Decision **2002-058**

NOVA GAS TRANSMISSION LTD.

Application To Construct Fort Saskatchewan Extension And Scotford, Josephburg And Astotin Sales Meter Stations

July 2, 2002

Alberta Energy and Utilities Board

ALBERTA ENERGY AND UTILITIES BOARD
Application To Construct Fort Saskatchewan
Extension And Scotford, Josephburg
And Astotin Sales Meter Stations

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ALBERTA ENERGY AND UTILITIES BOARD
Calgary Alberta

NOVA GAS TRANSMISSION LTD. APPLICATION TO CONSTRUCT FORT SASKATCHEWAN EXTENSION AND SCOTFORD, JOSEPHBURG AND ASTOTIN SALES METER STATIONS	**Decision 2002-058 Application No. 1245440 File No. 5702-1**

1 INTRODUCTION

NOVA Gas Transmission Ltd. (NGTL) filed an application on October 4, 2001, with the Alberta Energy and Utilities Board (the Board), under Part 4 of the Pipeline Act*,* for a license to construct and operate approximately 77.5 kilometres (km) of a 508-millimetre (NPS 20) outside diameter (OD) pipeline for the purpose of transporting natural gas from a valve site located on its Flat Lake Lateral Extension at Legal Subdivision (LSD) 13, Section 31, Township 57, Range 15, West of the 4th Meridian, to LSD 8-3-55-22W4M. Additionally, NGTL applied to construct and operate four sales meter stations to provide service to Dow Chemicals Canada Inc. (Dow), Sherritt International Corporation (Sherritt) and Agrium Inc. (Agrium).

Subsequent to Agrium's withdrawal of its service request, NGTL amended its application on March 1, 2002, to withdraw its request for the meter station originally intended to serve Agrium. NGTL determined that the remaining facilities described in the original application, and estimated to cost $28.1 million ($24.8 million for the mainline extension and $3.3 million for the three meter stations), would continue to be the appropriate and required facilities to transport the service requests of Dow and Sherritt, and thus remained part of the application before the Board (the Application).

In its amended Application NGTL requested authorization to build three type 2-660 Sales Meter Stations identified as

- Scotford Sales for Dow located at LSD 1-13-55-22W4M
- Josephburg Sales for Dow located at LSD 7-10-55-22W4M
- Astotin Sales for Sherritt located at LSD 8-3-55-22W4M

Figures 1 and 2 illustrates the location of the proposed NGTL Fort Saskatchewan Extension and meters stations (the applied-for facilities), existing NGTL pipelines and existing ATCO Gas and Pipelines Ltd. (ATCO) mainlines, laterals and its storage cavern.

1.1 The Process

Following the receipt of NGTL's initial Application, the Board received letters from various parties regarding the completeness of the Application. In particular the Board received a letter from ATCO dated October 31, 2001, requesting the Board not to proceed to a hearing until deficiencies in the Application were addressed. ATCO added that the Application raised critical issues that needed to be resolved through a generic hearing into the rules and policies for competition in the transportation of natural gas in Alberta. Further letters to the Board from parties discussed ATCO's request as well as the competitive issues inherent in it. The Board, in recognition of concerns of the parties and to assist its review of the Application, requested

additional information from both NGTL and ATCO on December 12, 2001. The Board received the requested information as well as responses and comments from several parties including NGTL.

In the Board's letter to interested parties dated February 15, 2002, the Board noted that a number of generic issues needed to be resolved to ensure fair and equitable competition for all natural gas pipelines in the province. The Board also noted that a number of generic processes were under way concerning some of the tolling issues addressed by parties. The Board resolved to proceed to a hearing relating to this Application. The Board noted that pending resolution of the generic issues regarding competition, the Board would review applications with due scrutiny applied to the issues of need, proliferation, cost accountability, least cost alternative and other questions related to economic, orderly and efficient development of pipeline facilities in the public interest.

In a letter to interested parties dated April 5, 2002, the Board indicated that this Application raised both energy facilities and utilities issues, and that the Board was treating the proceeding as both a facilities and utilities hearing.

1.2 The Hearing

The Application was considered by the Board at a public hearing in Calgary, Alberta, commencing on May 13, 2002, with final arguments presented on May 23, 2002, before Board Member M. N. McCrank, Q.C., and Acting Board Members B. Torrance and M.W. Edwards. The evidence of Mr. Norman MacMurchy, appearing for the Industrial Gas Consumers Association of Alberta (IGCAA), was taken on April 23, 2002 by commission. At that proceeding a court reporter prepared a transcript and the proceeding was videotaped. The transcript and videotapes were presented to the panel on May 13, 2002. Counsel for the Board indicated that in the event of a discrepancy between the transcript and the videotapes, the transcript would prevail.

The Board considers that the record for this proceeding closed on May 23, 2002.

Those who appeared at the hearing, along with a list of abbreviations used in this decision, are provided in Appendix A.

2 BACKGROUND

A number of recent Board decisions respecting NGTL are of note in reviewing this Application. On February 5, 2002, the Board issued Decision 2002-16 in response to NGTL's application for approval of costs for delivery service to the Fort McMurray area. NGTL had received requests for delivery service to the Fort McMurray area and submitted that the least cost alternative to provide the requested service was through a Transportation by Others (TBO) arrangement. NGTL requested that the Board approve the third party transportation arrangements for delivery service to the Fort McMurray area and the inclusion of the associated costs in NGTL's revenue requirements for the period from 2001-2004.

NGTL's revenue requirement for 2001 and 2002 was determined in accordance with the Alberta System Rate Settlement (the Settlement). The Board approved the Settlement in Decision 2001-

44, issued on May 29, 2001. The Settlement was the result of negotiations with stakeholders representing a broad cross-section of affected interests. Tolls for 2001 and 2002 were to be determined in accordance with the rate design as approved by the Board in Decision 2000-6. There were several elements to Decision 2000-6. The most notable is the fact that the Board approved a new rate design referred to as Receipt Point Specific Rates. Under the new rate design, the separation of receipt and delivery rates was maintained. Natural gas serving the export market would be subject to a receipt and a delivery charge. In contrast, natural gas serving the intra-Alberta market would continue to be subject to receipt charges only, with delivery charges set at zero. In other words, NGTL would continue to recover the costs of its intra-Alberta deliveries through the receipt toll.

The Board recognized in Decision 2002-16 that many of the issues and concerns raised in the Fort McMurray proceeding were issues identified by NGTL and its stakeholders as pending resolution by December 31, 2002, the expiry date of the Settlement. Delivery service to Fort McMurray was an unresolved issue during the Settlement negotiations. However, parties to the Settlement expressed their commitment to address cost allocation issues among receipt points, intra-Alberta and ex-Alberta deliveries; to develop a fair and efficient short-haul rate for short-haul service within Alberta; to increase accountability for system expansion; and to finalize a code of conduct that would be acceptable to NGTL, its customers, and the Board.

In Decision 2002-16, the Board approved the TBO arrangements to serve the Fort McMurray region and approved the inclusion of their costs up to and including December 31, 2002. The Board also directed NGTL to enter into collaborative discussions with stakeholders to resolve cost accountability issues and to submit a progress report by August 1, 2002. NGTL was directed to file a settlement or an application with the Board on or before December 31, 2002. Meanwhile, the Board indicated that should NGTL wish to provide new intra-Alberta delivery service prior to the establishment of a new intra-Alberta rate design, the Board 's expectation was that the issue of measures to ensure full cost accountability for the arrangements or facilities contemplated would have to be addressed.

3 THE ISSUES

The Board believes the issues respecting this Application are:

- need for the applied-for facilities;
- appropriateness of the sizing of the applied-for facilities;
- least cost alternative;
- impact on others ; and
- cost accountability and the provision of intra-Alberta delivery service.

Each of these issues will be dealt with in turn below.

4 NEED FOR THE APPLIED-FOR FACILITIES

4.1 Views of NGTL

NGTL noted that currently there were no NGTL facilities serving the Fort Saskatchewan area. In order to provide the requested delivery service, NGTL evaluated different alternatives; specifically, the construction of new facilities or the acquisition of capacity through either a TBO arrangement with a third party pipeline or purchase of existing facilities. NGTL determined that existing area capacity was not sufficient to meet NGTL's projected Maximum Day Delivery over its five year forecast period. NGTL further submitted that the acquisition of capacity was not a viable option. That, coupled with customers' desire for a competitive physical alternative to the existing area pipeline, led NGTL to conclude that its customers' market needs would best be satisfied through the construction of a mainline delivery extension into the Fort Saskatchewan area.

NGTL asserted that the Fort Saskatchewan customers requesting service were entitled to receive service from NGTL. NGTL judged its ability to offer the service against set criteria in accordance with the Facilities Liaison Committee (FLC) established Guidelines for New Facilities (the Guidelines). The Guidelines were developed and approved by the FLC to establish circumstances under which NGTL may construct facilities to provide service. NGTL added that the Guidelines were filed with the Board in July 2000 for information purposes only.

