

- (12) **Firm Service Revenue** means gross toll revenue from the sale of FT and FST services.
- (13) **Flow-Through Cost Envelope** means those costs under this Settlement which flow through directly to shippers, namely Depreciation Expense; Income Taxes; Insurance Deductible Costs; Foreign Exchange on Debt Retirements; Foreign Exchange Costs related to TBO Costs and Interest Expense (exclusive of the effect of the Foreign Exchange Management Program); Return on Rate Base; and SCC Costs.
- (14) **Flow-Through Deferral Account** means each of the deferral accounts where annual variances between actual and Test Year Costs relating to Depreciation Expense; Income Taxes; Insurance Deductible Costs; Foreign Exchange on Debt Retirements; Foreign Exchange Costs on TBO Costs and Interest Expense; Return on Rate Base; SCC Costs; and certain other flow-through mechanisms or revenue sharing programs described in this Settlement will be recorded, together with applicable Carrying Charges, and, subject to the specific limitations set out in this Settlement, applied to the Cost of Service in the year immediately following the Test Year.
- (15) **Foreign Exchange Benchmark** means the arithmetic average of the noon day Bank of Canada spot exchange rate of the applicable foreign currency over the calculation period. The calculation period for Interest Expense shall commence six months in advance of and include the Interest Expense payment due date and three months in advance of and include the TBO Cost payment due date for TBO Costs. The foreign exchange rates to be referenced for each day of the calculation period will be those rates reported by Reuters Information Services, page BOFC on each such day.
- (16) **Foreign Exchange on Debt Retirements** means the foreign exchange expense incurred on the date of retiring those debt obligations denominated in currencies other than Canadian dollars.
- (17) **Foreign Exchange Cost** means the foreign exchange cost incurred in respect of TBO Costs and Interest Expense denominated in currencies other than Canadian dollars, exclusive of the effect of the Foreign Exchange Management Program.
- (18) **Foreign Exchange Management Program** means that program referred to in Article 13.
- (19) **Fuel Incentive Mechanism** means that mechanism referred to in Article 12.
- (20) **Gas Related Expense** means provincial sales and use taxes on natural gas consumed as fuel by TCPL's natural gas fuelled compression facilities and costs of electric power consumed by TCPL's electrical power driven compression facilities, as such natural gas and electrical power facilities exist as at 31 December, 1995.
- (21) **GLGT** means Great Lakes Gas Transmission Limited Partnership.

- (22) **GLGT Rate Mechanism** means the mechanism described in Section 5.6 that will adjust GLGT TBO Rates in the event that GLGT applies to the FERC for a rate increase during the term of this Settlement.
- (23) **Imputed Fixed Cost** means the fixed costs that are recovered in the demand component of tolls. For FST and tolls other than firm transportation tolls, the term means any fixed costs recovered in such toll irrespective of whether such recovery occurs in the demand or commodity component of such toll or in both such components.
- (24) **Incentive Based Deferral Account** means each of the deferral accounts where the shippers' share of cost variances between actual and Test Year Costs in the Incentive Cost Envelope and of shared revenues generated by other incentive programs, each determined in accordance with the terms of this Settlement, are recorded and, together with applicable Carrying Charges, applied to the Cost of Service in the year immediately following the Test Year.
- (25) **Incentive Cost Envelope** means those costs subject to a sharing mechanism discussed in Article 4, including Gas Related Expense; Municipal and Other Taxes; NEB Cost Recovery Expense; OM&A Expense; and TBO Costs.
- (26) **Incentive Revenue** means positive and negative revenues accruing to TCPL's shareholders as a result of the incentive sharing mechanisms described in, or to be established pursuant to Articles 4, 10, 11, 12, 13, 14 and 15.
- (27) **Income Taxes** means the federal and provincial income tax and large corporation tax accrued and payable for the Test Year and calculated on a flow-through basis together with any payments for reassessments related to prior years.
- (28) **Insurance Deductible Costs** means costs not recovered from insurers in an insurance claim and calculated as the aggregate of 1/3 of the insurance deductible costs experienced in the three years prior to the current Test Year (as per the NEB RH-3-86 Decision). These costs are separate and distinct from insurance premium costs which are included in OM&A Expense.
- (29) **Interest Expense** means the interest accrued on the Actual Debt Portfolio.
- (30) **Interest Rate Management Program** means that program referred to in Article 14.
- (31) **Miscellaneous Revenue** means the annual aggregate of Non-Discretionary Miscellaneous Revenue and Discretionary Miscellaneous Revenue.
- (32) **Municipal and Other Taxes** means all municipal and provincial capital and place of business taxes (excluding Income Taxes and other sales and use taxes) paid during the Test Year determined in accordance with the provisions of Article 6.
- (33) **NEB** means the National Energy Board of Canada.
- (34) **NEB Cost Recovery Expense** means TCPL's allocated share of the NEB's annual operating costs.

- (35) **Net Adjustment Factor** means for each applicable Test Year, the Program Adjustment Factor less the Productivity Adjustment Factor plus 100%. The resulting Net Adjustment Factor for each Test Year of this Settlement shall be as follows: 1997 = 102.75%; 1998 = 102.25%; and 1999 = 101.75%.
- (36) **Net Revenue Requirement** means TCPL's forecast annual Cost of Service less forecast Miscellaneous Revenue, adjusted for all Flow-Through Cost Deferral Accounts and Incentive Based Deferral Accounts, as determined in accordance with Section 3.6.
- (37) **Non-Discretionary Miscellaneous Revenue** means revenue calculated from the Imputed Fixed Cost component of the applicable toll derived from services that support the need for facilities construction, excluding FT and FST transportation services. These services include LT-WFS, STS, sales meter station and incremental delivery pressure.
- (38) **Non-Routine Adjustment** means non-routine cost or revenue adjustments described in Article 7 that are made to the applicable Test Year's Net Revenue Requirement.
- (39) **OM&A Expense** means the annual expense, excluding SCC Costs and Insurance Deductible Costs, associated with the operation, maintenance and administration of the TCPL pipeline system.
- (40) **Productivity Adjustment** means the reduction to be applied annually to the Program Adjustment Factor to account for assumed productivity gains to be realized by TCPL through the term of this Settlement. The Productivity Adjustment for each year of this Settlement shall be as follows: 1997 = 0.50%, 1998 = 0.75%, and 1999 = 1.00%.
- (41) **Program Adjustment Factor** means the gross rate at which the cost components of the Incentive Cost Envelope will be adjusted upward in each year of the Settlement. The Program Adjustment Factor shall be 3.25% for 1997; 3.00% for 1998; and 2.75% for 1999. (The Program Adjustment Factor reflects the fact that TCPL plant has increased significantly over the period immediately prior to the commencement of this Settlement, thereby requiring increased maintenance over the term of this Settlement.)
- (42) **Rate Base** means TCPL's annual average rate base.
- (43) **Rate of Return** means the sum of the weighted average cost of debt including funded and unfunded debt (approximately 60% of total capitalization), the weighted average cost of preferred stock (approximately 10% of total capitalization), and the Rate of Return on Common Equity (30% of total capitalization) as each applies to TCPL.
- (44) **Rate of Return on Common Equity** means TCPL's authorized rate of return on common equity that is determined for each Test Year in accordance with the methodology established in the NEB RH-2-94 Decision and is based on a deemed common equity component of 30% of total capitalization.

- (45) **SCC Costs** means all costs directly related to stress corrosion cracking pipeline maintenance investigations on all sections of the TCPL system, including but not limited to pigging costs, investigative digging costs and hydrostatic testing costs, and stress corrosion cracking research related costs.
- (46) **Settlement** means this Incentive Cost Recovery and Revenue Sharing Settlement and all Schedules attached to this Incentive Cost Recovery and Revenue Sharing Settlement, as each may be amended or supplemented from time to time.
- (47) **TBO Costs** means the annual costs, in Canadian dollars, for transportation services that TCPL contracts for from time to time on other pipelines, including but not limited to GLGT, TQM and Union, determined in accordance with the provisions of Articles 4 and 5.
- (48) **TBO Rates** means the rates or tolls (in the currency of the charging pipeline) paid by TCPL for transportation services contracted from time to time on other pipelines, including, but not limited to GLGT, TQM and Union, and which are used to calculate TBO Costs.
- (49) **TQM** means TQM Pipeline and Company, Limited Partnership.
- (50) **Test Year** means the calendar year January 1st to December 31st for which the Net Revenue Requirement and resulting tolls are applicable.
- (51) **Test Year Costs** means the sum of those costs included in the Incentive Cost Envelope, using the methodology set out in this Settlement, and those costs included in the Flow-Through Cost Envelope as forecast by TCPL in the usual fashion, both which costs are included in the Net Revenue Requirement which is used in determining tolls for the Test Year.
- (52) **Tolls Task Force** means that group of interested parties which qualify for and which have formally registered with TCPL in any year to address issues relating to TCPL's tolls, tariff and services in such year.
- (53) **Union** means Union Gas Limited.

2.2 In interpreting this Settlement, the Parties agree as follows:

- (1) **Currency:** Unless otherwise stated, all references in this Settlement to sums of money are expressed in lawful money of Canada.
- (2) **Date for Actions:** In the event that the date on which any action is required to be taken hereunder by any of the Parties is not a business day in the place where the action is required to be taken, such action shall be required to be taken on the next succeeding day which is a business day in such place.
- (3) **Plural:** In this Settlement, unless the contrary intention appears, words importing the singular include the plural and vice versa.

- (4) **Headings:** The division of this Settlement into articles, sections and paragraphs and the insertion of headings are for the convenience of reference only and shall not affect in any way the meaning or interpretation of this Settlement.
- (5) **Section References:** Unless the context otherwise requires, references in this Settlement to an article, section, paragraph, or schedule by number, letter or otherwise refer to the article, section, paragraph, or schedule, respectively, bearing that designation in this Settlement.
- (6) **Statutes:** References in this Settlement to any statute or sections thereof shall include such statute, as amended or substituted, and any regulation promulgated thereunder from time to time in effect.
- (7) **Variances:** References to cost or revenue variances can be negative or positive.
- (8) **Year:** Unless otherwise stated, all references to a year shall mean a calendar year.
- (9) **Tolls Task Force Approval:** Unless otherwise stated, all matters in this Settlement which are to be agreed to or approved by the Tolls Task Force must be agreed to or approved in accordance with the Tolls Task Force procedures as they relate to resolutions passed by that body.

### **Article 3 Determination of Net Revenue Requirement**

- 3.1 The determination of TCPL's Net Revenue Requirement for the purpose of calculating transportation tolls for each Test Year of this Settlement shall be based on a formula which includes Incentive Cost Envelope programs, Flow-Through Cost Envelope programs, Miscellaneous Revenues and other incentive programs as detailed herein.
- 3.2 The costs included in the Incentive Cost Envelope are to be predetermined annually in accordance with the provisions of Articles 4, 5 and 6 and any variances realized over the Test Year between the actual amounts incurred and those Test Year Costs will be shared by TCPL and its shippers in the manner set out by this Settlement.
- 3.3 Miscellaneous Revenue will be forecast in each Test Year and variances determined and applied in accordance with the provisions of Article 9, for Non-Discretionary Miscellaneous Revenue, and Article 15 for Discretionary Miscellaneous Revenue.
- 3.4 Amounts included in the Flow-Through Cost Envelope shall be forecast in each Test Year by TCPL in the usual fashion. Subject to the review and complaint procedure set out in Section 8.5, all variances between the actual costs in the Flow-Through Cost Envelope and the corresponding items in the Test Year Costs will flow through directly to the Cost of Service in the year immediately following the Test Year in the manner set out by this Settlement.
- 3.5 Variances in revenues realized over the Test Year on items included in the incentive programs described in Article 10 will be shared by TCPL and its shippers in the manner set out in Articles 11, 12, 13, 14 and 15.

- 3.6 The Net Revenue Requirement to be applied in the calculation of transportation tolls for the 1997 through 1999 Test Years shall be calculated in accordance with the following formula, subject to the resolution of any complaints filed:

$$\text{Net Revenue Requirement} = [a \times b] + c + d + e - f$$

Where:

- a = actual costs in the Incentive Cost Envelope for the year prior to the Test Year;
  - b = the Net Adjustment Factor;
  - c = forecast of Test Year Flow-Through Cost Envelope;
  - d = aggregate of Incentive Based Deferral Accounts for the year immediately prior to the Test Year, positive or negative;
  - e = aggregate of Flow-Through Deferral Accounts for the year immediately prior to the Test Year, positive or negative; and
  - f = Miscellaneous Revenue.
- 3.7 The elements of this formula and how the applicable costs, revenues, variances and adjustments are to be calculated and applied are set out in detail in the Articles which follow.

#### **Article 4 Incentive Cost Envelope**

- 4.1 The Incentive Cost Envelope is made up of the following components:

- TBO Costs
- OM&A Expense
- Gas Related Expense
- Municipal and Other Taxes
- NEB Cost Recovery Expense

- 4.2 The Incentive Cost Envelope for the 1996 Test Year shall total \$678,762,000 (includes \$62,577,000 in foreign exchange cost related to TBO cost based on a U.S. exchange rate of \$1.36). Subject to the specific adjustments and qualifications relating to TBO Costs and Municipal and Other Taxes set out in Articles 5 and 6 respectively, the Incentive Cost Envelope for each Test Year subsequent to 1996 shall be determined by multiplying the actual costs in the Incentive Cost Envelope experienced in the year immediately preceding the Test Year, excluding any Non Routine Adjustments, by the applicable Net Adjustment Factor.

- 4.3 Subject to the specific adjustments and qualifications relating to TBO Costs and Municipal and Other Taxes set out in Articles 5 and 6 respectively, variances between the actual costs contained in the Incentive Cost Envelope and the corresponding items in the Test Year Costs shall be shared equally by TCPL and its shippers. One half of such cost variance shall be recorded in an Incentive Based Deferral Account and applied to the Cost

of Service in the year immediately following the Test Year. The balance of the variance shall accrue to TCPL as Incentive Revenue.

## Article 5 TBO Costs

- 5.1 Transportation service or capacity contracted for by TCPL and in effect on other pipelines as at 31 December, 1995 is set out in Schedule 5.1. The daily contracted transportation service or capacity set out in Schedule 5.1 includes 50 MMcf/d of winter only service on the GLGT system and an additional 50 MMcf/d of annual M12 service from Dawn to Kirkwall on the Union system over the 31 October, 1995 M12 service level. During the term of this Settlement TCPL will not contract for any transportation service or capacity in addition to the contracted service or capacity set out in Schedule 5.1 without the prior approval of the Tolls Task Force or the NEB unless such contract includes a condition precedent which makes TransCanada's obligations under the contract conditional on TransCanada obtaining approval of the additional transportation service or capacity by the Tolls Task Force or the NEB.
- 5.2 Subject to the application of Section 5.6, GLGT and Union TBO Costs will be forecast for each Test Year after 1996 as the product obtained by multiplying each of the following: the actual GLGT and Union TBO Rates in effect at the end of the year immediately preceding the Test Year; the Net Adjustment Factor; the contracted transportation service for the Test Year; and the forecast Canadian-U.S. exchange rate, where applicable. In the event that Section 5.6 applies in a Test Year after 1996, GLGT TBO Costs for such Test Year shall be calculated as the product obtained by multiplying the GLGT Rate (after giving effect to the GLGT Rate Mechanism), the contracted transportation service for the Test Year and the forecast Canadian-U.S. exchange rate. The TQM TBO Cost component for each Test Year after 1996 will be forecast as the product obtained by multiplying the prior year's actual TQM TBO Cost component by the Net Adjustment Factor. GLGT TBO Rates, excluding the effect of any rate adjustment resulting from the FERC's Order on Remand, GLGT72 FERC ¶ 61, 081 (1995), Union TBO Rates or TQM TBO Costs payable by TransCanada will be adjusted in each Test Year to reflect any refunds or surcharges associated with TCPL's contracted transportation service in order to reflect the rates effectively paid or cost incurred by TCPL in the year immediately preceding the Test Year.
- 5.3 Variances between TBO Costs included in the Test Year Costs and the actual TBO Costs for that Test Year, excluding any overrun costs on the GLGT and Union systems, any Foreign Exchange Costs and any variances resulting from the adjustments set out in Sections 5.4 and 5.5, shall be shared equally by TCPL and its shippers and allocated in the manner described in Section 4.3. Any overrun costs on the GLGT and Union systems shall be recorded in a Flow-Through Deferral Account and, subject to the review and complaint procedure set out in Section 8.5, applied to the Cost of Service in the year immediately following the Test Year.
- 5.4 Variances in GLGT and Union TBO Costs that occur in each Test Year resulting from changes in TCPL's contracted transportation services, either as to volumetric level or changes in receipt or delivery points, shall be recorded in a Flow-Through Deferral Account and, subject to the review and complaint procedure set out in Section 8.5, applied to the Cost of Service in the year immediately following the Test Year. Such variances shall be determined as follows:

- i) in the case of changes from year to year in the level of TCPL's contracted transportation, the variance shall be the applicable TBO Rate multiplied by the incremental change in contracted transportation service levels;
  - ii) in the case of changes from year to year in receipt or delivery points, the variance shall be the resulting change in the applicable TBO Rate, multiplied by the applicable contracted transportation service level; and
  - iii) in the case of changes from year to year to both, the variance shall be the sum of the variances calculated using the methods set out in paragraphs i) and ii) above.
- 5.5 Variances in TQM TBO Costs that occur in each Test Year which result from changes in the level of TCPL's contracted transportation service, an NEB approved expansion of the TQM system or an NEB approved change in the cost allocation procedure or methodology, shall be calculated by subtracting the Test Year TQM TBO Costs from the actual TQM TBO Costs, including such increased service levels, system expansions or revised cost allocation. This variance shall be recorded in a Flow-Through Deferral Account and, subject to the review and complaint procedure set out in Section 8.5, applied directly to the Cost of Service in the year immediately following the Test Year. Nothing in this Section 5.5 shall be interpreted as implying that any facilities associated with an NEB approved expansion of the TQM system would or would not be included in TCPL's Eastern Zone. The toll impact of such expansion shall be determined by the NEB.
- 5.6 In the event that GLGT files for a rate increase with the FERC during the term of this Settlement, the "GLGT Rate Mechanism" shall be triggered and will apply as follows. The GLGT TBO Rate component of the Incentive Cost Envelope shall be adjusted upward from the GLGT TBO Rate in effect at the end of the year immediately preceding the Test Year to reflect the greater of the applicable Net Adjustment Factor and the filed GLGT rate increase. The Net Adjustment Factor shall be applied to the GLGT TBO Cost component in all subsequent years of the Settlement. The Net Adjustment Factor shall continue to be applied to all non-GLGT TBO Cost components in the manner described in Section 5.2.
- 5.7 If the GLGT TBO Rate eventually approved is less than the rate increase applied for by GLGT, but greater than the GLGT TBO Rate which would have resulted from applying the applicable Net Adjustment Factor to the GLGT TBO Rates in effect at the end of the year immediately preceding the Test Year, then any related refund actually received by TCPL from GLGT, plus any incremental revenues received by TCPL as a result of applying the applicable Net Adjustment Factor to the higher GLGT TBO Rate, shall be recorded in a Flow-Through Deferral Account and, subject to the review and complaint procedure set out in Section 8.5, applied to the Cost of Service in the year immediately following the Test Year. If the approved GLGT TBO Rate increase is less than or equal to the Net Adjustment Factor applicable to the Test Year in which the approved GLGT TBO Rate became effective, TCPL shall rebate to its shippers the portion of any refund or any subsequent incremental revenue received which corresponds to the difference between the rate increase filed by GLGT and the Net Adjustment Factor. In the event that the GLGT TBO Rate increase is not resolved during the term of this Settlement, or any extension or renewal thereof, any refund actually received by TCPL from GLGT which under the terms of this Settlement is to be credited to Cost of Service in the year immediately following the Test Year, shall be recorded in a deferral account and TCPL

will apply to the NEB to have these funds applied to the Cost of Service in the applicable Test Year.

- 5.8 Any refund or rebate paid to TCPL by GLGT, together with any applicable carrying costs, as a result of the FERC's Order on Remand, GLGT72 FERC ¶ 61, 081 (1995), shall be passed on to TCPL's shippers in the manner directed by the NEB. In the event that such Order on Remand is overturned on review or appeal after any such refund or rebate has been disbursed by TCPL, all amounts required to be reimbursed by TCPL to GLGT, together with any applicable carrying costs, shall be recovered by TCPL in a manner to be determined by the NEB.

#### **Article 6 Municipal and Other Taxes**

- 6.1 Increases in Municipal and Other Taxes resulting from additions to Rate Base shall be recorded in a Flow-Through Deferral Account and, subject to the review and complaint procedure set out in Section 8.5, applied to the Cost of Service in the year immediately following the Test Year.
- 6.2 Increases in Municipal and Other Taxes in excess of 5% per annum, net of Rate Base related increases, shall be recorded in a Flow-Through Deferral Account and, subject to the review and complaint procedure set out in Section 8.5, applied to the Cost of Service in the year immediately following the Test Year.
- 6.3 Municipal and Other Taxes for Test Years subsequent to 1996 shall be calculated by multiplying actual Municipal and Other Taxes for the year immediately preceding the Test Year, including increases relating to Rate Base additions, by the applicable Net Adjustment Factor. Variances between Municipal and Other Taxes included in the Test Year Costs and actual Municipal and Other Taxes, net of the adjustments described in Sections 6.1 and 6.2 for that Test Year, shall be shared equally by TCPL and its shippers and allocated in the manner described in Section 4.3.

#### **Article 7 Non-Routine Adjustments**

- 7.1 The following items are examples of unanticipated changes in costs included in the Incentive Cost Envelope or in Discretionary Miscellaneous Revenue in any Test Year which shall be treated as Non-Routine Adjustments:
- (i) changes in revenues or expenses resulting from changes in applicable accounting standards (Canadian generally accepted accounting principles and Gas Pipeline Uniform Accounting Regulations);
  - (ii) changes in costs, other than TBO Costs, or revenues due to orders or directives issued by a regulatory agency having jurisdiction;
  - (iii) changes in legislation, regulations or ordinances or the issuance of orders or directives which result in changes to safety, health, or environmental requirements or practices;
  - (iv) changes in Gas Related Expense due to the addition of new facilities or changes in fuel tax rates, tax policy or legislation relating to compressor fuel or electrical power consumption; and

- (v) conversion of FST service to FT service.
- 7.2 All Non-Routine Adjustments resulting in changed costs included in the Incentive Cost Envelope or changes in Miscellaneous Revenue, other than Discretionary Miscellaneous Revenue, that occur in the Test Year shall be recorded in a Flow Through Deferral Account and, subject to the review and complaint procedure set out in Section 8.5, be applied to the Cost of Service in the year immediately following the Test Year. All Non-Routine Adjustments resulting in an adjustment to Discretionary Miscellaneous Revenue will be applied to adjust Base Discretionary Miscellaneous Revenue of each Test Year that the applicable Non-Routine Adjustment affects Discretionary Miscellaneous Revenue. All Non-Routine Adjustments shall be excluded from the calculation of variances between the Test Year Costs and actual costs in the Incentive Cost Envelope in the year in which such Non-Routine Adjustments occur.
- 7.3 All Non-Routine Adjustments resulting in changed costs or revenues that are determined by TCPL, acting reasonably, to be re-occurring in any year or years subsequent to the Test Year shall be recorded in a Flow-Through Deferral Account in the Test Year of such re-occurrence and, subject to the review and complaint procedure set out in Section 8.5, applied to the Cost of Service in the year immediately following the Test Year.

