



LETTER DECISION

File OF-AF-ACE 01
18 April 2018

To: All Group 1 companies
List of Participants

Abandonment Cost Estimate (ACE) Review 2016 Group 1 ACE Review 2016 filings National Energy Board (NEB or Board) decision

Overview

On 29 October 2015, the Board [issued](#) a letter to all interested persons, informing them that the Board would commence its review of all NEB-regulated pipeline companies' ACEs. This notification provided NEB-regulated pipeline companies time to prepare their evidence, including potentially different assumptions, to support any changes to their respective ACEs. The Board also invited regulated pipeline companies and interested persons to provide comments on the process steps and list of possible issues.

Through the Board's 8 February 2016 [letter](#), it initiated the ACE Review 2016 by requiring Group 1 companies to file updated ACEs and supporting filings by 30 September 2016. The Board noted that the updated ACEs must reflect costs in 2016 dollars and any changes to regulated infrastructure. Group 1 companies were also directed to include any rationale or justification for the changes.

In addition, to support the revised ACE filings, and to address the Board's expectations set out in its [MH-001-2012 Reasons for Decision](#), the Board's 8 February 2016 letter directed all Group 1 companies to file:

- a) pipeline-specific land-use studies (or updates to previously filed land use studies), which must include, at a minimum:
 - i) the scope of the land use study;
 - ii) the methodology used to complete the land-use study, including information sources, land-use categories, definitions, and basis for the definitions, and assumptions regarding abandonment methods;

.../2

- iii) identification of locations or areas wherever pipeline is expected to be abandoned-in-place, removed, or abandoned-in-place with special treatment; and
- iv) results and analysis of the land-use study;
- b) changes to land use categories based on consultation with landowners (or their associations) and other interested persons;
- c) changes to the physical assumptions in Table A-2 resulting from a) and b), and as informed by the four completed projects by the Pipeline Abandonment Research Steering Committee facilitated by the Petroleum Technology Alliance Canada, or any other relevant literature and studies;
- d) revisions to the abandonment costs associated with changes as provided in a), b), and c);
- e) updated information on the methodology used to estimate contingency costs, including the supporting assumptions and a description of items included under these costs and how these were determined. The costs must consider the necessity of taxes and insurance;
- f) report(s) on consultation activities with landowners (or their associations) since the MH-001-2012 Decision and plans for future consultations; and
- g) a report outlining plans for any decommissioning and/or abandonment of facilities during the next five year period, and an estimate of these costs.

As required by the Board in its 8 February 2016 letter, Group 1 companies filed their updated ACE and supporting filings (Group 1 ACE Review 2016 Filings) on 30 September 2016. These can be found online in the [Review of Abandonment Cost Estimates 2016](#) regulatory documents folder on the Board's website.

Participants' comments on the Group 1 ACE Review 2016 Filings

On 13 February 2017, the Board [solicited](#) comments from interested persons regarding the Group 1 ACE Review 2016 Filings. In its [comments](#), the Canadian Association of Energy and Pipeline Landowner Associations (CAEPLA) expressed concerns regarding abandonment methodology, funding contractual abandonment obligations, perpetual maintenance, and decommissioning/ abandonment consultation. CAEPLA also provided a table identifying issues related to each filing.

Enbridge Pipelines Inc. submitted [reply comments](#). TransCanada Companies¹ also [replied](#), indicating that it had addressed many of the issues raised by CAEPLA in their evidence and had no further submissions.

¹ Foothills Pipe Lines Ltd., NOVA Gas Transmission Ltd., Trans Québec & Maritimes Pipeline Inc., TransCanada Keystone Pipeline GP Ltd., and TransCanada PipeLines Limited

The Board's assessment of the Group 1 ACE Review 2016 Filings

In assessing the Group 1 ACE Review 2016 Filings, the Board considered the principles and considerations set out in its [RH-2-2008 Reasons for Decision](#). The Board also considered the Revised Base Case [issued](#) by the Board on 4 March 2010, the Amended Base Case tables [issued](#) in December 2010 containing unit costs, the MH-001-2012 Reasons for Decision, and the Board's 8 February 2016 letter to companies.

More specifically, in assessing the reasonableness of the Group 1 ACE Review 2016 Filings, the Board considered whether the Group 1 companies, in developing their ACE:

- used the Board's Revised Base Case; and/or
- relied on the Board's direction provided in the MH-001-2012 Reasons for Decision; and/or
- provided sufficient information and supporting rationale in their ACE filings or in response to the Board's information requests regarding various matters, including:
 - the scope and methodology of land use studies;
 - changes to land use categories and abandonment method assumptions as a result of consultation activities and abandonment research conducted over past five years;
 - cost estimate methodology, including contingency costs, and taxes and insurance;
 - consultation activities with landowners or their associations; and
 - plans for any decommissioning and/or abandonment of facilities during the next five year period, including an estimate of these costs.

In addition, the Board considered whether the Group 1 companies' ACEs reflected costs in 2016 dollars, as directed in Board's 8 February 2016 letter.

Views of the Board

The Board notes that, since 2012, there continues to be variability in the assumptions, methodologies, and approaches used by Group 1 companies to develop their ACEs in a number of areas. The Board finds that each Group 1 company used methodology to develop its ACE based on its pipeline system's characteristics. Although the Board recognizes the need to account for company- or pipeline-specific characteristics, the Board is of the view that it is important for Group 1 companies to follow a consistent and standardized approach so as to provide greater clarity, consistency, and transparency in their ACEs, and to allow the Board to better evaluate the reasonableness of each company's ACE. In order to achieve greater consistency, transparency, and accuracy for future ACE reviews, the Board intends to initiate a process as described below under "Next steps for future reviews."

