ALBERTA ENERGY AND UTILITIES BOARD
Calgary Alberta

NOVA GAS TRANSMISSION LTD.
APPLICATION TO CONSTRUCT AND OPERATE
A METER STATION
AND TO TRANSFER LICENCES **Decision 97-14**
BONNIE GLEN / ESEP SYSTEM **Application No. 1005309**

1 INTRODUCTION

1.1 Background

In 1995, Imperial Oil Resources Limited (Imperial) applied to the Alberta Energy and Utilities Board (Board) for approval to construct and operate a pipeline lateral for the purpose of transporting blowdown gas from the Bonnie Glen field to the NOVA Gas Transmission Ltd. (NGTL) system at Springdale (see the attached figure). After the Board granted approval (Permit/Licence No. 25546) to Imperial in March 1996, Northwestern Utilities Limited (NUL) filed a request pursuant to Section 43 of the Energy Resources Conservation Act for a review of the approval. A public hearing (Proceeding No.960628) was held in September 1996 in response to that request which resulted in Decision 96-11 whereby the Board reconfirmed its earlier approval of the Imperial application.

During the course of the proceeding, NUL stated that an underlying reason for its Section 43 request was the imminent sale of the Edmonton to Sundre Expansion Pipeline (ESEP), including the Bonnie Glen lateral to a third party. NUL noted that it became aware of Imperial's interest in selling those facilities when it was requested to tender a bid for their purchase. NGTL was ultimately the successful bidder and has purchased the pipelines.

Given that the sale of the ESEP/Bonnie Glen system was not finalized during the public review in 1996, the Board excluded issues arising from the potential sale to a third party. However, the Board noted that if and when such an application is made, relevant public interest issues or other matters which are within the Board's jurisdiction, would be addressed in the appropriate manner.

1.2 Application

The current application was to obtain Board approval of the transfer of the pipeline licences and for approval to construct and operate a meter station.

The meter station would be located at Legal Subdivision 5, Section 17, Township 47, Range 27, West of the 4th Meridian. The proposed facility would meter Imperial's Bonnie Glen blowdown gas and deliver it into the ESEP system via the Imperial Bonnie Glen lateral to Springdale (both facilities would be the subjects of licence transfers from Imperial to NGTL).

The licence transfers, made pursuant to Section 24 of the Pipeline Act, related to approximately 27 kilometres (km) of 323.9-millimetre (mm) outside diameter (OD) pipeline from

LSD 16-22-51-27 W4M to LSD 4-28-51-24 W4M (referred to as the Golden Spike Lateral), under Licence No. 15440, 8.8 km of 323.9-mm OD pipeline from LSD 5-17-47-27 W4M to LSD 9-12-46-27 W4M (referred to as the Bonnie Glen Lateral), under Licence No. 25546, as well as 95 km of 323.9-mm OD pipeline from LSD 4-28-51-24 W4M to LSD 13-33-43-1 W5M, and a 3.3 megawatt compressor station at LSD 14-11-49-25 W4M (referred to as the ESEP), under Licence No. 25546. The facilities are shown in the attached figure.

1.3 Hearing

The application was considered at a public hearing in Calgary, Alberta on 21-23 May 1997 with Board Members F. J. Mink, P.Eng., G. J. Miller, and Acting Board Member J. R. Nichol, P.Eng. sitting.

Those who appeared at the hearing are listed in Table 1.

TABLE 1 THOSE WHO APPEARED AT THE HEARING

Principals and Representatives (Abbreviations used in report)	Witness
NOVA Gas Transmission Ltd. (NGTL)	M. Hoshizaki, P.Eng.
H. D. Williamson, Q.C.	J. McPherson
	T. Young
Imperial Oil Resources Limited (Imperial)	D. Bird, P.Eng.
D. G. Davies	R. R. Moore, P.Eng.
Northwestern Utilities Limited (NUL)	C. Sheard
B. K. O'Ferrall	J. Engler
	R. Armstrong, P.Eng.
Fletcher Challenge Energy Canada Inc. (Fletcher Challenge)	
S. M. Munro	
Alberta Energy and Utilities Board (Board)	
R. Heggie, Counsel	
P. K. Ferensowicz	
S. C. Lee, P.Eng.	
K. Dannacker, P.Eng.	
K. Johnston	

2 ISSUES

The following issues were considered in reaching a decision on the application:

- the need for the proposed meter station and licence transfers,
- the regulatory treatment of acquired assets, and
- evaluation of alternatives/acquisition guidelines.

