

TRANSCANADA - ALBERTA SYSTEM Tolls, Tariff & Procedures Committee

RESOLUTION Storage Accountability

Resolution T2003-05

The Tolls, Tariff & Procedures Committee (“TTP”) agrees to the following amendments as recommended by the TTP Storage Task Force:

- NOVA Gas Transmission Ltd. (“NGTL”) Gas Transportation Tariff (“Tariff”), Rate Schedule FCS (“FCS”); and
- Connection to Storage Facilities Procedure (“Storage Procedure”).

For TTP and Alberta Energy and Utilities Board (“Board”) convenience, a summary of the Tariff amendments related to the proposed storage accountability modifications is provided as Attachment 1 to this resolution. Attachment 2 is a blackline version of the Tariff illustrating the amendments and Attachment 3 is a clean version incorporating the amendments. In addition, blackline and clean versions of the Storage Procedures have been included for information as Attachments 4 and 5.

Capitalized terms have the meanings attributed to them in the Tariff unless otherwise defined in this Resolution.

Summary

Storage accountability has been increasing since 1996. The introduction of a Minimum Annual Volume (‘MAV’), limiting the assessment against MAV to actual physical deliveries, and the introduction of a Capital Threshold Cap (“CTC”) have all significantly increased the accountability for storage delivery service.

Storage is a service with unique and distinct attributes resulting in benefits to all NGTL Customers. As a result, the TTP Storage Task Force recommends that the accountability for storage facility connections be unique to storage. The following summarizes the specific TTP Storage Task Force recommendations:

- A 100% increase in MAV requirements compared to the MAV currently in place, by basing the MAV on a firm transportation unit cost;
- Retaining the amount of capital cost that will be rolled into NGTL’s rate base to the lesser of the capital cost of the connecting facilities or \$300,000/Bcf of newly connected working gas capacity; and
- ‘Actual physical volumes’ used to determine the FCS Charge are to be adjusted positively for offsetting volumes which paid an NGTL receipt toll (e.g., native production which occurs during injection mode).

The TTP Storage Task Force believes that this proposal represents a balance of interests and provides for a reasonable amount of accountability for storage facilities by ensuring that the NGTL facilities are used and useful while still accounting for system costs.

A summary of the proposed Tariff and Storage Procedures amendments resulting from such recommendations are as follows:

1. The Rate Schedule FCS is to be amended to reflect that:
 - Extension Facilities and the associated EAV component of the FCS Charge will not apply to Storage Delivery Points; and
 - MAV calculation for Storage Delivery Points is to be based on the sum of the firm transportation receipt revenue requirement and the firm transportation delivery revenue requirement, divided by the sum of the FT-R and FT-D billing determinants.
2. The Storage Procedure is unchanged, with the exception of the following amendments:
 - the illustrative MAV example is updated to reflect the storage accountability amendments to Rate Schedule FCS;
 - amended to include the FCS charge formula reflecting the volume to be used in paragraph 3.4 Attachment 1 of Rate Schedule FCS; and
 - 'actual physical volumes' used to determine the FCS Charge are to be adjusted positively for offsetting volumes which paid an NGTL receipt toll (e.g. native production which occurs during injection mode).

Background

History

Industry has had an increasing focus on accountability since the early 1990's. Accountability for intra-Alberta and storage facilities was first increased when NGTL introduced an annual 'minimum bill charge', which calculated a MAV based on a historic 'two times test'. This test suggested a facility was considered to be uneconomic if it resulted in a unit cost in excess of two times the system average unit cost. The test further purported that if the unit cost of the facility was greater than the system average unit cost, the Customer should be directly accountable for the costs above such unit cost. NGTL incorporated this economic test for intra-Alberta facilities, including storage facilities, to ensure sufficient accountability for the Annual Cost of Service ("ACS"). The MAV was determined by dividing the ACS by two times the system average unit cost. If on an annual basis, insufficient volumes were delivered in comparison to the MAV, a direct charge was levied to the Customer.

Storage facility accountability was further increased in 1996 through TTP Resolution T96-11, which recommended that annual MAV evaluations were to be based on actual physical deliveries as measured by the NGTL metering facilities. Prior to 1997, this evaluation was based on nominated or deemed deliveries, which can be greater than physical deliveries. As a means to illustrate the increase in accountability, the average annual nominated deliveries for the period of 1997 to 2002 was 711 Bcf/yr as compared to the annual average physical deliveries for the same time period of 131 Bcf/yr. This change to physical deliveries aids in reconciling the NGTL storage connection facilities with actual volumes moved through the meter. This ensures that the Customer's accountability is in proportion to the facility size and cost. It also recognizes the uniqueness of the storage business and its ability to act like a hub, where paper transactions can exceed physical requirements. In order to reflect the intention of Resolution T96-11, the TTP Storage Task Force members that met to address TTP Issue T2003-05 noted that such physical

deliveries should be adjusted to include volumes associated with offsetting receipts, if such receipts were nominated during storage injection mode and paid an NGTL receipt toll. Otherwise such physical deliveries would be understated.

