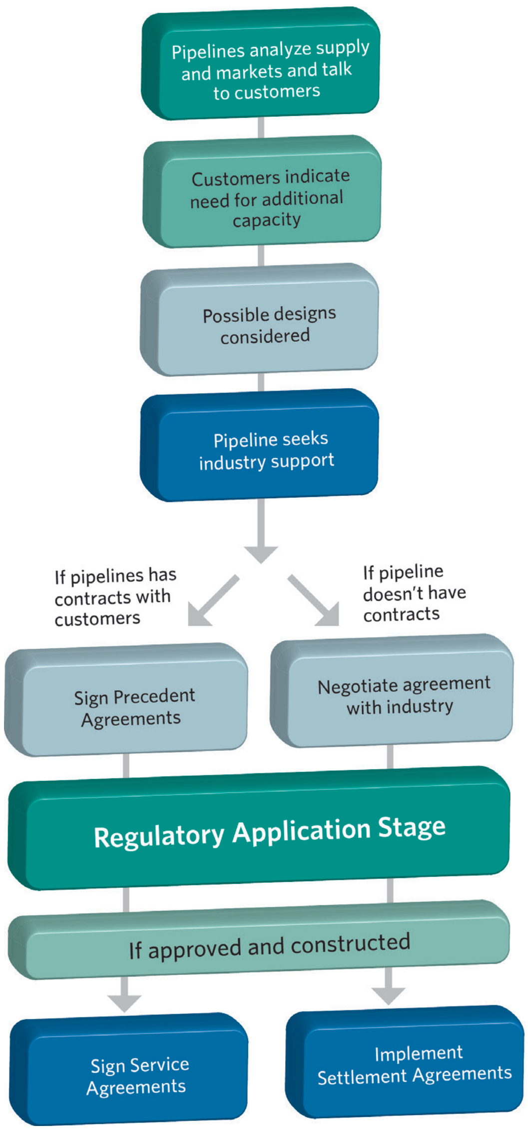
BUILDING NEW FACILITIES

ISSUE: HOW DO PIPELINE COMPANIES DECIDE WHETHER TO BUILD NEW FACILITIES?



Pipeline companies regularly monitor the supply and demand for the fuels they transport, and discuss this with their customers. Oil pipeline customers (often called shippers) are usually producers or refiners. Gas pipeline company shippers include major natural gas distributors, power generators, industrial companies, producers and marketers.

If a requirement for more capacity is identified, the pipeline may get verbal indications of interest from customers or they may hold a non-binding 'Open Season' to assess interest. Customers have a limited period of time to let the pipeline company know how much capacity they are interested in.

When customers say that they do want more capacity, the pipeline company will look at various designs for the project, their capital costs and the resulting tolls. These expansion plans are shared with shippers to discuss the most cost effective options, timing and commercial terms for the project.

Once a project receives industry support to move to the next stage, the pipeline company will ask for firm commitments. In the case of pipelines that have contracts with their customers, this could take the form of an Open Season which requires that shippers sign binding precedent agreements. These precedent agreements will commit the shipper to sign a contract, called a service agreement, if the conditions outlined in the agreement are met. For example, the conditions could be that the pipeline receives regulatory approval and that the pipeline

QUICK FACTS:

- The NEB regulates the tolls that pipeline companies charge their customers for capacity on pipelines.
- New pipeline plans originate from the customers need for more shipping capacity.
- Sometimes pipeline customers help pay for the costs involved in moving the project through the regulatory application phase.

company makes the decision to go ahead with the project. If these conditions are met, the shipper will then be bound by the terms of the service agreement. These firm commitments are not necessarily required for the full capacity of the pipeline, but a minimum level is needed.

Some oil pipelines do not have contracts with their customers. In this case, the pipeline will negotiate a settlement with its customers, often using the Canadian Association of Petroleum Producers as a vehicle for these negotiations. The settlement will cover the commercial terms including costs, tolls and financing arrangements.

For some major new facilities, customers of the project will also provide funds to pay for engineering, environmental and other costs required to move the project through the regulatory application stage. This reduces the financial risk to a pipeline if the project does not receive regulatory approval.