In its original Application, NGTL had submitted that the Fort Saskatchewan Extension was designed for future Maximum Day Delivery in the order of 316 mmcf/d. Of that, 174 mmcf/d was subject to service requests by Dow, Sherritt and Agrium. NGTL had submitted that about 38 mmcf/d of the aggregate requested service of 174 mmcf/d represented incremental requirement by Dow. The remaining 136 mmcf/d was currently subject to transportation service arrangements with ATCO. NGTL added that the majority of customers' gas flowing on ATCO was subject to annual renewal and would not be expected to be renewed once NGTL provided the requested service.

NGTL expressed the view that any displacement of existing service on ATCO would be short lived since NGTL forecasted approximately 300 mmcf/d of additional market growth in the next five years and 500 mmcf/d in the next ten years. NGTL projected that peak day industrial demand in the Fort Saskatchewan region would grow by approximately 150 mmcf/d by 2003. Of that, 130 mmcf/d was attributed to increased industrial demand of Dow and Shell Canada Limited (Shell) in the 2002/03 gas year. NGTL expected another 20 mmcf/d of peak day demand would also be required in the same time frame to serve a future cogeneration plant. NGTL projected that a further requirement of 130 mmcf/d in the East Edmonton region was expected to materialize by the 2006/07 gas year. Another 150 mmcf/d of demand growth was also estimated for refinery conversions or expansion of the Shell Scotford facilities by 2010, and an additional 50 mmcf/d for new electric cogeneration projects.

However, NGTL's market view changed, which led to the filing of its amended Application. Agrium withdrew its service request after signing a non-standard transportation agreement with ATCO. The incremental growth of 130 mmcf/d attributable to Shell and the cogeneration plant as discussed earlier was removed from NGTL's Maximum Day Delivery. NGTL noted that the cogeneration project was put on hold while Shell contracted with ATCO for its gas transportation requirement. On the other hand, NGTL noted that a customer in the East

Edmonton region had approached it to serve its refinery conversion by 2006. Total East Edmonton future requirement was estimated at 130 mmcf/d comprised of approximately 100 mmcf/d for the refinery itself and 30 mmcf/d, as estimated by NGTL, for an associated cogeneration facility. NGTL included the East Edmonton requirement in its revised Maximum Day Delivery.

NGTL noted that the design of the proposed extension facilities would be based on a revised Maximum Day Delivery of 250 mmcf/d to reflect these market changes. The revised Maximum Day Delivery consisted of two firm service contracts over a term of 4.5 years, one from Dow for 93 mmcf/d, including the incremental requirement of 38 mmcf/d, and one from Sherritt for 28 mmcf/d, plus what it identified as market growth in the East Edmonton region.

NGTL submitted that it was reasonable and prudent to include the East Edmonton area in its market forecast to ensure the orderly, economic and efficient development of area pipeline infrastructure. It added that the proposed facilities were appropriately sized to accommodate this market since its requirements were within NGTL's standard five-year market view. NGTL submitted that while it did not have a firm service request for the East Edmonton volumes, there was a high probability that such volumes would indeed materialize. In NGTL's view, the current and expected oil sands development would necessitate the requirement for refining and upgrading capacity. NGTL argued that once the applied-for facilities were constructed, an extension to the East Edmonton market through 27 km of additional pipe would be the most efficient and effective way to transport natural gas to accommodate this new demand.

NGTL concluded that the applied-for facilities were needed from many different perspectives. If ATCO were to solely serve the aggregate requirements of the Fort Saskatchewan market, its system would be full on a contract demand basis. That, in NGTL's view, would compromise system reliability. NGTL noted that, according to ATCO, its total system capacity of 530 TJ/d would have to meet market need of 525 TJ/d in the Fort Saskatchewan area alone. NGTL further noted that ATCO's evidence indicated that it would require additional facilities to satisfy Dow's incremental market, which was expected to materialize by the end of 2002 or early 2003. NGTL concluded that market need would necessitate construction of new facilities, regardless of whether ATCO or NGTL would be allowed to provide the added capacity.

NGTL submitted that the Board should also take into account the perspective of the industrial customers requesting the service when assessing the need for the applied-for facilities. The need for these facilities, from the customers' point of view, was driven by business and competitive realities. The expected rapid growth in the industrial base in the Fort Saskatchewan and East Edmonton regions, in NGTL's view, would best be served by large diameter mainline to ensure economies of scale and competitive alternatives for the supply of feedstock. In addition, NGTL stated that a physical alternative to the existing ATCO system would enhance reliability and security of gas supply. Approval of the applied-for facilities, in NGTL's view, would represent inexpensive insurance for a very significant investment by the industrial customers in the Fort Saskatchewan area.

4.2 Views of Those in Support of the Application

Dow and Sherritt submitted that they had entered into transportation arrangements with NGTL for three reasons: customer choice, competitive pricing and security of supply. Customer choice, in their view, was a fundamental requirement in a highly competitive marketplace. Dow added that in areas with a single supplier of natural gas, such as Fort Saskatchewan, it was not

confident that it would receive competitive pricing for its gas transportation requirement. Moreover, approval of the applied-for facilities would allow Dow and Sherritt to manage their security requirements, and ensure that they would not be captive from either a price or a reliability perspective. Both Dow and Sherritt asserted that while security of supply had not been an issue to date, ATCO could not guarantee future reliability against expected growth in the demand for additional transportation services corresponding to expected growth in products produced at the Fort Saskatchewan industrial sites.

Dow noted that the applied-for facilities were essential in order to satisfy an additional forty-five per cent increase in its gas demand. However, Dow indicated that, based on recent information from ATCO, its energy usage would not likely exceed existing ATCO capability until early 2003, the point at which it would be critical for Dow to access added capacity.

Both Dow and Sherritt stated that they had received offers from ATCO that would have essentially resulted in a plant gate price, at their facilities, equivalent to the price of gas delivered through proposed NGTL facilities. Dow and Sherritt refused ATCO's offers based on their opinion that the offers failed to address other key concerns such as customer choice and security of supply. Similarly, a TBO arrangement on ATCO would not be acceptable, as it would not meet the two key objectives. Moreover, in Dow's view, had it not been for the threat of a competitive alternative, ATCO would not have extended its offer in an effort to retain Dow on its system.

Dow submitted that the Board should approve the Application. However, should the Board decide not to approve the Fort Saskatchewan Extension at this time, Dow urged the Board to provide some clarity in its ruling around the need for provision of transportation service independent of the ATCO system to meet future demand consistent with the stated key objectives.

Dow and Sherritt indicated that, as members of IGCAA, they had also participated in the development of IGCAA's submission and endorsed the position of IGCAA as set out in its evidence.

IGCAA submitted that the Fort Saskatchewan industrial consumers had the right to receive service from NGTL, provided they met the requirements that NGTL established for its service extension. In IGCAA's view, the issue was whether NGTL should provide that service through the construction of a new pipe or through a TBO arrangement with ATCO. IGCAA's preference was for the construction of the applied-for facilities.

IGCAA stated its concern that ATCO might not have sufficient capacity to provide supply security comparable to a new NGTL pipeline, given that the ATCO system would be running at close to capacity. In IGCAA's view, if the security of supply was not materially the same, consumers who had met their contractual obligations to ATCO should not be forced to stay with ATCO. However, IGCAA contended, security of supply could be enhanced through capacity additions on the ATCO system.

IGCAA argued that by requesting service from NGTL, industrial consumers were attempting to eliminate the two-toll problem. IGCAA submitted that industrials, irrespective of whether they are located on ATCO or NGTL, purchase their gas at the NOVA Inventory Transfer (NIT) price.

If the plant was directly connected to NGTL the delivery charge would be zero. In contrast, if served by ATCO from either NGTL sourced gas or gas directly connected to ATCO, the industrials would pay ATCO delivery charges and other associated costs in addition to the NIT price. IGCAA contended that under current rate structures for both NGTL and ATCO, the delivered gas cost to the plant on the ATCO system exceeded the delivered gas cost for a plant directly connected to NGTL. In this respect, IGCAA submitted that the industrials would not be doing any more than what producers on the ATCO system did when they successfully fought and achieved elimination of the two toll problem, resulting in a level playing field with producers directly connected to NGTL.

The City of Fort Saskatchewan, and the Alberta Industrial Heartland Association, representing four municipalities east and north of Edmonton, pointed out that Dow and Sherritt constituted two key industries in the area. In their view, competitive alternatives for the supply of feedstock were essential not only to sustain Dow and Sherritt's current operations but also for their future growth in a competitive global marketplace, ensuring economic benefit to the Fort Saskatchewan region. They asked the Board to consider the value added that would accrue from a growing refining and upgrading industry in the region, necessitated by an accelerated pace of oilsands development.

4.3 Views of Those Opposed to the Application

ATCO submitted that the Application should be denied, as there was no need for the proposed pipeline at this time. ATCO stated that it had provided NGTL with a TBO offer that was not pursued. ATCO reiterated its willingness to provide a TBO alternative to NGTL to avoid the unnecessary installation of facilities at the expense of all NGTL ratepayers. ATCO added that the Fort Saskatchewan Extension represented an uneconomic and inefficient bypass of existing facilities. Approval of the Application would not foster, but rather would reduce, competition through predatory pricing.

