

# Royal Commission on Energy

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## First Report

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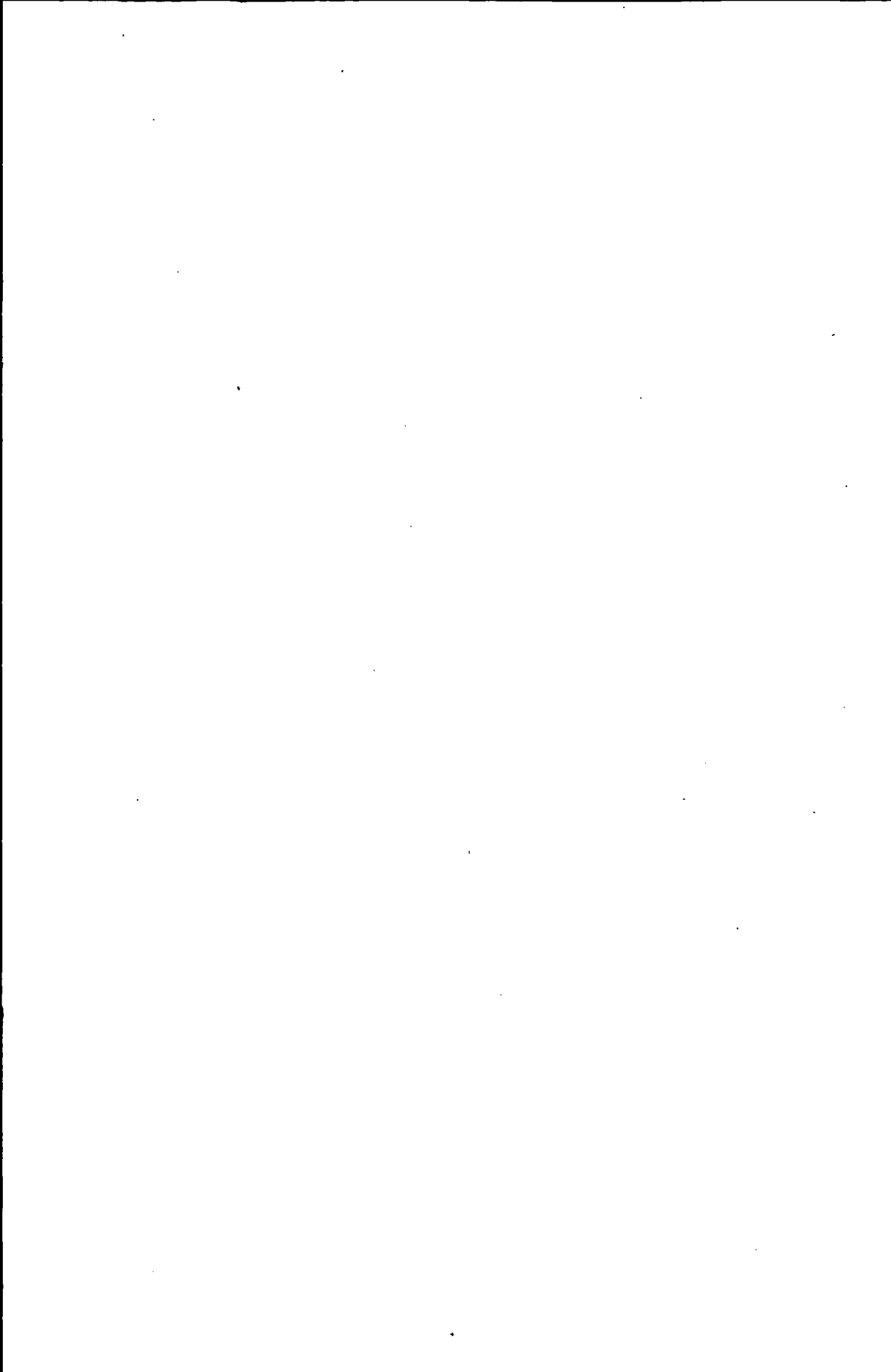
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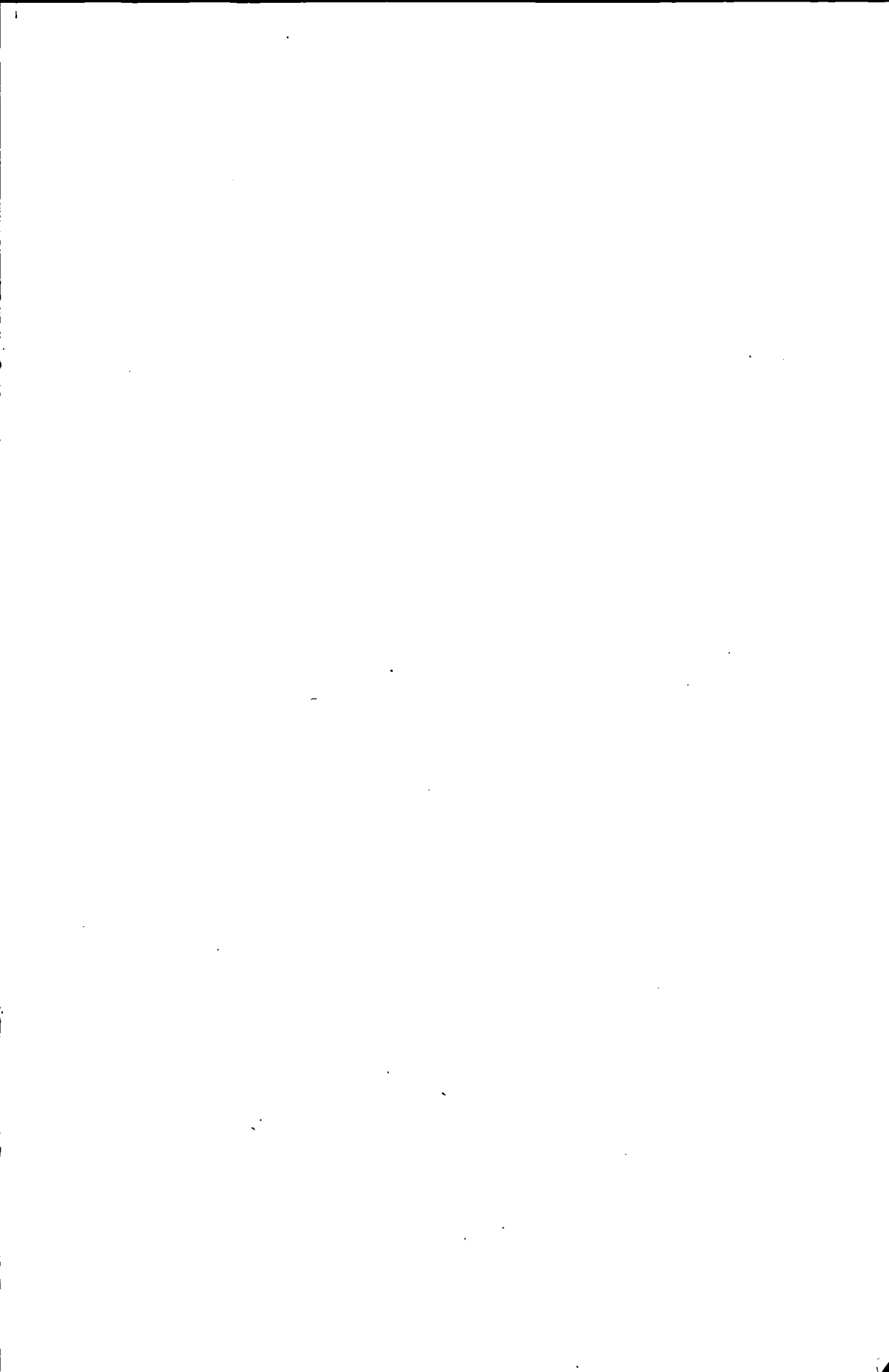
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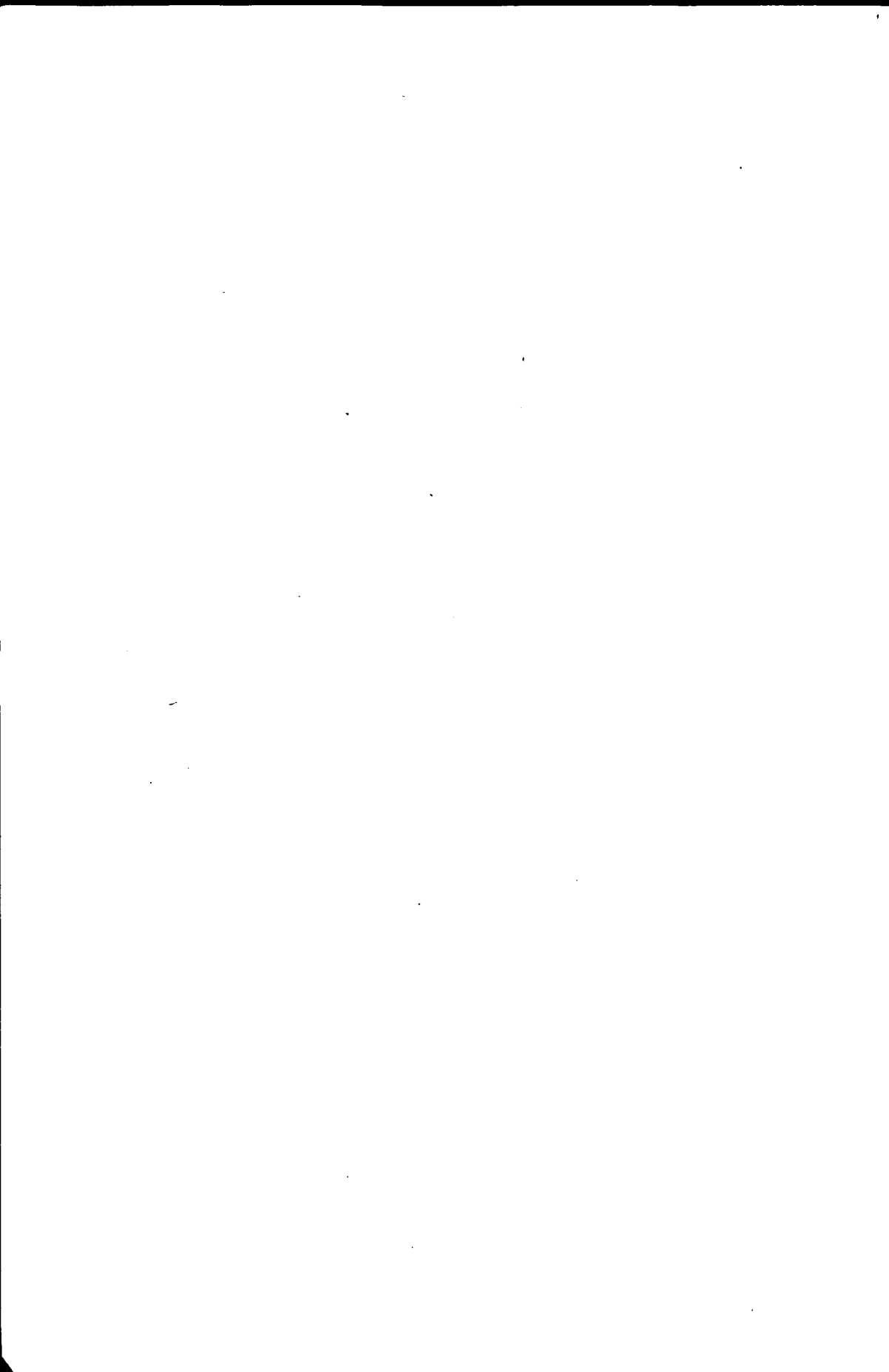
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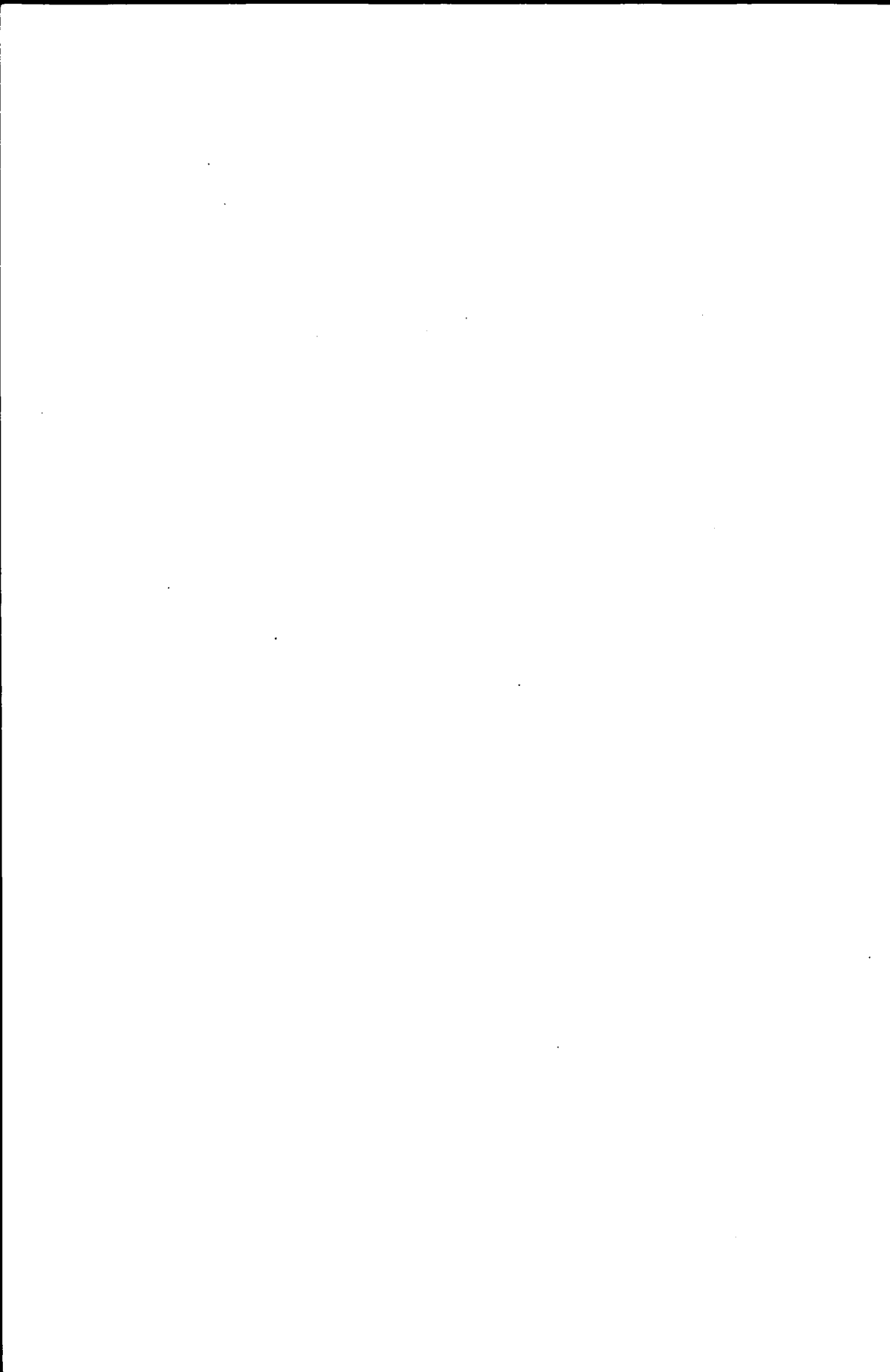




Royal Commission  
on Energy

First Report

October 1958



# First Report

*To His Excellency the Governor General in Council,*

MAY IT PLEASE YOUR EXCELLENCY,

We, Commissioners appointed by Orders in Council dated 15th October, 1957 and 13th January, 1958, to enquire into and make recommendations concerning the matters more specifically set forth in the Order in Council dated 15th October, 1957:

BEG TO SUMMIT TO YOUR EXCELLENCY THE FOLLOWING  
FIRST REPORT.



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## Foreword

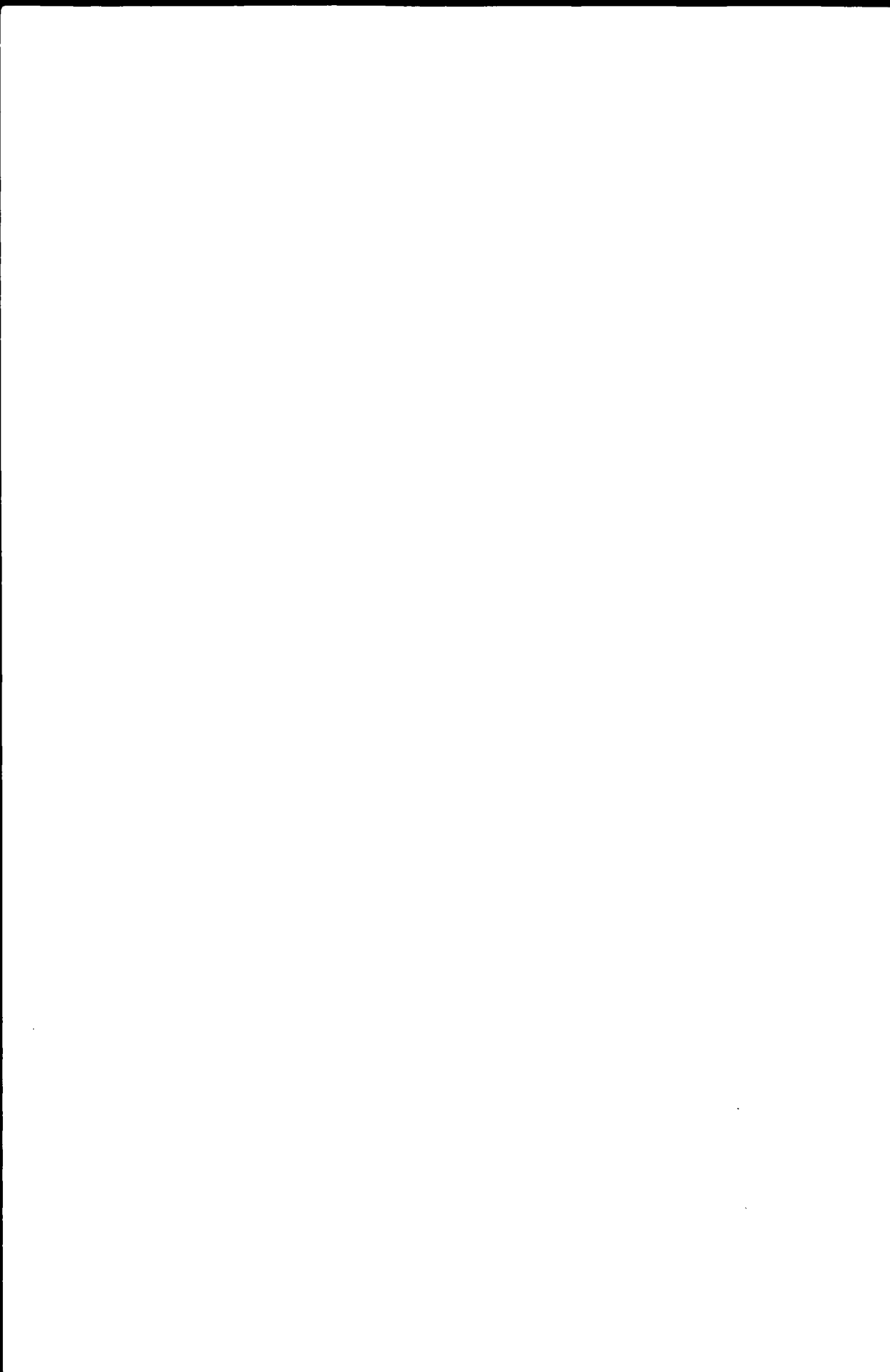
This first report of the Commission, with the exception mentioned below, deals with the specific matters concerning which it was charged to enquire into and make recommendations by the Order in Council establishing it dated the 15th October, 1957. The subjects dealt with in this report are in the order in which they were referred to the Commission by the Order in Council. This is why reference is made in Chapters 1 and 2 of the report to the existence of a National Energy Board, whereas the recommended authority of such a board, together with the character of its administration and procedure, are not dealt with in detail until Chapter 3 of the report.

The Commission was required by the Order in Council to make detailed recommendations in certain instances. The number of the recommendations of the Commission and particularly those relating to a National Energy Board must be considered in this light.

The reference in the Order in Council appointing the Commission, requiring it to enquire into and make recommendations concerning "the policies which will best serve the national interest in relation to the export of energy and sources of energy from Canada" is dealt with in this report only in terms of natural gas and certain aspects of crude oil. The application of this reference to the export of other forms of energy and other sources of energy will be the subject of a subsequent report.

During the hearings of the Commission, much testimony was given to it with respect to the possibility of Canadian crude oil being used by the Montreal refineries in substitution, in whole or in part, for the foreign crude oil, now used by the Montreal refineries. This problem was not a matter specifically included in the terms of reference to the Commission but because of its importance to Canada, to the oil producing provinces and to the oil industry as a whole and because of its close connection with the problem of export markets for Canadian crude oil, the Commission felt that it could not properly decline to have this problem aired before it. The Commission, as yet, is making no recommendations with respect to this problem and nothing in this, its first report, should be construed to indicate, by inference or otherwise, what our recommendations may ultimately be with respect to it. It is the intention of the Commission that this problem, and other problems relating to domestic and export markets for Canadian crude oil will be the subject of its second report.

While the Commission as originally constituted included Gordon G. Cushing, Esq., of the City of Ottawa, as a Commissioner, he resigned from the Commission on April 10th, 1958, pending his appointment as Assistant Deputy Minister of Labour, effective May 1, 1958.





# List of Recommendations

The Commission has recommended:

In Chapter 1—

## Export of Natural Gas and Crude Oil

### Section A, Natural Gas

#### *Part I—Permission to export:*

1. That, having regard to the proven reserves of natural gas in Canada and to trends in the discovery and growth of reserves, the export from Canada of natural gas, which may from time to time be surplus to the reasonably foreseeable requirements of Canada, be permitted under licence.

#### *Part II—Considerations affecting the granting of export licences:*

2. That, when dealing with an application for the granting of an export licence for natural gas, the Government of Canada take into consideration such matters as it considers to be pertinent, having regard to the interests of Canada, including but without in any way limiting the generality of the foregoing, the following:

- (a) The quantities of natural gas then available for export;
- (b) The quantities of natural gas which the applicant has under contract and the terms of such contracts;
- (c) The terms and conditions of the contract under which the export is proposed to be made;
- (d) The contemplated arrangements with respect to the disposal of by-products and avoidance of waste.

3. That an export permit may be granted for a period of not more than 25 years from its date.

4. That Regulation 9 of "Regulations respecting the Exportation of Power and Fluids and the Importation of Gas" made and established by Order in Council P.C. 1955-907, in so far as it applies to natural gas, be rescinded.

#### *Part III—Westcoast Transmission Company Limited:*

5. That the Board of Transport Commissioners for Canada exercise, with respect to Westcoast Transmission Company Limited and its operations, the regulatory jurisdiction which the Commission has recommended in Chapter

## Royal Commission on Energy

2 of this report should be given to and exercised by the Board of Transport Commissioners for Canada in respect of gas pipe line companies subject to the jurisdiction of the Parliament of Canada.

6. That in exercising such regulatory jurisdiction with respect to Westcoast Transmission Company Limited and its operations, the Board of Transport Commissioners for Canada take into account the prices at which gas is sold by Westcoast Transmission Company Limited in Canada and for export from Canada, in order to ensure that the return on the shareholders' investment in Westcoast Transmission Company Limited permitted by the Board of Transport Commissioners shall not result in Canadian consumers of natural gas contributing more than their fair, reasonable and proportionate share of the total return.

7. That if and when Westcoast Transmission Company Limited, or any affiliated or subsidiary company, makes application to the Government of Canada for a licence to export from Canada quantities of gas additional to those included in the existing export licence now held by said company or for any variation in the quantities of natural gas now included in said licence, the Government of Canada before approving any such further licence or variation, as above mentioned, ensure that the aggregate of natural gas to be exported by Westcoast Transmission Company Limited, under all outstanding and proposed contracts for the sale of such gas, is being sold at prices which, when averaged, are fair and reasonable after taking into account the price at which natural gas is being sold to Pacific Northwest Pipeline Corporation under its contract with Westcoast Transmission Company Limited, dated December 11, 1954.

### *Part IV — Trans-Canada Pipe Lines Limited — Proposed export at Emerson, Manitoba.*

8. That Trans-Canada Pipe Lines Limited be advised by the Minister of Trade and Commerce that the following paragraph contained in a letter dated September 28, 1955, addressed to Trans-Canada Pipe Lines Limited by the then Minister of Trade and Commerce and reading as follows:

"For the Emerson export, Tennessee must obtain a permit from the United States Government. When this has been issued, action will be taken by the Canadian Government under the Exportation of Power and Fluids and Importation of Gas Act to authorize the export at Emerson, Manitoba of 200,000 mcf of gas daily for a period of 25 years from the date of first delivery of gas."

must be considered no longer of any effect.

9. That any application which Trans-Canada Pipe Lines Limited may make in the future for a licence with respect to such export be considered on its merits.

## List of Recommendations

### Section B, Crude Oil

10. That, having regard to the present proven reserves of crude oil in Canada and to trends in the discovery and growth of reserves, the export from Canada of crude oil be permitted under annual licence.

In Chapter 2 —

### Regulation of Pipe Line Companies

11. That The Pipe Lines Act, R.S.C., 1952, Chapter 211, be amended to provide that:

- (a) It shall be mandatory for the Board of Transport Commissioners for Canada to exercise the powers conferred upon it under Part II of The Pipe Lines Act, with respect to the regulation of the traffic, tolls or tariffs of oil pipe line companies subject to the jurisdiction of the Parliament of Canada;
- (b) It should not be a condition precedent to the exercise of such powers that an oil pipe line company be declared to be a "common carrier";
- (c) It shall be mandatory for the Board of Transport Commissioners for Canada to regulate the prices or rates of gas pipe line companies subject to the jurisdiction of the Parliament of Canada, and, in so doing, to require, if necessary, any such gas pipe line company to renegotiate the terms of any existing contracts for the sale or delivery of gas for distribution or consumption within Canada;
- (d) It shall be mandatory for the Board of Transport Commissioners for Canada periodically, and at least once in every 24-month period during the early years of regulation, to review and, if deemed necessary, to adjust the prices, tolls, rates and tariffs of pipe line companies regulated by it;
- (e) It shall be mandatory for the Board of Transport Commissioners for Canada to exercise the powers conferred upon it by Part IV of The Pipe Lines Act;
- (f) The relevant sections of The Railway Act, now incorporated into The Pipe Lines Act by reference only, should be revised by wording applicable to pipe lines, as distinct from railways, and specifically set out in revised form as an integral part of The Pipe Lines Act.

12. That the prices, tolls, rates or tariffs of a company owning or operating an oil or gas pipe line, as regulated by the Board of Transport Commissioners for Canada, should be just and reasonable, non-discriminatory

## Royal Commission on Energy

and calculated to yield a fair rate of return on the shareholders' equity, after making due allowance for reasonable and proper operating expenses, depreciation, interest, income and other taxes.

In Chapter 3 —

### National Energy Board

13. That legislation be enacted by the Parliament of Canada to enable the Government of Canada to exercise effective control over the export from and the import into Canada and the movement across provincial boundaries of all energy and sources of energy.

14. That a National Energy Board be established by this enabling legislation as a permanent board to study and to recommend to the Governor in Council policies designed to assure to the people of Canada the best use of the energy and sources of energy in Canada.

15. That the National Energy Board be authorized to require that anyone wishing to construct an oil or gas pipe line or one intended for the transportation of petroleum products or by-products of the processing of gas, subject to the jurisdiction of the Parliament of Canada, obtain a certificate of public convenience from such Board.

16. That the National Energy Board be authorized to require any company engaged in the transmission across provincial boundaries by pipe line of crude oil and petroleum products and natural gas and by-products thereof, to obtain a licence from such Board.

17. That the enabling legislation contain provisions which will authorize the Governor in Council from time to time to bring other forms of energy or sources of energy under the authority of the National Energy Board for such purposes as may be specified by the Governor in Council.

18. That such divisions or branches of the various departments of the Government of Canada now concerned with oil and natural gas and related matters and whose responsibilities would properly come within the jurisdiction of the National Energy Board be transferred to its jurisdiction.

19. That the importation into Canada of crude oil and petroleum products be made subject to licence granted by the National Energy Board:

- (a) For the purpose of such licensing, crude oil or petroleum products originating in Canada but moving through a pipe line located in part outside the national boundaries of Canada to be deemed to be imported into Canada even though the transmission of such crude oil or petroleum products shall have been in bond.

