

Foothills Customer Meeting

September 28, 2005

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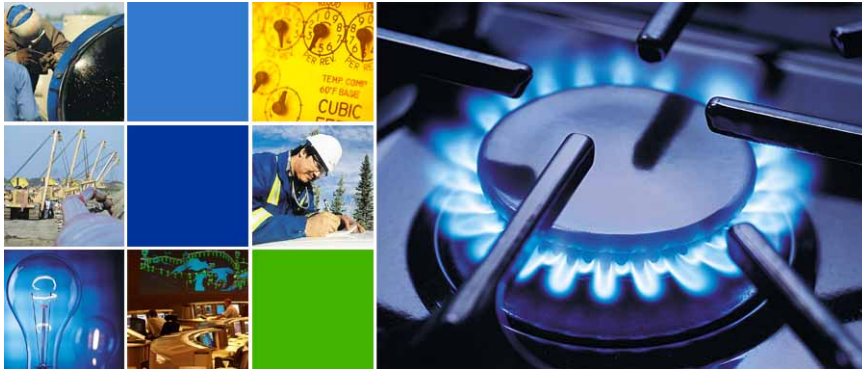


Agenda

- Business Risk / Equity Thickness
- 2006 Rates & Tariff Filing
- TransCanada GST practices
- Market Update

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Business Risk / Equity Thickness



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Business Risk / Equity Thickness



- Background
- Current business risk
- 2006 Rates Filing
- Path forward

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B.C. & Foothills Business Risk - Background



- Foothills and the B.C. System have had 30% common equity ratios since RH-2-94
- The NEB also awarded the Mainline an equity ratio of 30% in RH-2-94
- The NEB found the overall business risk of the Mainline, Foothills and B.C. were such that a similar common equity ratio could be given to the three pipelines
- Since RH-2-94, the appropriate level of deemed equity has not been reviewed for Foothills and B.C.
- However, increases in equity ratios have been allowed for the Mainline (36%) and NGTL (35%)
- Key findings of the EUB and NEB included increased supply and competitive risk

5

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Current Business Risk



- The business risk on Foothills and BC System has increased since RH-2-94
 - WCSB is maturing
 - Level or declining ex-basin flows
 - Increased competition
 - Alternate supply options
 - Alternate transportation options from WCSB
 - Decreasing contract terms
 - Increased flow volatility

6

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WCSB Supply / Demand Forecast (Bcf/d)



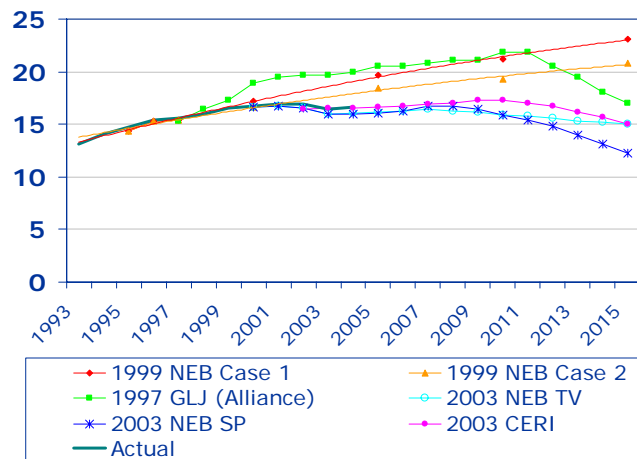
	2003	2004	2005	2006	2007	2008	2009	2010
WCSB Supply	16.5	16.7	16.9	17.1	17.2	17.2	17.3	17.3
WCSB Demand	4.2	4.4	4.5	4.8	5.1	5.3	5.5	5.7
Net Exports	12.3	12.1	12.4	12.4	12.1	12.0	11.8	11.6

7

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WCSB Historical Forecast



8

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Supply Fundamentals (1995 & 2004)¹



	<u>1995</u>	<u>2004*</u>
WCSB Production (Bcf/d)	14.7	16.8
Decline Rate (%)	11.2	19.3
Annual Decline Volume – Production (Bcf) x Decline Rate (%)	1.5	3.4
Initial Productivity/Well (MMcf/d)	0.52	0.19
Reserves Life Index (Years)	13	9
Gas Well Connections	4,600	17,500

