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Filing Manual - Guide P - Tolls and Tariffs (Part IV of NEB Act)

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Additional information...

Pursuant to section 60(1) of the *National Energy Board Act* (the Act), all companies may only charge tolls specified in a tariff that has been filed with the Board and is in effect or that have been approved by an order of the Board.

Pipeline companies regulated by the Board are divided into two groups for financial regulation purposes. Group 1 companies are generally identified as those with extensive systems under the Board's jurisdiction, whereas those with lesser operations are designated as Group 2 companies. Companies may be designated as Group 1 either in the Board's *Gas Pipeline Uniform Accounting Regulations* or *Oil Pipeline Uniform Accounting Regulations* (collectively, the G/OPUAR), or by direction of the Board. Group 1 companies are listed in section P.6 of this Guide.

A Group 1 pipeline company not regulated on a complaint basis (see footnote 5 in Guide R) that has not reached a negotiated settlement with its interested parties is regulated on a cost-of-service basis and is required to provide the information outlined in the filing requirements within sections P.1 to P.5 of this guide.

If a company has reached a negotiated settlement with its interested parties, the filing requirements are outlined in the Revised *Guidelines for Negotiated Settlements of Traffic, Tolls and Tariffs* dated 12 June 2002.

For Group 2 companies, the requirements are outlined in section P.6 of this guide, *Regulation of the Traffic, Tolls and Tariffs of Group 2 Companies*.

The Board wishes to remind all companies of its RH-2-2008 decision. A summary of the filing requirements in respect of abandonment costs as set out in the RH-2-2008 decision included in section P.7, *Abandonment Costs*. Further information on these requirements can be found in the RH-2-2008 Reasons for Decision.

This guide addresses:

- cost of service;
- rate base;
- financial statements;
- cost of capital; and
- tolls and tariffs.

Level of Detail

The information required for these applications will generally vary with the complexity of the issues and the degree of change from previously approved applications. Some factors to consider in determining the amount of information to provide include:

- the proposed toll design methodology;
- the number of shippers on the system;
- the level of market power held by the applicant, including its affiliates; and
- the size of the toll increase or decrease.

Definitions

In general, the accounting terminology used in this portion of the manual is defined in either the *Gas Pipeline Uniform Accounting Regulations* (GPUAR) or the *Oil Pipeline Uniform Accounting Regulations* (OPUAR), as appropriate.

Goals

The tolls and tariffs application includes a discussion of the following points:

- the revenue requirement that the applicant is seeking to recover in its tolls and how the revenue requirement is determined;
- the applied-for toll design and tolls, including evidence that the tolls are just and reasonable and not unjustly discriminatory; and
- any revisions to the applicant's tariff.

P.1 Cost of Service

Filing Requirements

1. Describe the steps that were taken with interested parties to discuss issues and to attempt to reach a negotiated settlement.
2. Provide a summary schedule of the total cost of service (i.e., total revenue requirement), showing booked amounts for the base year, and projected amounts for the current year and

test year, as well as year-to-year changes for the following cost components:

- operating, maintenance and administrative expenses;
- transmission by others;
- depreciation and amortization of plant;
- income taxes;
- taxes other than income taxes;
- miscellaneous revenues;
- return on rate base;
- deferred items; and
- other items.

3. Provide an analysis of each cost component of the cost of service listed above, showing, by major cost category:

- the total booked amounts for the base year;
- the current year projection; and
- the test year projection.

Provide explanations for significant year-to-year increases or decreases.

Where costs result from an allocation between regulated and non-regulated business entities, the analysis must include:

- the gross costs;
- the costs allocated to each of the regulated entities;
- the total costs allocated to the non-regulated entities;
- a description of the cost allocation methodology; and
- an explanation of the appropriateness of the allocation methodology.

4. For any deferral account, provide schedules showing the derivation and monthly accumulation of balances and the calculation of any carrying charges, indicating which amounts are actual and which are estimated.

5. Provide a schedule reconciling the additions to the plant accounts with additions to income tax Capital Cost Allowances for the base, current and test years.

6. Provide a schedule detailing the changes in the deferred tax balance for the base, current and test years.

Guidance

Major Cost Category Information

Provide information for major cost categories at a sufficient level of detail to allow intervenors to assess the reasonableness of the costs. The Board expects the application to include at least the following:

- For municipal taxes, provide a schedule comparing base, current and test year amounts by province, breaking down variances into amounts due to changes in:
 - mill rates;
 - reassessments; and
 - facility additions.
- For income tax, provide schedules for the income tax provisions of each of the base, current and test years, with cross-references to supporting schedules as applicable, showing:
 - the derivation of the utility income after tax;
 - the carrying charges on deferrals;
 - the effective income tax rate;
 - the Capital Cost Allowances;
 - the disallowable expenses;
 - the interest portion of the allowance for funds used during construction (AFUDC);
 - the utility capital and non-capital losses carried forward;
 - the Large Corporation Tax; and
 - other significant items.
- For salaries and wages, provide cost schedules for the base, current and test years, with explanations of changes from year to year, detailing the following:
 - general salary increases;
 - merit increases;
 - promotions and progressions;
 - management incentive compensation;
 - severance payments;
 - staffing levels (full time equivalents, if appropriate);
 - any allocation methodology; and
 - other relevant factors.