## List of Recommendations

- (b) Such licences to be on a twelve-month basis, non-transferable and to contain such conditions and provisions as the Board may consider to be desirable in the public interest, including provisions requiring the licensee to make a report to the Board quarterly, setting out the quantity of crude oil or petroleum products imported during the preceding three months, the specifications relating thereto, the source thereof, the name of the supplier and the price charged or paid, the name of the transporting agency and the costs of transportation, the currency or currencies in which any payments have been or are to be made with respect to such importations, and other relevant information.
20. That the National Energy Board shall have authority:
- (a) To study, review and from time to time recommend to the Minister of Trade and Commerce such policies and measures as it considers necessary or advisable in the public interest for the control, supervision, conservation, use and development of energy and sources of energy and for the production, recovery, manufacture, processing, distribution, transmission, sale, purchase, exchange, disposal, import or export of energy and sources of energy within, to or from Canada.
  - (b) To give advice and make recommendations with reference to any matter relating to energy or sources of energy to any Minister or to any board or agency constituted under the authority of any Act of the Parliament of Canada or at the request of the Minister of Trade and Commerce to any board or agency constituted under the authority of the legislature of any province.
  - (c) To compile, study and review the statistics and estimates of the quantity, quality, location and availability of the various forms of energy and sources of energy in Canada so that the Board may maintain an up-to-date inventory of Canada's energy resources.
  - (d) To co-operate with and assist any board, agency or other authority, constituted under the provisions of any Act of the Parliament of Canada or of the legislature of any province, having jurisdiction relating to energy and sources of energy, in establishing standards of measurements and methods of assessing and estimating supplies of energy and their sources.
  - (e) To make a continuing study and appraisal of all matters relating to the exploration for, production processing, transportation and marketing of natural gas and oil and by-products thereof in Canada and elsewhere.

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- (f) To grant, revoke or suspend licences, upon such terms and subject to such conditions, if any, as the Board may decide (provided, however, that each licence in the case of the export from Canada of electrical power or energy and in the case of the export from or import into Canada of gas shall be subject to the approval of the Governor in Council):
  - (i) For the export from and the import into Canada of those forms of energy and sources of energy for which licences are now required under The Exportation of Power and Fluids and Importation of Gas Act.
  - (ii) For the transmission across provincial boundaries by pipe line of crude oil and petroleum products and natural gas and by-products of the processing thereof.
  - (iii) For the export from or import into Canada of any form of energy or sources of energy which may be specified by the Governor in Council.
  - (iv) For the movement across provincial boundaries of any form of energy or sources of energy or any specific manner of movement thereof, which may be specified by the Governor in Council.
- (g) To make regulations respecting the conduct of its proceedings and the form and manner in which all matters coming before the Board should be presented and such other matters of a procedural nature as are customary.

21. That in exercising its responsibility with respect to the issuance of licences and certificates of public convenience, the Board shall take into account all matters which in its opinion are required to be considered by it in the public interest and in particular the following matters:

- (a) With respect to export and import licences:
  - (i) The present and anticipated requirements of Canada;
  - (ii) The advisability of encouraging the development in Canada of processing industries relating to energy and sources of energy as distinct from the export of unprocessed natural resources.
- (b) With respect to certificates of public convenience:
  - (i) The economic feasibility of the pipe line project and whether or not such project is in the national interest;
  - (ii) The financial structure, ownership, financing, engineering and construction plans of any applicant and the opportunity for the people of Canada to participate in the financing, engineering and construction of the project.

## List of Recommendations

(c) With respect to licences dealing with the transmission across provincial boundaries by pipe line of crude oil and petroleum products and natural gas and by-products of the processing thereof:

- (i) The direction of movement and destination of the contents of the pipe line; and
- (ii) The volume proposed to be transmitted.

22. That the Board shall consist of not less than three and not more than five full-time members, one of whom shall be the chairman and that the chairman shall be the chief executive officer of the Board.

23. That the enabling legislation contain provisions to ensure the independence of the members of the Board.

24. That the enabling legislation provide for matters incidental to the constitution and administrative operation of the Board such as the term of office of members, the remuneration of members, the eligibility of retiring members for re-appointment, provision for travelling and living expenses, the quorum for meetings of the Board, provision for temporary substitutes, provision that a vacancy on the Board does not impair the authority of the Board, for the votes of the majority of members present at any meeting to govern with provision for the chairman having a casting vote, oath of office, meetings, retainers and employment of professional and technical advisers, officers and employees, power to compel attendance of witnesses and production of documents, power to enforce obedience to the orders, regulations, certificates and licences of the Board and such other matters as are customary in establishing such a Board in order to ensure its efficient administration and operation.

25. That hearings before the Board be held in public.

26. That the Board be required to submit through the Minister of Trade and Commerce within three months after the termination of each fiscal year an annual report of the proceedings of the Board in such form as the Board shall decide and that the Minister of Trade and Commerce be required to lay this report before Parliament forthwith or, if Parliament is not then sitting within 15 days after the commencement of the next ensuing session.

27. That the National Energy Board shall not be a body corporate or be responsible to and subject to the direction of any specific Minister otherwise than as specified in the recommendations concerning the extent of the authority of the Board.

28. That a member of the National Energy Board be appointed in due time to the Canadian Section of the International Joint Commission.

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29. That, if possible, reciprocal arrangements be made with the United States of America for a Commissioner of the Federal Power Commission of that country to sit as an ad hoc observer, but without vote, when the National Energy Board is considering any application for a licence for the export of natural gas from Canada to the United States or for the import of natural gas into Canada; and for a member of the National Energy Board to sit as an ad hoc observer, but without vote, when the Federal Power Commission is considering the correlative application for the licence to import from or export to Canada such natural gas.

30. That the enabling legislation incorporate all relevant provisions of The Exportation of Power and Fluids and Importation of Gas Act to the end that such new legislation shall provide for all matters (except imposition of export duties for which provision can be made in The Export Act of Canada or other appropriate legislation) dealt with and provided for in the existing statute together with the matters comprised in the foregoing recommendations of this Chapter 3.

31. That upon the coming into force of the enabling legislation The Exportation of Power and Fluids and Importation of Gas Act and Section 5 (1) (a) of The Export Act (relating to the export of petroleum) be repealed.

32. That The Pipe Lines Act be amended not only as recommended in Chapter 2 of this report but also to provide that no application for leave to construct any pipe line or any part or section of any pipe line subject to the jurisdiction of the Parliament of Canada, shall be entertained by the Board of Transport Commissioners for Canada under the provisions of The Pipe Lines Act unless the applicant is the holder of a certificate of public convenience issued by the National Energy Board.

In Chapter 4 —

### Trans-Canada Pipe Lines Limited

33. That the Board of Transport Commissioners for Canada exercise, with respect to Trans-Canada Pipe Lines Limited and its operations, the regulatory jurisdiction which the Commission has recommended in Chapter 2 of this report should be given to and exercised by the Board of Transport Commissioners in respect of gas pipe line companies subject to the jurisdiction of the Parliament of Canada.

34. That no special measures need be taken in relation to Trans-Canada Pipe Lines Limited in order to safeguard the interests of Canadian producers or consumers of gas.



## Export of Natural Gas and Crude Oil

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### *Term of Reference*

*To enquire into and make recommendations concerning:*

- (a) *The policies which will best serve the national interest in relation to the export of energy and sources of energy from Canada.*

### Section A—Natural Gas

#### Part I—Permission to Export

#### *Recommendation*

The Commission recommends:

That, having regard to the proven reserves of natural gas in Canada and to trends in the discovery and growth of reserves, the export from Canada of natural gas, which may from time to time be surplus to the reasonably foreseeable requirements of Canada, be permitted under licence.

#### *Comment*

1. Natural gas discoveries in Canada date to the last century and while by the 1920's substantial reserves had been proven and were being used commercially, both in Ontario and Alberta, these resources appeared to be of only local significance because the present pipe line technology for the long distance transportation of gas had not been developed. By 1947, several trillion cubic feet of natural gas reserves had been indicated in Canada. The widespread exploration for oil in the Western Canada Sedimentary Basin, subsequent to the discovery of the Leduc oil field in 1947, has resulted in the proving of large additional reserves of natural gas in this geological region. During the past two decades rapid advances in the techniques of long distance transportation of gas by pipe line have occurred. It has, therefore, become feasible in recent years to market natural gas from fields in Western Canada in some of the larger consuming areas on the Continent.

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2. A great deal of evidence was given to the Commission concerning the reserves of gas in the Western Canada Sedimentary Basin, which extends from the International Boundary to the Arctic Ocean over large areas of the Prairie Provinces and northeastern British Columbia, the Yukon and Northwest Territories. A summary of the estimates of reserves given to the Commission appears in Table I.

TABLE I — ESTIMATED RESERVES OF NATURAL GAS IN WESTERN CANADA AS AT DECEMBER 1957  
(in trillions of cubic feet)

Region	Authority	Proved*	Probable	Ultimate
<i>Alberta</i>				
	Oil and Gas Conservation Board of Alberta (as at March 1958) .....	22.5	.....	60-85
	Canadian Petroleum Association .....	17.7	8.93	150.0
	The British American Oil Company Limited .....	.....	.....	195.5
	Westcoast Transmission Company Limited ..	22.3	.....	.....
<i>British Columbia</i>				
	Canadian Petroleum Association .....	1.8	0.66	75.0
	The British American Oil Company Limited .....	.....	.....	89.1
	Westcoast Transmission Company Limited ..	2.2	.....	.....
<i>Saskatchewan</i>				
	Canadian Petroleum Association .....	1.01	0.05	5.0
	The British American Oil Company Limited .....	.....	.....	4.8
<i>Northwest Territories and Yukon</i>				
	Canadian Petroleum Association .....	0.03	0.03	70.0
	The British American Oil Company Limited .....	.....	.....	19.0
<i>Total Western Canada</i>				
	Canadian Petroleum Association .....	22.55	9.67	300.0
	The British American Oil Company Limited .....	27.5	.....	308.4
	Westcoast Transmission Company Limited ..	.....	.....	170-300
	Shell Oil Company of Canada Limited .....	.....	.....	300

Source: Submissions to the Commission and published report of Oil and Gas Conservation Board of Alberta.

**\*Definitions:**

**Proved Reserves:** The authorities quoted have followed closely the principles established by the Committee on Natural Gas Reserves of the American Gas Association. These estimates are of proved recoverable reserves which are producible under present operating practices. The Oil and Gas Conservation Board of Alberta publishes "established" reserve estimates which are proved reserves plus a judgment portion of the probable reserves giving a total which may be reasonably depended upon.

**Probable Reserves:** The Canadian Petroleum Association derived these additional reserves from a projection of proved reserve estimates, using reliable geological and engineering data.

## Export of Natural Gas and Crude Oil

The evidence suggests that it is reasonable to anticipate, under favourable economic conditions, an ultimate discovery of some 300 trillion cubic feet of natural gas in the Western Canada Sedimentary Basin.

It will be seen from Table I that Alberta has established the greater proportion of the proven reserves of the Western Canada Sedimentary Basin and, for all practical purposes, in the immediate future this province must be considered as the major potential source of natural gas for all Canadian markets east of the Saskatchewan-Manitoba border.

Table I also indicates that British Columbia has proved reserves of some two trillion cubic feet. The Commission considers that the potential reserves of this province are beyond its foreseeable future requirements and sufficient to permit, as time goes on, removal of additional quantities of gas from the province. These reserves form part of large potential gas resources in northeastern British Columbia and adjacent areas in northwestern Alberta and the Yukon. The gas from these areas, for economic reasons, is more likely to be exported to the Pacific coast areas of the United States, rather than transmitted to eastern Canadian markets.

The potential natural gas resources in the more remote sections of the Yukon and the Northwest Territories are substantial. Comparatively limited exploration has taken place in these northern regions up to the present time and it is difficult to forecast to what extent the eventual development of these reserves will contribute to the supply of gas for eastern Canadian requirements or for export markets. The potential natural gas resources in these remote areas do not, in our opinion, constitute a material element affecting Canada's export policy at the present time.

The presently proved reserves in Saskatchewan are about one trillion cubic feet. Favourable prospects exist for the development of additional reserves but it is unlikely that these will be sufficient to satisfy all the requirements of this province. Saskatchewan, therefore, will be compelled in the future to rely in part, as it does now, on Alberta for its requirements of natural gas.

Manitoba has no economically recoverable gas resources and the prospects for discovery are not good. This province will be dependent upon Alberta for its future supplies of natural gas.

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*Ultimate Reserves:* Various well-based geological and statistical methods were employed in making these estimates of total expected reserves. The estimates are described by the several authorities as follows:

Oil and Gas Conservation Board of Alberta—"cumulative initial recoverable gas reserves".

Canadian Petroleum Association, Westcoast Transmission Company Limited, and Shell Oil Company of Canada Limited—"the ultimate amount of gas to be discovered".

The British American Oil Company Limited—"ultimate producible reserves".

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The Oil and Gas Conservation Board of Alberta, in its report of September, 1958, concerning natural gas reserves and their allocation, estimated the established reserves in that province, as of March 31, 1958, to be 22.5 trillion cubic feet, or the equivalent of 23.3 trillion cubic feet, when reserves from the various fields are converted to a common heating value of 1,000 Btu. per cubic foot.

The reserves, as of that date, have been allocated by this Board as follows:

	<i>Trillions of cubic feet</i>	
Established reserves .....		23.3
Less reserves beyond economic reach .....	1.3	
Less reserves set aside in the Peace River area ....	1.2	2.5
Resulting economically available reserves .....		20.8
Total 30-year Alberta annual and peak requirements, less requirements for Peace River area	10.7	
Less Alberta requirements to be obtained from future reserve discoveries .....	1.4	
Reserves set aside for requirements of Alberta except Peace River area .....	9.3	9.3
Resulting reserves available for use out of the province .....		11.5
Less existing permits, including Trans-Canada's 4.35 trillion cubic feet .....	5.7	
Less Trans-Canada's immediately contractable requirements, annual and peak .....	1.7	
	7.4	7.4
Resulting residual amount declared surplus to future requirements of Alberta, existing permits, and Trans-Canada's immediately contractable requirements .....		4.1

Although the findings of the Oil and Gas Conservation Board indicate that Alberta had, as at March 31, 1958, only 4.1 trillion cubic feet of natural gas which it could declare surplus to future requirements of the province, existing permits, and the "immediately contractable requirements" of Trans-Canada Pipe Lines Limited for Canadian markets, the Board estimated future discoveries to the year 1987 to be 51 trillion cubic feet. It concluded that future Canadian requirements, other than those mentioned, would be adequately protected by these future expected discoveries.

A projection of the statistics, prepared by the Alberta Oil and Gas Conservation Board, indicates that the discovery rate per exploration well,

## Export of Natural Gas and Crude Oil

in Alberta, is likely to be in the order of six billion cubic feet for some years to come. Assuming that 350 to 400 exploratory wells are drilled annually, as has been the case during the past few years, the rate of discovery in Alberta will be in excess of two trillion cubic feet per year.

The past record shows that there has been a consistent and substantial annual increase in the volume of established reserves in Alberta since 1950. Table II illustrates that these reserves have been built up despite the fact that the increase in production in the province has been small in comparison to the reserve build-up.

**TABLE II — ALBERTA NATURAL GAS — ESTABLISHED RESERVES,  
PRODUCTION AND DELIVERIES OUT OF THE PROVINCE — 1950-1957**  
(in billions of cubic feet)

<i>Date of reserve estimate</i>	<i>Remaining established reserves</i>	<i>Production*</i>		<i>Deliveries out of the province</i>
		<i>Year</i>	<i>Annual total</i>	
December 31, 1950 .....	4,700	1950	74.9	.....
December 31, 1951 .....	6,800	1951	83.8	0.2
December 31, 1952 .....	9,920	1952	95.7	8.6
June 30, 1953 .....	11,500	1953	113.9	10.1
March 31, 1954 .....	13,400	1954	135.5	7.7
June 30, 1955 .....	15,600	1955	168.8	12.1
September 30, 1956 .....	18,300	1956	200.2	11.8
March 31, 1958 .....	22,500	1957	244.2	22.5

*Source:* Oil and Gas Conservation Board of Alberta.

\* Production includes field waste.

3. Concurrently with the growth of gas reserves in Western Canada there has been a substantial increase in Canadian consumption of gas. Table III illustrates that sales in Canada have increased approximately 300 per cent\* from 1947 to 1957.

**TABLE III — NATURAL GAS SALES IN CANADA — 1947-1957**  
(in billions of cubic feet)

<i>Year</i>	<i>Eastern Canada</i>	<i>Western Canada</i>	<i>Total Canada</i>
1947 .....	8.8	31.0	39.8
1950 .....	9.4	48.7	58.1
1955 .....	20.5	97.3	117.8
1956 .....	26.7	117.1	143.8
1957* .....	36.0	132.8	168.8

*Source:* Dominion Bureau of Statistics.

\*1957 statistics are preliminary D.B.S. estimates.

\* Incorrectly shown as 400 per cent in original copy.

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Table IV is a summary of forecasts of future natural gas consumption in Canada based on various estimates submitted to the Commission. In accordance with our analysis of available sources of gas, these requirements will need to be met almost completely from Alberta reserves.

TABLE IV — POSSIBLE CANADIAN MARKET REQUIREMENTS FOR ALBERTA NATURAL GAS — 1958-1987  
(in billions of cubic feet)

Year	Westcoast Peace River Transmission Company Ltd.				Saskat- chewan Power Corp.	Trans-Canada Pipe Line	Canadian Demand (d)		
	Alberta Company (a)	(b)	(3)	(4)	(c)	(5)	(6)	(7)	(8)
1958	133.6	1.6	56.0	18.0	18.0	24.8	24.8	234.0	234.0
1960	160.9	1.6	56.0	18.0	18.0	166.9	126.6	403.4	363.1
1963	194.5	1.6	56.0	18.0	18.0	287.9	188.9	558.0	459.0
1968	242.4	1.6	56.0	18.0	18.0	458.3	290.5	776.3	608.5
1973	282.7	1.6	56.0	18.0	18.0	651.5	380.5	1,009.8	738.8
1978	307.5	1.6	56.0	18.0	18.0	862.0	481.9	1,245.1	865.0
1983	334.4	1.6	56.0	18.0	18.0	1,084.4	591.6	1,494.4	1,001.6
1987	357.5	1.6	56.0	18.0	18.0	1,284.0	686.0	1,717.0	1,119.1
Total	7,962.1	48.0	1,680.0	540.0	540.0	19,534.1	11,300.4	29,764.2	21,530.5

Source: Compilation by Commission Staff.

Notes: (a) Peace River Transmission Company takes limited quantities of gas from Alberta to British Columbia. The amounts are projected beyond the end of existing permits which provide for a maximum annual withdrawal of 1.6 billion cubic feet and a total authorized withdrawal of 33 billion cubic feet.

(b) Westcoast Transmission Company (Alberta) Limited is a subsidiary of Westcoast Transmission Company Limited and delivers Alberta gas to the parent company in British Columbia. The amounts are projected beyond the end of the existing permit which provides for a maximum annual delivery of 56 billion cubic feet and a total authorized withdrawal of 1,080 billion cubic feet.

(c) The Saskatchewan Power Corporation imports gas from Alberta directly. The imports are projected beyond the end of the existing permit which provides for a maximum annual withdrawal of 18 billion cubic feet and a total authorized withdrawal of 223 billion cubic feet.

(d) Column (7) is arrived at by adding Columns (1) to (5) inclusive. Column (8) is arrived at by adding Columns (1) to (4) inclusive and Column (6).

Column (1) shows the estimated requirements of the Province of Alberta. Column (2) shows small deliveries of gas from the Peace River area of Alberta which are being made into northeastern British Columbia. Column (3) shows withdrawals by the Westcoast Transmission Company from the same region of Alberta. Column (4) sets out volumes of Alberta gas which the Saskatchewan Power Corporation will acquire by direct purchase from Alberta sources. Columns (5) and (6) show the estimated requirements of Alberta natural gas for the Trans-Canada Pipe Line system in the provinces from Saskatchewan to Quebec.

The columns in Table IV, read in conjunction with the footnotes, are self-explanatory. However, the two columns appearing under the headings, "Trans-Canada Pipe Line" and "Canadian Demand", require explanation.

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The difference in the two columns under the "Canadian Demand" reflect a divergence in estimates, presented to this Commission, regarding the future requirements of eastern Canadian markets. Column (5) contains the forecast by Commonwealth Services Inc., on behalf of Trans-Canada Pipe Lines Limited, and Column (6) represents the forecast of the same market made by Economic Research Corporation and Stanford Research Institute on behalf of Alberta and Southern Gas Co. Ltd. To make the latter estimate comparable to that of Trans-Canada for the purpose of this table, an additional 10 per cent, to provide for pipe line fuel and losses, was added to the estimate of the Alberta and Southern Gas Co. Ltd.

While substantial growth in consumption of natural gas will occur generally in Canada, by far the most extensive increase will take place in eastern Canada and particularly in Ontario. Production of natural gas in Ontario is on a relatively small scale and does not appear likely to increase to the extent of supplying more than 5 to 10 per cent of the annual requirements of this province. Moreover, while natural gas is imported into Ontario from the United States, in large part such imports are on a temporary basis. Thus, in effect, the increasing demand for natural gas in eastern Canada must be met from Alberta sources.

4. The Commission has not undertaken to prepare precise forecasts of the supply and demand situation which may exist in Canada in the future. It has, however, given attention to the potential increase in demand and in reserves. An indication of the orders of magnitude of quantities of natural gas which may be required to meet Canadian needs over the next 30 years is set out in Table V.

**TABLE V—CANADIAN MARKET SUPPLY AND DEMAND PROJECTION  
BASED ON ALBERTA NATURAL GAS RESERVES—1958-1987**

(in billions of cubic feet)

<i>Year</i>	<i>Market demand</i>		<i>Reserves before provision for export</i>	
	<i>Total Canada</i>	<i>Cumulative Canada</i>	<i>Year-end disposable reserves</i>	<i>Year-end disposable reserves</i>
	<i>(1)</i>	<i>(2)</i>	<i>(3)</i>	<i>(4)</i>
1958 .....	234.0	234.0	23,766	23,766
1963 .....	558.0	2,512.6	31,487	31,487
1968 .....	776.3	5,920.2	38,080	38,080
1973 .....	1,009.8	10,513.4	40,486	43,486
1978 .....	1,245.1	16,249.8	39,750	47,750
1983 .....	1,494.4	23,226.5	37,774	50,774
1987 .....	1,717.0	29,764.2	35,236	52,236

*Source:* Compilation by Commission Staff.

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Estimated Canadian demand for Alberta natural gas shown in Column (1) of Table V is based on the higher of the two principal market forecasts of the requirements of Trans-Canada Pipe Lines Limited for the 30-year period, as submitted to the Commission and as set out in Table IV. An average annual gas discovery rate of two trillion cubic feet through to 1970, followed by an annual rate of one trillion cubic feet to 1987, is assumed in Column (3). This is a conservative assumption. The average annual increase in Alberta reserves, since 1950, has been some two and a half trillion cubic feet and there is reason to expect an annual discovery rate of two trillion cubic feet for a number of years. This latter rate has been used in computing Column (4) for the period up to 1987. The reserves shown in Columns (3) and (4) represent year-end reserves, after deduction for anticipated production.

If the lower year-end reserve estimate of Column (3) is realized over the next 30 years, the Commission is of the view that Canadian requirements will be adequately protected even after making allowance for peak requirements. From evidence available at this time, it would seem probable that the reserve projection of Column (4) would be assured if the industry had the added incentive which would be provided by increased export markets. If Column (3) is taken as an acceptable minimum reserve for the support of domestic markets, the difference between the two columns in the year 1987 gives an indication of the volume of exports permissible up to that year.

The Commission emphasizes that it does not consider these figures in any way indicative of the precise volumes of gas which should be permitted to be exported throughout the next 30 years. It is clear from the very great differences in the market estimates presented to the Commission, as shown in Table IV, and the present state of knowledge of the reserves of the Western Canada Sedimentary Basin as a whole, that decisions to export must be based on continuous appraisal of the supply and demand situation as it develops in Canada. However, we are of the opinion that on any reasonable assumption regarding the growth of reserves in Alberta and British Columbia, there will be a moderately increasing volume of gas in excess of Canadian requirements available for export.

5. Table VI shows the growth in reserves and consumption of natural gas in the United States over the period 1918-1957. It will be noted that, while both reserves and demand have increased tremendously over this period, the ratio of annual reserve growth to annual consumption has gradually decreased.



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**TABLE VI—GROWTH OF NATURAL GAS RESERVES AND CONSUMPTION  
IN THE UNITED STATES**

(in trillion cubic feet)

<i>Year</i>	<i>Initial disposable reserves</i>	<i>Annual reserve growth</i>	<i>Year-end reserves</i>	<i>Annual consumption</i>	<i>Cumulative consumption</i>
1918 .....	15.72	—	15.00	—	0.72
1920 .....	17.27	0.76	15.00	0.76	2.27
1925 .....	30.03	2.55	23.00	0.95	7.03
1930 .....	61.22	6.24	46.00	1.64	15.22
1935 .....	85.72	4.90	62.00	1.70	23.72
1940 .....	120.74	7.00	85.00	2.40	35.74
1945 .....	196.93	15.24	144.29	3.38	52.64
1950 .....	263.69	13.35	185.59	5.09	78.10
1955 .....	343.79	16.02	223.70	8.40	120.09
1957 .....	389.09	22.65	248.28	10.36	140.81

*Source:* The British American Oil Company Limited submission to the Commission.

*Note:* Annual reserve growth and annual consumption data represent 5-year averages.

Although only limited imports of natural gas have reached the United States market from Canada, current applications to the Alberta Oil and Gas Conservation Board for permits to remove gas from that province show there is a strong demand for Canadian gas in the United States. The dimensions of the potential available markets in the United States are such that any effort to meet the total demand of these markets could, over the long term, jeopardize the supply of natural gas in Canada. However, Canadian gas will have to compete, for some years to come, with gas from domestic sources in capturing its share of the available United States markets. These conditions suggest that careful attention must be given to the marketing problems of Canadian gas in the United States if the best interests of Canada are to be safeguarded. In Parts III and IV of this Chapter, consideration is given to particular problems which have arisen in respect of exports and proposed exports by Westcoast Transmission Company Limited and Trans-Canada Pipe Lines Limited. Considerations affecting the granting of export licences are discussed in Part II of this Chapter.

6. It is our judgment that the entry of Canadian natural gas into available United States markets, on a moderate scale, is a highly desirable step. In recent years very large investments have been made by the natural gas industry in Canada covering, not only exploration and development, but also processing plants, pipe lines and distribution facilities. With reasonable access to United States markets, expectations of earnings in the industry would be raised to a level which would encourage further sound development.

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### Part II—Considerations Affecting the Granting of Export Licences

#### *Recommendations*

The Commission recommends:

1. That, when dealing with an application for the granting of an export licence for natural gas, the Government of Canada take into consideration such matters as it considers to be pertinent, having regard to the interests of Canada, including but without in any way limiting the generality of the foregoing, the following:

- (a) The quantities of natural gas then available for export;
- (b) The quantities of natural gas which the applicant has under contract and the terms of such contracts;
- (c) The terms and conditions of the contract under which the export is proposed to be made;
- (d) The contemplated arrangements with respect to the disposal of by-products and avoidance of waste.

2. That an export permit may be granted for a period of not more than 25 years from its date.

3. That Regulation 9 of "Regulations respecting the Exportation of Power and Fluids and the Importation of Gas" made and established by Order in Council P.C. 1955-907, in so far as it applies to natural gas, be rescinded.

#### *Comment*

1. Each application for a licence to export natural gas must be reviewed in the light of the fact that Canada is dependent on its own resources for its supply of gas. The Commission is of the opinion that, if the granting of an export licence would in any way interfere with the supply of the reasonably foreseeable natural gas requirements of those parts of Canada within economic reach of the producing provinces, permission to export should be withheld.

2. We appreciate that provincial government objectives with regard to the allocation of natural gas could be at variance with national objectives under certain circumstances. It is quite understandable that a provincial objective would be to ensure future provincial requirements from its own resources and to secure the maximum return at the well-head for gas removed from the province. It might be that the maximum return for such gas would

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be from sales outside of Canada. Price problems have not become a serious issue due, in part, to the limited volumes of gas permitted to be removed from the provinces. Such issues, if they arise, will require reconciliation in the light of the particular circumstances of any such problems.

3. The Commission believes that, in the administration of export policy, it would be unfair to producers of natural gas to require, at this time, that proven reserves be set aside for all long-term future needs in Canada. Part of future Canadian requirements can be provided from reserve growth trends. The Government of Canada should require satisfactory evidence in respect of reserve growth trends and evidence that the supplies of natural gas, expected to become available by reason of the trends, are suitably located for transmission to Canadian markets.

4. Various export formulae were submitted to the Commission. While it is possible that a suitable formula will be evolved in due course, the present circumstances of the industry and of the markets require that a flexible policy be maintained.

5. It should be a requirement that applicants for export licences satisfy the Government of Canada that the natural gas reserves needed to meet the conditions of an export contract are under contract from producers, and that the field prices to be paid, over the term of the export project, are fair and reasonable. Such a requirement would entail an assessment of field prices for gas in Canada and in the United States and of future price trends. It would then be possible to determine that prices to producers are fair and reasonable and such as would allow the Canadian exporter a reasonable margin between the field price and the export price. On the other hand, careful attention should be given, in our opinion, to certain types of "favoured nation" and "escalator" clauses in field purchase contracts, bearing in mind that, if such clauses become general in the industry, the cost of gas to Canadian consumers may be unduly increased.

6. While, in the first instance, the terms and conditions of an export contract are matters of negotiation between the Canadian exporter and the purchaser of natural gas, these terms and conditions should be examined when application is made for an export licence. The Government should be satisfied, not only with respect to the technical aspects of the contract but, also, with respect to its price provisions.