The Board approves all Group 1 companies' ACEs as filed in September 2016 and through supplemental filings.² The Board notes that its approval of the ACEs has been based on, and is applicable only to, the application-specific and pipeline-specific information provided in the Group 1 ACE Review 2016 Filings, and the comments received on those filings.

Trans-Northern Pipelines Inc. (Trans-Northern) submitted that it accepted the Base Case in its initial ACE filing with the expectation the Board would revisit the Base Case unit costs every five years. It stated that to apply an additional arbitrary inflationary adjustment to the estimated ACE generated using the Base Case unit costs would further widen an existing ACE gap and result in potential inequitable cost-of-service tolling implications. Trans-Northern was of the view that, if an inflationary factor were to be applied to Base Case unit costs which already exceed most company-specific submissions, this may in fact further penalize companies with insufficient corporate experience to deviate from the Base Case unit costs.

The Board reminds Trans-Northern that, in the RH-2-2008 Reasons for Decision, the Board said that companies could either file ACEs using the Base Case, or provide their own pipeline-specific ACEs. Pipeline-specific ACEs were to be accompanied by discussion and supporting evidence for any assumptions used that differed from those in the Base Case. Those estimates would be subject to Board approval. Therefore, if Trans-Northern wishes to refile its ACE based on pipeline-specific estimates (in 2016 dollars), the Board would consider it at that time.

In addition, the Board notes that in its September 2016 filing for the 2016 ACE Review, Trans-Northern based its revised ACE on its 2011 ACE filing rather than its 2013³ ACE filing, and that the 2011 ACE filing was used again when inflated to 2016 dollars. Should Trans-Northern wish to use the 2013 ACE filing to update to 2016 dollars, it may submit another application to the Board.

In its assessment of Alliance Pipeline Ltd.'s (Alliance) Total Cost for Future Abandonment Activities in Table A-4 of its ACE Review 2016 filing, the Board noted a clerical error. The total amount of the ACE should read \$364,940,000 rather than \$364,940.000. Therefore, the Board approves Alliance's ACE for the amount of \$364,940,000.

Appendix 1 to this letter provides the Board's decision for each Group 1 company and the total ACE amounts approved (in 2016 dollars).

² Kinder Morgan Cochin ULC, Trans-Northern, and Westcoast Energy Inc., carrying on business as Spectra Energy Transmission, refiled their ACEs in response to NEB Information Request No. 4.

³ Trans-Northern submitted a [revised ACE](#) on 16 April 2013, which was [approved](#) by the Board on 27 December 2013.

Next steps for future reviews

In its MH-001-2012 Reasons for Decision, the Board strongly encouraged companies to work together with Board staff, landowners (or their associations), and other interested persons to achieve, where possible, consistency in land use designation and cost estimate methodology. The Board noted that such coordination would be particularly helpful prior to any regular Board review of ACE filings.

In line with what the Board envisioned in MH-001-2012, in August 2017, Board staff developed [Discussion Papers](#) and a proposed Refined ACE Framework. The intent of the Discussion Papers and the proposed framework was to refine and advance the Board's current abandonment framework established during 2008-2010. Board staff held a Technical Conference from 21-24 November 2017, during which Group 1 and 2 company representatives, landowner associations, and NEB staff exchanged ideas about how to refine and advance the current abandonment framework. One of the objectives of the Technical Conference was to work towards developing requirements and guidance to achieve consistency, transparency, and accuracy for future ACE reviews.

The following topics were explored at the Technical Conference:

- 1) Land Use
 - a) Land Use Categories
 - b) Land Use Studies
- 2) Abandonment Method Assumptions
- 3) Consultation Activities
- 4) Cost Categories I
- 5) Cost Categories II
 - a) Contingency, including taxes and insurance,
 - b) Inflation rate
 - c) Salvage Value
 - d) Carrying Charges

The Board will issue a draft Technical Conference Report for comment in due course, followed by the final Report. The report will include the next steps. The Board recognizes the need to develop clear filing guidance that will allow companies to follow a consistent and standardized approach for developing their next ACEs, and intends to initiate a process in advance of the next ACE review.

The foregoing sections constitute the Board's Reasons for Decision with respect to the Group 1 ACE Review 2016 Filings.



Philip Davies
Presiding Member



Murray Lytle
Member



Keith Chaulk
Member

Appendix 1
Group 1 companies' total approved ACE amounts

Group 1 company	Board's decision on Group 1 ACE Review Filings	Total ACE approved in millions (2016 dollars)	Filing ID
Alliance Pipeline Ltd.	Approved	\$364.94	A79685
Enbridge Pipelines (NW) Inc.	Approved	\$45.00	A79681
Enbridge Pipelines Inc.	Approved	\$1,743.20	A79679
Foothills Pipe Lines Ltd.	Approved	\$244.72	A79686
Kinder Morgan Cochin ULC	Approved	\$28.12	A90713
Maritimes and Northeast Pipeline Management Ltd.	Approved	\$166.80	A79657
NOVA Gas Transmission Ltd.	Approved	\$2,535.33	A79687
Trans Mountain Pipeline ULC	Approved	\$367.82	A79706
Trans Québec and Maritimes Pipeline Inc.	Approved	\$115.50	A79688
Trans-Northern Pipelines Inc.	Approved	\$87.02	A90749
TransCanada Keystone Pipeline GP Ltd.	Approved	\$268.10	A79680
TransCanada Pipelines Limited	Approved	\$2,904.93	A79689
Westcoast Energy Inc., carrying on business as Spectra Energy Transmission	Approved	\$809.70	A79698