¹ TransCanada, Provincial government agencies and CAPP 2002 Statistical Handbook

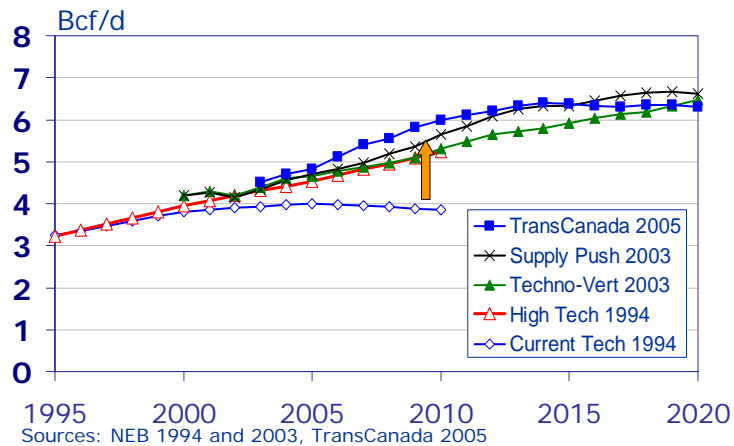
* TransCanada's estimate

9

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Western Canada Gas Demand Forecasts



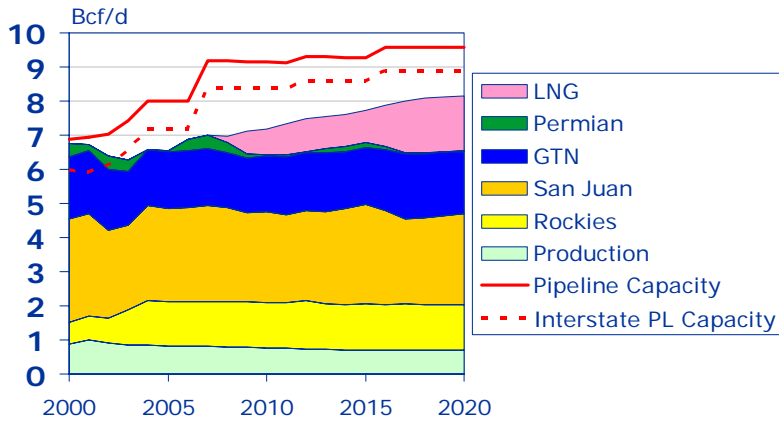
- Demand forecasts have increased, driven by Oil Sands gas demand

10

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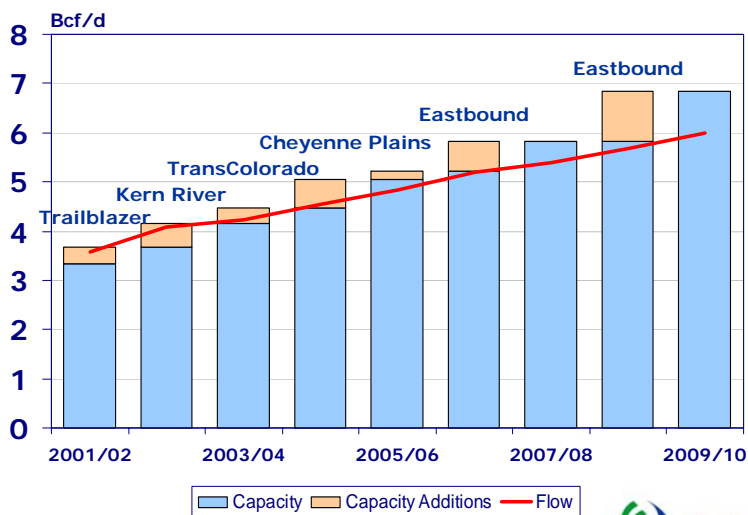
Total California Supply Average Annual



