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November 10, 2004

National Energy Board
444 Seventh Avenue S.W.
Calgary, Alberta T2P 0X8

By E-filing and Courier

Attention: Mr. Michel L. Mantha, Secretary

Dear Mr. Mantha:

**Re: Foothills Pipe Lines Ltd. (Foothills)
Tolls and Tariff Amendment Application (Application)
File Numbers: 4200-F006-7/4400-F006-12**

By letter dated October 28, 2004, the National Energy Board (Board) issued its decision in respect of the Application and directed Foothills to file with the Board and serve on all of its interested parties and its firm and interruptible shippers, by November 15, 2004, the specific amendments to prior Board Orders that would be required for the Board to implement its decision and issue an Order in respect of this matter.

As directed by the Board, Foothills sets out in an attachment to this letter the specific amendments to Board Orders TG-1-79, TG-2-81, TG-6-81, TG-4-82, TG-10-87 and TG-1-88 which it believes are required to give effect to the Board's decision. As a backdrop to the attachment, Foothills provides below a summary of the methodology for calculating tolls on the Foothills System that will now be utilized as a result of the Board's decision:

- Foothills will continue to charge full cost of service tolls under a fixed toll approach. Foothills will charge rates for firm, interruptible and overrun services pursuant to a schedule of effective rates based on a 12-month forecast cost of service. Effective rates will take into account revenues from firm, interruptible and overrun services. Adjustments for over or under collection will be reflected in the subsequent year's effective rates and will either be recovered from or credited to all shippers in each respective zone.

- The cost of service and adjustments for over or under collection will be determined on an annual basis and forecast revenues from interruptible and overrun services will now be included in the forecast of cost of service for each respective zone.
- Pursuant to Order TG-2-2003, Foothills will recover the monthly charge of \$189,124.00 related to the Special Charge and will include this cost in its 12-month cost of service forecast until December 31, 2015. Foothills will include in its annual Operating and Maintenance Budget (O&M Budget) the fixed amount for the Incentive General and Administration Expenses and will credit to the account of its shippers a portion of any Incentive Saving for each year. Each year Foothills' effective rates filing will include a forecast of the shippers' share of any Incentive Savings.
- Fixed monthly firm demand (T-1) rates in Zones 6, 7, 8 and 9 will be based on a 12-month cost of service forecast and will be effective January 1 through December 31.
- A single interruptible (IT) rate that is calculated at 110 percent of the Zone 9 T-1 rate will be implemented in Zone 9. Overrun rates in Zones 6, 7 and 8 will now also be calculated at 110 percent of the T-1 rate in each respective zone.
- The process of crediting the revenue generated from interruptible and overrun services to the firm cost of service will be eliminated.
- The IT rate will be effective January 1 through December 31 of each given year consistent with the T-1 rate.
- Pursuant to section 60(1)(a) of the *National Energy Board Act*, Foothills will file on or before December 1 of each given year, effective rates for Zones 6, 7, 8 and 9 for the upcoming calendar year. The effective rates filing will include the 12-month forecast cost of service for each zone for the upcoming year.
- Foothills will include its annual O&M Budget in its annual cost of service estimate. Foothills will no longer make a separate application for approval of its annual O&M Budget. Foothills will continue to include in its cost of service those items identified in Paragraph 11 of the Attachment to Board Order TG-1-79. Foothills will also now include the Index of Service Agreements for firm service for each zone as part of the effective rates filing.
- Foothills will continue to file an Annual Surveillance report on or before February 28 of each year.
- Foothills will no longer file an analysis of the variance between the approved budgets and the actual expenses incurred as the variances will be reflected in the subsequent year's effective rates filing.

- In the event that Foothills fails to accept gas onto its system, Foothills will provide shippers a billing abatement of $\$0.50/10^3\text{m}^3$ (approximately 1.5¢/Mcf).
- The monthly charge for SGS-1 Service will now be calculated based on the Zone 9 T-1 rate instead of the Zone 9 unit cost of service.
- Measurement (M-2) Service will be discontinued.

Foothills is filing this letter electronically by placing it in the electronic filing repository of the Board, and will notify its shippers and interested parties pursuant to Order TG-6-81 of the filing. Foothills will also post a copy of this letter in its entirety on TransCanada's Foothills System website at:

http://www.transcanada.com/Foothills/regulatory/reg_filings/index.html.

Should the Board require additional information with respect to this matter, please contact Carolyn Shaw at (403) 920-7172 or legal counsel, Joel Forrest at (403) 920-6156.

