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July 19, 2017

Filed Electronically

National Energy Board
Suite 210, 517 Tenth Avenue SW
Calgary, AB T2R 0A8

Attention: Ms. Sheri Young, Secretary of the Board

Dear Ms. Young:

Re: Foothills Pipe Lines Ltd. (Foothills) Application for Approval of Reimbursement for Reclamation Obligations Related to the Decommissioning of the Leach Creek Segment (Application)
Amended Application and Responses to National Energy Board (NEB) Information Request No. 1

Foothills filed the Application on December 6, 2016.[1] Since that time, Foothills incurred additional costs associated with the decommissioning of the Leach Creek Segment, and hereby files an Amended Application to adjust the amount of Reclamation Obligations for which reimbursement from the Foothills Abandonment Trust is sought.

Foothills also encloses for filing responses to NEB information request No. 1, as directed by the Board on June 28, 2017.[2]

Foothills is notifying shippers of the availability of this filing in the Board's repository as well as on TransCanada's Foothills System website at the following address:

http://www.tccustomerexpress.com/934.html

If the Board has questions about the Application, please contact me or TransCanada's representatives listed in the Application.

Yours truly,
Foothills Pipe Lines Ltd.

Original signed by E. Tadayoni for

Bernard Pelletier
Director, Regulatory Tolls and Tariffs
Canadian Natural Gas Pipelines

Enclosures

cc: Foothills System Shippers and Interested Parties

[1] NEB Filing ID: A80929.
[2] NEB Filing ID: A84666.

NATIONAL ENERGY BOARD

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

AND IN THE MATTER OF an Application by Foothills Pipe Lines Ltd. pursuant to directions contained in the MH-001-2013 Decision and Sections 4.04 and 4.05(a)(i) of the Amended and Restated Foothills Pipeline Trust Agreement for Board approval of reimbursement from the Foothills Pipeline Trust for Reclamation Obligations related to the Decommissioning of the Leach Creek Segment.

APPLICATION FOR APPROVAL OF REIMBURSEMENT FOR RECLAMATION OBLIGATIONS RELATED TO THE DECOMMISSIONING OF THE LEACH CREEK SEGMENT

Amended July 19, 2017 **~~December 6, 2016~~**

To: The Secretary
National Energy Board
Suite 210, 517 Tenth Avenue SW
Calgary, Alberta
T2R 0A8

APPLICATION

1. Foothills Pipe Lines Ltd. (Foothills) hereby applies to the National Energy Board (Board or NEB) pursuant to directions contained in the MH-001-2013 Decision and Sections 4.04 and 4.05(a)(i) of the Amended and Restated Foothills Pipeline Trust Agreement (Trust Agreement)[1] for Board approval of reimbursement from the Foothills Pipeline Trust (Trust) established in accordance with the Trust Agreement for Reclamation Obligations performed in relation to the decommissioning of the Leach Creek Segment (Application).

2. Foothills is a wholly owned subsidiary of TransCanada PipeLines Limited (TransCanada). Foothills is a "company" as that term is defined in the National Energy Board Act, R.S.C. 1985, c. N-7, as amended (NEB Act).

3. Foothills is a natural gas transmission system comprising approximately 1,241 km of pipeline and associated compression and other facilities (Foothills System).

4. TransCanada operates the Foothills System pursuant to an operating agreement between TransCanada and Foothills. TransCanada applies its corporate policies in its operation of the Foothills System that are common to TransCanada's operation of its other federally regulated pipelines.

5. The Foothills System is subject to federal jurisdiction and regulation by the Board.

Background

6. In compliance with the MH-001-2013 Decision, Foothills established the Trust for the purpose of setting aside funds to pay the Reclamation Obligations of Foothills for the operation of the Foothills System.

7. These Reclamation Obligations include the duty to carry out the physical Abandonment, Decommissioning or Deactivation of the Foothills System, including costs incurred to satisfy any conditions imposed by the Board, in any order or direction approving the Decommissioning or Deactivation of the Pipeline or for granting leave to Abandon the Pipeline, as these terms are defined in the Trust Agreement.

8. Board approval is required before the Trustee to the Trust can release funds to reimburse Foothills for the costs of Reclamation Obligations.

[1] The Trust Agreement was approved by, and included in, the letter decision of the Board on October 15, 2015 [NEB Filing ID: A73237].

9. Foothills applied to decommission the Leach Creek Segment on September 25, 2015[2] and received Board approval through Order MO-070-2015 on December 22, 2015.[3] As part of the decommissioning application, Foothills informed the Board of its intention to fund the majority of the decommissioning costs from the Trust.[4]

10. As at ~~November 30, 2016~~June 30, 2017, Foothills incurred a total of ~~$1,668,821~~$1,745,567 of costs to perform the Reclamation Obligations in relation to the decommissioning of the Leach Creek Segment, including carrying charges~~, the amount for which Foothills is seeking reimbursement from the Trust as part of this Application (Leach Creek Reclamation Obligations)~~.

11. ~~To the extent Foothills incurs additional costs in relation to the decommissioning of the Leach Creek Segment beyond the Leach Creek Reclamation Obligations incurred as at November 30, 2016 that are subject to this Application, Foothills would seek reimbursement through a separate application to the Board~~Foothills has now completed work on the decommissioning of the Leach Creek Segment but it continues to incur costs associated with the carrying charges to provide interim funding for the project. Table 1 summarizes the total amount for which Foothills is seeking reimbursement from the Trust as part of this Application (Leach Creek Reclamation Obligations), depending on the date at which reimbursement is authorized:

Table 1: Leach Creek Segment Reclamation Obligations by Reimbursement Date

2017 Reimbursement Date (last day of)	**Leach Creek Segment Reclamation Obligations**
July	1,753,023
August	1,760,512
September	1,768,032
October	1,775,584
November	1,783,169
December	1,790,786

12. Foothills had access to sufficient funds to pre-fund the costs of the Leach Creek Reclamation Obligations. Through the Application, Foothills now seeks authorization from the Board for reimbursement of these costs from the Trust.

[2] NEB Filing ID: A72790.
[3] NEB Filing ID: A74913.
[4] NEB Filing ID: A72790, paragraph 32.

13. Foothills submits that the Leach Creek Reclamation Obligations, which consist of decommissioning activities, are appropriately funded through the Trust irrespective of the availability of other revenues sufficient to undertake the work. Decommissioning requires the same types of activities that would also be required for final abandonment. The decommissioning activities performed in advance of final abandonment will therefore reduce the extent and cost of any eventual additional work that may be required for final abandonment. In that context, Foothills submits that both decommissioning and abandonment activities should be funded in the same manner through the Trust.[5]

14. The cost of decommissioning of the Leach Creek Segment and funding from the Trust is reflected in Foothills' Preliminary Decommissioning, Abandonment and Funding Plan filed with the Board as part of the 2016 Review of Abandonment Cost Estimates.[6] The Leach Creek Reclamation Obligations will not have a material impact on the coverage for other future costs incurred for Reclamation Obligations.

Conclusion

15. The costs of the Leach Creek Reclamation Obligations were prudently incurred and reflect qualifying activities intended to be funded from the Trust. Authorizing the reimbursement of these costs is appropriate and will not have a material impact on the coverage for other future costs incurred for Reclamation Obligations.

Relief Requested

16. Foothills requests an order of the Board:

(a) authorizing the Trustee of the Trust to release ~~$1,668,821~~the amount applicable depending on the reimbursement date from Table 1 to Foothills for reimbursement of the costs of the Leach Creek Reclamation Obligations; and

(b) granting such further and other relief as Foothills may request or the Board may consider appropriate.

[5] As further addressed in Foothills Preliminary Decommissioning, Abandonment and Funding Plan filed as part of the 2016 Review of Abandonment Cost Estimates [NEB Filing ID: A79686, Page 3-2].