It is necessary to ensure that the minimum export price is fair and reasonable. Where sales to Canadian distributors, as well as export sales are involved, the price relationship, between Canadian sales and sales for export,

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should be such that the Canadian sales will not contribute more than a fair and reasonable proportion of the total return to the shareholders on their investment in the gas transmission company.

The export contract should contain fair and reasonable provisions for price adjustments during the term of the contract, so that the exporter, and in turn the gas producers, will participate in any benefits accruing from general price increases occurring in the export markets.

The Commission recognizes that interruptible industrial sales of natural gas can be important in securing low cost transmission and distribution of natural gas by contributing to the volume and by improving the load factor of the line. However, the Commission considers that the interruptible industrial component of gas sales, whether in export or domestic markets, should be kept to a practical minimum at all times. The maximum practical use of storage should be provided for in gas transmission and distribution.

7. The Commission is of the opinion that a licence to export natural gas, once granted, should be terminable only after reasonable opportunity has been afforded those concerned to remedy any failure to comply with the conditions of the licence.

8. Sulphur, liquified petroleum gases and natural gasoline are often associated with the occurrence of natural gas. In such instances it is necessary to process the natural gas before marketing. An increased demand in Canada and greater volumes of exports will undoubtedly result in an increasingly large output of natural gas by-products. We believe that these by-products should be sold at reasonable prices and should bear a fair share of exploration and production costs, rather than be wasted. Prior to the issuance of export licences, evidence should be presented to show that all practical steps have been taken to secure adequate markets for these by-products.

The Commission recognizes that the export of major quantities of gas may result in marketing problems for the by-products. We are of the view that an important export market for part of these by-products will be the United States and that an important consideration to be taken into account, in the granting or withholding of an export licence for natural gas and the term of any such licence, should be the extent to which access is afforded to by-products in such export market.

9. Due to accepted principles of pipe line financing and possible delays in construction, it appears to be necessary to grant export licences for a period somewhat longer than 20 years. The Commission, therefore, is recommending that an export licence may be granted for a period of not more than 25 years from its date. This would allow for an effective delivery period

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of at least 20 years for the gas. However, the Commission suggests that it be clearly stated in every export licence that Canada is in no way obligated beyond the period specified in the licence.

10. Regulation 9 of "Regulations respecting the Exportation of Power and Fluids and the Importation of Gas" made and established by Order in Council P.C. 1955-907 reads as follows:

"The price charged by a licensee for power or gas exported by him shall not be lower than the price at which power or gas, respectively, is supplied by him or his supplier in similar quantities and under similar conditions of sale for consumption in Canada".

While the Commission believes it understands the result which Regulation 9 was designed to accomplish, nevertheless we have found it most difficult and, indeed, almost impossible to interpret. In the first place, the quantities and conditions of natural gas sales vary greatly as between contracts, so that price comparisons are difficult to make. The usual method of determining appropriate prices is based on a computation of cost of service and there are various methods of allocating certain of these costs to different types and quantities of sale. Furthermore, the Regulation does not take into account other factors, such as competitive prices and value of service, factors which many authorities believe should be taken into account in the setting of prices. In the opinion of the Commission, Regulation 9 should be rescinded.

The Commission believes that, if a National Energy Board enquires into the terms and conditions of each proposed export contract, satisfies itself that the terms are fair and reasonable and in the public interest, and discharges the other responsibilities which the Commission is recommending should be placed upon it, the objectives which the Commission assumes were envisaged by Regulation 9 will be achieved.

### Part III—Westcoast Transmission Company Limited

#### *Recommendations*

The Commission recommends:

1. That the Board of Transport Commissioners for Canada exercise, with respect to Westcoast Transmission Company Limited and its operations, the regulatory jurisdiction which the Commission has recommended in Chapter 2 of this report should be given to and exercised by the Board of Transport Commissioners for Canada in respect of gas pipe line companies subject to the jurisdiction of the Parliament of Canada.

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2. That in exercising such regulatory jurisdiction with respect to Westcoast Transmission Company Limited and its operations, the Board of Transport Commissioners for Canada take into account the prices at which gas is sold by Westcoast Transmission Company Limited in Canada and for export from Canada, in order to ensure that the return on the shareholders' investment in Westcoast Transmission Company Limited permitted by the Board of Transport Commissioners shall not result in Canadian consumers of natural gas contributing more than their fair, reasonable and proportionate share of the total return.

3. That if and when Westcoast Transmission Company Limited, or any affiliated or subsidiary company, makes application to the Government of Canada for a licence to export from Canada quantities of gas additional to those included in the existing export licence now held by said company or for any variation in the quantities of natural gas not included in said licence, the Government of Canada before approving any such further licence or variation, as above mentioned, ensure that the aggregate of natural gas to be exported by Westcoast Transmission Company Limited, under all outstanding and proposed contracts for the sale of such gas, is being sold at prices which, when averaged, are fair and reasonable after taking into account the price at which natural gas is being sold to Pacific Northwest Pipeline Corporation under its contract with Westcoast Transmission Company Limited, dated December 11, 1954.

### *Comment*

1. Westcoast Transmission Company Limited (hereinafter called "Westcoast") was incorporated by Special Act of the Parliament of Canada in 1949.

Under date of June 16, 1952, the then Petroleum and Natural Gas Conservation Board of the Province of Alberta granted Westcoast a permit to remove natural gas from the province. The permit was for a 22-year period with an initial allotment of 210 billion cubic feet for the first five years. Westcoast then had purchase contracts with producers in the Peace River District of British Columbia to buy some 1,431 billion cubic feet of gas. The Province of British Columbia had no legislation requiring a permit for removal of gas from the province.

An essential part of the Westcoast project was the exportation of natural gas to the United States and the construction in that country of pipe line facilities for the transmission of gas from the International Boundary to markets. Westcoast incorporated a United States subsidiary, known as

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Westcoast Transmission Inc., to construct the pipe line facilities and to sell the gas to distributing companies, operating in the Pacific Northwest area of the United States of America.

2. Westcoast Transmission Inc. applied to the Federal Power Commission at Washington, D.C., for a permit to import gas into the United States.<sup>1</sup> When this application was made no licences to export gas from Canada had been granted to Westcoast. However, during the course of the hearings before the Federal Power Commission, in connection with the import permit, licences to export gas from Canada were granted to Westcoast by the Government of Canada. The application of Westcoast Transmission Inc. before the Federal Power Commission was opposed by Pacific Northwest Pipeline Corporation (hereinafter called "Pacific Northwest") which proposed to transmit natural gas by pipe line, from the San Juan basin in New Mexico and Colorado, to service the needs of the Pacific Northwest area of the United States.

3. On June 18, 1954, the application of Westcoast Transmission Inc. was denied by the Federal Power Commission and a permit granted to Pacific Northwest with respect to its project. The Federal Power Commission's principal justification for its decision was a declaration by it that it was required to give full protection to United States consumers and that such protection would not be present if the sole source of supply arose from the importation from a foreign country without some inter-governmental agreement assuring the continued adequacy of supply.

4. This decision was a severe set-back to Westcoast and for a time it appeared as if the funds spent in the promotion of the project would be lost. Westcoast then made efforts to sell gas to American gas distributing corporations and finally entered into negotiations with Pacific Northwest which culminated in a contract, dated December 11, 1954, between Westcoast and Pacific Northwest, under which Pacific Northwest agreed to purchase certain quantities of natural gas.

5. The contract with Pacific Northwest made it possible for Westcoast to proceed with its plans to construct and operate a 650 mile, 30 inch diameter, gas pipe line from the Peace River District in Canada to the vicinity of Huntington, B.C., on the International Boundary.

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<sup>1</sup> The first application to the Federal Power Commission was filed November 3, 1950 and was amended, under new rules of the Federal Power Commission, on March 18, 1952. Federal Power Commission hearings commenced June 16, 1952, and ran to March 31, 1954. The first Canadian export licence was granted on May 11, 1953, for one year. The next licence was granted on December 10, 1953, for 22 years, with the quantities being stated for each of the first five years only.

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After the completion of the contract with Pacific Northwest, Westcoast entered into contracts with British Columbia Electric Company, Limited (hereinafter called "B.C. Electric") for the sale to that company of natural gas for the cities of Vancouver and Victoria, and also with a newly incorporated company, Inland Natural Gas Company Limited (hereinafter called "Inland") which proposed to distribute gas throughout the interior of British Columbia. These contracts were completed early in 1955.

Following the completion of the three contracts, an amended permit to remove gas from Alberta was obtained by Westcoast from the Petroleum and Natural Gas Conservation Board of that province. The permit is for a 25-year period and gives authority to remove from Alberta 1,080 billion cubic feet of gas during the life of the permit. The Government of Canada also granted a new export licence dated June 27, 1955, authorizing Westcoast to export gas from Canada, for a period of 20 years, at a rate not to exceed 125 billion cubic feet in any 12-month period. Pacific Northwest then obtained an import permit from the Federal Power Commission enabling it to import into the United States the gas to be purchased by it under its contract with Westcoast. In granting this import permit the Federal Power Commission expressed the view that the dependence of the United States upon supplies of Canadian natural gas was satisfactory, so long as the Canadian gas constituted a supplementary source for a market which was being served primarily from United States sources.

7. Westcoast's original contracts with the gas producers in Canada provided that the producers might terminate the contract should Westcoast Transmission Inc. fail to procure from the Federal Power Commission the necessary authorizations for construction of its pipe line and the importation of the gas. By reason of the denial of the application of Westcoast Transmission Inc., it was necessary for Westcoast to enter into new contracts with gas producers in Canada. This was done and the new contracts provided for a price for gathered gas of 10 cents per mcf., with an escalation over the 20-year term of  $2\frac{1}{2}$  cents. This price of 10 cents was to be reduced during the period when the throughput of the pipe line was being built up. As a result, the actual price being paid in 1958 is 6 cents per mcf. All of the contracts with the producers contained "most favoured nation" clauses, so that if, in the future, Westcoast pays any producer a higher price for gas the higher price automatically applies to gas sold to Westcoast by all of the producers.

8. In December, 1954, when Westcoast entered into the contract to sell natural gas to Pacific Northwest, certain of its common shares were outstanding. Evidence given to the Commission shows that these shares



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had been issued by Westcoast to the following shareholders in the amounts set opposite their respective names and for the price per share indicated:

<i>Name of shareholder</i>	<i>No. of shares</i>	<i>Price per share</i>
F. M. McMahon .....	1	\$10
F. R. Graham .....	1	\$10
N. R. Whittall .....	1	\$10
F. B. Brown .....	1	\$10
G. A. Martin .....	1	\$10
H. W. Riley .....	1	\$10
G. L. McMahon .....	1	\$10
A. P. Bowsher .....	1	\$10
Pacific Petroleums Ltd. ....	42	\$10
Sunray Mid-Continent Oil Company Ltd.	118,750	4.9¢
Eastman Dillon & Co. ....	118,750	4.9¢
Pacific Petroleums Ltd. ....	118,700	4.9¢
F. M. McMahon .....	118,750	4.9¢
E. A. Parkford .....	25,000	4.9¢
<b>Total .....</b>	<b>500,000</b>	

After the execution of the contracts with Pacific Northwest, B.C. Electric and Inland, additional shares of Westcoast were issued as follows:

<i>Name of shareholder</i>	<i>No. of shares</i>	<i>Price per share</i>
Pacific Petroleums Ltd. ....	29,688	5¢
Sunray Mid-Continent Oil Company Ltd. ....	29,688	5¢
Eastman Dillon & Co. ....	29,687	5¢
F. M. McMahon .....	35,937	5¢
<b>Total .....</b>	<b>125,000</b>	

In December, 1954, as a part of the consideration for executing the gas purchase contract with Westcoast, Pacific Northwest demanded a 50 per cent share interest in Westcoast but accepted an option, dated December 11, 1954, in favour of one K. S. Adams, to purchase common shares equivalent to 25 per cent of the common shares of Westcoast outstanding after its public financing and at the price at which shares would be offered to the public. The option was assigned to Westcoast Investment Corporation, a wholly-owned subsidiary of Pacific Northwest, and was later exercised in full by the purchase from Westcoast of 1,127,750 of its common shares at the price of \$5 per share.

The fact that the option to Westcoast Investment Corporation might place in the hands of one shareholder effective control of Westcoast led to the establishment of a voting trust, under agreement dated May 9, 1955, and to the granting of an option by Westcoast to Mr. Frank McMahon for the purchase of 200,000 common shares of Westcoast.

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Under the voting trust agreement certain shareholders agreed to deposit common shares of Westcoast, with voting rights to be exercised by Messrs. Frank McMahon, of Calgary; G. L. McMahon, of Calgary; D. P. McDonald, of Calgary; N. R. Whittall, of Vancouver; L. S. Gilmour, of New York, N.Y., U.S.A.; and E. T. Herndon, of New York, N.Y., U.S.A.

As at January 6, 1958, 3,898,308 common shares or 66.036 per cent of the issued common shares of the company were deposited in this voting trust. The voting trust terminates on dissolution or liquidation of the company or by the unanimous vote of the voting trustees or by the vote of the holders of voting trust certificates, holding at least three-fourths of the common shares deposited, or, in any event, on May 1, 1970.

By agreement, dated February 1, 1955, Westcoast granted the option, expiring January 31, 1960, to Mr. Frank McMahon to purchase 200,000 of its common shares, at a price 20 per cent more than the initial offering price to the public of common shares of Westcoast. The initial public offering price in April, 1956, was \$5 per share (U.S.) and the option price was thus established at \$5.97 (Canadian) per share. The consideration paid by Mr. McMahon for the option was ½ cent (Canadian) per share of optioned stock. At December 31, 1957, this option had been exercised by Mr. McMahon to the extent of 22,500 shares.

By agreement, dated February 1, 1955, amended in December, 1955, Westcoast granted an option, expiring January 31, 1965, to Eastman, Dillon & Co., investment dealers of New York to purchase 200,000 common shares at a price 20 per cent above the initial offering price to the public. The option price was thus established at \$6 (U.S.) per share. The consideration paid to Westcoast for this option was ½ cent (Canadian) per share of optioned stock. At December 31, 1957, this option had been exercised to the extent of 179,490 shares.

On December 31, 1957, 18,400 of these shares were still held by partners or members of the families of partners of that firm. 161,090 of the shares covered by the option were sold by the partners for an aggregate consideration of \$4,927,179.57. Eastman, Dillon & Co. had already acquired 118,750 common shares of Westcoast at a price of 4.9 cents per share and 29,687 at a price of 5 cents per share.

9. The first public offering of securities of Westcoast took place in April, 1956, and additional financing has taken place since that date. A summary of all financing to February, 1958, is as follows:

- (a) First Mortgage Pipe Line Bonds, 4¾% Series (Series A), due November 1, 1977, in the amount of \$83,000,000 (U.S.).

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Canadian institutional investors were offered these bonds and purchased them to the extent of \$8,500,000 and two investors with head offices in the United States used funds derived from Canadian sources to purchase a further \$40,000,000, making \$48,500,000, which can be considered as having been purchased in Canada. The balance of \$34,500,000 was sold in the United States.

- (b) First Mortgage Pipe Line Bonds, 5% Series (Series B), due November 1, 1969, in the amount of \$9,150,000 (U.S.) were sold to institutions in the United States.
- (c) 3½% Debentures, maturing semi-annually from May 1, 1959, to November 1, 1963, in the amount of \$10,500,000 (Canadian), were sold to a Canadian chartered bank.
- (d) 3½% Notes, maturing semi-annually from May 1, 1959, to November 1, 1963, in the amount of \$19,000,000 (U.S.), were sold to United States banking institutions.
- (e) 4¼% Notes, maturing semi-annually from May 2, 1960, to November 1, 1961, in the amount of \$3,500,000 (U.S.), were sold to United States banking institutions.
- (f) Thirty-two year 5½% Subordinate Debentures (Series A), due April 1, 1988, in the amount of \$20,500,000 (U.S.), were offered for sale as of April 23, 1956. These Debentures were sold in units consisting of one \$100 debenture at par and 3 common shares at \$5 per share. Canadian underwriters purchased debentures in the amount of \$4,100,000 and 123,000 shares for sale only in the Provinces of Alberta and British Columbia.
- (g) 5½% Subordinate Debentures (Series B), due April 1, 1988, in the amount of \$3,100,000 (U.S.), were sold to United States institutions.
- (h) 5½% Subordinate Debentures (Series C), due April 1, 1988, in the amount of \$25,000,000 (U.S.) were offered for sale as of September 11, 1957. These Debentures are convertible into common shares of Westcoast at \$35 (U.S.) per share on or before September 1, 1967, and at \$38.50 (U.S.) per share on or before July 15, 1978. Canadian underwriters purchased these debentures in the amount of \$12,700,000 for sale in Canada and underwriters in the United States purchased the balance, i.e., \$12,300,000.
- (i) Common shares without nominal or par value: 5,904,105 shares.

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625,000 common shares had been issued prior to financing, 615,000 common shares were sold as part of the units and a further 3,271,000 common shares were sold, through Eastman, Dillon & Co., of New York, in 1956, in part to satisfy options outstanding at that time in favour of Westcoast Investment Corporation and in part to the public. The price at which such shares were sold was \$5 (U.S.) per share. Thus, the only shares offered by Canadian underwriters to the Canadian public were the 123,000 offered in Alberta and British Columbia. The other issued shares are the result of the exercise of the options granted to Mr. Frank McMahon and Eastman, Dillon & Co. and the acquisition of certain properties.

10. When the original 499,950 common shares of Westcoast were issued at 4.9 cents per share, there was great doubt as to whether Mr. McMahon's efforts on behalf of the company would result in success. We are aware that there are many good reasons why "risk" capital in a developing country must be appropriately rewarded if the incentive to take the risks involved is to be preserved. It is difficult to look upon Westcoast in 1954 as a risk of the magnitude which the issuance, prior to a public offering, of a substantial proportion of its equity capital for a completely nominal consideration would appear to suggest. The company had proven reserves of natural gas under contract or available to it. In our view, its position was not comparable to the position of a mining company at a time when it is only a "prospect" and does not know the extent of the resources which it is proposing to seek.

When the company subsequently issued an additional 125,000 common shares at 5 cents per share, its circumstances were different, in that contracts had been made for the sale of gas to Pacific Northwest, B.C. Electric and Inland. In such circumstances, the issuance of a further substantial portion of the company's equity for a merely nominal consideration enlarged the opportunity for speculative gains on the part of the original promoters prior to the public offering of shares in the company's equity capital. The issuance of common shares of a company for a nominal consideration, when subsequently the public is permitted to participate at a much greater price per share, results in the promoters obtaining a proportion of the equity of the company and a return thereon completely out of scale with the return on the investment of the shareholders who subsequently participate in the equity. Common shares of Westcoast were offered in 1956 to the public in the United States at the price of \$5 per share. The fact that investors were prepared to purchase shares at such a price, in spite of the extensive dilution in the equity resulting from the issuance to the promoters of a large number of shares for a nominal consideration, appears to show that the profit possibilities of the enterprise were regarded as representing very much more than a

## Export of Natural Gas and Crude Oil

normal or even generous return upon the actual cash investment in equity capital. The situation indicated the possibilities of the original shareholders making extremely large capital gains. We are of the view that the financing of Westcoast, in so far as the issuance of its common shares is concerned, was done in a manner which has resulted in those few who were associated in the venture receiving potential capital profits beyond any amount which, in our opinion, could be considered as reasonable or adequate compensation for the risks involved. The Commission has stated its views on this subject in the hope that, in the development, during the ensuing years, of Canada's natural gas resources, others involved therein will not be disposed to consider the manner of Westcoast's financing as a pattern which would be acceptable to a National Energy Board, when application is made to it for a certificate of public convenience with respect to the approval of a project.

In making the foregoing comment, we do not wish it to be construed that we are suggesting the transactions involving the issuance of common shares of Westcoast at 4.9 cents and 5 cents were illegal. The transactions were disclosed in the prospectuses of the company issued in connection with its public financing from time to time and, consequently, any prospective investor was put on notice of the nominal prices received by the company for the issuance of these common shares. If the basis of regulation, which the Commission is recommending should be applied to gas pipe line companies subject to the jurisdiction of the Parliament of Canada, is accepted and put into effect, it is our view that the consumer of natural gas transmitted through the Westcoast pipe line system will be protected. Furthermore, we are of the view that if such basis of regulation is put into effect neither the producer nor the consumer in Canada of natural gas transmitted through the Westcoast pipe line system will be adversely affected by the fact that these shares were issued at such nominal prices. The consumer of such gas outside Canada will not be affected, in any event, as the export price is fixed in the contract for the sale thereof made between Westcoast and Pacific Northwest.

11. The contract with Pacific Northwest provided for delivery and purchase of gas as follows:

	<i>Contract demand mcf. per day</i>
“(a) Prior to January 1, 1958, provided Buyer's and Seller's facilities required to deliver and receive the gas were completed .....	200,000
(b) For one year commencing January 1, 1958 ....	250,000
(c) For one year commencing January 1, 1959, and thereafter throughout the remaining period of the contract .....	300,000
(d) Buyer has right upon Sixty (60) days' written notice to decrease the above quantities by 50,000 mcf. per day until January 1, 1960, but not thereafter.”	

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The gas was to be delivered at a point on the International Boundary, near Huntingdon, B.C., at a 90 per cent load factor, at a price, in the first year, of 22 $\frac{1}{4}$  cents per mcf. and in the second and subsequent years at a price of 22 cents per mcf. The contract period is 20 years. Pacific Northwest had the option to obtain an additional amount up to 100,000 mcf. per day at the same price of 22 cents. As we understand the arrangements made in May, 1957, between Westcoast and Pacific Northwest with respect to delivery of this 100,000 mcf. per day, the delivery, under the option, is now conditional upon Pacific Northwest taking delivery from Westcoast, not only of the original 100,000 mcf. of gas per day, but also, of an additional 150,000 mcf. per day. Accordingly Westcoast is not now bound to deliver the original 100,000 mcf. per day at the 22 cent price, unless Pacific Northwest takes delivery from Westcoast of the additional 150,000 mcf. per day at a higher price. Consequently, it is our understanding that the price of 22 cents per mcf. will not apply to any additional quantities of gas.

Senior executive officers of Westcoast when they first appeared before the Commission explained that the price per mcf. to be paid for gas by Pacific Northwest had been determined by reference to the laid-down price of Texas gas in San Francisco. This price was 34 cents per mcf. and, as it was estimated it would cost 12 cents to transport the gas from the Canadian border to San Francisco, the price of 22 cents was thereby determined. These officers admitted that none of the gas sold by Westcoast in fact went to San Francisco and admitted that there would be some additional cost to be added to the 34 cents to move Texas gas to the Pacific Northwest area.

Subsequently, at the hearings of the Commission in Victoria and Toronto, Mr. McMahon, who was not present at the prior hearings, said that the price of 22 cents and the price of 32 cents per mcf. charged by Westcoast to B. C. Electric were determined by fixing a common price for each of the distributing companies in the cities of Portland, Seattle and Vancouver and deducting therefrom the estimated cost of delivering the gas to the United States cities from the Canadian border. He admitted that he was "not happy" with the price at which gas was being sold to Pacific Northwest and said Westcoast should be getting a better price for its gas. However, he frankly admitted that, at the time the contract with Pacific Northwest was negotiated, this was absolutely the best deal he could make under the circumstances. It is obvious that Westcoast in 1954 was not in a position to bargain with Pacific Northwest on an equal footing. Pacific Northwest held the franchise for the area; only that company had the right to sell gas. Westcoast had the gas in the Peace River District but, unless it could sell it in the

## Export of Natural Gas and Crude Oil

Pacific Northwest area the export project would fail. Under these conditions it is understandable that Westcoast was forced to take practically whatever terms Pacific Northwest was prepared to offer.

12. The question arises whether the agreement with Pacific Northwest is so onerous that, in effect, the Canadian consumer buying from B. C. Electric and Inland is subsidizing the delivery of gas to Pacific Northwest. It was impossible, on the evidence given by Westcoast officers in Calgary, to determine whether or not this is so. Accordingly, the Commission engaged the services of Stone & Webster Canada Limited to examine the material filed by Westcoast with the Commission and to report to the Commission with respect to the price aspects of the contract with Pacific Northwest.

In May, 1958, Stone & Webster Canada Limited submitted its report and at the Commission hearings in July, 1958, in Toronto, officers of that company appeared and gave evidence. In effect, Stone & Webster Canada Limited found that, if the costs of service were ascertained in accordance with the method of allocation of costs employed by the staff of the Federal Power Commission (as understood by Stone & Webster Canada Limited) the operating profits of Westcoast were coming solely from the Canadian consumer and no profit was being made by Westcoast in carrying out the terms of its contract with Pacific Northwest. Westcoast was furnished with copies of the report of Stone & Webster Canada Limited, in advance of the Toronto hearings of the Commission, and called other consulting engineering firms who gave evidence contrary to the conclusions of Stone & Webster Canada Limited and prepared their own breakdown of costs on different bases.

13. The Commission makes no recommendation with respect to the basis of allocation of costs which should be adopted in the regulation of gas pipe line companies in Canada subject to the jurisdiction of the Parliament of Canada. The Commission is of the view that the Board of Transport Commissioners is the body to enquire into and satisfy itself as to whether or not Canadian consumers of natural gas are subsidizing in any way the sale of gas to Pacific Northwest. The Commission recognizes the sanctity of such a contract and does not consider that it would be wise or in the public interest to cancel or interfere with the existing export licence with respect to the export of gas by Westcoast. On the other hand, it considers that the shareholders of Westcoast should not look for disproportionate profits from sales made to Canadian consumers. It must be borne in mind that Pacific Northwest, which has the benefit of the contract, is a very substantial shareholder of Westcoast, having originally acquired a 25 per cent interest in Westcoast. It would not be in the public interest of Canada for that company, not only to benefit from a contract negotiated with Westcoast at a time when

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the bargaining powers of each company were not equal, but also to benefit, as a shareholder, from prices charged to Canadian consumers of gas in order to make the project a profitable one.

14. Pacific Northwest is seeking additional quantities of gas from Westcoast to be delivered in part over the present pipe line system and in part over a new system proposed to be constructed from Southern Alberta to Kingsgate, British Columbia. These additional quantities of gas cannot be delivered unless Westcoast obtains a further export licence. The Commission expects that, when application is made to the Government of Canada for a further export licence, such application will be considered in the light of the existing contract with Pacific Northwest to make certain that the aggregate of gas being exported from Canada under the present contract and future contracts is being sold at average prices which are fair and reasonable and in the public interest of Canada.

15. The Commission also expects that the Board of Transport Commissioners in reviewing the rates which Westcoast may charge from time to time to its Canadian customers, will have regard for not only the terms of the present contract for export but also the terms of any future contracts which may be negotiated and for which the Company may receive export licences.

### Part IV—Trans-Canada Pipe Lines Limited Proposed Export at Emerson, Manitoba

#### *Recommendations*

The Commission recommends:

1. That Trans-Canada Pipe Lines Limited be advised by the Minister of Trade and Commerce that the following paragraph contained in a letter dated September 28, 1955, addressed to Trans-Canada Pipe Lines Limited by the then Minister of Trade and Commerce and reading as follows:

"For the Emerson export, Tennessee must obtain a permit from the United States Government. When this has been issued, action will be taken by the Canadian Government under the Exportation of Power and Fluids and Importation of Gas Act to authorize the export at Emerson, Manitoba of 200,000 mcf of gas daily for a period of 25 years from the date of first delivery of gas."

must be considered no longer of any effect.

2. That any application which Trans-Canada Pipe Lines Limited may make in the future for a licence with respect to such export be considered on its merits.



## Export of Natural Gas and Crude Oil

### *Comment*

1. Trans-Canada Pipe Lines Limited (herein referred to as "Trans-Canada") holds a permit from the Petroleum and Natural Gas Conservation Board of the Province of Alberta (now the Oil and Gas Conservation Board of that province), dated May 14, 1954, to remove, subject to certain terms and conditions, a total of not more than four trillion three hundred and fifty billion (4,350,000,000,000) cubic feet of gas during the life of the permit, i.e., a period of 27 years from its date.

2. All of the gas covered by the permit issued to Trans-Canada by the Petroleum and Natural Gas Conservation Board of Alberta has now been committed by Trans-Canada to the fulfilment of sales agreements to purchasers in Canada.

3. Trans-Canada estimates that in order to meet additional known Canadian requirements of gas to be delivered through its pipe line it will require to obtain during the next two or three years from the Province of Alberta permission to remove from that province at least an additional one and one-half trillion (1,500,000,000,000) cubic feet of gas.

4. Unless and until Trans-Canada obtains a further permit from the Oil and Gas Conservation Board of Alberta authorizing it to remove from that province an amount of gas surplus to the reasonably foreseeable Canadian requirements it will not be in a position to export any gas under the so-called "Emerson contract".

5. The demand for natural gas to be delivered in Canada through the pipe line system of Trans-Canada is greater than the amount of gas which Trans-Canada has under contract to purchase and also greater than the amount of gas which Trans-Canada presently has the right to remove from the Province of Alberta. The Commission is of the view that the action to be taken by the Canadian Government under The Exportation of Power and Fluids and Importation of Gas Act, as contemplated by the letter to Trans-Canada from the then Minister of Trade and Commerce dated September 28, 1955, should not be taken. In the opinion of the Commission Trans-Canada should be advised that the paragraph contained in such letter and quoted above must be considered no longer of any effect.