Yours truly,

Foothills Pipe Lines Ltd.

A wholly owned subsidiary of TransCanada PipeLines Limited



Céline Bélanger
Vice President, Regulatory Services

cc w/encls: Interested Parties – TG-6-81
Foothills Firm and Interruptible Shippers

Table 1: Order TG-1-79

Current Order TG-1-79	Proposed Changes to Order TG-1-79
<p>Attachment to Order TG-1-79 entitled “The National Energy Board’s Method for Regulating The Tolls and Tariffs of the Foothills (Yukon) Pipeline”</p> <p>Cost of Service</p> <p>Paragraph 11</p> <p>The following represents costs that the Board is prepared to flow through into the cost of service automatically, provided the principles or methods of computation have been previously approved, or where the costs are largely outside of the control of the company:</p> <ul style="list-style-type: none"> • operations and maintenance costs – up to the annual budget previously approved by the Board (special procedures will apply during the first year of operation); • municipal taxes (in the absence of unusual circumstances); • depreciation; • amortization; • income taxes (on the basis approved by the Board); • actual interest expenses in conformity with the tariff; • gains and losses on foreign exchange transactions; • return on equity; and • all charges related to the one-time adjustment to rate base for the Incentive Rate of Return Scheme. 	<p>Attachment to Order TG-1-79 entitled “The National Energy Board’s Method for Regulating The Tolls and Tariffs of the Foothills (Yukon) Pipeline”</p> <p>Cost of Service</p> <p>Paragraph 11 – <i>Annual operating and maintenance budget will now flow through to the cost of service and will not require separate approval. This provision should be revised as follows:</i></p> <p>The following represents costs that the Board is prepared to flow through into the cost of service automatically, provided the principles or methods of computation have been previously approved, or where the costs are largely outside of the control of the company:</p> <ul style="list-style-type: none"> • operations and maintenance costs—up to the annual budget previously approved by the Board (special procedures will apply during the first year of operation); • municipal taxes (in the absence of unusual circumstances); • depreciation; • amortization; • income taxes (on the basis approved by the Board); • actual interest expenses in conformity with the tariff; • gains and losses on foreign exchange transactions; • return on equity; and • all charges related to the one-time adjustment to rate base for the Incentive Rate of Return Scheme.

Current Order TG-1-79	Proposed Changes to Order TG-1-79
<p>Paragraph 12</p> <p>The following represents costs for which shippers and interested parties will have the right of review and which require the approval of the Board:</p> <ul style="list-style-type: none"> • annual budget of operating and maintenance costs; • disposition of deferred costs arising from overruns of operating and maintenance costs; • changes in the bases of allocation of costs from sponsors, including those arising from the operating agreement. <p>Paragraph 14</p> <p>Notwithstanding any of the foregoing, Foothills (Yukon) may automatically include in the cost of service any unusual costs resulting from emergency actions, e.g., repairing a line break. The Board should be notified immediately of such costs and will rule whether the revenue recovered from these costs should be recorded as revenue or deferred pending an investigation by the Board.</p> <p>Paragraph 15</p> <p>In respect of any major unusual costs not provided for above, Foothills (Yukon) is required to seek a prior ruling of the Board whether such costs can be automatically included in the cost of service or should be deferred. Such rulings will be given expeditiously.</p>	<p>Paragraph 12 – <i>Operating and Maintenance costs will be included in the effective rate filing. All of the costs associated with the effective rate filing would be subject to shipper, interested party and Board review. This provision should be revised as follows:</i></p> <p><u>Shippers and interested parties will have the right of review of Foothills’ effective rate filing. Foothills’ effective rate filing will be filed pursuant to Section 60 (1)(a) of the National Energy Board Act.</u>The following represents costs for which shippers and interested parties will have the right of review and which require the approval of the Board:</p> <ul style="list-style-type: none"> • annual budget of operating and maintenance costs; • disposition of deferred costs arising from overruns of operating and maintenance costs; • changes in the bases of allocation of costs from sponsors, including those arising from the operating agreement. <p>Paragraphs 14 and 15 – <i>Foothills will no longer seek approval of emergency or major unusual costs as these costs will be captured as variances in the subsequent year’s effective rate filing. Therefore Paragraphs 14 and 15 should be revoked.</i></p>