[6] NEB Filing ID: A79686, Section 3.0.

Respectfully submitted,

Calgary, Alberta
July 19, 2017 (as amended)

Foothills Pipe Lines Ltd.

Original signed by E. Tadayoni for

Bernard Pelletier
Director, Regulatory Tolls and Tariffs
Canadian Gas Pipelines

Please direct all communications related to this Application to:

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Director, Regulatory Tolls and Tariffs
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IR Number: NEB 1.1

Topic: Abandonment Costs Funding

Reference:

i) Foothills Pipe Lines Ltd. (Foothills) Abandonment Cost Estimates-MH-001-2012, Filing of Revised Cost Estimates, dated 16 April 2013, PDF page 2 of 5, A3G8Z9

ii) Foothills 2016 Review of Abandonment Cost Estimates, dated 30 September 2016, PDF page 6 of 22, A4U4C3

iii) Foothills' Application for Approval of Reimbursement for Reclamation Obligations Related to the Decommissioning of the Leach Creek Segment (Application), dated 6 December 2016, PDF page 4 of 5, paragraph 10, A5H4V6

iv) Foothills' Amended and Restated Pipeline Trust Agreement, PDF page 92-121, A73237

v) MH-001-2013 Reasons for Decision Set-Aside and Collection Mechanisms, PDF page 47 of 176, A60676

Preamble:

Reference i) sets out Foothills revised Abandonment Cost Estimates, based on revisions required by the Board.

Reference ii) sets out Foothills 2016 Abandonment Cost Estimates (ACEs), in 2016 dollars, as directed to be calculated by the Board.

Reference iii) is Foothills' request for an order from the Board authorizing the Trustee of the Amended and Restated Foothills Pipeline Trust Agreement (Trust) (reference iv) to release $1,668,821 to Foothills for reimbursement of the costs of the Leach Creek reclamation obligations.

Reference v) sets out that "Applications to access funds for either decommissioning or deactivation would be expected to justify why other revenue is not sufficient to undertake the work, and to explain the impact on the coverage for other future costs for the remaining activities needed to complete abandonment."

Request:

a) Confirm that the abandonment costs, estimated by Foothills for its future abandonment costs, are not currently fully funded.

b) Provide the percentage of Foothills' total abandonment cost obligation is currently funded and placed in the Trust.

c) What percent of the costs associated with the decommissioning of the Leach Creek Segment has been accumulated in the Trust to date?

d) Explain why, in Foothills' opinion, the Trust need not be fully funded before accessing it for the reclamation obligations associated with the Leach Creek Segment Decommissioning.

e) Explain the benefit to Canadians of allowing Foothills to access the current funds held in trust while the percentage of Foothills' potential abandonments remain unfunded, as set out in Foothills answer to Board IR 1.1b) above, given the Board's statement in reference v).

Response:

a) through e)

Through the RH-2-2008, MH-001-2012 and MH-001-2013 decisions, the Board mandated that pipeline companies set aside funds for the purpose of funding eventual pipeline abandonment activities associated with pipeline system operations. The Board has approved Foothills' abandonment cost estimates (ACE), and these are periodically reviewed in the Board's ACE reviews, including the one initiated with the filing of a revised ACE by Group 1 pipeline companies in September 2016. The current approved ACE for the Foothills pipeline is $197.87 million ($2014).[1]

The Foothills ACE represents the costs to abandon and decommission the pipeline system through its entire lifecycle. Various abandonment or decommissioning activities will take place as required over time and will not be carried out on the entire system at a single time as a single event at the end of its lifecycle. To the extent abandonment or decommissioning activities take place in advance of final abandonment, the remaining costs expected to be incurred at that time will be adjusted, and the level of funds to be set aside would also correspondingly be adjusted to reflect the reduction in remaining abandonment liabilities.

The Foothills Abandonment Trust (Trust) was established through the MH-001-2013 process and approved by the Board as the appropriate set aside mechanism (SAM) to fund abandonment and decommissioning activities.[2] Funds can only be released from the Trust to Foothills to fund Reclamation Obligations, as that term is defined in the Trust Agreement. These include abandonment, decommissioning and deactivation activities. Board approval is also required prior to the trustee being allowed to reimburse qualifying funds to Foothills.

[1] See Foothills Compliance Filing to the MH-001-2013 Decision, November 25, 2014 (NEB Filing ID: A64576), approved through Board Order TGI-006-2014.

[2] See Board Letter dated October 15, 2015 that includes the approved Trust Agreement as an attachment (NEB Filing ID: A73237).

This approval ensures that the Board first confirms the appropriate amount of expenses and that they will qualify for release from the Trust.

The Board also approved the collection mechanism (COM) for the purpose of collecting the funds to be set aside in the Trust through the MH-001-2013 process. In doing so, the Board stated abandonment costs are a legitimate cost of providing service and are recoverable from users of the system upon Board approval.[3] The Board has approved a surcharge as the appropriate COM for collecting these funds. A 30-year period is currently in place as the collection period for Foothills. The ACE, collection period, and other factors such as billing determinants and any adjustments (e.g., difference in fund performance or any reclamation activities previously performed that reduce remaining liabilities) would be reflected in the annual abandonment surcharge calculations and in periodic updates to the ACE.

The 30-year collection period does not represent an estimate of the time that is expected to elapse before abandonment takes place. Rather, the 30-year collection period represents a reasonable time over which funds can be collected while adequately funding abandonment and decommissioning activities during and after the collection period. The collection period will be subject to period reviews in the future, whether as part of future ACE reviews or through another process. Funds started being set aside in 2015, and therefore, the full Foothills ACE amount has not yet been collected. Foothills is collecting and setting aside funds in accordance with the Board approved SAM, COM and ACE to ensure that appropriate funding is maintained.

As part of the 2016 ACE Review, the Board also required Group 1 companies to file preliminary five-year Decommissioning, Abandonment and Funding Plans. The costs associated with the decommissioning of the Leach Creek Segment of the Foothills system and the impact of the associated reimbursement of the costs were included in this plan.

The funds are set aside in the Trust to fund the abandonment and decommissioning of the Foothills pipeline as a whole and are not attributed to specific facilities. As at June 30, 2017, the funds set aside in the Trust are estimated at $23 million, which represents approximately 11.6% of the currently approved ACE. These funds exceed the cost of the Reclamation Obligations associated with the Leach Creek Segment Decommissioning for which reimbursement is sought of $1.753 million (as revised in the Amended Application, assuming reimbursement takes place in July 2017). Therefore, the cost of the Leach Creek Segment Decommissioning is currently fully funded in the Trust.

Foothills submits that the SAM was intended to provide specific funding for abandonment and decommissioning over the lifecycle of the system. The establishment of the SAM, COM and ACE provide the Board with the necessary oversight to ensure that adequate funding is available throughout the lifecycle of the system, and that the funds are segregated from the pipeline company's revenues. To deny reimbursement of qualifying Reclamation Obligations

[3] See RH-2-2008 Decision, Principle 8 at page 33 (NEB Filing ID: A1J9R9).

until such time that funds set aside in the Trust are equal to or exceed the approved ACE would be inconsistent with the demonstrated intent of the Board in the extensive approval process used to establish the SAM, COM and ACE. Should this occur, pipeline companies would appropriately seek to recover these costs through tolls. However, this would require revisions to the approved ACE since it would not be reasonable to set aside 100% of the ACE, while a portion of prudently incurred abandonment costs are expected to be funded through tolls. This would result in higher costs and raise greater inter-generational inequities concerns, as explained in response to NEB 1.12 b) and c).

IR Number: NEB 1.2

Topic: Impact of accessing the Trust on length of time to fully fund the Trust

Reference:

i) Foothills' response to Board IR 1.1 b) above

ii) RH-2-2008 Reasons for Decision, Land Matters Consultation Initiative Stream 3, PDF page 12, A1J9R9

Preamble: Reference i) is Foothills' response to Board IR 1.1b) where Foothills was requested to provide the percentage of the total abandonment cost obligation it currently has placed in its Trust.

