



Land Matters Consultation Initiative (LMCI) Update (Pipeline Abandonment)

Foothills Shipper Meeting

October 9, 2014



Agenda



- **Status update on Trust approval**
- **Provide notification on:**
 - Trust Investment
 - Appendix XIV
 - Calculation of ACA and surcharge
 - Variance mechanism
- **Sample Invoice**

Status Update – Trust Approval



- **No NEB comment at this time**

- Foothills Trust Agreement modeled after indicative terms outlined in MH-1-2013 Decision
- Board will approve Trust Agreements on an individual pipeline basis
- Board questions will be addressed through an IR process
- Anticipate Board approval prior to year-end

Notification – Trust Investment



- **Foothills will follow the Board's Base Case investment strategy for 2015**
- **Statement of investment policy (SIP) outlines acceptable investments for Trustee**
- **Any future proposed changes to the Trust's investment strategy will be presented at the task force and approved by the NEB**

"TransCanada noted that this investment strategy could be subject to change in the future. At this time, there was no clear articulation of risk and reward between shippers and other stakeholders; therefore, TransCanada could not recommend another portfolio."

MH-001-2013 decision

Notification – Trust Investment



- **Investment Strategy- Base Case Portfolio**

"The Board is of the view that the rate of return on funds collected for the Base Case should be based on a conservative, low-risk portfolio with a goal of capital preservation. Given this view, the Board has determined that the yield from Government of Canada marketable bonds is an appropriate proxy for that portfolio." **March 4, 2010 NEB Letter**

- **Risks - Base Case Portfolio**

"This Base Case portfolio has an expected risk of 10.5%; i.e., the return in any one year is expected to fall between a loss of 7.4% and a gain of 13.6% approximately two-thirds of the time (one standard deviation). This is a function of the portfolio's long duration which makes it highly sensitive to fluctuations in interest rates." **May 31, 2013 COM for Abandonment Funds Application**

- **Rational for Employing Strategy - evaluation needed to change from Base Case**

"... the Board would expect there to be clear articulation of the allocation of risk and return among shippers, the pipeline and any affected public for the Board's consideration as well as a discussion of whether the pipeline company has the support of interested parties for a higher return. Such filings will be decided on their individual merits." **March 4, 2010 NEB Letter**

Notification: Appendix XIV



- Calculation* of Annual Contribution Amount (ACA)**

Variables	Assumptions	Reference
Abandonment Cost Estimate	\$198 million	Calculated in accordance with methodology approved by NEB (updated units & unit costs)
Collection Period	30 years	Pipeline Specific
Inflation Rate	2.0%	NEB Base Case
Pre-Tax Return on Investments	3.1%	NEB Base Case
Investment Return Tax Rate	25.01%	Pipeline Specific
Trust Expenses	0.23%	Pipeline Specific
Annual Contribution	\$8.8 million	NEB Formula

* MH-001-2013 Decision approved collection mechanism methodology

Notification: ACA & Surcharge



- **Single energy abandonment surcharge applies to services on all Foothills zones**
- **Surcharge calculated with total Foothills energy billing determinants:**

Alta	Zone 6	793.2 PJ/year
Alta	Zone 7	336.0 PJ/year
BC	Zone 8	702.2 PJ/year
Sask	Zone 9	605.1 PJ/year
Total		2436.5 PJ/year

Notification: ACA & Surcharge



- **Cost Collection Mechanism**

- ✓ Annual Contribution Amount will be collected as an energy surcharge
- ✓ same energy surcharge applies to all Foothills zones
- ✓ abandonment revenues & costs will be separate from other revenues and costs
- ✓ NGTL, as a Zone 6 & 7 Foothills shipper, will be charged same abandonment surcharge as other shippers in other zones

- **Illustrative Surcharge Calculation:**

Annual Contribution Amount

\$8.8 million

Energy

6.675 PJ/d

Surcharge

0.3612 ¢ per GJ/day

Notification: Variance Mechanism



"... how the toll or surcharge allowing for the recovery of abandonment costs is calculated and how variances are addressed;" **Reasons for Decision MH-1-2013**

- Based upon a reconciliation of (estimate vs. actual) Fund performance, a variance will be applied to a later year's annual contribution amount (eg one year lag, apply 2015 variance to 2017 ACA)

<u>Illustrative Example</u>	<u>estimate</u>	<u>actual</u>	<u>variance</u>
Funds collected in 2015	\$8.8 mm	\$9.3 mm	(-) 0.5 mm
Net Investment Return in 2015	\$0.15 mm	\$0.10 mm	
		1/5 of true-up	(+) 0.01 mm
<u>Other Items in 2015</u>			(+) 0.1 mm
2015 Reconciliation completed in 2016		2017 ACA adjustment	(-) 0.39 mm
2017 ACA could be: \$8.8 mm - \$ 0.39 mm = \$8.41 mm			

Sample Invoice



Foothills Pipe Lines Ltd.
 (B.C. - Zone 8)
 450 First Street S.W.
 P.O. Box 1000, Station M, Calgary, Alberta, Canada T2P 4K5

	INVOICE
	T140000
Customer:	1000000

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Date: March 12, 2015

Contact:

To:

Attn:

Transportation Acct Code: AAAA

Description	GST	Domestic	Export
Transportation Service for the month of February 2014			
Short Term Firm Demand:			
AAAA-S41 7000 GJ x 0.0151914619 x 170.7 KM x 100% x 26/28	\$842.78		\$16,855.69
A	\$842.78		\$16,855.69
Short Term Firm Usage:			
AAAA-S41 182000 GJ x 0.000000000000 x 170.7 KM	\$842.78		
B	\$842.78		
Firm Demand:			
AAAA-T20 15780 GJ x 0.0151914619 x 170.7 KM	\$2,046.02		\$40,920.42
A	\$2,046.02		\$40,920.42
Firm Usage:			
AAAA-T20 441840 GJ x 0.000000000000 x 170.7 KM	\$2,046.02		
B	\$2,046.02		
Interruptible Commodity:			
AAAA-I1 10205 GJ x 0.0005493899 x 170.7 KM			\$957.03
AAAA-I1 129773 GJ x 0.0005493899 x 170.7 KM	\$608.51	\$12,170.22	
C	\$608.51	\$12,170.22	\$957.03
Abandonment Charge (Monthly):			
AAAA-S41 7000 GJ x 0.1098584422	\$35.70		\$714.08
CGLL-T20 15780 GJ x 0.1098584422	\$86.68		\$1,733.57
A	\$122.38		\$2,447.65
Abandonment Charge (Daily):			
AAAA-I1 129773 GJ x 0.0036117844	\$23.44	\$468.71	

Sample Invoice



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Transportation Acct Code: AAAA

Description	GST	Domestic	Export
Transportation Service for the month of February 2014			
Abandonment Charge (Daily):			
AAAA-I1 10205 GJ x 0.0036117844			\$36.86
C	\$23.44	\$468.71	\$36.86
PreTax Total:		\$12,638.93	\$61,217.65
Goods and Services Tax: 5.00 % (R101840080)	\$3,643.13		
<i>GST is the greater of: (A or B) plus C</i>			
TOTAL: (\$Cdn)			\$77,499.71

Contact Information



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