On September 28, 1955, when the then Minister of Trade and Commerce addressed his letter to Trans-Canada, Trans-Canada's requirements of natural gas for Canadian consumption were entirely different from the requirements which now exist. Had an import permit been granted by the Federal Power Commission of the United States of America at some time

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during the intervening three years, it may well have been that Trans-Canada would have been in a position to supply the gas and make application to the Government of Canada for an export licence but such is not presently the situation.

### Section B

#### Crude Oil

##### *Recommendation*

The Commission recommends:

That, having regard to the present proven reserves of crude oil in Canada and to trends in the discovery and growth of reserves, the export from Canada of crude oil be permitted under annual licence.

##### *Comment*

1. Estimates given to the Commission during its hearings indicate clearly that Canada has sufficient proven and probable reserves of crude oil to enable it to continue, under licence, to export crude oil to available markets.

2. We are of the view that each such licence should terminate on the last day of March next following its effective date or on such earlier date as may be specified in any such licence.

3. As stated in the Foreword to this first report, it is our intention to submit a second report dealing, inter alia, with problems relating to Canadian and export markets for Canadian crude oil. In this second report, the Commission will deal also with the question of the reserves in Canada of crude oil.

## Regulation of Pipe Line Companies

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### *Term of Reference*

*To enquire and make recommendations concerning:*

- (b) *the problems involved in, and the policies which ought to be applied to, the regulation of the transmission of oil and natural gas between provinces or from Canada to another country, including but without limiting the generality of the foregoing, the regulation of prices or rates to be charged or paid, the financial structure and control of pipeline corporations in relation to the setting of proper prices or charges, and all such other matters as it is necessary to enquire into and report upon, in order to ensure the efficient and economical operation of pipelines in the national interest;*

### *Recommendations*

The Commission recommends:

1. That The Pipe Lines Act, R.S.C., 1952, Chapter 211, be amended to provide that:
  - (a) It shall be mandatory for the Board of Transport Commissioners for Canada to exercise the powers conferred upon it under Part II of The Pipe Lines Act, with respect to the regulation of the traffic, tolls or tariffs of oil pipe line companies subject to the jurisdiction of the Parliament of Canada;
  - (b) It should not be a condition precedent to the exercise of such powers that an oil pipe line company be declared to be a "common carrier";
  - (c) It shall be mandatory for the Board of Transport Commissioners for Canada to regulate the prices or rates of gas pipe line companies subject to the jurisdiction of the Parliament of Canada, and, in so doing, to require, if necessary, any such gas pipe line company to renegotiate the terms of any existing contracts for the sale or delivery of gas for distribution or consumption within Canada;

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- (d) It shall be mandatory for the Board of Transport Commissioners for Canada periodically, and at least once in every 24-month period during the early years of regulation, to review and, if deemed necessary, to adjust the prices, tolls, rates and tariffs of pipe line companies regulated by it;
- (e) It shall be mandatory for the Board of Transport Commissioners for Canada to exercise the powers conferred upon it by Part IV of The Pipe Lines Act;
- (f) The relevant sections of The Railway Act, now incorporated into The Pipe Lines Act by reference only, should be revised by wording applicable to pipe lines, as distinct from railways, and specifically set out in revised form as an integral part of The Pipe Lines Act.

2. That the prices, tolls, rates or tariffs of a company owning or operating an oil or gas pipe line, as regulated by the Board of Transport Commissioners for Canada, should be just and reasonable, non-discriminatory and calculated to yield a fair rate of return on the shareholders' equity, after making due allowance for reasonable and proper operating expenses, depreciation, interest, income and other taxes.

### *Comment*

1. Although The Pipe Lines Act gives the Board of Transport Commissioners the authority to regulate the traffic, tolls or tariffs of oil pipe lines, subject to the jurisdiction of the Parliament of Canada, this authority has not been exercised, although the Board did conduct a formal hearing on a complaint raised by a shipper of crude oil. No regulatory body of the Government of Canada has the authority at the present time to regulate the selling prices or transportation charges of gas pipe lines subject to the jurisdiction of the Parliament of Canada. The Commission considers that a more positive and active approach to the question of regulation has now become necessary.

In view of the great need of the Canadian economy for supplies of heat and energy producing fuels, it is desirable to ensure not only that adequate supplies are available at all times, but also that prices are kept at a reasonable level. As crude oil and natural gas must be moved over long distances to reach the principal market areas of Canada, transportation charges must be no more than are fair and reasonable. The Commission is of the view that the Board of Transport Commissioners should have all the powers needed for the regulation of the prices or rates, traffic, tolls or tariffs of pipe line companies subject to the jurisdiction of the Parliament of Canada.

## Regulations of Pipe Line Companies

The Commission is also of the view that the administrative body dealing with such regulation should not be the same as the authority to which application should be made for licences and certificates of public convenience, referred to in Chapter 3 of this report. As mentioned in that chapter, we consider that the problems involved in assessing and estimating the overall energy resources and needs of the country should be the responsibility of a board of different composition from that which deals with the engineering and physical location of pipe lines and the regulation of prices and transportation charges with respect to their operations.

2. Under Part II of The Pipe Lines Act, the Board of Transport Commissioners may regulate the traffic, tolls or tariffs of oil pipe line companies subject to the jurisdiction of the Parliament of Canada. The Commission is not concerned with any possible ambiguity which may now exist in the wording of The Pipe Lines Act as to whether or not the Board may only regulate the traffic, tolls or tariffs of such a company after having declared it to be a common carrier. The Commission does not feel that it should be necessary for a pipe line company to be declared a common carrier, with the additional obligations which such a declaration would impose on a company, merely for the purpose of enabling the Board of Transport Commissioners to exercise its regulatory authority.

3. In considering the problems involved in the regulation of the transmission of oil and natural gas by pipe line between provinces or from Canada to another country, it is important to appreciate the basic differences between the operations of oil and gas pipe line companies. A crude oil pipe line company provides a transportation link between the producer and the refiner and does not own the crude oil transmitted through the line. On the other hand, a gas pipe line company usually is the owner of the gas which it transports. Gas transmission pipe line companies customarily sell the gas which they own to distributing companies along the route of the trunk pipe line.

While provincial jurisdiction extends to the regulation of the rates charged by a gas distributing company operating wholly within the boundaries of the province, it would appear that the provinces have no jurisdiction to regulate the prices which may be charged by an interprovincial or international gas pipe line company to a gas distributor operating wholly within a province. For example, the Ontario Fuel Board regulates the prices charged by gas distributing companies to the consuming public in the various municipalities in the Province of Ontario but it does not enquire into or regulate the prices charged by Trans-Canada Pipe Lines Limited to the various provincial distributing companies. Without some regulation of the spread between the price paid by an interprovincial gas pipe line company

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to the producer of such gas and the price charged by such pipe line company to the provincial distributor of the gas the Commission fears that an inordinate profit could be made. Furthermore, without regulation of the prices which interprovincial gas pipe line companies may charge, they can be subject to complaints of discrimination in the prices charged in the various zones across the country. Consequently there should be provision for public enquiry and redress, where necessary.

During the hearings of the Commission the Province of Saskatchewan claimed that prices charged for gas in Saskatchewan by Trans-Canada Pipe Lines Limited were excessive. A claim was also advanced by the City of Prince George and Prince George Gas Co. Ltd. in British Columbia in respect of the prices proposed to be charged the distributing company by Inland Natural Gas Company, the purchaser of gas from Westcoast Transmission Company Limited. We make no comment as to whether or not we agree with these complaints, or, indeed, whether the Prince George situation is a matter for provincial or Dominion jurisdiction, but the fact that they are made demonstrates the need for regulation and for provision for the investigation, by means of public hearings, of complaints whether of discrimination or otherwise.

Trans-Canada Pipe Lines Limited and Westcoast Transmission Company Limited both stated to the Commission that they anticipate regulation of their transmission charges.

The Commission is of the view that the same reasons which are applicable to the regulation, at the provincial level, of the prices charged by gas distributing companies apply with equal force to the prices charged by interprovincial gas pipe line companies to the provincial distributor or directly to a consumer within a province.

4. At the present time there is no statutory provision allowing the regulation of the prices charged by companies engaged in the transmission of natural gas and subject to the jurisdiction of the Parliament of Canada. The Commission considers that the time has come when such regulation is desirable in the public interest and that the prices charged by such gas pipe line companies should be regulated on a just and reasonable basis and that the Board of Transport Commissioners should, by amendment to The Pipe Lines Act, be given the authority and obligation so to do.

It is the view of the Commission that only by such regulation can the spread between the price paid by the gas pipe line company for the product and the price charged by it when sold be effectively controlled and the consuming public protected.

## Regulations of Pipe Line Companies

5. Canada's presently known major oil reserves are located in the Provinces of Alberta and Saskatchewan. To bring this oil to the principal refining areas in Canada involves long distance transportation. The major oil companies have been responsible for the promotion and development of the principal interprovincial oil pipe line companies and have been responsible for enabling Canadian crude oil to move west to the Pacific Coast and to penetrate as far east as the Toronto-Sarnia refinery complex. In considering the problems involved in and the policies which ought to be applied to the regulation of the transmission of oil between provinces or from Canada to another country, the principal pipe line corporations to be considered are Trans Mountain Oil Pipe Line Company Limited, Interprovincial Pipe Line Company Limited, Montreal Pipe Line Company Limited and Trans-Northern Pipe Line Company.

6. Trans Mountain Oil Pipe Line Company Limited (hereinafter called "Trans Mountain") was incorporated by Special Act of the Parliament of Canada in 1951. It transports crude oil from Alberta to the Vancouver refinery area and to the International Boundary, at a point near Sumas, British Columbia. It has three wholly-owned subsidiary companies, namely, Trans Mountain Oil Pipe Line Corporation, Trans Mountain Housing Limited and Alpac Construction and Surveys Limited. Trans Mountain Oil Pipe Line Corporation is a United States company, the assets of which are wholly situate within the United States of America. This corporation owns the pipe line which connects with the pipe line of Trans Mountain at the International Boundary at a point near Sumas, and transports such crude oil as is exported from Canada by pipe line to the Pacific Northwest area of the United States of America. Trans Mountain Housing Limited and Alpac Construction and Surveys Limited are subsidiaries which deal, respectively, with housing in connection with the main Canadian pipe line and with engineering. The Commission is not concerned in this report with the latter two companies.

7. Trans Mountain operates 724 miles of pipe line in Canada. The pipe line originates at Edmonton, Alberta, and has a terminus at Burnaby, British Columbia, a distance of 719 miles of 24 inch diameter line, with some looping of 30 inch diameter line. A spur line runs from Sumas to the International Boundary, a distance of about five miles. The capacity of the main line is 250,000 barrels of crude oil per day. Oil refineries in the Vancouver area and at Kamloops, British Columbia, receive their supplies of Canadian crude oil through this pipe line. This pipe line is also the principal means by which Canadian crude oil is exported to the Pacific Northwest area of the United States.

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8. The tariff of transportation charges levied by Trans Mountain with respect to deliveries from Alberta to points in British Columbia is filed with the Board of Transport Commissioners for Canada. The joint tariff of transportation charges levied by Trans Mountain and Trans Mountain Oil Pipe Line Corporation with respect to the transportation of crude oil to points in the United States of America is filed with the Inter-State Commerce Commission in that country.

9. As at December 31, 1957, the capital structure of Trans Mountain was as follows:

*First mortgage and collateral trust sinking fund bonds outstanding,  
due April 1, 1972:*

Series A, 4 $\frac{1}{8}$ % .....	\$27,875,000
Series B, 4%, (\$32,875,000 payable in United States funds) .....	32,130,617
Series C, 4%, (\$5,640,000 payable in United States funds) .....	5,440,837
Series D, 5 $\frac{1}{2}$ % .....	15,000,000
Series E, 5%, (\$15,000,000 payable in United States funds) .....	14,390,625

*Capital stock and retained earnings:*

Capital stock —

Authorized — 5,000,000 shares without nominal or par value	
Issued — 1,504,928 shares .....	\$14,964,542
Retained earnings .....	12,078,319

The Series A and B Bonds are guaranteed by deficiency agreements entered into between the Company and six oil company shareholders — Imperial Oil Limited, Shell Oil Company of Canada Limited, Canadian Gulf Oil Company (succeeded by The British American Oil Company Limited), Standard Oil Company of British Columbia Limited, Union Oil Company of California and Richfield Oil Corporation. Two further deficiency agreements were entered into in respect of the Series C, D and E Bonds by all these companies, except Union Oil Company of California. Under the deficiency agreements the guarantors undertake to meet all requirements with respect to service and repayment of the bonds. To ensure that certain independent oil companies, who were offered a combined total of 250,000 shares at \$10 per share, would take a keen interest in the pipe line venture, each such subscriber was required to enter into an agreement which provided that, should a deficiency occur before December 31, 1956, the first 25 per cent of any such deficiency would be made good in the proportions that the number of shares purchased by such independent oil company bore to 250,000 shares. No deficiency did, in fact, occur and the group of 14 independent oil companies are no longer obligated under their agreements.



## Regulations of Pipe Line Companies

As at March 27, 1958, the following oil companies were registered holders of shares in the capital stock of Trans Mountain in the amounts set opposite their respective names:

<i>Name</i>	<i>No. of shares held</i>	<i>Percentage of outstanding shares</i>
The British American Oil Company Limited .....	130,000	8.64
Imperial Oil Limited .....	130,000	8.64
Richfield Oil Corporation .....	50,000	3.32
Shell Oil Company of Canada Limited .....	130,000	8.64
Standard Oil Company of British Columbia Limited ...	130,000	8.64
Canadian Oil Companies Limited .....	20,000	1.33
The Calgary and Edmonton Corporation Limited .....	11,000	.73
National Petroleum Corporation Limited .....	10,025	.67
Security Freehold Petroleum Limited .....	2,000	.13
Triad Oil Co. Ltd. ....	10,000	.66
Total .....	623,025	41.40

10. An examination of the financial statements of Trans Mountain shows that the net income (after payment of income tax) of the Company for each of the years 1954-1957 represented the following rates of return on the shareholders' equity at the beginning of each of the respective years:

<i>Year</i>	<i>Percentage of return</i>
1954 .....	Nil
1955 .....	27.0
1956 .....	43.5
1957 .....	38.2

11. Interprovincial Pipe Line Company Limited (hereinafter called "Interprovincial") was incorporated by Special Act of the Parliament of Canada in 1949. This pipe line system now extends from Edmonton, Alberta to Port Credit, Ontario, a distance of 1,930 miles. It leaves the Canadian boundary near Gretna, Manitoba and re-enters Canada near Sarnia, Ontario. Consequently, for a distance of 969 miles, this pipe line runs through the United States and more particularly through the States of North Dakota, Minnesota, Wisconsin and Michigan. The portion of the pipe line located in the United States is owned by a United States company, Lakehead Pipe Line Company Inc., a wholly-owned subsidiary of Interprovincial.

Upon completion of its 1958 construction program the capacity of the various sections of Interprovincial's pipe line system, expressed in barrels per day, will be as follows:

Edmonton, Alberta to Regina, Saskatchewan .....	275,000
Regina to Cromer, Manitoba .....	335,000
Cromer to Gretna, Manitoba .....	376,000
Gretna to Clearbrook, Minnesota .....	352,000
Clearbrook to Superior, Wisconsin .....	346,000
Superior to Sarnia, Ontario .....	258,000
Sarnia to Port Credit, Ontario .....	111,000

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12. The tariff of transportation charges levied by Interprovincial, with respect to deliveries from points in the Provinces of Alberta, Saskatchewan and Manitoba to points in those same provinces, is filed with the Board of Transport Commissioners for Canada.

The joint tariff of transportation charges levied by Interprovincial and Lakehead Pipe Line Company Inc. with respect to the transportation of crude oil to points in the United States of America is filed with the Inter-State Commerce Commission in that country. The joint tariff of transportation charges of Interprovincial and Lakehead Pipe Line Company Inc. for the transportation of crude oil from Alberta to Sarnia and Clarkson or Port Credit, Ontario is filed with the Board of Transport Commissioners for Canada.

13. An examination of the financial statements of Interprovincial shows that the net income (after payment of income tax) of the Company for the years 1953-1957 inclusive represented the following rates of return on the shareholders' equity at the beginning of each of the respective years:

<i>Year</i>	<i>Percentage of return</i>
1953 .....	18.3
1954 .....	11.3
1955 .....	11.5
1956 .....	18.1
1957 .....	15.0

14. As at December 31, 1957, the capital structure of Interprovincial was as follows:

### *Long term debt*

#### First mortgage and collateral trust bonds outstanding

Series A — 3½% due January 1, 1970 payable in Canadian funds .....	\$30,343,000
Series B — 3½% due January 1, 1970 payable in United States funds .....	29,446,000
Series C — 4% due April 1, 1973 payable in United States funds .....	56,668,000
Series D — 3⅝% due April 1, 1974 payable in United States funds .....	29,150,000

### *Capital stock and retained earnings*

#### Capital stock

Authorized — \$200,000,000 divided into 40,000,000 shares — par value \$5 each	
Issued — 5,056,533 shares .....	\$25,282,665
Premium on shares .....	19,079,846
Retained earnings .....	22,268,332

## Regulations of Pipe Line Companies

Imperial Oil Limited entered into a throughput agreement with Interprovincial dated October 1, 1949. At the time, the intended capacity of the line was 95,000 barrels per day in the Edmonton-Regina section and 70,000 barrels per day in the Regina-Superior section. Imperial agreed that it or others would tender, during each year starting with 1951, crude oil in quantities sufficient to permit an average daily throughput of 59,673,000 barrel miles, or approximately 54,000 barrels per day. Failing this, Imperial agreed to pay to Interprovincial an amount equal to the deficiency in barrel miles multiplied by the weighted average tariff rates per barrel mile chargeable during the year.

Imperial Oil Limited also entered into an agreement with Interprovincial and The Royal Trust Company, dated October 1, 1949, by which Imperial agreed to meet, through the purchase of promissory notes of Interprovincial, any deficiency arising out of Interprovincial's inability to pay the principal of, interest or redemption premium on, and/or sinking fund payments in respect of any of the Series A and/or Series B Bonds and/or Series A Debentures of Interprovincial.

In connection with the sale of the Series C Bonds an undertaking was given by Imperial Oil Limited dated April 14, 1953. In this undertaking, which remains in force as long as any of the Series C Bonds are outstanding, Imperial agrees that to the extent it causes crude oil from Alberta, Saskatchewan or Manitoba to be transported to Sarnia, it will tender such crude oil to Interprovincial for transportation through the pipe line system to Sarnia.

15. As at December 31, 1957, the following oil companies were registered holders of shares in the capital stock of Interprovincial in the amounts set opposite their respective names:

<i>Name</i>	<i>No. of shares held</i>	<i>Percentage of outstanding shares</i>
Imperial Oil Limited .....	1,680,000	33.22
The British American Oil Company Limited ....	360,000	7.12
Canadian Oil Companies Limited .....	100,000	1.98
Total .....	2,140,000	42.32

16. The Portland-Montreal pipe line system was constructed in 1941 by Standard Oil Company of New Jersey. In 1946, the system was taken over by the four companies then operating refineries in the Montreal area. The system consists of two main pipe lines (one of 12 inch diameter and one of 18 inch diameter) 236 miles in length, of which approximately 70 miles are in Canada. The terminals are at South Portland, Maine and Montreal East, Quebec. The Canadian section of the system is owned by Montreal Pipe Line Company Limited, a Canadian company, and the United

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States section by Portland Pipe Line Corporation, a Maine corporation. Portland Pipe Line Corporation is now a wholly-owned subsidiary of Montreal Pipe Line Company Limited. The capacity of the system has been increased from 60,000 barrels of crude oil per day in 1946 to 253,000 barrels per day in 1958.

17. The tariff of transportation charges levied by Portland Pipe Line Corporation is filed with the Inter-State Commerce Commission in the United States of America. No tariff of charges of Montreal Pipe Line Company Limited has been filed with the Board of Transport Commissioners for Canada.

18. An examination of the financial statements of Montreal Pipe Line Company Limited and those of Portland Pipe Line Corporation shows the combined net income (after payment of income tax) of the companies for the years 1953-1957 inclusive represented the following rates of return on the shareholders' equity at the beginning of each of the respective years:

<i>Year</i>	<i>Percentage of return</i>
1953 .....	15.66
1954 .....	9.94
1955 .....	20.45
1956 .....	19.51
1957 .....	14.76

In making the foregoing calculations no regard has been had to the fact that Montreal Pipe Line Company Limited keeps its accounts in Canadian dollars, while Portland Pipe Line Corporation keeps its accounts in United States dollars.

19. In 1946, at the time of the disposal by Standard Oil Company of New Jersey of its interest in the Portland-Montreal pipe line system, Imperial Oil Limited acquired a 40 per cent interest and each of The British American Oil Company Limited, McColl-Frontenac Oil Company Limited and Shell Oil Company of Canada Limited acquired a 20 per cent interest. When Canadian Petrofina Limited commenced its refining operations in Montreal in 1955 it acquired, proportionately from the other shareholders, a 10 per cent interest in the two pipe line companies. In 1956, these five Canadian oil companies transferred their shares in Portland Pipe Line Corporation to Montreal Pipe Line Company Limited in exchange for an equivalent number of shares in the latter company.

## Regulations of Pipe Line Companies

20. As at December 31, 1957, the capital structure of Portland Pipe Line Corporation was as follows:

<i>Long term debt outstanding</i>	
Notes — 2.95% maturing July 15, 1965 .....	\$6,507,500
4½% maturing July 8, 1958 .....	700,000
<i>Capital stock and retained earnings</i>	
<i>Capital stock</i>	
Authorized — 20,000 shares \$100 par value	
Issued — 11,501 shares .....	\$1,150,100
Retained earnings .....	10,378,362

As at December 31, 1957, the capital structure of Montreal Pipe Line Company Limited was as follows:

<i>Long term debt outstanding</i>	
Notes — 2.95% maturing January 15, 1963 .....	(U.S.) \$1,329,167
3½% maturing January 15, 1963 .....	458,333
<i>Capital stock and retained earnings</i>	
<i>Capital stock</i>	
Authorized — 500,000 shares \$100 par value	
Issued — 32,206 shares .....	\$3,220,600
Retained earnings .....	3,786,219

The loans represented by the 2.95% notes of both Portland Pipe Line Corporation and Montreal Pipe Line Company Limited and the loan represented by the 3½% note maturing January 15, 1963, of Montreal Pipe Line Company Limited were guaranteed by throughput agreements entered into by Imperial Oil Limited, The British American Oil Company Limited, McColl-Frontenac Oil Company Limited and Shell Oil Company of Canada Limited.

21. As at December 31, 1957, the following oil companies were the registered holders of all the issued shares in the capital stock of Montreal Pipe Line Company Limited in the amounts set out opposite their respective names. Shares held by directors nominated by each company are considered as being held by the nominating company.

<i>Name</i>	<i>No. of shares held</i>	<i>Percentage of outstanding shares</i>
Imperial Oil Limited .....	11,595	36
The British American Oil Company Limited .....	5,797	18
McColl-Frontenac Oil Company Limited .....	5,797	18
Shell Oil Company of Canada Limited	5,797	18
Canadian Petrofina Limited .....	3,220	10
Total .....	32,206	100

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B P Canada Limited, which is constructing a refinery in the Montreal area, has requested the other shareholders of Montreal Pipe Line Company Limited to permit it to purchase a share interest in that company. Testimony given to the Commission during its hearings indicates that there is reason to believe that such request will be acceded to.

22. There is an interprovincial petroleum products pipe line which consists of a 10 inch diameter line from Montreal, Quebec, to Hamilton, Ontario, with an eight inch diameter spur line from Farran's Point, Ontario, to Ottawa. This products line is owned by Trans-Northern Pipe Line Company and was constructed in order to deliver refined petroleum products from the Montreal refinery area to various marketing terminals as far west as Hamilton and also to Ottawa.

Trans-Northern Pipe Line Company was incorporated by Special Act of the Parliament of Canada in 1949. It is a private company and does not publish financial statements. All the issued shares in the capital stock of the company, with the exception of 12 directors' qualifying shares, are registered in the names of the following companies in the amounts shown opposite their respective names:

<i>Name of company</i>	<i>No. of shares held</i>
The British American Oil Company Limited .....	7,000
McCull-Fontenac Oil Company Limited .....	7,000
The British American Oil Company Limited .....	7,000

In 1953 Canadian Petrofina Limited applied to the company for space in the pipe line system for the transportation of products from its Montreal refinery to Ontario marketing terminals. A three-year contract was executed with that company for transportation of products and it has since been renewed. No tariff of charges of Trans-Northern Pipe Line Company has been filed with the Board of Transport Commissioners for Canada.

23. The refiners in the Vancouver and Kamloops area are:

<i>Name of company</i>	<i>Capacity of refinery barrels per day</i>
<i>Vancouver area</i>	
Imperial Oil Limited .....	30,000
Shell Oil Company of Canada Limited .....	19,500
Standard Oil Company of British Columbia Limited .....	18,000
*The British American Oil Company Limited .....	18,000
<i>Kamloops</i>	
Royalite Oil Company Limited .....	4,750

\*On stream in October, 1958.

## Regulations of Pipe Line Companies

These four refiners in the Vancouver area as at March 27, 1958, were the registered holders of a total of 520,000 shares in the capital stock of the oil pipe line company (i.e. Trans Mountain) delivering Canadian crude oil to the Vancouver refineries and as such holders own and control 34.56 per cent of the total outstanding shares of Trans Mountain.

24. The refiners in the Sarnia area are:

<i>Name of company</i>	<i>Capacity of refinery barrels per day</i>
Imperial Oil Limited .....	77,000
Canadian Oil Companies Limited .....	27,400
Sun Oil Company Limited .....	15,000

The refiners in the Toronto area are:

<i>Name of company</i>	<i>Capacity of refinery barrels per day</i>
The British American Oil Company Limited .....	55,350
*Regent Refining (Canada) Limited .....	20,000
**Cities Service Oil Company Limited .....	18,800

\* A subsidiary of McColl-Frontenac Oil Company Limited.

\*\*On stream in November, 1958.

As at December 31, 1957, Imperial Oil Limited, The British American Oil Company Limited and Canadian Oil Companies Limited, the three largest refiners in the Sarnia and Toronto areas, were the registered holders of a total of 2,140,000 shares in the capital stock of the oil pipe line company (i.e. Interprovincial) delivering Canadian crude oil to these refinery areas and as such holders own and control 42.32 per cent of the total outstanding shares of Interprovincial.

25. The refiners in the Montreal area are:

<i>Name of company</i>	<i>Capacity of refinery barrels per day</i>
Imperial Oil Limited .....	71,800
The British American Oil Company Limited .....	45,000
McColl-Frontenac Oil Company Limited .....	59,000
Shell Oil Company of Canada Limited .....	60,000
Canadian Petrofina Limited .....	20,000
*B P Canada Limited .....	25,000

\*On stream mid-1960.

26. According to the records of the Canadian Petroleum Association 58 per cent of Canada's proved reserves of crude oil is owned by the following companies and/or their affiliates: The British American Oil Company Limited, B P Canada Limited, Canadian Oil Companies Limited, Canadian Petrofina Limited, The California Standard Company (as in

## Royal Commission on Energy

the case of Standard Oil Company of British Columbia Limited, a subsidiary of Standard Oil Company of California), Imperial Oil Limited, McColl-Frontenac Oil Company Limited, Shell Oil Company of Canada Limited.

27. It seems obvious to the Commission that, not only are the major oil refining companies in Canada in a position to assert effective control of the interprovincial oil pipe lines in Canada and the only inter-provincial products pipe line and, in view of this, the tolls or tariffs charged by these pipe lines, but they also own a very large percentage of the proved reserves of crude oil in Canada.

28. In Canada, where the principal oil producing and consuming areas are separated by long distances, pipe line transmission is the only practical method of transportation of crude oil. Transportation charges constitute a material element of cost and it is the view of the Commission that the price to producers of crude oil in Canada and the price to consumers in Canada of refined products, as well as the competitive position of Canadian crude oil in export markets, is materially affected by the transportation charges levied by the oil pipe line companies in moving Canadian crude oil to the various Canadian refining centres or to export outlets.

29. The Commission is of the opinion that, in the interests of the producer of Canadian crude oil, the refiner, the consumer of manufactured products and the development of larger export markets for Canadian crude oil, it is in the public interest that oil pipe line companies subject to the jurisdiction of the Parliament of Canada, should be regulated with respect to the traffic, tolls or tariffs which they are permitted to charge, so that they shall always be just and reasonable, non-discriminatory and calculated to yield a fair rate of return on the shareholders' equity. As mentioned earlier, we are also of the opinion that such regulation should be effected without the necessity for any such oil pipe line company to be declared a common carrier.