## **Article 8 Flow-Through Cost Envelope**

- 8.1 The Flow-Through Cost Envelope is made up of the following components:
- Return on Rate Base
  - Income Taxes
  - Depreciation
  - Foreign Exchange on Debt Retirements
  - Foreign Exchange Costs
  - Insurance Deductible Costs
  - SCC Costs
- 8.2 The Flow-Through Cost Envelope will be forecast by TCPL in the usual fashion for each Test Year of this Settlement and included in Test Year Costs used in the calculation of the Net Revenue Requirement for toll making purposes in the applicable Test Year. To the extent that the actual costs in the Flow-Through Cost Envelope vary from the corresponding items in the Test Year Costs, the variances shall be captured in a Flow-Through Deferral Account and, subject to the review and complaint procedure set out in Section 8.5, applied to the Cost of Service in the year immediately following the Test Year.
- 8.3 Rate Base will be redetermined in each Test Year to reflect additions to and retirements from gross plant, Depreciation Expense and changes in other Rate Base components.
- 8.4 The estimated Foreign Exchange on Debt Retirements and associated Income Tax related to the retirement of U.S. dollar denominated debt and all applicable Carrying Charges will be recovered in the year of retirement as part of the Flow-Through Cost Envelope. The difference between the estimated and actual Foreign Exchange on Debt Retirements for any Test Year, including Carry Charges, will be deferred and recovered in the year immediately following the Test Year through a Flow Through Deferral Account.

- 8.5 Information with respect to all variances and Non-Routine Adjustments to be recorded in Flow-Through Deferral Accounts in accordance with the terms of this Settlement will be provided to the Tolls Task Force by TCPL on or before 1 March of each year. In the event that the Tolls Task Force cannot, for any reason, agree on the disposition of these Flow-Through Deferral Account balances by 31 March of such year, such balances shall be applied to the Cost of Service in the current Test Year. Notwithstanding the foregoing, on or before 15 April of such Test Year, any shipper may file a complaint with the NEB regarding the disposition of all or any such Flow-Through Deferral Account balances. Any complaint must also contain a request by the shipper to make TCPL's tolls interim effective 1 April pending the resolution by the NEB of the complaint.

**Article 9 Miscellaneous Revenue**

- 9.1 Non-Discretionary Miscellaneous Revenue shall be forecast by TCPL and approved by the NEB for each Test Year during the term of this Settlement and applied in the determination of the Net Revenue Requirement for toll making purposes in the applicable Test Year.
- 9.2 Variances between forecast and actual Non-Discretionary Miscellaneous Revenue earned in a Test Year shall be recorded in a Flow-Through Deferral Account and, subject to the review and complaint procedure set out in Section 8.5, applied to the Cost of Service in the year immediately following the Test Year.
- 9.3 The determination of and adjustments to Discretionary Miscellaneous Revenue, and the effect to be given to any variances, shall be determined in accordance with Article 15.
- 9.4 Miscellaneous Revenue shall be applied in the determination of the Test Year Net Revenue Requirement in accordance with the formula set out in Section 3.6.

**Article 10 Other Incentive Programs**

- 10.1 In addition to the cost sharing mechanisms contained within the Incentive Cost Envelope described above, but subject to the qualifications set out in Articles 11 and 12, the following additional cost and revenue sharing mechanisms will be implemented during the term of this Settlement:
- Capital Efficiency Mechanism
  - Fuel Incentive Mechanism
  - Foreign Exchange Management Program
  - Interest Rate Management Program
  - Discretionary Miscellaneous Revenue Sharing
- 10.2 The operation of each of these incentive mechanisms and their effect on the determination of the Net Revenue Requirement for each Test Year are set out in Articles 11, 12, 13, 14 and 15.

**Article 11 Capital Efficiency Mechanism**

- 11.1 A Capital Efficiency Mechanism will not be employed for the 1996 Test Year. The Tolls Task Force shall establish a study group whose objective will be to examine various

alternatives for a Capital Efficiency Mechanism. The study group may, with the prior approval of the Tolls Task Force, retain a professional consultant to advise them however, the full cost of such professional consultant shall be recorded in a Flow Through Deferral Account and, subject to the review and complaint procedure set out in Section 8.5, be applied to the Cost of Service in the year immediately following the Test Year. This study group will report its recommendation to the Tolls Task Force by 1 September, 1996, or such later date as may be agreed to by the Tolls Task Force.

- 11.2 If such recommendation is approved by the Tolls Task Force, the Capital Efficiency Mechanism will be implemented in accordance with the resolution of the Tolls Task Force. If the recommendation is not approved by the Tolls Task Force, no Capital Efficiency Mechanism will be implemented during the term of this Settlement.

#### **Article 12 Fuel Incentive Mechanism**

- 12.1 A Fuel Incentive Mechanism will not be employed for the 1996 Test Year. The Parties agree to continue discussions through the Tolls Task Force in an effort to develop a Fuel Incentive Mechanism for the balance of the term of this Settlement.

#### **Article 13 Foreign Exchange Management Program**

- 13.1 Upon approval of this Settlement by the NEB, and as soon thereafter as is practicable, TCPL shall implement the Foreign Exchange Management Program described below to attempt to reduce foreign exchange expenses. Subject to Sections 13.5 and 13.6, gains and losses incurred through this program will be shared equally by TCPL and its shippers. One-half of any such gain or loss in respect of a Test Year will be recorded in an Incentive Based Deferral Account and applied to the Cost of Service in the year immediately following the Test Year. The balance of the gain or loss will accrue to TCPL as Incentive Revenue.
- 13.2 The Foreign Exchange Management Program will apply to Interest Expense and TBO Costs denominated in foreign currencies. The total annual foreign currency requirement subject to this program will be the U.S. dollar and other foreign currency amounts of actual Interest Expense and TBO Costs.
- 13.3 The Foreign Exchange Management Program shall be applied to those foreign currency denominated Interest Expense and TBO Cost payments due between 1 January and 31 December of each Test Year. The measurement period for Interest Expense shall commence six (6) months in advance of and include the applicable Interest Expense payment due dates and three (3) months in advance of and include the applicable TBO Cost payment due dates for TBO Costs.
- 13.4 The first payments to be managed under the Foreign Exchange Management Program shall be those to be made in July 1996 for Interest Expense payments and to be made in April 1996 for TBO Cost payments.
- 13.5 Gains or losses from the Foreign Exchange Management Program shall be defined as the difference between actual foreign exchange rate purchases, including actual hedging costs, and the cost calculated using the Foreign Exchange Benchmark.

- 13.6 The Foreign Exchange Management Program will limit recognized losses to a maximum of \$20,000,000 dollars, in aggregate, on the total portfolio on an annual basis. Annual recognized gains or losses generated by the Foreign Exchange Management Program in excess of \$20,000,000 shall be exclusively for the account of TCPL as Incentive Revenue.
- 13.7 All transactions in the Foreign Exchange Management Program will be executed with highly rated financial counterparties to reduce the risk of counterparty default.
- 13.8 The Parties will consider, and may during the term of this Settlement if the Tolls Task Force agrees, extend the Foreign Exchange Management Program to include foreign currency principal payments on Actual Debt Portfolio instruments.
- 13.9 Notwithstanding the expiration or termination of this Settlement, the Foreign Exchange Management Program shall not be discontinued and existing positions shall not be liquidated. Outstanding positions as at expiration or termination of this Settlement shall continue to be managed until maturity or closure of the existing positions. Gains and losses as at the expiration or termination of this Settlement shall be settled in the manner set out in Section 13.1. Thereafter, gains and losses emanating from positions taken prior to the expiry or termination of this Settlement in the Foreign Exchange Management Program shall be settled annually in the same manner as described in Section 13.1.

#### **Article 14 Interest Rate Management Program**

- 14.1 Upon approval of this Settlement by the NEB, and as soon thereafter as is practicable, TCPL shall implement the Interest Rate Management Program described below to attempt to reduce the long-term cost of funds of the Actual Debt Portfolio and the issuance of new debt. Subject to paragraph 14.3 (iii), recognized gains and losses in respect of each Test Year of the Settlement shall be shared equally by TCPL and its shippers. One-half of any such recognized gain or loss in a Test Year will be recorded in an Incentive Based Deferral Account and applied to the Cost of Service in the year immediately following the Test Year. The balance of such gain or loss will accrue to TCPL as Incentive Revenue.
- 14.2 Gains or losses emanating from the Interest Rate Management Program shall be measured annually on a Cash Flow basis.
- 14.3 The Interest Rate Management Program shall be managed in accordance with the following criteria:
- i) the maximum amount of debt for which the interest rates may be managed or swapped to floating rates will be capped at 25% of the Actual Debt Portfolio;
  - ii) TCPL may take such actions as it deems appropriate to hedge the interest rate on fixed rate debt to be issued to protect against cost increases. Any such hedging transactions shall be exclusive of the 25% maximum referred to in paragraph i) above, but gains and losses recognized from such transactions shall form part of the annual limit described in paragraph iii) below. Any debt issued in connection with hedge transactions shall form part of the Actual Debt Portfolio utilizing the yield to maturity, independent of hedged gains and losses from hedging activities as at the date of issuance of such debt; and

- iii) TCPL will limit annual recognized losses under the Interest Rate Management Program to a maximum of \$40,000,000 dollars, in aggregate, exclusive of amortized gains or losses from any years prior to the Test Year. Annual recognized gains or losses generated by the Interest Rate Management Program in excess of this \$40,000,000 shall be exclusively for the account of TCPL as Incentive Revenue.
- 14.4 Notwithstanding the expiration or termination of this Settlement, the Interest Rate Management Program shall not be discontinued and existing positions shall not be liquidated. Outstanding positions as at expiration or termination of this Settlement shall continue to be managed until maturity or closure of the existing positions. Gains and losses on a Cash Flow basis, as at the expiration or termination of this Settlement, shall be settled in the manner set out in Section 14.1. Thereafter, gains and losses emanating from positions taken under the Interest Rate Management Program prior to the expiry or termination of this Settlement shall be settled annually in the same manner as described in Section 14.1.
- 14.5 All transactions in the Interest Rate Management Program will be executed with highly rated financial counterparties to reduce the risk of counterparty default.
- 14.6 The Parties will consider the implications of including a component of floating rate debt in TCPL's term debt structure as part of a full review of its capital structure and all related issues leading up to the next cost of capital hearing.

#### **Article 15 Discretionary Miscellaneous Revenue Sharing**

- 15.1 Base Discretionary Miscellaneous Revenue shall be established at \$12,300,000 for the term of this Settlement. This benchmark shall not be rebased annually, however, it will be adjusted under the following circumstances:
  - i) if TCPL contracts for the provision of additional FT service to shippers without having to add to Rate Base, or if TCPL commences FT service in advance of the projected in-service date of new facilities, then Base Discretionary Miscellaneous Revenue will be reduced by the revenue earned from such FT service. This reduction in the Base Discretionary Miscellaneous Revenue will remain in effect throughout the period that the new or early FT contract demand levels remain in effect as new or early FT service;
  - ii) upon the conversion of FST service to FT service, the level of Base Discretionary Miscellaneous Revenue will be reviewed by the Tolls Task Force pursuant to Section 15.7 to determine if it should be adjusted to reflect potential material changes in discretionary transportation service capacity resulting from such conversion; and
  - iii) if FT contracts are not renewed Fixed Cost Allocation Units shall be adjusted in the year immediately following the Test Year and Base Discretionary Miscellaneous Revenue shall be adjusted upward in that year by an amount not to exceed \$5,000,000, in accordance with Section 15.5.
- 15.2 Subject to Section 15.4 in the event of any FT contract non renewals, Discretionary Miscellaneous Revenue earned by TCPL in any Test Year in excess of or below Base Discretionary Miscellaneous Revenue will be shared 1/3 by TCPL and 2/3 by its shippers.

Two-thirds of such revenue variance in a Test Year will be recorded in an Incentive Based Deferral Account and applied to the Cost of Service in the year immediately following the Test Year. The remaining 1/3 of such variance shall be retained by TCPL as Incentive Revenue.

- 15.3 In any Test Year where there have been no FT contract non renewals and the actual Discretionary Miscellaneous Revenue is less than the Base Discretionary Miscellaneous Revenue, the variance will be shared in the following manner: i) if Discretionary Miscellaneous Revenue is between \$0 and \$5,000,000, TCPL will bear the full burden of the revenue shortfall attributed to the difference between \$5,000,000 and the Discretionary Miscellaneous Revenue earned in the Test Year; thereafter any revenue shortfall will be shared 1/3 by TCPL and 2/3 by its shippers; and ii) if Discretionary Miscellaneous Revenue is greater than \$5,000,000 but less than \$12,300,000, the burden of the revenue shortfall will be shared 1/3 by TCPL and 2/3 by its shippers. In any Test Year, the two-thirds of the revenue shortfall to be borne by shippers as discussed in paragraphs i) and ii) above, will be recorded in an Incentive Based Deferral Account and applied to the Cost of Service in the year immediately following the Test Year. The remaining 1/3 of such variance shall be retained by TCPL as Incentive Revenue.
- 15.4 In the event that any FT contract is not renewed in any Test Year during the term of this Settlement, then Discretionary Miscellaneous Revenue earned during the Test Year will first be applied to offset the reduced FT revenue. If, after applying such Discretionary Miscellaneous Revenue to offset such reduced FT revenue, the balance of the Discretionary Miscellaneous Revenue earned in that Test Year is below the Base Discretionary Miscellaneous Revenue, any shortfall up to a maximum of \$5,000,000 will be shared 2/3 by TCPL's shippers and 1/3 by TCPL. Any shortfall in excess of \$5,000,000 will be recorded in a deferral account. The disposition of any balance in this deferral account will be agreed upon by the Tolls Task Force within ninety (90) days from the end of the applicable Test Year and submitted to the NEB for approval. In the event that the Tolls Task Force is unable to agree on the disposition of these balances within this ninety (90) day period, TCPL will apply to the NEB for determination of the issue.
- 15.5 In any Test Year following a Test Year in which FT contracts are not renewed, the Fixed Cost Allocation Units used for the purpose of calculating current Test Year tolls shall be adjusted to reflect the non-renewed contract demand. Base Discretionary Miscellaneous Revenue in such Test Year will be increased by an amount corresponding to the FT contract non-renewal to a maximum of \$5,000,000.
- 15.6 The Parties agree that in 1996 the Tolls Task Force will undertake a study of the feasibility of replacing the 2/3:1/3 sharing mechanism, where Miscellaneous Discretionary Revenue is based on gross Imputed Fixed Costs, with a 1/2:1/2 sharing mechanism, where Miscellaneous Discretionary Revenue is based on net revenues (where net revenue in this context means Imputed Fixed Costs less marginal costs, including the difference between marginal fuel and average fuel, as it would have been absent the movement of any discretionary volumes). The 2/3:1/3 sharing mechanism, based on gross Imputed Fixed Costs, will continue beyond 1996 and for the balance of the term of this Settlement unless, prior to 1 January, 1997, it can be demonstrated to TCPL's satisfaction that a viable marginal cost mechanism recognizing practicality, time, effort and cost can be developed and implemented.

- 15.7 In anticipation of the conversion of FST service to FT service, the Tolls Task Force will review the level of Base Discretionary Miscellaneous Revenue to determine if there will be any material change in discretionary transportation service capacity. Base Discretionary Miscellaneous Revenue shall be adjusted in accordance with any agreement reached by the Tolls Task Force.

**Article 16 Calculation of Allocation Units and Tolls**

- 16.1 TCPL's forecast of aggregate contract demand and Rate Base used to calculate tolls and as a benchmark for FT contract non-renewals shall be submitted by TCPL in support of its annual tolls application to the NEB for approval.
- 16.2 Test Year tolls will be calculated using the Test Year Fixed Cost Allocation Units and Test Year Net Revenue Requirement determined in accordance with the terms of this Settlement.
- 16.3 Any revenue variances within the Test Year in respect of forecasted versus actual Test Year Fixed Cost Allocation Units will be captured in a Flow-Through Deferral Account and applied to the Cost of Service in the year immediately following the Test Year.
- 16.4 Fixed Cost Allocation Units in a subsequent Test Year will be adjusted and annualized to account for FT contract non renewals, additional incremental FT service not requiring the addition of new facilities and re-contracted FT service from the year immediately preceding the Test Year.

**Article 17 Reporting and Filing Requirements**

- 17.1 On or before 31 March each year beginning in 1997, TCPL shall file tolls with the NEB, and with the members of the Tolls Task Force, along with any necessary supporting schedules and explanatories for the Test Year based upon the automatic year to year mechanism outlined in Section 3.6.
- 17.2 TCPL proposes to have the annual tolls from the year immediately preceding the Test Year made interim for the current Test Year, effective 1 January pending the filing of final tolls discussed in Section 17.1.
- 17.3 Final tolls for each Test Year of this Settlement shall take effect 1 April of each year and the associated Net Revenue Requirement shall include a forecast of the impact of the variance resulting from the use of interim tolls rather than final tolls for the period 1 January to 31 March. Any further adjustments arising from the use of interim tolls in this three month period shall be recorded in a Flow-Through Deferral Account and applied to the Cost of Service in the year immediately following the Test Year.
- 17.4 The current form of the NEB Quarterly Surveillance reports shall be amended to reflect this Settlement and shall be filed with the NEB and the members of the Tolls Task Force. The report will include the status of the following:
- (i) Discretionary Miscellaneous Revenue;
  - (ii) Foreign Exchange Management Program;

- (iii) Interest Rate Management Program;
- (iv) Variance analysis for the Flow-Through Cost Envelope; and
- (v) Incentive Cost Envelope.

- 17.5 On or before 1 March, TCPL shall file annually with the NEB and the members of the Tolls Task Force a report, generally in the format of Part V, Section 6 of TCPL's tolls applications prior to 1995, which will set out a comparison of the actual costs of Rate Base additions to costs forecast annually by TCPL as additions to Rate Base. The comparison will include explanations of variances which would include, but not be limited to, work scope variances. The variance report shall only include variances representing the greater of \$50,000 or 5% of the value of the Rate Base addition on a project by project basis. It is intended that this Settlement will not change the role of the NEB in reviewing this information and adjudicating on any issues which may arise.
- 17.6 TCPL will provide an annual report to the NEB documenting inter-company transactions.

**Article 18      Audit**

- 18.1 The NEB will retain and perform its current audit functions.
- 18.2 A compulsory compliance audit will be conducted at the end of the third year of this Settlement by the independent external auditors of TCPL unless the Tolls Task Force determines, on a simple majority basis after reviewing all relevant issues, including all costs involved and the scope of the work to be undertaken, that such audit shall be performed by another major firm of independent chartered accountants. The cost of this compulsory compliance audit will be recovered in TCPL's Cost of Service, as part of the Flow-Through Cost Envelope, in the Test Year following the completion of the audit. These costs will not be subject to the review and complaint procedure set out in Section 8.5.
- 18.3 The Parties will have the right to participate in one independent audit per year, other than the year in which the compulsory audit takes place as discussed in Section 18.2. Any such audit will be conducted by TCPL's independent external auditor unless the Party or Parties requesting the audit determine, after reviewing all relevant issues, including all costs involved and the scope of the work to be undertaken, that such audit shall be performed by another major firm of independent chartered accountants. The full cost of the audit, inclusive of TCPL employee person-hours, will be borne by those Parties requesting the audit, unless the Tolls Task Force agrees that these audit costs should be recovered through TCPL's Cost of Service.

## **Article 19 Term of Settlement and Continuation of Settlement**

- 19.1 The Parties agree that the incentive cost recovery and revenue sharing mechanisms and the specific parameters set out in this Settlement encompass the period 1 January, 1996 to 31 December, 1999 inclusive.
- 19.2 For the period beyond the term envisioned by this Settlement, the Parties will enter into discussions in an effort to reset parameters, as necessary, to extend incentive cost recovery and revenue sharing mechanisms beyond 31 December, 1999.
- 19.3 In the event that an incentive cost recovery and revenue sharing mechanism is not approved for a term beyond 31 December, 1999, in the absence of another agreed upon methodology, TCPL's Net Revenue Requirement will be determined in accordance with the Cost of Service methodology in place prior to the commencement of this Settlement, unless determined otherwise by the NEB.

## **Article 20 Miscellaneous Provisions**

- 20.1 Toll Design
  - (1) Toll design and tariff issues are not addressed by this Settlement.
- 20.2 Items Pertaining to Net Revenue Requirement
  - (1) The Parties agree that the 1996 Net Revenue Requirement specifically reflects depreciation rates in effect on 31 December 1995. TCPL will not make application to the NEB to change the depreciation rates in effect as of 31 December 1995 for the term of this Settlement, unless otherwise directed by the NEB.
- 20.3 Compliance with NEB Orders
  - (1) Nothing in this Settlement is intended to preclude TCPL from reflecting in its tolls or Cost of Service the cost consequences of NEB orders or directives applicable to it by virtue of a proceeding which is initiated by a person other than TCPL, or by the NEB of its own motion, nor to preclude TCPL from participating in any multi-pipeline proceeding if requested to do so by the NEB or determined by TCPL to be in its best interest.
- 20.4 Disposition of Existing Deferral Accounts, Flow-Through Based Deferral Accounts and Incentive Based Deferral Accounts
  - (1) All deferral accounts existing as at 31 December, 1995, other than the North Bay Environmental Litigation Deferral Accounts, shall be disposed of and replaced with the Incentive Based Deferral Accounts and the Flow Through Deferral Accounts listed in Schedule 20.4.
  - (2) A forecast of deferral account balances existing as at 31 December, 1995, other than the North Bay Environmental Litigation Deferral Account and the 1995 SCC Deferral Account, will be applied to the 1996 Net Revenue Requirement.

- (3) All variances between the forecast deferral account balances that are included in the 1996 Net Revenue Requirement and the actual balances shall be applied to the 1997 Net Revenue Requirement.
- (4) The recovery of costs presently recorded in the North Bay Environmental Litigation deferral account and the 1995 SCC deferral account, and all subsequent costs to be recorded in such accounts will be dealt with in future discussions at the Tolls Task Force. In the event that an agreement cannot be reached within a reasonable period of time, TCPL may apply to the NEB for a determination of the handling of these costs.
- (5) All deferral accounts which existed as at 31 December 1995 will be re-instated effective the earlier of 1 January 2000, and the termination of this Settlement, to be disposed of in accordance with a renewed or new incentive settlement or pursuant to a decision from the NEB in a hearing on the Cost of Service for the Test Year immediately following the termination or expiry of this Settlement.
- (6) In the event that this Settlement is terminated at any time before 31 December 1999, TCPL will apply to the NEB to amortize all outstanding deferral and variance amounts in tolls to be charged in the Test Year following the termination of this Settlement. TCPL will prospectively amortize all Flow-Through Deferral Account and Incentive Based Deferral Account balances unless otherwise ordered by the NEB.
- (7) All deferral and variance amounts which accrue in 1999 will be recovered in tolls in the year 2000 regardless of whether the methodology contemplated by this Settlement is extended, with the exception of the Foreign Exchange Management Program and the Interest Rate Management Program as outlined in Articles 13 and 14 respectively.
- (8) Carrying Charges will be calculated monthly.

#### **Article 21 Service Terms and Conditions**

- 21.1 During the term of this Settlement, TCPL will continue to provide service in accordance with the terms and conditions in TCPL's current Transportation Tariff, as the same may be amended from time to time subject to NEB approval.