In reference ii), the Board set out two key principles fundamental to its future decisions with respect to the financial matters related to pipeline abandonment. The relevant principle for this Information Request is that landowners will not be liable for costs of pipeline abandonment.

Request: Discuss:

a) with reference to Foothills' answer in 1.1 b), or in the case where abandonment fund is not completely funded or where significant funding is still required, whether accessing the trust now would lengthen the time period before the trust would be fully funded.

b) in Foothills' view, whether lengthening the time until the trust is fully funded increases the risk that events (such as significant supply or market changes or disruptions) may materialize that could prevent the trust from becoming fully funded prior to terminal decommissioning or abandonment being required.

c) how accessing a trust when the fund is not significantly or completely funded is consistent with the principle that landowners will not be liable for the costs of pipeline abandonment.

Response:

a) through c)

See the response to NEB 1.1 a) through e). Foothills understands the periodic ACE reviews are intended to assess the need for periodic adjustments of the ACE, collection period, or any other relevant parameters associated with abandonment cost estimates.

The reimbursement of the qualifying expenses applied for in the Application from the Trust should have no impact on these objectives.

The reimbursement being sought in this Application is in relation to completed decommissioning activities that will not have to be repeated, therefore the amount of funds required in the future to fund abandonment of the remainder of the pipeline system will be less than the full ACE and will be adjusted to reflect the cost of completed activities. There would, therefore, be no impact associated with reimbursement of these activities now during the collection period. On a net present value basis, there is no reason to expect a significant difference in the costs of these activities, whether they occur now, in 30 years, or later. Allowing reimbursement now of qualifying expenses or allowing it in 30 years or later will not materially impact the balance associated with funds set aside and remaining abandonment liabilities. The Board has established an appropriate process to ensure that the reimbursement would not affect the principle that landowners will not be liable for the costs of pipeline abandonment. There is ample time and opportunity to adjust all relevant parameters as part of periodic ACE reviews to continue to ensure this principle is respected, while also respecting the principle that abandonment and decommissioning activities are necessary and prudently incurred costs associated with the full lifecycle of a pipeline that are appropriately funded from the shippers of a pipeline system – whether through the Trust, as contemplated in the LMCI initiatives, or through the revenue requirement.

An analogy to the insurance industry helps illustrate this point. When someone experiences an insured event, they are appropriately reimbursed from the insurance company for the insured event. Insurance companies with the oversight of their regulators ensure sufficient funds are in place to cover the anticipated claims. To the extent a larger than expected claim level occurs (e.g., as a result of major events like hail storms or wildfires), the insurance companies adjust the level of premiums required to ensure adequate funding continues to be in place.

A similar analogy exists with respect to pension plans. Over their careers, employees and their employers who benefit from a pension plan fund their pension through contributions, and receive a pension based on defined eligibility when they retire. Actuarial valuations are used to determine the reasonableness of the funding relative to the associated pension liabilities. If adjustments are required, they occur over time through adjustments to the contribution amounts.

IR Number: NEB 1.3

Topic: Consultation

Reference:

i) RH-2-2008 Reasons for Decision, Land Matters Consultation Initiative Stream 3, PDF page 18 of 53, A1J9R9

ii) MH-001-2012 Reasons for Decision, Abandonment Cost Estimates PDF page 77 of 126, A50478

Preamble:

In reference i), the Board set two key principles fundamental to its future decisions with respect to the financial matters related to pipeline abandonment. They are:

1. Abandonment costs are a legitimate cost of providing service and are recoverable upon Board approval from users of the system.

2. Landowners will not be liable for costs of pipeline abandonment.

In reference ii), the Board states that it considers consultation and communication between companies and landowners to be highly important for all phases of a pipeline, from construction to after abandonment.

Request:

a) Explain whether Foothills has consulted with landowners, shippers, other stakeholders, and Aboriginal groups about redemptions from Foothills' Trust well before the Trust is fully funded.

b) If Foothills has consulted, explain what comments were received.

c) If Foothills has not consulted, explain why there has been no consultation on this issue.

d) Discuss whether a hearing that would involve the participation of groups listed in a) should be held in respect of Foothills' Application. Indicate whether such a hearing should be oral, written, or some combination, and why.

Response:

a) through d)

Foothills submits that the appropriate forum for consultations on criteria that may be established prospectively by the Board prior to authorizing reimbursement of qualifying activities would be through an ACE review. Interested parties seeking to express their views concerning the assumptions used to derive the level of funds to be set aside, or over the preliminary abandonment and decommissioning activities expected to be reimbursed, have the opportunity during the ACE reviews. The current 2016 ACE Review provides an appropriate forum for these discussions.

Landowners, shippers, Aboriginal groups and other stakeholders are consulted and may take part in actual applications for abandonment or decommissioning of facilities. Consultations for these applications do not focus on costs and funding, however, engagement does inform plans used to perform decommissioning and abandonment activities, and therefore, verify assumptions used in deriving ACE. This approach was used in developing the Leach Creek Segment Decommissioning Application, an application that clearly stated Foothills' intent at funding the project through the Trust.

At this time, there has been limited pipeline decommissioning and abandonment activities. However, as more activities take place, there will be more specific inputs available to derive the ACE, and these estimates will therefore be refined over time, as a result of both the inputs received from stakeholders and the actual industry experience performing these activities.

By the time reimbursement from the Trust is being sought, all the appropriate consultation will have taken place, therefore, no additional consultation or hearing process is warranted. Foothills submits that the Board should consider the following two criteria in assessing an application for reimbursement from an Abandonment Trust:

1) Are the costs for which reimbursement is sought costs that were incurred to perform qualifying Reclamation Obligations? and

2) Are the costs for which reimbursement is sought reflected in the Preliminary Decommissioning, Abandonment and Funding Plan filed with the Board?

Criterion 1) addresses the Trust requirement that only qualifying Reclamation Obligations can be reimbursed from the Trust, while criterion 2) addresses coverage related to future Reclamation Obligations.

If the answers to both criteria is yes, the Board should authorize reimbursement without delay or unnecessary and duplicative process. Delays in these instances only serve to increase the overall costs incurred to perform Reclamation Obligation activities since pending reimbursement companies face costs associated with the interim funding they provide and for which they should appropriately be reimbursed.

If the answer to criterion 1) is no for all or a portion of the costs, the Board should deny reimbursement of that portion of the costs not associated with qualifying Reclamation Obligations regardless of the answer to criterion 2).

If the answer to criterion 1) is yes, but the answer to 2) is no, then the Board would reasonably expect pipeline companies to file an update to their preliminary abandonment plan prior to authorizing reimbursement.

Since filing the Application in December 2016, Foothills has incurred additional costs associated with the interim funding of the Leach Creek Segment Decommissioning reimbursement application of approximately \$77,000, of which approximately \$51,000 is attributable to additional carrying charges.[1] Foothills submits a process for reimbursement should be established promptly and rely on a form-based approach and timelines comparable to those applicable to export license applications, so as to minimize the quantum of costs required to be incurred in association with reimbursement of qualifying Reclamation Obligations.

[1] The Reclamation Obligations of \$1,668,821 as at November 30, 2016 included approximately \$50,000 in carrying charges.

IR Number: NEB 1.4

Topic: Accessing the Funds for Decommissioning

Reference:

i) MH-001-2013 Reasons for Decision Set-Aside and Collection Mechanisms, PDF page 47 of 176, A60676

ii) RH-2-2008 Reasons for Decision, Land Matters Consultation Initiative Stream 3, PDF pages 38 and 39 of 53, A1J9R9

Preamble:

In reference i), the Board states that "it may be reasonable, in some cases, to use funds for decommissioning purposes."