Support the cost schedules with schedules showing the number of permanent and temporary employees (or full time equivalents) for each period.

For oil pipelines, provide:

- schedules of fuel and power costs, for the base, current and test years, that illustrate the derivation of the energy requirements and corresponding costs; and
- a schedule showing the derivation of a five-year historical oil loss or gain as a percentage of receipts of oil or other products transported through the pipeline system.

Foreign Currency

Where a transaction occurred in a foreign currency, include a description of the method used to derive the exchange rate that was applied.

Transactions Involving an Affiliate

Where contracted services are either from or to an affiliate, provide the details of the transactions, including evidence that the cost of the contracted services is reasonable.

P.2 Rate Base

Filing Requirement

1. Provide detailed schedules for rate base with supporting assumptions and calculations, where applicable, for the following:

- monthly additions, retirements and month-ending balances for the base year, current year and test year by plant account;
- cash working capital; and
- average amounts and month-end balances for the base year, current year and test year for all other items included in rate base.

Guidance

Include complete documentation of the investment in the pipeline on which a return is expected, and verification that rate base additions and retirements were authorized by the NEB. Such evidence usually includes:

- the method used to determine the average amounts of the rate base (i.e., either the 13-point or 24-point method);
- a schedule showing additions to the plant accounts between the end of the base year and the end of the test year, broken down by project and referring to the applicable NEB order number approving the project (including the section 58 Streamlining Order);

Break down forecasted amounts by plant account and only include costs for approved projects in the rate base. Information should include:

- explanations for amounts booked in the plant accounts that will not be used in pipeline operations during the test year, including the rationale for keeping these items in rate base or deleting them from rate base;
- a variance analysis showing, for each project, the amount proposed to be added to rate base compared to the original cost estimate provided to the NEB in any application filed pursuant to Part III of the NEB Act;
- an explanation of variances exceeding either \$100,000 or 10 percent, whichever is greater;
- retirements from the plant accounts broken down by NEB order number, if applicable;

- for AFUDC and overhead, the rate and method of calculation used for projects transferred to Plant in Service between the end of the base year and the end of the test year;
- for cash working capital, a time lag analysis for the base year if a change is proposed from the most recent NEB approved average number of days between operating expense payment dates and revenue receipt dates; and
- a list of depreciation rates by major account groups applied in the test year, together with a justification for any proposed changes from the most recent NEB approved rates.

P.3 Financial Statements

Filing Requirements

1. Provide the current annual report to shareholders for the regulated entity. If the regulated entity is part of a larger corporate structure, also provide the current corporate annual report to shareholders.
2. Provide the financial statements for the base year for the regulated entity, segmented from published financial statements if the regulated entity is part of a larger corporate structure, and provide, where necessary:
 - an explanation of the major assumptions used to prepare the financial statements of the regulated entity; and
 - a statement regarding the consistency of application of accounting principles to the regulated entity.

Guidance

The annual report and financial statements should:

- identify similarities and differences between the financial policies applied to the regulated entity and those applied to the corporation;
- identify possible instances of cross-subsidization;
- provide an understanding of the policies of the corporation; and
- assist in testing the reasonableness of the operating results for the regulated activities.

P.4 Cost of Capital

Additional information...

This section contains the same language as was in the GFR. It has not been amended nor have comments been solicited. It is included for assistance for anyone filing a tolls application containing a cost of capital component. After the litigation on this matter currently before the Federal Court of Appeal is finalized, the Board will consider what amendments need to be made to this section.

Filing Requirements

1. The application shall establish the applicant's sources of capital invested in rate base, construction work in progress and gas plant under construction, and the justification for the cost rates which the applicant is seeking to include in its cost of service.

2. The application shall include a summary schedule for the current and test years, based on 13-point or 24-point averages, showing the applicant's projected outstanding common equity and rates of return thereon, projected outstanding balances and related projected weighted average cost for each other class of capital, and derivation of the overall rates of return.