## Schedule 2.1 - TCPL Services

FT	Firm Transportation Service
FST	Firm Service Tendered
LT-WFS	Long-Term Winter Firm Service
STS	Storage Transportation Service
STFT	Short Term Firm Transportation Service
TWS	Temporary Winter Service
PS	Peaking Service
IT	Interruptible Service
IT Backhaul	Interruptible Backhaul
FBT	Firm Backhaul Transportation Service
ECR	Enhanced Capacity Release Service

**Table 4-1**  
**Transmission by Others**  
**for the Test Year ending December 31, 1996**

PARTICULARS	VOLUME
Great Lakes Gas Transmission L.P.	Mcf/d
From Emerson Firm	
FT Eastern Demand (January to March)	1 341 000
FT Eastern Demand (April to October)	1 291 000
FT Eastern Demand (November to December)	1 341 000
FT Eastern Demand (Average)	<u>1 311 833</u>
From Emerson Firm	
FT Central Demand	10 000
Union Gas Limited	$10^3\text{m}^3/\text{d}$
M12 from Dawn Demand - Parkway	7 523
Compression - Parkway	1 700
Demand - Parkway	23 892
C1 from Parkway Demand - Kirkwall (January - March)	1 133
Demand - Kirkwall (April - December)	3 400
TQM	$10^3\text{m}^3/\text{d}$
Service Agreement Jan. 25, 1982 (last amended July 12, 1993)	10 887

\* Note: The Schedule 5.1 which was originally filed as part of TransCanada's Incentive Cost Recovery and Revenue Sharing Settlement was not the schedule reviewed and approved by the 1996 Tolls Task Force pursuant to Resolution No. 96-22 and was therefore subsequently revised by the above schedule as per TransCanada's letter to the Board dated 28 December 1995.

**Table 4-2  
Schedule 20.4**

	Incentive Based Deferral	Flow Through Based Deferral	Article
<b>Incentive Cost Envelope</b>			
Transmission by Others			
GLGT Rates	X	X	5
Union Rates	X		5
GLGT/Union Contract Volume		X	5.4
GLGT/Union Delivery Point Change		X	5.4
GLGT/Union Overrun		X	5.3
TQM Cost of Service	X		5
TQM System Expansion		X	5.5
OM&A			
Routine Costs	X		4.1
Non-Routine Costs		X	7
Gas Related Expense			
Routine Costs	X		4.1
Non-Routine Costs		X	7
Municipal and Other Tax			
Other Tax	X		4.1
Rate Base Related Increase in Municipal Tax		X	6.1
0-5% Increase in Municipal Tax	X		6.3
Greater Than 5% Increase in Municipal Tax		X	6.2
NEB Cost Recovery	X		4.1

**Table 4-2  
Schedule 20.4 (cont'd)**

	Incentive Based Deferral	Flow Through Based Deferral	Article
<b>Flow Through Cost Envelope</b>			
Return on Rate Base		X	8.1
Income Tax		X	8.1
Depreciation		X	8.1
Foreign Exchange on Debt Retirement		X	8.1 & 8.4
Foreign Exchange Costs		X	8.1 & 2.1 (17)
Insurance Deductible Costs		X	8.1
SCC Costs		X	8.1
Interim Toll Adjustment		X	17.3
<b>Foreign Exchange Management Program</b>			
GLGT TBO	X		13
Debt Interest	X		13
<b>Interest Rate Management Program</b>	X		14
<b>Revenue</b>			
Variance in Firm Service Allocation Units		X	16.3
Variance in Non-Discretionary Revenue		X	9.2
Discretionary Revenue <sup>1</sup>	X		15

<sup>1</sup> Non-renewal related Discretionary Revenue shortfalls greater than \$5 million will be recorded in a deferral account with the disposition of any balance in the account agreed on by the Tolls Task Force or submitted to the NEB for determination of the issue as per Article 15.4.

## Chapter 5

# NEB Decision - Phase 2 TransCanada 1996 Tolls

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### TransCanada PipeLines Limited ("TransCanada") Application Dated 5 July 1995 for 1996 Tolls ("RH-2-95") Reasons for Decision Regarding Phase 2

#### Background

On 5 July 1995, TransCanada PipeLines Limited ("TransCanada") filed an application pursuant to Part IV of the *National Energy Board Act* ("the Act") for new tolls to be effective 1 January 1996.

On 1 September 1995, the National Energy Board ("Board") issued Hearing Order RH-2-95 setting down the application for a public hearing to commence on 11 December 1995. Hearing Order RH-2-95 was amended by letters dated 12 October and 7 and 16 November 1995.

On 20 October 1995, the Board approved a request by TransCanada to divide the proceeding into two phases. Phase 1 would deal with issues related to cost allocation, toll design and tariff matters. Phase 2, which would begin no earlier than 29 January 1996, would deal with cost of service and other matters. TransCanada submitted that phasing would allow it sufficient time to complete settlement negotiations respecting cost of service matters.

Phase 1 of the hearing took place in Ottawa, Ontario on 11, 12, 13 and 14 December 1995. The Board issued its decision with respect to Phase 1 in a Letter Decision dated 28 December 1995.

Phase 2 commenced with the filing on 20 December 1995 by TransCanada of a Tolls Task Force Resolution containing an application for Orders approving an Incentive Cost Recovery and Revenue Sharing Settlement ("Settlement").

On 2 January 1996, TransCanada filed revised cost of service and net revenue requirement schedules as well as revised tolls which would result from the implementation of all Phase 1 decisions, a revised rate of return of 11.25 percent and the proposed Settlement.

On 9 January 1996, TransCanada filed a request that interim tolls for 1996 be established based on its 2 January 1996 filing. The Board approved this request on 10 January 1996.

On 9 January 1996, TransCanada also filed another Tolls Task Force Resolution seeking approval of a proposal for the disposition of the 1995 Stress Corrosion Cracking ("SCC") Deferral Account.

In a letter dated 17 January 1996, the Board cancelled the oral hearing initially scheduled for Phase 2. In its place, the Board requested TransCanada to hold an open forum to present the Settlement and to provide parties an opportunity to question TransCanada on the Settlement. Parties were also given an opportunity to provide comments, in writing, to the Board by 2 February 1996. TransCanada was afforded an opportunity to provide any reply comments by 6 February 1996.

The open forum was held on 29 January 1996.

No parties have expressed opposition to either Resolution during the comment period provided by the Board.

### **The Board's Negotiated Settlement Guidelines**

In examining agreements among parties to a proceeding, the Board is guided by its *Guidelines for Negotiated Settlements of Traffic, Tolls and Tariffs*, dated 23 August 1994, and the cover letter from the Board of the same date (the "Guidelines"). Of particular relevance in these proceedings are the following extracts from those documents:

- All parties having an interest in a pipeline's traffic, tolls and tariffs should have a fair opportunity to participate and have their interests recognized and appropriately weighed in a negotiated settlement. The settlement process should be open and all interested parties should be invited to participate in the actual settlement negotiations.
- Upon filing of information related to the resolution of individual toll design, tariff or other matters, interested parties would be provided with an opportunity to comment on each resolution. Resolutions that were not opposed by any party would normally be accepted by the Board.
- The Board confirms that, when presented with a settlement package, it will either accept or reject the package in its entirety.

### **1996 Tolls Task Force Resolutions**

With respect to Phase 2, TransCanada filed two unopposed Tolls Task Force Resolutions with the Board for approval.

**Resolution 96-22** proposed the implementation of an Incentive Cost Recovery and Revenue Sharing Settlement. The terms of the Settlement would be applied to determine the Net Revenue Requirement utilized by TransCanada in the calculation of tolls for the transportation of natural gas on the TransCanada system, in accordance with the toll methodology and pursuant to the TransCanada Transportation Tariff approved from time to time by the National Energy Board.

The following is a brief summary of the Settlement:

- The Settlement covers a period of four years from 1 January 1996 to 31 December 1999.
- The stated objectives of the Settlement, which pertains only to TransCanada's mainline transmission business, are to: minimize costs; maximize throughput; encourage efficiency gains; maintain or improve service quality and financial integrity and preserve firm shippers' flexibility and ability to effectively use their transportation contracts.
- The Net Revenue Requirement for the purposes of calculating transportation tolls shall be based on a formula which includes: Incentive Cost Envelope programs; Flow-Through Cost Envelope programs; Miscellaneous Revenues and other incentive programs as detailed in the Settlement.
- The Incentive Cost Envelope includes five components: Transportation by Others ("TBO"); Operations, Maintenance and Administration; Gas Related Expense; Municipal and Other

Taxes and NEB Cost Recovery Expense. These costs are to be predetermined annually. For the 1996 Test Year these costs were established at \$678,762,000. For each Test Year after 1996, the Incentive Cost Envelope will be based on actually experienced costs in the preceding year, multiplied by a "net adjustment factor". Any variances between actuals and Test-Year costs are to be generally shared equally by TransCanada and the shippers with some minor exceptions (for Municipal and Other Taxes and Transmission By Other costs), as set out in the Settlement.

- The Flow-Through Cost Envelope includes: Return on Rate Base; Income Taxes; Depreciation; Foreign Exchange on Debt Retirement; Foreign Exchange Costs; Insurance Deductible Costs and SCC Costs. These costs are to be forecast each Test Year in the usual fashion. Subject to a review and complaint procedure allowed for in the Settlement, all variances between the actual costs in the Flow-Through Envelope and the corresponding test-year costs will flow directly to the cost of service in the year following the Test Year.
- Non-Discretionary Miscellaneous Revenue ("NDMR") will be forecast in each Test Year and approved by the Board. Variances shall be calculated and included in a Flow-Through Deferral Account and, subject to the review and complaint procedures provided for in the Settlement, shall be applied to the Cost of Service in the year immediately following the Test Year. For Discretionary Miscellaneous Revenue ("DMR") a benchmark level is established in the Settlement at \$12,300,000. The Settlement provides for numerous adjustments to DMR in the event of non-renewal of FT contracts or other contingencies.
- TransCanada will be implementing a Foreign Exchange Management Program (covering interest expense and TBO costs denominated in foreign currencies) and an Interest Rate Management Program (to provide incentive for reducing long-term debt) upon approval of this Settlement and as soon thereafter as practicable.
- Two other cost and revenue sharing mechanisms included in the Settlement, the Capital efficiency Mechanism and the Fuel Incentive Mechanism remain to be developed and will not be implemented in 1996. Both mechanisms must be discussed further by the Tolls Task Force to see if any agreement can be reached on them.
- Other provisions in the Settlement cover: complaints by shippers; Tolls Task Force review of cost adjustments and amounts of shared revenue; calculation of allocation units and tolls; reporting and filing requirements; audits; terms of settlement and continuation of settlement; disposition of existing deferral accounts and flow-through and incentive-based deferral accounts.
- Toll design and tariff matters are not a part of this Settlement.

The foregoing list is representative of the Settlement only. For a complete understanding or more details of the terms of the Settlement, parties should refer to the original document.

**Resolution 96-23** proposed that all SCC-related costs incurred as at 31 December 1995, together with carrying costs shall be borne equally by TransCanada and its toll payers. The carrying charges would be computed monthly from the average of the opening and closing balances in the account for each month multiplied by 1/12th of TransCanada's authorized rate of return on rate base and recorded in the 1995 SCC Deferral Account. One-half of the 1995 SCC Deferral Account balance will be applied to TransCanada's Cost of Service for the 1996 Test Year.

### *Views of the Board*

The Board considers that the process followed by TransCanada in negotiating the Settlement, together with the open forum, provided parties and the Board the opportunity to obtain clarification with respect to the terms of the Settlement. Subsequent to the open forum, parties were afforded an opportunity to file any final comments with the Board. No comments opposing either Resolution 96-22 or 96-23 were received. In the view of the Board, the procedure allowed ample opportunity for all parties, including the Board, to examine the Settlement and ensure that it was in accordance with the Board's Guidelines.

### **Decision**

**The Board approves Resolutions 96-22 and 96-23 in full and directs that the provisions of the resolutions be implemented in determining TransCanada's Net Revenue Requirement and resulting tolls for 1996.**

**In addition, the Board also approves all forecasts, underlying assumptions, methodologies and schedules used in the Application, as amended during the course of RH-2-95.**

**TransCanada is directed to file, by 27 February 1996, revised schedules and tolls implementing all decisions of the Board from Phase 1, Phase 2 and the revised rate of return on common equity of 11.25%. TransCanada is directed to inform the Board and all interested parties if, by implementing these decisions, no changes are required to the current interim tolls and supporting schedules filed under cover of TransCanada's letter of 2 January 1996.**

**The current interim tolls will remain in effect until the Board has issued its final order with respect to 1996 tolls.**

### **General**

The Board will, at a later date, be issuing a consolidated version of the decisions which will include under one cover key documentation for both Phase 1 and Phase 2 of RH-2-95, including the complete text of the Incentive Cost Recovery and Revenue Sharing Settlement.

### **Disposition**

The foregoing constitute our Decision and Reasons for Decision on this matter.

*(signed by)*

J.A. Snider  
Presiding Member

K.W. Vollman  
Member

R. Illing  
Member

Calgary, Alberta  
February 1996

## Chapter 6

# Interim Toll Order AO-1-TGI-3-95

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*Order AO-1-TGI-3-95 which is reproduced below amended Order TGI-3-95 which can be found as Attachment 2 to the Board's Phase 1 Decision in Chapter 3.*

### ORDER AO-1-TGI-3-95

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

IN THE MATTER OF a request dated 2 January 1996 by TransCanada PipeLines Limited ("TransCanada") requesting the Board to issue an Order amending the interim tolls made effective 1 January 1996 by Order TGI-3-95

BEFORE the Board on 10 January 1996.

WHEREAS the Board received a request from TransCanada, dated 6 December 1995, pursuant to Sections 19(2), 59 and 64 of the *National Energy Board Act*, for an Order establishing interim tolls effective 1 January 1996; and

WHEREAS the Board established interim tolls to be effective 1 January 1996 pursuant to Order TGI-3-95; and

WHEREAS the Board received a subsequent letter dated 2 January 1996 from TransCanada requesting that the Board amend Order TGI-3-95 to make the 1996 Tolls interim at the tolls set out in Schedule 6.1 of the update to TransCanada's 1996 Tolls Application which was attached to that letter (and to relieve TransCanada from the requirement to file revised schedules and tolls as set out in Order TGI-3-95); and

WHEREAS the Board received a further letter on the issue of the 1996 interim tolls, dated 9 January 1996:

IT IS ORDERED, PURSUANT TO SECTIONS 19(2), 59 and 64 OF THE ACT, THAT:

1. Order TGI-3-95 is hereby replaced by Order AO-1-TGI-3-95;
2. TransCanada will charge interim tolls effective 1 January 1996 based upon the tolls set out in Schedule 6.1 of the update to TransCanada's 1996 Tolls Application which was attached to TransCanada's letter dated 2 January 1996;
3. TransCanada is relieved from the requirement to file revised schedules and tolls as previously set out in Order TGI-3-95; and

4. AO-1-TGI-3-95 shall remain in effect pending the final determination of all Phase 2, 1996 Toll application matters and final disposition of Interim Order TGI-1-95 and Declaratory Order MO-23-95, in respect of 1995 Tolls.

NATIONAL ENERGY BOARD

*(signed by)*

J.S. Richardson  
Secretary

## Chapter 7

# Final Tolls Order TG-2-96

---

### ORDER TG-2-96

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

IN THE MATTER OF an application dated 5 July 1995 by TransCanada PipeLines Limited ("TransCanada") pursuant to Part IV of the Act for certain orders respecting its tolls; filed with the National Energy Board ("the Board") under File No. 4200-T001-10.

BEFORE the Board on 14 March 1996.

WHEREAS TransCanada filed an application dated 5 July 1995, as amended, for an order fixing just and reasonable tolls that it may charge for or in respect of transportation services rendered effective 1 January 1996; and

WHEREAS the Board received a request from TransCanada, dated 6 December 1995, pursuant to Sections 19(2), 59 and 64 of the Act, for an Order establishing interim tolls effective 1 January 1996; and

WHEREAS on 28 December 1995, the Board established interim tolls to be effective 1 January 1996 pursuant to Order TGI-3-95; and

WHEREAS the Board received a subsequent letter dated 2 January 1996 from TransCanada requesting that the Board amend Order TGI-3-95 to make the 1996 tolls interim at the tolls set out in Schedule 6.1 of the update to TransCanada's 1996 tolls application which was attached to that letter (and to relieve TransCanada from the requirement to file revised schedules and tolls as set out in Order TGI-3-95); and

WHEREAS the Board received a further letter dated 9 January 1996 from TransCanada on the impact of all Phase 1 decisions on 1996 interim tolls; and

WHEREAS the Board issued an amending order AO-1-TGI-3-95 which established interim tolls effective 1 January 1996 to be based upon the tolls as set out in Schedule 6.1 of the update to TransCanada's 1996 tolls application which was attached to TransCanada's letter dated 2 January 1996; and

WHEREAS a public hearing pursuant to Hearing Order RH-2-95 (Phase 1) was held in Ottawa, Ontario from 11 to 14 December 1995 during which time the Board heard the evidence and argument presented by TransCanada and interested parties concerning issues related to Firm Service Tendered ("FST") and 1996 Tolls Task Force Resolutions; and

WHEREAS TransCanada filed a negotiated settlement on 20 December 1995 called the Incentive Cost Recovery and Revenue Sharing Agreement ("the Settlement"); and

WHEREAS, in light of the Settlement and comments from interested parties, the Board cancelled the oral hearing (Phase 2) which was scheduled to commence in Calgary, Alberta on 29 January 1996 to address issues relating to cost of service; and

WHEREAS an open forum was conducted by TransCanada in Calgary, Alberta on 29 January 1996 concerning the Settlement and where interested parties were invited to comment; and

WHEREAS the Board's decisions on the Application are set out as attachments to the Board's letters dated 28 December 1995 (Phase 1) and 22 February 1996 (Phase 2) respectively and in this Order;

IT IS ORDERED THAT:

1. TransCanada shall, for accounting, tollmaking and tariff purposes, implement the decisions outlined in the Reasons for Decision dated 28 December 1995, 22 February 1996 and in this Order.
2. Order AO-1-TGI-3-95, which authorized the tolls to be charged on an interim basis pending a final decision on the said Application, is revoked.
3. The tolls which were in effect, on an interim basis, commencing 1 January 1996 and which were confirmed in the Compliance Tolls Package filed by TransCanada on 27 February 1996 are hereby made final. For ease of reference, excerpts are set out in Attachments 1 to 3 to this Order.
4. Those provisions of TransCanada's tariffs and tolls, or any portion thereof, that are contrary to any provision of the Act, to the Board's Reasons for Decision dated 28 December 1995 and 22 February 1996, or to any Order of the Board including this Order, are hereby disallowed.

NATIONAL ENERGY BOARD

*(signed by)*

J.S. Richardson  
Secretary

**Table 7-1  
TransCanada PipeLines Limited  
Transportation Tolls  
Effective 1 January 1996**

<b>Particulars</b>	<b>Demand Toll (\$/10<sup>3</sup>m<sup>3</sup>/mo)</b>	<b>Commodity Toll (\$/10<sup>3</sup>m<sup>3</sup>)</b>
<b>Canadian Firm Service:</b>		
Saskatchewan Zone	93.11	0.055
Manitoba Zone	339.25	0.297
Welwyn to Manitoba Zone	131.88	0.097
Western Zone	538.67	0.492
Northern Zone	832.69	0.773
Eastern Zone	1,013.54	0.959
Eastern Zone FST	-	24.589
<b>Export Firm Service:</b>		
Empress to Spruce	369.96	0.328
Empress to Emerson	377.11	0.335
Empress to Niagara Falls	1,057.62	0.991
Empress to Iroquois	1,062.78	0.996
Empress to Cornwall	1,077.19	1.010
Empress to Sabrevois	1,124.51	1.056
Empress to Philipsburg	1,135.21	1.066
Empress to Napierville	1,129.28	1.060
Empress to Chippawa	1,058.44	0.992
<b>Miscellaneous Point-to-Point Firm Service:</b>		
Herbert to Emerson	311.76	0.272
St. Clair to Chippawa	140.94	0.107
Kirkwall to Chippawa	68.89	0.037

Source: TransCanada's RH-2-95 Compliance Tolls Package dated 27 February 1996, Schedule 6.1.

**Table 7-1**  
**TransCanada PipeLines Limited**  
**Transportation Tolls**  
**Effective 1 January 1996 (cont'd)**

Particulars	Demand Toll (\$/10 <sup>3</sup> m <sup>3</sup> /mo)	Commodity Toll (\$/10 <sup>3</sup> m <sup>3</sup> )
<b>Short Term Firm Service:</b>		
Empress to Niagara Falls	1,057.62	0.991
Empress to Iroquois	1,062.78	0.996
<b>Storage Transportation Service:</b>		
Centra Gas (Manitoba)-MDA	73.39	0.043
Centra Gas (Ontario)-NDA	208.49	0.177
Centra Gas (Ontario)-EDA	137.72	0.107
Kingston	130.21	0.099
Gaz Métropolitain-EDA	234.72	0.203
Consumers' Gas-CDA	30.38	0.000
Consumers' Gas-EDA	85.36	0.055
Cornwall	184.68	0.153
Philipsburg	241.05	0.209
<b>Temporary Winter Service:</b>		
	<u>Commodity Toll</u>	
	Minimum (\$/10 <sup>3</sup> m <sup>3</sup> )	Maximum (\$/10 <sup>3</sup> m <sup>3</sup> )
Empress to Saskatchewan Zone	3.116	6.232
Empress to Manitoba Zone	11.450	22.900
Empress to Western Zone	18.202	36.404
Empress to Northern Zone	28.149	56.298
Empress to Eastern Zone	34.281	68.562

Source: TransCanada's RH-2-95 Compliance Tolls Package dated 27 February 1996, Schedule 6.1.

**Table 7-1  
TransCanada PipeLines Limited  
Transportation Tolls  
Effective 1 January 1996 (cont'd)**

Particulars	Demand Toll	Commodity Toll
	(\$/10 <sup>3</sup> m <sup>3</sup> /mo)	(\$/10 <sup>3</sup> m <sup>3</sup> )
<b>Canadian Peaking Service:</b>		
Empress to Saskatchewan Zone		6.232
Empress to Manitoba Zone		22.900
Empress to Western Zone		36.404
Empress to Northern Zone		56.298
Empress to Eastern Zone		68.562
<b>Winter Firm Service:</b>		
	<u>Commodity Toll</u>	
	Minimum (\$/10 <sup>3</sup> m <sup>3</sup> )	Maximum (\$/10 <sup>3</sup> m <sup>3</sup> )
Empress to Saskatchewan Zone	3.116	6.232
Empress to Manitoba Zone	11.450	22.900
Empress to Western Zone	18.202	36.404
Empress to Northern Zone	28.149	56.298
Empress to Eastern Zone	34.281	68.562
Empress to Spruce	12.491	24.982
Empress to Emerson	12.733	25.466
Empress to Niagara Falls	35.762	71.524
Empress to Iroquois	35.937	71.874
Empress to Cornwall	36.424	72.848
Empress to Sabrevois	38.026	76.052
Empress to Philipsburg	38.388	76.776
Empress to Napierville	38.187	76.374
Empress to Chippawa	35.790	71.580
St. Clair to Niagara Falls	4.713	9.426
St. Clair to Chippawa	4.741	9.482
Kirkwall to Niagara Falls	2.275	4.550
Kirkwall to Chippawa	2.302	4.604
Parkway to Iroquois	5.887	11.772
St. Clair to Iroquois	8.763	17.526

Source: TransCanada's RH-2-95 Compliance Tolls Package dated 27 February 1996, Schedule 6.1.