In ATCO's view, the Fort Saskatchewan Extension was simply an unnecessary proliferation of its existing facilities and hence would violate the Board's proliferation policy. ATCO noted that only 38 percent of the capacity of the proposed pipeline was intended to serve a contracted load. Of that contracted load, only a third represented incremental volumes. Further, ATCO had the capability to serve these incremental volumes with a minor investment in the order of $700,000. ATCO concluded that, with minor modifications to its existing system, it would have the capacity to serve the full contract requirements of Dow and Sherritt that underpinned the Fort Saskatchewan Extension.

In addition, ATCO contended that NGTL had no contractual commitment to serve the balance of its proposed capacity. Nor was there any assurance that NGTL would continue to serve Dow and Sherritt beyond the term of their request for service of 4.5 years. Furthermore, ATCO did not agree that the potential East Edmonton market should underpin the applied-for facilities. Of the 130 mmcf/d potential market size alleged by NGTL, ATCO noted that 30 mmcf/d was currently being served by ATCO. In ATCO's view, NGTL had based its proposed facilities on the assumption that it would be successful in adding a market in an area that was already served by existing ATCO infrastructure.

As to the issue of customers' concerns with respect to reliability, ATCO stated that neither Dow nor Sherritt had approached ATCO with any reliability concerns nor had they attempted to

explore options to increase reliability. ATCO added that there were no historical reliability issues with its customers. ATCO noted that these reliability concerns were now being linked to the suggestion that ATCO would be fully contracted and, subsequently, reliability would be impaired.

ATCO submitted that it would continue to provide reliable service. It described its system in the Fort Saskatchewan area as a spider web network with up to six feeder lines flowing from all directions. Accordingly, in ATCO's view, its system would offer higher reliability than the single pipeline proposed by NGTL. ATCO added that, given customers' load diversity, gas flows on its system had historically averaged 50 to 150 TJ/d below contracted levels. Furthermore, ATCO submitted that its salt cavern storage located in the area would provide added security of supply, with 500 mmcf/d of immediately available gas supply.

ATCO noted Dow and Sherritts' desire to have a choice in their service provider, in order to avoid being captive customers from a price perspective. ATCO pointed out that in response to competitive options, the 10 cents/GJ paid by Dow in 1996 had been reduced to 5 cents/GJ, with a later further reduction to 3 cents/GJ. This, in ATCO's view, was a demonstration that Dow was not a captive customer of an unresponsive service provider.

BP Canada Energy Company (BP Canada) argued that NGTL had failed to demonstrate need or urgency for the proposed pipeline. It added that approval of the Application would amount to granting NGTL a hunting licence to add markets in Fort Saskatchewan and any possible market in the East Edmonton region. Furthermore, in BP Canada's view, meeting the FLC guidelines, by itself, should not establish a need for new NGTL facilities any more than it should establish entitlement for NGTL to build new facilities. BP Canada submitted that, while it understood Dow and Sherritts' desire for a choice in service provider for security of supply and price competitive reasons, it failed to understand why shippers on both ATCO and the NGTL system should have to pay for providing such choice.

Both BP Canada and the Canadian Association of Petroleum Producers (CAPP) noted that the Application raised important utilities issues that are yet to be resolved. One of the many issues raised was an expected change to NGTL's intra-Alberta rate design. CAPP added that, had there been an intra-Alberta delivery charge on the NGTL system, it would have changed Dow and Sherritts' economic motivation behind the service requests.

BP Canada and CAPP urged the Board to deny the Application at this time and to direct that a TBO would be appropriate as an interim measure pending resolution of the important utility issues. CAPP submitted that this recommended approach would allow NGTL to retain the customers that had requested service with the option to build later. From the customers' perspective, Dow and Sherritt would continue to have NGTL as their supplier of choice through the TBO arrangement.

The North Core Customer Group (NCG) also urged the Board to deny the Application, as there was no demonstration of need for a physical extension. NCG added that the inclusion of the East Edmonton load was not prudent. NCG considered that any future pipeline needs in the area could be better assessed when the additional requirement was more defined and the economics of different proposals appropriately examined.

4.4 Board Findings

The Board considers that there are two issues that must be addressed when reviewing the need for the proposed facilities. The first is whether the size of the market supports the need for additional capacity. The second is whether there are other compelling reasons that would render the applied-for facilities necessary.

With respect to the first issue, the Board notes that the proposed pipeline of 317 mmcf/d capacity is basically underpinned by volumes that currently move on existing ATCO facilities. The 38 mmcf/d incremental requirement constitutes only a small portion of the proposed capacity. While the Board understands NGTL's position that additional market demand has a potential to be realized, the Board notes that this potential market, in the East Edmonton area, is located some 27 km away. Furthermore, it is to be served by an extension that has yet to be tested against other possible alternatives, to ensure consistency with the public interest. Moreover, the East Edmonton market demand of 130 mmcf/d is speculative, based on initial discussions as opposed to firm commitments, and is not expected to materialize until late 2006 or early 2007.

The Board is cognizant of ATCO's evidence that current and forecast demand in the Fort Saskatchewan area could be served by its existing facilities. ATCO confirmed that it could serve Dow's incremental requirement of 38 mmcf/d through customer specific connection facilities that would connect incremental demand to the ATCO mainline system. The Board also notes that ATCO would need to invest $0.7 million to serve this incremental market. By contrast, NGTL would require a $28.1 million investment to serve Dow's incremental requirement and Dow and Sherritts' current volumes currently moving on ATCO plus an additional unconfirmed market in the East Edmonton region. In the Board's view, it is quite clear that from a market need perspective, the proposed facilities are not needed at this time.

As to whether there are other compelling reasons that the Board should consider when assessing the need for the proposed facilities, the Board notes Dow and Sherritts' submissions that security of supply along with customer choice of service provider warrant a physical alternative to ATCO's facilities. The Board also acknowledges IGCAA's position in that respect, but notes that IGCAA's perspective was slightly different. It viewed the competitive pricing issue and the elimination of what it categorized as the "two-toll problem", as higher priority than the objective of enhancing security of supply. It would seem reasonable to assume that IGCAA's position on security of supply stems from the fact that there have never been any concerns with ATCO's ability to provide an adequate level of reliability.

The Board agrees with ATCO that the fact that it had served the Fort Saskatchewan area over the last 50 years with no service interruption is highly relevant in terms of ATCO's future ability to consistently provide reliable service. The Board considers that, if service providers and customers believe that a higher level of security of supply is warranted, parties could then, as a first step, explore different options to attain the desired level of reliability. In this case, Dow and Sherritt did not approach ATCO with their concern regarding the current level of security of supply, nor were any options considered by these customers other than a physical alternative to the existing facilities. It would be unreasonable for rate base regulated entities to build duplicate facilities in order to enhance the desired level of security of supply of selected customers. This, in the Board's view, would be unfair to remaining customers and more importantly, would be contrary to promoting cost efficiencies, to the detriment of all shippers. Furthermore, it is not

clear to the Board how a single pipeline, such as that proposed, could afford a higher level of reliability than the current system comprised of a web of multiple pipelines. In addition, the Board takes comfort from the fact that ATCO's storage facility in the area could afford a higher level of assurance of reliability, if and when needed.

The Board notes Dow, Sherritt and IGCAAs' concerns with what was described as an unlevel playing field, when it comes to the price of gas delivered to industrial sites in Alberta. A delivered gas cost to a plant on the ATCO system, under ATCO's posted rates, exceeds the delivered gas cost for a plant directly connected to NGTL. Furthermore, these interveners also submitted that if an industrial gas consumer buys gas directly from an ATCO connected producer, that producer would generate a higher netback than others selling into the intra-Alberta industrial market. The Board understands that, depending on their location, some industrials might be at a competitive disadvantage to other industrials.

As already discussed, there are generic issues that the Board believes must be resolved to ensure fair and equitable competition for all natural gas pipelines in the province, and also to ensure fair and equitable access to gas transportation services for intra-Alberta gas consumers. The competitive pricing issues, as discussed above and raised by IGCAA, Dow and Sherritt are part of these generic concerns. These same issues were raised in the context of the Settlement, which parties intend to resolve by its expiry date, as well as in the proceeding that led to Decision 2002-16.

The Board recognizes that there are processes already under way to attempt to address and resolve these concerns. In Decision 2002-16, the Board ordered NGTL to enter into a collaborative process to resolve issues of cost accountability and cost allocation among receipt, intra-Alberta and ex-Alberta deliveries, and ordered a progress report by August 1, 2002 and a settlement or an application to be filed with the Board on or before December 31, 2002. Given the views expressed in this proceeding and the concerns raised with respect to NGTL's ability to extend its delivery service while waiting for these issues to be addressed, the Board intends to review the progress report in detail. Should the Board not be convinced that the resolution of these issues is likely within the collaborative process, it will review all options available to ensure that such resolution is achieved in a timely fashion.

The Board does not believe that the applied-for facilities, if built, would resolve the competitive issues raised in the context of this Application. Approval of the applied-for facilities might resolve Dow and Sherritts' pricing concerns, but would not address the concerns of other industrial gas consumers that are not located on NGTL. Furthermore, any changes to the current zero intra-Alberta delivery toll could impact the economic viability of the proposed facilities. In particular, the Board notes CAPP's submission that the economic motivation of Dow and Sherritt might have been significantly different had there been an intra-Alberta delivery charge on the NGTL system. Also, IGCAA submitted that, depending on what other changes were made to NGTL tolls along with the implementation of an NGTL delivery toll, industrial gas consumers might find it more attractive to buy gas on the ATCO system to avoid the NGTL delivery toll. Given the current uncertainty in the outcome of the industry discussions, the Board believes that NGTL shippers are being asked to bear unwarranted significant risk, with no apparent corresponding benefits.