3. The application shall include an analysis of the weighted average cost of debt capital for the test year showing the projected cost of each debt issue, including borrowings from financial institutions and a supporting schedule containing the following information for each debt issue:

- title;
- date of issuance and date of maturity;
- nominal interest rate;
- principal amount of issue;
- net proceeds and a general description of their use;
- dates and amounts of sinking fund and interest payments;
- method of amortization of debt discount, premium and expense;
- projected gains or losses in the test year on repurchase or redemption;
- projected gains or losses in the test year due to fluctuations in exchange rates;
- a concise description of any provisions restricting or otherwise relating to future financing, capital structures, interest coverages or dividends;
- a concise description of any convertibility feature;
- a copy of any prospectus not previously filed; and
- any other information necessary to provide a comprehensive description of the issue.

4. The application shall include, for any unfunded debt

- a description of the applicant's plans to finance it, including details of the timing, size and type of each issue; and
- evidence supporting the projected cost rate in the applicant's financing plan, the projected short-term debt rate and the spread implied in the applicant's projected unfunded debt rate.

5. The application shall include independent forecasts for the test year of yields on 10 and 30 year long-term Government of Canada bonds and Treasury Bills with a detailed discussion of the degree of reliance the applicant has placed on them in making its forecasts.

6. The application shall include the applicant's most recent bond rating reports issued by the Canadian Bond Rating Service, the Dominion Bond Rating Service, Standard and Poor's and Moody's for purposes of assessing the applicant's debt.

7. The application shall include an analysis of the weighted average cost of preferred share capital for the test year showing the projected cost of each issue and a supporting schedule containing the following information for each issue:

- title;
- date of issuance;
- dividend rate;
- number of shares issued;
- par or stated value of issue;
- net proceeds;
- a general description of the use of the net proceeds;
- method of amortization of preferred share expense;
- projected gains or losses in the test year on repurchase or redemption;
- full description of any convertibility feature;
- a copy of any prospectus not previously filed; and
- any other information necessary to provide a comprehensive description of the issue.

8. The application shall include a detailed calculation of the 13-point or 24-point average amount of common equity projected for the test year.

9. The application shall include a schedule in tabular form providing the following information for each issue of common shares in the last five fiscal years:

- date of issuance;
- number of shares issued;
- gross proceeds;
- net proceeds;
- amount and method of amortization of common share expense;
- a general description of the use of the net proceeds; and
- a copy of the prospectus for the issue, if not previously filed with the Board.

10. The application shall include a schedule in tabular form providing the following information with respect to common equity of the applicant for each of the last five fiscal years:

- average number of shares outstanding;
- average book value per share;
- earnings per share;
- dividend per share;
- dividends as a percent of earnings;
- average market price;
- market-to-book ratio;

- price-earnings ratio;
- price-dividend ratio;
- rate of return on average common equity;
- times interest earned indicating the method of calculation; and
- average percent of debt, preferred equity and common equity.

11. Where an application is to establish or change capital structure, the application shall include a detailed discussion of business risks including market, supply, operating and physical, and regulatory and political risks.

12. If a significant part of the applicant's capital is obtained from an affiliated company as defined in the Regulations, the application shall include information with respect to the debt, preferred share and common share capital of that affiliated company, and

- a copy of the latest prospectus issued by the affiliated company;
- a chart showing the relationship between the applicant and the affiliated company in terms of share ownership and financial obligations; and
- information in respect of the affiliated company as listed in #10.

13. The application shall contain, where applicable, a thorough discussion of the extent to which the consolidated capital structure is relevant to the determination of a deemed capital structure for the Board-regulated operations of the pipeline, including the following information in support of the discussion:

- a listing and description of non-jurisdictional business operations as well as a discussion of the relative business risks of the Board-regulated pipeline operations as opposed to the non-jurisdictional business operations;
- a discussion of the appropriate accounting treatment for non-jurisdictional operations (for example consolidated as opposed to equity accounting) for financial reporting purposes, including documentation from the accounting literature which supports the choice of accounting for non-jurisdictional investments;
- the allocation of equity and debt amongst jurisdictional and non-jurisdictional operations;
- the manner in which new debt issues are allocated between Board-regulated and nonjurisdictional operations; and
- the weighted average cost of capital for the Board-regulated operations as opposed to the weighted average cost of capital for the company on a consolidated basis.

P.5 Tolls and Tariffs

Filing Requirements

1. Provide a concise description of the regulated pipeline system and operations, including a system map showing any toll zones or delivery areas.

2. Describe the applied-for toll design and explain any changes in the toll design from that previously approved by the NEB, including:

- a description of the classes or types of services offered;
- the method used to allocate costs to major pipeline functions and to classify costs between fixed and variable costs;
- details of the cost allocation units used to derive the proposed test year tolls;
- the method used to allocate costs to toll zones or areas, customers and classes or types of service, and the details and bases for such allocations; and
- for oil pipelines, supporting information and calculations to illustrate the determination of toll differentials for each product type or charges for special services.