## Attachment 2

**Table 7-2**  
**Functional Distribution and Classification of Net Revenue Requirement**  
**For the Test Year ended 31 December 1996**  
**(\$ 000)**

	<u>Total</u>	<u>Miscellaneous Transmission</u>	<u>Metering</u>	<u>Fixed</u>	<u>Transmission Variable</u>	
					<u>Fuel, Uses And Other</u>	<u>Unaccounted For Gas</u>
<b>Incentive Cost Envelope</b>						
Incentive Cost Envelope	678,762.000	0	54,115,000	574,155,000	50,492,000	0
<b>Flow Through Envelope</b>						
Delivery Pressure on TBO	5,456.037	0	0	5,456.037	0	0
Insurance Deductible Costs	2,114.000	0	554,000	1,560,000	0	0
Stress Corrosion Cracking Costs	21,570,000	0	5,653,000	15,917,000	0	0
Depreciation	236,009,000	0	2,659,000	233,350,000	0	0
Income Taxes	170,209,000	0	1,497,000	168,712,000	0	0
Regulatory Deferrals	(23,549,000)	0	0	(23,549,000)	0	0
Foreign Exchange Loss	22,447,000	0	0	22,447,000	0	0
Other Operating Income	0	0	0	0	0	0
Return	728,056,000	0	6,401,000	721,655,000	0	0
<b>Gross Revenue Requirement</b>	<b>1,841,074.037</b>	<b>0</b>	<b>70,879,000</b>	<b>1,719,703,037</b>	<b>50,492,000</b>	<b>0</b>
<b>Non-Discretionary Miscellaneous Revenue</b>						
Sales Meter Station Charges	(48,627)	0	(48,627)	0	0	0
Storage Transportation Service	(24,666,205)	0	(4,753,093)	(19,688,217)	(224,895)	0
Sale of Delivery Pressure	(22,424,333)	0	0	(22,424,333)	0	0
Long Term Winter Firm Service	(10,716,456)	0	(295,212)	(10,209,096)	(212,148)	0
<b>Sub-Total Non-Discretionary</b>	<b>(57,855,621)</b>	<b>0</b>	<b>(5,096,932)</b>	<b>(52,321,646)</b>	<b>(437,043)</b>	<b>0</b>
<b>Discretionary Miscellaneous Revenue</b>						
Miscellaneous Revenue	(12,300,000)	0	(108,140)	(12,191,860)	0	0
<b>Sub-Total Discretionary</b>	<b>(12,300,000)</b>	<b>0</b>	<b>(108,140)</b>	<b>(12,191,860)</b>	<b>0</b>	<b>0</b>
<b>Total Miscellaneous Revenue</b>	<b>(70,155,621)</b>	<b>0</b>	<b>(5,205,072)</b>	<b>(64,513,506)</b>	<b>(437,043)</b>	<b>0</b>
<b>Net Revenue Requirement</b>	<b>1,770,918,416</b>	<b>0</b>	<b>65,673,928</b>	<b>1,655,189,531</b>	<b>50,054,957</b>	<b>0</b>

Source: TransCanada's RH-2-95 Compliance Tolls Package dated 27 February 1996, Schedule 2.1.

Attachment 3

**Table 7-3  
System Average Unit Cost of Transportation  
For Tolls Effective 1 January 1996**

Allocation Method	Functionalized (S)	Applicable Allocation Units (10 <sup>3</sup> m <sup>3</sup> )	Unit Costs	
Fixed Volume	65,673,928	181,750	361.3421072902	\$/10 <sup>3</sup> m <sup>3</sup>
Fixed Volume-Distance	1,655,189,531	418,662,938	3.9535133893	\$/10 <sup>3</sup> m <sup>3</sup> -km
Variable Volume	0	65,023,000	0.0000000000	\$/10 <sup>3</sup> m <sup>3</sup>
Variable Volume-Distance	50,054,957	153,016,514,800	0.0003271213	\$/10 <sup>3</sup> m <sup>3</sup> -km
Fixed FST Differential	48,352,553	418,662,938	0.1154927953	\$/10 <sup>3</sup> m <sup>3</sup> -km
Variable FST Differential	0	153,016,514,800	0.0000000000	\$/10 <sup>3</sup> m <sup>3</sup> -km

Source: TransCanada's RH-2-95 Compliance Tolls Package dated 27 February 1996, Schedule 6.1, Sheet 7 of 8.

## Chapter 8

# List of Other Relevant Key Documents

---

1. Letter from the NEB dated 1 September 1995 with attached Hearing Order RH-2-95 setting out the directions on procedure.
2. Letter from the NEB dated 12 October 1995 amending Hearing Order RH-2-95 and which included the identification of Issues 1 (a), 3 (a), 3 (b), 3 (c) and 3 (d).
3. Letter from the NEB dated 7 November 1995 regarding Issues 3 (a), (b) and (d) in the RH-2-95 List of Issues.
4. Letter from the NEB dated 16 November 1995 approving the removal of Issue 3 (c) from the RH-2-95 List of Issues.
5. Direct Evidence of "The Northeast Group" dated 16 November 1995 on the FST issue.
6. Letter from TCPL dated 17 November 1995 containing additional Prefiled Evidence of Mr. D. M. Harvie on the FST issue.
7. Letter from TCPL dated 20 November 1995 with attached FST Settlement Agreement.
8. Letter from the TCPL dated 6 December 1995 for an order establishing interim tolls effective 1 January 1996.
9. Letter from TCPL dated 20 December 1995 advising the NEB that it had negotiated with its stakeholders, an Incentive Cost Recovery and Revenue Sharing Settlement.
10. Letter from the NEB dated 22 December 1995 relieving TCPL from having to respond to certain information requests and seeking comments on whether to substitute a written proceeding for the oral proceeding initially contemplated for Phase 2 matters.
11. RH-2-95 Phase 1 Decision issued 28 December 1995 with attached Interim Toll Order TGI-3-95.
12. Letter from TransCanada dated 2 January 1996 enclosing supporting information, direct evidence, explanatory, schedules relating to cost of service items and, in particular, a request for final approval of 1996 Tolls, effective 1 January 1996, on or before 6 February 1996.
13. Letter from TCPL dated 9 January 1996 with respect to interim tolls.
14. Letter from TCPL dated 10 January 1996 revising Schedule 6.2.
15. Letter from the NEB dated 10 January 1996 amending Order TGI-3-95 pursuant to Order AO-1-TGI-3-95.
16. Letter from the NEB dated 17 January 1996 cancelling the oral hearing initially scheduled for Phase 2 matters and in its place scheduling a one-day forum open to all parties.

17. Letter from the NEB dated 22 February 1996 with attached RH-2-95 Phase 2 Decision.
18. Letter from TCPL dated 27 February 1996 with revised schedules and tolls implementing all decisions of the Board from Phase 1 and Phase 2 of RH-2-95 and the revised rate of return on common equity of 11.25%.
19. Letter from the NEB dated 15 March 1996 approving final 1996 tolls pursuant to Order TG-2-96.



National Energy Board

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## Reasons for Decision

**Westcoast Energy Inc.**

**RH-2-97  
Part II**

*Aug 22/97*

**August 1997**

---

**Multi-year Incentive Toll Settlement  
1 January 1997 to 31 December 2001**

# **National Energy Board**

---

## **Reasons for Decision**

In the Matter of

**Westcoast Energy Inc.**

Multi-year Incentive Toll Settlement  
1 January 1997 to 31 December 2001

**RH-2-97**  
**Part II**

**August 1997**

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## **ARTICLE 1**

### **INTRODUCTION**

#### **1.1 Purpose of Settlement**

Westcoast and its stakeholders as represented by the Canadian Association of Petroleum Producers, the Council of Forest Industries, Cominco Ltd. and Methanex Corporation, the Export Users Group, BC Gas Utility Ltd. and CanWest Gas Supply Inc. (collectively, the "Parties") propose the implementation of this Settlement for the determination of Westcoast's tolls for service on the Pipeline System for a five year period commencing January 1, 1997. This Settlement provides incentives for Westcoast to operate in a manner consistent with the increasingly competitive nature of the natural gas industry and incentives for Westcoast to provide competitive service to its Shippers. The Parties intend this Settlement to be interpreted and applied in good faith and in a manner consistent with the spirit of the objectives set out in section 1.2.

#### **1.2 Objectives**

The primary objectives of this Settlement are as follows:

- (a) to enhance the viability and competitiveness of the British Columbia natural gas basin by aligning more closely the interests of Shippers and Westcoast through a framework which encourages operating and capital cost efficiencies;
- (b) to provide Shippers with toll certainty and stability over an extended period of time;
- (c) to provide for a period of orderly transition for the regulation of Westcoast's tolls in Zone 1 and Zone 2 from the existing full cost of service method of regulation to a light-handed method of regulation encompassing negotiated market-based arrangements which the Parties desire to be fully implemented by the end of the Term;
- (d) to provide the lowest possible tolls and the highest possible level of Pipeline System reliability and utilization, without compromising pipeline efficiency or adversely impacting safety or the environment;
- (e) to maintain or improve the safe, efficient, reliable and flexible operation of the Pipeline System;
- (f) to maintain the financial integrity of Westcoast; and
- (g) to reduce the resources consumed by Westcoast, its tollpayers and the Board in the traditional regulatory process.

## **ARTICLE 2**

### **INTERPRETATION**

#### **2.1 Definitions**

In this Settlement and in the Schedules:

- (a) "Accounting Policies and Procedures" means the accounting policies and procedures described in Schedule C;
- (b) "Board" means the National Energy Board or such other regulatory authority having jurisdiction;
- (c) "Cost Recovery Applications" means the Fort St. John Cost Recovery Application and the Grizzly Valley Cost Recovery Application;
- (d) "Existing Facilities" means the Pipeline System facilities which were in-service on January 1, 1997 and any additions or modifications to such facilities after January 1, 1997 which are required for the safe, efficient or reliable operation of the Pipeline System at the capacity levels existing at January 1, 1997;
- (e) "Fort St. John Cost Recovery Application" means the Fort St. John cost recovery application filed by Westcoast with the Board on July 15, 1996 and includes any amendments thereto;
- (f) "General Terms and Conditions" means Westcoast's General Terms and Conditions for Service as amended from time to time;
- (g) "Grizzly Valley Cost Recovery Application" means the Grizzly Valley cost recovery application filed by Westcoast with the Board on July 31, 1996 and includes any amendments thereto;
- (h) "Incremental Facilities" means any additions or modifications to the Pipeline System after January 1, 1997 which do not constitute Existing Facilities;
- (i) "NEB Act" means the National Energy Board Act;
- (j) "Pipeline System" means the gas gathering, processing and transmission facilities owned and operated by Westcoast in British Columbia, Alberta, the Yukon Territory and the Northwest Territories;
- (k) "Shipper" means any person who enters into an agreement with Westcoast for service on the Pipeline System;
- (l) "Term" means the term of this Settlement as set forth in section 3.1;
- (m) "Toll and Tariff Task Force" means the group comprised of representatives from Westcoast, Shippers and other interested parties formed for the purpose of addressing and attempting to resolve issues relating to Westcoast's tolls and tariff and commonly known as Westcoast's "Toll and Tariff Task Force";

- (n) **“Toll Schedules” means Westcoast's Toll Schedules for Raw Gas Transmission Service, Treatment Service, Liquids Recovery Service, Liquid Products Stabilization and Fractionation Service, Fuel Gas Service, Offline Service, Transportation Service - Northern Long and Short Haul and Transportation Service - Southern as amended from time to time;**
- (o) **“Westcoast” means Westcoast Energy Inc.;**
- (p) **“Year” means a period of 12 consecutive months commencing on January 1 and ending on December 31;**
- (q) **“Zone 1” means the toll zones on the Pipeline System designated as Zone 1 and Zone 1A in the 1997 Toll Application;**
- (r) **“Zone 2” means the toll zone on the Pipeline System designated as Zone 2 in the 1997 Toll Application;**
- (s) **“Zone 3” means the toll zone on the Pipeline System designated as Zone 3 in the 1997 Toll Application;**
- (t) **“Zone 4” means the toll zone on the Pipeline System designated as Zone 4 in the 1997 Toll Application; and**
- (u) **“1997 Toll Application” means Westcoast's 1997 general toll application filed with the Board on November 6, 1996.**

## 2.2 Schedules

The following are the Schedules attached to this Settlement:

- Schedule A: **Gathering and Processing Tolls**
- Schedule B: **Transmission Tolls**
- Schedule C: **Accounting Policies and Procedures**
- Schedule D: **Service Reliability**

## 2.3 Interpretation

In this Settlement, except as otherwise expressly provided:

- (a) **“this Settlement” or “the Settlement” means this settlement agreement, and includes the Schedules and the Appendices to the Schedules;**
- (b) **all references in this Settlement to designated “Articles”, “sections” and other subdivisions or Schedules are to the designated Articles, sections and other subdivisions or Schedules of or to this Settlement;**
- (c) **the headings are inserted for convenience only and are not intended to interpret, define or limit the scope, extent or intent of this Settlement;**

- (d) the singular of any term includes the plural, and vice versa, and the word "including" is not limiting whether or not non-limiting language (such as "without limitation" or "but not limited to" or words of similar import) is used with reference thereto;
- (e) all references to "dollars" or "\$" mean the lawful currency of Canada;
- (f) "business day" means a day other than a Saturday or Sunday or a day observed as a holiday under the laws of British Columbia or Alberta or the federal laws of Canada; and
- (g) where the time for doing an act falls or expires on a day other than a business day, the time for doing such act is extended to the next day which is a business day.

#### 2.4 Application

This Settlement only applies to the Pipeline System.

#### 2.5 Negotiated Settlement

This Settlement is the result of negotiations and the Parties have entered into this Settlement on the understanding that no single component of this Settlement is to be construed as representing the position of any Party on the appropriate tolls that would be obtained in the absence of this Settlement. The Parties intend that this Settlement be viewed as a whole, and that no aspect of this Settlement should be considered as acceptable to any of the Parties in isolation from all other aspects of this Settlement. This Settlement does not prejudice the position of any of the Parties subsequent to the expiration or termination of this Settlement.

#### 2.6 Board Approval

The implementation of this Settlement is subject to Board approval and the Parties agree that this Settlement will terminate if it is not approved in its entirety by the Board. The Parties also acknowledge that all matters respecting Westcoast's tolls, including the tolls under this Settlement and the ultimate adjudication of any disputes which arise out of this Settlement which cannot be resolved by the Parties in accordance with the terms of this Settlement, will be determined by the Board.

### **ARTICLE 3** **TERM**

#### 3.1 Term

The effective date of this Settlement is January 1, 1997 and this Settlement will continue in effect until December 31, 2001.

**ARTICLE 4**  
**PIPELINE SYSTEM TOLLS**

4.1 **Gathering and Processing Tolls**

Westcoast's tolls for service in Zone 1 and Zone 2 during the Term will be determined in the manner set out in Schedule A.

4.2 **Transmission Tolls**

Westcoast's tolls for service in Zone 3 and Zone 4 during the Term will be determined in the manner set out in Schedule B.

**ARTICLE 5**  
**GRIZZLY VALLEY/FORT ST. JOHN ADJUSTMENT**

5.1 **Expansion Project Costs**

The Parties agree that the Board should determine the amount that Westcoast is permitted to recover in its tolls on account of the costs incurred by Westcoast in connection with the Fort St. John and Grizzly Valley expansion projects. The Parties also acknowledge that the tolls provided for in Schedule A and Schedule B will need to be adjusted to reflect such a determination by the Board. Accordingly, Westcoast will at the time it applies to the Board for approval of this Settlement request that the Board make a determination with respect to the Cost Recovery Applications and the amount that Westcoast is permitted to recover in its tolls on account of the Fort St. John and Grizzly Valley expansion projects. Following the Board's decision Westcoast's tolls for service set out in Schedule A and Schedule B will be adjusted to reflect the Board's decision.

**ARTICLE 6**  
**SERVICE RELIABILITY**

6.1 **Service Reliability**

The Parties have agreed to certain principles related to service reliability on the Pipeline System which are set out in Schedule D. The implementation of the principles set out in Schedule D will require amendments to the Toll Schedules and General Terms and Conditions which will be settled between Westcoast and the other Parties. If Westcoast and the other Parties are unable to settle the terms of such amendments to the Toll Schedules and General Terms and Conditions at least 45 days prior to the applicable implementation date set out in Schedule D, then Westcoast and the other Parties will jointly file an application with the Board requesting the Board to settle the appropriate form of such amendments.

6.2 Nominations '97

The introduction of Nominations '97 referred to in Part V of Schedule D will require Shippers to contract their fuel requirements on the Pipeline System which may result in an increase in contract demand allocation units and an offsetting reduction in tolls. Accordingly, Westcoast's tolls for service set out in Schedule A and Schedule B will be adjusted to reflect any change in contract demand allocation units as a result of the introduction of Nominations '97.

**ARTICLE 7**  
**DISPUTE RESOLUTION PROCESS**

7.1 Dispute Resolution

In the event of any dispute under this Settlement, including a dispute respecting the determination of tolls under Schedule A or Schedule B and a dispute respecting the application of this Settlement, Westcoast and the affected Parties or Shippers will in good faith attempt to resolve the dispute. If a satisfactory resolution cannot be achieved within 30 days, Westcoast or any of the affected Parties or Shippers may file an application with the Board requesting the Board to adjudicate the matter in dispute. Any such application must also contain a request that the Board deal with the matter in dispute on an expedited basis and may contain a request that Westcoast's tolls be made interim pending the Board's decision with respect to the matter.

**ARTICLE 8**  
**FILING REQUIREMENTS**

8.1 Implementation of Settlement

Westcoast will as soon as practicable file an application with the Board under Part IV of the NEB Act to amend the 1997 Toll Application and give effect to the terms of this Settlement. Westcoast will also file with the Board all amendments to its tariff, including the Toll Schedules and General Terms and Conditions, necessary to give effect to the terms of this Settlement. Westcoast will consult with the other Parties concerning the form and content of such application and tariff amendments prior to filing such application and tariff amendments with the Board.

8.2 Annual Filing

Westcoast will, on or before March 1 of each Year during the Term commencing in 1998, file with the Board the Option B Tolls for service in Zone 3 and Zone 4 for such Year determined in the manner set out in Schedule B, together with sufficient supporting schedules and explanatory information necessary to establish that the proposed Option B Tolls have been determined in the manner set out in Schedule B. Westcoast will prior to January 1 of such Year request the Board to issue an order making the Option B Tolls for the immediately preceding Year interim from January 1 of such Year pending the determination of final Option B Tolls in accordance with the toll filing required under this section 8.2, provided that Westcoast may, after consulting with the other Parties, request the Board to base the interim toll order on a forecast of the Option B Tolls for such Year having regard to the Year-over-Year change in the Option B Tolls. Subject to the terms of this Settlement (including any toll

adjustments pursuant to Article 6 of Schedule A or Article 6 or 7 of Schedule B) and any adjustment required as a result of the Board's disposition of the Cost Recovery Applications pursuant to Article 5, the tolls set out in Appendices A, B, C, D, E and F of Schedule A for service in Zone 1 and Zone 2 and the Option A Toll set out in Appendix A of Schedule B for service in Zone 3 and Zone 4 will remain in place during the Term and, accordingly, there will be no requirement to file such tolls on an annual basis during the Term.

### 8.3 Forecasts and Reports

Westcoast will seek, with support of the other Parties, an exemption from the Board from the requirement to file annual cost of service and financial forecasts and:

- (a) in the case of Zone 1 and Zone 2, an order or directive from the Board permitting Westcoast to file only year-end surveillance reports, commencing with the Year ending December 31, 1997, in a form amended to reflect the provisions of this Settlement; and
- (b) in the case of Zone 3 and Zone 4, an order or directive from the Board permitting Westcoast to file quarterly surveillance reports, commencing with the quarter ending September 30, 1997, in a form amended to reflect the provisions of this Settlement.

Westcoast will work with the Toll and Tariff Task Force to settle the form of the year-end and quarterly surveillance reports.

## **ARTICLE 9 TERMINATION OF SETTLEMENT**

### 9.1 Right to Terminate

Westcoast or any other Party acting in good faith will have the option to terminate this Settlement in accordance with section 9.2 in any of the following circumstances:

- (a) if this Settlement is materially varied by an order or direction of the Board;
- (b) if the Parties are unable to agree by December 31, 1997 on the principles of light-handed regulation which are to apply to the services provided by Westcoast in Zone 1 and Zone 2 after the end of the Term, as provided for in section 7.1 of Schedule A;
- (c) if the Parties are unable to agree by December 31, 1997 on the terms of an interconnection policy in Zone 1 and Zone 2, as provided for in section 8.1 of Schedule A; or
- (d) a change occurs in the governing body regulating Westcoast, government policy or regulatory policy which has an effect on Westcoast's tolls or tariff inconsistent with the provisions of this Settlement.

# SCHEDULE A GATHERING AND PROCESSING TOLLS

## ARTICLE 1 INTERPRETATION

### 1.1 Definitions

In this Schedule A, except as otherwise expressly provided:

- (a) "Fuel Gas Service" means the service provided by Westcoast under the Toll Schedule for Fuel Gas Service;
- (b) "Fuel Gas Toll" means, in respect of any month, the demand toll payable for Fuel Gas Service during such month equal to the toll specified in Appendix F for such month;
- (c) "LPSF Service" means the service provided by Westcoast under the Toll Schedule for Liquid Products Stabilization and Fractionation Service;
- (d) "LPSF Toll" means, in respect of any month, the commodity toll payable for LPSF Service during such month equal to the toll specified in Appendix E for such month;
- (e) "Liquids Recovery Service" means the service provided by Westcoast under the Toll Schedule for Liquids Recovery Service;
- (f) "Liquids Recovery Toll" means, in respect of any month, the demand toll payable for Liquids Recovery Service during such month equal to the toll specified in Appendix D for such month;
- (g) "Offline Service" means the service provided by Westcoast under the Toll Schedule for Offline Service;
- (h) "RGT Demand Toll Adjustment" means, in respect of any month, the demand toll adjustment for such month for RGT Service expressed in Canadian dollars per  $10^3\text{m}^3$  per month determined pursuant to Article 4;
- (i) "RGT Service" means the service provided by Westcoast under the Toll Schedule for Raw Gas Transmission Service;
- (j) "Term Election Form" means an election form substantially in the form attached hereto as Appendix G;
- (k) "Treatment Demand Toll Adjustment" means, in respect of any month, the demand toll adjustment for such month for Treatment Service expressed in Canadian dollars per  $10^3\text{m}^3$  per month determined pursuant to Article 4;

- (l) "Treatment Service" means the service provided by Westcoast under the Toll Schedule for Treatment Service;
- (m) "5 Year Service" means each RGT Service and Treatment Service designated for toll purposes as 5 Year Service pursuant to sections 3.3 (a) and 3.4;
- (n) "3 Year Service" means each RGT Service and Treatment Service designated for toll purposes as 3 Year Service pursuant to sections 3.3 (b), 3.4, 3.7 and 3.8;
- (o) "1 Year Service" means each RGT Service and Treatment Service designated for toll purposes as 1 Year Service pursuant to sections 3.3 (c) and 3.8;
- (p) "5 Year Service Toll" means, in respect of any month, the demand toll payable for a 5 Year Service during such month equal to the sum of:
  - (i) in the case of RGT Service, the toll specified in Appendix A for such service for such month and the RGT Demand Toll Adjustment, if any, for such month; and
  - (ii) in the case of Treatment Service, the toll specified in Appendix A for such service for such month and the Treatment Demand Toll Adjustment, if any, for such month;
- (q) "3 Year Service Toll" means, in respect of any month, the demand toll payable for a 3 Year Service during such month equal to the sum of:
  - (i) in the case of RGT Service, the toll specified in Appendix B for such service for such month and the RGT Demand Toll Adjustment, if any, for such month; and
  - (ii) in the case of Treatment Service, the toll specified in Appendix B for such service for such month and the Treatment Demand Toll Adjustment, if any, for such month;
- (r) "1 Year Service Toll" means, in respect of any month, the demand toll payable for a 1 Year Service during such month equal to the sum of:
  - (i) in the case of RGT Service, the toll specified in Appendix C for such service for such month and the RGT Demand Toll Adjustment, if any, for such month; and
  - (ii) in the case of Treatment Service, the toll specified in Appendix C for such service for such month and the Treatment Demand Toll Adjustment, if any, for such month;
- (s) "1997 Contract Demand Allocation Units" means, in respect of RGT Service or Treatment Service, the average daily contract demand allocation units for such service for the Year ending December 31, 1997 determined on the basis of contract levels for such Year as of the 1997 Contract Demand Allocation Units Date;

- (t) "1997 Contract Demand Allocation Units Date" means July 1, 1997 or such other date as may be agreed to by the Parties; and
- (u) "10<sup>3</sup>m<sup>3</sup>" means 1,000 cubic meters of gas.