The Board understands that there are currently many issues facing NGTL, ATCO and their customers. The Board also appreciates that it may not be easy to resolve all of these issues at the same time. However, it appears that this is an opportune time to try and resolve difficult issues that result from differences between NGTL and ATCO tolling methodologies. The Board notes that settlements on both NGTL and ATCO are coming up for expiry by year-end. This, in the Board's view, is a perfect opportunity to conduct a broader-based industry discussion with the intent to have a comprehensive plan in place that will ultimately lead to a cost effective transportation service in the province. To take advantage of this opportunity would be in the public interest.

The Board continues to support fair and equitable access to gas transportation services by all natural gas consumers in the province. However, this access has to be achieved through measures that ensure cost efficiency and minimize adverse effects on other interested parties. The Board does not believe that the proposed Fort Saskatchewan Extension meets these objectives. Furthermore, the Board notes that the proposed facilities would be built at no risk to shareholders, with all the risk being borne by the ratepayers.

Based on the foregoing, the Board finds that firstly, the size of the market does not support the need for additional capacity, and secondly, there are no compelling reasons that would render the applied-for facilities necessary. Therefore, the proposed facilities are not needed and would violate Board policy on proliferation.

5 APPROPRIATENESS OF THE SIZING OF THE APPLIED FOR FACILITIES

5.1 Views of NGTL

NGTL submitted that the proposed pipeline was designed to transport current and future Maximum Day Deliveries in accordance with the Delivery Lateral Extension Facilities Assumption described in Section 2.5 of NGTL's December 2000 Annual Plan. As stated earlier, NGTL's original firm service requests totaled 174 mmcf/d with future Maximum Day Delivery volume estimated at 316 mmcf/d. NGTL stated that, based on an upstream junction pressure of 1052 psig and a minimum downstream delivery pressure of 700 psig required by Sherritt, the capability of the proposed 20-inch pipeline would be about 317 mmcf/d. NGTL argued that a pipeline smaller than 20 inches would not be sufficient to transport the forecast Maximum Day Delivery.

After amending its Application, NGTL maintained the view that although the originally applied-for 20-inch pipeline had a capacity exceeding the revised Maximum Day Delivery of 250 mmcf/d, it continued to be the appropriately-sized facility to transport the service requests of Dow and Sherritt. It stated that the next smaller standard sized pipeline of 16 inches, though capable of transporting the contracted volume, would not be sufficient to accommodate the forecast Maximum Day Delivery. NGTL considered that for an initial incremental cost of $3.5 million, future looping of a 16-inch pipe could be avoided. NGTL further stated that, although an 18-inch pipeline would have enough capacity to handle the Maximum Day Delivery, it was not a standard pipe size, and would cost more to build than the standard 20-inch pipeline.

NGTL indicated that the proposed pipeline was consistent with its design practices which had been reviewed and accepted by industry, and that the proposed pipeline was sized to most

economically transport both current contracted volumes and future forecast volumes over a 5-year planning horizon. NGTL further indicated that its design philosophy was captured in the annual plan and no objections had been raised when it reviewed the plan with the FLC. In NGTL's view, sizing facilities based only on current contracted volumes could result in the need to loop pipelines once incremental volumes materialized a few years later.

Although NGTL agreed that there was some uncertainty about the projected loads in the East Edmonton area, it believed that its proposed pipeline was an efficient and prudent design; it would result in extra capacity to serve market growth in the area for a small incremental cost, and would subsequently minimize the amount of future looping.

As to the suggestion that the concurrent contract volumes secured by NGTL could be handled by a 12-inch pipeline, NGTL responded that because of the minimum delivery pressure requirement of 700 psig, a 16-inch pipeline would be necessary in order to accommodate the contract volumes. NGTL stated that a 20-inch pipeline was required to satisfy the pressure requirement of NGTL's Service Agreement with Sherritt, as well as to meet the future pressure requirement of the East Edmonton area volumes. Based on its understanding of similar projects in the area, NGTL believed that the pressure required in the potential East Edmonton market would be about 600 psig, which would require a minimum upstream pressure of 700 psig in Fort Saskatchewan.

5.2 Views of Those in Support of the Application

In its response to ATCO's information request, Dow indicated that it would require a minimum pressure of 189 psig at the Scotford meter station and 380 psig at the Josephburg meter station. At the hearing, Dow further indicated that it would require a service pressure of 375 psig from NGTL and that Sherritt's pressure requirement would be higher than Dow's.

Sherritt indicated, in response to ATCO's information request, that it currently needs a minimum pressure of 450 psig, but had specified a pressure requirement of 700 psig in its service contract with NGTL. However, Sherritt had also indicated that upon transfer of its service contract to NGTL it would not need additional capacity.

5.3 Views of Those Opposed to the Application

Considering the uncertainty of a market forecast going more than 4 years into the future, and the fact that the East Edmonton area is over 27 km away from Fort Saskatchewan, ATCO submitted that it did not believe that it would be prudent for NGTL to use the East Edmonton market requirements to substantiate or justify a pipeline to Fort Saskatchewan. ATCO also suggested that, since Sherritt was the last load on the proposed pipeline and it only required a minimum outlet pressure of 445 psig, a 12-inch pipeline would be sufficient to meet the contracted volume of 121 mmcf/d. Furthermore, ATCO asserted that the last two segments (from Dow's Scotford meter station to Dow's Josephburg meter station, and from the Josephburg meter station to Sherritt's Astotin meter station) should be considered laterals rather than mainline since the volumes and lengths for those segments did not meet the criteria for mainline facilities as set in the Guidelines. In addition, the last segment only served one customer.

ATCO reiterated its position that the proposed pipeline was not necessary; it was a delivery lateral, not a component of NGTL's mainline service. ATCO suggested that making a proposal to build a 20-inch pipeline when a 12-inch pipeline would probably do, and operating it at a high

pressure when it did not seem to be necessary, was a prudence issue and should be addressed by the Board when making a decision on this Application. ATCO considered the proposed pipeline to be an over-build and something it would not undertake based on its own facilities design criteria.

While ATCO agreed that pipelines should be designed to meet customer pressure requirements, it submitted that such requirements should be realistic, not just a number to hold something in reserve. ATCO noted Sherritt's comment that Sherritt would not make any changes to the plant with respect to the NGTL service. Based on this information and the current pressure requirements of Sherritt of between 325 to 380 psig on the ATCO system, ATCO expressed some doubt about the validity of the 700 psig pressure requirement in Fort Saskatchewan. It concluded that no case could be made to support a 20-inch pipeline.

5.4 Board Findings

The Board notes that the size of the proposed pipeline was based on a total capacity requirement of 250 mmcf/d (121 mmcf/d of contracted volume plus 130 mmcf/d forecast volume in the East Edmonton area) with a downstream delivery pressure of 700 psig in Fort Saskatchewan and a presumed pressure of 600 psig in the East Edmonton market. The Board agrees that, if the market potential of East Edmonton were to materialize, a 20-inch pipeline would be required from a technical perspective.

However, based on the reasons already discussed in Section 4 of this report, the Board finds that the potential East Edmonton market is speculative and that it cannot be used to underpin the proposed facilities.

The Board notes that the 700 psig pressure requirement of Sherritt was originally associated with its proposed cogeneration plant that has since been cancelled, as reflected in the amended Application. Despite the cancellation of the proposed cogeneration plant, Sherritt continued to specify a pressure requirement of 700 psig in its service contract with NGTL. However, the evidence showed that Sherritt currently receives gas from the ATCO system at its plant at between 325 and 380 psig, and Sherritt clearly stated that it does not require additional capacity when it transfers its service to the NGTL system. This suggests that its current pressure requirement of between 325 and 380 psig would continue to be sufficient. The Board therefore does not believe that there is sufficient evidence to support NGTL's assertion that 700 psig is required.

Based on the foregoing reasons, the Board concludes that the proposed Fort Saskatchewan Extension is oversized.

6 LEAST COST ALTERNATIVE

6.1 Views of NGTL

NGTL submitted that based primarily on its analysis of full-path costs of transportation from a receipt point to an intra-Alberta delivery point on both NGTL and ATCO systems (full-path toll), it determined that the applied-for facilities represented the overall least cost and most efficient method to serve the market. NGTL submitted that an appropriate cost comparison is based on the

total cost of transportation with average system tolls used as a proxy for long run costs. Under this analysis, NGTL calculated that its full-path toll of $0.162/GJ undercuts ATCO's full-path toll of $0.168/GJ.

NGTL contended that its customers had expressed concerns with a TBO approach to providing the requested delivery service based on security of supply. Furthermore, it added that a comparison of the relative economics of ATCO's posted tolls versus the costs of construction did not confirm any economic advantage to undertaking a TBO. NGTL stated that it was for these reasons that it did not pursue a TBO arrangement with ATCO. NGTL argued that the distinction between cost and price was highlighted by ATCO's ability to discount its tolls in competitive situations.