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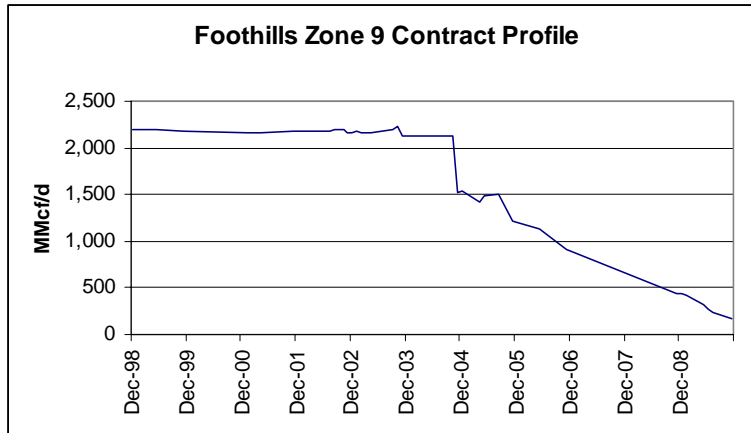
Rockies Export Growth



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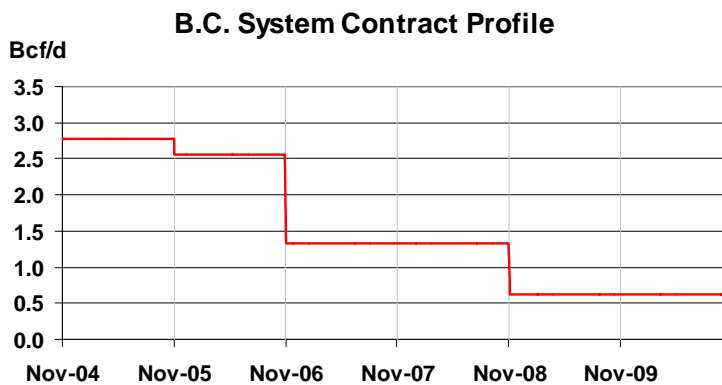
Contract Expiry Profiles



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Contract Expiry Profiles



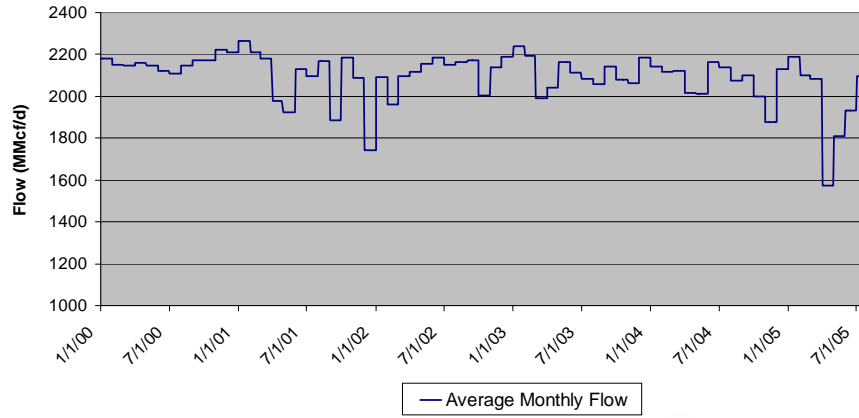
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Historical Flows



Historical McNeill Flows



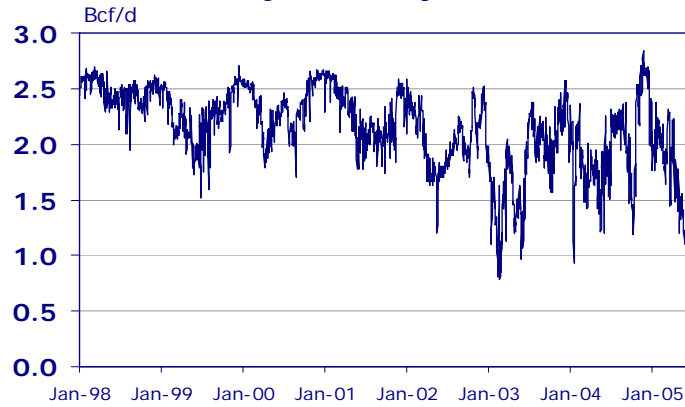
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Historical Flows