In reference ii), the Board developed a set of 12 principles that would guide it in its future decisions with respect to financial matters related to pipeline abandonment.

Request:

a) With reference to principles that Foothills would consider relevant, including the guidance found in reference i), principles outlined in reference ii) and any principles that Foothills would like the Board to consider, explain what criteria the Board should use to determine if the present Application is one where it is reasonable to use funds accumulated in a trust for decommissioning purposes.

b) Explain whether the reasonableness of accessing funds should be impacted by the percent that a trust is fully funded for pipeline abandonment costs.

c) Where a large percent of a company's overall abandonment cost estimate is unfunded, explain whether it should matter that the current proposed redemption is for a small percentage or large percentage of the funds accumulated in the trust. Explain with reference to applicable principles that should guide the Board's decision, including guidance from reference i), the principles set out in reference ii), and any principles that Foothills would like the Board to consider.

d) In respect of the principles that Foothills referenced in Foothills' answers from a) and c) above, explain how those principles that Foothills would like the Board to consider are in line with the broader Canadian public interest of ensuring the availability of funding for future abandonment costs.

Response:

a) through d)

As further discussed in response to NEB 1.3, Foothills submits that only two criteria are required to determine if funds should be authorized to be reimbursed from the Foothills Abandonment Trust:

a. Are the costs for which reimbursement is sought costs that were incurred to perform qualifying Reclamation Obligations? and

b. Are the costs for which reimbursement is sought reflected in the Preliminary Decommissioning, Abandonment and Funding Plan filed with the Board?

These two criteria incorporate by reference the 12 principles, with the exception of principles 5[1] and 12[2] that are no longer applicable since the implementation of tax-effective Abandonment Trusts that qualify as QET pursuant to Canada Revenue Agency rulings. The remaining 10 of the 12 principles are:

1. It is in the public interest that all pipelines regulated by the NEB be abandoned safely and effectively.
2. Pipeline companies are ultimately responsible for the full costs of constructing, operating and abandoning their pipelines, and the Board will hold the regulated company responsible for these costs.
3. The Board regulates using a goal-oriented, risk-based lifecycle approach; it does not subscribe to the concept of elimination of risk.
4. Landowners will not be liable for costs of pipeline abandonment.
6. Timing of abandonment of a pipeline for the purpose of estimating future abandonment costs should be the shorter of anticipated economic life or physical life.
7. The removal of all large-diameter abandoned pipe from agricultural land is not a prudent or effective approach for the purpose of establishing preliminary abandonment cost estimates.
8. Abandonment costs are a legitimate cost of providing service and are recoverable upon Board approval from users of the system.
9. Funds for abandonment costs should be collected and set aside in a transparent manner.

[1] At this time, the use of pooling as a general mechanism for setting aside funds to cover the costs of abandonment is not efficient from a regulatory or economic perspective.
[2] The Board, as an independent and quasi-judicial tribunal, does not promote the development of tax policies or initiatives.

10. Funds for abandonment costs should not be collected as part of depreciation and should be a separate element of cost of service.
11. Any funds set aside for abandonment must be held in such a manner that they can only be used for the purposes of abandonment and abandonment planning.

The first criterion ensures compliance to the terms and conditions of the Foothills Abandonment Trust, which was approved by the Board as compliance to the MH-001-2013 Decision. The second criterion ensures that the impacts of reimbursement of Reclamation Obligations have previously been considered before funds are released in the appropriate forum.

Principles 2, 4 and 8 are the over-riding principles applicable to reimbursement applications. The other principles are more related to the ACE itself. The default starting point is defined in Principle 8 – costs performed to abandon, decommission or deactivate a pipeline are legitimate costs of providing service on a pipeline that are appropriately funded from the users of the pipeline system. The other two principles only come in to play in the event shippers are no longer able to fund these activities pursuant to Principle 8. This could happen, for example, in a situation where a pipeline no longer provides service, such that it has no shippers from whom it could recover these costs. Principles 2 and 4 then come to play and confirm that in such a situation, it is the pipeline company, not landowners, that is ultimately responsible for these costs.

It is through the periodic reviews of ACE, as is currently taking place with the 2016 ACE Review, that the Board has the ability to assess these impacts and satisfy itself that the various principles are respected. As part of the 2016 ACE Review, Group 1 pipeline companies were required to file preliminary decommissioning, abandonment and funding plans. The 2016 ACE Review and subsequent process where Abandonment Contribution Amount (ACA) parameters such as collection period may be reviewed, are the appropriate forum to assess potential impacts being guided by these principles as well as in annual abandonment surcharge applications. No further process is required when a reimbursement request that meets the two criteria is sought.

Also see the responses to NEB 1.1, NEB 1.3 and NEB 1.12.

IR Number: NEB 1.5

Topic: Past decommissioning and abandonment costs

Reference: Foothills' Leach Creek Segment Decommissioning Application, 25 October 2015, PDF page 11 of 32, A4T6K1

Preamble: In the reference, Foothills stated that the cost associated with decommissioning the Leach Creek Segment was $2.3 million dollars.

Request: Based on the costs associated with the percentage of the pipeline that has been decommissioned or abandoned to date on Foothills' pipeline system, explain what Foothills knows about:

a) what the costs of abandonment activities will be for abandonments and decommissionings closer to the end of the life of the pipeline;

b) what the Board's requirements will be for those abandonments and decommissionings; and

c) what the costs of post-abandonment and post-decommissioning monitoring will be.

Response:

a) Foothills did not make any specific assumptions with respect to (i) the costs of abandonment or decommissioning activities closer to the end of the life of the pipeline, (ii) the Board's requirements for those abandonment and decommissioning activities or (iii) what the costs of post-abandonment and post-decommissioning monitoring will be. The ACE represents Foothills' overall costs to abandon the system. As Foothills gains more experience with abandonment and decommissioning, Foothills will refine its ACE with Board oversight to incorporate the most accurate information available to ensure adequate funds are set aside for these activities.

b) The requirements regarding abandonment and decommissioning are set out in the NEB Act and related Filing Manual, as may change from time to time. Also see the response to NEB 1.8.

c) The ACE includes provisions for post-abandonment/post-decommissioning monitoring. These provisions continue to be reflected in the Foothills ACE and will continue to be set aside with the reimbursement of the Leach Creek Segment Reclamation Obligations, as explained in response to NEB 1.6 a) and b). Also see the response to NEB 1.11.

IR Number: NEB 1.6

Topic: Accessing Funds

Reference: Foothills' Application, PDF page 4 of 5, paragraph 10, A5H4V6

Preamble: The reference is Foothills' Application to access the Trust for the reimbursement for reclamation obligations related to the decommissioning of the Leach Creek Segment.

Request:

a) To the extent decommissioning or abandonment work is performed, does Foothills agree that the financial burden to the pipeline and/or shippers will be reduced as the ACE may be reduced during the next ACE review (relative to what the applicable ACE would otherwise have been adjusted to during the next review)?

b) If the Board approved Foothills request for reimbursement of funds from Trust before it is fully funded, discuss the benefits of:

   b.1) reducing the ACE to reflect the decommissioning costs that were reimbursed as stated in a) above; or

   b.2) keeping the ACE at the present approved amount.

In Foothills' response, address the impacts to the rate of collection, Annual Contribution Amount (ACA), and the surcharge.

Response:

a) and b)

Foothills agrees that as decommissioning and abandonment activities occur over time, as each project is completed, it should correspondingly reduce the remaining amount of decommissioning and abandonment activities that need to be carried out on the system. This in turn may warrant adjustments that could take place in one of two ways:

1) Maintain the ACE intact, but make an adjustment for "previously performed Reclamation Obligations", and use the adjusted amount to derive ACA and abandonment surcharges; or

2) Adjust the ACE directly to account for previously performed Reclamation Obligations, and use this amount to derive ACE and abandonment surcharges.