Table 2: Order TG-2-81

Current Order TG-2-81	Proposed Changes to Order TG-2-81
<p>Paragraph 1</p> <p>Foothills (Yukon) shall, effective on the day of commencement of operation of the prebuild facilities in Zone 7 and 8, charge in respect of natural gas transmitted by it through the said facilities in each month only those tolls for each such month as are determined in accordance with this Order and with:</p> <ul style="list-style-type: none"> (a) Order TG-1-79, as amended by Order No. AO-1-TG-1-79, and Order No. TG-4-79; (b) The Board’s Reasons for Decision dated August 1981, resulting from the hearing held under Order No. RH-3-81; (c) The Board’s Reasons for Decision dated July, October, and November, 1979 and March, May and June 1980, resulting from the public hearing held under Order No. RH-2-79. 	<p>Paragraph 1 – <i>This Order indicates that tolls in Zones 7 and 8 are to be calculated in accordance with Order TG-1-79 as amended and Decisions RH-2-79 and RH-3-81. In addition, tolls will now also be calculated in accordance with the order to be issued to give effect to the Board’s decision dated October 28, 2004 in respect of the Tolls and Tariff Amendment Application. Order TG-2-81 has also been incorporated into Order TG-4-82. The reference to the Board’s Reasons for Decisions in RH-2-79 and RH-3-81 cannot be revoked as they deal with a number of toll and tariff matters. As indicated in sub-point (b) below, this provision should incorporate a reference to the Tariff Amendments approved by the Board to give effect to the new tolling methodology. This provision should be revised as follows:</i></p> <p>Foothills (Yukon) shall, effective on the day of commencement of operation of the prebuild facilities in Zone 7 and 8, charge in respect of natural gas transmitted by it through the said facilities in each month only those tolls for each such month as are determined in accordance with this Order and with:</p> <ul style="list-style-type: none"> (a) Order TG-1-79, as amended by Order No. AO-1-TG-1-79, and Order No. TG-4-79 <u>and Order No. X (the order to be issued to give effect to the Board’s decision in respect of the Tolls and Tariff Amendment Application)</u>; <u>(b) The provisions of the Foothills’ Gas Transportation Tariff – Phase 1 as approved by the Board in Order No. X;</u> (b)<u>(c)</u> The Board’s Reasons for Decision dated August 1981, resulting from the hearing held under Order No. RH-3-81; <u>and</u> (c)<u>(d)</u> The Board’s Reasons for Decision dated July, October, and November, 1979 and March, May and June 1980, resulting from the public hearing held under Order No. RH-2-79.

Current Order TG-2-81	Proposed Changes to Order TG-2-81
<p>Paragraph 4</p> <p>For the purpose of determining the tolls to be charged in respect of the transmission of natural gas through the prebuild facilities in each month, Foothills (Yukon) shall calculate its cost of service for each such month in accordance with the procedures set out in the Gas Transportation Tariff – Phase 1 modified as necessary in accordance with this Order, and incorporating;</p> <ul style="list-style-type: none"> (a) a return on equity of 16 per cent, (b) taxes calculated on a normalized basis, and (c) where applicable, the recalculated amounts approved by the Board pursuant to paragraph 3. 	<p>Paragraph 4 – <i>The cost of service is now calculated on an annual basis rather than a monthly basis. It should be noted that rate of return on equity (ROE) is established annually by the Board pursuant to the ROE adjustment mechanism determined in RH-2-94, revised 14 March 1997. In addition, the Board issued Order AO-11-TG-4-82 which allowed the calculation of taxes on a flow-through basis versus normalized basis. For clarity Foothills proposes that Order TG-2-81 be amended to incorporate changes resulting from the Board’s decision in respect of the Tolls and Tariff Amendment Application and the changes to ROE and taxes. This provision should be revised as follows:</i></p> <p>For the purpose of determining the tolls to be charged in respect of the transmission of natural gas through the prebuild facilities in each month, Foothills (Yukon) shall calculate its cost of service for each such month<u>annually</u> in accordance with the procedures set out in the Gas Transportation Tariff – Phase 1 modified as necessary in accordance with this Order <u>and Order No. X</u>, and incorporating;</p> <ul style="list-style-type: none"> (a) a<u>the</u> return on <u>common</u> equity <u>established by the Board pursuant to Decision RH-2-94</u>, (b) taxes calculated on a normalized basis<u>a flow-through basis commencing with the year 1992</u>, and (c) where applicable, the recalculated amounts approved by the Board pursuant to paragraph 3.

