

for line losses and line pack in proportion to the contracted volumes transported in the zone. Each shipper will provide fuel requirements in relation to the volume of his gas being carried and to the content of the gas as it affects fuel consumption.

(b) It is understood that, to avoid increased construction and operating costs for the transportation of Alaskan gas, the Pipeline will follow a southern route through the Yukon along the Alaska Highway rather than a northern route through Dawson City and along the Klondike Highway. In order to provide alternative benefits for the transportation of Canadian gas to replace those benefits that would have been provided by the northern route through Dawson City, U.S. shippers will participate in the cost of service in Zone 11. It is agreed that if cost overruns on construction of the Pipeline in Canada do not exceed filed costs set forth in Part D of Annex III by more than 35 percent, U.S. shippers will pay the full cost of service in Zone 11. U.S. shipper participation will decline if overruns on the Pipeline in Canada exceed 35 percent; however, at the minimum the U.S. shippers' share will be the greater of either two-thirds of the cost of service or the proportion of contracted Alaskan gas in relation to all contracted gas carried in the Pipeline. The proportion of the cost of service borne by U.S. shippers in Zone 11 will be reduced should overruns on the cost of construction in that Zone exceed 35 percent after allowance for the benefits to U.S. shippers derived from Pipeline construction cost savings in other Zones. Notwithstanding the foregoing, at the minimum, the U.S. shippers' share will be the greater of either two-thirds of the cost of service or the proportion of contracted Alaskan gas in relation to all contracted gas carried in the Pipeline. Details of this allocation of cost of service are set out in Annex III.

(c) Notwithstanding the principles in subparagraphs (a) and (b), in the event that the total volume of gas offered for shipment exceeds the efficient capacity of the Pipeline, the method of cost allocation for the cost of service for shipments of Alaskan gas (minimum entitlement 2.4 bcfd) or Northern Canadian gas (minimum entitlement 1.2 bcfd) in excess of the efficient capacity of the Pipeline will be subject to review and subsequent agreement by both Governments; provided however that shippers of either country may transport additional volumes without such review and agreement, but subject to appropriate regulatory approval, if such transportation does not lead to a higher cost of service or share of Pipeline fuel requirements attributable to shippers of the other country.

(d) It is agreed that Zone 11 costs of service allocated to U.S. shippers will not include costs additional to those attributable to a pipe size of 42 inches. It is understood that in Zones 10 and 11 the Dempster Line will be of the same gauge and diameter and similar in other respects, subject to differences in terrain. Zone 11 costs will include only facilities installed at the date of issuance of the leave to open order, or that are added within three years thereafter.

7. Supply of Goods and Services

- (a) Having regard to the objectives of this Agreement, each Government will endeavor to ensure that the supply of goods and services to the Pipeline project will be on generally competitive terms. Elements to be taken into account in weighing competitiveness will include price, reliability, servicing capacity and delivery schedules.
- (b) It is understood that through the coordination procedures in paragraph 8 below, either Government may institute consultations with the other in particular cases where it may appear that the objectives of subparagraph (a) are not being met. Remedies to be considered would include the renegotiation of contracts or the reopening of bids.