3 NEED FOR THE PROPOSED METER STATION AND LICENCE TRANSFERS

Imperial commenced blowdown of the Bonnie Glen gas cap in November 1996 and has been transporting the gas to markets via the NGTL system. Imperial believes that effective marketing requires the gas to be delivered to the NGTL system. Therefore, having made its decision to sell the ESEP system and the Golden Spike and Bonnie Glen laterals, Imperial feels it is important to secure a commercial contract to move its blowdown gas from Bonnie Glen to Springdale.

3.1 Views of the Applicant

NGTL stated that the proposed meter station is required to meter Imperial's Bonnie Glen blowdown gas under a firm service (FS) agreement. It also stated that the proposed ESEP system transfer is partly required to meet its obligation to transport Imperial's contracted gas volumes from the Bonnie Glen blowdown. NGTL also undertook a reserves evaluation of the area adjoining the ESEP system, and believes that there is a potential for additional gas to be connected north of the Bonnie Glen junction that could eventually make the remaining ESEP system useful to NGTL. NGTL stated that, after comparing alternative options, it determined that acquisition of the ESEP system would be the low cost option for providing long-term transportation service in the area.

NGTL maintained that its acquisition of the entire ESEP system and the laterals was made to secure a nine-year FS contract with Imperial to move the Bonnie Glen volumes and would recover the total cost of the acquisition and also guarantee that the gas would flow on the NGTL system. It believed that the $17 million expenditure required to build the meter station and to purchase the ESEP system was justified in order to secure the Bonnie Glen volumes onto the NGTL system.

NGTL confirmed that it eventually intended to use the northern portion of the ESEP system (north of the Bonnie Glen junction) to transport gas down to Springdale although there are no volumes currently moving down that portion of the line under any sort of service agreement. Notwithstanding, NGTL believed that the northern portion of the ESEP system would be useful in the future. NGTL stated that it had received requests for service north of the Bonnie Glen junction totalling some 1800 x 10^3 m^3 per day. However, NGTL had not determined the required contractual obligations as yet because new metering facilities would need to be applied for and installed in order to connect those volumes to the ESEP system. NGTL noted that there is gas in Golden Spike gas cap, but it had not received any specific requests to move this gas. It also indicated that Imperial has not committed any Golden Spike volumes to the ESEP system.

3.2 Views of the Interveners

Imperial supported the NGTL application, saying that circumstances have changed in its operation and that it no longer needed its own proprietary pipeline system for gas transportation. Imperial stated that the declining Leduc D-3A blowdown gas, the decision to sell its uphole gas reserves in the Leduc area, as well as the fact that the only Imperial gas now connected to the ESEP system is the Bonnie Glen blowdown gas, all contributed to its decision to sell the ESEP system and the laterals. Imperial stated that NGTL has purchased the ESEP system, and has the intention to move third-party gas on the ESEP system. Imperial saw no reason for the Board to protect NUL from the pipeline competition by denying the NGTL application. Imperial argued that, if the Board denies the NGTL application, Imperial would be deprived of its ESEP system sale revenue, and required to pay higher costs to transport the Bonnie Glen gas.

Under questioning by NUL, Imperial stated that the gas transmission business at that point in time was not Imperial's core business. By selling the ESEP system to NGTL, Imperial would still have the same operational flexibility in the future.

In response to Board questions, Imperial stated that selling the ESEP system and being able to secure a FS agreement for the Bonnie Glen gas on NGTL would provide it with a comfortable level of certainty. Imperial admitted that the northern portion of the ESEP system would be idle. Although it had not held any discussions with NGTL regarding a partial transfer of the ESEP system, Imperial believed that the agreement with NGTL did not contemplate such a partial transfer of the pipeline; it also believed that a partial transfer would not have maximized its value of selling the pipeline.

NUL objected to the NGTL application. It stated that if the transfer were to be approved, it would lose existing producer volumes to NGTL, causing a potential impact of lost revenue of $25 million per year or more. NUL stated that it is prepared to compete. However, since end-use customers in Alberta located adjacent to a NGTL pipeline do not pay delivery charges off the pipeline to their plants, the competition would not be fair based on economic considerations and would not be in the public interest.

