

WESTCOAST ENERGY INC.

APPLICATON TO THE

CANADA ENERGY REGULATOR

FOR APPROVAL OF

2022 TO 2026 TRANSMISSION TOLL SETTLEMENT

NOVEMBER 9, 2022

IN THE MATTER OF the *Canadian Energy Regulator Act* (Act) and the Regulations made thereunder;

- and -

IN THE MATTER OF an application by Westcoast Energy Inc. (Westcoast) dated November 9, 2022 pursuant to section 226 of the Act for approval of a transmission toll settlement covering the period January 1, 2022 to December 31, 2026 (Application).

TO: Canada Energy Regulator
Suite 210, 517 – 10th Avenue S.W.
Calgary, Alberta
T2R 0A8

APPLICATION

1. Westcoast is a "company" within the meaning of the Act.
2. Westcoast owns and operates a natural gas pipeline system extending from points in Alberta and British Columbia to a point on the international boundary between Canada and the United States of America near Huntingdon, British Columbia.
3. Westcoast provides shippers on its pipeline system with mainline transmission service in two zones (Transmission North [T-North] and Transmission South [T-South]) in respect of natural gas produced in British Columbia and Alberta.
4. During the period January 1, 2020 to December 31, 2021, Westcoast's tolls for mainline transmission services in T-North and T-South were determined pursuant to the terms of a toll settlement approved by the Canada Energy Regulator (CER) on July 17, 2020 pursuant to Toll Order TG-007-2020.
5. Since January 1, 2022 Westcoast has been charging interim tolls for transmission service in T-North and T-South which were approved by the CER on December 16, 2021 pursuant to Toll Order TGI-004-2021.
6. Westcoast has entered into a settlement agreement (Settlement) dated November 3, 2022 with the parties listed in Appendix A of the Settlement (collectively the Stakeholders), respecting the

determination of tolls for mainline transmission services in T-North and T-South for 2022 through 2026. A copy of the Settlement is attached to this Application.

Settlement Process

7. The Westcoast Toll and Tariff Task Force (TTTF) has been established to provide a forum for stakeholders to exchange information and to raise, debate and resolve Westcoast toll and tariff issues in a collaborative environment which is recognized as being superior to litigation for the resolution of such issues. The TTTF is intended as a centralized information and consensus building vehicle for Westcoast, its shippers and interested parties.
8. At the September 16, 2021 TTTF meeting Westcoast presented information regarding the upcoming settlement negotiations including an overview of the process, the anticipated timeline as well as meeting format and expectations of participants. Also at that meeting, Westcoast invited any party having an interest in Westcoast system toll and tariff matters to participate in the settlement negotiations.
9. Following the September TTTF meeting a settlement negotiation group was established, comprised of all parties who requested to be included in the settlement process (the Stakeholders). A series of meetings was held to facilitate discussions and information sharing which ultimately resulted in the Settlement. The Stakeholders represent, directly or indirectly, a wide base of Westcoast's shippers, gas producers and end-use markets.

Summary of the 2022 to 2026 Transmission Toll Settlement

10. The Settlement is an agreement on the determination of the revenue requirement and other matters to be used to set Westcoast's T-North and T-South tolls for each of the years 2022 through 2026. The Settlement is to be viewed as a whole, consistent with the CER's practice of treating settlements as a package.
11. Under the Settlement, Westcoast's tolls in T-North and T-South will be based on a forecast revenue requirement of \$789.577 million in 2022, \$805.789 million in 2023, \$829.265 million in 2024, \$855.746 million in 2025, and \$857.202 million in 2026 (for each year including forecast motor fuel and carbon taxes). A summary of the forecast revenue requirement, depreciation rates and rate base for each of 2022 through 2026 is set out in Appendices B, C and F to the Settlement.

12. Operating and maintenance (O&M) expenses excluding pipeline integrity O&M expenses in T-North and T-South for each of the years 2022 to 2026 will be fixed and are set out in Appendix B to the Settlement.
13. As part of this Application, Westcoast is applying to the CER for approval of final tolls for 2022 that are equal to the interim tolls approved by the CER on December 16, 2021 by Toll Order TGI-004-2021.
14. Effective the first day of the month following CER approval of the Settlement, contract demand credits will no longer be provided, as reflected in the amendments to the Westcoast Energy Inc. General Terms and Conditions – Service set out in Appendix E to the Settlement and filed with the CER concurrently with this Application.
15. Under the Settlement, the forecast average rate base and revenue requirement for 2023, 2024, 2025 and 2026 to be used to set Westcoast’s tolls in T-North and T-South for such years will be updated to reflect (i) actual capital expenditures for all flow-through capital cost items in 2022, 2023, 2024 and 2025, respectively, (ii) the previous years’ year-end deferral account balances, (iii) an updated forecast of the capital expenditures for all flow-through capital cost items in each year of the Settlement, and (iv) any other adjustments to the forecast required as a result of the Settlement. The average rate base for 2027 will be updated to reflect the actual capital expenditures incurred from 2022 to 2026.
16. Westcoast will by December 1 of each year apply to the CER for approval of interim tolls for T-North and T-South for the following year based on a forecast of the tolls for the year that is the subject of the application, having regard for the adjustments contemplated by the Settlement.
17. Toll rates will be calculated based on Westcoast’s existing toll design, subject to toll design proposals that may be brought forward during the term of the Settlement.
18. The Settlement provides for an overall composite depreciation rate of 3.07 percent in 2022, 3.07 percent in 2023, 3.08 percent in 2024, 3.07 percent in 2025, and 3.02 percent in 2026. A table of depreciation rates by CER account number and for general plant is set out in Appendix C to the Settlement. The depreciation expense based on these rates is included in the revenue requirement for each year of the Settlement. An adjustment mechanism is also contemplated in the Settlement such that, in the event the actual rate of return on common equity attained by

Westcoast, in any year of the Settlement, exceeds 10.4 percent, the depreciation expense will be adjusted upwards for such year to reflect the amount that exceeds 10.4 percent.