1.2 Appendices

The following are the Appendices to this Schedule A:

- Appendix A: 5 Year Service Tolls
- Appendix B: 3 Year Service Tolls
- Appendix C: 1 Year Service Tolls
- Appendix D: Liquids Recovery Tolls
- Appendix E: LPSF Tolls
- Appendix F: Fuel Gas Tolls
- Appendix G: Term Election Form
- Appendix H: Illustrations of Calculation of RGT Demand Toll Adjustment and Treatment Demand Toll Adjustment

**ARTICLE 2**  
**GATHERING AND PROCESSING TOLLS**

2.1 Tolls for Firm Service

Subject to the provisions of this Settlement, Westcoast will each month during the Term charge the following tolls for the following firm services through Existing Facilities in Zone 1 and Zone 2:

- (a) with respect to RGT Service and Treatment Service:
  - (i) the 5 Year Service Tolls for 5 Year Service;
  - (ii) the 3 Year Service Tolls for 3 Year Service; and
  - (iii) the 1 Year Service Tolls for 1 Year Service;
- (b) the Liquids Recovery Tolls for Liquids Recovery Service;
- (c) the LPSF Tolls for LPSF Service;
- (d) the Fuel Gas Tolls for Fuel Gas Service; and
- (e) with respect to those Shippers receiving service through the Helmet/Peggo facilities in the Fort Nelson resource area as of January 1, 1997, the surcharges for RGT Service set forth in the appendix attached to the Toll Schedule for RGT Service entitled "Demand and Commodity Toll Surcharges - Raw Gas Transmission Service - Helmet/Peggo Facilities".

Westcoast will amend the Toll Schedules for RGT Service, Treatment Service, Liquids Recovery Service, LPSF Service and Fuel Gas Service to reflect the tolls set out above, and the Board's decision with respect to the Cost Recovery Applications pursuant to Article 5 of

the Settlement, by replacing the appendix of tolls attached to each such Toll Schedule with a new appendix which reflects such tolls.

**2.2 Tolls for Renewed Firm RGT and Treatment Service**

Subject to the provisions of this Settlement, Westcoast will each month during the Term charge the 1 Year Service Tolls for each 3 Year Service and each 1 Year Service which is renewed pursuant to the term renewal right specified in section 2.02 of the General Terms and Conditions.

**2.3 Tolls for Uncontracted and Attrition Capacity**

Subject to section 3.8, the tolls and terms and conditions for service for any RGT Service or Treatment Service provided by Westcoast during the Term through Existing Facilities in Zone 1 or Zone 2 and which is not 5 Year Service, 3 Year Service or 1 Year Service will be determined from time to time through negotiations between Westcoast and the Shippers requesting such service or, if Westcoast so elects at such time, through an open season bidding process. All such RGT Service and Treatment Service that becomes available from time to time for any reason will be posted by Westcoast on its public bulletin board. All tolls and any variation in terms and conditions of service requiring Board approval which result from such negotiations or bidding process will be subject to filing with or approval by the Board under Part IV of the NEB Act.

**2.4 Tolls for New Services**

The tolls and terms and conditions for service for any new services in Zone 1 and Zone 2 provided by Westcoast during the Term through Existing Facilities will be determined from time to time through negotiations between Westcoast and the Shippers requesting such service or, if Westcoast so elects at such time, through an open season bidding process. Westcoast will consult with the Toll and Tariff Task Force with respect to any new service which affects the provision of existing service. All tolls and any variation in terms and conditions of service requiring Board approval which result from such negotiations or bidding process will be subject to filing with or approval by the Board under Part IV of the NEB Act.

**2.5 Tolls for Incremental Capacity**

The tolls and terms and conditions for service for any RGT Service, Treatment Service, Liquids Recovery Service, LPSF Service, Fuel Gas Service or any new service in Zone 1 or Zone 2 provided by Westcoast during the Term through Incremental Facilities in Zone 1 and Zone 2 will be determined from time to time through negotiations between Westcoast and the Shippers requesting such service or, if Westcoast so elects at such time, through an open season bidding process. All tolls and any variation in terms and conditions of service requiring Board approval which result from such negotiations or bidding process will be subject to filing with or approval by the Board under Part IV of the NEB Act.

## 2.6 Negotiated Tolls

The Parties intend that during the Term there should be a transition towards more negotiated, market-based arrangements between Westcoast and the Shippers consistent with the objective of fully implementing a method of light-handed complaints-based regulation of Westcoast's tolls in Zone 1 and Zone 2 by the end of the Term as contemplated in Article 7. Accordingly, following the completion of the allocation process set forth in sections 3.3 and 3.4, Westcoast and any Shipper will be free to negotiate the tolls and terms and conditions of service with respect to any firm service agreements under which Westcoast is providing RGT Service, Treatment Service, Liquids Recovery Service, LPSF Service or Fuel Gas Service. All tolls and any variation in terms and conditions of service requiring Board approval which result from any such negotiations will be subject to filing with or approval by the Board under Part IV of the NEB Act.

## 2.7 Tolls for Interruptible Service

Subject to the provisions of this Settlement, Westcoast will each month during the Term charge the following tolls for the following interruptible services provided through Existing Facilities in Zone 1 and Zone 2:

- (a) during the months of April to October, inclusive:
  - (i) with respect to RGT Service and Treatment Service, a commodity toll (expressed in \$ per  $10^3\text{m}^3$ ) equal to the 100% load factor equivalent of the 1 Year Service Tolls for such service for such month;
  - (ii) with respect to Liquids Recovery Service, a commodity toll (expressed in \$ per  $\text{m}^3$ ) equal to the 100% load factor equivalent of the Liquids Recovery Toll for such month; and
  - (iii) with respect to Fuel Gas Service, a commodity toll (expressed in \$ per  $10^3\text{m}^3$ ) equal to the 75% load factor equivalent of the Fuel Gas Toll for such month; and
- (b) during the months of November to March, inclusive:
  - (i) with respect to RGT Service and Treatment Service, a commodity toll (expressed in \$ per  $10^3\text{m}^3$ ) equal to the 75% load factor equivalent of the 1 Year Service Tolls for such service for such month;
  - (ii) with respect to Liquids Recovery Service, a commodity toll (expressed in \$ per  $\text{m}^3$ ) equal to the 75% load factor equivalent of the Liquids Recovery Toll for such month; and
  - (iii) with respect to Fuel Gas Service, a commodity toll (expressed in \$ per  $10^3\text{m}^3$ ) equal to the 75% load factor equivalent of the Fuel Gas Toll for such month.

Notwithstanding the foregoing, the continued appropriateness of the load factors used in paragraphs (a) and (b) above for purposes of calculating the interruptible tolls for RGT Service, Treatment Service, Liquids Recovery Service and Fuel Gas Service will be reviewed

from time to time by Westcoast and the Toll and Tariff Task Force and an adjustment to such load factors and interruptible tolls will be made if the Toll and Tariff Task Force by an unopposed resolution agrees to such adjustment. If the Toll and Tariff Task Force cannot reach agreement on a proposed adjustment to such load factors and interruptible tolls, then Westcoast may file an application with the Board requesting the Board to determine whether such an adjustment should be made.

2.8 Bidding Process to Determine Tolls for Interruptible Service

Notwithstanding section 2.7, it is the desire of the Parties that Westcoast, if feasible, introduce a bidding process for the determination of the tolls for interruptible service in Zone 1 and Zone 2 under which interruptible service would be allocated, subject to certain minimum bids and a maximum bid equal to the 50% load factor equivalent of the 1 Year Service Tolls, to Shippers willing to pay the highest toll for interruptible service. If Westcoast determines that the introduction of a bidding process is feasible, then Westcoast will work with the other Parties to implement such a process. Any such change in the determination of the tolls for interruptible service in Zone 1 and Zone 2 will be subject to filing with or approval by the Board under Part IV of the NEB Act.

**ARTICLE 3**  
**ALLOCATION OF SERVICE FOR TOLL PURPOSES**

3.1 Allocation of Service

The Parties agree that the RGT Services and Treatment Services will be allocated for toll purposes to 5 Year Service, 3 Year Service and 1 Year Service in accordance with this Article 3 such that in any Year during the Term the amount of RGT Service and Treatment Service eligible for the 5 Year Service Tolls and the 3 Year Service Tolls will not exceed:

- (a) in the case of the 5 Year Service Tolls, 50% of the 1997 Contract Demand Allocation Units for RGT Service and 50% of the 1997 Contract Demand Allocation Units for Treatment Service; and
- (b) in the case of the 3 Year Service Tolls, 25% of the 1997 Contract Demand Allocation Units for RGT Service and 25% of the 1997 Contract Demand Allocation Units for Treatment Service.

### 3.2 Option to Extend Service Expiry Date

All Shippers who have contracted for RGT Services or Treatment Services as of the 1997 Contract Demand Allocation Units Date and for which service has commenced or will commence by November 1, 1997 will, provided that there is no existing limitation on the right to renew such services in accordance with Article 2 of the General Terms and Conditions, have the right to elect to extend the service expiry dates of all or any portion of such services which do not expire October 31, 1997 in order to qualify such services for the 5 Year Service Tolls or the 3 Year Service Tolls, by delivering to Westcoast, on or before July 11, 1997 (or such other date as may be agreed to by the Parties), a duly completed and executed Term Election Form. Such an election will only be binding on a Shipper to the extent that such Shipper is allocated 5 Year Service or 3 Year Service pursuant to the allocation process set out in section 3.3 or 3.4. In addition, if the Settlement is terminated prior to the end of the Term pursuant to section 9.1 of the Settlement, then any service expiry dates which were extended as a result of an election pursuant to this section 3.2 and which fall on a date later than October 31 next following the effective date of such termination will be amended to the later of the original service expiry date and October 31 next following the effective date of such termination.

### 3.3 Allocation Procedure

Westcoast will on or before August 15, 1997 (or such other date as may be agreed to by the Parties) allocate for toll purposes as 5 Year Service, 3 Year Service or 1 Year Service all RGT Services and Treatment Services which are contracted as of the 1997 Contract Demand Allocation Units Date and for which service has commenced or will commence by November 1, 1997 in accordance with the following procedure:

(a) 5 Year Service will be allocated in the following priority:

- (i) each RGT Service and Treatment Service which, as of January 1, 1997, has a service expiry date later than October 30, 2001 will be allocated for toll purposes to the Shippers holding such service, and such service will be designated as 5 Year Service for the remaining term of such service; and
- (ii) any remaining amount of RGT Service or Treatment Service available for the 5 Year Service Tolls pursuant to section 3.1 will be allocated for toll purposes to those Shippers who:
  - (A) elect pursuant to section 3.2 to extend the service expiry date of their RGT Service or Treatment Service to a date which, in the case of service which commenced on or before January 1, 1997, is later than October 30, 2001, and to a date which, in the case of service which commences after January 1, 1997, is at least five years later than the service commencement date of such service; and
  - (B) have contracted for RGT Service or Treatment Service after January 1, 1997 with a service expiry date which is at least five years later than the service commencement date of such service;

pro rata based on the amount of such service so elected or contracted by each such Shipper and having regard to the limitation in section 3.4, and such service will be designated as 5 Year Service for the remaining term of such service;

- (b) 3 Year Service will be allocated in the following priority:
  - (i) each RGT Service and Treatment Service which, as of January 1, 1997, has a service expiry date later than October 30, 1999 and which is not designated as 5 Year Service pursuant to (a)(i) above will be allocated for toll purposes to the Shippers holding such service, and such service will be designated as 3 Year Service for the remaining term of such service; and
  - (ii) any remaining amount of RGT Service or Treatment Service available for the 3 Year Service Tolls pursuant to section 3.1 will be allocated for toll purposes to those Shippers who:
    - (A) elect pursuant to section 3.2 to extend the service expiry date of their RGT Service or Treatment Service to a date which, in the case of service which commenced on or before January 1, 1997, is later than October 30, 1999, and to a date which, in the case of service which commences after January 1, 1997, is at least three years later than the service commencement date of such service (including such service which as a result of the pro rata allocation in (a)(ii) above was not designated as 5 Year Service); and
    - (B) have contracted for RGT Service or Treatment Service after January 1, 1997 with a service expiry date which is at least three years later than the service commencement date of such service (including such service which as a result of the pro rata allocation in (a)(ii) above was not designated as 5 Year Service);

pro rata based on the amount of such service so elected or contracted by each such Shipper and having regard to the limitation in section 3.4, and such service will be designated as 3 Year Service for the remaining term of such service; and

- (c) all remaining RGT Service and Treatment Service which is not designated as 5 Year Service or 3 Year Service pursuant to (a) and (b) above will be allocated for toll purposes to the Shippers holding such service and will be designated as 1 Year Service for the remaining term of such service.

#### 3.4 Limitation on Allocation of Service

Notwithstanding section 3.3, the maximum amount of RGT Service and Treatment Service which may be allocated for toll purposes to any Shipper pursuant to section 3.3(a)(ii) and 3.3(b)(ii) and designated as 5 Year Service and 3 Year Service, respectively, will be limited to:

- (a) in the case of section 3.3(a)(ii), the amount, if any, by which (i) 50% of all RGT Services and 50% of all Treatment Services which are contracted by such Shipper as

of the 1997 Contract Demand Allocation Units Date and for which service has commenced or will commence by November 1, 1997, exceeds (ii) the amount of RGT Service and Treatment Service, respectively, allocated for toll purposes to such Shipper pursuant to section 3.3(a)(i); and

- (b) in the case of section 3.3(b)(ii), the amount, if any, by which (i) 25% of all RGT Services and 25% of all Treatment Services which are contracted by such Shipper as of the 1997 Contract Demand Allocation Units Date and for which service has commenced or will commence by November 1, 1997, exceeds (ii) the amount of RGT Service and Treatment Service, respectively, allocated for toll purposes to such Shipper pursuant to section 3.3(b)(i).

If as a result of such limitation there is at the end of the allocation procedure in section 3.3 any remaining amount of RGT Service or Treatment Service available for the 5 Year Service Tolls or the 3 Year Service Tolls pursuant to section 3.1, then such service will be allocated for toll purposes to the Shippers affected by such limitation pro rata based on the amount of RGT Service or Treatment Service held by each such Shipper which, pursuant to this section 3.4, was excluded from the allocation procedure in sections 3.3 (a)(ii) and 3.3(b)(ii), and such service will be designated as 5 Year Service or 3 Year Service, as the case may be, for the remaining term of such service.

### 3.5 Notice of Allocation

Westcoast will following completion of the allocation process set forth in sections 3.3 and 3.4 advise all Shippers in Zone 1 and Zone 2 of the results of the allocation. The allocation will become final and binding on all Shippers on the later of (i) 15 days after the date on which Westcoast advises the Shippers of the results of the allocation, and (ii) the date on which any review of the allocation process requested pursuant to section 3.6 is completed.

### 3.6 Independent Review

At any time prior to the date which is 10 days after the date on which Westcoast advises Shippers pursuant to section 3.5 of the results of the allocation process set forth in sections 3.3 and 3.4, any Shipper may request an independent review of the results of the allocation. Any such review will be conducted by a qualified firm of nationally recognized chartered accountants having offices in Vancouver, British Columbia agreed to by Westcoast and such Shipper and must be completed within 15 days after such firm is appointed to conduct such review. The cost of any such review, including Westcoast's internal costs, will be borne by the Shipper requesting such review unless it is determined through the review process that (i) there should be an adjustment in the amount of 5 Year Service or 3 Year Service allocated by Westcoast to such Shipper of 10% or more, or (ii) there should be an adjustment in the amount of 5 Year Service or 3 Year Service allocated by Westcoast to all Shippers of 5% or more on an absolute basis.

### 3.7 Continued Availability of Unallocated 3 Year Service Tolls until December 31, 1998

If following the date on which the allocation process set forth in sections 3.3 and 3.4 becomes final and binding there is any remaining amount of RGT Service or Treatment Service available for the 3 Year Service Tolls pursuant to section 3.1, then such service will continue

to be available until December 31, 1998 and will be allocated for toll purposes on a "first come first served basis" to those Shippers who:

- (a) agree to extend the service expiry date of their existing RGT Service or Treatment Service to a date which is at least three years later than the date on which the payment of the 3 Year Service Tolls would become effective in respect of such existing RGT Service or Treatment Service pursuant to this section 3.7; or
- (b) contract for RGT Service or Treatment Service having a service commencement date during such period and a service expiry date which is at least three years later than such service commencement date;

and such service will be designated as 3 Year Service for the remaining term of such service.

3.8 Continued Availability of 3 Year Service Tolls and 1 Year Service Tolls for Uncontracted and Attrition Capacity until December 31, 1998

Notwithstanding section 2.3, the 3 Year Service Tolls and the 1 Year Service Tolls will continue to be available until December 31, 1998 to any Shipper who contracts for any available RGT Service or Treatment Service (other than RGT Service or Treatment Service made available as a result of Incremental Facilities) provided that (i) such service commences on or before December 31, 1998, (ii) the amount of such service contracted by such Shipper which is allocated the 3 Year Service Tolls may not exceed 25% of the total amount of such service contracted by such Shipper, and (iii) the amount of such service which is allocated the 3 Year Service Tolls must have a service expiry date which is at least three years later than the service commencement date of such service. Any such RGT Service or Treatment Service allocated for toll purposes pursuant to this section 3.8 will be designated as 3 Year Service or 1 Year Service, as the case may be, for the remaining term of such service.

## **ARTICLE 4**

### **DEMAND TOLL ADJUSTMENT**

4.1 Definitions

In this Article 4:

- (a) "\$ U.S." or "U.S. dollars" means the lawful currency of the United States of America;
- (b) "AECO Price Index" means, in respect of any month, the price for "AECO 'C' N.I.T. One-Month Spot" located under the column "\$/GJ, Avg" for such month in the "Canadian Natural Gas Supply Prices" section of the publication Canadian Gas Price Reporter (reported in Canadian dollars per GJ) for such month;
- (c) "Contract Demand Allocation Units" means, in respect of RGT Service or Treatment Service provided through Existing Facilities in any Year, the actual average daily contract demand allocation units for such service for such Year;

- (d) "Converted AECO Price Index" means, in respect of any month, the quotient obtained by dividing (i) the product obtained by multiplying the AECO Price Index for such month by 1.054615, by ii) the Exchange Rate for such month;
- (e) "Exchange Rate" means, in respect of any month, the rate of exchange for converting U.S. dollars into Canadian dollars equal to the average of the noon spot exchange rates for the U.S. dollar in terms of the Canadian dollar for the immediately preceding month, as published by the Bank of Canada;
- (f) "GJ" means 1,000,000,000 joules;
- (g) "MMBtu" means 1,000,000 British thermal units;
- (h) "Price Index" means, in respect of any month, the sum of (i) the product obtained by multiplying the Sumas Price Index for such month by .8, (ii) the product obtained by multiplying the Rockies Price Index for such month by .1, and (iii) the product obtained by multiplying the Converted AECO Price Index for such month by .1;
- (i) "Rockies Price Index" means, in respect of any month, the price for "Northwest Pipeline Corp., Rocky Mountains" located under the column "Index" in the "Prices of Spot Gas Delivered to Pipelines" section in the issue of the publication Inside F.E.R.C.'s Gas Market Report (reported in U.S. dollars per MMBtu) in which such price is reported for such month; and
- (j) "Sumas Price Index" means, in respect of any month, the price for "Northwest Pipeline Corp., Canadian border" located under the column "Index" in the "Prices of Spot Gas Delivered to Pipelines" section in the issue of the publication Inside F.E.R.C.'s Gas Market Report (reported in U.S. dollars per MMBtu) in which such price is reported for such month.

#### 4.2 Demand Toll Adjustment

If in respect of any month the Price Index for such month exceeds \$1.35 U.S. per MMBtu, then there will be an adjustment to the demand toll payable for such month for 1 Year Service, 3 Year Service and 5 Year Service calculated as follows:

- (a) if the Price Index for such month is less than or equal to \$1.45 U.S. per MMBtu, then a demand toll adjustment equal to the product obtained by multiplying the amount by which the Price Index exceeds \$1.35 U.S. per MMBtu by .2;
- (b) if the Price Index for such month is greater than \$1.45 U.S. MMBtu and less than or equal to \$1.65 U.S. per MMBtu, then a demand toll adjustment equal to \$0.02 U.S. per MMBtu, plus an amount equal to the product obtained by multiplying the amount by which the Price Index exceeds \$1.45 U.S. per MMBtu by .3; and
- (c) if the Price Index for such month is greater than \$1.65 U.S. per MMBtu, then a demand toll adjustment equal to \$0.08 U.S. per MMBtu, plus an amount equal to the product obtained by multiplying the amount by which the lesser of the Price Index and \$2.00 U.S. per MMBtu exceeds \$1.65 U.S. per MMBtu by .1.

The demand toll adjustment calculated pursuant to paragraph a), b) or c) above for any month will be converted to a demand toll adjustment in Canadian dollars per 10<sup>3</sup>m<sup>3</sup> per month and allocated to RGT Service and Treatment Service as follows:

Conversion to Canadian Dollars per 10<sup>3</sup>m<sup>3</sup> per Month

$$\text{Demand Toll Adjustment} = \frac{\text{Adjustment} \times \text{Exchange Rate}}{1.054615} \times \frac{\text{Days}}{12} \times 38.78$$

where:

“Days” is the number of days in the Year in which such month occurs;

“Adjustment” is the demand toll adjustment in U.S. dollars per MMBtu calculated pursuant to paragraph a), b) or c) above, as the case may be, for such month;

“Exchange Rate” is the Exchange Rate for such month;  
“1.054615” is the rate to convert from MMBtu's to GJ's; and

“38.78” is the number of GJ's per 10<sup>3</sup>m<sup>3</sup>.

Calculation of RGT Demand Toll Adjustment

$$\text{RGT Demand Toll Adjustment} = \text{Demand Toll Adjustment} \times .431 \times .86$$

where:

“Demand Toll Adjustment” is the demand toll adjustment in Canadian dollars per 10<sup>3</sup>m<sup>3</sup> per month calculated above;

“.431” is the proportion of the Demand Toll Adjustment allocated to RGT Service; and

“.86” is the rate to convert raw gas units to residue gas units.

Calculation of Treatment Demand Toll Adjustment

$$\text{Treatment Demand Toll Adjustment} = \text{Demand Toll Adjustment} \times .569$$

where:

“Demand Toll Adjustment” is the demand toll adjustment in Canadian dollars per 10<sup>3</sup>m<sup>3</sup> per month calculated above; and

“.569” is the proportion of the Demand Toll Adjustment allocated to Treatment Service.

For greater certainty, illustrations of the calculation of the RGT Demand Toll Adjustment and the Treatment Demand Toll Adjustment under paragraphs (a), (b) and (c) of this section 4.2 are set out in Appendix H. The illustration shown in Appendix H for paragraph (c) of this section 4.2 represents the actual RGT Demand Toll Adjustment and Treatment Demand Toll Adjustment for the month of January 1997.

4.3 Notice of Demand Toll Adjustment

Westcoast will each month following the publication of the AECO Price Index, the Rockies Price Index and the Sumas Price Index calculate the RGT Demand Toll Adjustment and the Treatment Demand Toll Adjustment for such month and, if a demand toll adjustment is payable, Westcoast will notify Shippers of the results of such calculation through its public bulletin board.