30. Careful consideration has been given by the Commission to various methods of regulating oil and gas pipe line companies\* and in particular to the method whereby the rates are designed to yield a fixed rate of return on the value of the assets employed, commonly referred to as a "rate base". Where this method is employed, except when the rate of return allowed is identical with the rate of interest on borrowed money, the net profit of the undertaking will represent, as between different companies, varying rates of

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\* The phrase "regulating oil and gas pipe line companies" is substituted for the word "regulation" used in the original copy.



## Regulations of Pipe Line Companies

return upon the shareholders' equity, depending upon the extent to which each undertaking is financed by borrowed money. Normally the allowed rate of return on assets employed exceeds the interest rate on borrowed money and, in such event, the greater the proportion of the total investment represented by borrowed money, the greater is the advantage to the equity owner in terms of the rate of return upon his investment. Such advantage is commonly referred to as "leverage".

We are of the view that a method of regulation which permits such leverage will, in the case of oil and gas pipe line companies, tend to produce an undesirable disparity between the several companies in the rate of return upon equity. It may also make possible realization of inordinate profits which, in the last analysis, will be paid by the consuming public. In this respect we have in mind particularly situations where shares in the equity have been issued to shareholders at prices varying from a few cents to substantially higher amounts.

The Commission is therefore of the view that the best basis of regulation to be followed with respect to pipe line companies subject to the jurisdiction of the Parliament of Canada is that method of regulation which ensures a fair rate of return on the shareholders' equity and does not permit the leverage to which we have above referred.

We have carefully considered whether the proposed legislation should fix the rate of return to be allowed on the shareholders' equity and whether this rate might be different in the case of oil or gas pipe lines or, alternatively, whether these matters should be left to the discretion of the Board of Transport Commissioners for Canada. We have concluded that it is preferable to allow the Board to exercise its discretion in this regard, recognizing that in so doing it will strive to exercise its powers in a fair manner and authorize rates, and thus a level of earnings, having regard to the circumstances of each case, sufficient to attract the necessary capital. The flexibility which will obtain under such a plan is, in our view, particularly desirable.

In order to ensure the fair treatment of equity capital on a long term basis, we consider that from the outset of regulation there should be a candid recognition by the Board of Transport Commissioners of the principle of evaluating the assets at their fair value in arriving at the value of the equity to be remunerated. The valuation of the assets and hence of the equity on the principle of historical cost in dollars will inevitably result in confiscation of capital, so long as the purchasing power of the dollar continues to decline. We recognize that in giving effect to the principle of regulation which the Commission is recommending, the Board of Transport Commissioners may expect to encounter problems of disparity between

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booked depreciation and actual loss of service life and of adjustment with respect to assets represented by undischarged debt in fixed dollars. We believe that the Board will have no great difficulty in evolving an equitable and acceptable method of determining, from time to time, the fair value of assets represented by the shareholders' equity.

31. The Commission is not unmindful that in regulating inter-provincial gas and oil pipe line companies questions with respect to the jurisdiction of the Parliament of Canada vis-a-vis the jurisdiction of the respective provincial legislatures may arise.

So long as the provinces of Canada concerned have made provision for proper measures of conservation and orderly production within their respective boundaries, and administer them on a sound basis, the Commission believes that it should be possible for the Parliament of Canada, through the Board of Transport Commissioners, to limit the exercise of its jurisdiction over gas and oil pipe lines so that it will not extend into fields which can adequately be dealt with by provincial regulation and control. Specifically, the Commission does not believe that the Board of Transport Commissioners need exercise jurisdiction over gathering systems connected to interprovincial systems. However, we realize that, if such jurisdiction rightly belongs to the Parliament of Canada, it may in the future be necessary for the Board to exercise it in order to ensure that its regulatory authority will be effective. The important consideration is that if the consumer of oil or gas in Canada is to receive the benefit of a reasonable price, field prices in the respective provinces and transmission charges must remain reasonable.

Certain of the provinces of Canada have already enacted legislation and established administrative machinery dealing with conservation and production. So long as provincial legislation and administrative machinery does not impede the effectiveness of the regulatory authority of the Parliament of Canada over interprovincial and international oil and gas pipe line companies the Commission believes that the exercise of the jurisdiction of the Parliament of Canada can be limited accordingly.

## National Energy Board

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### *Term of Reference*

*To enquire into and make recommendations concerning:*

- (c) *the extent of authority that might best be conferred on a National Energy Board to administer, subject to the control and authority of Parliament, such aspects of energy policy coming within the jurisdiction of Parliament as it may be desirable to entrust to such a Board, together with the character of administration and procedure that might best be established for such a Board;*

### *Recommendations*

The Commission recommends:

1. That legislation be enacted by the Parliament of Canada to enable the Government of Canada to exercise effective control over the export from and the import into Canada and the movement across provincial boundaries of all energy and sources of energy.

2. That a National Energy Board be established by this enabling legislation as a permanent board to study and to recommend to the Governor in Council policies designed to assure to the people of Canada the best use of the energy and sources of energy in Canada.

3. That the National Energy Board be authorized to require that anyone wishing to construct an oil or gas pipe line or one intended for the transportation of petroleum products or by-products of the processing of gas, subject to the jurisdiction of the Parliament of Canada, obtain a certificate of public convenience from such Board.

4. That the National Energy Board be authorized to require any company engaged in the transmission across provincial boundaries by pipe line of crude oil and petroleum products and natural gas and by-products thereof, to obtain a licence from such Board.

5. That the enabling legislation contain provisions which will authorize the Governor in Council from time to time to bring other forms of energy or sources of energy under the authority of the National Energy Board for such purposes as may be specified by the Governor in Council.

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6. That such divisions or branches of the various departments of the Government of Canada now concerned with oil and natural gas and related matters and whose responsibilities would properly come within the jurisdiction of the National Energy Board be transferred to its jurisdiction.

7. That the importation into Canada of crude oil and petroleum products be made subject to licence granted by the National Energy Board:

- (a) For the purpose of such licensing, crude oil or petroleum products originating in Canada but moving through a pipe line located in part outside the national boundaries of Canada be deemed to be imported into Canada even though the transmission of such crude oil or petroleum products shall have been in bond.
- (b) Such licences to be on a 12-months basis, non-transferable and to contain such conditions and provisions as the Board may consider to be desirable in the public interest, including provisions requiring the licensee to make a report to the Board quarterly, setting out the quantity of crude oil or petroleum products imported during the preceding three months, the specifications relating thereto, the source thereof, the name of the supplier and the price charged or paid, the name of the transporting agency and the costs of transportation, the currency or currencies in which any payments have been or are to be made with respect to such importations, and other relevant information.

8. That the National Energy Board shall have authority:

- (a) To study, review and from time to time recommend to the Minister of Trade and Commerce such policies and measures as it considers necessary or advisable in the public interest for the control, supervision, conservation, use and development of energy and for the production, recovery, manufacture, processing, distribution, transmission, sale, purchase, exchange, disposal, import or export of energy and sources of energy within, to or from Canada.
- (b) To give advice and make recommendations with reference to any matter relating to energy or sources of energy to any Minister or to any board or agency constituted under the authority of any Act of the Parliament of Canada or at the request of the Minister of Trade and Commerce to any board or agency constituted under the authority of the legislature of any province.

## National Energy Board

- (c) To compile, study and review the statistics and estimates of the quantity, quality, location and availability of the various forms of energy and sources of energy in Canada so that the Board may maintain an up-to-date inventory of Canada's energy resources.
- (d) To co-operate with and assist any board, agency or other authority, constituted under the provisions of any Act of the Parliament of Canada or of the legislature of any province, having jurisdiction relating to energy and sources of energy, in establishing standards of measurements and methods of assessing and estimating supplies of energy and their sources.
- (e) To make a continuing study and appraisal of all matters relating to the exploration for, production, processing, transportation and marketing of natural gas and oil and by-products thereof in Canada and elsewhere.
- (f) To grant, revoke or suspend licences, upon such terms and subject to such conditions, if any, as the Board may decide (provided, however, that each licence in the case of the export from Canada of electrical power or energy and in the case of the export from or import into Canada of gas shall be subject to the approval of the Governor in Council):
  - (i) For the export from and the import into Canada of those forms of energy and sources of energy for which licences are now required under The Exportation of Power and Fluids and Importation of Gas Act;
  - (ii) For the transmission across provincial boundaries by pipe line of crude oil and petroleum products and natural gas and by-products of the processing thereof;
  - (iii) For the export from or import into Canada of any form of energy or sources of energy which may be specified by the Governor in Council;
  - (iv) For the movement across provincial boundaries of any form of energy or sources of energy or any specific manner of movement thereof, which may be specified by the Governor in Council.
- (g) To make regulations respecting the conduct of its proceedings and the form and manner in which all matters coming before the Board should be presented and such other matters of a procedural nature as are customary.

## Royal Commission on Energy

9. That in exercising its responsibility with respect to the issuance of licences and certificates of public convenience, the Board shall take into account all matters which in its opinion are required to be considered by it in the public interest and in particular the following matters:

- (a) With respect to export and import licences:
  - (i) The present and anticipated requirements of Canada;
  - (ii) The advisability of encouraging the development in Canada of processing industries relating to energy and sources of energy as distinct from the export of unprocessed natural resources.
- (b) With respect to certificates of public convenience:
  - (i) The economic feasibility of the pipe line project and whether or not such project is in the national interest;
  - (ii) The financial structure, ownership, financing, engineering and construction plans of any applicant and the opportunity for the people of Canada to participate in the financing, engineering and construction of the project.
- (c) With respect to licences dealing with the transmission across provincial boundaries by pipe line of crude oil and petroleum products and natural gas and by-products of the processing thereof:
  - (i) The direction of movement and destination of the contents of the pipe line;
  - (ii) The volume proposed to be transmitted.

10. That the Board shall consist of not less than three and not more than five full-time members, one of whom shall be the chairman and that the chairman shall be the chief executive officer of the Board.

11. That the enabling legislation contain provisions to ensure the independence of the members of the Board.

12. That the enabling legislation provide for matters incidental to the constitution and administrative operation of the Board such as the term of office of members, the remuneration of members, the eligibility of retiring members for re-appointment, provision for travelling and living expenses, the quorum for meetings of the Board, provision for temporary substitutes, provision that a vacancy on the Board does not impair the authority of the Board, for the votes of the majority of members present at any meeting to govern with provision for the chairman having a casting vote, oath of office, meetings, retainers and employment of professional and technical advisers, officers and employees, power to compel attendance of

## National Energy Board

witnesses and production of documents, power to enforce obedience to the orders, regulations, certificates and licences of the Board and such other matters as are customary in establishing such a Board in order to ensure its efficient administration and operation.

13. That hearings before the Board be held in public.

14. That the Board be required to submit through the Minister of Trade and Commerce within three months after the termination of each fiscal year an annual report of the proceedings of the Board in such form as the Board shall decide and that the Minister of Trade and Commerce be required to lay this report before Parliament forthwith or, if Parliament is not then sitting, within 15 days after the commencement of the next ensuing session.

15. That the National Energy Board shall not be a body corporate or be responsible to and subject to the direction of any specific Minister otherwise than as specified in the recommendations concerning the extent of the authority of the Board.

16. That a member of the National Energy Board be appointed in due time to the Canadian Section of the International Joint Commission.

17. That, if possible, reciprocal arrangements be made with the United States of America for a Commissioner of the Federal Power Commission of that country to sit as an ad hoc observer, but without vote, when the National Energy Board is considering any application for a licence for the export of natural gas from Canada to the United States or for the import of natural gas into Canada; and for a member of the National Energy Board to sit as an ad hoc observer, but without vote, when the Federal Power Commission is considering the correlative application for the licence to import from or export to Canada such natural gas.

18. That the enabling legislation incorporate all relevant provisions of The Exportation of Power and Fluids and Importation of Gas Act to the end that such new legislation shall provide for all matters (except imposition of export duties for which provision can be made in The Export Act of Canada or other appropriate legislation) dealt with and provided for in the existing statute together with the matters comprised in the foregoing recommendations of this Chapter 3.

19. That upon the coming into force of the enabling legislation The Exportation of Power and Fluids and Importation of Gas Act and Section 5 (1) (a) of The Export Act (relating to the export of petroleum) be repealed.

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20. That The Pipe Lines Act be amended not only as recommended in Chapter 2 of this report but also to provide that no application for leave to construct any pipe line or any part or section of any pipe line subject to the jurisdiction of the Parliament of Canada shall be entertained by the Board of Transport Commissioners for Canada under the provisions of The Pipe Lines Act unless the applicant is the holder of a certificate of public convenience issued by the National Energy Board.

### *Comment*

1. It is clear from the Commission's terms of reference that the Government of Canada is aware of the fundamental importance of assuring the most effective use of Canada's energy resources in the public interest and that this entails, among other things, ensuring that Canadian requirements for energy are taken fully and systematically into account in granting licences for the export of energy or sources of energy.

The Commission believes that the achievement of these purposes requires that the Government of Canada be given authority to control the export from and import into Canada of all energy and sources of energy and authority to control the movement across provincial boundaries of all energy and sources of energy.

2. The significance of energy in a modern industrial nation is great. Technological developments and discoveries of new sources of energy as well as a rapidly growing requirement for energy in Canada suggest that the problems involved will be of growing proportions and importance. The Commission considers that in meeting the immediate requirements of a national energy policy relating to natural gas, crude oil and petroleum products, which are dealt with specifically in this report, and in formulating and developing over the long term a national energy policy, related to all forms of energy and sources of energy, a National Energy Board is required.

In particular the Commission is of the view that, in order that effective control may be exercised over international and interprovincial oil and gas pipe lines and the best use made of energy and sources of energy in Canada the time has come when additional licensing procedures should be established and any proposed pipe line project subject to the jurisdiction of the Parliament of Canada should be required to obtain a certificate of public convenience. The Commission considers that a permanent board charged, inter alia, with the responsibility of considering and resolving the problems involved in the issuance of licences and certificates of public convenience should be established. This, we believe, would result in careful



## National Energy Board

appraisal of the national interests to be served by the interprovincial and international movement of oil and natural gas and a deliberately considered administration of national policy.

3. The Commission considers that applications for licences for export or import or for the transmission across provincial boundaries by pipe line of gas and oil should be made to the National Energy Board and that this Board should be charged, subject in certain cases to the approval of the Governor in Council, with the responsibility to determine whether such licences should be issued.

4. At the present time, The Pipe Lines Act confers certain jurisdiction upon the Board of Transport Commissioners for Canada with respect to the construction, design and other matters connected with gas or oil pipe lines subject to the jurisdiction of the Parliament of Canada and with respect to the regulation of traffic, tolls or tariffs of such oil pipe line companies. In Chapter 2 of this report, we have recommended, among other things, that the Board of Transport Commissioners should be given the additional responsibility of regulating the prices or rates of such gas pipe line companies.

The Commission does not believe that any purpose would be served in transferring to a new National Energy Board the functions now performed with respect to the foregoing matters by the Board of Transport Commissioners. If such a course were followed, it would mean a duplication of administrative machinery and of personnel which, in our opinion, would not be justified. The whole of the experience with respect to this work under the jurisdiction of the Government of Canada is concentrated in the Board of Transport Commissioners and, in the opinion of the Commission, should remain there.

In the opinion of the Commission, the problems involved in assessing Canada's energy resources and needs and in relating these and the implications of other energy studies, which the Commission has recommended should be carried out by the National Energy Board, to the issuance or withholding of licences or certificates of public convenience are distinct from the regulatory functions which the Commission has recommended should be carried out by the Board of Transport Commissioners with respect to oil and gas pipe line companies.

5. The Commission has recommended that in exercising its responsibilities with respect to the issuance of certificates of public convenience the National Energy Board should, inter alia, take into consideration, not only the economic feasibility of the pipe line project to which any application relates and whether or not such project is in the national interest, but

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also the financial structure, ownership, financing, general engineering and construction plans of any applicant and the opportunity for the people of Canada to participate in the financing, engineering and construction of any such project. These are matters which the Commission considers should be dealt with by the National Energy Board rather than by the Board of Transport Commissioners. We consider it highly desirable, of course, that there should be effective liaison between these two organizations and we assume that such would be the case.

6. The Commission has dealt at some length in Chapter 1 with the considerations relating to the granting of licences for the export of natural gas. The basic consideration regarding export licences for all forms of energy must be the assurance that Canada's present and anticipated requirements for energy will be met. We wish, however, to draw attention to the advisability of encouraging the development in Canada of processing industries relating to energy and sources of energy as distinct from exporting unprocessed natural resources.

The Commission's recommendation that the authority to licence the import of natural gas, now contained in The Exportation of Power and Fluids and Importation of Gas Act, should be given to the National Energy Board, does not call for any special comment as the volume of such imports is likely to be small.

The Commission recommends licensing the transmission by pipe line of oil and gas across provincial boundaries because it is our view that control of such matters as the volume so transmitted, the direction of flow and the destination of the oil and gas within Canada is essential to ensure that the public interest can be protected in the effective use of these resources. It is not our intention that this licensing should be on an annual basis. We have in mind that changes in the operation of any such pipe line relating to the direction of flow or substantial increases in volume, subsequent to the issue of the original licence, should be matters for a further licence from the National Energy Board.

7. At the present time there is no legislation of the Parliament of Canada making provision for licensing the importation of crude oil and petroleum products. The Commission considers that the time has come to provide for such licensing and that the licensing authority should be given to the National Energy Board.

The Commission believes that such licensing is in the national interest not only to provide the Government of Canada, through the National Energy Board, with basic information respecting the origins, cost, transportation charges and laid-down cost in Canada of crude oil and petroleum

## National Energy Board

products but also so that regulation of the traffic, tolls, or tariffs of oil pipe line companies operating in Canada and subject to the jurisdiction of the Parliament of Canada may be effectively carried out, notwithstanding that certain portions of the transmission system are physically situate outside Canada.

Some 112 million barrels of crude oil were imported into Canada in 1957 by seven importers. In the same year approximately 35 million barrels of petroleum products were imported. Apart from the oil companies themselves these products were imported by a large number of jobbers in Canada of whom six imported slightly over 60 per cent of the total brought in by such jobbers. The Dominion Bureau of Statistics places a value on these importations into Canada in 1957 at \$455,000,000. This figure is a substantial portion, namely, approximately 8 per cent of the dollar value of all importations into Canada in 1957. The Commission is of the view that the Government of Canada through the National Energy Board should have available to it the information which the Commission has recommended be obtained through a licensing procedure with respect to importations of a form of energy of such economic significance. Furthermore the data which would be obtained by such licensing procedure would enable the National Energy Board to maintain a continuous appraisal of the competitive situation affecting the production of Canadian crude oil.

8. As the hearings of the Commission have as yet been concerned primarily with oil and natural gas as energy or sources of energy, the Commission makes no recommendations at the present time for placing under the jurisdiction of the National Energy Board any other sources of energy, except jurisdiction with respect to the export of electricity from Canada, which is now contained in The Exporation of Power and Fluids and Importation of Gas Act. Consequently the Commission has recommended that in establishing the National Energy Board provision be made in the enabling legislation for jurisdiction to be given to the National Energy Board over such other sources of energy as may from time to time be specified by order in council.

9. The Commission envisages that the facilities, knowledge and experience of the proposed National Energy Board will be available to other departments and other boards of the Government of Canada and to the government of any province and would expect that the National Energy Board will co-operate with these departments and boards. The Commission, however, considers that any request for the use of the facilities, knowledge and experience of the proposed Board, by other than an agency of the Government of Canada, should be on the request of the Minister of Trade and Commerce.

## Royal Commission on Energy

10. The Commission in its hearings found that there are several methods of assessing available sources of energy and accordingly believes that an important function of the National Energy Board will be to assist in establishing up-to-date uniform methods and standards for assessment of available and potential sources of energy.

11. The Commission considers that the need for a Board which will maintain an up-to-date inventory of Canada's sources and potential sources of energy is self evident if a sound national energy policy is to be developed.

12. For all practical purposes the United States of America is the sole existing market for any exportable surplus of natural gas and it is also the only likely market for any exportable surplus of crude oil. The recognition of these facts prompts the recommendation of the Commission that the National Energy Board should study and appraise all matters relating to natural gas and crude oil not only in Canada and in the United States of America but elsewhere. We have also recommended that a member of the National Energy Board be appointed in due time to the Canadian section of the International Joint Commission and that reciprocal arrangements be worked out with the Government of the United States of America for an ad hoc observer from the National Energy Board to sit with the Federal Power Commission of that country and vice versa when applications for export and import of natural gas are under consideration. We believe that this working arrangement would expedite the decisions of the Commission and of the Board with respect to any import and export licence, within their respective jurisdictions, and that membership on the Canadian section of the International Joint Commission would provide a liaison with that section, which would be most desirable in the administration of national policy within the jurisdiction of the National Energy Board.

13. In the Commission's recommendations respecting the constitution, organization and procedure of the National Energy Board the only matters on which we feel comment need be made are as follows:

- (a) Initially the Board should consist of not less than three and not more than five members. We envisage, however, that, as the work of the Board develops, it may be necessary to increase the number, particularly if one member should be also a member of the Canadian section of the International Joint Commission or as responsibility with respect to other energy or sources of energy is added to the jurisdiction of the Board by order in council pursuant to the enabling legislation.

## National Energy Board

- (b) It is considered of importance by the Commission that the Board conduct all hearings in public and that the constitution of the Board be such as to ensure the independence of its members. The Commission does not consider that the Board should be subordinated to any particular ministry of the Government except to the extent set out in its recommendations.

14. In making these recommendations with respect to the responsibilities of the Board of Transport Commissioners, the Commission realizes that the exercise of these responsibilities will entail a considerable increase in the work of the Board of Transport Commissioners. While the Commission has made no recommendation in this regard, it is conscious of the fact that consideration should be given to whether or not the membership of the Board of Transport Commissioners should be enlarged.

15. In making its recommendations the Commission affirms that provincial legislation and regulation, within its proper sphere, should be respected and the recommendations in this report should not be construed as recommending or suggesting any interference with provincial jurisdiction.

## Trans-Canada Pipe Lines Limited

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### *Term of Reference*

To enquire into and make recommendations concerning:

- (d) whether, in view of its special relationship to the Northern Ontario Pipeline Crown Corporation and the nature of its financing and control, any special measures need be taken in relation to Trans-Canada Pipe Lines Limited in order to safeguard the interests of Canadian producers or consumers of gas.

### *Recommendations*

The Commission recommends:

1. That the Board of Transport Commissioners for Canada exercise, with respect to Trans-Canada Pipe Lines Limited and its operations, the regulatory jurisdiction which the Commission has recommended in Chapter 2 of this report should be given to and exercised by the Board of Transport Commissioners in respect of gas pipe line companies subject to the jurisdiction of the Parliament of Canada.

2. That no special measures need be taken in relation to Trans-Canada Pipe Lines Limited in order to safeguard the interests of Canadian producers or consumers of gas.

### *Comment*

1. During the course of its hearings the Commission received a great deal of testimony from Trans-Canada Pipe Lines Limited, (hereafter referred to as "Trans-Canada") particularly with respect to its financing and control and its contractual relationship with the Northern Ontario Pipeline Crown Corporation. This testimony, at the request of Trans-Canada, was given under oath.

2. Due to the discoveries of natural gas which took place in the late 1940's in the Province of Alberta, it became more and more likely that this province would have gas surplus to its requirements and, therefore, eligible for removal from the province by permit. As a result, a number of projects for marketing such gas outside the province came into being. It was not,

## Trans-Canada Pipe Lines Limited

however, until December, 1953, following a report of the then Alberta Petroleum and Natural Gas Conservation Board, that the Government of Alberta announced that the province had available for eastern export approximately three and one-half trillion cubic feet of deliverable surplus gas. At the same time the Alberta Government announced that it anticipated this amount of surplus gas would increase to approximately five trillion cubic feet by the time a pipe line could be completed, provided the incentive necessary to stimulate continued development was maintained. At this time there were two companies in existence incorporated for the express purpose of transmitting natural gas eastward from the Province of Alberta. These two companies were Trans-Canada, whose project was to build a transmission line from Alberta to Montreal following an all-Canadian route and serving only Canadian markets, and Western Pipe Lines, whose project was to build a line to Winnipeg and thence southerly to the Middle West of the United States, where it proposed to sell the greater part of its throughput.

3. Trans-Canada was incorporated by Special Act of the Parliament of Canada in 1951. The Act of incorporation was amended by a further statute enacted in 1954. The company now owns or leases and operates a natural gas pipe line system which will extend from the Province of Alberta across the Provinces of Saskatchewan, Manitoba and Ontario and through a portion of the Province of Quebec to the presently planned terminus on the Island of Montreal. The system follows an all-Canadian route over a distance of approximately 2,300 miles.

Trans-Canada was organized in 1951 as a subsidiary of Canadian Delhi Oil Ltd. Canadian Delhi Oil Ltd. has its head office in Calgary, Alberta, and was incorporated under the Companies Act of Canada on August 2, 1950.

Canadian Delhi Oil Ltd. from its inception began to acquire interests in prospective oil and gas properties in an effort to discover the existence of gas reserves in sufficient quantities to help supply the natural gas requirements of a large diameter natural gas transmission line. By 1954 the company had interests in some 37 gas wells.

4. Western Pipe Lines was incorporated by Special Act of the Parliament of Canada in 1949.

No shares of the company were issued other than the directors' qualifying shares. The sponsors of Western Pipe Lines made cash advances to the company from time to time. The sponsors (hereafter referred to as the "Western Group") were The Calgary and Edmonton Corporation Limited, with head office in Winnipeg, Manitoba; Anglo-Canadian Oil Company Limited, with head office in Calgary, Alberta; International Utilities Corporation, with head office in New York, U.S.A.; Osler, Hammond and Nanton

## Royal Commission on Energy

Limited, with head office in Winnipeg, Manitoba; Wood, Gundy & Company Limited, with head office in Toronto, Ontario; and Nesbitt, Thomson and Company Limited, with head office in Montreal, Quebec.

The initial project envisaged by Western Pipe Lines was to transport natural gas from Alberta to Winnipeg, Manitoba and south to Emerson, Manitoba, from which point gas was to be exported for distribution in the Middle West of the United States. Subsequently Trans-Canada entered into a contract for the sale of this gas to Northern Natural Gas Company, the head office of which is in Omaha, Nebraska. In 1955 Trans-Canada refused to extend the time under which Northern Natural Gas Company could obtain an import permit to purchase the gas and in that year a new contract to export gas to the United States, through Emerson, was entered into by Trans-Canada with Tennessee Gas Transmission Company.

5. Trans-Canada and Western Pipe Lines filed competing applications with the Alberta Conservation Board for a permit to remove natural gas from Alberta. For some two years the companies were involved in competing for such a permit. On December 3, 1953, the Premier of Alberta wrote to the then Prime Minister of Canada advising, in effect, that the report made to the Government of Alberta by the then Alberta Petroleum and Natural Gas Conservation Board had established that Alberta had available certain quantities of natural gas for the supply of eastern Canadian markets. The following is a quotation from the letter of December 3, 1953, above referred to:

"The immediately urgent step is to bring about a satisfactory amalgamation of the interests and major proposals of the two applicants involved and my colleagues and I sincerely appreciate the assurance of your co-operation and active participation to that end. In transmitting to the applicants copies of the Board's report I have advised them that such an amalgamation is, in our opinion, essential in order to make possible the speedy completion of one sound over-all economically feasible project in which Canada's domestic interests will be served and augmented by the benefits of a desirable export market.

"I have further advised the applicants of your assurance that your Government will do all it can to facilitate such an amalgamation at the earliest possible date.

"Finally, on behalf of the Government of Alberta, I wish to assure you that if the present competing proposals are reduced to one sound over-all project and the Alberta Conservation Board is supplied with definite evidence to show that it can be financed and successfully operated on a basis that will ensure fair and equitable prices to Alberta producers, it will meet the requirements of the Board under its legislation and the policy laid down by the Alberta Government. As quickly as these conditions are met I am quite certain the Board will recommend to the Government that a permit be issued and the Government most certainly will approve such a recommendation".



## Trans-Canada Pipe Lines Limited

In due course Trans-Canada and the Western Group agreed to amalgamate under the Trans-Canada name in such manner that Trans-Canada should be owned as to 50 per cent by Canadian Delhi Oil Ltd., and as to 50 per cent by the Western Group.

6. Prior to the amalgamation of Trans-Canada and Western Pipe Lines, Trans-Canada had issued seven common shares to its incorporators and 993 common shares to Canadian Delhi Oil Ltd. An additional common share was issued to Canadian Delhi and 1,001 common shares were issued to the Western Group. For these shares \$1 per share was paid to Trans-Canada with the result that Trans-Canada had then issued and outstanding 2,002 fully paid common shares, for which it had received the par value in cash, namely, \$2,002.