NGTL also submitted that based upon its determination of the aggregate capital costs of the applied-for facilities of $28.1 million, and resulting incremental revenue requirement of approximately $4.9 million, the incremental unit cost of the Fort Saskatchewan Extension was $0.10/GJ. NGTL compared this incremental unit cost to its system average receipt toll of $0.162/GJ and asserted that this would have the effect of lowering system average tolls in comparison to the scenario where the Fort Saskatchewan extension was not built.

NGTL also submitted that the proposed facilities were cost effective, based on the Cumulative Present Value Cost of Service (CPVCOS) analysis filed in its Reply Evidence. NGTL noted that it had done the analysis based on ATCO's posted rates. However, on May 7, 2002 ATCO presented NGTL with an unsolicited bid to provide TBO service in response NGTL's CPVCOS analysis. The particulars of this offer are summarized in Table 2 of Section 6.2 of this report.

Subsequently, NGTL submitted a further CPVCOS to incorporate ATCO's TBO offer, indicating the CPVCOS under scenarios of a one-year, two-year, three-year, four-year, and five-year TBO, followed by the building of the applied-for facilities. NGTL used the same TBO price provided in ATCO's offer, but included the projected volumes from the East Edmonton Extension (EEE) in 2006 and 2007, a 100% load factor, a gas price of $4.25/GJ for the purpose of calculating the value of unaccounted for gas (UFG), and a UFG rate at ATCO's standard rate in the North of 1.124%.

The results from NGTL's CPVCOS calculations under each scenario are shown in Table 1 below:

Table 1:

Scenario	CPVCOS ($millions)
	100% Load + EEE + $4.25/GJ
No TBO	40.1
1 year TBO, then build	40.1
2 year TBO, then build	39.6
3 year TBO, then build	39.2
4 year TBO, then build	40.0
5 year TBO, then build	40.3
TBO for Project Life	38.7

NGTL maintained the validity of the full-path methodology but submitted that a least-cost analysis using a CPVCOS methodology indicated the CPVCOS values were essentially the same

for a No TBO case and the scenario with a one-year TBO followed by construction of the applied-for facilities case. While NGTL acknowledged that the CPVCOS of the two-year and three-year TBO followed by construction of the Fort Saskatchewan Extension cases, resulted in a slightly lower CPVCOS than the No TBO case, it added that minor variations in the CPVCOS factors, such as gas price or throughput volume, could minimize or reverse these differences.

In response to ATCO's argument that NGTL should have designed for one meter facility rather than three customer specific metering facilities, NGTL stated that it had used its established process for ensuring optimal connection of third party facilities to the NGTL system. NGTL presented a CPVCOS analysis of what it determined to be the viable alternatives and contended that the proposed configuration resulted in the least overall facilities cost.

NGTL asserted that building the applied-for facilities would allow NGTL to compete for and serve future market growth at a small incremental cost. NGTL indicated that as additional throughput volumes were added, the unit cost of service for these facilities would continue to drop and therefore, provide a benefit to all NGTL shippers by a further reduction in the average toll.

NGTL advanced the view that there was no material cost advantage to NGTL to delay the construction of the applied-for facilities in favour of utilizing a TBO arrangement. Based upon this view, NGTL contended that cost alone should not be a conclusive factor, given the existence of other non-cost and non-price factors.

6.2 Views of Those in Support of the Application

Both Dow and Sherritt indicated a general agreement with the views expressed by NGTL. They maintained that it was clear from the CPVCOS analysis that the cost differential between the applied-for facilities and a TBO arrangement was not of sufficient magnitude to be considered material. It was asserted by Dow and Sherritt that the evidence indicated that ATCO was prepared to price its TBO service at whatever level was necessary to ensure NGTL could not compete. In undertaking this practice, ATCO had left the least cost issue in doubt. Dow and Sherritt further submitted with regard to the least cost analysis, it was important to note that the alternatives presented did not reflect comparable measures from their perspective. Dow and Sherritt suggested that a least cost analysis should compare alternatives that provide the same flexibility of service and security of supply that a second physical pipe would.

IGCAA submitted that there are four tests to determine whether a TBO is an appropriate alternative. The four tests cited were: whether it provides security of supply comparable to a new NGTL pipe, whether it allows other Fort Saskatchewan customers to gain fair access to NGTL, an assessment of the impact it will have on receipt revenue associated with TBO deliveries, and a determination of whether the arrangement represents the least cost alternative. IGCAA maintained that the differences among the results of the various cases in the CPVCOS analysis were very small. IGCAA expressed the view that it was in doubt as to whether a TBO could represent the long-term, lowest cost alternative, given that it would be difficult for ATCO to compete with the economies of scale present in NGTL's larger diameter pipe.

IGCAA submitted that if the Board were to conclude that a TBO on ATCO was the least cost alternative, and would pass the above noted tests, that the Board should order that the service be put into effect immediately. Furthermore, IGCAA asserted that if both parties could not negotiate

all of the necessary terms, the Board should establish the cost and the terms of the TBO service after the service was put into effect.

6.3 Views of Those Opposed to the Application

ATCO disagreed with NGTL's determination of their full-path toll and asserted that a full-path cost comparison was neither relevant nor appropriate, as the proposed Fort Saskatchewan Extension would not receive gas directly from producer receipt points. ATCO argued that the full-path toll would not properly segregate the costs attributable to the Fort Saskatchewan Extension and that a proper cost comparison would consider the unit cost of service. ATCO indicated that the NGTL proposed extension required an increase in revenue requirement of between $4.3 and $4.9 million up to 2005, resulting in a unit cost of about $0.09-0.10/GJ.

ATCO indicated that given NGTL's unwillingness to undertake further TBO discussions, it was compelled to present an unsolicited TBO bid in order to provide clarity and respond to NGTL's assumptions in its analysis regarding what the ATCO TBO offer might be. ATCO submitted that NGTL's unit cost of the proposed TBO of approximately $0.05 – 0.06/GJ was substantially lower than NGTL's incremental cost of providing service through the applied-for facilities. ATCO asserted that the TBO offer clearly represented NGTL's least cost alternative for providing service to Dow and Sherritt, in that the unit cost of the ATCO TBO was approximately half that of NGTL's build option. In addition, ATCO maintained that the fact that NGTL's investment cost of $28.1 million was 40 times ATCO's investment cost of $700,000 to provide the requested delivery service, further evidenced TBO as the least cost alternative.

Table 2:

	TBO 1	TBO 2	TBO 3/4	TBO 5
Demand Level, GJ per Day	128,000	128,000	128,000	128,000
Demand Rate, $ per GJ per mo.	1.05	1.05	1.00	0.95
Annual Charge (000's)	$1,613	$1,613	$1,536	$1,459
Annual Fixed Charge (000's)	$12	$12	$12	$12
UFG/fuel Rate	0	0	0	0
Gas Price, $ per GJ	4	4	4	4
Annual UFG/fuel Charge (@ 90% load factor)	$808	$808	$808	$808
Total Charge before Contribution (000's)	$2,433	$2,433	$2,433	$2,433
Contribution (000's)	$222	$0	$0	$0
Total Charge(000's)	$2,655	$2,433	$2,356	$2,279

ATCO maintained that the results of its CPVCOS analysis, as depicted in Table 3, indicated that on a cumulative basis, an ATCO TBO would provide cost savings of between $200,000 and $2.3 million, depending upon the specific length of the TBO contract over a term of one to five years. ATCO submitted that if the applied-for facilities were never built and the markets were served through a TBO on its system, this would yield a present value savings of $11.5 million.

ATCO noted its exclusion of the East Edmonton market from its analysis due to its belief that the use of this market to underpin the Application is inappropriate. ATCO further argued that its use of a 90% load factor and UFG rate of 0.452% in its analysis were appropriate given that loads in the Fort Saskatchewan area have historically run below 100%, and that the TBO would cover a period for which the ATCO rates have yet to be set. ATCO stated that 0.452% UFG represented its best estimate of a future UFG rate for ATCO Pipelines North (ATCO North), based on the fact that this was the Board approved UFG rate for ATCO Pipelines South.

Table 3:

Scenario	CPVCOS ($millions)
	90% Load + No EEE + $4.25/GJ
No TBO	32.6
I year TBO, then build	32.4
2 year TBO, then build	31.9
3 year TBO, then build	31.4
4 year TBO, then build	31.0
5 year TBO, then build	30.3
TBO for Project Life	21.1

ATCO questioned NGTL's contention that the proposed metering configuration resulted in a lower cost than the alternative of a single meter station. ATCO also indicated its concern regarding NGTL's cost estimate of $7.2 million for the East Edmonton Extension given that the per kilometer cost of this congested route was lower than the per kilometer cost of the less congested route into Fort Saskatchewan. Accordingly, ATCO suggested that the NGTL analysis could have overestimated the benefits of a build option.

CAPP contended that the least cost analysis is a relevant and necessary consideration within the facilities context of the Application. CAPP further submitted that, given the lack of a clear cost advantage in building the applied-for facilities over a TBO alternative, an appropriate interim solution would be to undertake a TBO. CAPP advanced the view that there was no real cost penalty to NGTL in proceeding in this fashion.