19. The Settlement provides that, for each year of the Settlement, all revenue collected by Westcoast from discretionary service in T-North below \$4 million will be for the account of Westcoast's T-North shippers. All revenue collected by Westcoast from discretionary revenue in T-North above \$4 million will be shared 50 percent to the account of Westcoast and 50 percent to the account of Westcoast's T-North shippers. For each year of the Settlement, all revenue collected by Westcoast from discretionary service in T-South below \$2 million will be for the account of Westcoast's T-South shippers. All revenue collected by Westcoast from discretionary service in T-South above \$2 million will be shared 50 percent to the account of Westcoast and 50 percent to the account of Westcoast's T-South shippers. The Settlement also provides that interruptible transportation (IT) service on T-South will be biddable with the minimum floor price at the applicable AOS fixed rate existing at the time. Westcoast will consult with the TTF regarding tariff amendments required for the implementation of biddable IT on T-South. The required tariff amendments will be filed with the CER and will have effect until December 31, 2026.
20. Under the Settlement, any rebates or credits arising from the Clean BC Industrial Incentive Program (CIIP) will be shared between Westcoast and Westcoast's shippers according to the fuel efficiency and emissions incentive mechanism (FEEIM) set out in Appendix D to the Settlement. Any changes to the FEEIM as a result of new legislation, amendments to existing legislation or changes to the CIIP during the term of the Settlement will be agreed on by Westcoast and the Stakeholders.
21. New services and products, if any, and the treatment of the associated costs and revenue will be considered by the TTF prior to implementation.
22. In accordance with the Settlement, Westcoast is applying to the CER for approval to maintain for accounting and toll-making purposes the following cost of service and revenue deferral accounts which are set out in Article 4 of the Settlement:

Cost of Service Deferral Accounts

- Pipeline Integrity
- Shelley Incident Insurance Recoveries
- CER Cost Recovery
- Property Taxes

- Income Tax Expense and Other Taxes
- System Gas Management Costs
- Swing Gas Costs
- Debt Rate
- Miscellaneous Operating Expense/Revenue
- Pipeline Abandonment Funding
- Abandonment Funding Proceedings
- Silverstar Expansion Project
- Spruce Ridge Program
- T-South Reliability and Expansion Program
- Other Expansion Facilities
- Pipeline Class Location Upgrade Program
- Compressor Upgrade/Replacement
- Material Asset Divestitures
- Insured Losses Within the Insurance Deductible
- Material Changes in Costs
- Shipper Requested Programs
- SRED Consulting
- Capital Cost Review Consulting

Revenue Deferral Accounts

- Contract Demand
- Discretionary Revenue
- 2022 Fixed Toll Adjustment

23. The Settlement provides that the year-end balance of each deferral account will, together with interest thereon, flow through to the account of Westcoast's shippers for each year of the Settlement in accordance with the existing methodology. The balance of Shelley Incident Insurance Recoveries deferral account and the Discretionary Revenue deferral account as of December 31, 2021 will be amortized equally over each year of the Settlement.
24. Westcoast will continue to file quarterly and year end surveillance reports with the CER in accordance with the CER's requirements for Group 1 pipeline companies. Westcoast will also provide the TTF with certain monthly and annual reporting as set out in Article 8 of the Settlement.

The Settlement is in the Public Interest

25. In Westcoast's submission, the Settlement forms an appropriate basis for calculating tolls that are just and reasonable and should be approved by the CER. In Westcoast's submission the Settlement is in the public interest:
- (a) The Settlement was negotiated at arm's length. All parties to the Settlement actively participated in the negotiations and these parties represent, directly or indirectly, a wide base of Westcoast's shippers, gas producers and end-use markets.
 - (b) The Settlement is consistent with the CER's desire to streamline the regulatory process and, to the extent possible, minimize the degree of oversight and burden associated with regulation of companies under the CER's jurisdiction.
 - (c) The Settlement satisfies the criteria for negotiated settlements set out in the National Energy Board's Revised Guidelines for Negotiated Settlements of Traffic Tolls and Tariffs dated June 12, 2002.

Relief Requested

26. Westcoast hereby applies for an order or orders under section 226 of the Act for:
- (a) approval of the Settlement;
 - (b) approval of final tolls for 2022 that are equal to the interim tolls approved by CER Toll Order TGI-004-2021 for the period January 1, 2022 to December 31, 2022;
 - (c) approval to establish 2023 through 2026 transmission tolls in T-North and T-South in accordance with the Settlement;
 - (d) approval of the depreciation rates set out in Appendix C to the Settlement;
 - (e) approval to maintain for accounting and toll making purposes the cost of service and revenue deferral accounts set out in Article 4 of the Settlement and which are required to give effect to the Settlement over the term of the Settlement and to dispose of the balances in such deferral accounts from time to time in accordance with the terms of the Settlement; and
 - (f) such further and other relief as Westcoast may request or the CER may consider appropriate.

All of which is respectfully submitted.

DATED November 9, 2022

WESTCOAST ENERGY INC.

Tracy Holden
Technical Manager, Tariff & Regulatory

All notices and communications in connection with this Application should be directed to:

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