3. Provide a comparative schedule of test year revenues for each class or type of service under the existing and the proposed tolls.

4. Describe requested tariff revisions together with the rationale for the revisions with schedules comparing the proposed changes to existing tariff sheets.

Guidance

Include sufficient information to allow the NEB to assess whether the proposed tolls are just and reasonable and not unjustly discriminatory. The application should also include evidence that the proposed tolls are designed to recover the requested revenue requirement.

For a pipeline company with a complex toll design, include sufficient information to fully explain the toll design for the test year, with a focus on changes from that previously approved by the NEB. Provide detailed information and schedules to explain:

- the allocation units used in the toll design, including contract and throughput volumes for each customer and class of service where appropriate; and
- the methods used to allocate costs to various customers, toll zones and delivery areas.

Next Steps...

File the completed application. Applicants are encouraged to include the completed relevant checklists from Appendix I.

P.6 Regulation of the Traffic, Tolls and Tariffs of Group 2 Companies

Any pipeline company regulated by the Board which is not a Group 1 company is considered to be a Group 2 company. The following companies are designated as Group 1 companies:

Natural Gas	Oil and Products
Alliance Pipeline Ltd.	Enbridge Pipelines Inc.
Foothills Pipe Lines Ltd.	Enbridge Pipelines (NW) Inc.
Gazoduc Trans Québec & Maritimes Inc.	Kinder Morgan Cochin ULC
Maritimes & Northeast Pipeline Management Ltd.	Trans Mountain Pipeline ULC
NOVA Gas Transmission Ltd.	Trans-Northern Pipelines Inc.
TransCanada PipeLines Limited	
Westcoast Energy Inc.	

All other pipeline companies regulated by the Board are Group 2 companies for traffic, tolls, tariff and financial regulation.

Tolls and Tariffs

The financial regulation of Group 2 companies is normally carried out on a complaint basis, with a consequent reduction in financial reporting requirements.

Group 2 companies are not normally required to provide the detailed information to support a tariff filing required of Group 1 companies. The Board regulates the traffic, tolls and tariffs of Group 2 companies on a complaint basis. Group 2 companies are required to include in their tariffs the following explanatory note:

The tolls of the Company are regulated by the National Energy Board on a complaint basis. The Company is required to make copies of tariffs and supporting financial information readily available to interested persons. Persons who cannot resolve traffic, toll and tariff issues with the Company may file a complaint with the Board. In the absence of a complaint, the Board does not normally undertake a detailed examination of the Company's tolls.

It is the responsibility of a Group 2 company to provide its shippers and interested parties with sufficient information to enable them to determine whether a complaint is warranted. Upon receipt of a written complaint, an application under Part IV of the Act or on its own initiative, the Board may decide to examine a toll and to make the toll interim, pending completion of this examination. In this circumstance, the Board may request additional information including some or all of the information required of Group 1 companies as specified in sections P.1 through P.5 in Guide P of the Board's *Filing Manual*.

Accounting Requirements and Financial Reporting

The Board has exempted all Group 2 companies from the requirement to keep their books of account pursuant to the code of accounts prescribed in the G/OPUAR. The Board only requires that Group 2 companies maintain separate books of account in Canada in a manner consistent with generally accepted accounting principles and file audited financial statements within 120 days after the end of each fiscal year. Such statements should provide details of revenue and costs associated with the regulated pipeline. Where a Group 2 company operates a joint venture pipeline, it is required to disclose in its audited financial statements its beneficial share of revenue and costs associated with the regulated pipeline and to file a gross operating statement for the joint venture pipeline indicating whether, and if so by whom, this statement has been audited.

In some instances, the Board has granted relief from the requirement to file financial statements. These instances have primarily concerned small shipper-owned pipelines with no direct dealings with third parties. A Group 2 company may apply for similar relief explaining the particular circumstances which would justify an exemption from this requirement.

The Board has exempted Group 2 companies from the *Toll Information Regulations*. The Board does not require Group 2 companies to provide periodic financial information, such as quarterly surveillance reports, for the purpose of monitoring the financial performance of these companies. As circumstances dictate, the Board may perform an audit of the company's records.

P.7 Abandonment Costs

Information To Be Filed	Filing Date	
	Group 1	Group 2
an estimate of abandonment costs and the amount of funds required to be set aside for abandonment	31 May 2011	30 Nov 2011
a proposal for the collection of abandonment funds	30 Nov 2012	30 Nov 2012
a proposed process and mechanism to set aside abandonment funds	30 Nov 2012	31 May 2013

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