

National Energy
Board



Office national
de l'énergie

Essentials of Cost Recovery at the National Energy Board

Canada

A. PRINCIPLES

- ◆ The *National Energy Board Act* (Sec. 24.1) empowers the NEB to make regulations:
 - imposing charges to recover costs attributable to its responsibilities, and
 - providing for the manner of calculating those charges

- ◆ Specifics are set out in the *National Energy Board Cost Recovery Regulations*



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A. PRINCIPLES - continued

- ◆ Recoverable costs is a defined term:

NEB Operating & Capital costs
PLUS
Cost of services provided without charge to the NEB
DEDUCT
“Frontier” costs
= NEB Recoverable Costs

- ◆ Also not included in recoverable costs – cost of work and associated overheads performed on behalf of other departments and agencies under MOUs



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A. PRINCIPLES - continued

◆ Other

- For purposes of cost recovery, the fiscal period is the calendar year
- The Auditor General performs an annual audit of NEB cost recovery financial statements



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B. CONCEPTS

Who Pays What?

- ◆ NEB cost recovery applies only to NEB-regulated companies and facilities
- ◆ Cost recovery is premised on commodity charging. This means that costs are allocated to the principal commodities regulated by the NEB before being allocated to specific entities within those sectors.
 - Oil – oil pipelines
 - Gas – gas pipelines
 - Electricity – as of 1 January 2010, international and interprovincial power lines (previously electricity exporters)
 - Commodity pipelines (water, steam, CO₂) are charged fixed levies



B. CONCEPTS - continued

Who Pays What?

- ◆ Companies pay their share of recoverable costs in 3 ways:
 - “Greenfield” levies (new companies not already regulated by the NEB
 - Sec. 5.2 & 5.3)
 - Fixed levies (small, intermediate companies and other commodities)
 - Proportional levies (large companies)

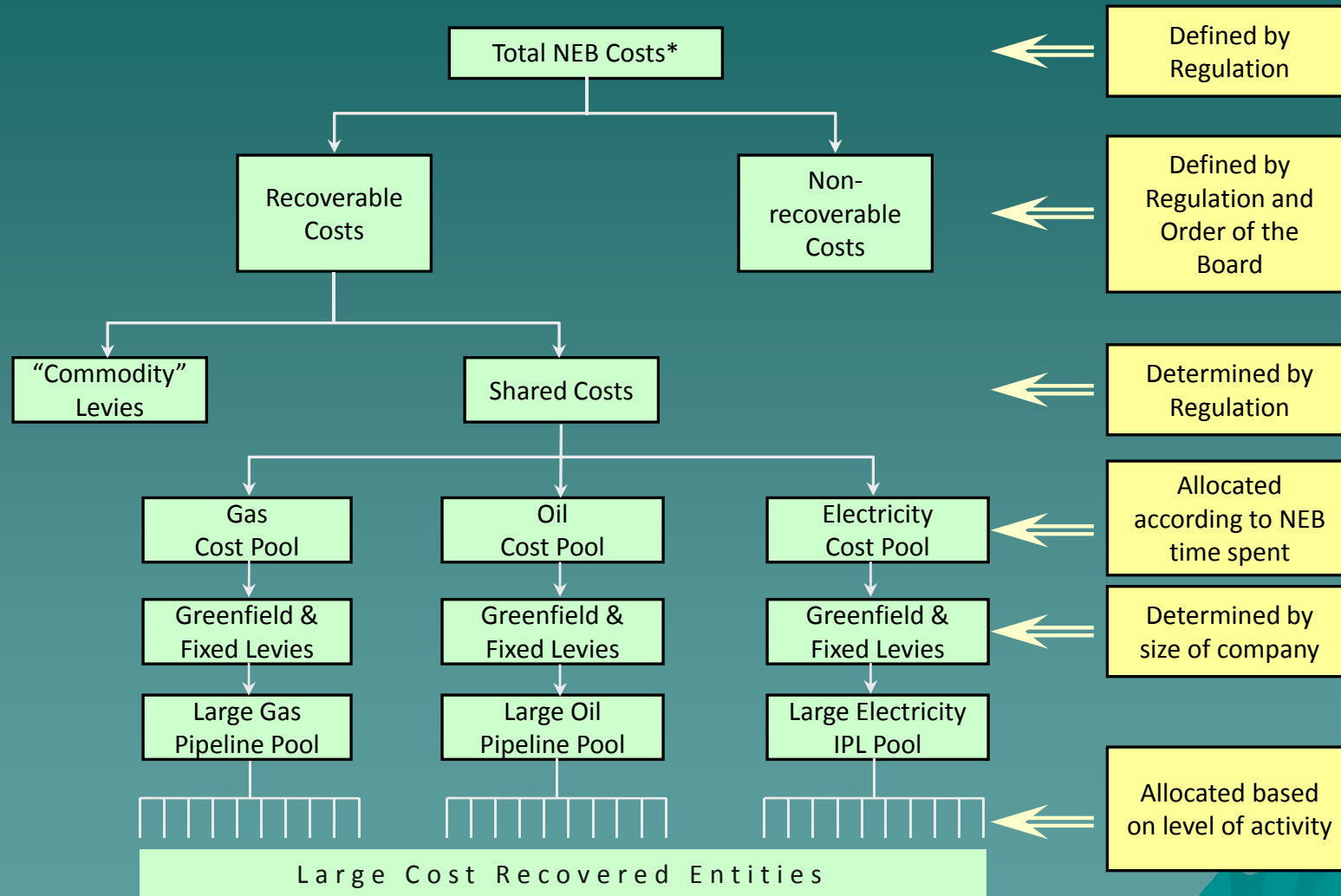


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The Allocation "Cascade"