4.4 Accuracy of Calculations

The calculation of the Converted AECO Price Index, the Price Index and demand toll adjustment in Canadian dollars per 10<sup>3</sup>m<sup>3</sup> per month (referred to in the calculation of the RGT Demand Toll Adjustment and the Treatment Demand Toll Adjustment pursuant to section 4.2 as the "Demand Toll Adjustment") will be carried to four significant figures after the decimal point, and the calculation of the RGT Demand Toll Adjustment and the Treatment Demand Toll Adjustment will be rounded to the nearest cent.

4.5 Price Indices

If the AECO Price Index, the Rockies Price Index or the Sumas Price Index ceases to be reported by the published sources referred to in section 4.1 or there is a change in the reporting of any such index by such published sources, then the Parties will in good faith attempt to agree to an appropriate amendment to this Article 4. If the Parties are unable to agree on such an amendment, then Westcoast will refer the matter to the Board for determination.

4.6 Increase in Depreciation Expense

If in any Year during the Term the aggregate amount of additional demand toll revenue collected by Westcoast pursuant to section 4.2 during such Year net of the amount of income tax expense, if any, for such Year attributable to Zone 1 and Zone 2 (the "Actual Amount"), exceeds an amount (the "Threshold Amount") equal to the sum of:

- (a) the amount determined in accordance with the following formula:

$$\frac{\$.05}{.02832784} \times \text{Days} \times \text{RGT Allocation Units} \times .431 \times .86$$

where:

"Days" is the number of days in such Year;

"RGT Allocation Units" is the Contract Demand Allocation Units for RGT Service for such Year;

".02832784" is the rate to convert from Mcf's to 10<sup>3</sup>m<sup>3</sup>'s;

".431" is the proportion of the Demand Toll Adjustment allocated to RGT Service; and

".86" is the rate to convert raw gas units to residue gas units; and

(b) the amount determined in accordance with the following formula:

$$\frac{\$.05}{.02832784} \times \text{Days} \times \text{Treatment Allocation Units} \times .569$$

where:

“Days” is the number of days in such Year;

“Treatment Allocation Units” is the Contract Demand Allocation Units for Treatment Service for such Year;

“.02832784” is the rate to convert from Mcf’s to 10<sup>3</sup>m<sup>3</sup>’s; and

“.569” is the proportion of the Demand Toll Adjustment allocated to Treatment Service;

(the amount, if any, by which the Actual Amount exceeds the Threshold Amount is herein referred to as the “Additional Amount”) then in respect of such Year Westcoast will increase the amount of depreciation expense which it records on its books with respect to its facilities in Zone 1 and Zone 2 by an amount equal to the product obtained by multiplying the Additional Amount by .5.

## **ARTICLE 5**

### **REVENUE DEFERRAL ACCOUNT**

#### **5.1 Definitions**

In this Article 5:

(a) “Base Contract Demand Revenue” means, in respect of the following Years, the following amounts:

1997	\$272.3 million
1998	\$273.9 million
1999	\$275.5 million
2000	\$282.8 million
2001	\$284.4 million

plus in respect of each such Year an amount equal to the amount that the Board permits Westcoast to recover in such Year on account of the costs incurred by Westcoast with respect to the Fort St. John and Grizzly Valley expansion projects and which are the subject of the Cost Recovery Applications;

(b) “Base Helmet/Peggo Surcharge Revenue” means \$3.6 million, being the aggregate amount of revenue forecast by Westcoast for the Year ending December 31, 1997 on account of the surcharges set forth in the appendix attached to the Toll Schedule for RGT Service entitled “Demand and Commodity Toll Surcharges - Raw Gas Transmission Service - Helmet/Peggo Facilities” and in effect as at August 1, 1996.

- (c) "Base Interruptible Revenue" means \$4.0 million, being the aggregate amount of toll revenue forecast by Westcoast for the Year ending December 31, 1997 on account of interruptible RGT Service, interruptible Treatment Service, interruptible Liquids Recovery Service and interruptible Fuel Gas Service;
- (d) "Carrying Charges" means, in respect of the Revenue Deferral Account, the carrying charges that will be applied monthly to the opening credit or debit balance in such deferral account for such month calculated at a rate that is equal to one-twelfth of the AFUDC Rate for Zone 1 and Zone 2 (as defined in the Accounting Policies and Procedures) in effect for such month;
- (e) "CDC's" means the contract demand credits provided for in Schedule D to the Settlement;
- (f) "Contract Demand Revenue" means, in respect of any Year, the sum of:
  - (i) the aggregate amount of toll revenue collected by Westcoast for such Year on account of firm RGT Service, firm Treatment Service, firm Liquids Recovery Service, firm Fuel Gas Service, firm and interruptible LPSF Service and Offline Service, other than any such revenue collected by Westcoast on account of the RGT Demand Toll Adjustment, the Treatment Demand Toll Adjustment, Incremental Facilities and tax on fuel gas consumed in Pipeline System operations and payable by Westcoast under the Motor Fuel Tax Act (British Columbia); and
  - (ii) an amount equal to the aggregate amount of CDC's credited to Shippers for such Year;
- (g) "Helmet/Peggo Surcharge Revenue" means, in respect of any Year, the aggregate amount of toll revenue collected by Westcoast for such Year on account of the surcharges set forth in the appendix attached to the Toll Schedules for RGT Service entitled "Demand and Commodity Toll Surcharges - Raw Gas Transmission Service - Helmet/Peggo Facilities" and in effect as at August 1, 1996;
- (h) "Interruptible Revenue" means, in respect of any Year, the aggregate amount of toll revenue collected by Westcoast for such Year on account of interruptible RGT Service, interruptible Treatment Service, interruptible Liquids Recovery Service and interruptible Fuel Gas Service, other than any such revenue attributable to the RGT Demand Toll Adjustment, the Treatment Demand Toll Adjustment, Incremental Facilities and tax on fuel gas consumed in Pipeline System operations and payable by Westcoast under the Motor Fuel Tax Act (British Columbia); and
- (i) "Revenue Deferral Account" means the revenue deferral account maintained by Westcoast pursuant to section 5.2.

## 5.2 Revenue Deferral Account

If in any Year during the Term:

- (a) the sum of the Contract Demand Revenue, Helmet/Peggo Surcharge Revenue and Interruptible Revenue (the "Annual Revenue") for such Year;
- (b) is greater or less than the sum of the Base Contract Demand Revenue for such Year, the Base Helmet/Peggo Surcharge Revenue and the Base Interruptible Revenue (the "Base Revenue");

then the amount by which the Annual Revenue is greater or less than the Base Revenue will, net of the amount of any income tax expense associated with such amount, be recorded by Westcoast in a revenue deferral account (the "Revenue Deferral Account") effective January 1 of the next succeeding Year.

### 5.3 Disposition of Revenue Deferral Account Balance

The balance, if any, in the Revenue Deferral Account will, together with Carrying Charges, be disposed of in accordance with the terms of the agreement between the Parties on the principles of light-handed regulation which are to apply to the services provided by Westcoast in Zone 1 and Zone 2 after the end of the Term, as provided for in section 7.1. In the absence of any such agreement between the Parties, and in the event that the disposition of the Revenue Deferral Account requires an order of the Board, the Parties contemplate that the Board in making such order should have regard to the risk and reward relationship contemplated by the Settlement and the desire of the Parties to move from the traditional full cost of service method of regulation to a light-handed method of regulation encompassing negotiated market-based arrangements.

### 5.4 Audit of Revenue Deferral Account

Any Party or any Shipper may during the Term, upon prior reasonable notice being given to Westcoast, request one independent audit per Year of the Revenue Deferral Account. Any such audit will be conducted by a qualified firm of nationally recognized chartered accountants having offices in Vancouver, British Columbia selected by Westcoast and the Party or Shipper requesting the audit and the report of the auditors will be limited to advising whether the balance in the Revenue Deferral Account has been properly determined in accordance with this Article 5. The cost of any such audit, including Westcoast's internal costs, will be borne by the Party or Shipper requesting the audit unless it is determined through the audit process that there should be an adjustment to the balance in the Revenue Deferral Account by an amount greater than \$2 million.

## **ARTICLE 6**

### **REVIEW OF GATHERING AND PROCESSING TOLLS**

#### 6.1 Right to Initiate Review

Westcoast or any other Party will have the right to initiate a review of the tolls set forth in section 2.1 if one of the following events occurs during the Term:

- (a) a long-term reduction in throughput capacity on the Pipeline System or any pipeline facilities downstream of the Pipeline System that materially reduces the volumes of gas transported on the Pipeline System;

- (b) a change occurs in Westcoast's revenues or costs resulting from:
- (i) changes in legislation, regulations or ordinances;
  - (ii) changes in applicable accounting standards of the Canadian Institute of Chartered Accountants; or
  - (iii) orders or directives issued by a regulatory authority having jurisdiction, including the Board;
- to the extent that the aggregate amount of such changes exceed \$1,000,000 in any Year;
- (c) the incurrence of uninsured losses, to the extent that the aggregate amount of such losses exceeds \$3,000,000 in any Year; or
- (d) a change occurs in Westcoast's costs resulting from programs implemented or to be implemented by Westcoast, provided that the recovery of such costs is agreed to by at least two thirds of the Shippers by contract volume whose tolls would be affected by the recovery of such costs and who vote on the matter.

If such an event occurs, then Westcoast will as soon as practicable after it becomes aware of such event notify the other Parties and the Board of the occurrence of such event and the Parties will in good faith attempt to agree to an appropriate amendment to this Schedule A. If the Parties are unable to agree on such an amendment, then any Party may refer the matter to the Board for determination pursuant to section 7.1 of the Settlement.

## **ARTICLE 7**

### **LIGHT-HANDED REGULATION**

#### **7.1 Light-Handed Regulation at the End of the Term**

The Parties contemplate that by the end of the Term Westcoast and the Shippers will be freely negotiating market-based arrangements in a manner consistent with the provision of service by Westcoast on a competitive basis such that light-handed, complaints-based regulation would be appropriate for the services provided by Westcoast in Zone 1 and Zone 2. Among other things, the new approach to regulation will address the situation of Shippers who may be in a significantly unequal bargaining position relative to Westcoast. The principles of light-handed regulation which are to apply to the services provided by Westcoast in Zone 1 and Zone 2 after the end of the Term will be the subject of further negotiations between Westcoast and the other Parties which the Parties intend to complete by December 31, 1997 and will be subject to approval by the Board.

#### **7.2 Renewal Rights**

The Parties contemplate that by the end of the Term the existing term renewal right specified in section 2.02 of the General Terms and Conditions will be replaced by negotiated market-based arrangements. In this regard, the negotiations between Westcoast and the other Parties pursuant to section 7.1 concerning the principles of light-handed regulation will include consideration of the appropriate means of replacing section 2.02 of the General Terms and

Conditions (including consideration of how existing Shippers will be afforded a fair and reasonable opportunity to negotiate the terms of continued service). Prior to the earlier of (i) the date of any agreement between the Parties pursuant to section 7.1 concerning the principles of light-handed regulation, (ii) the effective date of any termination of the Settlement pursuant to Article 9 of the Settlement, and (iii) April 30, 2000, no Shipper will be permitted pursuant to section 2.02 of the General Terms and Conditions to extend the term of any service to a date later than December 31, 2001 and Westcoast will not contract the capacity required to accommodate such service after December 31, 2001 to other potential Shippers. The General Terms and Conditions will be revised to give effect to this standstill provision concerning section 2.02.

## **ARTICLE 8** **GENERAL**

### 8.1 Interconnection Policy

The Parties have agreed to negotiate the terms of an interconnection policy governing the interconnection of the gathering or treatment facilities of third parties with the facilities of Westcoast in Zone 1 and Zone 2. The policy will have regard to operational considerations and the costs and benefits of such interconnections and it is contemplated that the policy will result in the unbundling of the services provided by Westcoast in Zone 1 and Zone 2. The Parties intend to complete such negotiations by December 31, 1997.

**APPENDIX A**  
**5 YEAR SERVICE TOLLS FOR RGT SERVICE AND TREATMENT SERVICE**

DESCRIPTION	ACID GAS PERCENTAGE OF RAW GAS	\$/10 <sup>3</sup> M <sup>3</sup> /MO.				
		<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Contract Demand Raw Gas Transmission Service - Raw Gas		159.18	160.10	160.99	161.91	162.80
Contract Demand Treatment Service - Residue Gas	0%	134.03	134.86	135.65	136.48	137.27
	2%	155.37	156.33	157.25	158.21	159.12
	4%	179.16	180.27	181.33	182.44	183.49
	6%	205.66	206.94	208.16	209.43	210.63
	8%	235.12	236.59	237.97	239.43	240.81
	10%	267.79	269.46	271.04	272.70	274.27
	12%	303.93	305.81	307.61	309.49	311.27
	14%	343.77	345.90	347.93	350.06	352.08
	16%	387.57	389.98	392.26	394.67	396.94
	18%	435.58	438.29	440.86	443.56	446.11
	20%	488.05	491.09	493.97	496.99	499.85
	22%	545.24	548.63	551.85	555.23	558.44
	24%	607.39	611.16	614.75	618.52	622.07
	26%	674.75	678.94	682.93	687.11	691.04
	28%	742.31	746.92	751.30	755.90	760.21
	30%	809.86	814.89	819.68	824.70	829.41
	32%	877.42	882.87	888.05	893.49	898.63
	34%	944.97	950.84	956.42	962.28	967.81
	36%	1,012.53	1,018.82	1,024.80	1,031.07	1,037.11
	38%	1,080.08	1,086.79	1,093.17	1,099.87	1,106.31
	40%	1,147.63	1,154.77	1,161.54	1,168.66	1,175.38
	42%	1,215.19	1,222.74	1,229.92	1,237.45	1,244.41
	44%	1,282.74	1,290.72	1,298.29	1,306.24	1,313.11
	46%	1,350.30	1,358.69	1,366.67	1,375.04	1,382.91
	48%	1,417.85	1,426.67	1,435.04	1,443.83	1,452.11
	50%	1,485.41	1,494.64	1,503.41	1,512.62	1,521.11

Plus the amount of tax on fuel gas consumed in operations payable by Westcoast under the Motor Fuel Tax Act (British Columbia) allocated to Shipper for the month.

**APPENDIX B**  
**3 YEAR SERVICE TOLLS FOR RGT SERVICE AND TREATMENT SERVICE**

DESCRIPTION	ACID GAS PERCENTAGE OF RAW GAS	\$/10 <sup>3</sup> M <sup>3</sup> /MO.				
		<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Contract Demand Raw Gas Transmission Service - Raw Gas		173.99	175.00	175.97	192.04	193.09
Contract Demand Treatment Service - Residue Gas	0%	146.50	147.41	148.27	161.88	162.81
	2%	169.82	170.87	171.88	187.65	188.73
	4%	195.83	197.04	198.20	216.38	217.63
	6%	224.79	226.19	227.52	248.39	249.82
	8%	257.00	258.59	260.11	283.98	285.61
	10%	292.71	294.53	296.25	323.44	325.30
	12%	332.20	334.26	336.22	367.07	369.18
	14%	375.74	378.08	380.30	415.19	417.58
	16%	423.62	426.25	428.75	468.09	470.79
	18%	476.10	479.06	481.87	526.08	529.11
	20%	533.45	536.77	539.92	589.46	592.85
	22%	595.96	599.66	603.18	658.53	662.31
	24%	663.89	668.02	671.94	733.59	737.81
	26%	737.52	742.10	746.46	814.95	819.63
	28%	811.36	816.40	821.19	896.54	901.69
	30%	885.20	890.70	895.92	978.13	983.75
	32%	959.04	965.00	970.66	1,059.72	1,065.81
	34%	1,032.87	1,039.29	1,045.39	1,141.31	1,147.87
	36%	1,106.71	1,113.59	1,120.13	1,222.90	1,229.93
	38%	1,180.55	1,187.89	1,194.86	1,304.49	1,311.99
	40%	1,254.39	1,262.19	1,269.60	1,386.08	1,394.05
	42%	1,328.23	1,336.49	1,344.33	1,467.67	1,476.11
	44%	1,402.07	1,410.78	1,419.06	1,549.26	1,558.17
	46%	1,475.91	1,485.08	1,493.80	1,630.86	1,640.23
	48%	1,549.75	1,559.38	1,568.53	1,712.45	1,722.29
	50%	1,623.59	1,633.68	1,643.27	1,794.04	1,804.35

Plus the amount of tax on fuel gas consumed in operations payable by Westcoast under the Motor Fuel Tax Act (British Columbia) allocated to Shipper for the month.

**APPENDIX C**  
**1 YEAR SERVICE TOLLS FOR RGT SERVICE AND TREATMENT SERVICE**

DESCRIPTION	ACID GAS PERCENTAGE OF RAW GAS	\$/10 <sup>3</sup> M <sup>3</sup> /MO.				
		1997	1998	1999	2000	2001
Contract Demand Raw Gas Transmission Service - Raw Gas		188.80	189.89	190.94	192.04	193.09
Contract Demand Treatment Service - Residue Gas	0%	158.96	159.95	160.89	161.88	162.81
	2%	184.27	185.42	186.50	187.65	188.73
	4%	212.49	213.81	215.07	216.38	217.63
	6%	243.93	245.44	246.88	248.39	249.82
	8%	278.87	280.60	282.25	283.98	285.61
	10%	317.62	319.59	321.47	323.44	325.30
	12%	360.47	362.71	364.84	367.07	369.18
	14%	407.72	410.26	412.66	415.19	417.58
	16%	459.67	462.53	465.24	468.09	470.79
	18%	516.62	519.83	522.88	526.08	529.11
	20%	578.85	582.45	585.87	589.46	592
	22%	646.68	650.70	654.52	658.53	662.31
	24%	720.39	724.87	729.12	733.59	737.81
	26%	800.29	805.26	809.98	814.95	819.63
	28%	880.41	885.88	891.08	896.54	901.69
	30%	960.53	966.50	972.17	978.13	983.75
	32%	1,040.66	1,047.12	1,053.27	1,059.72	1,065.81
	34%	1,120.78	1,127.74	1,134.36	1,141.31	1,147.87
	36%	1,200.90	1,208.37	1,215.46	1,222.90	1,229.93
	38%	1,281.03	1,288.99	1,296.55	1,304.49	1,311.99
	40%	1,361.15	1,369.61	1,377.65	1,386.08	1,394.05
	42%	1,441.27	1,450.23	1,458.74	1,467.67	1,476.11
	44%	1,521.40	1,530.85	1,539.83	1,549.26	1,558.17
	46%	1,601.52	1,611.47	1,620.93	1,630.86	1,640.23
	48%	1,681.64	1,692.09	1,702.02	1,712.45	1,722.29
	50%	1,761.76	1,772.72	1,783.12	1,794.04	1,804.35

Plus the amount of tax on fuel gas consumed in operations payable by Westcoast under the Motor Fuel Tax Act (British Columbia) allocated to Shipper for the month.

**APPENDIX D  
LIQUIDS RECOVERY TOLLS**

DESCRIPTION	\$/M <sup>3</sup> /MO.				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Contract Demand Liquids Recovery Service	829.46	835.28	840.67	845.84	851.15

Plus the amount of tax on fuel gas consumed in operations payable by Westcoast under the Motor Fuel Tax Act (British Columbia) allocated to Shipper for the month.

**APPENDIX E  
LPSF TOLLS**

DESCRIPTION	\$/M <sup>3</sup>				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Contract Demand Liquid Products Stabilization and Fractionation Service	10.231	10.299	10.363	10.425	10.488

Plus the amount of tax on fuel gas consumed in operations payable by Westcoast under the Motor Fuel Tax Act (British Columbia) allocated to Shipper for the month.

**APPENDIX F  
FUEL GAS TOLLS**

<b>DESCRIPTION</b>	<b>\$/10<sup>3</sup>M<sup>3</sup>/MO</b>				
	<u><b>1997</b></u>	<u><b>1998</b></u>	<u><b>1999</b></u>	<u><b>2000</b></u>	<u><b>2001</b></u>
Contract Demand Fuel Gas Service	905.23	909.75	914.30	918.87	923.47

Plus the amount of tax on fuel gas consumed in operations payable by Westcoast under the Motor Fuel Tax Act (British Columbia) allocated to Shipper for the month.

**APPENDIX G  
TERM ELECTION FORM**

TO: WESTCOAST ENERGY INC.

WHEREAS:

- A. Westcoast Energy Inc. ("Westcoast") and its shippers and other stakeholders have agreed to a long-term settlement (the "Settlement") of the basis for fixing Westcoast's tolls for service on the Pipeline System, including Westcoast's tolls for RGT Service and Treatment Service;
- B. Under the terms of the Settlement, Westcoast will charge, with respect to RGT Service and Treatment Service, the 5 Year Service Tolls for 5 Year Service, the 3 Year Service Tolls for 3 Year Service and the 1 Year Service Tolls for 1 Year Service;
- C. Shippers holding firm service agreements with Westcoast have the right, pursuant to Section 3.2 of Schedule A to the Settlement, to elect on or before \_\_\_\_\_, 1997 to extend the service expiry dates of their existing RGT Services and Treatment Services in order to be eligible for the 5 Year Service Tolls or the 3 Year Service Tolls with respect to such services; and
- D. The undersigned ("Shipper") holds RGT Service and Treatment Service under the firm service agreements (the "Firm Service Agreements") indicated on the Schedule hereto and wishes to be eligible for the 5 Year Service Tolls or the 3 Year Service Tolls effective January 1, 1997 with respect to such services.

NOW THEREFORE Shipper hereby:

- (a) elects to extend the service expiry date with respect to the RGT Services and Treatment Services to the date indicated by Shipper on the Schedule hereto under the columns "Elected RGT Service Expiry Date" and "Elected Treatment Service Expiry Date", respectfully; and
- (b) subject to the approval of the Settlement by the Board and to the allocation for toll purposes of 5 Year Service or 3 Year Service to Shipper pursuant to Section 3.3 or 3.4 of Schedule A to the Settlement, authorizes and directs Westcoast to issue revised pages to the applicable Firm Service Agreements (including the Schedules thereto) reflecting such allocation, which Firm Service Agreements shall thereupon, without further act or formality, be amended by deleting the applicable pages thereof and replacing such pages with the revised pages issued by Westcoast.

Capitalized terms which are not defined herein have the meaning assigned to such terms in the Settlement.

EXECUTED by Shipper this \_\_\_\_ day of \_\_\_\_\_, 1997.