Either approach should yield comparable results in terms of rate of collection, ACA and abandonment surcharges.

IR Number: NEB 1.7

Topic: Decommissioning Costs

Reference: Foothills' Application, PDF pages 4 and 5 of 5, A5H4V6

Preamble: In the reference, Foothills states that it incurred a total of $1,668,821 of costs to perform the Reclamation Obligations in relation to the decommissioning of the Leach Creek Segment, including carrying charges. Foothills is seeking reimbursement from the Foothills Pipeline Trust (Trust) for this amount in its Application.

Foothills states that, to the extent that it incurs additional costs in relation to the decommissioning of the Leach Creek Segment beyond the Leach Creek Reclamation Obligations incurred as at 30 November 2016, it will seek reimbursement through a separate application.

Foothills also states that the costs of the Leach Creek Reclamation Obligations were prudently incurred and reflect qualifying activities intended to be funded from the Trust.

Request:

a) Provide a detailed breakdown of the costs for all activities, including information regarding the carrying charges, incurred as part of the Leach Creek Segment Reclamation Obligations, as of 30 November 2016.

b) Describe how these costs are reflected in the cost categories of Foothills' abandonment cost estimate (ACE). Include in your answer the percentage of each cost category that these costs represent.

c) Provide a rationale for why Foothills should be allowed to reimburse itself for carrying charges, in particular if carrying charges have not been included in its ACE.

d) Provide an estimate of any additional costs that can be expected to be incurred in the future that Foothills will seek reimbursement of through a separate application, as mentioned in the reference.

e) Are these future costs, as mentioned in the reference, reflected in the cost categories of Foothills' ACE? Provide any details regarding the recording of these future costs in Foothills' ACE.

Response:

a) and b)

As outlined in the Amended Application,[1] updated costs for the Leach Creek Segment decommissioning activities are being provided as at June 30, 2017. [2] These costs are reflected in the cost categories of Foothills' abandonment costs estimate (ACE), as summarized in Table NEB 1.7-1, in the same format as Table A-4. In addition, the percentage of each cost category is also itemized.

Decommissioning activity costs are categorized by applying the definitions set-out by the Board in the MH-001-2012 Decision Appendix IV and V, Tables A-3 and A-4, respectively.

Table NEB 1.7-1 (Table A-4) Updated Leach Creek Segment Decommissioning Activity Costs (as at June 30, 2017)

Category No.	Category & Sub-category	Revised Activity Costs ($000)	% of Decommissioning Costs
1	**Engineering & Project Management**	605	37%
2	**Abandonment Preparation**		
2a.	Land Access and Clean up	98	6%
2b.	Pipeline Purging & Cleaning	95	6%
3	**Pipeline Abandonment-in-place**		
3a.	Basic Pipeline Abandonment-in-place	0	0%
3b.	Provision for Post-Abandonment Activities	0	0%
4	**Special Treatment**	0	0%
5	**Pipeline Removal**		
5a.	Pipeline Removal and Backfilling	0	0%
5b.	Pipeline Removal - Land Restoration	0	0%
6	**Above-ground Facilities**		
6a.	All Facilities	847	51%
6b.	Portions Removed	0	0%
6c.	Portions Left in Place	N/A	N/A
7	**Contingency**	0	0%
Decommissioning Costs		**1,645**	**100%**
Carrying Charges		101	
Leach Creek Segment Reclamation Obligations		**1,746**	

c) Foothills provided interim funding for the Leach Creek Segment Reclamation Obligations, and therefore, incurred a capital cost directly attributable to the

[1] The Amended Application is being filed concurrently with these responses to the Board's Information Request No. 1.

[2] Updated costs as at June 30, 2017 are provided for illustrative purposes. Please refer to Table 1 in the Amended Application for the Leach Creek Segment Reclamation Obligations by Reimbursement Date.

performance of the Leach Creek Segment Reclamation Obligations. Reimbursement of carrying charges was addressed in the MH-001-2013 proceeding.[3] As a qualifying cost related to qualifying Reclamation Obligations, carrying charges are appropriately funded from the Trust, regardless of the manner through which the ACE, and the resulting ACA, abandonment surcharges and funds set aside to date into the Trust have been computed.

Carrying charges can be minimized through implementation of a timely process to assess reimbursement applications. To the extent any adjustments to the ACE are required to account for normal anticipated delays in reimbursement, this can be addressed as part of future ACE reviews.

d) and e)

Foothills has now completed all work with the decommissioning of the Leach Creek Segment, as noted in the Amended Application. The only remaining future costs are the carrying charges associated with the interim funding provided by Foothills. The carrying charges are not reflected within the individual cost categories of the Foothills ACE and are thus shown separately in Table NEB 1.7-1.

[3] MH-001-2013 Transcript, Volume 3, paragraph 3185.

IR Number: NEB 1.8

Topic: Decommissioning versus Abandonment Activities

Reference:

i) Foothills' Application, PDF page 4 of 5, A5H4V6

ii) National Energy Board Act, subsection 24(1) Public Hearings

Preamble:

In reference i), Foothills states that decommissioning requires the same type of activities that would also be required for final abandonment.

Reference ii) states "Subject to subsection (2), hearings before the Board with respect to the issuance, revocation or suspension of certificates or for leave to abandon the operation of a pipeline shall be public."

Request:

a) Discuss how the decommissioning activities incurred for the Leach Creek Segment are the same type of activities that would also be required for final abandonment, as stated in the reference.

b) Discuss whether applications for decommissioning facilities should require a public hearing if the activities required for decommissioning are the same type of activities that would be required for final abandonment.

c) What further activities will be required for the final abandonment of the Leach Creek Segment?

d) Are there any costs associated with the decommissioning of the Leach Creek Segment that are not attributable to its future final abandonment?

e) Has Foothills included any of the costs in (c) in its Application to be reimbursed from its Trust?

    e.1) If yes, discuss why these costs should be reimbursed from the Trust if not attributable to the future final abandonment of the Leach Creek Segment.

Response:

a) through e)

Many activities are common to either decommissioning or abandonment activities, which can be confirmed through a comparison of the virtually identical requirements of the NEB Filing

Manual for abandonment (Guide B.2 through B.6) and for decommissioning (Guide K.1 through K.6).

As part of the decommissioning of the Leach Creek Segment, Foothills purged and cleaned the pipeline segment, surface facilities were removed and the segment was isolated by cutting and capping. All physical disturbances occurred within fenced and graveled sites. These areas were remediated and reclaimed, as required. All of these activities would be required for final abandonment. As the Leach Creek Segment is located close to operating assets, costs associated with monitoring post physical decommissioning are funded through normal operations and maintenance expenses. Also see the response to NEB 1.3.

The pipeline is anticipated to be abandoned-in-place and, as a result, these activities will not need to be repeated when Foothills ultimately abandons this segment at the time the last pipeline in the shared right-of-way is abandoned. Even if a different approach for abandonment was ultimately used, the activities performed as part of decommissioning the Leach Creek Segment will not have to be repeated and will therefore reduce the remaining costs to abandon these facilities.

Additional activities to abandon the pipeline will include the removal of cathodic protection, the filling of road and rail crossings and remediation, reclamation and monitoring of physically disturbed areas until equivalent land capability is achieved. The costs associated with these activities were not incurred to decommission the Leach Creek Segment and are not reflected in the amounts for which reimbursement is sought. However, provisions for these activities continue to be reflected in Foothills' ACE and in the funds being set aside in the Trust.

Given that decommissioned facilities will ultimately need to be abandoned and will be subject to a hearing according to the NEB Act, Foothills believes that a hearing at the decommissioning phase would lead to inefficiencies and unnecessary duplication.