NUL stated that it did not bid to acquire the ESEP system because it would have been prudent to own the ESEP system. Rather, it bid to purchase the line because it would have been imprudent to let the line fall into the hands of NGTL and, thereby, cause existing end-use customers to switch to NGTL for deliveries. In response to NGTL's questions, NUL stated that it does not see any revenue that it would get as a result of purchasing the line that it will not get with its existing facilities.

Under questioning by Imperial, NUL stated that the transfer of the ESEP system is not in the public interest; it stated that, since NGTL is already serving end-use customers, there would be no financial benefit to NGTL with the transfer of the pipeline, but, rather, a financial disadvantage to NUL.

NUL maintained that the ESEP system was never really needed as a gas pipeline system. It stated that, even if NUL were the successful bidder, it probably would not have operated the ESEP system, at least not for the near term until some future need materialized which it could not currently see. NUL further stated that, even if the ESEP system were purchased by a third party, it would still be a duplication of facilities, because there is too much pipe in the area transporting gas.

Under questioning by the Board, NUL stated that if it were the successful bidder on the ESEP system, it would likely shut the line down because it sees no need to operate a second line in that corridor, and because it does not plan to transport the Bonnie Glen gas north.

3.3 Views of the Board

The Board is satisfied that there is a need for pipeline service to transport Imperial's Bonnie Glen blowdown gas to market. The Board notes that all the blowdown gas is ultimately destined for the NGTL system to be exported from the province. The Board also recognizes that there are some merits for Imperial to secure a long-term service contract with NGTL to transport the Bonnie Glen gas to Springdale. The Board also accepts that given the Leduc D-3A blowdown gas is declining, and that Imperial is not currently transporting any gas from Golden Spike to Bonnie Glen down the northern portion of the ESEP system, the utility of the ESEP system for the Imperial operation has diminished. While the Board accepts that the ESEP system was originally intended to be used only for proprietary gas, it does not believe that the original commitment to convert ESEP to gas service prevented the company from eventually selling all or portions of the line, once it had lost this purpose. In this case, the Board notes that defined need has not been established for the northern portion of the ESEP system. The Board notes that NGTL has received some requests for service north of the Bonnie Glen junction but it is not clear when or how much of these volumes would materialize. While the Board is satisfied that the FS agreement between Imperial and NGTL demonstrates the need for NGTL to purchase a portion of the line, the Board is not convinced that it was necessary for NGTL to accept the condition by Imperial to tie the sale of the entire ESEP system to a FS contract from NGTL. Further, given the evidence, the Board is not persuaded that the northern portion of the ESEP system is justified by NGTL for utility service. It believes that the final movement of gas north of the Bonnie Glen junction remains to be determined. The Board sees no apparent need or public interest associated with the transfer of the northern portion of the ESEP system to NGTL.

The Board notes that subsequent to the hearing, NUL and NGTL reached an agreement that would result in the sale of the northern portion of the ESEP system to NUL. The net effect of the agreement would result in NGTL retaining ownership of only that portion of the ESEP system necessary to transport the Bonnie Glen blowdown gas to the main NGTL system. While Imperial should be at liberty to dispose of the line it is incumbent on NGTL to be prudent in purchasing third party assets for its own operation.

4 REGULATORY TREATMENT OF ACQUIRED ASSETS

4.1 Background

The Board's regulation of NGTL's rates is set out in the *Gas Utilities Act* (GU Act). In setting rates, the Board must determine a rate base and include in rates a fair return on assets in the utility's rate base. The GU Act defines rate base as the property of the owner of the gas utility used or required to be used to provide service to the public within Alberta. Furthermore, the Board, when determining a rate base, must assess the property at original prudent acquisition cost.

NGTL's application stated that, until the ESEP licence transfers were approved, Imperial had leased the facilities back from NGTL for its continued use. NGTL would continue to receive Imperial's gas at the Springdale meter station until the ESEP licence was transferred and the Bonnie Glen meter station was approved.

4.2 Views of the Applicant

NGTL's witnesses indicated that, pending Board approval of the license transfer, Imperial would continue to operate the pipeline. Notwithstanding, NGTL indicated that the acquired ESEP system was included in its rate base on 1 November 1996. If the pipeline licence were not transferred, NGTL had the option of selling the line to Imperial or a third party. In either of these cases, NGTL proposed removing the assets from rate base. In case the Board denied the transfer application, NGTL indicated that it might keep the asset but have Imperial operate the line. In this instance, NGTL could not state what the rate base treatment of the ESEP system would be as such an arrangement had no precedent.