BC System Daily Flows



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2006 Rates Filing



- In the recent NGTL and Mainline cases, the EUB and NEB recognized increases in supply and competitive risks and allowed increases to the equity ratios
- Business risk has also increased for B.C. and Foothills
- An increase in equity thickness is essential to ensure a fair return for the Foothills & B.C. systems consistent with other pipelines
- TransCanada intends to file for increased deemed equity thickness
- TransCanada's preference is to negotiate an appropriate increase in equity thickness for B.C. and Foothills

Path Forward



- Initial discussion with shippers
 - September meeting
- Further consultation with shippers
 - October/November
- TransCanada to file an application to the NEB for increased equity thickness for Foothills and BC System
 - To be filed by Dec.1, 2005 as part of 2006 effective rate filings



Foothills System 2006 Proposed Rates



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2006 Forecast Key Notes



- **The Foothills system will maintain its current:**
 - return on equity based on NEB formula (9.27%); and
 - depreciation rates (3%) for all asset classes.
- **The Foothills system will be filing for:**
 - An increase in equity thickness from between 30% and 40% (adjusted for IROR).
- **Deferred Income Tax payback ended in 2005.**
- **For Zone 9, forecasted SGS-1, STFT and interruptible revenues have been included in the rate calculation.**
- **Subject to the G&A Settlement, rates on the Foothills system are based on a full cost-of-service with over and under collections trued up in the following year.**



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Overview of Zone 9 2006 Revenue Requirement



The Revenue Requirement (\$millions):

2006 Equity Thickness			2005 Forecast
40%	36%	30%	
\$ 72.9	\$ 71.6	\$ 69.4	\$ 55.6

Majority of Cost Increase due to Taxes:

- Primarily due to end of deferred Income Tax payback.

G&A Settlement Savings:

- Cumulative Zone 9: \$1.1 million (including 2006);
- Cumulative FHLS: \$3.7 million (including 2006).

Results in a T-1 Rate of (¢/Mcf):

2006 Equity Thickness			2005 Forecast
40%	36%	30%	
9.2	9.0	8.7	7.4

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Review of 2005 Zone 9 Costs and Revenue, (\$000)



	2005 BUDGET	2005 ¹ FORECAST	Difference	%
Cost				
O&M	12,404	10,637	(1,767)	
Return & Depr.	38,655	38,611	(44)	
Taxes (Income + Other)	5,914	6,124	210	
Special Charge	566	603	37	
	<u>57,538</u>	<u>55,975</u>	<u>(1,563)</u>	
Adjustments				
G&A Settlement	(285)	(335)	(50)	
Total²	<u>57,253</u>	<u>55,640</u>	<u>(1,613)</u>	(3%)
Other Revenue				
STFT	-	(7,703)	(7,703)	
IT & SGS-1	(22,026)	(7,764)	14,262	
T-1 Rev Rqmt²	<u>35,227</u>	<u>40,173</u>	<u>4,946</u>	14%

1. Based on most recent forecast available.
2. Totals may not add due to rounding.

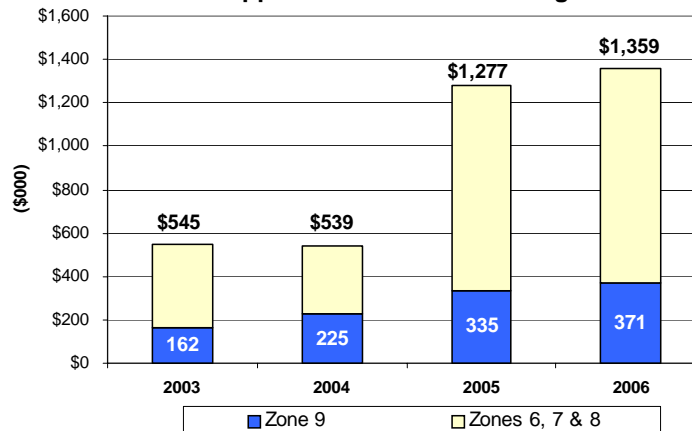
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G&A Settlement Performance



