Nov.	31 Dec.	Average
Plant														
Gas Plant in Service	471,466	471,581	471,603	471,770	471,885	472,050	472,177	472,332	472,471	472,522	472,589	472,744	472,787	472,153
Accum. Depr'n and Amorti'n	40,722	42,224	43,627	45,078	46,530	47,983	49,436	50,840	52,244	53,649	55,054	56,459	57,864	49,367
Net Gas Plant	430,694	429,357	427,976	426,692	425,355	424,067	422,741	421,492	420,227	418,873	417,535	416,285	414,923	422,786
Working Capital														
Cash	581	581	581	581	581	581	581	581	581	581	581	581	581	581
Plant Materials	352	361	361	367	367	373	373	377	377	381	381	383	383	372
Line Pack Gas	613	613	613	613	613	613	613	613	613	613	613	613	613	613
Prepayments	279	389	493	461	633	557	855	762	659	558	530	397	252	525
Downscaling	2,740	2,518	2,296	2,074	1,852	1,630	1,419	1,297	1,175	1,053	931	809	682	1,575
	4,565	4,462	4,344	4,096	4,046	3,754	3,841	3,630	3,405	3,186	3,036	2,783	2,511	3,666
Other Rate Base Items														
Tax Benefit on Sponsors' Development Costs	(14,468)	(14,432)	(14,396)	(14,359)	(14,323)	(14,287)	(14,251)	(14,214)	(14,178)	(14,142)	(14,106)	(14,069)	(14,033)	(14,251)
Rate Base	420,791	419,387	417,924	416,429	415,078	413,534	412,331	410,908	409,454	407,917	406,465	404,999	403,401	412,201

Appendix VI

Trans Québec & Maritimes Pipeline Inc.
Approved Average Gas Plant in Service for the Test Period
1 January 1986 to 31 December 1986
($000)

NEB Acc't No.		1 Jan.	31 Jan.	28 Feb.	31 Mar.	30 Apr.	31 May	30 June	31 July	31 Aug.	30 Sept.	31 Oct.	30 Nov.	31 Dec.	Average
401	Franchises & Consents	21,295	21,295	21,295	21,295	21,295	21,295	21,295	21,295	21,295	21,295	21,295	21,295	21,295	21,295
402	Project Costs GC-65/GC-68	7,495	7,495	7,495	7,495	7,495	7,495	7,495	7,495	7,495	7,495	7,495	7,495	7,495	7,495
402	Other Project Costs	5,201	5,201	5,201	5,201	5,201	5,201	5,201	5,201	5,201	5,201	5,201	5,201	5,201	5,201
403	Other Franchises & Consents	15,053	15,053	15,053	15,053	15,053	15,053	15,053	15,053	15,053	15,053	15,053	15,053	15,053	15,053
460	Land	1,573	1,584	1,595	1,631	1,678	1,729	1,770	1,786	1,792	1,798	1,803	1,822	1,826	1,722
461	Land Rights	20,977	21,018	21,070	21,127	21,195	21,277	21,348	21,405	21,455	21,500	21,547	21,594	21,633	21,319
463	Measuring & Regulating	4,340	4,365	4,365	4,365	4,365	4,365	4,380	4,400	4,419	4,419	4,419	4,477	4,477	4,397
464	Other Struct. & Improvements	72	72	72	75	75	75	75	75	75	75	75	75	75	74
465	Mains	394,877	394,910	394,910	394,910	394,910	394,910	394,910	394,910	394,910	394,910	394,925	394,925	394,925	394,911
467	Measuring Equipment	7,220	7,225	7,225	7,231	7,231	7,262	7,262	7,324	7,388	7,388	7,388	7,419	7,419	7,307
468	Communication Structures	437	437	437	437	437	437	437	437	437	437	437	437	437	437
482	Structures & Improvements	2,484	2,484	2,484	2,484	2,484	2,484	2,484	2,484	2,484	2,484	2,484	2,484	2,484	2,484
483	Office Furniture & Equipment	2,440	2,440	2,440	2,440	2,440	2,440	2,440	2,440	2,440	2,440	2,440	2,440	2,440	2,440
484	Transportation Equipment	549	549	499	562	562	562	562	562	562	562	562	562	562	555
485	Heavy Work Equipment	891	891	891	891	891	891	891	891	891	891	891	891	891	891
486	Tools & Work Equipment	930	930	939	941	941	942	942	942	942	942	942	942	942	940
489	Other Equipment Amount	489	489	489	489	489	489	489	489	489	489	489	489	489	489
	Disallowed*	15,053	15,053	15,053	15,053	15,053	15,053	15,053	15,053	15,053	15,053	15,053	15,053	15,053	
	Construction Warehouse	196	196	196	196	196	196	196	196	196	196	196	196	196	196
		471,466	471,581	471,603	471,770	471,885	472,050	472,177	472,332	472,471	472,522	472,589	472,744	472,787	472,153

* The $15.053 million is the amount disallowed for toll purposes in previous NEB Decisions. Accordingly, GPIS, accumulated depreciation and depreciation expenses have been reduced on Appendices VI, VII and VIII respectively.