BP Canada submitted that as a major shipper on NGTL, it was not satisfied that the applied-for facilities represented the lowest cost alternative. BP Canada asserted that the CPVCOS analysis shows, with a couple of minor exceptions, that entering into a TBO contract for at least some period of time would result in a lower cost. BP Canada further submitted that it was unwise to undertake such a large investment now, given the number of important issues outstanding that could affect the viability of the proposed pipeline.

6.4 Board Findings

The Board notes the evidence indicating that the annual costs of the various TBO offers are approximately half of the annual cost of service resulting from building the applied-for facilities. The Board therefore considers that the build option is not the least cost alternative when looking at the annual costs involved.

It is also the Board's view that the CPVCOS analysis, that inherently has many estimated variables and takes into account a much longer outlook, indicated that there is no significant difference between the build option or the lease option over a period of up to five years. Nevertheless, given the uncertainty of the size of the market and the fact that current collaborative processes could affect the viability of the proposed pipeline the Board does not believe, in this particular case, that the CPVCOS analysis should receive significant weight.

The Board therefore concludes that there is no cost advantage to building the applied-for facilities at this time.

7 IMPACT ON OTHERS

7.1 Views of NGTL

NGTL submitted that it could be exposed to a significant loss in receipt revenue of as much as $7.2 million dollars annually for the contracted load of 121 mmcf per day under an ATCO TBO arrangement. It argued that this resulting loss of receipt revenue must be borne by all its shippers and would result in higher tolls for all its customers. NGTL asserted that a loss of this magnitude would certainly negate any perceived pricing or other benefits that any other party might otherwise claim are associated with a TBO arrangement.

NGTL argued that a TBO arrangement with ATCO would likely increase ATCO's exchange capability at NGTL/ATCO interconnects which would result in the off-loading of NGTL receipt volumes to the ATCO system. Under ATCO's exchange mechanism, producers connected to the ATCO system would, for a fee, access the NIT without paying a receipt charge on NGTL. NGTL argued that the volume of gas required from NGTL interconnections to serve ATCO's core market or industrial market limited ATCO's exchange capability. If the size of the ATCO market was decreased, the supply of gas in ATCO's NGTL account would also decrease, thereby reducing ATCO's overall ability to exchange gas between its system and the NGTL system. Therefore, if NGTL provided service directly to the industrial market in Fort Saskatchewan, the size of ATCO's market would decrease and ATCO's ability to exchange gas would decrease by a corresponding volume. NGTL noted that this was an important issue to it and to its customers because it impacted NGTL's system volumes, tolls, and ultimately NGTL's competitiveness.

NGTL further submitted that ATCO had employed the exchange service as a competitive tool that ultimately had offloaded more than 300 mmcf per day of NGTL receipt volumes since 1998. NGTL maintained that every unit of volume received at interconnects enabled volumes of exchange, which was the vehicle used to discount tolls at ATCO's receipt points and thereby encourage producers to flow gas on the ATCO system. NGTL submitted that the playing field was not level in that ATCO possessed the ability to discount its receipt and delivery tolls without prior regulatory approval. NGTL stated its belief that it must connect to markets to ensure that it attracts incremental gas supplies and retains existing receipt volumes on its system.

NGTL asserted that it would need to be absolutely certain that any TBO arrangement would not allow for, or in any way facilitate, any further erosion of NGTL's receipt volumes. As to whether a TBO arrangement with ATCO could be structured to require physical delivery of gas by ATCO from the NGTL system and thereby limit ATCO's exchange capability, NGTL noted that it is not clear how ATCO's exchange capability could be acceptably managed given the complicated nature of the exchange service. NGTL stated that construction of the applied-for facilities would best allow it to manage the associated risks.

NGTL submitted that the applied-for facilities would have little or no impact on ATCO or its shippers, from a volumetric or a financial perspective. NGTL contended that ATCO had been kept whole in the Fort Saskatchewan market on an aggregate basis as the loss of the existing Dow and Sherritt loads of approximately 85 TJ per day was essentially offset by ATCO's acquisition of the Shell Scotford load of 86 TJ per day.

NGTL further contended that ATCO had significantly overstated any potential revenue losses. NGTL submitted that ATCO's calculation of financial impact on its customers assumed a worst case scenario in its calculation of the potential exit charges for ex-Alberta deliveries. NGTL noted that these exit charges account for almost two-thirds of ATCO's estimated financial impact. NGTL submitted that if these volumes were delivered to the Alliance system they would incur a firm toll of zero, or could be nominated by an ATCO customer for contractual volume delivery to the NGTL system that would only result in payment of an exchange fee. NGTL further noted that if an ATCO customer nominated these volumes then ATCO would actually receive exchange revenue.

NGTL submitted that construction of the applied-for facilities would not result in ATCO having stranded assets, as Dow and Sherritt intended to flow some volumes on the ATCO facilities should the Fort Saskatchewan Extension be built. NGTL argued that most of the ATCO facilities have been in service for forty years or more and would therefore likely be, or would be close to being, fully depreciated.

7.2 Views of Those in Support of the Application

Dow and Sherritt submitted that they have a very significant and material stake in the decision, as the effective issue that will be decided in this proceeding was how they might be served. Dow and Sherritt expressed their concerns about the absence of flexibility that would be available to NGTL to serve their loads in the context of a TBO. They further submitted that a physical pipeline alternative to the existing delivery system was critical in ensuring security and reliability of gas supply. Dow argued that the incremental supply to be provided through the Fort Saskatchewan Extension was essential for them to meet their market obligations. Dow further submitted that its Fort Saskatchewan site was the only Dow facility of that magnitude in North America that did not have a physical or alternative competitive natural gas supply system available to it.

Dow and Sherritt maintained that, as their businesses must compete with suppliers worldwide, reliable and cost effective gas supply was critical. Dow and Sherritt submitted that approval of the Application would allow for the dismantling of a structure that provided the opportunity for producers on the ATCO system to command a price premium. They asserted that this premium was borne by all customers on the ATCO system, and not just industrial customers. Dow and Sherritt contended that denial of the Application would leave them at risk and potentially subject to discriminatory tolls.

7.3 Views of Those Opposed to the Application

ATCO submitted that the incremental receipt volumes NGTL expected to gain by limiting ATCO's exchange capability were greatly exaggerated. ATCO noted in this regard that only approximately 10 percent of its producers' volumes on ATCO North were exchanged, amounting to roughly 36 petajoules per year. ATCO asserted that the exchange mechanism had been a competitive response to NGTL's refusal to deal with the dual toll issue and was intended to make natural gas producers indifferent from a price perspective as to which pipeline to use.

ATCO asserted that an ATCO TBO with a physical delivery option was the same as a physical pipe and was therefore every bit as effective at limiting ATCO's exchange capability. ATCO maintained that a physical TBO was fairly simple and could be adopted in that both ATCO and

NGTL systems have real-time measurement that would allow parties to know the volume of gas either going off or coming on the pipeline at any given moment. ATCO noted that this would allow for real-time balancing of receipts off NGTL's system onto ATCO's, against deliveries off ATCO to Dow and Sherritt.

ATCO maintained that approval of the Application would have potential negative impacts on the ATCO system and its shippers. ATCO disagreed with NGTL's contention that by contracting the Shell load ATCO had effectively refilled itself and would therefore not suffer any impacts as a result of losing the Dow and Sherritt loads. ATCO stated that by losing the Dow and Sherritt loads it was being off-loaded and that its system would have been closer to capacity had it retained that load. ATCO submitted that NGTL's proposed Fort Saskatchewan delivery line would initially lead to an estimated load loss of 85 TJ per day and could rise to 225 TJ per day. ATCO expected that NGTL would attempt to capture load in the area under contract in order to increase the utilization of the Fort Saskatchewan Extension. ATCO argued that the initial load loss of 85 TJ per day would result in a total annual financial impact on ATCO's customers of $4.3 million. ATCO further argued that the ultimate load loss of 225 TJ per day would result in a total annual financial impact of $15.8 million. ATCO maintained that the financial loss would result in some mix of the producers, industrials, and core customers on its system being responsible for picking up the lost revenue. ATCO stated that it did not believe its core customers could be kept whole and that loss of both the Dow and Sherritt load might result in a rate increase to the core customers of approximately 14%.

ATCO submitted that the Fort Saskatchewan Extension would have a significant adverse impact on ATCO and its shippers in that the capacity of the proposed pipeline represented some 45% of ATCO North's industrial throughput or 30% of its total throughput. ATCO argued that offloading would result in ATCO's facilities in the Fort Saskatchewan area being significantly underutilized and that delivery lines and metering facilities dedicated to specific customers might be stranded or underutilized.

ATCO submitted that approval of the Application could impact competition in the Fort Saskatchewan area. ATCO maintained that it was unreasonable for NGTL to pass on costs to all of its shippers with respect to constructing facilities in the time frame requested by NGTL, just so that NGTL would be in a stronger position to make an unfair, lower cost proposal for future loads than ATCO might be able to do.

BP Canada expressed the view that toll payers on both the ATCO and NGTL systems would largely pay for any significant spare capacity resulting from the Fort Saskatchewan Extension. BP Canada further noted that it was the respective toll payers on both NGTL and ATCO who would bear the cost of any price discounts that would arise from playing ATCO against NGTL.

