

Attachment 1

2003 Budget and 2003 Actuals
Operating and Maintenance Expenses
February 2004

FOOTHILLS PIPE LINES

**REPORT TO THE NEB
OF THE DIFFERENCE BETWEEN THE**

2003 BUDGET

AND

2003 ACTUALS

OPERATING AND MAINTENANCE EXPENSES

FEBRUARY, 2004

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**OPERATIONS & MAINTENANCE EXPENDITURES
RECOVERED IN COST OF SERVICE
(\$000's)**

<u>LINE</u>		<u>2003 ACTUAL</u>	<u>2003 BUDGET</u>	<u>DIFFERENCE</u>
	FIELD OPERATIONS EXPENSE			
1	TCPL	5,264.3	5,346.5	(82.2)
2	BP CANADA	1,515.2	1,637.0	(121.8)
3		<u>6,779.5</u>	<u>6,983.5</u>	<u>(204.0)</u>
	ELECTRIC POWER			
4	Jenner, Acme and Crawling Valley	1,044.0	1,750.0	(706.0)
5	Decompression/Recompression at Empress	7,319.3	7,150.0	169.3
6	Saskatchewan	648.3	650.0	(1.7)
7		<u>9,011.6</u>	<u>9,550.0</u>	<u>(538.4)</u>
	MAINTENANCE & INTEGRITY PROGRAM			
8	Inventory & Maintenance Parts	267.5	350.0	(82.5)
9	Maintenance Projects	2,464.2	6,546.0	(4,081.8)
10	Communications	210.8	160.0	50.8
11	Integrity Program	887.4	802.5	84.9
12		<u>3,829.9</u>	<u>7,858.5</u>	<u>(4,028.6)</u>
13	AGREED AMOUNT OF FOOTHILLS' GENERAL & ADMINISTRATIVE EXPENSES PURSUANT TO THE SETTLEMENT AGREEMENT DATED JANUARY 13,2003	12,978.0	12,978.0	-
14	LESS SHIPPERS' PORTION OF INCENTIVE SAVINGS	(544.5)	-	(544.5)
15	LAND PAYMENTS	804.1	889.0	(84.9)
16	INSURANCE & PENSION OBLIGATIONS	1,187.3	1,112.5	74.8
17	GOVERNMENT AGENCY COST RECOVERY	3,456.0	3,463.5	(7.5)
18	TOTAL	<u><u>37,501.9</u></u>	<u><u>42,835.0</u></u>	<u><u>(5,333.1)</u></u>

**OPERATIONS & MAINTENANCE EXPENDITURES
RECOVERED IN COST OF SERVICE
EXPLANATION OF THE DIFFERENCE BETWEEN THE
2003 ACTUAL & BUDGET**

Total actual operations and maintenance expenditures in 2003 are \$5.3 million less than the 2003 budget for these main reasons:

FIELD OPERATIONS EXPENSE

BP CANADA BP Canada includes a contingency for breakdowns in their budget that was not fully required in 2003.

ELECTRIC POWER

Jenner Electric power costs at Jenner, Acme and Crawling Valley were \$706,000 less than budget. The Jenner electric unit was budgeted to run 10% of the time on a stand-by basis whenever the Jenner gas turbine or upstream stations are out of service. Actual use was 0.4%.

De/Re The electric power cost at the Decompression/Recompression facility at Empress was \$169,000 over budget in 2003. Spot market power costs were higher than the \$50/MWH budgeted. 1.5 MW of the approximately 15.5 MW required at the De/Re are purchased in the spot market.

MAINTENANCE & INTEGRITY PROGRAM

Maintenance Projects The \$4.1 million underrun is mainly due to significant scope reductions in the overhauls of engines and turbines. Two engines and two power turbines were budgeted for major overhauls in 2003. A detailed assessment of engine overhaul practices resulted in a decision to perform a limited repair on one engine extending the time before a major overhaul from 24,000 hours to 33,000 hours allowing the major overhaul to be postponed for at least one year.

 The second engine overhaul was delayed until early 2004 because of other priorities. The work scope of the two power turbine overhauls was reduced when inspection showed some components to be in better condition than anticipated.

