

National Energy  
Board



Office national  
de l'énergie

***National Energy Board  
Cost Recovery Regulations  
for the Electricity Industry***

**De-mystifying Cost Recovery Fees  
(It's easy as A B C)**

2 June 2005  
Hotel Queen Elizabeth, Montreal

Canada



## A. PRINCIPLES

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



## **A. PRINCIPLES continued**

### **2. Under the Regulations, companies are invoiced for:**

#### **▶ Recoverable Costs**

- Approximately  $\frac{3}{4}$  of NEB costs are salaries**
- The remaining costs are classified as operating and maintenance**

#### **▶ Not all costs are recoverable**



## **A. PRINCIPLES continued**

### **3. Recoverable costs do not include costs for activities relating to, e.g. :**

- **frontier areas (e.g. COGOA lands)**
- **work on behalf of other departments/agencies**
- **overheads pertaining to non-recoverable costs**



## **A. PRINCIPLES continued**

### **4. Assurance**

- ▶ **The Auditor General performs an annual audit of NEB costs**
- ▶ **The pool of Recoverable Costs is certified**
- ▶ **For purposes of cost recovery, the fiscal period is the calendar year**



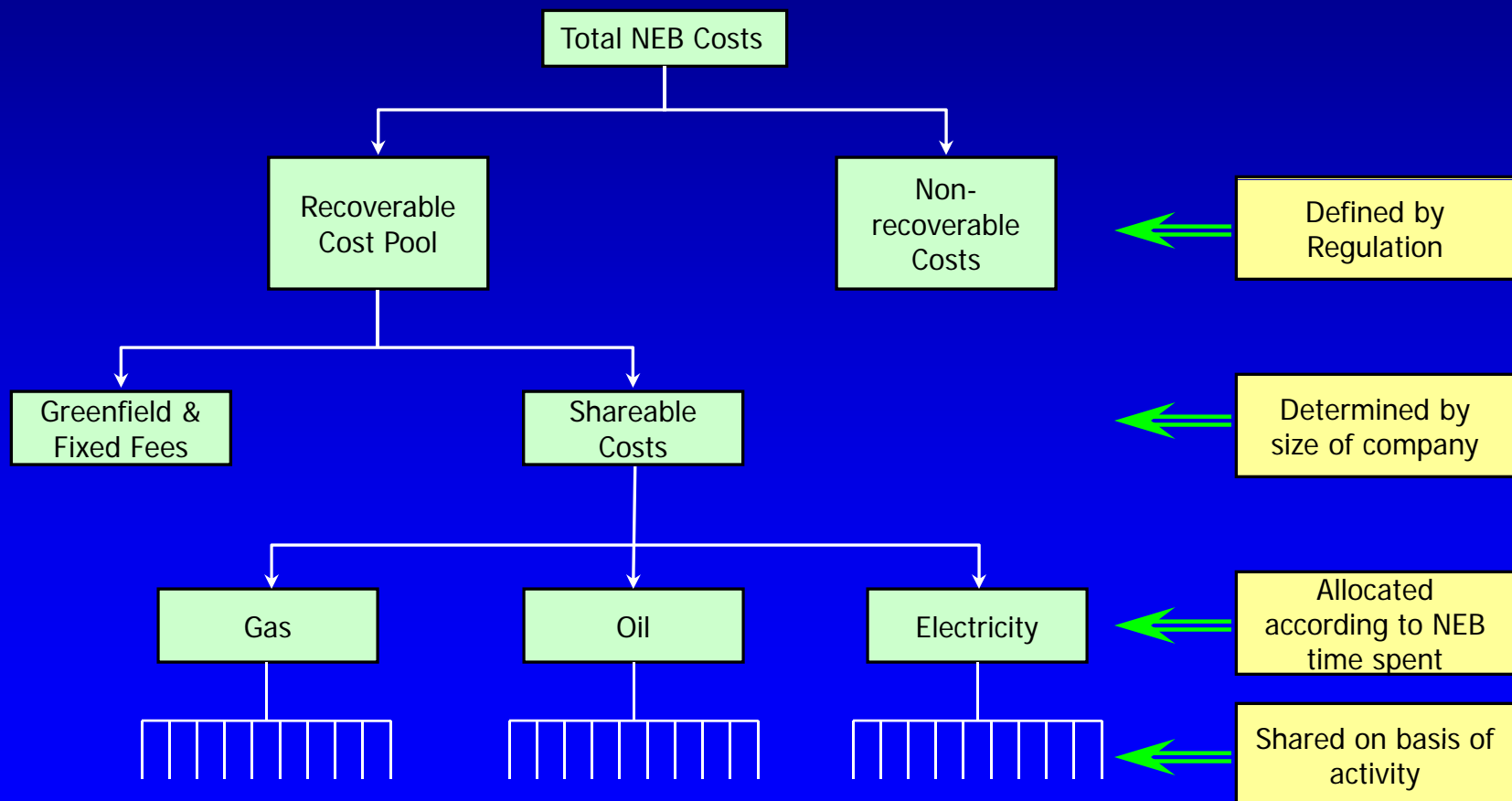
## **B. CONCEPTS**

### **1. Companies pay their share of recoverable costs in 3 ways:**

- **“Greenfield” levies (pipeline start-ups only – Sec 5.2)**
- **Fixed fees (small, intermediate companies and “other” commodities)**
- **Sharing remaining pool of costs (large companies)**



