

Transportation Procedures

Policy for Contributions in Aid of Construction

Introduction

To provide more flexibility for NOVA Gas Transmission Ltd.'s ('NGTL') customers, cash contributions will be considered for new receipt facilities and for intra-Alberta delivery facilities to reduce contract terms while maintaining accountability on NGTL's system. As per the Alberta Energy and Utilities Board's decision on Phase 2 of NGTL's General Rate Application, NGTL will not allow transfers to locations requiring new facilities and therefore, NGTL will not accept contributions on transfers.

A contribution in aid of construction ('CIAC') is a cash injection by a customer(s) towards a project that is related to their service request, either provided on their own initiative to "buy down" contractual terms or may be required in order for the project to be deemed economic. A CIAC has the effect of decreasing the applicable capital costs rolled into NGTL's rate base. With respect to NGTL's Tariff cost of service calculations (Appendix E and Attachment 1 of the FCS Schedule of Service), the applicable depreciation, return on rate base and associated income taxes will also decrease accordingly as a result of the CIAC. Annual operating expenses, such as O&M and Municipal Taxes, will not be impacted by a CIAC and thus where applicable must also be accounted for in the total CIAC amount if the scope of the project is not supported by NGTL's standard design policies or contracting practices.

Definitions

1. Capital or Partial CIAC - where the contribution accounts for a portion of the capital cost estimate
2. Full CIAC - where the contribution not only accounts for the applicable capital costs of the project, but also the present value over 15 years of associated annual operating expenses (O&M and Municipal Tax, calculated in accordance with Appendix E) plus a processing fee (12% of capital cost)

General Policy

- CIAC's will only be accepted on facilities that are determined to be both economic (including facilities that required a CIAC to economic) and orderly.
- NGTL will maintain ownership and operation of the facility.
- The CIAC paid by a customer will be applied only towards the applicable capital costs and associated operating expenses for which the customer is responsible.
- If the CIAC is associated with a Project and Expenditure Authorization (PEA), the CIAC will be required upon signing of the PEA.
- If the PEA is cancelled prior to the cancellation date, the CIAC will be returned to the customer. Any costs and expenses incurred to construct the new facility shall be deemed to have been paid from the CIAC. For this reason, the refund may not be the full CIAC received from the customer.
- If the CIAC is to account for the total project costs, the CIAC will be adjusted upon project completion to reflect actual final costs.

- If contract relief is requested on a facility where CIAC has been applied, the relief guidelines set out in the Tariff (Section 7 in Rate Schedule FT-R, Section 5 in Rate Schedule FCS and Section 4 in Rate Schedule OS) will be applied and no portion of the CIAC will be refunded.

Specific to receipt meter stations

- For simplicity, a CIAC will not be accepted retroactively to revise contract terms as the customer determined the project to be acceptable when the PEA was signed.
- NGTL will apply the 'Criteria for Determining Primary Term' to ensure that all costs associated with the facility are reasonably accounted for through the contract term.
- Potential retirement costs and salvage value will not be considered as part of the capital cost of the project in order to be consistent with the current evaluation of new receipt facilities.
- There will be a minimum primary contract term of one year.

Specific to intra-Alberta delivery meter stations

- Only capital or partial CIACs will be considered. Customer will still be held accountable (via minimum volume requirements or annual charges) for the O&M and municipal taxes at the facility.
- Capital or partial CIAC's will be considered at all times throughout the FCS contract due to the customer is accountable for the NBV of the facilities via the contract.

Specific to Expansion or Extension facilities

- For such instances where the facilities economics does not justify an Expansion or the Extension and as a result, NGTL would not apply to construct, the Customer has the option to provide a CIAC that results in a favorable economics to support NGTL's facility application.

Questions and Answers

Q: Why will NGTL not build anything the customer requests if the customer is willing to pay for it via a CIAC?

A: NGTL is committed to the economic and orderly buildup of the system and will not build irresponsibly.

When applying to the AEUB for a permit, the facilities must be proven to be necessary and have a purpose, not just economic.

Q: Regarding receipt facilities, will customers be able to make a large CIAC to support a contract for a very small volume and make use of mainly IT for the transportation of their gas?

A: NGTL will not build a facility unless it underpinned by at least one year of primary term and the contract demand volume in primary term justifies the capital expenditure to be rolled into rate base.