[SHIPPER]

**SCHEDULE TO TERM ELECTION FORM**

Firm Service Agreement Contract or Amendment No.	GMS Reference No.	RGT Service	Existing RGT Service Expiry Date	Elected RGT Service Expiry Date	Treatment Service	Existing Treatment Service Expiry Date	Elected Treatment Service Expiry Date

**APPENDIX H**  
**ILLUSTRATIONS OF CALCULATION OF RGT DEMAND TOLL ADJUSTMENT AND TREATMENT DEMAND TOLL ADJUSTMENT**

**PART I:**     *Illustration of RGT Demand Toll Adjustment and Treatment Demand Toll Adjustment under Section 4.2(a), being an example of the RGT Demand Toll Adjustment and Treatment Demand Toll Adjustment at a Price Index between \$1.35 and \$1.45 U.S. per MMBtu*

**A.     Inputs**

Assumed Sumas Price Index	\$1.41 U.S. per MMBtu
Assumed Rockies Price Index	\$1.44 U.S. per MMBtu
Assumed AECO Price Index	\$1.6528 per GJ
Assumed Exchange Rate for the immediately preceding month	1.3618
Converted AECO Price Index = $\frac{\$1.6528 \text{ per GJ} \times 1.054615}{1.3618} = \$1.2800 \text{ U.S. per MMBtu}$	

**B.     Price Index**

$$\text{Price Index} = (\$1.41 \times .8) + (\$1.44 \times .1) + (\$1.2800 \times .1) = \$1.40 \text{ U.S. per MMBtu.}$$

**C.     Demand Toll Adjustment Calculation (\$ U.S. per MMBtu)**

Price Index (\$1.40 U.S. per MMBtu) is greater than \$1.35 U.S. per MMBtu and less than \$1.45 U.S. per MMBtu, therefore, surcharge equals:

$$(\$1.40 - \$1.35) \times .2 = \$0.01 \text{ per MMBtu.}$$

**D.     Demand Toll Adjustment Calculation (\$ Cdn. per 10<sup>3</sup>m<sup>3</sup> per month)**

$$\frac{\$0.01 \times 1.3618}{1.054615} \times \frac{365}{12} \times 38.78 = \$15.2314 \text{ per } 10^3\text{m}^3 \text{ per month.}$$

**E.     RGT Demand Toll Adjustment**

$$\text{RGT Demand Toll Adjustment} = \$15.2314 \times .431 \times .86 = \$5.65 \text{ per } 10^3\text{m}^3 \text{ per month.}$$

**F.     Treatment Demand Toll Adjustment**

$$\text{Treatment Demand Toll Adjustment} = \$15.2314 \times .569 = \$8.67 \text{ per } 10^3\text{m}^3 \text{ per month.}$$

**PART II:** *Illustration of RGT Demand Toll Adjustment and Treatment Demand Toll Adjustment under Section 4.2(b), being an example of the RGT Demand Toll Adjustment and Treatment Demand Toll Adjustment at a Price Index between \$1.45 and \$1.65 U.S. per MMBtu*

**A. Inputs**

Assumed Sumas Price Index	\$1.56 U.S. per MMBtu
Assumed Rockies Price Index	\$1.59 U.S. per MMBtu
Assumed AECO Price Index	\$1.8465 per GJ
Assumed Exchange Rate for the immediately preceding month	1.3618

$$\text{Converted AECO Price Index} = \frac{\$1.8465 \text{ per GJ} \times 1.054615}{1.3618} = \$1.4300 \text{ U.S. per MMBtu}$$

**B. Price Index**

$$\text{Price Index} = (\$1.56 \times .8) + (\$1.59 \times .1) + (\$1.4300 \times .1) = \$1.55 \text{ U.S. per MMBtu.}$$

**C. Demand Toll Adjustment Calculation (\$ U.S. per MMBtu)**

Price Index (\$1.55 U.S. per MMBtu) is greater than \$1.45 U.S. per MMBtu and less than \$1.65 U.S. per MMBtu, therefore, surcharge equals:

$$\$0.02 + [(\$1.55 - \$1.45) \times .3] = \$0.05 \text{ per MMBtu.}$$

**D. Demand Toll Adjustment Calculation (\$ Cdn. per 10<sup>3</sup>m<sup>3</sup> per month)**

$$\frac{\$0.05 \times 1.3618}{1.054615} \times \frac{365}{12} \times 38.78 = \$76.1568 \text{ per } 10^3\text{m}^3 \text{ per month.}$$

**E. RGT Demand Toll Adjustment**

$$\text{RGT Demand Toll Adjustment} = \$76.1568 \times .431 \times .86 = \$28.23 \text{ per } 10^3\text{m}^3 \text{ per month}$$

**F. Treatment Demand Toll Adjustment**

$$\text{Treatment Demand Toll Adjustment} = \$76.1568 \times .569 = \$43.33 \text{ per } 10^3\text{m}^3 \text{ per month}$$

**Forecast Base Revenue Requirement**  
**(\$Millions)**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
	<u>(A)</u>	<u>(B)</u>	<u>(C)</u>	<u>(D)</u>	<u>(E)</u>
1 Base Revenue Requirement(Exc TE)	166.40	167.99	172.61	174.77	176.61
2 Threshold Earnings-Forecast for 5 years @ 10.67%	30.10	30.60	31.10	31.60	32.00
3 Base Revenue Non-Routine Adjustments(BRNRA)	0.00	0.00	0.00	0.00	0.00
4 Base Revenue Requirement(Line 11 below previous year escalated @ 2.1 %) for years 1998 to 2001	<u>196.50</u>	<u>198.59</u>	<u>203.71</u>	<u>206.37</u>	<u>208.61</u>

**Actual Base Revenue Requirement**  
**(\$Millions)**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
	<u>(A)</u>	<u>(B)</u>	<u>(C)</u>	<u>(D)</u>	<u>(E)</u>
5 Property Taxes	36.90	40.00	41.00	39.30	40.00
6 Base Revenue Cost Items (1)	40.70	40.60	39.90	41.40	42.70
7 Depreciation	25.50	26.00	26.80	27.70	28.50
8 Debt and Preferred Costs	61.31	62.32	63.32	64.32	65.30
9 Actual Base Revenue Requirement(Exc TE)	<u>164.41</u>	<u>168.92</u>	<u>171.02</u>	<u>172.72</u>	<u>176.50</u>
10 Threshold Earnings-Forecast for 5 years @ 10.67%	30.10	30.60	31.10	31.60	32.00
11 Actual Base Revenue Requirement	<u>194.51</u>	<u>199.52</u>	<u>202.12</u>	<u>204.32</u>	<u>208.50</u>

Note 1 - Includes Operating and Maintenance, NEB Cost Recovery, Amortization Exp., Sales Tax on Operations Gas, Insurance Deductibles, Foreign Exchange on Debt, and Gas Substitution Costs

**Base Revenue Sharing**

	<b><u>1997</u></b>	<b><u>1998</u></b>	<b><u>1999</u></b>	<b><u>2000</u></b>	<b><u>2001</u></b>
	<b><u>(\$Millions)</u></b>				
	<b><u>(A)</u></b>	<b><u>(B)</u></b>	<b><u>(C)</u></b>	<b><u>(D)</u></b>	<b><u>(E)</u></b>
1 Actual Base Revenue Requirement (From Page A2 Line 11)	194.51	199.52	202.12	204.32	208.50
2 Actual Property Taxes(From Page A2 Line 5)	36.90	40.00	41.00	39.30	40.00
3 Sub-Total (Line 1-2)	<u>157.61</u>	<u>159.52</u>	<u>161.12</u>	<u>165.02</u>	<u>168.50</u>
4 Base Revenue Requirement(From Page A2 Line 4)	196.50	198.59	203.71	206.37	208.61
5 Base Property Taxes(From Page A6 Line 2)	36.90	37.67	40.84	41.86	40.13
6 Sub - Total (Line 4 -5 )	<u>159.60</u>	<u>160.92</u>	<u>162.87</u>	<u>164.51</u>	<u>168.48</u>
7 Base Revenue Variance (Line 6-3)	1.99	1.39	1.75	-0.51	-0.02
8 TEV Shortfall(Page A5 Line 11)	0.00	0.00	0.88	2.21	1.24
9 Application of TEV shortfall to BRV (Note 1)	0.00	0.00	0.88	0.00	0.00
10 Sub -Total (Line 7-Line 9)	<u>1.99</u>	<u>1.39</u>	<u>0.87</u>	<u>-0.51</u>	<u>-0.02</u>
11 Base Revenue Sharing (Line 10 prior year *1/2)	0.00	-1.00	-0.70	-0.44	0.25

**Calculation Of BRS Including Amortization Carrying Charges**

12 Base Revenue Sharing		-1.00	-0.70	-0.44	0.25
13 Short Term Borrowing Rate %		4.85	4.85	4.85	4.85
14 Amortization Carrying Charges		-0.02	-0.02	-0.01	0.01
15 Base Revenue Sharing Including Amortization Carrying Charges(Line 12+14)		<u>-1.02</u>	<u>-0.71</u>	<u>-0.45</u>	<u>0.26</u>

Note 1 - If BRV is greater than zero, Line 9 is lesser of BRV and TEV shortfall, if BRV is less than zero, Line 9 is zero.

Threshold Earnings Variance Calculation

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
	<u>(\$Millions)</u>				
	<u>(A)</u>	<u>(B)</u>	<u>(C)</u>	<u>(D)</u>	<u>(E)</u>
1 NEB Approved ROE %	10.67	10.33	11.50	11.50	11.50
2 Adjusted ROE %	10.67	10.50	11.09	11.09	11.09
3 Adjusted Threshold Earnings	30.10	30.11	32.31	32.83	33.24
4 Threshold Earnings-Forecast for 5 years @ 10.67%	30.10	30.60	31.10	31.60	32.00
5 Sub-Total (Line 3- Line 4)	<u>0.00</u>	<u>-0.49</u>	<u>1.21</u>	<u>1.23</u>	<u>1.24</u>
6 Threshold Earnings Variance	0.00	-0.88	2.18	2.21	2.24
7 Negative Threshold Earnings Variance	0.00	-0.88	0.00	0.00	0.00

Calculation Of NTEV Including Amortization Carrying Charges

8 50% of Line 7 previous year	0.00	0.00	-0.44	0.00	0.00
Short Term Borrowing Rate %	0.000	4.85	4.85	4.85	4.85
10 Amortization Carrying Charges	0.00	0.00	-0.01	0.00	0.00
11 NTEV Including Amortization Carrying Charges(Line 8+10)	<u>0.00</u>	<u>0.00</u>	<u>-0.45</u>	<u>0.00</u>	<u>0.00</u>

**Discretionary Revenue Calculation**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
	<u>(\$Millions)</u>				
	<u>(A)</u>	<u>(B)</u>	<u>(C)</u>	<u>(D)</u>	<u>(E)</u>
1 Discretionary Revenue	1.80	2.30	2.10	0.50	1.80
2 Base Discretionary Revenue	0.80	0.80	0.80	0.50	0.80
3 Excess Discretionary Revenue (Line 1-2)	<u>1.00</u>	<u>1.50</u>	<u>1.30</u>	<u>0.00</u>	<u>1.00</u>

**Calculation Of BDR Including Amortization Carrying Charges**

4 Base Discretionary Rev. (Line 2) Prior Year		-0.80	-0.80	-0.80	-0.50
5 Short Term Borrowing Rate %		4.85	4.85	4.85	4.85
6 Amortization Carrying Charges on BDR		-0.02	-0.02	-0.02	-0.01
7 Base Discretionary Revenue Including Amortization Carrying Charges (Line 4+6)		<u>-0.82</u>	<u>-0.82</u>	<u>-0.82</u>	<u>-0.51</u>

**Net Excess Discretionary Revenue Calculation**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
	<u>(\$Millions)</u>				
	<u>(A)</u>	<u>(B)</u>	<u>(C)</u>	<u>(D)</u>	<u>(E)</u>
8 Excess Discretionary Revenue (From Line 3)	1.00	1.50	1.30	0.00	1.00
9 Threshold Earnings Variance (From Page A4)	0.00	-0.88	2.18	2.21	2.24
10 Net Excess Discretionary Revenue	<u>1.00</u>	<u>1.50</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
11 TEV Shortfall	0.00	0.00	0.88	2.21	1.24

**Calculation Of NEDR including Amortization Carrying Charges**

12 2/3 of Line 10 previous year	0.00	-0.67	-1.00	0.00	0.00
13 Short Term Borrowing Rate %	0.00	4.85	4.85	4.85	4.85
14 Amortization Carrying Charges	0.00	-0.02	-0.02	0.00	0.00
15 NEDR Including Amortization Carrying Charges (Line 12+14)	<u>0.00</u>	<u>-0.68</u>	<u>-1.02</u>	<u>0.00</u>	<u>0.00</u>

**Property Tax Adjustment**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
	<u>(\$Millions)</u>				
	<u>(A)</u>	<u>(B)</u>	<u>(C)</u>	<u>(D)</u>	<u>(E)</u>

1 Actual Property Taxes	36.90	40.00	41.00	39.30	40.00
2 Base Property Taxes(Line 1 previous year escalated @ 2.1 %)	36.90	37.67	40.84	41.86	40.13
3 Property Tax Variance	0.00	2.33	0.16	-2.56	-0.13
4 Threshold Amount	0.00	1.50	0.16	-2.56	-0.13
5 Flow Through Amount (Line 3- 4)	0.00	0.83	0.00	0.00	0.00
6 Threshold Sharing(Line 4*50%)	0.00	0.75	0.08	-1.28	-0.06
7 Property Tax Adjustment Exl. Carr Ch (Line 5+6)	0.00	1.58	0.08	-1.28	-0.06
<b><u>Calculation of Carrying Charges -Current Year</u></b>					
Short Term Borrowing Rate %	4.85	4.85	4.85	4.85	4.85
9 Carrying Charges - Current Year (Note 1)	0.00	0.04	0.00	-0.03	-0.00
10 Sub-Total(Line 7 + 9)	0.00	1.61	0.08	-1.31	-0.06

**Calculation of PTA including Amortization Carrying Charges**

11 Property Tax Adjustment(Line 10 Prior Year)	0.00	1.61	0.08	-1.31	
12 Short Term Borrowing Rate %	4.85	4.85	4.85	4.85	4.85
13 Amortization Carrying Charges	0.00	0.04	0.00	-0.03	
14 Total Property Tax Adjustment Including Amortization Carrying Charges(Line 11+13)	0.00	1.65	0.08	-1.34	

Note 1 - For this illustration the deferral balance is assumed to accumulate evenly during the year.

**Actual Income Tax Expense**  
**(\$Millions)**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
	<u>(A)</u>	<u>(B)</u>	<u>(C)</u>	<u>(D)</u>	<u>(E)</u>
1 Threshold Earnings	30.10	30.60	31.10	31.60	32.00
2 Preferred Dividends	1.00	0.66	0.66	0.66	0.66
3 Income Tax. Collected(To Page A8,Line 19)	10.70	13.78	18.56	22.72	27.05
4 Pre-Tax Earnings	41.80	45.04	50.32	54.98	59.71
5 Depreciation	25.50	26.00	26.80	27.70	28.50
6 Capital Cost Allowance	-52.57	-47.56	-45.21	-43.27	-41.93
7 Variances - Current Year (1)	2.46	1.36	1.16	1.53	0.85
8 (Refund)/Collection of prior year variances	0.00	-2.46	-1.36	-1.16	-1.53
9 Variances - Current Year Carrying Charges	0.00	0.04	0.00	-0.03	-0.00
10 Variances - Prior Year Carrying Charges	0.00	0.00	-0.04	-0.00	0.03
11 Capitalized int. of AFUDC(Forecast)	-1.50	-1.50	-1.50	-1.50	-1.50
12 Other adjustments, net	0.00	0.00	0.00	0.00	0.00
13 BC Corporation Tax Adjustment(1997 Only)	-3.00	0.00	0.00	0.00	0.00
14 Taxable income	12.69	20.91	30.17	38.25	44.13
Income Tax Rate	0.44	0.44	0.44	0.44	0.44
16 Income taxes	5.64	9.30	13.41	17.00	19.62
17 BC / Large corporation capital tax	4.98	5.06	5.14	5.22	5.30
18 Prior Year Inc. Tax Deferral(Page A8 Line 16)	0.00	-0.08	0.36	1.00	2.30
19 Actual Income and Capital Taxes	10.62	14.28	18.91	23.22	27.21

Note 1 - Includes Base Revenue Sharing, Base Discretionary Revenue, Property Tax Adjustment, Net Excess Discretionary Revenue , NTEV and other deferrals.

**Forecasted Income Tax Expense**

(\$Millions)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
	<u>(A)</u>	<u>(B)</u>	<u>(C)</u>	<u>(D)</u>	<u>(E)</u>
1 Threshold Earnings	30.10	30.60	31.10	31.60	32.00
2 Preferred Dividends	1.00	0.66	0.66	0.66	0.66
3 Depreciation	25.50	26.00	26.80	27.70	28.50
4 Capital Cost Allowance	-52.60	-47.60	-45.20	-43.30	-41.90
5 Capitalized int. of AFUDC	-1.50	-1.50	-1.50	-1.50	-1.50
6 (Refund)/Collection of prior year variances	0.00	-2.46	-1.36	-1.16	-1.53
7 Variances - Prior Year Carrying Charges	0.00	0.00	-0.04	-0.00	0.03
8 Other adjustments, net	-0.83	0.00	0.00	0.00	0.00
9 BC / Large corporation capital tax	5.20	5.20	5.30	5.40	5.50
<b>10 Taxable income</b>	<b>6.87</b>	<b>10.90</b>	<b>15.76</b>	<b>19.40</b>	<b>21.76</b>
<b>11 Income Tax Rate(TaxRate/1-TaxRate)</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>
12 Income taxes	5.50	8.72	12.61	15.53	17.42
13 BC / Large corporation capital tax	5.20	5.20	5.30	5.40	5.50
<b>14 Forecast Income and Cap. Taxes</b>	<b>10.70</b>	<b>13.92</b>	<b>17.91</b>	<b>20.93</b>	<b>22.92</b>
<b>15 Actual Income and Cap. Taxes(To Page A7)</b>	<b>10.62</b>	<b>14.28</b>	<b>18.91</b>	<b>23.22</b>	<b>27.21</b>
Variance(Line 14 - Line 15)	-0.08	0.36	1.00	2.30	4.30

**Calculation of FTE including Amortization Carrying Charges**

17 Forecast Income and Cap. Taxes(Line 14)	10.70	13.92	17.91	20.93	22.92
18 Income Tax Variance(Line 16) Grossed Up	0.00	-0.14	0.65	1.80	4.13
<b>19 Forecast Income Taxes (Line 17+Line 18)</b>	<b>10.70</b>	<b>13.78</b>	<b>18.56</b>	<b>22.72</b>	<b>27.05</b>
20 Short Term Borrowing Rate %	0.00	4.85	4.85	4.85	4.85
21 Amortization Carrying Charges	0.00	-0.00	0.02	0.04	0.10
<b>22 Total Forecast Income Tax Exp. Including Amortization Carrying Charges(Line 19+21)</b>	<b>10.70</b>	<b>13.78</b>	<b>18.57</b>	<b>22.77</b>	<b>27.15</b>

**Allocation of 1997 Total Revenue Requirement to Zones 3 and 4**  
**(\$ Millions)**

	<u>Zone 3</u> <u>(A)</u>	<u>Zone 4</u> <u>(B)</u>	<u>Total</u> <u>(C)</u>
1 Base Revenue Requirement (BRR)(Page A1)	51.50	145.00	196.50
2 Base Revenue Sharing(BRS)(Page A1)	0.00	0.00	0.00
3 Property Tax Adjustment(PTA)(Page A1)	0.00	0.00	0.00
4 Forecast of Income and Capital Tax Expense(FTE)(Page A1)	5.40	5.30	10.70
5 Forecast Motor Fuel Tax (MFT)(Page A1)	2.40	10.90	13.30
6 Base Discretionary Revenue(BDR)(Page A1)	0.00	0.00	0.00
7 Net Excess Discretionary Revenue(NEDR)(Page A1)	0.00	0.00	0.00
8 Negative Threshold Earnings Variance(NTEV)(Page A1)	0.00	0.00	0.00
9 Contract Demand Volumes (CDV)(Page A1)	0.00	0.00	0.00
10 Non-Routine Adjustments (TRNRA)(Page A1)	0.00	0.00	0.00
11 1998 Revenue Adjustment(Page A1)	0.00	0.00	0.00
12 Total Revenue Requirement	<b>59.30</b>	<b>161.20</b>	<b>220.50</b>

Note 1 - The above allocation is based on the current NEB approved methodology.

2 - Totals may not add due to computer rounding.

**Allocation of 1998 Total Forecast Revenue Requirement to Zones 3 and 4**  
**(\$ Millions)**

	<u>Zone 3</u> <u>(A)</u>	<u>Zone 4</u> <u>(B)</u>	<u>Total</u> <u>(C)</u>
1 Base Revenue Requirement (BRR)(Page B3)	51.68	146.91	198.59
2 Base Revenue Sharing(BRS)(Page B3)	-0.49	-0.53	-1.02
3 Property Tax Adjustment(PTA)(Page B4)	0.00	0.00	0.00
4 Forecast of Income and Capital Tax Expense(FTE)(Page B4)	4.88	8.90	13.78
5 Forecast Motor Fuel Tax (MFT)	2.40	11.10	13.50
6 Base Discretionary Revenue(BDR)(Page B4)	-0.32	-0.50	-0.82
7 Net Excess Discretionary Revenue(NEDR)(Page B5)	-0.27	-0.42	-0.68
Negative Threshold Earnings Variance(NTEV)(Page B5)	0.00	0.00	0.00
9 Contract Demand Volumes (CDV)(Page B5)	0.00	0.00	0.00
10 Non-Routine Adjustments (TRNRA)(Page B5)	0.00	0.00	0.00
11 1998 Revenue Adjustment (Page B5)	0.24	0.27	0.51
12 Total Revenue Requirement(Page A1 )	<b>58.12</b>	<b>165.74</b>	<b>223.86</b>
<b><u>Summary of Option A and Option B</u></b>			
13 Option A(Page B6)	43.13	92.65	135.77
14 Option B(Page B6)	15.00	73.09	88.08
15 Total Allocated Revenue Requirement(Line 12 above)	<b>58.12</b>	<b>165.74</b>	<b>223.86</b>

Notes :1 - Totals may not add due to computer rounding.