4.3 Views of the Interveners

NUL noted in evidence that, should the Board approve NGTL's application, NGTL would then place the line in rate base, allowing it to earn a return on the $16 million purchase price. The effect on existing shippers would be mitigated through attracting shippers and volumes which, at present, flowed through NUL's system. At the hearing, NUL's witness expressed surprise that NGTL had already placed the ESEP system in rate base. NUL noted that, even if it were the successful bidder for the ESEP system, it would have difficulty justifying to the Board that the acquisition cost was prudent and that the line would be used or useful.

4.4 Views of the Board

The Board notes that, while awaiting a transfer of licence, the ESEP system has been operated by Imperial since 1 November 1996 and it has been carrying only Imperial's gas. The Board does not consider that the entire line has been devoted to public service during this period and that NGTL's rate base treatment has not been correct. NGTL's current rate base treatment results in shippers having included in their rates a return to NGTL on the asset costs and the operating fees paid to Imperial before the assets were either fully used by NGTL or there is a reasonable rationale for their use. The Board considers that, for the period up to and until the licence transfers, NGTL should have placed the purchase cost in a Plant Held For Future Use (PHFFU) account, accumulating the Imperial operating fees and any capital charges at NGTL's Allowance for Funds Used During Construction (AFUDC) rate. The Board expects NGTL to make the necessary adjustments to rate base and revenue requirement during this period and make the necessary credits to shippers.

As noted in a previous section, the Board has determined that there is a need to transfer only the southern portion (from Bonnie Glen to Springdale) of the ESEP system to NGTL. Therefore, if the Board is to approve the NGTL application for the licence transfer, it would only approve the transfer of the southern portion of the ESEP system. And, as this is the only part of the system which would be devoted to public service after the transfer, only the cost of this portion of the ESEP system should be placed in NGTL's rate base. NGTL would be directed to remove the remaining portion of the system from PHFFU as it will not be required to be used.

NGTL is further directed to file with the Board and interested parties, within 90 days of this Decision, a report that the necessary accounting adjustments have been made, the amount of any credit to shippers, and NGTL's proposed disposition of assets which it will not be operating.

5 EVALUATION OF ALTERNATIVES/ACQUISITION GUIDELINES

5.1 Background

In Decision U96001, the Board examined NGTL's acquisition of existing pipeline assets and concluded, at p.20:

> In future, should NGTL seek to include additional pipeline acquisitions in rate base, the Board expects it to demonstrate that adequate guidelines are in place to ensure a consistent approach to acquisitions and that such guidelines have been followed. The Board considers that the primary objective of asset acquisition should be to minimize the long-term cost of providing transportation service. Accordingly, the Board expects NGTL to outline specific criteria that must be met to justify purchases of other pipelines and to formulate management processes to deal with such purchases.
>
> In developing these guidelines, it would be useful, in the Board's view, for NGTL to seek the input of its shippers. The Facility Liaison Committee (FLC) could serve a useful role in this exercise.

5.2 Views of the Applicant

By letter dated 18 February 1997, NGTL stated that the ESEP system purchase was A...consistent with NGTL=s acquisition guidelines and criteria and satisfies the primary objective of an acquisition to minimize the long term cost of providing transportation service to our customers.@ By letter dated 18 March 1997, NGTL provided the guidelines, which are attached as Appendix 1 to this Decision (Guidelines).

NGTL stated that the Ado nothing@ alternative was neither realistic nor viable under the circumstances. It maintained that buying the pipeline secured Imperial as a FS shipper for a 9-year period. Since the FS rate greatly exceeded NGTL=s marginal cost of service, there would also be a large contribution to fixed costs from which NGTL=s existing shippers would benefit. NGTL considered that the Transportation-By-Others (TBO) alternative suggested by NUL was not the least cost alternative for all shippers. NGTL stated that its cost of service was lower under the purchase alternative and provided its cost/benefit analysis of the three alternatives examined.