Table 3: Order TG-6-81

Current Order TG-6-81	Proposed Changes to Order TG-6-81
<p>Paragraphs 2(a) and 2(b)</p> <p>Foothills (Yukon) shall</p> <p>(a) on or before the first day of December in each year commencing with 1981, file with the Board and serve on interested parties its proposed Operating and Maintenance expense budgets for the next succeeding year, which budgets shall</p> <ul style="list-style-type: none"> (i) identify cost elements by account number as set out in the Gas Pipeline Uniform Accounting Regulations, C.R.C. 1978, c. 1053; (ii) be as detailed as the information provided in Exhibits 6 and 17 filed in the public hearing held pursuant to Order No. RH-3-81; (iii) contain an explanation of any unusual items; and <p>(b) on or before the 28th day of February in each year commencing with the year 1982, file with the Board and serve on interested parties an analysis of the variances between the approved budgets for the prior year and the actual expenses incurred in that year, together with any application for authority to includes in its cost of service any overruns.</p>	<p>Paragraph 2(a) and 2(b) – <i>Foothills will no longer file an annual Operating and Maintenance (O&M) expense budget for approval on December 1 of each year. O&M expense will automatically flow through into the cost of service and will be included in the effective rate filing made on December 1. Foothills will no longer file a variance report on or before February 28. This provision should be revised as follows:</i></p> <p>Foothills (Yukon) shall (a) on or before the first day of December in each year commencing with 19812004, file with the Board and serve on interested parties its proposed Operating and Maintenance expense budgets<u>effective rates</u> for the next succeeding year <u>filed pursuant to Section 60(1)(a) of the National Energy Board Act.</u> which budgets shall</p> <ul style="list-style-type: none"> (i) identify cost elements by account number as set out in the Gas Pipeline Uniform Accounting Regulations, C.R.C. 1978, c. 1053; (ii) be as detailed as the information provided in Exhibits 6 and 17 filed in the public hearing held pursuant to Order No. RH-3-81; (iii) contain an explanation of any unusual items; and <p>(b) on or before the 28th day of February in each year commencing with the year 1982, file with the Board and serve on interested parties an analysis of the variances between the approved budgets for the prior year and the actual expenses incurred in that year, together with any application for authority to includes in its cost of service any overruns.</p>

<p>Paragraph 3</p> <p>Interested parties shall, within 15 days of being served with any budget or analysis of variances referred to in Paragraph 2, notify the Board and Foothills (Yukon) whether they wish to make representations to the Board respecting the said submission.</p> <p>Paragraph 4</p> <p>Foothills (Yukon) shall not include in the tolls to be charged in any year any amounts on account of Operating and Maintenance costs which are in excess of the budgets approved by the Board for that year, until the Board otherwise directs.</p> <p>Paragraph 5</p> <p>Where Foothills (Yukon), Foothills (Alta.) or Foothills (South B.C.) incur in any year Operating and Maintenance expenses in excess of the approved budgets, such excess expenses shall be recorded in a sub-account of account 179, Other Deferred Debits, established for that purpose, together with carrying charges calculated each month at a rate of 1/12 the sum of the current commercial bank prime rate plus 1% on the average of the opening and closing balances for the month in the sub-account, until the disposition of any balance in such sub-account is determined by the Board.</p>	<p>Paragraph 3 – <i>O&M expense and any variances to O&M from the prior year will be included in the effective rates filings. This provision should be revised as follows:</i></p> <p>Interested parties shall, within 15 days of being served with any budget or analysis of variances<u>the effective rate filing</u> referred to in Paragraph 2, notify the Board and Foothills (Yukon) whether they wish to make representations to the Board respecting the said submission.</p> <p>Paragraph 4 – <i>Foothills will not seek separate approval of O&M budgets. Any variances to O&M expense will be trued up in the following year’s effective rate filing. This provision should be revoked.</i></p> <p>Paragraph 5 – <i>Foothills will not seek separate approval of O&M budgets. Variances to O&M expense or other costs will be trued up in the following year’s effective rate filing. Carrying charges will be calculated in accordance with the provisions outlined in Section 8.8 of the Rate Schedule of the subsidiary companies’ Tariffs. This paragraph should be revoked.</i></p>
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Table 4: Order TG-4-82