7. Pursuant to an agreement dated April 30, 1954, the Western Group, sponsors of Western Pipe Lines and Alberta-Interfield Gas Lines Limited, in effect, transferred to Trans-Canada all the outstanding shares in the capital stock of these two companies and Trans-Canada issued to the Western Group 97,250 common shares of Trans-Canada, representing repayment of advances made by them in the amount of \$664,682 to Western Pipe Lines and of \$113,325 to Alberta-Interfield Gas Lines Limited. In liquidation of advances, in the amount of \$1,720,703, made by Canadian Delhi Oil Ltd. to Trans-Canada for geological data, engineering plans, market surveys and preliminary expenses for the line, it was agreed that Trans-Canada should issue to Canadian Delhi Oil Ltd. 215,088 of its common shares. In order to carry out the agreement that Trans-Canada should be owned as to 50 per cent by Canadian Delhi Oil Ltd. and as to 50 per cent by the Western Group, it was further agreed that Canadian Delhi Oil Ltd. should put in escrow 58,919 of these common shares. This was one-half of the number of common shares of Trans-Canada received by Canadian Delhi in excess of the total number of such shares received by the Western Group. The Western Group was given the option to acquire these 58,919 shares at any time prior to December 31, 1956, at the price of \$8 per share, with the further right to vote such shares by proxy during the time they remained in escrow. The Western Group and Canadian Delhi Oil Ltd. agreed to advance funds to Trans-Canada to be used in making various engineering surveys and acquiring rights-of-way, leading to the construction of the pipe line. For these advances Trans-Canada issued additional common shares, on the basis of \$8 per share, to both Canadian Delhi Oil Ltd. and the Western Group. It was contemplated that when a public offering was made the price would be in the neighbourhood of \$10 per share.

## Royal Commission on Energy

8. In October, 1954, Hudson's Bay Oil and Gas Company Limited acquired from the Western Group 10 per cent of the common shares of Trans-Canada then owned by the Group. The purchase totalled 28,654 common shares, for which Hudson's Bay Oil and Gas Company Limited paid the Western Group at the rate of \$8 per share, plus an adjustment of \$1.20 per share by way of interest on the investment in these shares.

9. In late 1955, Trans-Canada found itself unable to place purchase orders for pipe by reason of the fact that it had no funds, other than those which the company's sponsors were advancing from time to time and which were being expended on preliminary engineering studies, surveys and the like. The pipe required for the 1956 construction season was 34 inch diameter pipe which, because of its size, could not be obtained in Canada. The United States Steel Company, with whom the matter of pipe orders was reviewed, advised that Trans-Canada would have to establish a line of credit or an underwriting of its pipe supply if orders were to be placed so that deliveries could commence with the 1956 construction season. In the latter part of October, 1955, the problem was discussed with Tennessee Gas Transmission Company. Under an agreement, dated November 1, 1955, made between Tennessee Gas Transmission Company (hereafter called "Tennessee") and Trans-Canada, Tennessee, inter alia, agreed to place purchase orders for the 1956 requirements of Trans-Canada for pipe for its pipe line system from the boundary of Alberta to Winnipeg and Emerson, Manitoba. Tennessee further agreed to assign the purchase orders to Trans-Canada within 60 days after Tennessee notified Trans-Canada that Mid-western Gas Transmission Company, an affiliate of Tennessee, had received the necessary permits to authorize it to construct and operate a pipe line from the International Boundary near Emerson to the state of Tennessee and to import gas from Trans-Canada at Emerson. The conditions under which assignment of the purchase orders was to be made were amended and are subsequently referred to. No direct monetary profit was made by Tennessee out of the purchase orders for pipe placed with the American suppliers and their subsequent assignment to Trans-Canada.

By the agreement dated November 1, 1955, Trans-Canada gave to Tennessee the option to purchase, under terms which resulted in a price of \$8 per share, a number of common shares of Trans-Canada equal to 50 per cent of the total number of such shares of Trans-Canada outstanding as at September 30, 1955. This option would enable Tennessee to acquire the same number of common shares of Trans-Canada as Canadian Delhi Oil Ltd. and the Western Group then held between them.

10. During 1955 Trans-Canada completed arrangements with Tennessee which resulted in two agreements. One dated April 13, 1955,

## Trans-Canada Pipe Lines Limited

provided, inter alia, and subject to certain conditions, for the execution of a five year contract (reduced to three years by amendment dated September 28, 1955) for the purchase by Trans-Canada near Niagara Falls, Ontario, of a volume of natural gas not exceeding 90,000,000 cubic feet daily. Gas purchased under this contract was to be sold by Trans-Canada in the area between Niagara Falls and Montreal (exclusive of territory supplied by Consumers' Gas Company of Toronto). The contract provided for termination on Western Canadian gas becoming available in the area. The other agreement dated August 11, 1955, provided, inter alia, and subject to certain conditions, for the execution of a 25-year contract for the sale by Trans-Canada of 200,000,000 cubic feet of natural gas daily, to be delivered at the International Boundary near Emerson, Manitoba, and also for the execution of a 25-year contract under which, subject to certain conditions, gas would be purchased at Niagara Falls, Ontario and at Rouses Point, New York. Tennessee's obligation to sell gas under this proposed contract was conditioned upon Trans-Canada supplying the 200,000,000 cubic feet of gas daily near Emerson. The obligations of Trans-Canada and Tennessee to enter into the three purchase contracts were made subject, among other things, to both parties obtaining the necessary authorizations for the export and the import of gas.

Following the making of these arrangements the then Minister of Trade and Commerce wrote to Trans-Canada with respect to the export at Emerson under date of September 28, 1955. This letter is quoted in full in paragraph 14 of this chapter, and the Commission in Chapter 1 of this report has made certain recommendations with respect to the Emerson export.

Concurrently with the arrangements made between Trans-Canada and Tennessee other arrangements were concluded between Consumers' Gas Company of Toronto, Niagara Gas Transmission Limited, Tennessee and Trans-Canada, in respect of which the Minister of Trade and Commerce wrote to Trans-Canada under date of September 29, 1955, as follows:

"MINISTER OF TRADE AND COMMERCE  
CANADA

OTTAWA, September 29th, 1955

Dear Sirs:

The Board of Transport Commissioners, by Order No. 84220 dated the 24th July, 1954, authorized your Company to construct an all Canadian pipe line from a point on the Alberta-Saskatchewan border to the City of Montreal. The Board issued a further order on September 15, 1955 authorizing the construction of a pipe line from Sheridan, Ontario to Ste. Anne de Bellevue, Quebec. Construction under this latter Order will provide transmission facilities for 90,000 mcf per day,

## Royal Commission on Energy

and the import into the Toronto area by Consumers' Gas Company (application for which is presently before the Department) will permit the build-up of a gas demand in Ontario and Quebec pending delivery of Alberta gas.

Your Company entered into a contract with Consumers' Gas Company of Toronto, Niagara Gas Transmission Limited, and Tennessee Gas Transmission Company for the import of the volumes stipulated in the agreement, for distribution by Consumers' in the Toronto area. Your Company has also made an agreement with Tennessee Gas Transmission Company to sell 200,000 mcf daily to Tennessee at Emerson, Manitoba; to sell additional gas to that Company when available at Niagara Falls, Ontario or any other designated point; and to purchase gas from Tennessee for distribution in Eastern Ontario and Quebec.

A United States permit has been issued for the export of gas under the agreement between Consumers', Niagara Gas Transmission, Tennessee and Trans-Canada. The Canadian Government will issue a permit to Consumers' to authorize import of the 23,725,000 mcf of gas per year under the above contract, with a condition that such permit will be revoked when Alberta gas is available.

To permit export at Niagara for the Ontario-Montreal line, and for the import of Canadian gas at Niagara or any other designated point, Tennessee requires export and import permits from the United States Government. When Tennessee has obtained these from the Federal Power Commission, the Canadian Government will issue a permit to Trans-Canada for the import of 90,000 mcf of gas per day to supply the Eastern Ontario and Quebec markets, the permit to be revoked when Alberta gas is available. The Canadian Government will also issue a permit authorizing export at Niagara Falls or any other designated point of such quantities of gas as Trans-Canada may have available over and above the volumes required to serve the Eastern Canadian market.

Yours sincerely,

(Signed) C. D. Howe

Trans-Canada Pipe Lines Ltd.,  
326 9th Avenue West,  
CALGARY, Alberta."

11. Prior to 1956, Canadian Gulf Oil Company Limited had discovered substantial gas reserves in Alberta, as had Hudson's Bay Oil and Gas Company Limited. Tennessee had entered the oil and gas exploration business in Alberta in June, 1955. Late in 1955 Tennessee approached Canadian Gulf Oil Company Limited and Hudson's Bay Oil and Gas Company Limited stressing that the success of the Trans-Canada venture was of importance, not only to Tennessee as a prospective purchaser of gas at the International Boundary, but also to Canadian Gulf and to Hudson's Bay Oil and Gas, as owners of substantial reserves of natural gas in Alberta and, therefore, prospective vendors of such gas to Trans-Canada.

As a result of this approach and conversations with financial interests, during which it was indicated that Trans-Canada might have difficulty

## Trans-Canada Pipe Lines Limited

and perhaps would not be able to obtain financing unless some of the exploration companies joined the venture, an agreement dated February 8, 1956, was entered into between Trans-Canada, Tennessee, Canadian Gulf and Hudson's Bay Oil and Gas. Under this agreement Canadian Gulf and Hudson's Bay Oil and Gas joined with Tennessee in the purchase of a number of common shares of Trans-Canada at the price of \$8 per share which resulted in these three companies holding a total of 983,370 common shares of Trans-Canada, being 51 per cent of the then outstanding common shares of Trans-Canada. An option was granted by these three companies to Canadian Delhi Oil Ltd. and to the Western Group, under the terms of which Canadian Delhi and the Western Group became entitled to purchase from each of Canadian Gulf, Hudson's Bay Oil and Gas and Tennessee 38,563 common shares of Trans-Canada. The option to purchase these shares was at the price of \$8 per share (plus interest). The option was exercised in full by Canadian Delhi Oil Ltd. and the Western Group on October 1, 1957.

The number of common shares of Trans-Canada acquired by Tennessee, Canadian Gulf and Hudson's Bay Oil and Gas; as a result of the foregoing transaction, was:

Tennessee Gas Transmission Company .....	307,291
(Tennessee had previously purchased 20,499 common shares under its earlier agreement dated November 1, 1955.)	
Canadian Gulf Oil Company Limited .....	327,790
Hudson's Bay Oil and Gas Company Limited .....	268,507
(Hudson's Bay already held 59,283 common shares of Trans-Canada.)	

12. While the dates of the actual assignments are not all clear it appears therefrom that on or before May 11, 1956, Tennessee assigned to each of Canadian Gulf and Hudson's Bay Oil and Gas a one-third interest in Tennessee's obligation to Trans-Canada under its agreement with Trans-Canada dated November 1, 1955, with respect to pipe purchase arrangements and a one-third interest in Tennessee's rights and obligations under the purchase orders covering the pipe. By agreement dated May 11, 1956 made between Trans-Canada, Tennessee, Canadian Gulf and Hudson's Bay Oil and Gas it was agreed, inter alia, that:

"in the event the Canadian Government Bill providing for the construction of the natural gas pipeline from the Manitoba-Ontario boundary to Kapuskasing, Ontario, together with the supplement providing for Trans-Canada's Interim financing covering the construction of Trans-Canada's natural gas pipe line from the Alberta-Saskatchewan boundary to Winnipeg, Manitoba is passed and becomes law and Trans-Canada has received written notice pursuant to clause I of the agreement dated 8th day of May 1956 made between Her Majesty the Queen in right of

## Royal Commission on Energy

Canada and Trans-Canada that the loans therein referred to have been authorized and can be made as therein provided, Hudson's Bay, Canadian Gulf and Tennessee hereby agree to and shall assign to Trans-Canada all such parties' interest and obligations in purchase orders covering pipe ordered for Trans-Canada's requirement . . . and will deliver to Trans-Canada pipe received prior thereto for Trans-Canada's requirements pursuant to such orders and on hand at the time. Trans-Canada will, upon assignment of such orders assume the obligations thereunder and pay the Vendor thereunder directly for all pipe received thereafter against such orders. Upon shipment to Trans-Canada of pipe on hand for Trans-Canada's requirements received pursuant to such orders, Trans-Canada will pay Hudson's Bay, Canadian Gulf and Tennessee the net invoice cost of such pipe, four and one-half per cent (4½%) interest per annum on such net invoice cost from the date of payment to Vendor to the date of reimbursement and all other direct costs incurred by such parties with respect to the purchase, handling, storage and shipment of such pipe".

The assignment was made under date of July 30, 1956.

13. As a result of the transactions mentioned above and as a result of certain purchases and sales (at \$8 per share) of common shares of Trans-Canada by members of the Western Group among themselves, it appears from the share records of the Company that as at January 31, 1957, (shortly before the public financing of Trans-Canada) the Company had outstanding 1,928,184 fully paid common shares, for which the company had received a cash consideration of \$15,411,463.88, namely, 2,002 shares at \$1 per share (issued prior to July 31, 1954) and 1,926,182 shares at \$8 per share. Of this total of 1,926,182 shares, certain shares were issued in settlement of amounts due to shareholders, including amounts expended for incorporation and preliminary costs.

The following is a list of the shareholders of Trans-Canada as at January 31, 1957:

<i>Shareholder</i>	<i>No. of shares held</i>	<i>Percentage of total</i>
Canadian Delhi Oil Ltd., Calgary, Alberta .....	497,040	25.77
Hudson's Bay Oil and Gas Company Limited, Calgary, Alberta .....	327,790	17.00
The British American Oil Company Limited, Calgary, Alberta .....	327,790	17.00
Tennessee Gas Transmission Company, Houston, Texas .....	327,790	17.00
International Utilities Corporation, New York City, New York .....	127,378	6.61
Wood, Gundy & Company Limited, Toronto, Ontario .....	84,919	4.40
Montreal Trust Company, (Western Group Options), Winnipeg, Manitoba .....	58,919	3.06

## Trans-Canada Pipe Lines Limited

<i>Shareholder</i>	<i>No. of shares held</i>	<i>Percentage of total</i>
Power Corporation of Canada, Limited, Montreal, Quebec .....	38,500	2.00
Osler, Hammond & Nanton Limited, Winnipeg, Manitoba .....	34,512	1.79
The Calgary & Edmonton Corporation Limited, Winnipeg, Manitoba .....	33,360	1.73
Canadian Power & Paper Securities Limited, Montreal, Quebec .....	20,000	1.04
Nesbitt, Thomson & Company Limited, Montreal, Quebec .....	15,195	.79
N. T. Investments Limited, Montreal, Quebec .....	11,224	.58
Sara I. Tanner, Calgary, Alberta .....	9,999	.52
Tullis N. Carter, Toronto, Ontario .....	8,050	.42
J. Ritchie Donald, Montreal, Quebec .....	2,500	
R. A. C. Henry, Montreal, Quebec .....	1,250	
George W. Turk, Port Credit, Ontario .....	1,050	
William H. Carter, Winnipeg, Manitoba .....	550	
Ralph B. Payne, Toronto, Ontario .....	350	
N. E. Tanner, Calgary, Alberta .....	1	
Hon. Edouard Asselin, Montreal, Quebec .....	1	
T. H. Atkinson, Montreal, Quebec .....	1	
E. W. Bickle, Toronto, Ontario .....	1	
R. C. Brown, Calgary, Alberta .....	1	
C. S. Coates, Toronto, Ontario .....	1	
J. R. Fell, Lehman Brothers, New York City, New York .....	1	
E. D. Loughney, Toronto, Ontario .....	1	
M. A. MacPherson, Regina, Saskatchewan .....	1	
J. K. McCausland, Toronto, Ontario .....	1	
H. R. Milner, Edmonton, Alberta .....	1	
C. W. Murchison, Dallas, Texas .....	1	
A. D. Nesbitt, Montreal, Quebec .....	1	
G. P. Osler, Winnipeg, Manitoba .....	1	
F. A. Schultz, Dallas, Texas .....	1	
H. Gardiner Symonds, Houston, Texas .....	1	
Jules R. Timmins, Montreal, Quebec .....	1	
J. Ross Tolmie, Ottawa, Ontario .....	1	.30
<b>TOTAL .....</b>	<b>1,928,184</b>	<b>100.00</b>

14. Trans-Canada received from Alberta a permit, dated May 14, 1954, to remove from that province 4.35 trillion cubic feet of gas at the rate of 540 (subsequently amended to 620) million cubic feet daily and 183 billion cubic feet in any consecutive 12 month period. The permit was for a period of 27 years from its date. Trans-Canada also obtained from the Board of Transport Commissioners for Canada, under date of July 24, 1954, leave to construct the pipe line to Montreal, with a spur from Winnipeg for the export of gas at Emerson, Manitoba. On October 10, 1955, Midwestern Gas Transmission Company applied to the Federal Power

## Royal Commission on Energy

Commission at Washington, D.C., for an import permit in respect of the gas agreed to be purchased from Trans-Canada for delivery at Emerson, under the agreement between Trans-Canada and Tennessee, dated August 11, 1955, which had been assigned to Midwestern. Trans-Canada requested a letter from Right Honourable C. D. Howe, then Minister of Trade and Commerce, to be used for the purposes of the Federal Power Commission hearings. As a result of this request, the Minister of Trade and Commerce gave Trans-Canada a letter dated September 28, 1955, reading as follows:

"MINISTER OF TRADE AND COMMERCE  
CANADA

OTTAWA, September 28th, 1955.

Dear Sirs:

The Board of Transport Commissioners, by Order No. 84220 dated the 24th July, 1954, authorized your Company to construct an all Canadian pipe line from a point on the Alberta-Saskatchewan border to the City of Montreal. The Board issued a further order on September 15th, 1955 authorizing the construction of a pipe line from Sheridan, Ontario to Ste. Anne de Bellevue, Quebec. Construction under this latter Order will provide transmission facilities for 90,000 mcf per day, and the import into the Toronto area by Consumers' Gas Company (application for which is presently before the Department) will permit the build-up of a gas demand in Ontario and Quebec pending delivery of Alberta gas.

Your Company entered into a contract with Consumers' Gas Company of Toronto, Niagara Gas Transmission Limited, and Tennessee Gas Transmission Company for the import of the volumes stipulated in the agreement, for distribution by Consumers' in the Toronto area. Your Company has also made an agreement with Tennessee Gas Transmission Company to sell 200,000 mcf daily to Tennessee at Emerson, Manitoba; to sell additional gas to that Company when available at Niagara Falls, Ontario or any other designated point; and to purchase gas from Tennessee for distribution in Eastern Ontario and Quebec.

For the Emerson export, Tennessee must obtain an import permit from the United States Government. When this has been issued, action will be taken by the Canadian Government under the Exportation of Power and Fluids and Importation of Gas Act to authorize the export at Emerson, Manitoba of 200,000 mcf of gas daily for a period of twenty-five years from the date of first delivery of gas.

Yours sincerely,

(signed) C. D. Howe.

Trans-Canada Pipe Lines Company Limited,  
326-9th Avenue West,  
CALGARY, Alberta."

This letter was in due course filed as an exhibit with the Federal Power Commission.



## Trans-Canada Pipe Lines Limited

15. Early in 1955, Trans-Canada advised the Government of Canada that it was unable to finance the construction of the first stage of the pipe line in 1955 (i.e., the Western section) because of its inability to obtain sufficient gas purchase and sale contracts in Canada. Trans-Canada suggested to the Government that some form of guarantee of debt service on the contemplated First Mortgage Bonds be given, whereby the Government would be obligated to provide any amounts due on these bonds which Trans-Canada itself might not be able to pay. After negotiations with the Government and the Industrial Development Bank, Trans-Canada announced on March 17, 1955, that it had been unable to arrange any financial assistance which would not result in an agency of the Government of Canada being in a position to control the Company and that any such arrangement made it impossible for Trans-Canada to purchase its requirements for gas. Financial interests had required Trans-Canada to obtain gas sales contracts in Canada which would match gas purchase contracts entered into by the company and this was a condition which Trans-Canada, at that time, was unable to fulfil. Apart altogether from Trans-Canada's inability to purchase its requirements for gas, for the reason above mentioned, the fact that an all-Canadian route was to be followed meant building stretches of line through remote areas with little prospect of any large firm sales of gas being made in those areas.

16. Early in September, 1955, Trans-Canada again approached the Government regarding its inability to make satisfactory financial arrangements. As a consequence of this approach and discussions and negotiations which ensued, an agreement, dated November 21, 1955, was made between the Government of Canada and Trans-Canada. The Government agreed to recommend to Parliament that a Crown Corporation be established and that funds be provided to the Corporation to enable it, in conjunction with the building of an all-Canadian pipe line by Trans-Canada, to acquire the necessary right-of-way and to construct the Northern Ontario section of the pipe line, commencing at the Ontario-Manitoba border west of Kenora, and continuing east as far as Kapuskasing, a distance of 675 miles.

The agreement dealt not only with the proposed establishment of a Crown Corporation but also with the undertakings of both the Government and Trans-Canada with respect to the construction of the line and the lease of the Northern Ontario section to Trans-Canada. It also gave an option to Trans-Canada to purchase this section of the line. The agreement stipulated that if satisfactory evidence were presented by Trans-Canada before May 1, 1956, showing that the company had arranged for financing of all costs and commitments in connection with its program of construction of all but the Northern Ontario section of the pipe line, the Northern Ontario Pipe Line Crown Corporation would construct the Northern

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Ontario section to Trans-Canada's design. The agreement dated November 21, 1955, was amended three times, namely, on April 26, 1956, October 29, 1956, and November 29, 1956, to substitute the dates November 1, 1956, December 1, 1956, and February 1, 1957, respectively, as the dates before which Trans-Canada was to present this evidence.

17. An understanding was reached between the Government of Canada and the Government of Ontario that the Province would participate with the Government of Canada in financing the construction of the Northern Ontario section to the extent of one-third of its cost, but not, in any event, in excess of \$35,000,000. This understanding was recorded by letters exchanged between the two Governments, dated November 21 and November 22, 1955, respectively. This arrangement resulted in an Act of the Legislature of Ontario (The Northern Ontario Pipe Line Act, 1956) being enacted, authorizing the Treasurer of Ontario to lend to the Northern Ontario Pipe Line Crown Corporation up to \$35,000,000.

18: In April, 1956, Trans-Canada advised the Government that it had entered into contracts with its principal Canadian producers and consumers and complied with the requirements of the Province of Alberta and the Board of Transport Commissioners of Canada but that, in the absence of approval by the Federal Power Commission of the proposed importation of gas at Emerson, Manitoba, it could not yet finance its project, either by way of temporary bank advances, pending public financing, or by way of permanent financing, notwithstanding the conditioned agreement of the Government to build and lease the Northern Ontario section. This meant that Trans-Canada was unable to commence the construction in 1956 of the Western section of the pipe line from Alberta to the eastern boundary of Manitoba.

As previously mentioned, Trans-Canada at this time had an agreement with Tennessee dated November 1, 1955, under which Tennessee had agreed to place purchase orders for the 1956 requirements of Trans-Canada for pipe and to assign these purchase orders to Trans-Canada within 60 days after Tennessee had notified Trans-Canada that Midwestern Gas Transmission Company had received the necessary permits to commence construction of a pipe line from the International Boundary near Emerson to the State of Tennessee and to import gas from Trans-Canada at Emerson.

North American steel plants, capable of rolling skelp for 34 inch pipe, the diameter of pipe required for the Western section of the line, were booked to capacity until the fourth quarter of 1957. Some of the required pipe had already been fabricated and was being stored in the United States, orders having been placed with the suppliers by Tennessee in the Fall of

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1955. In order to arrange its financing, it was necessary for Trans-Canada, not only to be in a position to export gas at Emerson but to have continued in existence the agreement of the Government of Canada to build and lease the Northern Ontario section of the line. This agreement of the Government, dated November 21, 1955, stated specifically that the obligation of the Government extended only to May 1, 1956. If Trans-Canada could not finance in the early part of 1956 the construction of the Western section of the pipe line, the option which it had with Tennessee, with respect to the pipe for that section of the line, would have been of no use to Trans-Canada because it would not be able to purchase the pipe under the option. Not only would this have occurred but, because the schedules of the North American steel plants were booked to capacity until the fourth quarter of 1957, it would not be possible for Trans-Canada to get delivery of any pipe until the construction season of 1958. If the May 1, 1956, date was not extended, Trans-Canada was fearful that Midwestern's application to the Federal Power Commission for a licence to import gas at Emerson would be dismissed on the grounds that Trans-Canada was in no position to supply the gas.

19. Before the end of April, 1956, the then Petroleum and Natural Gas Conservation Board of Alberta and the Board of Transport Commissioners for Canada had both extended to November 1, 1956, the time within which Trans-Canada was required to demonstrate to these boards its ability to finance the pipe line project. The agreement of November 21, 1955, had been amended by agreement dated April 26, 1956, likewise extending the May 1, 1956, date to November 1, 1956.

20. The Government of Canada was thus faced with the problem of whether it should further assist Trans-Canada by advancing funds to it in order to enable construction of the Western section of the pipe line to be completed in 1956. At the end of September, 1958, no decision had been made by the Federal Power Commission with respect to the importation of gas from Canada at the International Boundary at Emerson. In April, 1956, Trans-Canada had advised the Government that it was unable to finance the construction of the Western section of the line without such import licence having been granted. The options for the necessary pipe for the project would have been of no use to Trans-Canada if it were unable to finance the project. In the light of these facts the Commission is of the view that the construction of the Western section of the line by Trans-Canada would have been indefinitely delayed had the Government of Canada not taken some action in May, 1956. This action took the form of temporary financing on a short-term basis, through the agency of the Northern Ontario Pipe Line Crown

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Corporation. In order to have any reasonable prospect of completing the Western section during the 1956 construction season, Trans-Canada felt that June 7, 1956, was the latest date upon which it could commence to move pipe from the mills in the United States and assemble work crews to start construction. Trans-Canada was subsequently delayed in the completion of the Western section of the pipe line through the closing of the steel mills in the United States of America due to labour difficulties but this delay was beyond the control of either Trans-Canada or the Government of Canada.

21. By agreement, dated May 8, 1956, made between the Government of Canada and Trans-Canada, Trans-Canada agreed that, subject to (a) the approval of the Board of Transport Commissioners and (b) authorization of the loan by Parliament and (c) the occurrence of a force majeure, it would build the Western section of its pipe line before December 31, 1956. The Government agreed to recommend to Parliament that a loan to Trans-Canada be authorized in an amount up to 90 per cent of the cost of the Western section (but not more than \$80,000,000), such loan to be secured by a first mortgage on all the assets, present and future, of Trans-Canada. The loan was to be made through a Crown Corporation, establishment of which the Government had undertaken, by the agreement dated November 21, 1955, to propose to Parliament, and the mortgage referred to was to be made by Trans-Canada in favour of the Crown Corporation. The loan was to be repaid on or before April 2, 1957, with interest at the rate of 5 per cent per annum and Trans-Canada was to expend \$7,500,000 on construction of the Western section before any amount was to be advanced.

22. On June 7, 1956, the Northern Ontario Pipe Line Crown Corporation Act came into force. The Act established the Northern Ontario Pipe Line Crown Corporation for the purpose of constructing the Northern Ontario section. Part II of the Act authorized the Corporation to make, on behalf of the Crown, short-term loans to Trans-Canada for the construction of the Western section, such loans not to exceed 90 per cent of the cost of construction of the Western section or \$80,000,000, whichever was the lesser, and to bear interest at 5 per cent from the respective dates upon which advances were made.

23. Following notice of the passage of the Act all the shareholders of Trans-Canada deposited with the Deputy Minister of Finance of Canada, as trustee, all the shares of Trans-Canada then outstanding and held by them respectively. Those holding options to purchase shares from Trans-Canada agreed, upon the exercise of such options, in whole or in part, forthwith to deposit the shares which they would receive by reason thereof. This was

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provided for under another agreement dated May 8, 1956, in which the Government of Canada was granted, inter alia, the right to acquire all deposited shares if Trans-Canada failed to carry out the terms of the loan agreement of May 8, 1956, or defaulted in payment of such loan. An Indenture of Mortgage from Trans-Canada in favour of the Crown Corporation was executed on June 7, 1956. There were seven supplemental Indentures to this Mortgage, dated respectively August 1, 1956, September 21, 1956, October 1, 1956, October 5, 1956, November 15, 1956, December 1, 1956, and February 1, 1957. Except for the fourth supplemental Indenture, which varied the definition of "Minor Title Defects", such supplemental Indentures were executed for the sole purpose of charging the after-acquired property of Trans-Canada. Trans-Canada was thus obliged to give security to the Government covering all of its assets and its shareholders were likewise required, in effect, to pledge all their shares and options for shares as security for the loan made to Trans-Canada.

The advances to Trans-Canada were as follows:

June 18, 1956 .....	\$ 6,775,000
August 24, 1956 .....	4,125,000
September 27, 1956 .....	4,183,000
October 12, 1956 .....	7,167,000
November 1, 1956 .....	11,500,000
December 3, 1956 .....	10,000,000
January 28, 1957 .....	2,000,000
February 8, 1957 .....	4,000,000
	\$49,750,000
Total Amount Advanced .....	

Prior to June 18, 1956, the date of the first advance, Trans-Canada satisfied the Crown Corporation, on the basis of audited statements, that it had expended in excess of \$7,500,000, properly attributable to the construction of the Western section.