NGTL considered that it had followed its Guidelines and the purchase of the ESEP system was in the public interest. It noted that, as shown by NGTL=s FS commitments of 453 x 10^3 m^3 per day, there was a high probability that incremental gas would soon be flowing on the ESEP system. In its judgement, NUL=s evidence had also confirmed that a great deal of capped gas existed within 12 miles of its Homeglen line. NGTL wished to access these volumes. NGTL also argued that the assertions of Fletcher Challenge should be given little weight in these proceedings as it had not provided a witness for examination by other parties.

5.3 Views of the Interveners

NUL concluded that the Guidelines may not have even existed at the time the acquisition was made. However, if the Guidelines did exist, it was clear that NGTL had not met these requirements in purchasing the ESEP system as they had not achieved the Guidelines' primary objective of minimizing the long-term cost of transportation to its customers.

NUL recommended that the Board deny the licence transfer, which would be the same as the Ado nothing@ alternative identified in the Guidelines. NUL maintained that in that case, there would be no effect on Imperial as its volumes would continue to move to market through Springdale. There would be no effect on NGTL as it would continue to receive Imperial=s volumes and whatever revenue it would generate. NUL in turn would retain its shippers in these circumstances. NUL also suggested that, if NGTL agreed to roll in NUL=s TBO charges, both NGTL=s shippers, Imperial, and NUL would benefit and there would be no need for NGTL to purchase the ESEP system.

Fletcher Challenge opposed the purchase by NGTL of any part of the ESEP system. It argued that NGTL had not followed principle (c) of the Guidelines, namely that gas accessed by the acquisition would be incremental to the system. Fletcher Challenge agreed with this principle as

the postage stamp rate meant that NGTL increased revenue by increasing volumes and not by increasing the length of its system. The ESEP system purchase meant that NGTL had paid $16 million to extend the length of its system to access gas that would have flowed on its system in any case. Fletcher Challenge submitted that NGTL never explored with Imperial the possibility of continued firm service in the absence of buying the pipeline. Indeed, Fletcher Challenge noted that the Ado nothing alternative@ did not appear in the guidelines until March 1997, well after the sale of the ESEP system. Fletcher Challenge concluded that NGTL had acted without considering the best interests of its existing shippers.

5.4 Views of the Board

The Board accepts NGTL=s acquisition guidelines and criteria as set out in its letter of 18 March 1997. The Board considers that the Guidelines should ensure that the benefits and costs of an acquisition will be evaluated when the Guidelines are properly applied.

With respect to the present acquisition, the Board agrees that the acquisition results in a substantial net benefit to NGTL customers. The Board does not consider however that all the costs and benefits have been considered in NGTL=s analysis. The evidence shows that, at the end of the 9-year FS agreement, an undepreciated amount of $13 232 000 would remain for the line and metering facilities. In the absence of reasonable expectation that the line would be used, the Board considers that this undepreciated amount should have been subtracted from the calculated benefit of the purchase option. Alternatively, the line could have been sold and the residual value attributed to the customers. Finally, if NGTL believed that the acquisition would result in incremental gas flows, it should have included that revenue in all its scenarios.

The Board concludes that, had NGTL fully evaluated the three alternatives, the benefit to customers of its various alternatives may have been quite different. A more complete analysis might have shown that the southern portion of the ESEP was the only section which met its Guidelines, as this is where the majority of the incremental revenues would be generated. Furthermore, acquisition of this portion of the line would have resulted in lower capital costs, further increasing benefits to NGTL=s existing shippers.

In the Board's judgement it was also unlikely for Imperial to divert the Bonnie Glen volumes in the long run from the NGTL system. The Board believes that NGTL should have focused on purchasing only that portion of the line that can reasonably be considered useful for the service requested by Imperial.

6 DECISION

Having considered all of the evidence presented at the hearing, the Board is satisfied that there is a need for the proposed meter station and the transfer of the southern portion of the ESEP system from Bonnie Glen to Springdale. The Board is not convinced that the transfer of the portion of the ESEP system north of the Bonnie Glen junction is in the public interest. Therefore, the Board is prepared to approve the meter station and the partial transfer of the southern portion of the ESEP system, subject to confirmation by NGTL.

DATED at Calgary, Alberta on 31 October 1997.