Shippers' Share of G&A Savings



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2006 Forecasted Costs and Revenue, 40% Equity Thickness (\$'000)



	2005 ¹ FORECAST	2006 ² BUDGET	Difference	%
Cost				
O&M	10,637	12,585	1,948	
Return & Depr.	38,611	38,990	379	
Taxes (Income + Other)	6,124	19,514	13,390	
Special Charge	603	578	(25)	
	<u>55,975</u>	<u>71,667</u>	<u>15,692</u>	
Adjustments				
2005 Over / Under	-	1,622	1,622	
G&A Settlement	<u>(335)</u>	<u>(371)</u>	<u>(36)</u>	
Total²	<u>55,640</u>	<u>72,918</u>	<u>17,278</u>	31%
Other Revenue				
STFT	(7,703)	(14,199)	(6,496)	
IT & SGS-1	(7,764)	(11,791)	(4,027)	
T-1 Rev Rqmt³	<u>40,173</u>	<u>46,928</u>	<u>6,755</u>	17%

1. Based on most recent forecast available.
 2. 2006 Budget based on 40% Equity Thickness.
 3. Totals may not add due to rounding.

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2006 Forecasted Costs and Revenue, 36% Equity Thickness (\$'000)



	2005 ¹ FORECAST	2006 ² BUDGET	Difference	%
Cost				
O&M	10,637	12,585	1,948	
Return & Depr.	38,611	38,410	(201)	
Taxes (Income + Other)	6,124	18,805	12,681	
Special Charge	603	578	(25)	
	<u>55,975</u>	<u>70,378</u>	<u>14,403</u>	
Adjustments				
2005 Over / Under	-	1,622	1,622	
G&A Settlement	(335)	(371)	(36)	
Total²	<u>55,640</u>	<u>71,629</u>	<u>15,989</u>	29%
Other Revenue				
STFT	(7,703)	(13,948)	(6,245)	
IT & SGS-1	(7,764)	(11,583)	(3,819)	
T-1 Rev Rqmt³	<u>40,173</u>	<u>46,098</u>	<u>5,926</u>	15%

1. Based on most recent forecast available.
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2006 Forecasted Costs and Revenue, 30% Equity Thickness (\$'000)



	2005 ¹ FORECAST	2006 ² BUDGET	Difference	%
Cost				
O&M	10,637	12,585	1,948	
Return & Depr.	38,611	37,327	(1,284)	
Taxes (Income + Other)	6,124	17,689	11,565	
Special Charge	603	578	(25)	
	<u>55,975</u>	<u>68,179</u>	<u>12,204</u>	
Adjustments				
2005 Over / Under	-	1,622	1,622	
G&A Settlement	(335)	(371)	(36)	
Total²	<u>55,640</u>	<u>69,430</u>	<u>13,790</u>	25%
Other Revenue				
STFT	(7,703)	(13,520)	(5,817)	
IT & SGS-1	(7,764)	(11,227)	(3,463)	
T-1 Rev Rqmt³	<u>40,173</u>	<u>44,684</u>	<u>4,511</u>	11%

1. Based on most recent forecast available.
 2. 2006 Budget based on 30% Equity Thickness.
 3. Totals may not add due to rounding.

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Zone 9 - MDQ and Throughput (mmcf/d)



	2005 ¹ FORECAST	2006 BUDGET	Difference	%
T-1 Contract Demand ²	1,481	1,400	(81)	(5%)
Throughput to Services:				
T-1 Volumes (97.7% LF)	1,446	1,368	(79)	(5%)
STFT Volumes (100% LF)	298	424	126	42%
Interruptible Volumes	281	320	38	14%
Total ³	2,026	2,111	86	4%

1. Based on most recent forecast available.
2. Annualized contract demand quantity.
3. Totals may not add due to rounding.