CAPP submitted that as a representative of one hundred and forty companies, any and all factors relevant to the transportation of Canadian produced natural gas have a direct and material impact on CAPP's members. CAPP argued that many CAPP members are shippers on the NGTL pipeline system and are therefore, either directly or indirectly, responsible for a significant portion of NGTL's revenue requirement. CAPP further submitted that its members would, through the receipt toll, effectively pay for the approximate $28 million in facilities NGTL was proposing to construct.

NCG submitted that the possible financial effects of the Fort Saskatchewan Extension would be devastating to core customers. It contended that if ATCO's captive core customers were expected to replace all lost revenues of $4.3 million per annum associated with the loss of 85 TJ per day as estimated by ATCO, this would lead, in ATCO's estimation, to a rate increase of 14%. NCG further noted that if the lost loads were to reach 225 TJ per day, this would lead to a rate increase of 55%.

NCG compared the potential huge impact of the Application on ATCO's core customers, estimated to be between $4 and $17 million, against the perceived savings of $2.3 million to Dow and Sherritt. NCG asserted its concern that approval of this Application may set an unfavourable precedent for uneconomic expansion of facilities.

7.4 Board Findings

The Board understands NGTL's assertion that through an increase in deliveries into the Fort Saskatchewan area, NGTL will realize an increase in receipt revenue, ultimately resulting in lower tolls for all NGTL shippers. However, it is the Board's belief that this advantage only exists if these incremental receipt volumes could not have accessed the NGTL system without the applied-for facilities. No evidence was presented which supports that contention.

The Board recognizes the effects of the addition of approximately $28 million to NGTL's rate base and the resultant impact on rates to shippers on the NGTL system should the Application be approved. The Board also notes the concerns of ATCO customers that construction of the proposed facilities could lead to an increase in rates to them, without any offsetting benefits. It is the Board's view that the potential rate consequences arising from the building of unnecessary facilities are not in the interests of customers and shippers on either the ATCO or NGTL systems.

8 COST ACCOUNTABILITY AND THE PROVISION OF INTRA-ALBERTA DELIVERY SERVICE

8.1 Views of NGTL

NGTL submitted that cost accountability issues should be resolved through a collaborative process as directed by the Board in Decision 2002-16. NGTL submitted that it was committed to such a process and was working with stakeholders to address these issues. NGTL stated that the Board, in Decision 2002-16, had not established and approved new and specific standards for cost accountability, but had directed NGTL to work toward resolution of cost accountability issues. Until these issues were resolved either by settlement or through an application, NGTL argued that their customers were entitled to request new mainline delivery service in accordance with its current rate structure. NGTL maintained that the Board's letter dated February 15, 2002, regarding the scope of the Application, reinforced the Board's intent to process pipeline applications in the normal course until such issues were resolved.

NGTL stated that Dow and Sherritt were not obligated to provide additional accountability, as the request for service, the executed Facility Connection Service and Project Authorization agreements, and the date that NGTL filed the Application, had preceded Decision 2002-16. Despite the foregoing, NGTL submitted that Dow and Sherritt had provided NGTL with non-routine financial commitments to underpin the capital costs of the proposed Fort Saskatchewan

pipeline facilities. NGTL stated that Dow and Sherritt did so in recognition of the fact that the appropriate level of cost accountability for construction of new NGTL intra-Alberta delivery facilities, was a contentious issue within the industry.

Specifically, Dow had committed to move a minimum annual volume over the initial 4.5 years of 65 mmcf/d or approximately 70% of its service commitment. Sherritt had committed to move a minimum annual volume over the initial 4.5 years of 9mmcf/d or about 30% of its service commitment. To the extent that Dow did not meet its commitment, Dow committed to pay between a 3-year average NGTL receipt toll for 2001 and 17.9 cents per mcf for any shortfall in the actual volume moved compared to the 65 mmcf/d on an annual basis. Any volumes, on an annual basis, transported by other parties with service on the Fort Saskatchewan extension, over and above the minimum annual volume commitment, would be applied to Dow's obligation.

Sherritt, upon failing to meet its commitment, would be required to pay the average Alberta receipt toll in effect at that time or an equivalent receipt toll as determined by NGTL, for any shortfall in the actual volume moved compared to its minimum annual volume commitment of 9mmcf/d.

NGTL submitted that should a delivery toll be introduced, the sum of this toll paid on an annual basis would be credited to Dow's minimum annual volume commitment. Should Dow's minimum volume commitment not be met, Dow would pay the receipt toll associated with the shortfall less any delivery tolls that had been paid. In the case of Sherritt, any intra-Alberta delivery toll introduced, and paid-for volumes transported on an annual basis, would be over and above any payment generated through the accountability commitment.

NGTL asserted that the additional cost accountability provided by Dow and Sherritt was directionally consistent with the Board's statements in Decision 2002-16 and its February 15, 2002 letter. NGTL stated that the cost accountability agreements executed by Dow and Sherritt represented significant financial commitments by these customers in support of the requested service and applied-for facilities. NGTL submitted that to the extent that Dow or Sherritt did not take a specified minimum volume, a payment would be made to NGTL. NGTL acknowledged that although such a payment was unlikely, this should be interpreted positively as it would ensure that the facilities would be used and useful.

NGTL considered that the additional accountability offered by Dow and Sherritt was comparable or even more onerous than the accountability required at new receipt points. NGTL would require, in accordance with its tariff, a minimum of 4 years' commitment for any new receipt point. In contrast, Dow and Sherritt had committed for a term of 4.5 years. Furthermore, NGTL noted that receipt contract holders had an added advantage of possessing transfer rights not available for delivery contract holders.

NGTL disagreed with parties who suggested that intra-Alberta shippers did not pay for service because of the zero delivery toll. NGTL submitted that its current rate design methodology accounted for the cost of the intra-Alberta deliveries through the receipt toll. NGTL added that customers purchased gas at the NIT price, which incorporated this receipt toll.

NGTL also noted that the additional accountability measures offered by Dow and Sherritt would not apply should NGTL provide service through a TBO arrangement with ATCO.

8.2 Views of Those in Support of the Application

Dow and Sherritt submitted that they were seeking to be treated no better or worse than any other NGTL customer. Dow and Sherritt argued that their accountability arrangements were put into place well before Decision 2002-16, as both Dow and Sherritt recognized that accountability would be a significant issue in the Application. Dow and Sherritt noted that that there was no mandated or accepted level of cost accountability in the context of the Application that could be construed as reasonable, fair, or adequate. Conversely, Dow and Sherritt submitted that their offered level of cost accountability could be objectively measured as being reasonable.

Dow and Sherritt stated that they had done their best in an uncertain environment, and should neither be penalized nor measured against the subjective expressions of ATCO and other parties. Dow and Sherritt argued that other parties indicated that the level of cost accountability was not adequate and yet those parties did not provide a measure for adequacy.

Dow and Sherritt disagreed with ATCO and CAPP's inferences that NGTL's customers did not pay for service under the zero delivery toll methodology. They submitted that in the NGTL products and pricing proceeding which led to Decision 2000-6, and as members of IGCAA, they had urged the Board against a zero-delivery toll, fearing that absence of an intra-Alberta delivery charge could be used to prevent intra-Alberta customers from obtaining service. This was what Dow and Sherritt suggested had happened in the Fort Saskatchewan proceeding. They were given comfort by the Board's conclusions in Decision 2000-6 that intra-Alberta customers were paying their fair share of NGTL's transportation costs.

IGCCA submitted that the Board could not deny the Application on the basis of accountability. It argued that since 1999 IGCCA had worked to resolve accountability issues through interim proposals that had not been implemented. IGCCA stated that Alberta gas users should not be faulted. IGCAA also noted that the non-routine accountability offered by Dow and Sherritt was the equivalent of both the accountability for new receipt facilities on NGTL, as well as the equivalent of ATCO's own accountability for laterals. In IGCCA's view, it would be unjustifiably discriminatory to require full or greater accountability for delivery facilities when the Board had been approving receipt facilities without enhanced accountability.

IGCCA also submitted that revenues resulting from the Dow and Sherritt load would far outweigh the cost of the applied-for facilities. IGCCA stated that revenue lost by ATCO would be gained by NGTL through additional receipt volume. Should volume and receipts be lost by ATCO, NGTL would gain.

8.3 Views of Those Opposed to the Application

ATCO submitted that Decision 2002-16 had sent a clear signal to NGTL that new intra-Alberta delivery service, prior to NGTL's intra-Alberta rate redesign, would be subject to NGTL addressing measures for full accountability. ATCO submitted that NGTL had ignored this portion of Decision 2002-16.

ATCO argued that the non-routine cost accountability offered by Dow and Sherritt in reality provided no additional accountability. ATCO noted that Dow had confirmed that there was a very low likelihood that it would pay any of the additional charges committed to on NGTL.

ATCO added that Sherritt had also stated that the probability of paying the additional charges was very low. ATCO submitted that as Dow and Sherritt are in the best position to assess the impact of the additional cost accountability measures, and yet did not expect to be called on for any contribution, that there was no extra accountability or change to the existing accountability requirements.

