



File OF-Tolls-Group2-S383-FinAud 01
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Dear Ms. Kolber:

**Spectra Energy Midstream Canada Partner Corporation, as general partner of
Spectra Energy Midstream Canada L.P., on behalf of Spectra Energy Midstream
Canada L.P. (Spectra Midstream)
National Energy Board Financial Regulatory Audit of Years 2012-2014**

On 22 January 2016, the National Energy Board (Board) issued a draft report on a focused financial regulatory audit of Spectra Midstream for the years 2012 through 2014, and invited Spectra Midstream to comment on its contents. On 5 February 2016, Spectra Midstream submitted its comments on the draft report.

The Board has considered Spectra Midstream's comments and has incorporated this information into the final audit report. As appropriate, the Board has provided brief comments in response. Spectra Midstream's attention is drawn to the Board's response to Finding 1, where the Board directs Spectra Midstream to file with the Board a tariff specifying the tolls charged on the West Doe Pipeline by 11 March 2016.

By way of this letter, the Board is issuing its final audit report. The Board directs Spectra Midstream to serve a copy of this letter and the attached final audit report on its shippers and other interested persons. The Board also advises that the final audit report is a public document and will be posted on the Board's website under "About Us – Publications and Reports – Financial Regulatory Audit Reports".

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The Board thanks Spectra Midstream's personnel for their cooperation and assistance during the audit.

Yours truly,

Original signed by

Sheri Young
Secretary of the Board

Attachment

c.c. Ms. Tracy Holden, Manager, Tariff and Regulatory Initiatives
Ms. Gillian Wasney, Regulatory Analyst

NATIONAL ENERGY BOARD
Final Report on an Audit of the Regulated Activities of
Spectra Energy Midstream Canada Partner Corporation,
as general partner of Spectra Energy Midstream Canada L.P.,
on behalf of Spectra Energy Midstream Canada L.P.
For the Years 2012 through 2014

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1.0 Introduction

The National Energy Board (Board or NEB) has completed a financial regulatory audit of the regulated activities of Spectra Energy Midstream Canada Partner Corporation, as general partner of Spectra Energy Midstream Canada L.P., on behalf of Spectra Energy Midstream Canada L.P. (Spectra Midstream or Company). The audit was comprised of a review of documents submitted by Spectra Midstream and follow-up requests for additional information between October 2015 and January 2016.

The objectives and scope of the audit, as well as observations, findings and recommendations are set out below. The following definitions are used in the context of this report:

Finding

An area of non-compliance with the *National Energy Board Act*, applicable regulations administered by the Board or Board decisions, tariff orders, directives or the terms of a toll settlement.

Recommendation

An opportunity to improve practices, or to change practices that are currently deemed to be in compliance but have the potential, based on professional judgment, to lead to non-compliance.

2.0 Audit Objectives

1. Determine whether the Company has complied with the *National Energy Board Act* (NEB Act), regulations and the Board's decisions, toll orders and other accounting and reporting directives.
2. Obtain information on the Company's current corporate and business structure, organizational charts and list of shippers.

3.0 Audit Scope

The Board conducted the audit pursuant to the audit plan issued by the Board on 16 July 2015. The focus of the audit was an examination of the Company's books, records and other documents for the years 2012 through 2014. Where necessary, the Board examined information from other years for the purposes of meeting the audit objectives. Records were reviewed to ensure that operations are consistent with the Board's regulations, decisions, orders and directives.

4.0 List of Findings and Recommendations

This audit report contains one finding. Matters giving rise to this finding are discussed in Section 5.0. The Board's finding is:

Finding 1 Spectra Midstream has not filed tariffs with the Board specifying the tolls charged for transportation service on the West Doe Pipeline and the Pesh Creek Pipelines, as required by paragraph 60(1)(a) of the *National Energy Board Act*.

5.0 Observations

5.1 Compliance with the NEB Act, Regulations, Decisions, Orders and Directives

Tolls and Tariffs

The Board examined compliance with subsection 60(1) of the NEB Act, which requires that a company shall not charge any tolls except tolls that are (a) specified in a tariff that has been filed with the Board and is in effect; or (b) approved by an order of the Board.

Spectra Midstream holds Board approvals for one operating pipeline and one deactivated set of pipelines. The West Doe Pipeline is currently operating and serves four third-party shippers. The Pesh Creek Pipeline and the Pesh Creek Pipeline Loop (Pesh Creek Pipelines) were placed into a deactivated mode in January 2013, partway through the audit period. In July 2014, the Board approved the deactivation of the pipelines, subject to certain conditions. Prior to their deactivation, the Pesh Creek Pipelines served third-party shippers.

The West Doe Pipeline comprises one part of Spectra Midstream's West Doe system, which also includes facilities used to provide gathering and processing services. Similarly, the Pesh Creek system includes the Pesh Creek Pipelines as well as gathering and processing facilities. The Board regulates pipeline transportation service but not gathering and processing for Spectra Midstream. Transportation service is governed via contracts between shippers and the Company, which are separate from contracts that govern the non NEB-regulated services. Gathering and processing contracts are signed between shippers and the various entities that own the gathering and processing facilities on the systems.

