LEGISLATIVE BUDGET & AUDIT COMMITTEE

REPRESENTATIVE RALPH SAMUELS, CHAIRMAN

May 3, 2008

Anthony M. Palmer
Vice-President Alaska Development
TransCanada PipeLines Limited
450 – 1st Street S.W.
Calgary, AB, T2P 5H1
Canada

SENT BY FACSIMILIE TRANSMISSION

Dear Mr. Palmer:

This letter is our eighth request for additional information and clarification on issues surrounding your AGIA application. This letter will focus on questions relative to rates.

Executive Summary, page 4:

Please describe and explain the mechanics of the toll savings from moving the Alberta receipt point upstream of Boundary Lake to Fort Nelson.

Development Plan, page 2.2-65:

Provide citations and copies of all regulatory precedents for basing the proposed 25-year straight-line depreciation rate for the Alaska Section of the pipeline on length of Transportation Service Agreements (TSAs).

Development Plan, page 2.2-65:

(a) TransCanada states that if initial TSAs are for a contract term different from 25-years, the depreciation recovery rate will be adjusted accordingly. Does this mean the rate for a 10-year TSA will be based on a 10-year straight-line depreciation and a 35-year TSA gets a rate based on a 35-year straight-line depreciation?

(b) Provide citations and copies of all regulatory precedents for basing transportation rates to customers with different contract terms on depreciation rates reflecting the contract terms.

(c) Please explain the rationale for the proposed variable return on equity that adjusts with the U.S. 10-year Treasury note.

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(d) Provide all citations and copies of all orders which authorize variable equity return for regulated pipelines in the United States and Canada.
(e) Provide copies of all work papers, studies, reports and internal memos that TransCanada relied upon to arrive at the proposed equity risk premium of 965 basis points over the U.S. 10-year Treasury note.
(f) What is the current equity risk premium authorized by the NEB for the 2008 Benchmark return on common equity 8.71% for Group 1 pipeline companies?
(g) What is TransCanada's currently authorized return or equity by the NEB?
(h) Provide copies of orders authorizing TransCanada's current return on equity. What equity risk premium did the NEB allow to arrive at TransCanada's currently authorized equity return?

Development Plan page 2.2-65:

Provide an explanation and supporting documentation which describes how the 4.7% cost of debt was determined.

Development Plan page 2.2-65:

Provide an explanation and supporting documentation which describes how the 6.2% cost of debt was determined.

In the Alaska Recourse Rate Model Output - Appendix I1, TransCanada states the results are based upon assumptions "most of which are beyond the control of TransCanada."

State each assumption made to arrive at the "Resource Model Output" presented in Appendix I1. Provide the basis for each assumption and identify each assumption that is beyond the control of TransCanada.

Development Plan page 2.2-66:

(a) Provide citations and copies of all order issued by the FERC and the NEB for an incentive adjustment to return on equity as presented in Section 2.2.3.6 (1);
(b) Provide citations and copies of all precedents that TransCanada is aware of for an incentive adjustment as presented in Section 2.2.3.6(1);
(c) What is the basis for the proposed five basis point adjustment for each 1% by which actual capital cost of the pipeline exceeds the base capital cost? In this proposal you propose to give up $1.7555 million in equity return for each $117 million in cost over run.
(d) Does the proposed annual reset of the return or equity apply to both the Recource and Negotiated rate proposals?

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Development Plan page 2.2-68:

The negotiated rate capital structure described is not clear. Please provide the rationale for each of the stated capital structures and proposed changes to the capital structures as presented in this section.

Appendix K1 Alaska Section:

Provide a narrative explanation and the logic behind the calculation of the Annual Depreciation Rates presented in this appendix.

Appendix K2 Yukon-BC Section:

Provide a narrative explanation and the logic behind the calculation of the Annual Depreciation Rates presented in this appendix.

Development Plan page 2.2-55:

Provide a simple numerical example of the Open Season bids process described in the first paragraph. Use the possible contract terms and applicable tolls for a constant subscribed volume.

Development Plan page 2.2-70, Section 2.2.3.9 - Commitment to In-State Service

Provide a simplified numerical example of the derivation of a single-zone rate for in-state deliveries using accepted weighted average volumetric-mile cost allocation methods as accepted by the FERC.

Response to State of Alaska Request #14 - TransCanada addresses gas receipt onto the system in Yukon.

How would TransCanada design the rate for such gas receipts for delivery into the Alberta system?

Operations Plan page 2.4-7, Section 2.4.1.3 - Rolled-in Rates

TransCanada states it would propose and support the assignment of expansion costs to all firm billing determinants including negotiated rate contracts. You go on to state you would propose and support rates that bear the same percentage change to all rates including any term-differentiated rates.

(a) Please provide a numerical example and supporting explanation for the derivation of term-differentiated rates starting with a complete cost of service to a 25-year rate and then a detailed calculation and explanation as to how the 30-year and 35-year rates will be set.

(b) Please provide a numerical example and supporting explanation for the roll-in of expansion costs to 25, 30, 35-year rates.

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Attachment A, Economic Viability, dated January 15, 2008

(a) What is TransCanada's understanding of the current and historical basis differential between the Henry Hub and Alberta Hub prices?

(b) Please provide all studies, reports, and analyses relied upon to arrive at the US$0.75/mmBtu basis differential between the Henry Hub and Alberta Hub prices. Does the US$0.75/mmBtu basis differential factor in the impact of the addition of 4.5 Bcf/d gas from Alaska on the Alberta Hub price?

In TransCanada's April 22, 2008, reply to request for Additional Clarification dated April 5, 2008, TransCanada states: "Historically, NEB has generally required that gas pipeline rates be cost of service based. However, the pipeline and its customers may agree on the cost of service elements ... that are the inputs to establishing the cost-based rate. It is in this context that TransCanada has used the term 'negotiated rate' for the Canadian transportation component."

(a) Does TransCanada agree that the depreciation rates presented in Appendix K1, Appendix K2 and the annual depreciation amounts presented in Appendix J1 and Appendix J2 are derived (solved for) values based upon the level Revenue Requirements presented in Appendix J1 and Appendix J2. If not, please describe how you arrived at the depreciation amounts.

(b) If the depreciation rates and amounts are derived (solved for) rates and amounts based on the level Revenue Requirements presented in Appendix J1 and Appendix J2, describe how the level Revenue Requirements are determined.

Appendix J1 and Appendix J2

(a) Do the level Revenue Requirements presented in Appendix J1 and J2 represent TransCanada's desired Revenue Requirement with the cost of service items calculated to arrive at that desired level revenue requirement?

(b) Provide a detailed, step-by-step, explanation for:

(1) The derivation of the level revenue requirement presented in Appendix J1 and J2.

(2) The derivation of each cost of service item presented in Appendix J1 and J2.

We look forward to your timely response to these questions.

Sincerely,

Ralph Samuels, Chair
Legislative Budget and Audit Committee

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