ATCO submitted that without cash costs or transparency and cost accountability, demand for products would be greater than in a situation where proper accountability and transparency were imposed.

BP Canada agreed with much of ATCO's position on cost accountability. It submitted that Dow and Sherritt would have to fall below comparatively low rates of take before being exposed to cash payments. BP Canada also referred to Decision 2002-16 where the Board directed NGTL to address "full accountability". While BP Canada acknowledged that the original Fort Saskatchewan Application was made in October 2001, prior to the release of Decision 2002-16, it submitted that the NGTL Application changed dramatically after February 2002 and the issuance of Decision 2002-16. BP Canada added that the concerns over accountability had, in any event, predated the Fort McMurray application, and that NGTL's Application did not meet the spirit of the EUB's request.

BP Canada also noted concern over the significant amount of remaining undepreciated pipeline left at the end of the 4.5 year term. BP Canada submitted that NGTL would, at that time, be relying on its market projections for Fort Saskatchewan and East Edmonton where ATCO would compete for load.

Both BP Canada and CAPP noted that Dow was not prepared to build its own pipeline. BP Canada acknowledged that Dow was not in the business of building pipelines, based on an earlier investigation by Dow for a physical alternative to ATCO. However, it was noted that if Dow were to build its own pipeline, the cost would be lower than building the NGTL incremental facilities.

CAPP submitted, as an industry association, that it was not comfortable with NGTL accepting non-tariffed accountability from its customers. In CAPP's view accountability should be in the tariff. However, CAPP did recognize that accountability was an issue subject to industry process, as directed by Decision 2002-16, and pending resolution.

NCG generally supported the views of ATCO, BP Canada and CAPP. NCG added that without customer cost accountability for an NGTL mainline extension, uneconomic decisions could be made.

8.4 Board Findings

The Board acknowledges the non-routine cost accountability measures offered by Dow and Sherritt. The Board also notes the positions of parties that questioned the substantive nature of the measures offered. While the Board believes that cost accountability and price transparency must be achieved, for the reasons clearly described in the Board's findings under section 4 of this report, it is the Board's view that this Application is not the appropriate forum for full examination of the issue of cost accountability and price transparency.

However, the Board considers that this issue must be fully addressed in the near future. As stated earlier, should it not appear to the Board from the progress report due to be filed in August 2002 that substantial progress is being made to resolve cost accountability concerns, the Board will consider all options available to it to resolve this issue.

9 ORDER

Based on the evidence, and the reasoning outlined above, the Application is hereby denied.

Dated at Calgary, Alberta, on July 2, 2002.

ALBERTA ENERGY AND UTILITIES BOARD

(Original Signed by)

M. N. McCrank, Q. C.
Presiding Board Member

(Original Signed by)

B. Torrance
Acting Board Member

(Original Signed by)

M. W. Edwards
Acting Board Member

APPENDIX A: THOSE WHO APPEARED AT THE HEARING

Principals and Representatives	Witnesses
Nova Gas Transportation Ltd.(NGTL) P. Keys	S. Clark, P.Eng. D. Cornies, P.Eng. R. Guebert J. Van Der Put, P.Eng. G. Zwick
Industrial Gas Consumers Association of Alberta (IGCAA) B. Roth	N. MacMurchy
Dow Chemical Canada Inc. A. McLarty, Q.C.	R. McNeil V. Smith
Sherritt International Corporation A. McLarty, Q.C.	J. Sohi, P.Eng.
ATCO Pipelines (ATCO) N. Gretener	D. Belsheim, P.Eng. B. Cerkiewicz Dr. C. J. Cicchetti G. Lidgett, P.Eng. B. Myles, P. Eng.
Canadian Association of Petroleum Producers (CAPP) N. Schultz	G. Stringham, P.Eng.
BP Canada Energy Company[1] A. Hollingworth, Q.C.	
North Core Customer Group[1] J. Wachowich	
Talisman Energy Inc.[3] F. Basham	
EnCana Corporation[3] K. Hadley	
Imperial Oil Resources[3] R. Moore	

Wenger Energy Management Ltd.[3]
Josh Campbell

City of Fort Saskatchewan
Mayor Ken Hodgins [4]

Alberta Industrial Heartland Association
Larry Wall [5]

Alberta Energy and Utilities Board staff
J. Hocking, Board Counsel
L. Kelly
Georgette Habib
Shu Lee, P.Eng.
Jim Meckelborg
Phyllis Derbyshire

[1,2] Did not submit evidence but provided argument.
[3] Registered as participants in the hearing but did not submit evidence or provide argument.
[4] Registered as a participant in the hearing and presented a statement for the record.
[5] Registered as a participant in the hearing, submitted a letter, and presented a statement for the record.

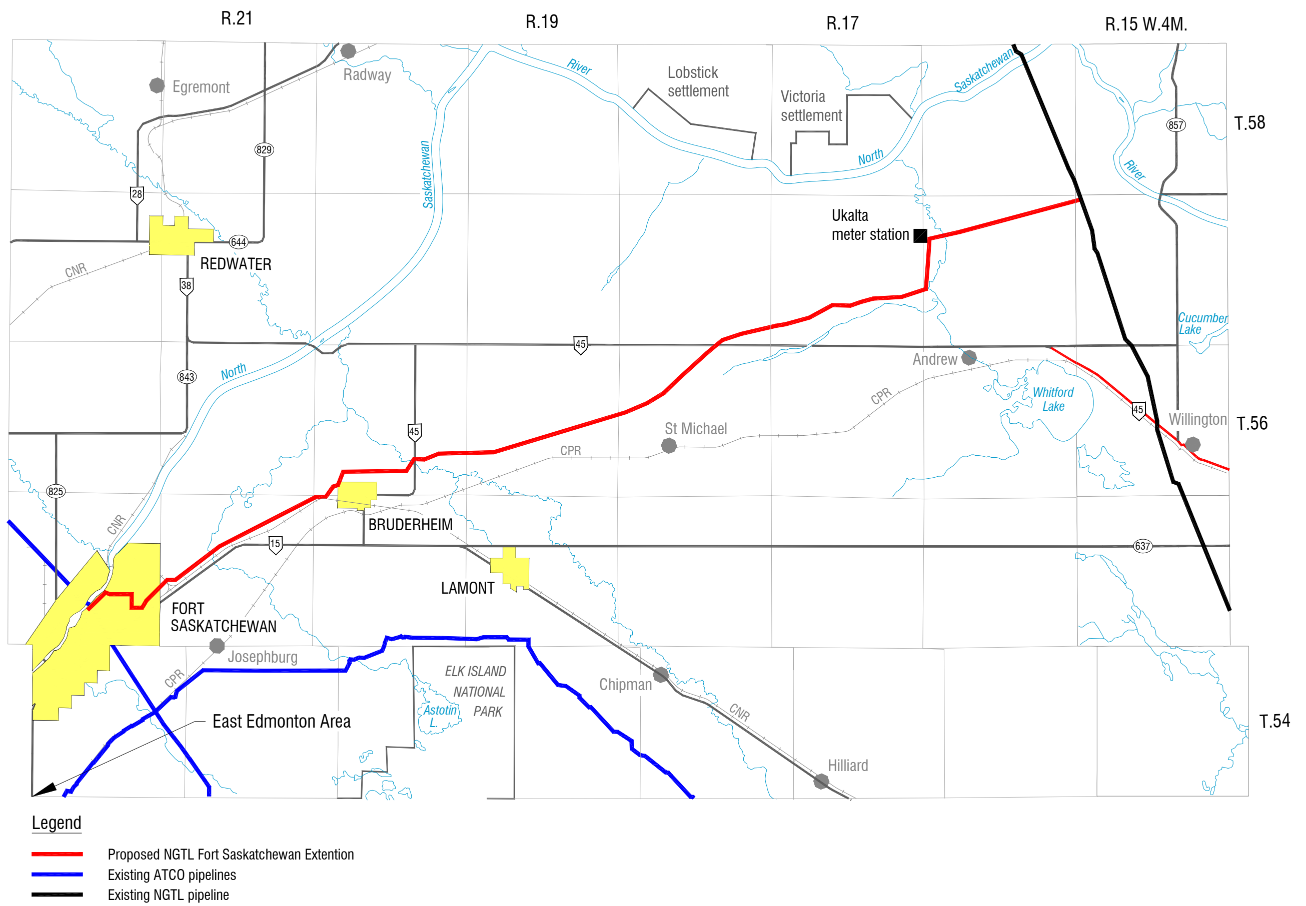

Figure 1 Fort Saskatchewan Area
Application No. 1245440
Nova Gas Transmission Ltd. (NGTL)

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EUB

R.22
R.21W.4M.
T.55
ATCO salt cavern gas storage
Astotin Creek
Sturgeon River
North Saskatchewan River
CNR
CITY OF FORT SASKATCHEWAN
Proposed NGTL pipeline
15
Dow plant site
Proposed NGTL meter stations
Sherritt plant site
Existing ATCO pipeline
Josephburg
CPR

Legend

- Proposed NGTL Fort Saskatchewan Extension
- Existing ATCO main lines
- Existing ATCO laterals
- Proposed meter station

Figure 2. Fort Saskatchewan Detail Area
Application No. 1245440
NOVA Gas Transmission Ltd. (NGTL)

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