On February 26, 1957, Trans-Canada repaid to the Crown Corporation the sum of \$49,750,000, the principal amount of the loan, with interest in the amount of \$880,071.40 and the expenses of the Crown Corporation amounting to \$86,531.63, the total payment being \$50,716,603.03. ✓

24. By agreement, dated January 30, 1957, the Government of Canada, Trans-Canada and Northern Ontario Pipe Line Crown Corporation further supplemented and amended the agreement dated November 21, 1955. The Government agreed that Trans-Canada had presented satisfactory evidence of arrangements for the financing of the construction of the pipe line, exclusive of the Northern Ontario section. The Crown Corporation agreed to assume the obligations of the Government under the agreement

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dated November 21, 1955, as amended, and Trans-Canada and the Crown Corporation set forth their undertakings to proceed with construction. This agreement also provided for the execution of an interim lease prior to the completion of the Northern Ontario section.

25. By agreement dated February 8, 1957, Northern Ontario Pipe Line Crown Corporation and Trans-Canada agreed, forthwith upon completion of construction of the Northern Ontario section, that a lease from the Crown Corporation to Trans-Canada of the Northern Ontario section would be executed and delivered in the terms of the form of lease which was attached to the agreement. The form of the lease provides for a 25-year term and for the payment of a monthly rental. Under this agreement the Crown Corporation also granted Trans-Canada an option to purchase the Northern Ontario section. The principal terms of the proposed lease were those agreed upon by the Government of Canada and Trans-Canada in the agreement dated November 21, 1955, prior to the establishment of the Northern Ontario Pipe Line Crown Corporation. The rental formula, as stated in November, 1955, by the then Minister of Trade and Commerce was designed to achieve the following results:

- (1) to enable the Crown Corporation to recover not less than its full costs and investment during the term of the lease;
- (2) to enable Trans-Canada to defer part of its rental payments on the Northern Ontario section during the market build-up period in Eastern Canada;
- (3) to give the Crown Corporation a claim on net earnings of Trans-Canada if required to meet operating expenses, interest cost and accumulated amortization of the Northern Ontario section;
- (4) to give Trans-Canada a strong incentive to exercise its option to purchase the Northern Ontario section within a relatively short period;
- (5) to give the Crown Corporation a profit over and above expenses, interest costs and amortization in the event that gas demand increases as expected and Trans-Canada does not exercise its option to purchase.

Under the terms of the agreement, Trans-Canada undertook to purchase the Northern Ontario section, as soon as it could arrange the necessary finances, and was given an option to purchase the Northern Ontario section at any time during the term of the lease, provided the Crown Corporation received an annual return of 3½ per cent on its capital. The purchase price was fixed at the total capital cost to the Crown Corporation, minus credits to depreciation arising from rental payments, but it was provided that the purchase price was not to be less than the higher of either (a) the total capital cost less amortization at 3½ per cent per annum, plus interest thereon compounded at 3½ per cent annually, or (b) 70 per cent of the original capital cost.

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26. The Commission has examined and considered the provisions of the agreement dated May 8, 1956, under which advances were made to Trans-Canada on behalf of the Government for the purpose of constructing the Western section of the pipe line and of the mortgage dated June 7, 1956, between Trans-Canada and the Northern Ontario Pipe Line Crown Corporation. As stated above, all advances made to Trans-Canada pursuant to the provisions of this agreement were repaid by Trans-Canada, together with interest and other expenses as provided in the agreement.

The Commission has carefully considered the terms and conditions of the form of lease of the Northern Ontario section of the pipe line from the Crown Corporation to Trans-Canada. The interest rate used in computing the rental payable by Trans-Canada was the then rate of interest payable by the Government of Canada on funds that it was borrowing having a like maturity. The transaction could have been based on a higher rate of interest payable by Trans-Canada but had such been the case the operating expenses of Trans-Canada would have been increased accordingly and the additional rental would have been passed on by Trans-Canada to the Canadian consumers of gas.

The Commission is conscious of the fact that, having agreed to construct the Northern Ontario section of the pipe line, the Government of Canada might have made provision that it would retain ownership of such section and not give Trans-Canada an option to purchase it. Undoubtedly this posed a problem to the Government. Unless the Northern Ontario section of the line received gas at its western terminus and had an outlet for that gas at its eastern terminus it was useless. Ownership of the Northern Ontario section, without its being an integral part of the operations of the whole pipe line system, was not practical. If the Northern Ontario section were leased to Trans-Canada without an option to purchase, problems would arise in the future when the term of the lease expired. Furthermore, if no option were given to Trans-Canada, problems would arise in the event of the expansion of the pipe line system by way of adding lateral lines from the Northern Ontario section or by way of looping that section. Legal and technical difficulties would arise if Trans-Canada were itself to do the looping along the right-of-way owned by the Crown Corporation. It is the view of the Commission that unless Trans-Canada exercises its option to purchase the Northern Ontario section these difficulties may well arise, in which event both parties to the rental agreement may require some amendments to the provisions thereof.

The Commission is of the opinion that, other than the regulation of prices or rates which it has recommended in Chapter 2 of this report, no special measures need be taken by the Government of Canada in relation

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to Trans-Canada in order to safeguard the interests of Canadian producers or consumers of gas in view of Trans-Canada's special relationship to the Northern Ontario Pipe Line Crown Corporation.

27. Trans-Canada has an authorized share capital of \$60,000,000 divided into 1,000,000 preferred shares of the par value of \$50 each and 10,000,000 common shares of the par value of \$1 each. No preferred shares had been issued as at June 1, 1958. As at the same date, Trans-Canada had issued 5,853,184 of its 10,000,000 authorized common shares for a total consideration of \$54,336,464.

28. Public financing of Trans-Canada's initial pipe line system was completed as follows:

- (a) By the sale under date of February 11, 1957, of \$80,990,000 (U.S.) principal amount of First Mortgage Pipe Line Bonds, 5¼ per cent series, due 1978 and \$23,010,000 (Canadian) principal amount of First Mortgage Pipe Line Bonds 5½ per cent series, due 1978. \$32,860,000 principal amount of these bonds was sold in Canada and \$71,140,000 was sold in the United States.
- (b) By borrowing, pursuant to a bank credit agreement dated February 11, 1957, between the Company, and The First National City Bank of New York, Mellon National Bank and Trust Company and J. P. Morgan & Co. Incorporated, the sum of \$20,000,000 (U.S.). Loans under the bank credit agreement are evidenced by promissory notes of the Company bearing interest at the rate of 5¼ per cent per annum and maturing March 1, 1962.
- (c) By the sale of \$54,166,700 principal amount of 5.85 per cent Subordinated Debentures, due 1987, Canadian series, and \$20,833,300 principal amount of 5.60 per cent Subordinated Debentures, due 1987, United States series, and 3,750,000 common shares at \$10 per share. The Debentures and common shares were offered in Canadian units and United States units. The Canadian unit consisted of a \$100 principal amount Canadian Debenture and five common shares and the United States unit consisted of a \$100 principal amount United States Debenture and five common shares. The units were offered for sale on February 13, 1957. They were offered in Canada as to \$81,250,050 and in the United States as to \$31,249,950, making a total of \$112,500,000 (Canadian).



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29. As at February 28, 1957, immediately following the issue to the public of its common shares, the outstanding common shares of Trans-Canada were held as follows:

	No. of shares	Percentage
Trans-Canada sponsors (see paragraph 13) .....	1,928,184	33.11
Public in the United States .....	1,041,665	17.89
Public in Canada .....	2,708,335	46.51
*Issued under options and subscriptions .....	145,000	2.49
TOTAL .....	5,823,184	100.00

\*These 145,000 common shares are accounted for through the exercise prior to February 28, 1957, of options by N. E. Tanner in respect of 55,000 shares; by Charles S. Coates in respect of 50,000 shares and by subscription of Francis Kernan in respect of 40,000 shares.

30. As part of the arrangements made in connection with the issue to the public in February 1957, of Trans-Canada's First Mortgage Pipe Line Bonds, 5¼ per cent series, due 1978, certain of the shareholders entered into a voting trust agreement, dated January 1, 1957. The number of common shares agreed to be deposited by shareholders under this voting trust agreement and the number still under deposit as at June 1, 1958 was as follows:

	Original	June 1, 1958
Canadian Delhi Oil Ltd. ....	497,040	542,885
Hudson's Bay Oil and Gas Company Limited	327,790	—
The British American Oil Company Limited	327,790	289,227
Tennessee Gas Transmission Company .....	327,790	—
International Utilities Corporation .....	127,378	19,100
Wood, Gundy & Company Limited .....	84,919	65,531
Power Corporation of Canada, Limited .....	38,500	149,500
Osler, Hammond & Nanton Limited .....	34,512	58,284
The Calgary & Edmonton Corporation Limited .....	33,360	43,877
Canadian Power & Paper Securities Limited	20,000	20,000
Nesbitt, Thomson and Company, Limited .....	15,195	6,430
N. T. Investments Limited .....	11,224	3,570
Montreal Trust Company .....	58,919	—
TOTAL .....	1,904,417	1,198,404

The voting trust provided for transfer into the names of the voting trustees of the common shares held, immediately prior to financing, by corporate sponsors of Trans-Canada and the voting thereof by the trustees. It also permitted depositors, so long as they sold to a *bona fide* third party, to withdraw such shares and thereby reduce the number of shares held in the voting trust. The voting trust terminates on December 31, 1966.

The voting trustees are T. H. Atkinson, Montreal, Quebec; R. C. Brown, Calgary, Alberta; E. D. Loughney, Toronto, Ontario; H. R. Milner, Edmonton, Alberta; A. D. Nesbitt, Montreal, Quebec; F. A. Schultz, Dallas, Texas and W. W. Wilmer, Houston, Texas.

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In October, 1957, Home Oil Company Limited purchased from Tennessee its remaining interest in Trans-Canada, amounting to 189,227 common shares, at a price of approximately \$25<sup>5</sup>/<sub>8</sub> per share. On January 10, 1958, Home Oil Company Limited purchased from Hudson's Bay Oil and Gas Company Limited the remaining common shares of Trans-Canada held by that company, amounting to 94,228 shares, at a price of \$25 per share. The 58,919 shares agreed to be deposited in the Voting Trust by Montreal Trust Company represented the shares referred to in paragraph 7 of this chapter, which were duly acquired by the members of the Western Group pursuant to the option referred to in that paragraph.

31. From testimony given by and from supplementary information obtained from officials of Trans-Canada with respect to that company's share register, it appears that the principal registered holders of common shares of Trans-Canada as at June 1, 1958 (including beneficial owners of shares in the voting trust) other than trust companies, banks and investment houses apparently holding shares for customers, were the following:

<i>Name and address</i>	<i>No. of shares</i>
Home Oil Company Limited Calgary, Alberta .....	662,932
Canadian Delhi Oil Ltd. Calgary, Alberta .....	542,885
The British American Oil Company Ltd. Toronto, Ontario .....	289,227
Power Corporation of Canada Limited Montreal, Quebec .....	175,938
Osler, Hammond & Nanton Limited Winnipeg, Manitoba .....	58,284
Wood, Gundy & Company Limited Toronto, Ontario .....	57,031
C. S. Coates Toronto, Ontario .....	50,001
The Calgary & Edmonton Corporation Limited Calgary, Alberta .....	43,877
N. E. Tanner Calgary, Alberta .....	30,801
Sun Life Assurance Company of Canada Montreal, Quebec .....	30,000
The Toronto General Trusts Corporation in Trust for Mutual Accumulating Fund Vancouver, B.C. ....	25,000
Canadian Power & Paper Securities Limited Montreal, Quebec .....	20,000
F. Kernan c/o White, Weld & Co. New York, N.Y. ....	20,000
International Utilities Corporation New York, N.Y. ....	19,100

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32. Home Oil Company Limited has its head office in the City of Calgary, Alberta, and its shares are held as follows:

	<i>CLASS A Non-Voting as at Nov. 29, 1957</i>	<i>CLASS B Voting as at Dec. 31, 1957</i>
Number of shareholders with registered addresses in Canada .....	5,228	2,962
Number of shareholders with registered addresses outside of Canada .....	2,020	1,143
Number of shares held by shareholders with registered addresses in Canada ....	1,040,156	1,817,915
Number of shares held by shareholders with registered addresses outside of Canada .....	486,065	505,816
Percentage of Canadian shareholders .....	68.15	78.23
Percentage of non-resident shareholders ..	31.85	21.77

33. As previously stated Canadian Delhi Oil Ltd. is a Canadian company having its head office in the City of Calgary. No offices (other than field offices) are maintained by the company elsewhere in Canada. Some of the company's business is carried on from the office of Delhi-Taylor Oil Corporation in Dallas, Texas; where the President of the company — Clinton W. Murchison; the Vice-President of the company — Philip T. Bee; the Treasurer of the company — Gerald B. Lintner, and certain other officials have their headquarters. As at July 3, 1958, the Directors of the Company were Messrs. G. H. Allen, Q.C., of Calgary; Philip T. Bee of Dallas, Texas; Clinton W. Murchison of Dallas, Texas; Smiley Raburn, Jr., of Calgary, Alberta; and Frank A. Schultz of Dallas, Texas.

As at September 30, 1958, Canadian Delhi Oil Ltd. had outstanding 4,191,513 common shares which, according to the share register of the company as at that date, were held as follows:

	<i>No. of shareholders</i>	<i>No. of shares</i>
Shareholders with registered Canadian addresses .....	4,447	1,356,713
Shareholders with registered addresses outside of Canada .....	4,609	2,834,800

As at July 3, 1958, the share register of Canadian Delhi Oil Ltd. disclosed the names and addresses of the following shareholders as having holdings of more than 10,000 common shares each in the capital stock of Canadian Delhi Oil Ltd.:

<i>Name</i>	<i>Address</i>	<i>No. of Shares</i>
Bankmont & Co. ....	Montreal, Que. ....	41,403
Bay & Co., No. 1 Account .....	Toronto, Ontario .....	11,720
Bay & Co., No. 2 Account .....	Toronto, Ontario .....	45,800

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G. E. Leslie & Co. ....	Montreal, Que. ....	18,437
Hugh MacKay & Co. ....	Montreal, Que. ....	24,068
Montreal Trust Company, Trustee for the Shareholders of Canadian Delhi Petroleum Limited .....	Calgary, Alberta .....	304,103
Oades & Co. ....	Vancouver, B.C. ....	23,500
James Richardson & Sons .....	Winnipeg, Manitoba .....	15,810
Roycan & Co., No. 1 Account ....	Montreal, Que. ....	21,476
Whitelaw & Co. ....	Vancouver, B.C. ....	14,431
Joseph W. Bartlett .....	Dallas, Texas .....	13,446
P. T. Bee .....	Dallas, Texas .....	75,969
Farwell, Chapman & Co. ....	Chicago, Illinois .....	12,160
Fidel & Co. ....	Indianapolis, Indiana .....	20,000
William C. Griffith .....	Indianapolis, Indiana .....	10,000
E. F. Hutton & Co. ....	New York, N.Y. ....	10,842
Louis J. Kocurek .....	San Antonio, Texas .....	23,400
Merrill Lynch, Pierce, Fenner & Beane .....	New York, N.Y. ....	57,672
Merrill Lynch, Pierce, Fenner & Smith .....	New York, N.Y. ....	13,477
Mrs. Betty Lee Moor MacGuire	Fabens, Texas .....	238,984
Modern Woodmen of America (an Illinois Corporation) .....	Rock Island, Ill. ....	12,372
Morten & Co. ....	New York, N.Y. ....	16,000
Clint W. Murchison, Jr. ....	Dallas, Texas .....	275,512
John Dabney Murchison .....	Dallas, Texas .....	229,325
Virginia L. Murchison .....	Dallas, Texas .....	11,188
Paine, Webber, Jackson & Curtis	New York, N.Y. ....	17,563
Potter & Company .....	Providence, R. I. ....	10,000
Ruth T. Reid .....	Dallas, Texas .....	12,028
Republic National Bank of Dallas Trustees Under Agree- ment Dated 9/25/52 for the August Schultz III Trust .....	Dallas, Texas .....	10,251
Republic National Bank of Dallas Trustees Under Agreement Dated 9/25/52 for the Chris- tian David Schultz Trust .....	Dallas, Texas .....	10,251
Republic National Bank of Dallas Trustees Under Agreement Dated 9/25/52 for the Mary Elizabeth Schultz Trust .....	Dallas, Texas .....	10,251
S. W. Richardson .....	Fort Worth, Texas .....	35,762
Richardson & Bass .....	12th Floor, Fort Worth National Bank Building	132,010
(a Partnership) .....	New York, N.Y. ....	13,200
Salkeld & Co. ....	Dallas, Texas .....	53,500
Frank A. Schultz .....		
The State National Bank of El Paso Trustee of Lee Moor Childrens Home Trust Estate	El Paso, Texas .....	221,176
Strabul Nominees Limited .....	London, England .....	28,350
Vickers Da Costa & Company ....	London, England .....	10,935
	Total .....	2,106,372

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The Commission has been advised that Mrs. Betty Lee Moor MacGuire, who was the registered owner at the date above referred to of 238,984 common shares of Canadian Delhi Oil Ltd., is a daughter of Mr. Lee Moor, an associate of Clinton W. Murchison of Dallas, Texas; that the partnership of Richardson & Bass, shown as the registered owner of 132,010 common shares, includes as a partner Mr. S. W. Richardson, a Texas independent oil operator, who is likewise shown as being the registered owner in his own name of 35,762 common shares of Canadian Delhi Oil Ltd. and that Clinton W. Murchison, Jr., and John Dabney Murchison, of Dallas, Texas, shown as the registered owners of 275,512 and 229,325 common shares respectively of Canadian Delhi Oil Ltd., are sons of Clinton W. Murchison, Sr., of Dallas, Texas.

34. The British American Oil Company Limited is a Canadian company with head office in Toronto, Ontario. On July 1, 1956, it acquired from Canadian Gulf Oil Company Limited 327,790 common shares of Trans-Canada then owned by Canadian Gulf.

As at June 1, 1958, the issued capital stock of The British American Oil Company Limited was 18,452,608 shares as follows:

Common shares, no par value .....	10,116,960
Restricted common shares, no par value .....	8,335,648

Gulf Oil Corporation, a corporation of the United States of America with head office at Pittsburgh, Pa., is the registered owner of all the restricted common shares and 2,332,811 common shares, amounting, in total, to approximately 57.82 per cent of the outstanding shares in the capital stock of British American. The restricted shares rank equally with the common shares except as to dividend and consequently each share carries the right to one vote.

35. As at February 23, 1958 the total gas reserves (expressed in mncf. under contract with the three major shareholders, namely Home Oil Company Limited, Canadian Delhi Oil Ltd., and The British American Oil Company Limited, were as follows:

	<i>Proved</i>	<i>Probable</i>	<i>Total</i>	<i>Per cent</i>
Canadian Delhi Oil Ltd. ....	407,312	132,963	540,275	10.5
The British American Oil Company Limited .....	1,440,031	322,025	1,762,056	34.0
Home Oil Company Limited .....	123,957	11,067	135,024	2.6
<b>Total under contract with these shareholders .....</b>	<b>1,971,300</b>	<b>466,055</b>	<b>2,437,355</b>	<b>47.1</b>
<b>Total under contract by Trans- Canada .....</b>	<b>4,395,943</b>	<b>778,968</b>	<b>5,174,911</b>	<b>100.0</b>

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The purchase contracts provide for payment by Trans-Canada of prices which are considered low by producers of natural gas in Alberta. The existence of these gas purchase contracts with these shareholders of Trans-Canada is not a fact which, in the view of the Commission, requires any special measures to be taken at this time in relation to Trans-Canada in order to safeguard the interests of Canadian producers or consumers of natural gas.

36. The Commission is of the opinion that, if its recommendations with respect to the regulation of the prices or rates of gas pipe line companies subject to the jurisdiction of the Parliament of Canada, and with respect to the basis of such regulation, are put into effect no special measures need be taken by the Government of Canada in relation to Trans-Canada in order to safeguard the interests of Canadian producers or consumers of gas in view of the nature of the financing or control of Trans-Canada.

In reaching this conclusion the Commission has taken into consideration the facts outlined in the preceding paragraphs of this chapter relating to the original financing of Trans-Canada in 1954; the option granted in 1955 to Tennessee; and the partial assignment of that option in 1956 by Tennessee to Canadian Gulf Oil Company and Hudson's Bay Oil and Gas Company Limited.

The price of \$8 per share paid by these companies was not a nominal price but one which, in our opinion, was reasonable in the circumstances then existing. Much of the success of Trans-Canada at this stage of its development depended on the efforts of these promoting companies. The difference between the \$8 price paid and the \$10 attributable to each common share issued by Trans-Canada at the time of its public financing by way of units represents little more than a normal rate of interest for the period from the acquisition of such shares until the public financing of Trans-Canada took place. On the other hand, these companies made very large actual or potential capital gains with respect to the shares purchased by them under these arrangements but these gains are the result of the substantial increase that has taken place in the stock market price for such shares since the public financing of Trans-Canada and do not in any way deplete the treasury of Trans-Canada.

We have also considered the options granted by Trans-Canada to certain executives and other individuals for the purchase of common shares. These options (including one subscription) involved 198,000 common shares of Trans-Canada as follows:

## Trans-Canada Pipe Lines Limited

	<i>No. of shares</i>
Nathan Eldon Tanner .....	60,000
Charles S. Coates .....	50,000
Robert James Wallace .....	5,000
Francis Kernan .....	40,000
Thomas Howard Atkinson .....	12,500
Albert Ferrine Craig .....	7,500
Noel John McNeil .....	5,000
Stock Option Plan .....	18,000
TOTAL .....	198,000

This total represents 3.4 per cent of the outstanding common shares of Trans-Canada as at June 1, 1958.

In the view of the Commission the issue of shares prior to the public financing of Trans-Canada in 1957 and the granting of these options did not and does not affect the price paid or payable by Trans-Canada to producers of natural gas or the price for which Trans-Canada is selling or will sell natural gas.

*37. Option to Nathan Eldon Tanner.* Nathan Eldon Tanner of Calgary, Alberta, was approached in February, 1954, by representatives of Trans-Canada and Western Pipe Lines and asked to accept the position of President and chief executive officer of Trans-Canada. Mr. Tanner had been Minister of Lands and Mines (later Mines and Minerals and Lands and Forests) in the Government of Alberta during the period 1937 to 1952. In 1952 he left the service of that Government and became President of Merrill Petroleum Limited.

The testimony given to the Commission indicates that considerable pressure was brought to bear on Mr. Tanner by prominent Canadian citizens to persuade him to leave the relatively secure position, which he held in 1954 as President of Merrill Petroleum Limited, and to accept the presidency of Trans-Canada. At this time the future for Trans-Canada was not bright.

Those concerned with its future were anxious to obtain a chief executive officer who would be acceptable to Canadian Delhi Oil Ltd., the Western Group and those financial interests associated with the promotion of the Company.

Under date of March 9, 1954, an agreement was entered into between Trans-Canada, Nathan Eldon Tanner, Canadian Delhi Petroleum Ltd. of Calgary, and the Western Group providing, inter alia:

- (i) For the employment of Mr. Tanner by Trans-Canada as its chief executive officer for a period of five years from March 9, 1954, at a remuneration at the rate of \$35,000 per annum.
- (ii) For the payment to Mr. Tanner by Trans-Canada of a retiring allowance of \$15,000 per annum in each of the five years following retirement.

## Royal Commission on Energy

- (iii) For the guarantee of payment of the foregoing remuneration and retiring allowance as to one half by Canadian Delhi Petroleum Ltd. and as to the other half by the members of the Western Group, jointly and severally.
- (iv) For the granting of an option to Mr. Tanner for a period of five years from March 9, 1954, to purchase from Trans-Canada 60,000 of its common shares at the price of \$8 per share.
- (v) For certain restrictions on the sale of any common shares taken up by Mr. Tanner, for the termination of the guarantees with respect to remuneration and retiring allowance and other provisions not unusual in employment agreements of this nature.

Under the agreement made as of November 1, 1955, between Tennessee Gas Transmission Company and Trans-Canada, Tennessee agreed with Trans-Canada to share in any liability under the foregoing employment agreement dated March 9, 1954, made between Trans-Canada and Mr. Tanner and also in any liability under the employment agreement dated August 2, 1954, (hereafter referred to) made between Charles S. Coates and Trans-Canada. This obligation of Tennessee was subsequently cancelled under the agreement dated February 8, 1956, described in paragraph 11 of this chapter.

At the time Mr. Tanner left the service of Merrill Petroleum Limited in order to accept the presidency of Trans-Canada he held an option from Merrill Petroleum Limited to purchase 62,000 shares of Merrill Petroleum Limited which he was not obliged to relinquish and which, in due course, he exercised. The Commission is of the view that this option from Merrill Petroleum Limited was a matter wholly between Mr. Tanner and his former employers and has no bearing whatsoever on his relationship to Trans-Canada.

In addition to the option granted to Mr. Tanner by Trans-Canada to purchase 60,000 common shares at \$8 per share, Canadian Delhi Oil Ltd. and the Western Group, in consideration of Mr. Tanner accepting the position of chief executive officer of Trans-Canada, each entered into agreements with Mr. Tanner dated March 9, 1954, under which they each agreed to sell to Mr. Tanner 5,000 of their common shares of Trans-Canada at the price of \$1 per share. Mr. Tanner transferred to his wife his rights under these two agreements. Mrs. Tanner exercised her rights under these agreements in December, 1955, and in January, 1956. As at February 15, 1958, 9,999 of the shares were still registered in Mrs. Tanner's name, one share having previously been transferred to Mr. Tanner.

The Commission regards this option of 10,000 common shares given to Mr. Tanner as an unusual transaction. Undoubtedly it was given to Mr. Tanner as an additional inducement to him to accept his new employment. The Commission feels that, regardless of the fact that Trans-Canada later received financial and other assistance from the Government of Canada,



## Trans-Canada Pipe Lines Limited

Mr. Tanner would have shown better judgment had he declined to accept this potential financial benefit. Such acceptance immediately placed him in a dual position. He was being reasonably remunerated by Trans-Canada for his services and as the chief executive officer of that company his first and only loyalty undoubtedly was to it. Having accepted this option from Canadian Delhi Oil Ltd. and from the Western Group, consisting of The Calgary & Edmonton Corporation Limited; Anglo Canadian Oil Company Limited; International Utilities Corporation; Osler, Hammond & Nanton Limited; Wood, Gundy & Company Limited and Nesbitt, Thomson and Company Limited, he put himself in a position in which he was under obligation to these parties. The Commission does not know whether, in fact, any conflict of interest did arise in the ensuing years between these interested parties and Trans-Canada and it cannot predict whether it will arise, but we are of the opinion that Mr. Tanner would have been wiser had he, when entering the employ of Trans-Canada, accepted financial reward, certain or contingent, only from his employer.

The Commission is satisfied that no negotiations had taken place with the Government of Canada for financial assistance in the construction of the Western section of the pipe line or the building by the Crown Corporation of the Northern Ontario section of the line prior to Mr. Tanner's employment and option agreement with Trans-Canada. The option price in itself, i.e. \$8 per share, was not unreasonable, in the opinion of the Commission, but when the public financing of Trans-Canada took place in February 1957, members of the public were not able to purchase only common shares of Trans-Canada but were obliged, if they desired to purchase common shares, to purchase units consisting of \$100 principal amount of debentures and five common shares. It is only fair to state that almost three years had elapsed between the date of the option to Mr. Tanner and the public financing of Trans-Canada.

The Commission is unable to assess the value of Mr. Tanner's abilities and other qualifications to Trans-Canada and the extent to which he has been responsible for its present situation and condition. We believe that the value of Mr. Tanner's services to Trans-Canada is a matter which was the responsibility of the Board of Directors of Trans-Canada at the time of his employment and the Commission is not prepared to substitute its judgment in this matter for that of those who had the responsibility for the decision. However, as events turned out, Mr. Tanner obviously made an exceedingly profitable move. It is equally true that had Trans-Canada not been successful in making the arrangements which it subsequently was able to complete and had it not been successful in its financing, the option granted by Trans-Canada with respect to the 60,000 common shares might have been of little value.

## Royal Commission on Energy

The Commission is aware of the fact that options to purchase capital stock given by corporations to key executives, in order to attract them to employment, are not unusual in Canadian business and industry. We are of the view, however, that when circumstances arise whereby the value of these options comes to be dependent upon or to be materially enhanced by financing obtained from public funds, different considerations must apply to the propriety and reasonableness of any such options, than would apply if financial assistance from public funds were not involved.

Mr. Tanner is a man who has devoted a great deal of his time and ability to the public life of his country. The Commission feels that when temporary financing by the Government of Canada was assured and thereby he, personally, stood to reap very large financial benefits, provided the conditions imposed by the Government could be met, either the Government of Canada should have insisted, as a condition of financial assistance, that steps be taken or Mr. Tanner should have voluntarily taken such steps as would have precluded him from reaping very large capital profits from an option for the purchase of shares in a company by which he was employed and which was being financed, in an essential part and at a crucial time, with public funds.

It should be stated that the shares comprised in the option granted to Mr. Tanner by Trans-Canada fell within the terms of the agreement dated May 8, 1956, referred to in paragraph 23 of this chapter whereby, in effect, they were assigned to the Government of Canada as part of the security for the loan made for the construction of the Western section of the pipe line. This assignment, however, was no more than what was required by the Government of all the then holders of shares of the capital stock of Trans-Canada. Indeed, as Mr. Tanner had not then taken up any of the shares comprised in the option to him, he can hardly be considered as having risked what the shareholders did. These shareholders had paid (except for 2,002 shares) \$8 per share to Trans-Canada for their shares and consequently had a financial interest in the venture which Mr. Tanner did not then have. If the conditions imposed by the Government could not be met the shareholders would have lost their investment but Mr. Tanner's remuneration and retiring allowance were assured to him, under the terms of his employment, by reason of the guarantees given by Canadian Delhi Petroleum Ltd. and the Western Group.

