

**APPENDIX “E”
TO
GAS TRANSPORTATION TARIFF
OF
NOVA GAS TRANSMISSION LTD.**

**CRITERIA FOR DETERMINING
PRIMARY TERM**

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1.0 DEFINITIONS

1.1 Capitalized terms used in this Appendix have the meanings attributed to them in the Tariff unless otherwise defined in this Appendix.

2.0 INTRODUCTION

2.1 If, pursuant to subparagraphs 5.1(ii) or (iii) of Rate Schedule FT-R, Rate Schedule FT-D or Rate Schedule FT-P, Company determines that new metering Facilities are required to be installed or constructed to provide the Service requested, Company will determine the minimum Primary Term, in accordance with this Appendix.

2.2 The decision to install or construct new Facilities shall be made by Company. In making such decision, Company will take into account factors which may include, but shall not be limited to: capital investment, Delivery Contract Demand, Receipt Contract Demand, Points to Point Contract Demand, established reserves and area resource potential.

3.0 DETERMINATION OF PRIMARY TERM

3.1 The minimum Primary Term is the minimum number of years of Service under a Schedule of Service under Rate Schedule FT-D, Rate Schedule FT-R or Rate Schedule FT-P required for the cumulative present value revenue (“CPVR”) to equal or exceed the cumulative present value cost of service (“CPVCOS”). In calculating the Primary Term,

partial years shall be rounded up to the next whole year. The minimum Primary Term when new metering Facilities are required may vary from two (2) to five (5) years.

An example of the calculation of Primary Term is set out in Attachment 1 to this Appendix.

3.2 Determination of CPVR

- (i) In determining the CPVR, the annual revenue for the first year attributable to the Facilities shall be estimated as follows:

$$AR = A \times B \times 12 \text{ months}$$

Where:

“AR” = annual revenue attributable to the Facilities

“A” = the Receipt Contract Demand, Delivery Contract Demand, or the Points to Point Contract Demand requested by Customer

“B” = the FT-R Demand Rate at the applicable Receipt Point, the FT-D Demand Rate at the applicable Delivery Point, as applicable multiplied by the applicable Price Point or the FT-P Demand Rate at the applicable Receipt Point

- (ii) Commencing in the second year of the Primary Term the annual revenue shall be escalated at 2% per annum. The CPVR for the Primary Term is then calculated by adding each year's revenue, discounted at Company's current pre-tax rate of return. The escalation rate and the pre-tax rate of return may vary from time to time as determined by Company.

3.3 Determination of CPVCOS

In determining the CPVCOS the estimated capital cost for the first year of metering Facilities required to be installed or constructed at any Receipt Point or Delivery Point to provide the Service requested shall be used. Estimated capital costs include all direct and indirect costs required to declare a Billing Commencement Date in respect of the requested Service. Facilities are designed in accordance with the criteria and assumptions outlined in Company's Annual Plan.

Commencing in the second year of the Primary Term the annual cost of service ("COS") shall be discounted at Company's current pre-tax rate of return. The CPVCOS for the Primary Term is then calculated by adding each year's COS, discounted at Company's current pre-tax rate of return. Such rate of return may vary from time to time as determined by Company.

The COS is equal to the sum of the components as described in (i) through (v) below.

(i) Operating and Maintenance ("O&M")

O&M expense is estimated based on Company's system average O&M costs.

O&M expense is escalated at 2% per annum commencing in the second year of the Primary Term. The escalation rate may vary from time to time as determined by Company.

(ii) Municipal Taxes

Municipal tax expense is estimated at Company's system average rate applied to estimated capital cost and is escalated at 2% per annum commencing in the second year of the Primary Term. Company's system average rate and escalation rate may vary from time to time as determined by Company.

(iii) Depreciation

Depreciation expense is calculated on a straight-line basis using the rate required to fully depreciate the estimated capital cost of the Facilities over the Primary Term. This depreciation rate is calculated using an iterative process and is used solely for the determination of Primary Term.

(iv) Income Taxes

Income tax expense is calculated on a flow-through basis. The income tax rate used is computed by applying the current combined federal and provincial income tax rates.

(v) Return on Rate Base

Return on rate base is calculated by applying Company's current rate of return to the average of the opening and closing balances in the rate base account for the applicable twelve (12) month period. Rate base is equal to the estimated capital cost of the Facilities determined to be required to meet Customer's request for Service, less accumulated depreciation, plus a working capital adjustment. The rate of return may vary from time.

Attachment 1
Illustrative Primary Term Calculation

(1)	(2)	(3)	(4)	(5)	(6)
Year	Annual Cost of Service	Cumulative Present Value Cost of Service (CPVCOS)	Annual Revenue	Cumulative Present Value Revenue (CPVR)	Net Present Value (Col. 5-3)
1	\$1,023,422	\$1,023,422	\$891,778	\$891,778	(\$131,645)
2	935,235	1,885,753	909,613	1,730,484	(155,269)
3	893,103	2,645,044	927,805	2,519,279	(125,766)
4	850,435	3,311,699	946,362	3,261,131	(50,568)
5	807,274	3,895,191	965,289	3,958,835	63,644
Total	\$4,509,468	\$3,895,191	\$4,640,846	\$3,958,835	\$63,644

Capital Cost:	\$2,900,000
Receipt Contract Demand:	360 10 ³ m ³ /d
FT-R Demand Rate:	\$206.43 / 10 ³ m ³ / month
Primary Term Required:	5 years
Rate of Return on Rate Base:	6.96%
Discount Rate:	8.45%