Zone 9 – Energy Conversion (Illustrative Rates, proposed Apr'06)



	Current (MMcf/d)	Energy ¹ (TJ/d)	Delivery ² (TJ/d)	Rate ³ (¢/GJ)
T-1 Contract Demand	1,400	1,490	1,479	8.7
Throughput to Services:				
T-1 Volumes	1,368	1,456	1,445	
STFT Volumes	424	451	448	
Interruptible Volumes	320	340	338	9.6
Total ⁴	2,111	2,247	2,231	

1. Based on conversion factors of 28.32784 10³m³/MMcf and 37.57 GJ/10³m³
2. Receipt MDQ net of 2005 forecast usage of 0.73%.
3. 2006 Budget based on 40% Equity Thickness
4. Totals may not add due to rounding.

Build up of 2006 Proposed Rates 40% Equity Thickness



<u>Rate Model Input</u>	<u>Net Change (\$000)</u>	<u>Rate (¢/Mcf)</u>	<u>Difference (%)</u>
2005 T-1 Rev Rqmt	35,227	7.1	-
Cost Item ¹:			
2005 Over / Under	1,622	0.3	4%
Return on Rate Base	656	0.1	2%
Taxes (Income + Other)	13,226	2.6	36%
Other Rev Rqmt	160	0.0	0%
Other Service Revenue	(3,964)	(0.8)	(11%)
T-1 Contracts	-	(0.2)	(3%)
2006 T-1 Rev Rqmt ²	46,928	9.2	29%

1. 2006 Budget based on 40% Equity Thickness.
2. Totals may not add due to rounding.

Build up of 2006 Proposed Rates 36% Equity Thickness



<u>Rate Model Input</u>	<u>Net Change (\$000)</u>	<u>Rate (¢/Mcf)</u>	<u>Difference (%)</u>
2005 T-1 Rev Rqmt	35,227	7.1	-
Cost Item ¹:			
2005 Over / Under	1,622	0.3	4%
Return on Rate Base	76	0.0	0%
Taxes (Income + Other)	12,518	2.4	35%
Other Rev Rqmt	160	0.0	0%
Other Service Revenue	(3,505)	(0.7)	(10%)
T-1 Contracts	-	(0.2)	(3%)
2006 T-1 Rev Rqmt ²	46,098	9.0	27%

1. 2006 Budget based on 36% Equity Thickness.
2. Totals may not add due to rounding.

Build up of 2006 Proposed Rates 30% Equity Thickness



<u>Rate Model Input</u>	<u>Net Change (\$000)</u>	<u>Rate (¢/Mcf)</u>	<u>Difference (%)</u>
2005 T-1 Rev Rqmt	35,227	7.1	-
Cost Item ¹:			
2005 Over / Under	1,622	0.3	4%
Return on Rate Base	(1,007)	(0.2)	(3%)
Taxes (Income + Other)	11,402	2.2	31%
Other Rev Rqmt	160	0.0	0%
Other Service Revenue	(2,720)	(0.5)	(7%)
T-1 Contracts	-	(0.2)	(3%)
2006 T-1 Rev Rqmt ²	44,684	8.7	23%

1. 2006 Budget based on 30% Equity Thickness.
2. Totals may not add due to rounding.

Zone 9 Rate Sensitivity – Rule of Thumb



- A \$1 million dollar increase (decrease) in revenue requirement results in approx. a 0.1¢/mcf increase (decrease) in the T-1 full haul rate.
- A 100 mmcf/d increase (decrease) in IT throughput results in approx. a 0.4¢ decrease (increase) in the T-1 full haul rate.
- A \$2 million increase (decrease) in revenue requirement and a 100 mmcf/d decrease (increase) in throughput results in an approx. 10% increase (decrease) to rates.