IR Number: NEB 1.9

Topic: Material Impact of Reclamation Obligations

Reference: Foothills' Application, PDF page 4 of 5, A5H4V6

Preamble: In the reference, Foothills states that the cost of the decommissioning of the Leach Creek Segment and funding from the Trust is reflected in Foothills' Preliminary Decommissioning Abandonment and Funding Plan filed with the Board as part of the 2016 Review of Abandonment Cost Estimates. Foothills states that the Leach Creek Reclamation Obligations will not have a material impact on the coverage for other future costs incurred for reclamation obligations.

Request:

a) Explain why Foothills is of the view that the Leach Creek Reclamation Obligations will not have a material impact on the coverage for other future costs incurred for reclamation obligations.

b) What would Foothills consider to be a material impact on the coverage for other future costs?

c) If the Board were to determine that a request to access a trust for reclamation obligations would have a material impact on the coverage for other future costs, should access to the trust be denied? Why or why not?

d) If access to the trust for reclamation obligations would have a material impact, discuss whether and how a company could mitigate those impacts.

Response:

a) Reimbursement for the cost of decommissioning of the Leach Creek Segment from the Trust does not have a material impact on the ACE, ACA, or Trust funds.

The rules determining how pipeline companies can access funds from the Trust were addressed by the Board in the RH-2-2008, MH-001-2012, and MH-001-2013 decisions, and in the decisions approving the Foothills Abandonment Trust as compliance to the MH-001-2013 Decision. The Board clearly stated its expectations that, "Pipeline companies must deactivate, decommission or abandon in a timely manner." at p. 29, in the MH-001-2013 Decision (Set aside and Collection Mechanisms). Foothills' decommissioning of the Leach Creek Segment and subsequent request for reimbursement from the Trust follows that principle '…in a timely manner' as prescribed by the Board. The Board-approved Foothills

Abandonment Trust clearly defined Reclamation Obligations as inclusive of those required to abandon, decommission and deactivate the pipeline.

Also see the responses to NEB 1.1 and NEB 1.11.

b) It would be difficult to assess materiality of a potential impact to the Trust without knowing the actual scope of the proposed decommissioning or abandonment. It is clear, however, that the reimbursement of the Leach Creek Segment Reclamation Obligations would not have a material impact on the Trust's ability to cover future costs based on the following:

1. The Leach Creek Segment Reclamation Obligations are not a significant portion of the Foothills System ACE;
2. The Funds currently set aside in the Trust exceed the Leach Creek Segment Reclamation Obligations;
3. There is no material difference between the net present value of the Leach Creek Segment Reclamation Obligations whether they are reimbursed now or later; and
4. The decommissioning of the Leach Creek Segment is reflected in Foothills' Preliminary Decommissioning, Abandonment and Funding Plan filed with the Board as part of the 2016 ACE Review.

c) and d)

The request is unrelated to the Application for the reasons noted in response to part b). Foothills submits that a future ACE review would be an appropriate forum to address a potential adjustment in the ACE that may be required as a result of potential events of "material impacts" contemplated in the requests. Foothills generally expects that concerns over future coverage may warrant a review of ACA and collection periods.

IR Number: NEB 1.10

Topic: Impacts on ACE and ACA

Reference:

i) Foothills' Application, PDF page 4 of 5, A5H4V6

ii) Foothills Pipe Line Ltd. 2016 ACE Review Update, Table 3-2,PDF page 21 of 22, A5F4T1

iii) MH-001-2013 Reasons for Decision – Set-aside and Collection Mechanism, PDF pages 70 and 91 of 176, A60676

Preamble:

In reference i), Foothills states that it incurred a total of $1,668,821 of costs to perform the Reclamation Obligations in relation to the decommissioning of the Leach Creek Segment, including carrying charges.

Foothills states that the cost of decommissioning of the Leach Creek Segment and funding from the Trust is reflected in Foothills' Preliminary Decommissioning Abandonment and Funding Plan filed with the Board as part of its 2016 Review of Abandonment Cost Estimates.

In reference ii), Foothills provides Table 3-2 which compares the forecast Trust annual closing balance over the next five years assuming the decommissioning and abandonment activities are funded by the Trust with no funding from the Trust over the next five years, based on the last approved ACA and related assumptions. The information provided in this Table also assumes that reimbursements from the Trust occur on 31 December of the year costs are expected to be incurred.

Foothills states that funding the 2016-2020 Preliminary Plan from the Trust will not have a material impact on the coverage for other future costs of decommissioning and abandonment activities on the Foothills System. However, should such concerns arise, Foothills states that they could be addressed through adjustments to the ACA.

In reference iii), the Board approved Foothills proposed collection period of 30 years.

Request:

a) Provide an abandonment funding plan, similar to the plan provided in reference ii), that reflects Foothills' 30-year collection period.

b) Does Foothills plan to revise its ACE, ACA and abandonment surcharge to reflect the reimbursement of any costs associated with the Leach Creek Segment Reclamation Obligations?

b.1) If yes, when does Foothills intend to do this?

b.2) If no, why not?

c) In regard to updating the ACE and ACA, what is the impact on the ACA, and resulting abandonment surcharge, if the present value of the ACE, the Trust balance, and the ACA are adjusted immediately after the funds are removed rather than waiting for the next ACE review?

d) What is the impact on the ACA, and resulting abandonment surcharge, if the present value of the ACE, Trust balance and ACA are not adjusted until the next ACE review?

e) What is the rate of abandonment cost inflation that Foothills based its ACE on for the 30-year Collection Period?

f) What is the investment return that Foothills has assumed with regard to its trust contributions over the 30-year Collection Period?

g) Re-perform the calculations in b), and c), but assume:

g.1) cost inflation that is 1 per cent higher than was provided (e);

g.2) cost inflation that is 1 per cent lower than what was provided in (e);

g.3) an investment return that is 1 percent lower than provided in (f); and

g.4) an investment return that is 1 percent higher than provided in (f).

h) Discuss the results in (c) and (d) in terms of managing the risk and reward tradeoffs with intergenerational equity.

Response:

As a preliminary comment, Foothills does not believe the requested information is required for the determination of the current reimbursement Application. Foothills would expect that these issues be properly addressed in the context of a future ACE review. Nonetheless, Foothills provides the following responses to assist the Board.

a) A comparison of the balance of the Trust at the end of the current 30-year collection period with and without reimbursement of the Leach Creek Segment Reclamation Obligations is provided in response to NEB 1.11. The information presented in Table 3-2 of reference ii) reflects Foothills' Preliminary Decommissioning, Abandonment and Funding Plan included in the 2016 ACE Review. To produce a comparable plan over Foothills' 30-year collection period would call for a 30-year Abandonment and Decommissioning Plan. Foothills does not generate a 30-year plan and believes that the evolution of decommissioning and abandonment activities that can be driven by multiple factors that would be difficult, if not impossible, to predict over an extended period with a sufficient degree of accuracy.

b) and c)

As Foothills previously indicated, the current reimbursement should have no material impact on the ACE. Consequently, Foothills does not plan to revise its ACE, ACA, or abandonment surcharge as a result of the disbursement but may revise or make adjustments later during a future ACE review, when warranted.

Also see the responses to NEB 1.4, NEB 1.6, NEB 1.9, NEB 1.11 and NEB 1.13.

d) See the responses to NEB 1.6 and NEB 1.11.

e) Foothills applied the Board approved cost of inflation rate of 2% in determining the ACE over the 30-year collection period.

f) The investment return that Foothills has assumed with regard to the Trust contributions over the 30-year collection period reflects the NEB Base Case. The rate remains at 3.1%, as outlined in Foothills' Statement of Policies and Procedures (SIPP).[1]

g) See the response to parts b) and c). These assumptions do not warrant consideration as part of the current reimbursement Application, as explained in response to NEB 1.11. To the extent the cost of inflation or the fund's return need to be revised as a result of changes in expectations, these changes would appropriately take place as part of periodic ACE reviews and can be adjusted prospectively over the long term.

h) See the responses to NEB 1.12 c) and c) for a discussion of inter-generational inequities. Also see the responses to NEB 1.1, NEB 1.3, and NEB 1.6.