Appendix VII

Trans Québec & Maritimes PipeLine Inc.
Approved Accumulated Depreciation and Amortization Expense
For the Test Period 1 January 1986 to 31 December 1986

($000)

NEB Acc't No.		1 Jan.	31 Jan.	28 Feb.	31 Mar.	30 Apr.	31 May	30 June	31 July	31 Aug.	30 Sept.	31 Oct.	30 Nov.	31 Dec.	Average
	Accumulated Depreciation														
461	Land Rights	1,418	1,466	1,514	1,562	1,610	1,659	1,708	1,757	1,806	1,855	1,904	1,953	2,002	1,709
463	Measuring & Regulating	367	380	393	406	419	432	445	458	471	484	497	510	523	445
464	Other Structures & Improvements		1	1	1	1	1	1	1	1	1	1	1	1	1
465	Mains	28,413	29,318	30,223	31,128	32,033	32,938	33,843	34,748	35,653	36,558	37,463	38,368	39,273	33,843
467	Measuring Equipment	619	640	661	682	703	724	745	766	787	809	831	853	875	746
468	Communication Structures	39	43	47	51	55	59	63	67	71	75	79	83	87	63
482	Structures & Improvements	844	865	886	907	928	949	970	991	1,012	1,033	1,054	1,075	1,096	970
483	Office Furnitur & Equipment	648	662	676	690	704	718	732	746	760	774	788	802	816	732
484	Transport Equipment	(117)	(108)	(148)	(140)	(131)	(122)	(113)	(104)	(95)	(86)	(77)	(68)	(59)	(105)
485	Heavy Work Equipment	256	263	270	277	284	291	298	305	312	319	326	333	340	298
486	Tools & Work Equipment	167	172	177	182	187	192	197	202	207	212	217	222	227	197
489	Other Equipment	159	163	167	171	175	179	183	187	191	195	199	203	207	183
		32,814	33,865	34,867	35,917	36,968	38,020	39,072	40,124	41,176	42,229	43,282	44,335	45,388	39,082
	Accumulated Amortization														
401	Franchises & Consents	1,903	1,952	2,001	2,050	2,099	2,148	2,197	2,246	2,295	2,344	2,393	2,442	2,491	2,197
402	Project Costs GC-65/GC-68	2,290	2,498	2,706	2,914	3,122	3,330	3,538	3,746	3,954	4,162	4,370	4,578	4,786	3,538
402	Ohter Project Costs	3,765	3,909	4,053	4,197	4,341	4,485	4,629	4,724	4,819	4,914	5,009	5,104	5,199	4,550
403	Other Franchises & Consents	467	530	593	656	719	782	845	908	971	1,034	1,097	1,160	1,223	845
	Amount Disallowed*	(467)	(530)	(593)	(656)	719)	(782)	(845)	(908)	(971)	(1,034)	(1,097)	(1,160)	(1,223)	(845)
		7,958	8,359	8,760	9,161	9,562	9,963	10,364	10,716	11,068	11,420	11,772	12,124	12,476	10,285
		40,772	42,224	43,627	45,078	46,530	47,983	49,436	50,840	52,244	53,649	55,054	56,459	57,864	49,367

* (See Note, Appendix VI)

Appendix VIII

Trans Québec & Maritimes PipeLine Inc.
Approved Monthly Depreciation and Amortization Expense for the Test Period
1 January 1986 to 31 December 1986

($000)

NEB Acc't No.		Dep'n Rate.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
	Depreciation														
461	Land Rights	2.75	48	48	48	48	49	49	49	49	49	49	49	49	584
463	Measuring & Regulating	3.50	13	13	13	13	13	13	13	13	13	13	13	13	156
465	Mains	2.75	905	905	905	905	905	905	905	905	905	905	905	905	10,860
467	Measuring Equipment	3.50	21	21	21	21	21	21	21	21	22	22	22	22	256
468	Communication Structures	10.00	4	4	4	4	4	4	4	4	4	4	4	4	48
482	Structures & Improvements	10.00	21	21	21	21	21	21	21	21	21	21	21	21	252
483	Office Furniture & Equipment	7.00	14	14	14	14	14	14	14	14	14	14	14	14	168
484	Transport Equipment	20.00	9	9	8	9	9	9	9	9	9	9	9	9	107
485	Heavy Work Equipment	10.00	7	7	7	7	7	7	7	7	7	7	7	7	84
486	Tools & Work Equipment	7.00	5	5	5	5	5	5	5	5	5	5	5	5	60
489	Other Equipment	7.00	4	4	4	4	4	4	4	4	4	4	4	4	48
			1,051	1,051	1,050	1,051	1,052	1,052	1,052	1,052	1,053	1,053	1,053	1,053	12,623
	Amortization														
401	Franchises & Consents		49	49	49	49	49	49	49	49	49	49	49	49	588
402	Project Costs GC-65/GC-68		208	208	208	208	208	208	208	208	208	208	208	208	2,496
402	Other Project Costs		144	144	144	144	144	144	95	95	95	95	95	95	1,434
	Downscaling		222	222	222	222	222	211	122	122	122	122	122	127	2,058
	Deferred Toll Hearing Expense		22	22	22	22	22	22	22	22	22	22	22	22	264
403	Other Franchises & Consents		63	63	63	63	63	63	63	63	63	63	63	63	756
	Amount Disallowed*		(63)	(63)	(63)	(63)	(63)	(63)	(63)	(63)	(63)	(63)	(63)	(63)	(756)
			645	645	645	645	645	634	496	496	496	496	496	501	6,840
			1,696	1,696	1,696	1,696	1,697	1,686	1,548	1,548	1,549	1,549	1,549	1,554	19,463

* (See Note, Appendix VI)

Appendix IX

Trans Québec & Maritimes Pipeline Inc.
Income Tax Losses Carried Forward for Toll Purposes
1983 - 1986
($000)

	1983	**1984**	**1985**	**1986**
Losses carried forward (beginning balance)	(40,615)	(80,645)	(74,224)	(60,006)
Net income (loss)	(8,403)	6,421	14,218	14,232
Sponsors' development costs	(31,627)	-	-	-
Losses carried forward (ending balance)	**(80,645)**	**(74,224)**	**(60,006)**	**(45,774)**