# The Allocation "Cascade"





## **B. CONCEPTS – continued**

### **2. Allocation Principles**

- **Allocation of costs to commodity categories is based on time spent on each commodity – gas, oil, electricity.**
- **Non-specific time (i.e. not attributed to a specific commodity) is allocated across all commodities in proportion to the time spent on those commodities.**
- **Within each commodity group, costs are shared according to activity levels (throughputs, exports)**





## B. CONCEPTS – continued

### 3. Cap on fees (Sec 4.1)

- ▶ For large oil, gas and commodity pipelines, fees may be capped at 2% of the cost of service for that company. (Company must apply for relief.)

### 4. Electricity export averaging

- ▶ Sharing of costs allocated to large electricity exporters is based on a 4 year rolling average of export activity.



## **C. PROCESS**

### **1. Obtain relevant company operating data**

#### **▶ Throughputs, exports, cost of service (August 31)**

- actuals for previous year(s)**
- forecast for current year**
- forecast for next year**



## **C. PROCESS - continued**

### **2. Determine estimate of next year's recoverable costs**

- **obtain NEB budgets for current and next fiscal years**
- **adjust fiscal years to calendar estimate budget for next calendar year**
- **calculate estimate of recoverable costs for next calendar year**



## **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**



## **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)**

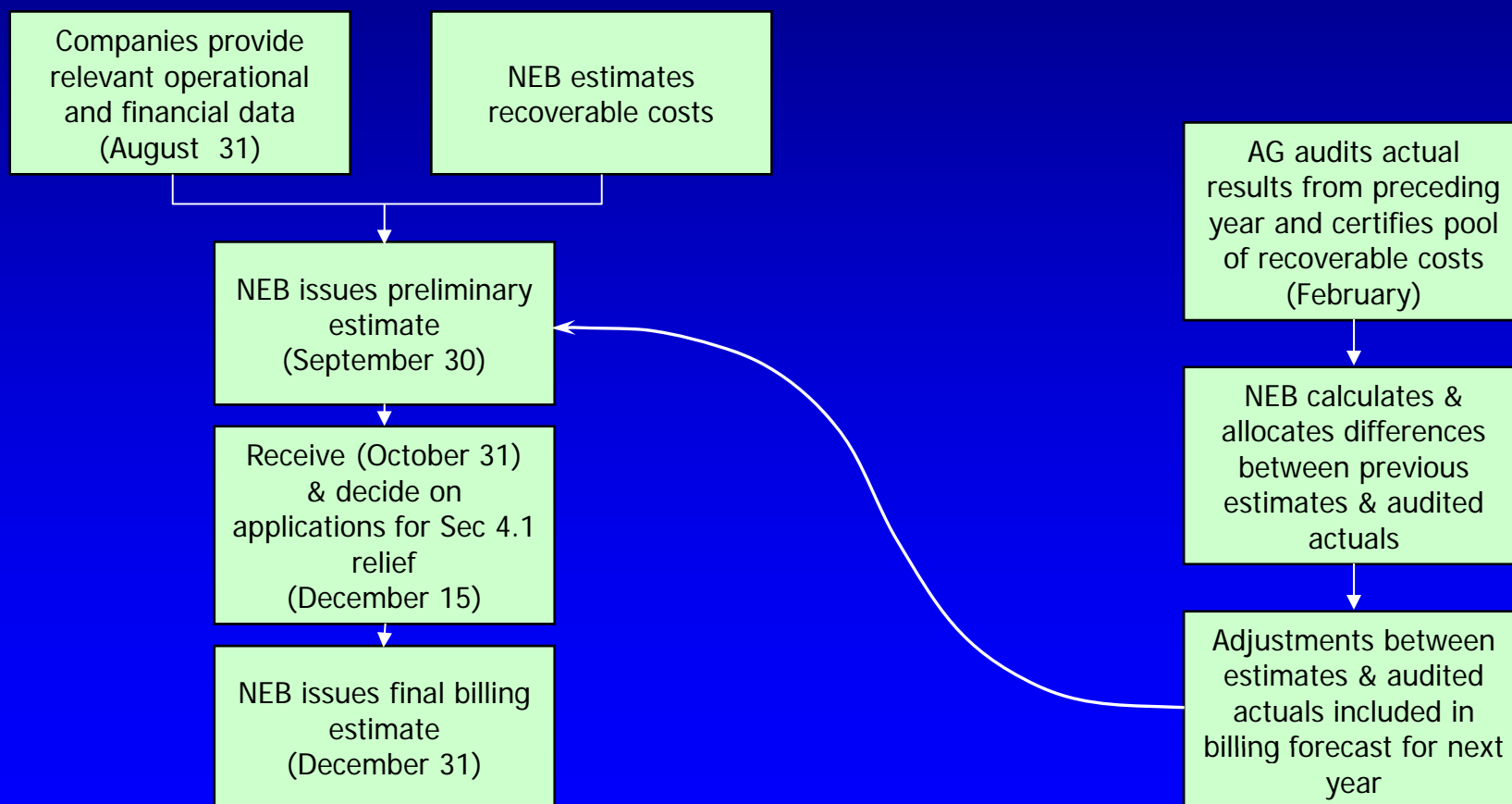


## **C. PROCESS - continued**

- 9. Issue (December 31) final estimated billing for coming year reflecting:**
- **final estimate of NEB recoverable cost for next year**
  - **adjustments arising from differences between estimates and actuals from preceding year**
  - **reallocations arising from approved applications for relief**



# Cost Recovery Estimated Billing Process





## **C. PROCESS - continued**

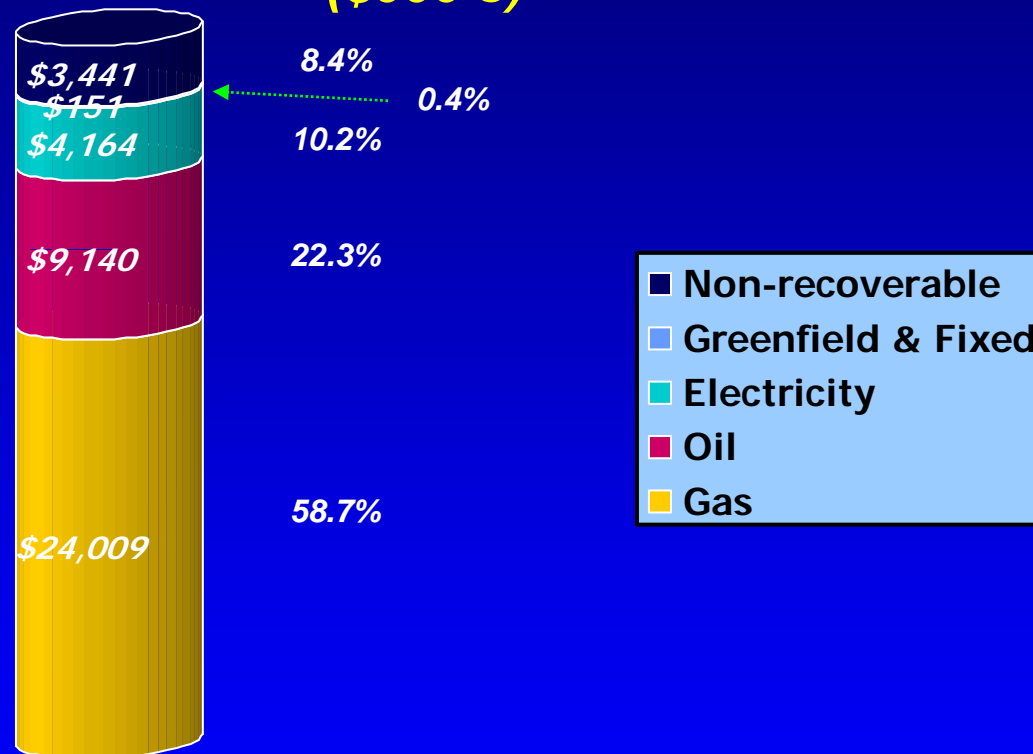
- 10. During the next year, issue quarterly invoices to large companies and single invoice at mid-year to small and intermediate companies based on estimated fees.**

**The End**





# Cost Recovery – 2003 (\$000's)



Total NEB costs for 2003 - \$40,906,000



# NEB & Electricity Costs – 1998 to 2005

(\$ millions)

YEAR	1998	1999	2000	2001	2002	2003	2004	2005
Total NEB Recoverable Costs	30.0	33.5	32.3	32.5	32.3	37.5	38.9	39.3
Electricity portion of costs	1.1	1.5	1.9	1.8	3.8	4.2	5.2	5.5
Electricity costs as % of total NEB costs	3.7	4.3	6.0	5.6	10.0	11.1	13.3	13.9

1998 to 2003 – audited costs  
2004 & 2005 – estimated costs