[1] See Foothills' Compliance Filing to the MH-001-2013 Decision (Appendix 2 - Statement of Investment Policies and Procedures, Appendix A - Supplemental Information). NEB Filing ID: A4F2Y1, PDF page 136 of 139. Foothills' SIPP was found compliant with the MH-001-2013 Decision through Board Letter May 25, 2015 (NEB Filing ID: A4L0C3).

IR Number: NEB 1.11

Topic: Future Value Impact

Reference:
i) Foothills' Application, PDF page 4 of 5, A5H4V6

ii) MH-001-2013 Reasons for Decision – Set-aside and Collection Mechanism, PDF pages 70 and 91 of 176, A60676

Preamble: In reference i), Foothills states that it incurred a total of $1,668,821 of costs to perform the Reclamation Obligations in relation to the decommissioning of the Leach Creek Segment, including carrying charges.

Foothills states that the cost of decommissioning of the Leach Creek Segment and funding from the Trust is reflected in Foothills' Preliminary Decommissioning Abandonment and Funding Plan filed with the Board as part of the 2016 Review of Abandonment Cost Estimates.

In reference ii), the Board approved Foothills proposed collection period of 30 years.

Request: Provide an analysis that shows the future value impact from the withdrawal of funds now for the Leach Creek Segment Reclamation Obligations from the Trust on the future value of the funds at year 30. In Foothills' analysis, state all assumptions, such as the expected rate of return and the rate of cost growth. Hold the ACA constant so that the only change is the decrease in the amount in Trust and the corresponding decrease in the present value of the ACE.

Response:

The current Foothills ACE of $197.87 million ($2014) approved by the Board[1] had a 30-year future value of $365.58 million dollars that is based on an annual cost inflation factor of 2.0%, a return on investments of 3.1%, and an $8.8 million ACA as approved by the Board was held constant. Foothills outlines below two scenarios illustrating the effects from the withdrawal of funds now and no withdrawal for the Leach Creek Segment Reclamation Obligations from the Trust on the future value of the funds at year 30. The two scenarios are provided to illustrate the effect of no withdrawal of funds compared to withdrawal of funds for this Application. Further, the proposed withdrawal of funds from the Trust will not have a material impact on the approved ACE or ACA.

[1] See Foothills Compliance Filing to the MH-001-2013 Decision, November 25, 2014 (NEB Filing ID: A64576), approved through Board Order TGI-006-2014.

Table NEB 1.11-1 illustrates the effects if no funds are withdrawn from the Trust for any decommissioning and abandonment activities through to the end of year 30. This scenario applies the 2% inflation factor and a 3.1% expected return on Trust investments that results in the ACE being fully funded with a closing balance or future value of $365.58 million dollars.

Table NEB 1.11-1: Foothills Pipeline ACE – No Withdrawal of Funds
($ million)

	Jan. 1, 2014	**Dec. 31, 2017**	**Dec. 31, 2044**
Foothills Pipeline ACE Obligation	197.87	214.18	365.58
Remaining ACE Obligation to Collect and Accumulate	197.87	187.21	-
Trust Closing Balance - December 31		26.97	365.58
Note: Collection of abandonment funding began in 2015.			

Table NEB 1.11-2 demonstrates there is no material impact of withdrawing the funds now for the Leach Creek Segment Reclamation Obligations from the Trust. The closing balance with the Leach Creek Reimbursement as at June 30, 2017[2] would have resulted in a closing balance of $362.54 million. The small difference is commensurate to the scale of the Leach Creek Segment Reclamation Obligations that will no longer need to occur as part of eventual pipeline abandonment.

Table NEB 1.11-2: Foothills Pipeline ACE - Withdrawal of Funds for the Leach Creek Segment Reclamation Obligations
($ million)

	Jan. 1, 2014	**Dec. 31, 2017**	**Dec. 31, 2044**
Foothills Pipeline ACE Obligation	197.87	212.40	362.54
Remaining ACE Obligation to Collect and Accumulate	197.87	187.17	-
Trust Closing Balance - December 31		25.23	362.54
Notes: Collection of abandonment funding began in 2015. Assumes withdrawal of funds based on costs, including carrying charges, as at June 30, 2017.			

The reimbursement of the reclamation obligations related to the decommissioning of the Leach Creek Segment would not diminish the funds set-aside for post-abandonment obligations, as described in response to NEB 1.6.

[2] Updated costs as at June 30, 2017 are provided for illustrative purposes. Please refer to Table 1 in the Amended Application for the Leach Creek Segment Reclamation Obligations by Reimbursement Date.

IR Number: NEB 1.12

Topic: Impacts on Shippers

Reference:

i) MH-001-2013 Reasons for Decision – Set-aside and Collection Mechanism, PDF pages 70 and 91 of 176, A60676

ii) Foothills' Application, PDF page 4 of 5, A5H4V6

iii) Foothills Pipe Line Ltd. 2016 ACE Review Update, PDF page 20 of 22, A5F4T1

iv) MH-001-2013 Reasons for Decision – Set-aside and Collection Mechanism, PDF pages 70 and 91 of 176, A60676

Preamble:

In reference i), the Board stated that applications to access funds for either decommissioning or deactivation should justify why other revenue is not sufficient to undertake the work, or explain the impact on the coverage for other future costs for the remaining activities needed to complete abandonment.

In reference ii), Foothills states that the Leach Creek Reclamation Obligations will not have a material impact on the coverage for other future costs incurred for Reclamation Obligations.

Foothills also states that the Leach Creek Reclamation Obligations, which consists of decommissioning activities, are appropriately funded through the Trust irrespective of the availability of other revenues sufficient to undertake the work.

In reference iii), Foothills states that should the Board determine that decommissioning activities should not be funded from the Trust but rather be funded through other sources of funds, (e.g. capitalized and recovered through the Foothills Revenue Requirement), then Foothills believes a downward adjustment to the 2016 ACE would be required to remove the portion of decommissioning costs that would be expected to be funded from other sources of funds.

In reference iv), Foothills states that it will be collecting its annual contribution amount itself from all its shippers, including NGTL as a shipper on the Foothills System. The portion of Foothills abandonment costs allocated and charged to NGTL by Foothills will, in turn be included in NGTL's annual contribution amount that NGTL will collect from its shippers, along with the abandonment costs for NGTL's own system.

Request:

a) Provide a discussion on Foothills' position that the Leach Creek Segment Reclamation Obligations are appropriately funded through the Trust irrespective of the availability of other revenues sufficient to undertake the work, taking into consideration the Board's decision in reference i).

b) Identify and discuss any intergenerational equity impacts with regard to withdrawing the funds from the Trust to pay for the Leach Creek Segment Reclamation Obligations. Include in your discussion:

   b.1) the impact on shippers of removing funds from the Trust now compared to the impact from shippers paying for the decommissioning costs through Foothills' Revenue Requirement.

c) Which impact, as discussed in b.1), does Foothills consider more justifiable based on intergenerational equity principles?

d) Considering reference iii), discuss the impact (if any) on NGTL and its shippers of removing funds from the Trust now?

e) Has Foothills informed or consulted with NGTL and its shippers regarding the Application?

   e.1) If yes, please provide the outcome of those discussions.

   e.2) If no, why not?

Response:

a) The LMCI Stream 3 initiative evolved to specifically ensure that adequate funding is available for abandonment and decommissioning on an ongoing basis. Oversight mechanisms have been established by the Board to ensure appropriate access to adequate funds is available to address abandonment and decommissioning requirements in a timely manner, as reflected in the Attributes included in the MH-001-2013 Decision:[1]

Attributes

1. Funds must be maintained in a segregated account and not be commingled with a company's general corporate funds;
2. Funds must be managed by an independent, third party;
3. Funds collected must be protected from creditors;

[1] See MH-001-2013 Decision, Appendix IV Principles and Attributes – RH-2-2008, Page 115.

