

ANNEX III

Cost Allocation in Zone 11

The cost of service in Zone 11 shall be allocated to United States shippers on the following basis:

- (i) There will be calculated, in accordance with (iii) below, a percentage for Zones 1 - 9 in total by dividing the actual capital costs by filed capital costs and multiplying by 100. If actual capital costs are equal to or less than 135% of filed capital costs, then United States shippers will pay 100% of the cost of service in Zone 11. If actual capital costs in Zones 1 - 9 are between 135% and 145% of filed capital costs, then the percentage paid by United States shippers will be adjusted between 100% and 66 2/3% on a straight-line basis, except that in no case will the portion of cost of service paid by United States shippers be less than the proportion of the contracted volumes of Alaskan gas at the Alaska-Yukon border to the same volume of Alaskan gas plus the contracted volume of Northern Canadian gas. If the actual capital costs are equal to or exceed 145% of filed capital costs, the portion of the cost of service paid by United States shippers will be not less than 66 2/3% or the proportion as calculated above, whichever is the greater.
- (ii) There will be calculated a percentage for the cost overrun on the Dawson to Whitehorse lateral (Zone 11). After determining the dollar value of the overrun, there will be deducted from it:
 - (a) the dollar amount by which actual capital costs in Zones 1, 7, 8 and 9 (carrying Alaskan gas only) are less than 135% of filed capital costs referred to in (iii) below;
 - (b) in each of Zones 2, 3, 4, 5 and 6 the dollar amount by which actual capital costs are less than 135% of filed capital costs referred to in (iii) below, multiplied by the proportion that the U.S. contracted volume bears to the total contracted volume in that Zone.

If the actual capital costs in Zone 11, after making this adjustment, are equal to or less than 135% of filed capital costs, then no adjustment is required to the percentage of the cost of service paid by United States shippers as calculated in (i) above. If, however, after making this adjustment, the actual capital cost in Zone 11 is greater than 135% of the filed capital cost, then the proportion of the cost of service paid by United States shippers will be a fraction (not exceeding 1) of the percentage of the cost of service calculated in (i) above, where the numerator of the fraction is 135% of the filed capital cost and the denominator of the fraction is actual capital cost less the adjustments from (a) and (b) above. Notwithstanding the adjustments outlined above, in no case will the percentage of the actual cost of service borne by United States shippers be less than the greater of 66 2/3% or the proportion of the contracted volumes of Alaskan gas at the Alaska-Yukon border to the same volume of Alaskan gas plus the contracted volume of Northern Canadian gas.