

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

**CRITERIA FOR DETERMINING  
PRIMARY TERM**

## **CRITERIA FOR DETERMINING PRIMARY TERM**

### **1.0 DEFINITIONS**

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

### **2.0 INTRODUCTION**

**2.1** If, pursuant to subparagraphs 5.1(ii) of Rate Schedule FT-R or Rate Schedule FT-P, Company determines that new Facilities are required to be installed or constructed at any Receipt Point to provide the Service requested under a Schedule of Service under Rate Schedule FT-R or Rate Schedule FT-P, Company will determine the Primary Term and Surcharge, if any, in accordance with this Appendix.

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

### **3.0 DETERMINATION OF PRIMARY TERM**

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

next whole year. The Primary Term may vary from one to fifteen years. If a fifteen-year Primary Term is insufficient for the CPVR to equal or exceed the CPVCOS, then a Surcharge shall be charged by Company.

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

### 3.2 Determination of CPVR

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

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

Where:

“AR” = annual revenue attributable to the Facilities

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

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

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

### 3.3 Determination of CPVCOS

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

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

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

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

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

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

**(ii) Municipal Taxes**

Municipal tax expense is estimated at Company's system average rate of 1.15% of estimated capital cost and is escalated at 2% per annum commencing in the second year of the Primary Term. Company's system average rate and escalation rate may vary from time to time as determined by Company.

**(iii) Depreciation**

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

**(iv) Income Taxes**

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

**(v) Return on Rate Base**

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

**4.0 DETERMINATION OF SURCHARGE**

**4.1** If a fifteen-year Primary Term is insufficient for the CPVR to equal or exceed the CPVCOS, then a Surcharge shall be charged by Company over the Primary Term.

**4.2** The Surcharge is calculated by Company such that when multiplied by the Receipt Contract Demand or the Points to Point Contract Demand and discounted over fifteen (15) years and added to the CPVR results in the CPVR being greater or equal to the CPVCOS.

**5.0 REVIEW OF PRIMARY TERM AND SURCHARGE**

**5.1** Upon written request from Customer, Company will review the Primary Term and/or Surcharge on an existing Schedule of Service for Service under Rate Schedule FT-R or Rate Schedule FT-P.

**5.2** If there is no Surcharge and either the actual capital cost of the Facilities is lower than originally estimated or actual revenue attributable to the Primary Term is higher than estimated, Company will reduce the Primary Term accordingly.

**5.3** If there is a Surcharge, such Surcharge may be reduced prior to the end of the Primary Term if either the actual capital cost of the Facilities is lower than originally estimated or actual revenue attributable to the Primary Term is higher than estimated, and the resulting CPVCOS is less than or equal to CPVR.

**Attachment 1**  
**Illustrative Primary Term Calculation**

(1)	(2)	(3)	(4)	(5)	(6)
Year	Annual Cost of Service	Cumulative Present Value Cost of Service (CPVCOS)	Annual Revenue	Cumulative Present Value Revenue (CPVR)	Net Present Value (Col. 5-3)
1999	149,329	149,329	121,306	121,306	(28,023)
2000	114,767	252,263	123,732	232,281	(19,982)
2001	121,294	349,836	126,207	333,806	(16,029)
2002	125,280	440,225	128,731	426,685	(13,539)
2003	127,295	522,599	131,305	511,654	(10,945)
2004	128,102	596,948	133,932	589,387	(7,561)
2005	127,551	663,346	136,610	660,501	(2,845)
2006	125,918	722,135	139,342	725,558	3,422
Total	1,019,536	722,135	1,041,165	725,558	3,422

**Capital Cost:** \$460,000

**Receipt Contract Demand:**  $70 \times 10^3 \text{ m}^3 / \text{d}$  (2.5 MMcf/d)

**FT-R Demand Rate:**  $\$143.52 / 10^3 \text{ m}^3 / \text{month}$  (\$4.05 / Mcf / month)

**Primary Term Required:** 8 years

**Rate of Return on Rate Base:** 9.03%

**Discount Rate:** 11.50%

**Surcharge:** N/A