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February 27, 2004

National Energy Board
444 Seventh Avenue S.W.
Calgary, Alberta
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Attention: Mr. Michel L. Mantha, Secretary

Dear Sirs:

Re: Foothills Pipe Lines Ltd. (Foothills)
National Energy Board Order TG-6-81, As Amended
National Energy Board File Number 4750-F006-2

Pursuant to the requirements of Item 2(a) of National Energy Board (Board or NEB) Order TG-6-81, as amended, Foothills filed its 2004 Operating and Maintenance Budgets for approval on December 1, 2003. Foothills subsequently filed a revision to its filing on December 8, 2003. The Board in a letter dated December 18, 2003 acknowledged receipt of Foothills' Application, as revised, and indicated that prior to making a decision on the applied-for 2004 budgets that it wished to consider Foothills' actual 2003 Operating and Maintenance costs and any variance in the amounts approved for 2003. As a result, the Board issued Order TGI-08-2003 approving the 2004 operating and maintenance budget for the year ending December 31, 2004 equal to 50 percent of the applied-for budget, on an interim basis.

Pursuant to Board Order TGI-08-2003 Foothills encloses for filing with Board one copy of the following documents entitled:

1. *Foothills Pipe Lines Ltd., Report to the NEB of the Difference between 2003 Budget and 2003 Actuals, Operating and Maintenance Expenses - February 2004* (see Attachment 1)

2. *Foothills Pipe Lines Ltd., Report to the NEB on the Difference between 2004 Budget and 2003 Budget, Operating and Maintenance Expenses - February 2003* (see Attachment 2)

In its 2004 Operating and Maintenance Budgets filed with the Board on December 1, 2003 and as revised on December 8, 2003, Foothills included an increase in operating expenses of \$1.9 million to reflect a change in accounting policy from capitalizing to fully expensing of inline inspection runs for the following reasons:

1. Expensing of In-Line Inspection costs is in accordance with the *National Energy Board Act Gas Pipeline Uniform Accounting Regulations* section 45(a), wherein it is stated that the cost of inspection to determine the repairs that are necessary is a maintenance expense.
2. The cost of Foothills In-Line Inspection runs in 2004 is not as material as once predicted. Accordingly the costs will not have the substantial toll impact predicted by Foothills, in its February 25, 1997 letter to the Board (see Attachment 3), if fully expensed in the year incurred (estimate toll impact of approximately eight one-hundredths of a cent over one year instead of approximately one one-hundred of a cent for each of seven years).
3. The change in amortization period has no impact on the savings or benefits that Foothills or its shippers will realize from the "Settlement Agreement Relating to Foothills' Gas Transportation Tariff Phase 1 and The Special Charge and Certain General And Administrative Expenses" between Foothills and the Canadian Association of Petroleum Producers dated January 13, 2003 and as approved by the NEB in March 2003 (Order TG-2-2003).
4. This change in accounting practice aligns with those of its parent, TransCanada PipeLines Limited (TransCanada) and other regulated pipeline companies in Canada. The accounting practice is that In-Line Inspection costs are expenses of the period in which they were incurred.

Foothills requests that the Board approve this accounting change for 2004 as part of its decision respecting final approval of the applied-for 2004 budgets.

Foothills had intended to discuss this accounting change with its shippers prior to the filing of these reports to determine whether its shippers had any concerns with the change. However, due to transitional matters related to the integration of Foothills into TransCanada, this did not happen.

Foothills will be meeting with its shippers on March 18, 2004 to discuss the change in accounting practice, among other things, and respectfully requests that the Board not issue a final decision on the applied-for 2004 budget until Foothills has had an

opportunity to meet with its shippers. Foothills will notify the Board of any shipper concerns related to the change in accounting practices by March 31, 2004.

Foothills has also made several changes to the support schedules of both documents to provide for more meaningful comparison of the costs by Zone. Specifically, schedules providing cost details under the operating agreements by Zone and by NEB account have been replaced with full cost details by Zone in the same format as the summary schedule found on page 1 of both documents.

In addition, two support schedules (Electrical Power and Maintenance & Integrity Program) have been removed from the documents as the information is duplicated on the summary page (page 1 of both documents).

Foothills has filed these documents electronically by placing them in the electronic filing depository. Foothills will also post a copy of this application in its entirety on its website at www.foothillspipe.com. Copies of this letter are being served upon interested parties pursuant to Order TG-6-81.

If you have any questions or concerns with respect to the enclosed please contact Carolyn Shaw at 920-7172.

Yours truly,

Foothills Pipe Lines Ltd.

A wholly owned subsidiary of TransCanada PipeLines Limited



Céline Bélanger
Vice President, Regulatory Services

Encl.

cc. Interested Parties – TG-6-81
Foothills Existing Firm and Interruptible Shippers
Canadian Association of Petroleum Producers
Small Explorers and Producers Association of Canada