**Page B3**

**Base Revenue Requirement**

	<u>Zone 3</u>	<u>Zone 4</u>	<u>Total</u>
	<u>(A)</u>	<u>(B)</u>	<u>(C)</u>
1 Prior Year Actual Base Revenue Requirement (Excluding TE) (From Page A2 Line 9)	42.75	121.66	164.41
2 Current Year Base Revenue Requirement (Excluding TE) (Page From A2 Line 1)(Allocated on the basis of Line 1 above )	43.68	124.31	167.99
3 Current Year Threshold Earnings(Page A2 Line 2)	8.00	22.60	30.60
4 Current Year Base Revenue Non-Routine Adjustments(BRNRA)	0.00	0.00	0.00
5 Current Year Base Revenue Requirement(Line 2+3+4)(Page B2 Line 1)	<u>51.68</u>	<u>146.91</u>	<u>198.59</u>

**Base Revenue Sharing**

	<u>Zone 3</u>	<u>Zone 4</u>	<u>Total</u>
	<u>(A)</u>	<u>(B)</u>	<u>(C)</u>
6 Prior Year Actual Base Revenue Requirement (Excluding TE) (Line 1 above)	42.75	121.66	164.41
7 Prior Year Threshold Earnings(Page A2 Line 10)	7.8	22.3	30.1
8 Prior Year Actual Base Revenue Requirement(Line 6+7)(Page A2 Line 11)	50.55	143.96	194.51
9 Prior Year Base Revenue Requirement(Page A2 Line 4)	51.50	145.00	196.50
10 Variance(Line 9-8)	<u>-0.95</u>	<u>-1.04</u>	<u>-1.99</u>
11 Ratio % of Line 10 to be applied to Base Revenue Sharing	47.89	52.11	100.00
12 Base Revenue Sharing (Page B2 Line 2)	<u>-0.49</u>	<u>-0.53</u>	<u>-1.02</u>

**Property Tax Adjustment**

	<b><u>Zone 3</u></b>	<b><u>Zone 4</u></b>	<b><u>Total</u></b>
	<b><u>(A)</u></b>	<b><u>(B)</u></b>	<b><u>(C)</u></b>
1 Prior Years Actual Property Taxes (Page A6 Line 1)	11.99	24.91	36.90
2 Actual Property Taxes(Two years prior)	11.74	24.38	36.13
3 Escalation Factor	0.25	0.52	0.77
4 Prior Years Base Property Taxes(Page A6 Line 2)(Line 2+3)	11.99	24.91	36.90
5 Property Tax Adjustment(Page A6 Line 7)(Line 1-4)	0.00	0.00	0.00
6 Ratio % of Line 5 to be applied to Property Tax Adjustment	0.00	0.00	0.00
7 Property Tax Adjustment(Page B2 Line 3)	0.00	0.00	0.00

**Forecast of Income and Capital Tax Expense**

	<b><u>Zone 3</u></b>	<b><u>Zone 4</u></b>	<b><u>Total</u></b>
	<b><u>(A)</u></b>	<b><u>(B)</u></b>	<b><u>(C)</u></b>
9 Current Year Threshold Earnings (Page A8 Line 1)	7.90	22.70	30.60
10 Current Year Depreciation (Page A8 Line 3)	6.90	19.10	26.00
11 Current Year Capital Cost Allowance (Page A8 Line 4)	-11.10	-36.50	-47.60
12 Notional Taxable Income	3.70	5.30	9.00
13 Ratio % of Line 12 to be applied to Income Tax Expense	41.11	58.89	100.00
14 BCT/LCT Allocated on Average Rate Base Ratio	1.35	3.85	5.20
15 Income Tax Expense (Allocated on line 13)	3.53	5.05	8.58
16 Total Forecast of Income Tax and Capital Taxes(Line 14+15)(Page B2 Line 4)	4.88	8.90	13.78

**Forecast of Motor Fuel Tax**

	<b><u>Zone 3</u></b>	<b><u>Zone 4</u></b>	<b><u>Total</u></b>
	<b><u>(A)</u></b>	<b><u>(B)</u></b>	<b><u>(C)</u></b>
17 Current Years forecast specifically forecast by Zone(Page B2 Line 5)	2.40	11.10	13.50

**Base Disc Revenue**

**Allocated on prior years Actual Discretionary Revenue Ratio**

	<b><u>Zone 3</u></b>	<b><u>Zone 4</u></b>	<b><u>Total</u></b>
	<b><u>(A)</u></b>	<b><u>(B)</u></b>	<b><u>(C)</u></b>
18 Ratio % applied to Base Discretionary Revenue	39.00	61.00	100.00
19 Base Discretionary Revenue (Page B2 Line 6)	-0.32	-0.50	-0.82

**Net Excess Discretionary Revenue**

Allocated on prior years Actual Discretionary Revenue Ratio

	<u>Zone 3</u> <u>(A)</u>	<u>Zone 4</u> <u>(B)</u>	<u>Total</u> <u>(C)</u>
1 Ratio % applied to Net Excess Discretionary Revenue	39.00	61.00	100.00
2 Net Excess Discretionary Revenue (Page B2 Line 7)	-0.27	-0.42	-0.68

**Negative Threshold Earnings Variance**

	<u>Zone 3</u> <u>(A)</u>	<u>Zone 4</u> <u>(B)</u>	<u>Total</u> <u>(C)</u>
3 Prior Year Threshold Earnings (Page A4 Line 3)	7.80	22.30	30.10
4 Ratio % applied to Negative Threshold Earnings Variance	25.91	74.09	100.00
5 Negative Threshold Earnings Variance(Page B2 Line 8)	0.00	0.00	0.00

**Contract Demand Volumes**

This will be specifically allocated to Option B shippers in Zones 3 and 4

	<u>Zone 3</u> <u>(A)</u>	<u>Zone 4</u> <u>(B)</u>	<u>Total</u> <u>(C)</u>
6 Contract Demand Volumes(Page B2 Line 9)	0.00	0.00	0.00

**Non-Routine Adjustments**

This will be specifically allocated to Zones 3 and 4

	<u>Zone 3</u> <u>(A)</u>	<u>Zone 4</u> <u>(B)</u>	<u>Total</u> <u>(C)</u>
7 Non-Routine Adjustments(Page B2 Line 10)	0.00	0.00	0.00

**1998 Revenue Adjustment**

Allocated on the basis of the 1997 IT Revenue Forecast

	<u>Zone 3</u> <u>(A)</u>	<u>Zone 4</u> <u>(B)</u>	<u>Total</u> <u>(C)</u>
8 Ratio % applied to 1998 Revenue Adjustment	47.00	53.00	100.00
9 1998 Revenue Adjustment(Page B2 Line 11)	0.24	0.27	0.51

**Allocation of 1998 Total Forecast Revenue Requirement to Option A and Option B Shippers**

**Page B6**

	<b><u>Zone 3</u></b>	<b><u>Zone 4</u></b>	<b><u>Total</u></b>
	<b><u>(A)</u></b>	<b><u>(B)</u></b>	<b><u>(C)</u></b>
1 Total Revenue Requirement(Page B2)	58.12	165.74	223.86
2 Less: Contract Demand Volumes related to Option B Shippers	0.00	0.00	0.00
3 Total Revenue Requirement Applied to Option A and B	<u>58.12</u>	<u>165.74</u>	<u>223.86</u>
<b><u>Allocation to Zone 3</u></b>			
	<b><u>Option A</u></b>	<b><u>Option B</u></b>	<b><u>Total</u></b>
4 Zone 3 Allocation Percentages %	74.2	25.8	100
5 Plus: Contract Demand Volumes related to Option B Shippers	0.00	0.00	0.00
6 Zone 3 Allocated Revenue Requirement	<u>43.13</u>	<u>15.00</u>	<u>58.12</u>
<b><u>Allocation to Zone 4</u></b>			
	<b><u>Option A</u></b>	<b><u>Option B</u></b>	<b><u>Total</u></b>
7 Zone 4 Allocation Percentages %	55.9	44.1	100
8 Plus: Contract Demand Volumes related to Option B Shippers	0.00	0.00	0.00
9 Zone 4 Allocated Revenue Requirement	<u>92.65</u>	<u>73.09</u>	<u>165.74</u>
10 Total Revenue Requirement(Line 6+9)	<u>135.77</u>	<u>88.08</u>	<u>223.86</u>
<b><u>Summary of Option A and Option B</u></b>			
	<b><u>Zone 3</u></b>	<b><u>Zone 4</u></b>	<b><u>Total</u></b>
	<b><u>(A)</u></b>	<b><u>(B)</u></b>	<b><u>(C)</u></b>
11 Option A	43.13	92.65	135.77
12 Option B	15.00	73.09	88.08
13 Total Allocated Revenue Requirement	<u>58.12</u>	<u>165.74</u>	<u>223.86</u>

**Illustration of Option A and Option B Factor Calculation  
(Using 1997 Toll Application Data)**

<u>Transportation - North</u>	1997 Application	Elected Percentages		Elected Volumes		Total
		Option A	Option B	Option A	Option B	
<b>Demand Units (10<sup>3</sup>m<sup>3</sup>/d Residue Gas)</b>						
Shorthaul Service	12760	25%	75%	3190	9570	12760
Longhaul Service	51911	75%	25%	38934	12978	51911
<b>Total</b>	<b>64671</b>			<b>42123</b>	<b>22548</b>	<b>64671</b>
<b>Relative Weight</b>						
Shorthaul	1			1	1	1
Longhaul	14.4			14.4	14.4	14.4
<b>Weighted Demand Units</b>						
Shorthaul	12760			3190	9570	12760
Longhaul	747524			560643	186881	747524
<b>Total</b>	<b>760284</b>			<b>563833</b>	<b>196451</b>	<b>760284</b>
<b>Weighted Demand Units Share</b>						
Shorthaul	1.7%			0.4%	1.3%	1.7%
Longhaul	98.3%			73.7%	24.6%	98.3%
Option A vs Option B Factor	100.0%			74.2%	25.8%	100.0%
<u>Transportation - South</u>						
<b>Demand Units (10<sup>3</sup>m<sup>3</sup>/d Residue Gas)</b>						
BC Gas Inc. - Inland Division	4916	25%	75%	1229	3687	4916
Pacific Northern Gas Ltd.	3119	50%	50%	1560	1560	3119
BC Gas Inc. - Lower Mainland Division	14266	75%	25%	10700	3567	14266
Export	31543	50%	50%	15772	15772	31543
<b>Load Centres (km)</b>						
BC Gas Inc. - Inland Division	504.1			504.1	504.1	504.1
Pacific Northern Gas Ltd.	207.6			207.6	207.6	207.6
BC Gas Inc. - Lower Mainland Division	916.3			916.3	916.3	916.3
Export	917.6			917.6	917.6	917.6
<b>Load Centre Weighted Demand Units (10<sup>3</sup>m<sup>3</sup>/d-km)</b>						
BC Gas Inc. - Inland Division	2477932			619483	1858449	2477932
Pacific Northern Gas Ltd.	647587			323794	323794	647587
BC Gas Inc. - Lower Mainland Division	13072216			9804162	3268054	13072216
Export	28944132			14472066	14472066	28944132
<b>Total</b>	<b>45141868</b>			<b>25219505</b>	<b>19922363</b>	<b>45141868</b>
<b>Weighted Demand Units Share</b>						
BC Gas Inc. - Inland Division	5.5%			1.4%	4.1%	5.5%
Pacific Northern Gas Ltd.	1.4%			0.7%	0.7%	1.4%
BC Gas Inc. - Lower Mainland Division	29.0%			21.7%	7.2%	29.0%
Export	64.1%			32.1%	32.1%	64.1%
Option A vs Option B Factor	100.0%			55.9%	44.1%	100.0%

## SCHEDULE C ACCOUNTING POLICIES AND PROCEDURES

1. Westcoast will, during the Term, continue to use those accounting policies and procedures that were used by Westcoast to derive the tolls approved by the Board in its RH-1-96 Decision, except for those changes in accounting policies and procedures specifically provided for in this Schedule C or as otherwise prescribed by order of the Board from time to time.
2. Westcoast's AFUDC rate for each Year during the Term for Zone 1 and Zone 2 shall be calculated using capital structure ratios which will be fixed for the Term at the ratios used in the 1997 Toll Application as follows:

Funded	59.74%
Unfunded	.63%
Preferred Equity	1.23%
Common Equity	38.40%

and where the cost rates for each component of the capital structure will be calculated as follows:

- Funded Debt costs will be based on the embedded cost rate for funded debt determined as of December 31 of the prior Year;
  - Unfunded Debt cost will be based on the prior Year's actual cost of unfunded debt;
  - Preferred Equity cost will be the cost rate for Westcoast's Cumulative Redeemable First Preferred Shares, Series 5;
  - Common Equity cost will be the rate of return on common equity authorized by the Board for Group I Pipelines for such Year.
3. Westcoast's AFUDC rate for each Year during the Term for Zone 3 and Zone 4 will be equal to the rate of return on rate base determined using the actual average capital structure ratios for the prior Year determined pursuant to section 3.4 of Schedule B. In calculating the rate of return on rate base the cost rate for each component of the capital structure will be the same as the cost rates used to calculate the Zone 1 and Zone 2 AFUDC rate pursuant to paragraph 2 above.
  4. Westcoast's depreciation rates for Existing Facilities will be those rates used by Westcoast to derive the tolls approved by the Board in its RH-1-96 Decision, except as such rates may be adjusted pursuant to section 4.6 of Schedule A. The depreciation rates for Incremental Facilities will be those rates approved by the Board as part of the Board's approval process under Part III of the NEB Act for such Incremental Facilities.
  5. Westcoast will calculate the income tax component of its cost of service for Zone 3 and Zone 4 on a flow through basis utilizing its utility revenue, depreciation, capital cost allowance and other adjustments attributable to Zones 3 and 4. Westcoast will calculate the income tax component of its cost of service for Zone 1 and Zone 2 on a flow through basis utilizing its

utility revenue, depreciation, capital cost allowance and other adjustments attributable to Zones 1 and 2.

6. Westcoast's booked Deferred Income Taxes totalling approximately \$66.4 million as at December 31, 1996, will be allocated \$55.5 million to Zone 1 and Zone 2 and \$10.9 million to Zone 3 and Zone 4. Westcoast will not commence the drawdown of its booked Deferred Income Taxes allocated to Zone 1 and Zone 2 until crossover (the time that booked depreciation exceeds capital cost allowance) occurs in those Zones and will not commence the drawdown of its booked Deferred Income Taxes allocated to Zone 3 and Zone 4 until crossover occurs in those Zones.
7. The balance of the 1996 Cost of Service and Revenue Deferral Accounts, (excluding the Restructuring Cost Deferral Account approved by the Board by letter dated September 5, 1996 and the Jackson Prairie Storage/Zone 4 Firm Service Deferral Account approved by the Board by letter dated November 29, 1996) totalling approximately \$24.5 million as at December 31, 1996, will be allocated between the Zones in accordance with the allocation methodology used in the 1997 Toll Application. The portion of the 1996 deferral accounts allocated to Zone 3 and Zone 4 will be included in the calculation of rate base and will be amortized to the Zone 3 and Zone 4 cost of service over a two Year period commencing January 1, 1997.
8. The Jackson Prairie Storage/Zone 4 Firm Service Deferral Account will remain in place until October 31, 1997 and shall be disposed of in accordance with the provisions of section 9.3 of Schedule B.
9. The balance in Westcoast's Restructuring Cost Deferral Account, totalling approximately \$14.7 million as at December 31, 1996, together with the forecast 1997 BPI costs (as referred to in the 1997 Toll Application) of \$14.3 million, will be allocated between the Zones in accordance with the allocation methodology used in the 1997 Toll Application. The portion of the Restructuring Cost Deferral Account and 1997 BPI costs allocated to Zone 3 and Zone 4 will be included in the calculation of rate base and will be amortized to the Zone 3 and Zone 4 cost of service over a five Year period commencing January 1, 1997.
10. Westcoast's costs incurred in connection with the filing of Westcoast's 1997 Toll Application and this Settlement will be allocated between the Zones in accordance with the allocation methodology used in the 1997 Toll Application. The portion of the rate case costs allocated to each Zone will be included in the calculation of rate base and amortized to the cost of service for each Zone over a five Year period commencing January 1, 1997.

## **SCHEDULE D SERVICE RELIABILITY**

### **Abbreviations**

- AOC** Area Operating Committee. Fort Nelson, Ft. St. John and Pine River will have AOC's during the term of this agreement made up of Westcoast and shipper representatives for the purpose of resolving operating issues and fulfilling the terms of this agreement.
- ASEC** Area Shipper Executive Committee. Each ASEC will be made up of Westcoast and an officer from each of the four largest shippers by firm contracted volume in that RGT and Treatment operating area and one officer from a small shipper/producer to be a representative for the small shippers in that RGT and Treatment operating area.
- CAPP** Canadian Association of Petroleum Producers.
- CD** Contract Demand. As defined in the GT&C.
- CDC** Contract Demand Credits. Invoicing credits on firm shipper invoices relating to CD charges for firm service not received.
- EFM** Electronic Flow Measurement. Electronic devices installed in operating locations for recording and calculating gas flows. Replace chart recorders as a flow measurement device.
- EO** Exempt Outages. Outages which affect shipper service but are exempt from inclusion in reliability calculations.
- FVE** Facility Variance Event. Facility outages which are declared a variance event for the purpose of shipper balancing.
- GISB** Gas Industry Standards Board. A USA standards organization for the natural gas industry which establishes transaction standards. Canadian pipelines that transport gas to US interconnects must conform to many of these standards.
- GT&C** General Terms and Conditions. Westcoast's General Terms and Conditions - Service as filed with the NEB.
- NEB** National Energy Board.
- NGL** Natural Gas Liquids.
- OBA** Operational Balancing Agreement
- PO** Planned Outage. Any outage which has been planned according to a defined outage planning schedule.
- RPO** Receipt Point Operator.

- RGT** Raw Gas Transmission service.
- TLC** Temporary Location Commitment system. A computer system which will allow shippers to temporarily move firm service contract receipt points in the RGT system to underutilized areas.
- TN** Transportation Service - Northern.
- TS** Transportation Service - Southern.
- UDC** Underutilized Demand Charges. Firm service demand charges which are paid by a shipper for firm service which is not utilized.
- UDCC** Underutilized Demand Charge Credits. Invoicing credits for a shipper's UDC's which reduce that shipper's interruptible service charges. UDCC's may arise in two ways. First, charges in a month for interruptible service between a particular receipt point and delivery point may be reduced by credits for UDC's (Underutilized Demand Charges) from firm service of a similar type between another receipt point and delivery point in the same month. Second, charges in a month for interruptible service between a receipt point and delivery point on a particular day may be reduced by credits for UDC's from firm service of the same type between the same receipt point and delivery point on another day in the same month. The first type of UDCC is explicitly calculated on Westcoast's invoices, the second is implicit in the monthly billing logic.
- UPO** Unplanned Outage. An outage which is not classified as a PO or an EO.

**Westcoast** Westcoast Energy Inc.

## I. SUMMARY

Westcoast (Westcoast Energy Inc.) is committed to the provision of reliable firm RGT (Raw Gas Transmission), treatment and transportation services to its customers. As evidence of its commitment to ensuring that the availability of its facilities meet or exceed average industry standard reliability levels, Westcoast is prepared to measure reliability of its facilities, warrant performance equal to or better than annual reliability targets, and provide CDC's (Contract Demand Credits) where the reliability targets are not met. Westcoast's commitment is to individual shippers. Accordingly, the calculation of reliability will be shipper, firm service and facility specific. Measurement of reliability will be based upon representative pressures in the RGT and Treatment service zones and authorized business in the Transportation service zones.

Should Westcoast fail to meet its warranted reliability targets at a facility for a specific shipper in respect of RGT and Treatment service, Westcoast commits to issue CDC's to that shipper which reflect the difference between the service provided and the full CD (Contract Demand) of the shipper at that facility. In the RGT and Transportation service zones, Westcoast will issue CDC's for the affected services in the zone related to the facility where the reliability target has not been met is located. In the Treatment zone, Westcoast will issue CDC's for the affected Treatment services and that shipper's linked RGT services.

Westcoast warranty is contingent on Board approval of a number of significant procedural changes with regard to how shippers do business on the Westcoast system. These changes are required to ensure Westcoast has sufficient control of system operations. The changes are predicated upon shippers and interconnecting systems accepting responsibility for their actions. To manage RGT and Treatment services proactively, RPO's (Receipt Point Owners) will be required to install EFM (Electronic Flow Measurement) devices at all significant receipt points onto the Westcoast RGT system. RPO's will also be required to make available to Westcoast, at Westcoast's request, the data from those EFM devices.

Implementation of procedural changes, information system enhancements and EFM will place a strain on Westcoast, shipper and producer resources. Westcoast and the parties to this agreement have agreed that Westcoast's reliability warranty will take this into account. Accordingly, the initial and final warranty will have different reliability targets. The implementation timing and the pre-requisites for each reliability target are outlined in this document.

## II. RELIABILITY TARGETS

### **A. RGT and Treatment Reliability**

Each year, Westcoast and its customers will reach agreement via the AOC (Area Operating Committee) with regard to target levels of reliability at each facility. In determining the level of reliability, the AOC will allow for both prudent regular maintenance and UPO's (Unplanned Outages). The agreed upon levels will then become targets with the consequences to Westcoast of not reaching these targets on a shipper, firm service and facility specific basis being CDC's.

- (1) For each Field Services area, Westcoast will establish an AOC. The make-up of the AOC will be determined in consultation with the producers and shippers for the particular area. Details

regarding committee procedures and meeting frequency are to be worked upon by the members of the committee. The mandate of the committees will be to deal with operational issues pertaining to the operation and maintenance of Westcoast facilities. Specifically, the committees will be responsible for reviewing the planned maintenance schedule submitted by Westcoast and reaching a consensus on the level of reliability reasonably achievable at each facility.

- (2) PO's (Planned Outages) will be defined as maintenance related capacity restrictions that have been identified in the monthly outage schedule issued by Westcoast. PO's are identified by date, duration and impact. Any change in a PO date, duration or impact made after the release of the Monthly PO Schedule and which extends outside those identified in the monthly outage schedule will be considered as being an UPO and will be included in all reliability calculations as such.
- (3) When reasonably possible, PO's will be scheduled to minimize their impact on shippers and to allow shippers to mitigate their effect through other business arrangements. They also represent a planning tool for Westcoast to do work in the most efficient manner possible. PO targets will vary with factors such as facilities design, seasonality, contracting levels and from one year to the next due to multi-year turnaround planning cycles.
- (4) PO targets will be negotiated at the AOC based upon an annual outage schedule of all known PO required for each facility. The schedule will be established in advance of each year for the calendar year starting January 1 and ending December 31. This schedule will then be updated on a monthly basis to reflect changes to the base schedule as information on PO requirements changes. Monthly updates will be published by Westcoast on or before six business days prior to the start of the month affected by the PO (see Appendix I).
- (5) PO changes will be reflected in the monthly PO targets but will not affect the overall annual PO reliability target committed to at the beginning of the year. To be classified as PO's, service restrictions must be identified by start date, duration and impact at least 6 business days prior to the 1st day of the month in which they occur.
- (6) Any party may request a short notice rescheduling of PO's. It will be classified as a PO if Westcoast and 90% by volume of affected shippers agree to the proposed change.
- (7) The completion of PO schedules will be the responsibility of the Westcoast outage coordinator, who will seek the consensus of the AOC on schedules. Westcoast will make the ultimate decision on PO event timing.
- (8) Outages falling within the PO targets will not be included in the determination of CDC's.
- (9) UPO's are defined as all service restrictions that are not PO's or EO's (Exempt Outages). This may include maintenance identified but not scheduled, scheduled maintenance which has had a slippage in the dates, duration or impact and events of force majeure.
- (10) The UPO targets for each area will be developed on a calendar year basis starting January 1 and ending December 31. When setting targets, the AOC will use historical and benchmark data (if available) and will take into consideration acceptable business risk levels for Westcoast and the shippers. Targets will be reviewed and approved by the ASEC's (Area Shipper Executive Committee) (see Appendix I).

- (11) UPO's by their very nature are difficult to schedule. UPO targets will be developed using a statistical approximation of the likelihood of a facility outage occurring and its impact and will take into account seasonality, contracting level, facility configuration factors, and NGL (Natural Gas Liquids) impact on system hydraulics. Annual UPO results and associated CDC's, if any, will be calculated on a thirteenth month adjustment basis as described later in this document. Because UPO's are somewhat random in nature, performance in any year will not necessarily result in an automatic rebasing of the targets up or down.
- (12) UPO targets will be established by area on an annual basis after Phase I and II UPO target windows are complete (see section VI - Implementation). Subject to paragraph 13 below, the Phase II reliability targets identified in Appendix II of this document are Westcoast's minimum annual target commitment through the life of this agreement. Phase II reliability targets will expire December 31, 1998 and will require renegotiation yearly thereafter.
- (13) PO and UPO targets may need to be reset within the year on a non-routine adjustment basis if there is significant change to the facilities, regulations governing the facilities or contracting levels. Any party to this agreement may initiate a review of the target levels within the year if there is more than a five percent change to the contracting or capacity levels of the facility.
- (14) Any targets which cannot be agreed to by the AOC's and ASEC's will be resolved through the negotiated settlement dispute resolution process.
- (15) The intent is to achieve industry standards of reliability (typically between 97% and 98%) between receipt point and plant outlet, during the period of the settlement, through implementation of the total package. It is recognized that the reliability targets defined for the purpose of calculating CDC's are not directly comparable to industry standard data. By the end of the first quarter each year, Westcoast will publish both base level and industry comparable data concerning reliability and availability levels experienced by the average shipper at each plant and in each gathering system on a volume weighted basis during the prior year. Industry comparable data will only be included for those facilities and operating conditions which are within Westcoast's control.

#### **B. Transportation Reliability**

Westcoast will warrant reliability targets on the Transportation North and Transportation South systems as provided in the GT&C (General Terms and Conditions).

### **III. RELIABILITY MEASUREMENTS**

#### **A. RGT reliability measurement**

- (1) RGT service reliability will be measured on a daily basis by the lesser of :
  - (a) announced facility CD restriction, and
  - (b) the combination of receipt point pressure and flow. (In the event that the daily average pressure is over the pressure specified in Appendix III, the reliability not received will be the CD minus the volume received from the shipper.)