4. Funds must be protected from misuse or use for a purpose other than abandonment;
5. Regular reviews (at least every five years) of the amount of funds set aside and disbursed from the segregated account must be incorporated, and regular reporting to the Board and stakeholders must be built in;
6. Funds must be segregated by pipeline;
7. Funds must be subject to Board audit, as appropriate;
8. Companies must develop a sound investment policy for abandonment funds as ultimately, accountability for the collection and governance of the funds rests with each pipeline company; and
9. The process for accessing the funds must be clearly set out in the mechanism.

The Board requires that the COM isolate the abandonment and decommissioning funds from other company revenues and the CRA has ruled that the funds in the Trust are subject to QET treatment under the *Income Tax Act*. Consequently, these funds must be available to fund all qualifying Reclamation Obligations, as that term is defined in the Board-approved Foothills Abandonment Trust.

To require Foothills or any other pipeline to set aside 100% of the funds, but require it to rely on other funds to fund the very activities for which funds are set aside has the potential to create costs for shippers that exceed the costs of the activities (i.e., funded through the abandonment surcharge in full over time and through tolls in part).

b) and c)

Intergenerational inequities are unavoidable in a framework where pipelines have been in operation for decades but only started to set funds aside for eventual pipeline abandonment two and a half years ago. These inequities can be minimized by allowing pipelines to be refunded qualifying activities from the Abandonment Trust.

Pipeline abandonment and decommissioning activities are required to take place as part of the prudent and necessary operations of the pipeline. As the Board recognized, these costs are appropriately funded from shippers. The relevant question then becomes: what is the most cost-effective option available to fund these costs from shippers that does not result in significant variation in year-to-year costs?

The use of an Abandonment Trust allows non-taxable funds to be used, reducing the overall quantum of the costs. It is also possible to adjust prospectively over an extended period of time between now and eventual final abandonment, also using non-taxable funds. Carrying charges are only required for the interim funding period, which can be minimized through the Board establishing an effective and timely process to expedite the reimbursement of qualifying Reclamation Obligations.

In contrast, capitalization of these costs cannot be done through non-taxable funds, increasing the overall quantum of costs. Costs are also increased as a result of the delay in reimbursement that takes place. Like the use of the Abandonment Trust, the recovery is spread over an extended period, minimizing impacts on any given year although the overall impact is higher due to the higher quantum of costs.

The third option would be expensing the costs within the year they are incurred. While this approach provides for prompt reimbursement of prudently incurred costs, it would result in greater inter-generational inequities since the entire costs associated with a qualifying Reclamation Obligation activity would be paid through tolls in a single year.

The use of the funds in the Abandonment Trust is therefore the most cost-effective way that minimizes inter-generational inequities, relative to recovery through the revenue requirement through either capitalization or expensing of the costs. Further, as noted in response to part a), should the Board nonetheless prefer these activities be funded through the revenue requirement, then there would be a need to reduce the amount of funds required to be set aside in the Abandonment Trust.

d) Reimbursement from the Trust now will have even less of an impact on NGTL and its shippers given that the portion of the Foothills ACA recovered through NGTL's TBO arrangement of Zones 6 and 7 is a small fraction of NGTL's ACA.

The net present value of performing a particular Reclamation Obligation is not expected to vary significantly over time in current dollars. Therefore, whether $100 is withdrawn now, or $100 adjusted for inflation over 10 years is withdrawn in 10 years, will not materially affect the net present value of the funds in the Trust and therefore will have no material impact on Foothills and its shippers. Foothills also observes that ample time remains between now and eventual final abandonment such that if required, adjustment to the ACE, ACA, abandonment surcharge can take place to ensure continued adequacy of funds set aside. Also see the responses to NEB 1.1, NEB 1.9 and NEB 1.11.

e) Foothills did not undertake such consultations nor does it believe consultations are warranted specifically with respect to reimbursement applications for the reasons explained in the response to NEB 1.3.

IR Number: NEB 1.13

Topic: Accounting Treatment of Decommissioning Costs

Reference:

i) Foothills' Application, PDF page 4 of 5, A5H4V6

ii) 2 October 2008, Amendments to the Onshore Pipeline Regulations, 1999(OPR) and the NEB Processing Plant Regulations (PPR) and Guidance Notes and Exemption Order – Decommissioning Provisions, PDF page 2 of 9

Preamble:

In reference i), Foothills states that it incurred a total of $1,668,821 of costs to perform the Reclamation Obligations in relation to the decommissioning of the Leach Creek Segment, including carrying charges. Foothills is seeking reimbursement from the Trust for this amount in its Application.

In reference ii), the Board reminds companies that the Gas/Oil Pipeline Uniform Accounting Regulations require companies to retire from their books any assets which have been removed from service. Accordingly, the decommissioned assets should be removed from rate base for toll purposes.

Request:

a) In Foothills' opinion, should a decommissioned or abandoned asset remain in rate base for toll purposes?

  a.1) If yes, when is it appropriate for the asset to remain in rate base for toll purposes?

  a.2) Is there a distinction or difference for assets that have had abandonment costs paid for and recovered from an abandonment trust?

b) Discuss the accounting treatment of the costs associated with decommissioning activities. In particular, should the costs associated with decommissioning activities be included in rate base and tolls if Foothills is being reimbursed from the Trust? Why or why not?

Response:

a) and b)

The appropriate accounting treatment of decommissioned or abandoned assets is guided by the applicable sections of the Gas Pipelines Uniform Accounting Regulations (GPUAR), and vary depending on whether a retirement is treated as an ordinary or extraordinary retirement.

The accounting treatment for the Leach Creek Segment Decommissioning Application[1] as an ordinary retirement was addressed at paragraph 35 of that application. Specifically, the retirement of plant was done in accordance with paragraphs 36(1) through (4), 37, and 39 (1) and (2) of the GPUAR, which states:

> **36 (1)** Where a plant unit, whether replaced or not, is retired from pipeline operations, the book cost of the plant unit shall be credited to the appropriate plant account.
>
> **(2)** The book cost and the costs of removal of a depreciable plant unit retired and not replaced shall be debited to account 105 (Accumulated Depreciation — Gas Plant) or account 106 (Accumulated Amortization — Gas Plant), as applicable.
>
> **(3)** The net salvage value of a plant unit retired shall be credited to the accumulated depreciation or accumulated amortization account referred to in subsection (2).
>
> **(4)** Each retirement project shall be supported by subsidiary records that show separately the details thereof.
>
> **37** Where the book cost of any retired plant is not recorded separately, the book cost of that plant shall be its appropriate share of the book cost of the entire group in which the particular plant is located.
>
> **39 (1)** In respect of depreciable plant, ***ordinary retirement*** means a retirement of depreciable plant that results from causes reasonably assumed to have been anticipated or contemplated in prior depreciation or amortization provisions.
>
> **(2)** There shall be no debit or credit to income or to retained earnings for an ordinary retirement.

The costs proposed to be reimbursed from the Trust are distinct from those of the decommissioned assets and they are not currently in rate base and would not be added to rate base if the reimbursement is approved. Pending this reimbursement, Foothills is however incurring costs associated with the interim funding it provided to fund the decommissioning activities of the Leach Creek Segment. These costs appropriately attract carrying charges.

Should the Board not approve the reimbursement of the Leach Creek Segment Reclamation Obligations through the Trust, Foothills would include these costs in rate base, and attract a return on and of the prudently incurred capital costs associated with the decommissioning activities over time. For the reasons explained in response to NEB 1.12, this approach is not preferred to reimbursement from the Trust, which has been established to fund Reclamation Obligations.

[1] NEB Filing ID: A72790.