Current Order TG-4-82	Proposed Changes to TG-4-82
<p>Paragraph 1</p> <p>Foothills (Yukon) and its subsidiaries shall, effective on the day of commencement of operation of the prebuild facilities in Zones 6 and 9, and effective on the 1st day of September 1982 for Zones 7 and 8, charge in respect of natural gas transmitted by it through the said facilities in each month only those tolls for each such month as are determined in accordance with this Order and with:</p> <ul style="list-style-type: none"> (a) Order TG-1-79, as amended by Order No. AO-1-TG-1-79, and Order No. TG-4-79, Order No. TG-2-81, and Order No. TG-5-81 as amended by Order No. AO-1-TG-5-81; (b) The Board’s Reasons for Decision dated August 1981, resulting from the hearing held under Order No. RH-3-81; (c) The Board’s Reasons for Decision dated July, October, and November, 1979 and March, May and June 1980, resulting from the public hearing held under Order No. RH-2-79. 	<p>Paragraph 1 – <i>This Order indicates that tolls to be charged in each month for Zones 6, 7, 8 and 9 are to be calculated in accordance with Order TG-1-79 as amended by AO-1-TG-1-79 and Order TG-4-79, Order TG-2-81 and Decisions RH-3-81 and RH-2-79. In addition, tolls will now also be calculated in accordance with the order to be issued to give effect to the Board’s decision in respect of the Tolls and Tariff Amendment Application. The reference to the Board’s Reasons for Decisions in RH-2-79 and RH-3-81 cannot be revoked as they deal with a number of toll and tariff matters. As indicated in sub-point (b) below, this provision should incorporate a reference to the Tariff Amendments approved by the Board to give effect to the new tolling methodology. This provision should be revised as follows:</i></p> <p>Foothills (Yukon) and its subsidiaries shall, effective on the day of commencement of operation of the prebuild facilities in Zones 6 and 9, and effective on the 1st day of September 1982 for Zones 7 and 8, charge in respect of natural gas transmitted by it through the said facilities in each month only those tolls for each such month as are determined in accordance with this Order, <u>as amended</u> and with:</p> <ul style="list-style-type: none"> (a) Order TG-1-79, as amended by Order No. AO-1-TG-1-79, and Order No. TG-4-79, Order No. TG-2-81, and Order No. TG-5-81 as amended by Order No. AO-1-TG-5-81, <u>and Order No. X</u>; <u>(b) The provisions of the Foothills’ Gas Transportation Tariff – Phase 1 as approved by the Board in Order No. X</u>; (b)<u>(c)</u> The Board’s Reasons for Decision dated August 1981, resulting from the hearing held under Order No. RH-3-81; <u>and</u> (c)<u>(d)</u> The Board’s Reasons for Decision dated July, October, and November, 1979 and March, May and June 1980, resulting from the public hearing held under Order No. RH-2-79.

Paragraph 4, as amended by AO-11-TG-4-82

For the purpose of determining the tolls to be charged in respect of the transmission of natural gas through the prebuild facilities in each month, Foothills (Yukon) shall calculate its cost of service for each such month in accordance with the procedures set out in the Gas Transportation Tariff – Phase 1 modified as necessary in accordance with this Order, and incorporating;

- (a) a return on equity of 16 per cent,
- (b) taxes calculated on a flow-through basis commencing with the year 1992, and
- (c) where applicable, the recalculated amounts approved by the Board pursuant to paragraph 3.

Paragraph 4 – *The cost of service is now calculated on an annual basis rather than a monthly basis. It should be noted that the rate of return on common equity (ROE) is established annually by the Board pursuant to the ROE adjustment mechanism determined in RH-2-94, revised 14 March 1997. For clarity Foothills proposes that Order TG-2-81 be amended to incorporate changes resulting from the Board’s decision in respect of the Tolls and Tariff Amendment Application as well as the changes to rate of ROE and taxes. This provision should be revised as follows:*

For the purpose of determining the tolls to be charged in respect of the transmission of natural gas through the prebuild facilities in each month, Foothills (Yukon) shall calculate its cost of service ~~for each such month~~annually in accordance with the procedures set out in the Gas Transportation Tariff – Phase 1 modified as necessary in accordance with this Order and Order No. X, and incorporating;

- (a) ~~a~~the return on common equity established by the Board pursuant to Decision RH-2-94,
- (b) taxes calculated on a flow-through basis commencing with the year 1992, and
- (c) where applicable, the recalculated amounts approved by the Board pursuant to paragraph 3.

Table 5: Order TG-10-87

Current Order TG-10-87	Proposed Changes to TG-10-87
	<i>This order should be revoked as its provisions are completely superceded by the new tolling methodology for IT service as outlined in the Amendment Application.</i>

Table 6: Order TG-1-88

Current Order TG-1-88	Proposed Changes to TG-1-88
	<i>This Order should be revoked as Measurement (M-2) service is discontinued.</i>