ALBERTA ENERGY AND UTILITIES BOARD

(Original signed by)

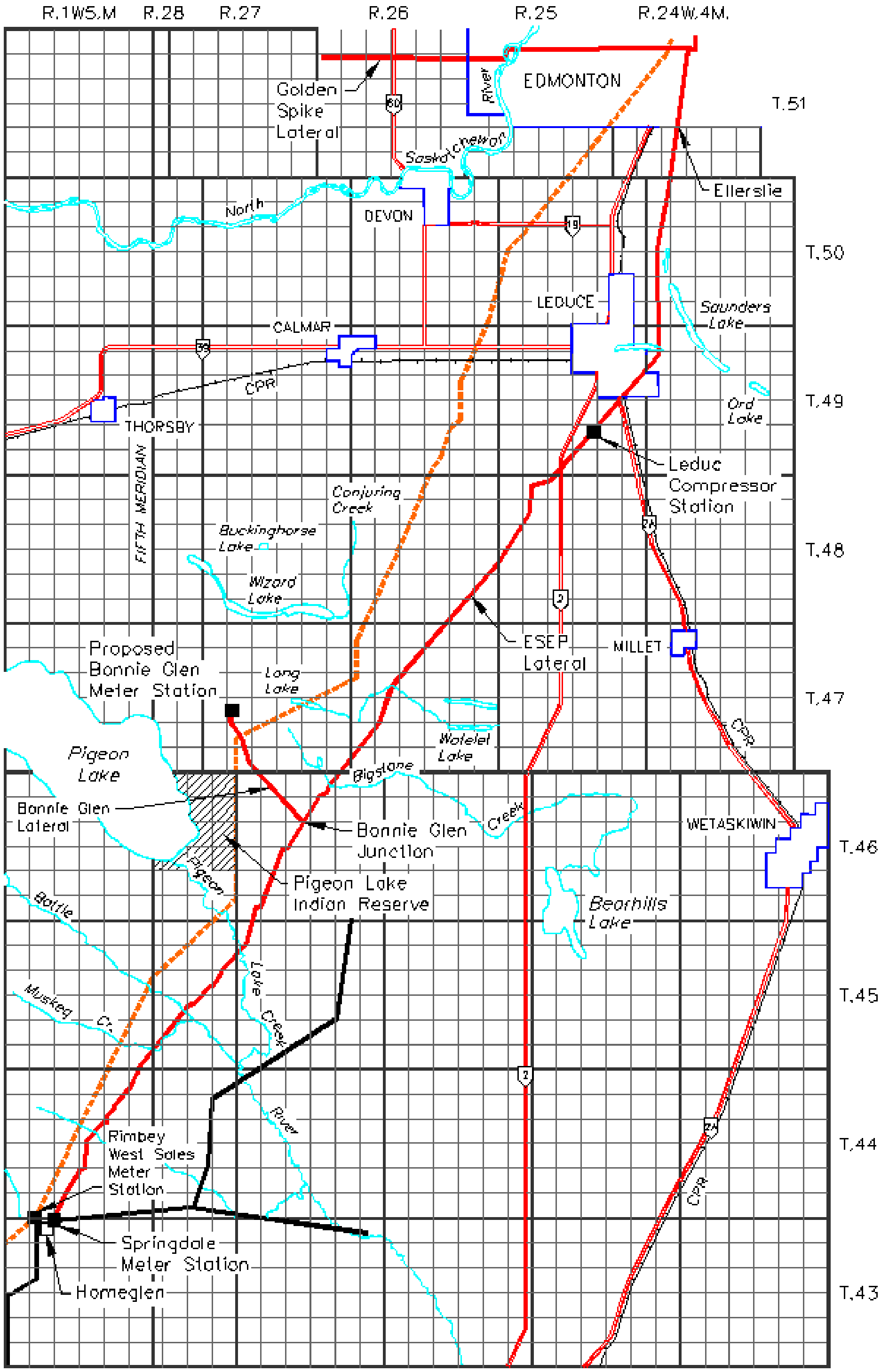
F. J. Mink, P.Eng.
Presiding Member

G. J. Miller *
Board Member

(Original signed by)

J. R. Nichol, P.Eng.
Acting Board Member

* Mr. Miller was unavailable for signature but concurs with the contents and the issuing of this report.



Legend

Imperial Oil Resources Limited Proposed Licence Transfer

NOVA Gas Transmission LTD. Pipeline

Northwestern Utilities Limited Pipeline

NOVA GAS TRANSMISSION LTD.
Application No. 1005309

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