**OPERATIONS & MAINTENANCE EXPENDITURES
RECOVERED IN COST OF SERVICE
(\$000's)**

<u>LINE</u>		<u>2003 ACTUAL</u>	<u>Foothills (Alta.)</u>		<u>Foothills (South B.C.)</u>	<u>Foothills (Sask.)</u>
			<u>Zone 6</u>	<u>Zone 7</u>	<u>Zone 8</u>	<u>Zone 9</u>
	FIELD OPERATIONS EXPENSE					
1	TCPL	5,264.3	2,042.1	55.6	429.3	2,737.3
2	BP CANADA	1,515.2	1,515.2	-	-	-
3		<u>6,779.5</u>	<u>3,557.3</u>	<u>55.6</u>	<u>429.3</u>	<u>2,737.3</u>
	ELECTRIC POWER					
4	Jenner, Acme and Crawling Valley	1,044.0	1,044.0	-	-	-
5	Decompression/Recompression at Empress	7,319.3	7,319.3	-	-	-
6	Saskatchewan	648.3	-	-	-	648.3
7		<u>9,011.6</u>	<u>8,363.3</u>	<u>-</u>	<u>-</u>	<u>648.3</u>
	MAINTENANCE & INTEGRITY PROGRAM					
8	Inventory & Maintenance Parts	267.5	103.7	-	2.1	161.7
9	Maintenance Projects	2,464.2	799.5	-	42.0	1,622.7
10	Communications	210.8	172.0	-	0.5	38.3
11	Integrity Program	887.4	354.3	45.7	137.7	349.7
12		<u>3,829.9</u>	<u>1,429.5</u>	<u>45.7</u>	<u>182.3</u>	<u>2,172.4</u>
13	AGREED AMOUNT OF FOOTHILLS' GENERAL & ADMINISTRATIVE EXPENSES PURSUANT TO THE SETTLEMENT AGREEMENT DATED JANUARY 13,2003	12,978.0	6,462.5	735.5	1,561.3	4,218.7
14	LESS SHIPPERS' PORTION OF INCENTIVE SAVINGS	(544.5)	(283.0)	(31.4)	(68.6)	(161.5)
15	LAND PAYMENTS	804.1	418.0	272.8	0.5	112.8
16	INSURANCE & PENSION OBLIGATIONS	1,187.3	573.5	65.3	138.7	409.8
17	GOVERNMENT AGENCY COST RECOVERY	<u>3,456.0</u>	<u>1,669.3</u>	<u>190.1</u>	<u>404.3</u>	<u>1,192.3</u>
18	TOTAL	<u><u>37,501.9</u></u>	<u><u>22,190.4</u></u>	<u><u>1,333.6</u></u>	<u><u>2,647.8</u></u>	<u><u>11,330.1</u></u>

**OPERATIONS & MAINTENANCE EXPENDITURES
RECOVERED IN COST OF SERVICE
(\$000's)**

<u>LINE</u>		<u>2003 BUDGET</u>	<u>Foothills (Alta.)</u>		<u>Foothills (South B.C.)</u>	<u>Foothills (Sask.)</u>
			<u>Zone 6</u>	<u>Zone 7</u>	<u>Zone 8</u>	<u>Zone 9</u>
	FIELD OPERATIONS EXPENSE					
1	TCPL	5,346.5	2,070.0	64.4	432.6	2,779.5
2	BP CANADA	1,637.0	1,637.0	-	-	-
3		<u>6,983.5</u>	<u>3,707.0</u>	<u>64.4</u>	<u>432.6</u>	<u>2,779.5</u>
	ELECTRIC POWER					
4	Jenner, Acme and Crawling Valley	1,750.0	1,750.0	-	-	-
5	Decompression/Recompression at Empress	7,150.0	7,150.0	-	-	-
6	Saskatchewan	650.0	-	-	-	650.0
7		<u>9,550.0</u>	<u>8,900.0</u>	<u>-</u>	<u>-</u>	<u>650.0</u>
	MAINTENANCE & INTEGRITY PROGRAM					
8	Inventory & Maintenance Parts	350.0	175.0	-	-	175.0
9	Maintenance Projects	6,546.0	2,578.0	35.0	45.0	3,888.0
10	Communications	160.0	80.0	-	-	80.0
11	Integrity Program	802.5	370.3	19.4	191.2	221.6
12		<u>7,858.5</u>	<u>3,203.3</u>	<u>54.4</u>	<u>236.2</u>	<u>4,364.6</u>
13	AGREED AMOUNT OF FOOTHILLS' GENERAL & ADMINISTRATIVE EXPENSES PURSUANT TO THE SETTLEMENT AGREEMENT DATED JANUARY 13,2003	12,978.0	6,462.5	735.5	1,561.3	4,218.7
14	LAND PAYMENTS	889.0	450.1	308.1	4.0	126.8
15	INSURANCE & PENSION OBLIGATIONS	1,112.5	554.1	63.0	133.8	361.6
16	GOVERNMENT AGENCY COST RECOVERY	<u>3,463.5</u>	<u>1,724.8</u>	<u>196.3</u>	<u>416.6</u>	<u>1,125.8</u>
17	TOTAL	<u>42,835.0</u>	<u>25,001.8</u>	<u>1,421.7</u>	<u>2,784.5</u>	<u>13,627.0</u>

In the 2003 Budget submitted on March 11, 2003, the land payments were inadvertently allocated to the Zones on a volume/distance basis. The Budget has been restated above to reflect the land payments being charged directly to the proper zone.

**REPORTING FOR THE FOOTHILLS PIPE LINES LTD.
GENERAL & ADMINISTRATIVE EXPENSES
PURSUANT TO SECTION 4.6 OF THE SETTLEMENT AGREEMENT DATED JANUARY 13, 2003
(\$000's)**

	<u>2003</u>
Agreed Amount	12,978.0
Actual Amount	7,532.4
Incentive Saving	5,445.6
annual Collectible Amount	3,478.1
Foothills' Share of aggregate Incentive Amount	4,901.0

DEFINITIONS AND INTERPRETATION

"**Agreed Amount**" means, for any year during the Term, an initial amount equal to \$12,600,000, escalated by 3% per year commencing January 1, 2003.

"**Actual Amount**" has the meaning as defined in Section 3.1 of the Settlement; the actual amount of General and Administrative Expenses for any year.

"**Incentive Saving**" has the meaning as defined in Subsection 3.1(b)(ii) of the Settlement; the Agreed Amount less the Actual Amount for such year.

"**Collectible Amount**" has the meaning as defined in Section 2.1 of the Settlement; two-thirds (2/3) of the outstanding principal balance of the Phase II Preliminary Expenditures at November 1, 2003.