Spectra Midstream charges tolls for the NEB-regulated transportation service, and the Company negotiates these tolls with its shippers. The tolls for both NEB-regulated and non NEB-regulated services appear on a single invoice, and payments are made to the owners of the gathering and processing facilities, which then allocate applicable revenues to Spectra Midstream. While the NEB-regulated transportation tolls appear as a separate line item on shippers' invoices, Spectra Midstream has not filed with the Board tariffs specifying the transportation tolls on either the West Doe Pipeline or the Pesh Creek Pipelines.

During the audit, Spectra Midstream indicated that it is in the process of developing a tariff for the West Doe Pipeline, including tolls, to be filed with the Board. The Company noted that procedures would be put in place to ensure the tariff is maintained in accordance with the Board's requirements. Spectra Midstream also indicated that, should the Pesh Creek Pipelines become active, the Company would file a tariff with the Board prior to charging tolls.

Finding 1	Spectra Midstream has not filed tariffs with the Board specifying the tolls charged for transportation service on the West Doe Pipeline and the Pesh Creek Pipelines, as required by paragraph 60(1)(a) of the <i>National Energy Board Act</i> .
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Spectra Midstream's Response:

Spectra Midstream did not file comments in response to Finding 1.

*During the audit, Spectra Midstream stated that it is in the process of developing a tariff, including tolls, for the West Doe Pipeline. The Board is satisfied with this corrective action. Spectra Midstream is directed to file with the Board a tariff specifying the tolls charged on the West Doe Pipeline by **11 March 2016**.*

The Board is also satisfied with the Company's commitments to: (i) establish procedures ensuring that the aforementioned tariff is maintained in accordance with the Board's requirements, and (ii) file a tariff with the Board prior to charging tolls on the Pesh Creek Pipelines, should the pipelines become active.

Audited Financial Statements

The Board examined compliance with paragraph 5(2)(b) of the *Gas Pipeline Uniform Accounting Regulations*, which requires that every Group 2 company shall file a set of audited financial statements with the Board within one hundred and twenty (120) days after the end of each fiscal year of the company. In some instances, the Board has granted Group 2 companies relief from this requirement. These instances have primarily concerned small shipper-owned pipelines with no direct dealings with third parties.

Spectra Midstream filed audited financial statements with the Board for the years ended 31 December 2012 and 31 December 2013. However, these statements were not filed with the Board within 120 days after the end of each fiscal year.

In February 2015, the Board granted Spectra Midstream an exemption from filing audited financial statements pursuant to subsection 129(1.1) of the NEB Act, subject to certain conditions. These conditions require Spectra Midstream to file, on an annual basis, unaudited financial statements certified by Spectra Midstream's VP Finance within 120 days after the end of the calendar year, and an updated summary of Spectra Midstream's NEB-regulated pipelines within 90 days after the end of the calendar year. Spectra Midstream filed these documents for the year ended 31 December 2014 in advance of the deadlines. During the audit, the Company

indicated that it has put processes in place to ensure its unaudited financial statements and updated summaries are filed with the Board within the required timelines.

While the Company did not comply with paragraph 5(2)(b) of the *Gas Pipeline Uniform Accounting Regulations* for the years 2012 and 2013, the Board recognizes that Spectra Midstream's filing requirements have changed since then and that subsequent filings were in compliance with the Board's directives. The Board also recognizes that the Company has implemented new processes to ensure ongoing compliance. The Board is satisfied with Spectra Midstream's corrective actions, and is of the view that the Company's new processes will result in compliance with respect to filing financial statements.

Subsection 74(1) of the NEB Act

The Board examined compliance with subsection 74(1) of the NEB Act, which requires that a company shall not sell, purchase, transfer, lease, amalgamate or abandon its pipeline without leave of the Board.

During the audit period, Spectra Midstream did not undertake any transactions that would require an application under subsection 74(1).

Section 58 Streamlining Order

The Board examined compliance with Streamlining Order XG/XO-100-2012, which effectively provides the Board's approval for the construction and operation of certain classes of projects regulated under the NEB Act that satisfy the criteria listed in the Order, including its Schedule A.

Spectra Midstream did not complete any projects pursuant to the Streamlining Order during the audit period. However, the Company provided its procedures for the Streamlining Order reporting process, including supplementary materials used internally by the Company's staff. The Board finds these procedures and supplementary materials to be adequate.

Operations and Maintenance Guidelines

The Board examined compliance with *Operations and Maintenance Activities on Pipelines Regulated under the National Energy Board Act: Requirements and Guidance Notes* (O&M Guidelines). Routine operations and maintenance (O&M) activities are evaluated by the Board as part of the original application for the construction and operation of a pipeline; therefore, companies are not required to apply for additional approval to undertake activities that qualify as O&M. The Board continues to regulate O&M activities and to fulfill its mandate through its inspection and audit programs.

During the audit period, Spectra Midstream undertook numerous O&M activities. As part of the audit, Spectra Midstream provided its procedures and supplementary materials for the O&M Guidelines notification process. The Board finds these procedures and materials to be adequate.

6.0 Conclusion

The Board has determined that the corrective actions proposed by the Company during the audit are acceptable to address the Board's concerns.