Public financing of Trans-Canada was announced in February, 1957. The prospectus of the company is dated February 13, 1957. On February 1, 1957, Mr. Tanner exercised his option with respect to 15,000 shares and on February 6, 1957, with respect to 40,000 shares. As at June 1, 1958, Mr.

## Trans-Canada Pipe Lines Limited

Tanner held 30,800 of these shares, having transferred 15,000 shares principally to members of his family and 200 shares to the National Trust Company Limited, under a Trust Agreement, and having sold 9,000 shares for an aggregate price of approximately \$263,400. As at the same date, there remained 5,000 shares with respect to which Mr. Tanner was entitled to exercise his option before March 9, 1959.

Mr. Tanner under his agreement was obligated to pay to Trans-Canada for the 55,000 shares the sum of \$440,000. At the middle of September, 1958, common shares of Trans-Canada were traded on the Toronto Stock Exchange at approximately \$34.50 per share. Had Mr. Tanner retained these optioned shares and sold them at that time and at that price he would have made an apparent capital gain of approximately \$1,457,500. This calculation does not take into account the 10,000 shares optioned to him by Canadian Delhi Oil Ltd. and the Western Group at \$1 per share, which as previously stated he transferred to Mrs. Tanner. In addition, as noted above, Mr. Tanner still has the right, exercisable before March 9, 1959, to purchase an additional 5,000 shares of Trans-Canada at \$8 per share.

38. *Option to Charles S. Coates.* Charles S. Coates of Houston, Texas, joined Trans-Canada on August 1, 1954, as Executive Vice-President and General Manager. Prior to that date he was senior Vice-President of Tennessee Gas Transmission Company, a company with which he had been associated since its inception in 1943. During the period of his association with Tennessee Gas Transmission Company he had acted as general superintendent of construction and had specialized in pipe line engineering; construction and operation.

An agreement, dated as of August 2, 1954, was entered into between Trans-Canada, Mr. Coates, Canadian Delhi Petroleum Ltd. and the Western Group providing, inter alia:

- (i) For the employment of Mr. Coates by Trans-Canada as Executive Vice-President and General Manager for a period of five years from August 1, 1954, at a remuneration at the rate of \$45,000 per annum for each of the first three years and \$50,000 for each of the remaining two years.
- (ii) For the guarantee of payment of the foregoing remuneration as to one half by Canadian Delhi Petroleum Ltd. and as to the other half by the members of the Western Group, jointly and severally.
- (iii) For the granting of an option to Mr. Coates for a period of five years from August 1, 1954, to purchase from Trans-Canada 50,000 of its common shares at a price which should be the lesser of the following, i.e.,
  - (a) the fair value (to be ascertained as provided in the agreement) of the said shares at the time of exercise of the option or
  - (b) \$8 per share.
- (iv) For the full-time services of Mr. Coates in the sole employ of Trans-Canada, for certain restrictions on the sale of any common shares taken up by Mr. Coates, for the termination of the guarantees with respect to remuneration and other provisions not unusual in employment agreements of this nature.

## Royal Commission on Energy

Mr. Coates had been in receipt of remuneration at the rate of \$37,500 per annum from Tennessee Gas Transmission Company and was also entitled to other financial benefits from Tennessee, which gave him a total annual remuneration from his employment with that organization equivalent to \$47,500.

At the time Mr. Coates left the service of Tennessee Gas Transmission Company in order to become Executive Vice-President and General Manager of Trans-Canada, he held an option from Tennessee Gas Transmission Company to purchase certain of its shares which, when he left its employ on July 31, 1954, he was obliged to relinquish. Had Mr. Coates remained in the employ of Tennessee Gas Transmission Company, exercised his option and sold the shares in 1958, he would have made an apparent capital gain of approximately \$346,000.

At the time of his employment Trans-Canada required an executive experienced in natural gas pipe line construction and familiar also with the engineering involved. In order to accept the position it was necessary for Mr. Coates to leave the United States and take up residence in Canada. However, as five months had elapsed between the date of Mr. Tanner having assumed the presidency of Trans-Canada and the employment of Mr. Coates, the future prospects of the company, while not assured by any means, were probably not as bleak in August, 1954, as they had been earlier in that year.

The Commission is satisfied that no negotiations had taken place with the Government of Canada for financial assistance in the construction of the Western section of the pipe line or the building by the Crown Corporation of the Northern Ontario section of the line prior to the employment of Mr. Coates and the granting to him by Trans-Canada of the option to purchase shares. The option price in itself, i.e. \$8 per share, was not unreasonable, in the opinion of the Commission, but when the public financing of Trans-Canada took place in February, 1957, members of the public were not able to purchase only common shares of Trans-Canada, but were obliged, if they desired to purchase common shares, to purchase units consisting of \$100 principal amount of debentures and five common shares. It is only fair to state that some 30 months had elapsed between the date of the option to Mr. Coates and the public financing of Trans-Canada.

As in the case of Mr. Tanner, the Commission is unable to assess the value of Mr. Coates' abilities to Trans-Canada and the extent to which he has been responsible for its present situation and condition. We believe that the value of his services to Trans-Canada is a matter which was the responsibility of the Board of Directors of Trans-Canada at the time of his employment and the Commission is not prepared to substitute its judgment in this matter for that of those who had the responsibility for the decision.

## Trans-Canada Pipe Lines Limited

When temporary financing by the Government of Canada was assured and thereby Mr. Coates personally stood to reap very large financial benefits, provided the conditions imposed by the Government could be met, it is the view of the Commission that either the Government of Canada should have insisted, as a condition of financial assistance, that steps be taken or Mr. Coates should have voluntarily taken such steps as would have precluded him from reaping very large capital profits from an option for the purchase of shares in a company by which he was employed and which was being financed, in an essential part and at a crucial time, with public funds.

As was the case with Mr. Tanner, the shares comprised in the option granted to Mr. Coates by Trans-Canada fell within the terms of the agreement of May 8, 1956, referred to in paragraph 23 of this chapter whereby, in effect, they were assigned to the Government of Canada as part of the security for the loan made for the construction of the Western section of the pipe line. This assignment however was no more than what was required by the Government of all the then holders of shares of the capital stock of Trans-Canada. Our remarks with respect to Mr. Tanner in this context are equally applicable to the situation of Mr. Coates, except that in the case of Mr. Coates there was no provision in his employment agreement for a retiring allowance and the guarantee of Canadian Delhi Petroleum Ltd. and the members of the Western Group applied only to the provisions of his contract with respect to remuneration during the five year term of his employment.

As previously mentioned, public financing of Trans-Canada was announced in February, 1957, and the prospectus with respect to such financing is dated February 13, 1957. On February 11, 1957, Mr. Coates exercised his option in full. As at February 19, 1958, Mr. Coates still held 40,000 of these shares, having sold 10,000 shares in the fall of 1957 for an aggregate price of approximately \$280,000. Accordingly, if one takes the price at which common shares of Trans-Canada were traded on the Toronto Stock Exchange in the middle of September, 1958, i.e. approximately \$34.50 per share, and had Mr. Coates retained these 50,000 optioned shares and sold them at that time and at that price, he would have made an apparent capital gain of approximately \$1,325,000.

39. There was no inference in any of the testimony given to the Commission that assistance by the Government of Canada would not have been given had Messrs. Tanner and Coates not held the respective positions in Trans-Canada which they held and, in our opinion, the fact that these two men were in their respective positions had no bearing whatsoever on

## Royal Commission on Energy

the action taken by the Government of Canada with respect to the loan for construction of the Western section of the pipe line or with respect to the transaction comprising the Northern Ontario section.

40. *Option to Robert James Wallace.* By agreement dated October 1, 1954, made between Trans-Canada and Robert James Wallace, of Houston, Texas, Mr. Wallace was employed by Trans-Canada as gas supply manager for a period of one year from October 1, 1954, at a remuneration at the rate of \$15,000 per annum and was granted an option exercisable within that one year period to purchase from Trans-Canada 5,000 common shares at \$8 per share. Certain further agreements extended the period during which the option might be exercised and it was exercised on April 16, 1957. It had been previously assigned by Mr. Wallace to one I. P. La Rue of Dallas, Texas. Mr. Wallace ceased to be an employee of Trans-Canada on October 1, 1956.

The shares covered by the option granted to Mr. Wallace came within the terms of the agreement, dated May 8, 1956, referred to in paragraph 23 of this chapter. While this option was for a relatively small number of shares of Trans-Canada, when compared to the options held by Messrs. Tanner and Coates, nevertheless, when government financing became assured, it is the view of the Commission that this option should have been revised or otherwise dealt with as we have suggested should have been done in the case of the options to Messrs. Tanner and Coates.

41. *Subscription of Francis Kernan.* Francis Kernan, a limited partner of the firm of White, Weld & Co., investment dealers in New York, became associated with Trans-Canada in May, 1956, as financial consultant, immediately following the conclusion of the negotiations with the Government of Canada for financial assistance set forth in the agreement of May 8, 1956. Under date of May 28, 1956, he subscribed for 40,000 common shares of Trans-Canada at a price of \$8 per share. The subscription provided that the shares covered thereby would be issued against payment, contemporaneously with the initial public financing of the Company.

The underwriters in the United States at the time of the initial public financing of Trans-Canada were Lehman Brothers, Stone & Webster Securities Corporation and White, Weld & Co.

Mr. Kernan assigned to White, Weld & Co. one-half of his right to subscribe. The shares were issued, against payment of the subscription price, on February 26, 1957, as to 20,000 shares to Mr. Kernan and as to the other 20,000 shares to White, Weld & Co.

Mr. Kernan received for his services as a financial consultant a fee of \$20,000 and 20,000 common shares of Trans-Canada at \$8 per share.

## Trans-Canada Pipe Lines Limited

These shares of Trans-Canada were subscribed for by Mr. Kernan subsequent to the successful negotiation of the loan to Trans-Canada from the Government of Canada and subsequent to the negotiations with the Government of Canada with respect to the Northern Ontario section of the pipe line but prior to the enactment of the Northern Ontario Pipe Line Crown Corporation Act by the Parliament of Canada.

The Government of Canada had imposed a condition requiring its loan for construction of the Western section of the line to be repaid not later than April 2, 1957, and, when Mr. Kernan was retained, Trans-Canada was under obligation to the Government to give evidence prior to November 1, 1956, that it had arranged for financing of all costs and commitments in connection with its program of construction of all but the Northern Ontario section of the pipe line, in order to ensure the continuing obligation of the Government to construct the Northern Ontario section. The directors of Trans-Canada, therefore, at this time, had the responsibility of obtaining the best possible advice as to how this financing could be effected, within the time limitations imposed. The Commission is of the view that the judgment of the Board of Directors of Trans-Canada at the time Mr. Kernan was retained and the terms of such retainer must be accepted. The Commission is unable to assess the value of Mr. Kernan's services in the completion of such financing within the time limit, as later extended to February 1, 1957.

42. *Option to Thomas Howard Atkinson.* On July 11, 1956, Thomas Howard Atkinson of Montreal, who had recently retired as General Manager of the Royal Bank of Canada, was appointed a director and Chairman of the Finance Committee of the Board of Trans-Canada. Mr. Atkinson agreed to serve in these capacities without remuneration. By agreement dated July 12, 1956, made between Trans-Canada and Mr. Atkinson, Mr. Atkinson was granted an option exercisable at any time within two years from July 12, 1956, to purchase from Trans-Canada 12,500 of its common shares at the price of \$8 per share. Mr. Atkinson exercised his option to the extent of 2,500 shares on May 27, 1957, and to the extent of 10,000 shares on June 21, 1957.

Mr. Atkinson agreed to deal with the shares under option to him in accordance with the terms of the agreement of May 8, 1956, referred to in paragraph 23 of this chapter.

This option to Mr. Atkinson was granted subsequent to the enactment of the Northern Ontario Pipe Line Crown Corporation Act. The Commission regards this option as having been granted in the normal course of business and makes no further comment with respect thereto.

## Royal Commission on Energy

43. *Option to Albert Perrine Craig.* Under date of February 11, 1957, an option, exercisable within two years from February 11, 1957, to purchase from Trans-Canada 7,500 of its common shares at a price of \$10 per share was granted to Albert Perrine Craig, who was and is Vice-President of Trans-Canada, responsible for sales. Mr. Craig exercised the option on May 22, 1957, to the extent of 2,500 shares and on July 5, 1957, to the extent of 5,000 shares.

Mr. Craig agreed to deal with the shares under option to him in accordance with the terms of the agreement of May 8, 1956 referred to in paragraph 23 of this chapter.

The Commission is of the view that this was an option granted in the normal course of the business of the Company.

44. *Option to Noel John McNeill.* Under date of March 7, 1957, an option, exercisable within two years from March 7, 1957, to purchase from Trans-Canada 5,000 of its common shares at a price of \$10 per share was granted to Noel John McNeill who was and is Vice-President, General Counsel and Secretary of the Company. Mr. McNeill exercised his option in full on May 30, 1957. The Commission is of the view that this also was an option granted in the normal course of the business of the Company.

45. *Stock Option Plan for Key Personnel.* On September 12, 1957, the directors of Trans-Canada approved an incentive stock option plan for key employees. At the time of the establishment of the plan, options to purchase were granted to six employees with respect to 18,000 shares of the Company. None of these employees had previously been the recipient of any option from the Company.



ALL OF WHICH WE RESPECTFULLY SUBMIT FOR YOUR EXCELLENCY'S  
CONSIDERATION

*Kenneth Gordon*

Chairman

*Louis Herzog*

*George. Britnell*

*Robert D. Howland*

*Henry Rodman*

*R.M. Hardy*

*J. H. Parkinson*  
Secretary

October 22, 1958

# Appendices

## *Appendix A*

### The Orders in Council

P. C. 1957-1386

Certified to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by His Excellency the Governor General on the 15th October, 1957.

The Committee of the Privy Council have had before them a report from the Right Honourable John George Diefenbaker, the Prime Minister, representing:

That, in as much as Canada has within its boundaries large sources of energy in the form of gas, oil, coal, water and uranium, the increasing need of energy for the growing industrial requirements of Canada renders it of the greatest importance to assure the most effective use of those resources in the public interest;

That it is desirable that an investigation be made now into a number of questions relating to sources of energy in order to assist in determining the principles and procedures to be applied in the administration of certain aspects of energy policy which fall within the jurisdiction of the Parliament of Canada; and

That it is desirable that a suitable form of organization be devised to ensure that present and future Canadian requirements for energy are taken fully and systematically into account in granting licences for the export of energy or sources of energy.

The Committee, therefore, on the recommendation of the Prime Minister advise that:

Henry Borden, Esquire, C.M.G., Q.C., of the City of Toronto,  
J. Louis Levesque, Esquire, of the City of Montreal,  
George Edwin Britnell, Esquire, of the City of Saskatoon,  
Gordon G. Cushing, Esquire, of the City of Ottawa,  
Robert D. Howland, Esquire, of the City of Halifax, and  
Leon J. Ladner, Esquire, Q.C., of the City of Vancouver

be appointed Commissioners under Part I of the Inquiries Act, to enquire into and make recommendations concerning:

- (a) the policies which will best serve the national interest in relation to the export of energy and sources of energy from Canada;

## Trans-Canada Pipe Lines Limited

- (b) the problems involved in, and the policies which ought to be applied to, the regulation of the transmission of oil and natural gas between provinces or from Canada to another country, including, but without limiting the generality of the foregoing, the regulation of prices or rates to be charged or paid, the financial structure and control of pipeline corporations in relation to the setting of proper prices or charges, and all such other matters as it is necessary to enquire into and report upon, in order to ensure the efficient and economical operation of pipelines in the national interest;
- (c) the extent of authority that might best be conferred on a National Energy Board to administer, subject to the control and authority of parliament, such aspects of energy policy coming within the jurisdiction of Parliament as it may be desirable to entrust to such a Board, together with the character of administration and procedure that might best be established for such a Board;
- (d) whether, in view of its special relationship to the Northern Ontario Pipeline Crown Corporation and the nature of its financing and control, any special measures need be taken in relation to Trans-Canada Pipe Lines, Limited in order to safeguard the interest of Canadian producers or consumers of gas; and
- (e) such other related matters as the Commissioners consider it necessary to include in reporting upon those specified above.

The Committee further advise:

1. That the establishment of the Commission and the conduct of its enquiry shall not in any way delay or postpone the continuation of negotiations or of consideration, whether within the International Joint Commission or otherwise, relating to waters crossing the international boundary and the development of electric energy therefrom in the best interests of Canada, or any other matter coming within the jurisdiction of the International Joint Commission, but the Commissioners may comment or report upon any aspects of these matters and of policy relating thereto that they consider to be relevant to the questions referred to them;

2. That the Commissioners be authorized to exercise all the powers conferred upon them by section 11 of the Inquiries Act and be assisted to the fullest extent by government departments and agencies;

3. That the Commissioners adopt such procedure and methods as they may from time to time deem expedient for the proper conduct of the enquiry and sit at such times and at such places in Canada as they may decide from time to time;

## Royal Commission on Energy

4. That the Commissioners be authorized to engage the services of such counsel, staff and technical advisers as they may require at rates of remuneration and reimbursement to be approved by the Treasury Board;
5. That the Commissioners report to the Governor in Council; and
6. That Mr. Henry Borden be Chairman of the Commission.

(Sgd) R. B. Bryce  
Clerk of the Privy Council.

P.C. 1958-58

Certified to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by His Excellency the Governor General on the 13th January, 1958.

The Committee of the Privy Council, on the recommendation of the Right Honourable John George Diefenbaker, The Prime Minister, advise that Dr. R. M. Hardy, Dean of the Faculty of Engineering of the University of Alberta, be appointed a member of the Commission appointed under the Inquiries Act, pursuant to Order in Council P.C. 1957-1386 of 15th October, 1957 (Energy Policies).

(Sgd) R. B. Bryce  
Clerk of the Privy Council.

P.C. 1957-1473

Certified to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by His Excellency the Governor General on the 13th November 1957.

The Committee of the Privy Council, on the recommendation of the Right Honourable John George Diefenbaker, the Prime Minister advise that Joseph Frederick Parkinson, Economic Adviser, Department of Finance be appointed Secretary of the Royal Commission constituted by Order in Council P.C. 1957-1386 of 15th October, 1957 (Energy Policies).

(Sgd) R. B. Bryce  
Clerk of the Privy Council.

## Appendices

P.C. 1957-1574

Certified to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by His Excellency the Governor General on the 22nd November, 1957.

The Committee of the Privy Council, on the recommendation of the Right Honourable John George Diefenbaker, the Prime Minister, advise that Major N. Lafrance, of Ottawa, be appointed Assistant Secretary of the Royal Commission constituted by Order in Council P.C. 1957-1386 of 15th October, 1957 (Energy Policies).

(Sgd) A. M. Hill

Asst. Clerk of the Privy Council.

Royal Commission on Energy

*Appendix B*

Commissioners

Henry Borden, C. M. G., Q.C., Chairman  
J. Louis Levesque  
George Edwin Britnell  
Robert D. Howland  
Leon J. Ladner, Q.C.  
R. Macdonald Hardy

COMMISSION STAFF

*Secretary*

J. F. Parkinson

*Assistant Secretary*

N. A. Lafrance

COUNSEL

*General Counsel*

A. S. Pattillo, Q.C., Toronto

*Assistant Counsel*

M. H. Patterson, Calgary

ADVISERS

R. L. Hearn, D. Eng., P. Eng., Toronto

R. Bruce West, Vice-President, A. E. Ames & Co., Limited, Toronto

J. C. Sproule & Associates, Calgary

ASSISTANTS

Ralph B. Toombs, of the Department of Mines and Technical Surveys,  
Ottawa

G. W. Green, of the Department of Trade and Commerce, Ottawa,

M. F. Bélanger, of the Department of Finance, Ottawa.

Appendices

*Appendix C*

Hearings

Public hearings were held in the following cities:

Calgary .....	February 3-28, 1958 April 29 to May 16, 1958
Regina .....	April 14-17, 1958
Victoria .....	April 21-24, 1958
Winnipeg .....	May 21-22, 1958
Toronto .....	July 2-10, 1958
Montreal .....	July 14-22, 1958

## Royal Commission on Energy

### *Appendix D*

#### Submissions

##### *Submissions received at public hearings*

Department of Mines and Minerals, Province of Alberta

Mr. Floyd K. Beach

Oil and Gas Conservation Board, Province of Alberta

The City of Calgary

Canadian Western Natural Gas Company Limited and

Northwestern Utilities Limited

Canadian Petroleum Association

Westcoast Transmission Company Limited

Pacific Northwest Pipeline Corporation and

El Paso Natural Gas Company

Jefferson Lake Sulphur Company

Alberta and Southern Gas Co. Ltd.

Trans-Canada Pipe Lines Limited

The City of Edmonton

The Alberta Gas Trunk Line Company Limited

The British American Oil Company Limited

Northern Natural Gas Company

Amurex Oil Co., Bailey Selburn Oil & Gas Ltd., Banff Oil Ltd.,

Canadian Export Gas Ltd., Canadian Husky Oil Ltd., Canadian Superior

Oil of California, Ltd., Dome Exploration (Western) Limited, Great

Plains Development Company of Canada Ltd., Medallion Petroleums

Limited

Canadian-Montana Pipe Line Company

The Government of the Province of Saskatchewan

Woodley Canadian Oil Company

The Coal Operators Association of Western Canada and

The Western Coal Utilization Council

Producers Pipelines Ltd., and

Westspur Pipe Line Company

Consolidated Mining & Smelting Co. of Canada, Ltd.

British Columbia Electric Company Limited

Trans Mountain Oil Pipe Line Company

The City of Prince George and

Prince George Gas Co. Ltd.

Act Oils Limited

Hon. E. C. Manning, Premier, The Government of the Province of  
Alberta



## Appendices

Canadian Devonian Petroleum Limited, Canadian Homestead Oils Limited, Canpet Exploration Ltd., Colorado Oil & Gas Ltd., Consolidated East Crest Oil Company Limited, Consolidated Mic Mac Oils Ltd., Home Oil Company Limited, Medallion Petroleum Limited, Merrill Petroleum Limited, Okalta Oils, Limited, Westburne Oil Company Ltd., Western Decalta Petroleum Limited  
Interprovincial Pipe Line Company  
Shell Oil Company of Canada Limited  
Imperial Oil Limited  
McCull-Fontenac Oil Company Limited  
Triad Oil Co. Ltd.  
Canadian Oil Companies, Limited  
Mr. W. J. Levy and Mr. M. Lipton  
Crow's Nest Pass Towns Committee  
The Research Council of Alberta  
Royalite Oil Company Limited  
West Maygill Gas & Oil Limited  
Texaco Exploration Company  
Mobil Oil of Canada Ltd., and  
Pan American Petroleum Corporation  
The California Standard Company  
The Government of the Province of Manitoba  
Trans-Prairie Pipelines Ltd.  
Saskatchewan Coal Operators  
Hudson Bay Mining and Smelting Co., Limited  
The Great Plains Gas Company Limited  
Stone & Webster Canada Limited  
Hon. Leslie M. Frost, Prime Minister, The Government of the Province of Ontario  
Ontario Fuel Board  
The Consumers' Gas Company  
Independent Pipeline Company  
Mr. Gilbert Jackson  
Cities Service Oil Company Limited  
Mr. Cyril T. Young  
B P Canada Limited  
Canadian Bechtel Limited  
National Coal Association, Washington, D.C.  
Canadian Commercial Coal Dock Operators Association  
Sun Oil Company Limited  
Canadian Petrofina Limited

## Royal Commission on Energy

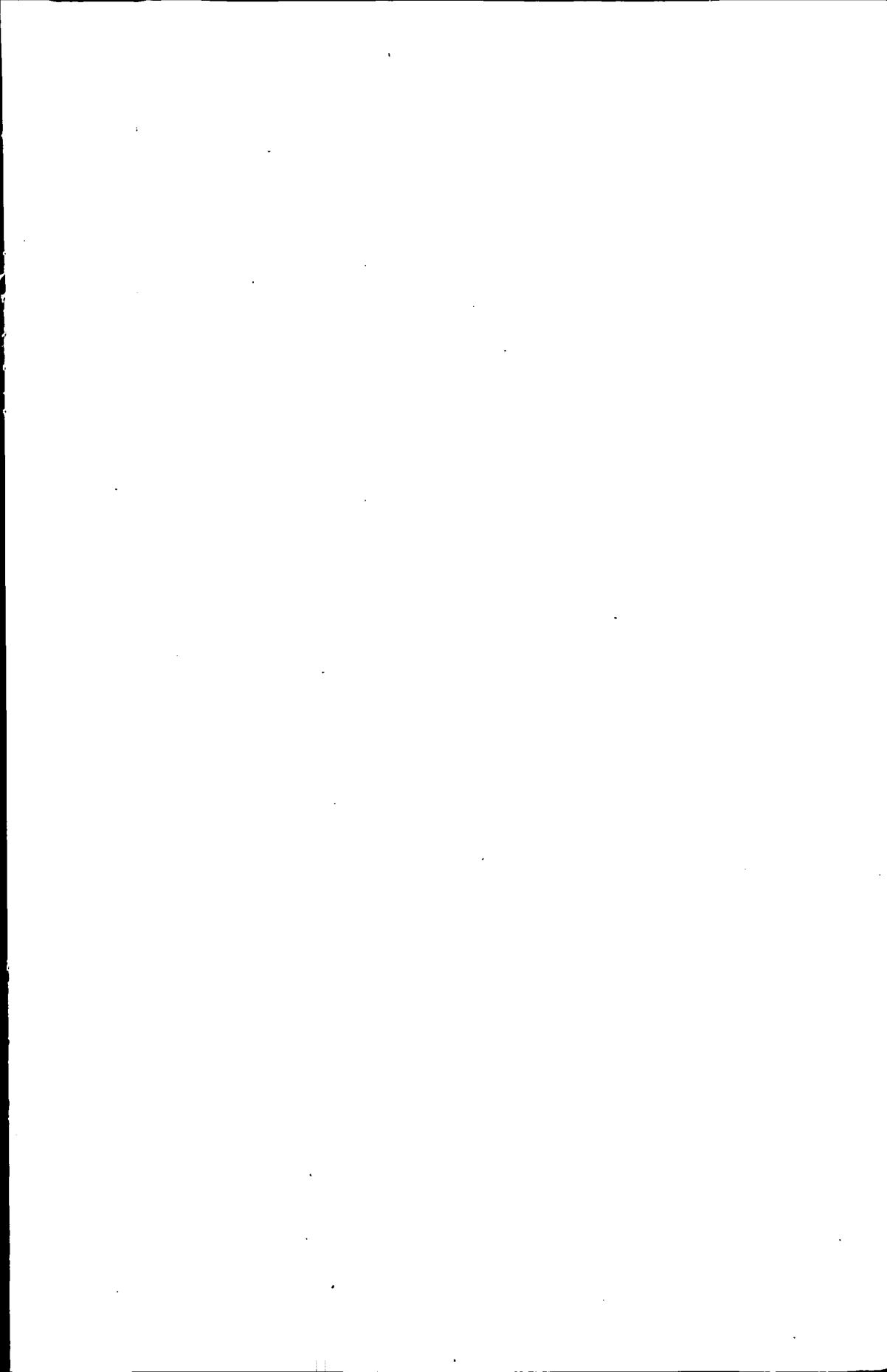
Irving Oil Company Limited  
Canadian Husky Oil Ltd.  
Montreal Pipe Line Company Limited  
United Electrical Radio and Machine Workers of America, (UE)-  
Canadian Section  
Union Gas Company of Canada Limited  
Department of Mines, Province of Nova Scotia  
Mid-Continent Pipelines Limited  
Canadian Devonian Petroleums Limited, Canadian Homestead Oils  
Limited, Consolidated East Crest Oil Company Limited, Consolidated  
Mic Mac Oils Ltd., Home Oil Company Limited, Merrill Petroleums  
Limited, Okalta Oils, Limited, Westburne Oil Company Ltd., Western  
Decalta Petroleum Limited  
The Quebec Gasoline Retailers and Garage Operators' Association Inc.

### *Other submissions received*

Calgary Power Ltd.  
Town of Peace River, Town of High Prairie, Town of McLennan,  
Town of Falher, Village of Girouxville, Village of Donnelly  
Professor Eric J. Hanson  
Northland Utilities Limited  
Lloydminster Petroleum Association  
Hon. Hugh John Flemming, Premier of New Brunswick  
Fisheries Association of B.C.  
The Board of Trade of the City of Toronto  
Lambton Gas Storage Association  
The Canadian Manufacturers' Association  
Oil Heating Association  
The Canadian Chamber of Commerce  
The Government of Saskatchewan  
Liquifuels Limited  
The Government of British Columbia  
Weaver Coal Company  
Quebec Natural Gas Corporation  
Trans-Northern Pipe Line Company  
Niagara Mohawk Power Corporation and  
New York State Natural Gas Corporation



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