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To:	Representative Ralph Samuels, LB&A Chair Cheryl Sutton, LB&A Staff
From:	Barry Pulliam
Re:	Analysis of ExxonMobil Figures
Date:	April 9, 2008

As requested, we have reviewed the figures and potential ROE penalty scenarios presented by ExxonMobil (EOM) on page 11 of its March 6, 2008 comments. A table summarizing our analysis is attached. Assumptions underlying the analysis and scenarios presented are set forth in the notes at the bottom of the table.

Our results, under the same scenarios, or "Cases," presented by EOM are largely (and directionally) consistent with the figures it presents, though there are some minor differences. These are highlighted below.

First, we start with a total ("base case") equity return for Trans Canada (TC) of $16.4 billion as presented in its January 15, 2008 submission. EOM starts with a total equity return of $17.1, which is the figure contained in TC's original application. The difference is due to a correction in the inflation factors used in TC's application, which serves to reduce the cost of the pipeline in nominal dollars relative to the figures presented in TC's original submission.

Second, we find a somewhat higher impact on TC's total equity return for cost penalty scenarios under EOM's Case "A" and "B." We estimate that in a 40% cost overrun scenario, TC's equity return would increase by $5.4 billion under its proposed equity penalty formula (EOM's Case "A") and by $3.3 billion under the alternative scenario in which the equity penalty would apply for 25 years (EOM's Case "B") rather than 5 years. EOM's comments show somewhat smaller increases in total equity returns to TC of $3.8 and $2.2 billion, respectively. Our estimates of differences in total equity returns in cost overrun situations under Case "C" and "D" are the same as those presented by EOM.

Third, we find that the tariff reduction between EOM's Case "A" and its Case "D" (Case D assumes all overruns are financed by debt) in a 40% overrun scenario would be approximately $0.24/mmbtu, while EOM's comments cite a figure of $0.35/mmbtu.

Estimated Impact of Cost Overruns on Trans Canada's (TC) Return on Equity
Under Alternative Potential Penalty Scenarios and Capital Structures

Capital Structure Used to Finance Overrun

	75% Debt / 25% Equity		100% Debt / 0% Equity	
Overrun %	5 Yr. Penalty "Case (A)"	25 Yr. Penalty "Case (B)"	5 Yr. Penalty "Case (C)"	25 Yr. Penalty "Case (D)"
---- TC Total Equity Return (US$ billion) ----				
0%	$ 16.4 *	$ 16.4 *	$ 16.4 *	$ 16.4 *
20%	$ 19.2	$ 18.3	$ 16.0	$ 15.2
40%	$ 21.8	$ 19.7	$ 15.6	$ 14.1
60%	$ 25.0	$ 22.5	$ 15.6	$ 14.1
80%	$ 28.1	$ 25.3	$ 15.6	$ 14.1
100%	$ 31.2	$ 28.1	$ 15.6	$ 14.1
---- Change in TC Total Equity Return vs Base Estimate (US$ billions) ----				
0%	$ -	$ -	$ -	$ -
20%	$ 2.8	$ 1.9	$ (0.4)	$ (1.2)
40%	$ 5.4	$ 3.3	$ (0.8)	$ (2.3)
60%	$ 8.6	$ 6.1	$ (0.8)	$ (2.3)
80%	$ 11.7	$ 8.9	$ (0.8)	$ (2.3)
100%	$ 14.8	$ 11.7	$ (0.8)	$ (2.3)
---- Change in Tariff vs TC Base Estimate of $2.41/mmbtu Without Fuel ----				
0%	$0.00	$0.00	$0.00	$0.00
20%	$0.44	$0.41	$0.34	$0.32
40%	$0.88	$0.80	$0.70	$0.64
60%	$1.35	$1.27	$1.08	$1.03
80%	$1.83	$1.73	$1.47	$1.41
100%	$2.31	$2.20	$1.85	$1.80

Assumptions:

Case A: 75 % debt / 25% equity overall. Equity penalty proposed by TC is applied during 25 years of operation.

Case B: 75 % debt / 25% equity overall. Equity penalty proposed by TC is applied during 25 years of operation.

Case C: 75 % debt / 25% equity for first $25.1 billion ($2007). Cost overruns are financed with 100% debt. Debt rates are those assumed by TC (4.7% for guaranteed funds, 6.2% for non-guaranteed funds). Maximum debt eligible for federal guarantee assumed to by $23 billion ($ nominal). Equity penalty proposed by TC is applied during 5 years of operation.

Case D: 75 % debt / 25% equity for first $25.1 billion ($2007). Cost overruns are financed with 100% debt. Debt rates are those assumed by TC (4.7% for guaranteed funds, 6.2% for non-guaranteed funds). Maximum debt eligible for federal guarantee assumed to by $23 billion ($ nominal). Equity penalty proposed by TC is applied during 25 years of operation.

* Trans Canada estimated total equity return of $17.1 billion in its initial application. This figure was revised to $16.4 billion in its January 15, 2008 submission, which corrected for errors in inflation estimates. Our analysis uses TC's January 15, 2008 figure.