B. CONCEPTS – continued

◆ Allocation Principles

- Allocation of costs to commodity categories is based on time spent on each commodity – gas, oil, electricity
- Within each commodity group, costs are shared according to activity levels (throughputs, exports)



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C. PROCESS

1. Obtain relevant company operating data (August 31)
 - Throughputs, power line transmissions, cost of service
 - ◆ actuals for previous year(s)
 - ◆ forecasts for next year



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C. PROCESS - continued

2. Determine estimate of next year's recoverable costs for NEB
 - obtain NEB budgets for current and next fiscal years
 - adjust fiscal years to calculate estimated budget for next calendar year
 - calculate estimate of recoverable costs for next calendar year



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C. PROCESS - continued

3. Obtain audited results for previous calendar year
4. Calculate difference between previous year's estimated costs and audited actual costs
5. Determine adjustment (if any) for each company
6. Calculate estimated billing for each company for the coming year— adjusted for differences determined in Step 5



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C. PROCESS - continued

7. Issue information package with preliminary estimated billing information (September 30)
8. Receive applications for relief under Sec 4.1 (October 31)
9. Issue (December 31) final estimated billing for coming year reflecting:
 - adjustments arising from differences between estimates and actuals from preceding year
 - reallocations arising from approved applications for relief



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C. PROCESS - continued

10. During the next year, issue quarterly invoices to large companies and single invoice at mid-year to small and intermediate companies based on estimated fees.



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Process Summary

DATA ASSEMBLY

NEB - costs and time allocation

Company throughputs - forecasts

Actual results from previous years - NEB and companies



Create & issue preliminary billing forecast



Receive, review & approve applications for relief under Sec. 4.1



Issue adjusted billing forecast



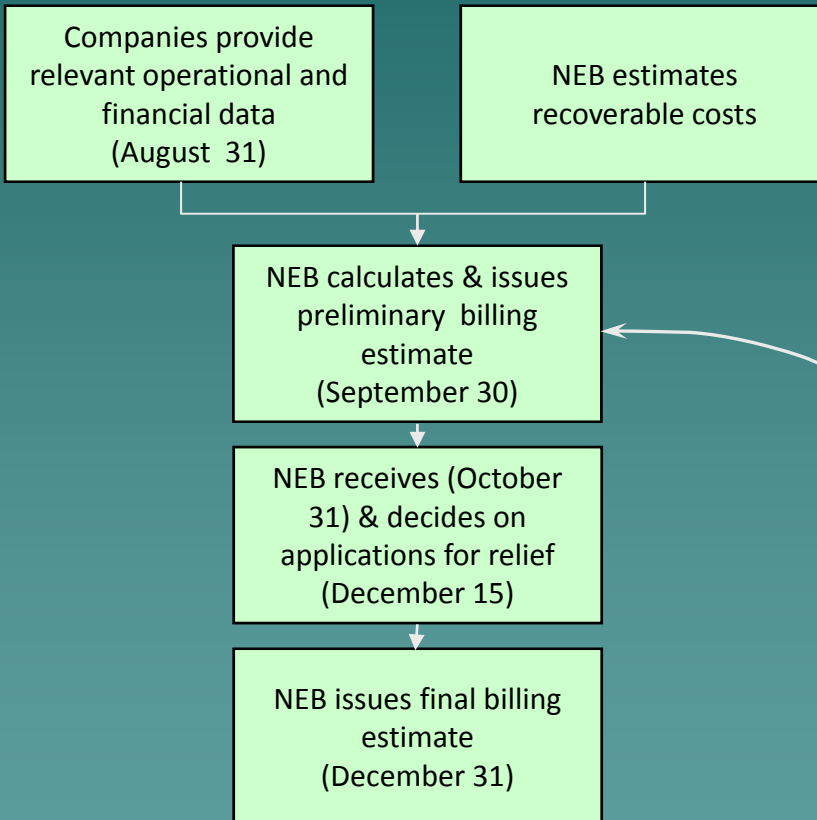
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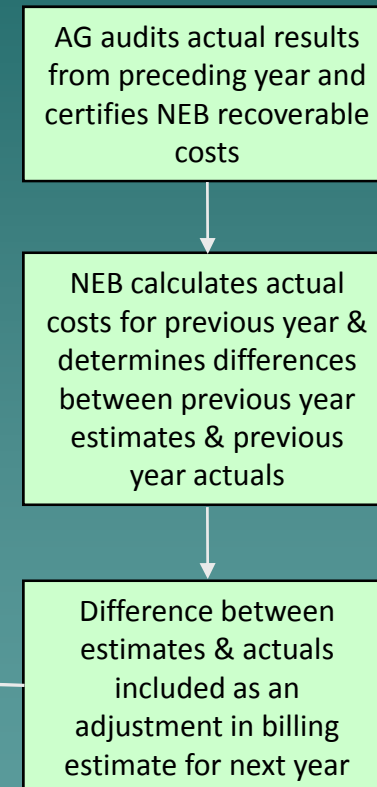
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Cost Recovery Estimated Billing Process

PREPARE ESTIMATES FOR NEXT YEAR



CALCULATE ACTUALS FOR PREVIOUS YEAR



D. Other

◆ Cost Recovery Liaison Committee

- Formal/informal in nature – initiated by Board & terms of reference published in Canada Gazette but no defined membership, structure or processes
- Presently consists of industry associations and a few companies
- Meetings held 2 – 3 times a year, usually in Calgary but sometimes elsewhere
- Purpose – provide a forum to raise issues/concerns relating to cost recovery/CR regulations, accountability reports by NEB, discuss upcoming estimates, etc.
- Invite you to consider participation



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