In early 1997, the TTP initiated a review of NGTL's system design and contracting practices as they relate to the accommodation and connection of storage facilities. The result of this review was the Storage Procedure, which was originally developed and adopted by the TTP (Resolution T97-05) and further amended in January 2003 to align with subsequent Tariff amendments (Resolution T2003-01). The Storage Procedure increased the accountability for storage facilities via the introduction of a CTC. Prior to 1997, all NGTL costs for connecting storage facilities were rolled into the rate base. Post 1997, only a maximum of \$300,000/Bcf of working gas capacity was to be rolled into rate base. The intent of the CTC was to recognize the value and benefits that NGTL shippers received from connection of storage to the System in that directionally, it offers the potential to avoid or delay facilities. The CTC value was based on the historical average of NGTL's costs for connecting storage facilities.

In late 1999, NGTL filed its Products and Pricing rate design application. The issue of increased cost accountability was raised during the hearing. As a result, the Board noted in Decision 2000-06 that it intended to observe intra-Alberta services and was prepared to address unresolved concerns. The Board also noted in Decision 2001-44, regarding NGTL's 2001 and 2002 Alberta System Rate Settlement, January 1, 2001 to December 31, 2002 ("ASRS"), that parties to the ASRS expressed their commitment to address intra-Alberta services issues.

In January 2002, TransCanada PipeLines Limited ("TCPL") initiated its White Paper discussion regarding services and rate design proposals. As a result of such discussions and in response to the above Board Decisions, an intra-Alberta subgroup was struck to address cost allocations, rate design and accountability for intra-Alberta service. The intra-Alberta subgroup negotiations resulted in the 2003 Tariff Settlement application filed with the Board on March 31, 2003. The focus of the settlement was not on storage but end user accountability. Therefore, the settlement provided for storage accountability to be addressed separately through a future collaborative process. It included a commitment to review and resolve if necessary, the appropriate customer accountability for facilities at a storage delivery point. On May 6, 2003, TTP Issue T2003-05 was adopted and the TTP Storage Task Force reconvened in May 2003 to review the appropriate storage accountability. The Board subsequently approved the 2003 Tariff Settlement on June 24, 2003, in Decision 2003-051. In that Decision, the Board acknowledged the separate process for storage accountability and as part of its submission requirements, an update on this matter is required.

Recognition of the Uniqueness of Storage

Storage has been recognized as being unique relative to other NGTL facility connections. Its uniqueness can be summarized as follows:

- Storage connections regularly take gas both on and off the system;
- All NGTL Customers (receipt and delivery) benefit from and may use storage. The TTP Storage Task Force believes that connections to storage facilities may avoid or delay future capital expenditures;
- Storage provides intrinsic value, such as increased market liquidity, price-levelling and enhanced system efficiency and integrity; and
- The existence of a unique set of Storage Procedures as well as NGTL's current IT priority pilot further distinguishes storage on NGTL's system.

Increased Accountability

Given the uniqueness of storage and that storage for future redelivery may not solely be destined for intra-Alberta markets, the accountability for storage needs to differ from intra-Alberta accountability (as recently approved in Decision 2003-051 whereby the MAV is based solely on FT-A rates).

The TTP Storage Task Force proposes that the MAV associated with storage facilities be based on a firm transportation unit cost, which is a reasonable proxy for the system average unit cost. This recognizes that storage is already addressed under receipt and delivery service. NGTL's system average unit cost is a fair and reasonable economic hurdle for aggregate system facilities like storage. Other NGTL aggregate system facilities also use a proxy of the system average unit cost for the associated facility accountability, such as receipt Extensions and Expansions (based on the average FT-R rate associated with Secondary term), Export Expansions (based on the FT-D rate) and intra-Alberta delivery Expansions via the recently approved EAV (based on the Average Firm Service Receipt Point rate).

Dividing the specific cost of service, or ACS, for each storage facility by a system average unit cost also produces the appropriate MAV requirement to ensure aggregate system facilities are used and useful, particularly if the resulting MAV is compared to annual physical volumes adjusted for offsetting receipts. As per other connection facilities MAV requirements, if this storage MAV is not met, a direct charge for the shortfall will be levied. This ensures the facilities are not only used and useful, but are economic.

In comparison to the MAV requirements in place for NGTL 2003 Interim Rates, this proposal represents an increase in current accountability of approximately 100%.

Public Interest

The TTP Storage Task Force and the TTP believes this recommendation is in the public interest as it represents a balance of interests and provides for a reasonable amount of accountability for storage facilities by ensuring that the NGTL facilities are used and useful while still accounting for system costs. This balance was a result of extensive industry collaborative process resulting in the agreement of this proposal by NGTL Customers, storage owners/operators and NGTL.

As storage facilities connected to the NGTL system compete in the North American market, it is not in the public interest to invoke requirements that make the Alberta storage market less competitive.

Next Steps

NGTL will file the approved resolution and the associated amendments with the Board for approval. NGTL will notify Customers of the amended Tariff and Storage Procedure and post it on the company web site.

The recommended storage accountability sets no precedent for future rate design and pipeline accountability discussions. Conversely, future rate design and pipeline accountability discussions set no precedent for future storage accountability discussions. The TTP Storage Task Force expects and recommends the proposal would be reviewed and revised, if necessary, if the storage accountability is adversely impacted by changes to rate design.