2006 Rate Application Timeline



- Review 2006 Rates at All Customers meetings, starting September 28th
- Customer consultation prior to filing
 - Finalize equity thickness
- Updated 2006 rate package (presentation material and rate schedules) available to customers by November 25th
 - Posted on web site with email notification:
http://www.transcanada.com/Foothills/industry_committee/index.html
- File 2006 rate package with NEB by December 1st

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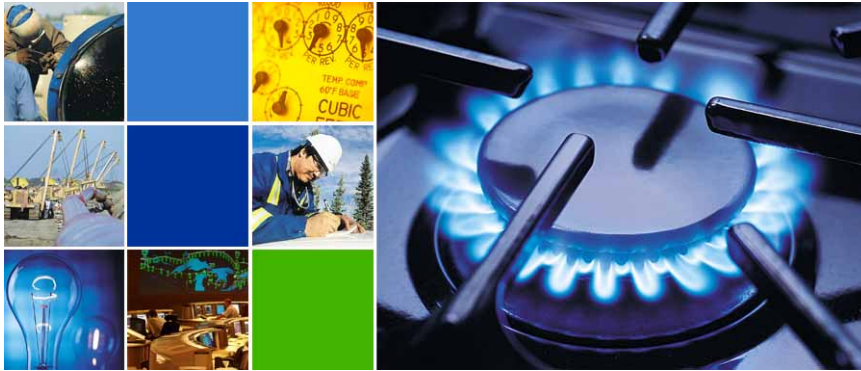
2006 Proposed Rates - Contacts



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Foothills Tariff Amendments



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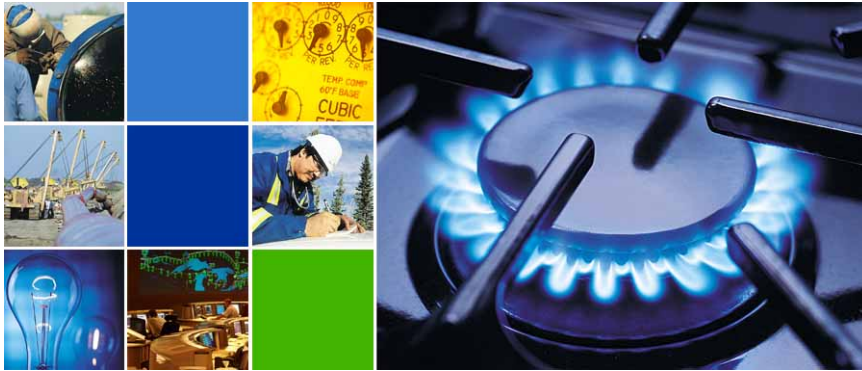
Proposed Tariff Amendments



- Energy conversion
- Change in contracting point (delivery vs. receipt)
- Fuel collection process
- Delete detailed accounting procedures in subsidiary tariffs
- Misc. contract streamlining
- **See handouts for a summary of affected tariff sections**

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GOODS & SERVICE TAX Zero-Rating Update – All Shipper Meeting

September 28, 2005



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'To zero-rate or not to zero rate?'
That is the GST question.



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Goods and Services Tax (GST)



- Transportation costs for deliveries to domestic markets must attract 7% GST, while
- Transportation costs for deliveries to export markets may attract 0% GST (zero rated),
- Most shippers can get GST refunds
- Canada Revenue Agency (CRA) performs periodic audits for compliance
 - Failure to comply may result in prior period assessments **plus** penalties and interest

Key to Zero-Rate GST



- transportation service must be part of a ***continuous outbound freight movement***;
 - to a place outside of Canada, or
 - to another place in Canada from which the property is to be exported.

Tests Prescribed by CRA for Zero-Rate GST



“Intention Test”: shipper must intend to export the gas

“Actual Test”: shipper must be able to demonstrate the gas was actually exported

“Declaration Test”: TransCanada must obtain a Declaration from the shipper warranting the first two tests have been met.

“Knowledge Test”: TransCanada does not know and could not reasonably be expected to know the Intention and Actual Tests were not satisfied.

Background



Market place changes

- Hubs/Market Centres
- Diversions
- Title Transfers

4 Pipes – 4 Unique Processes

- Extra systems costs
- Need to ensure legal compliance

GST and the BC & Foothills Systems “Dedicated Export Service Model”

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Current BC System Practice



ALL firm transportation services are zero rated;

IT Transportation service to domestic markets is
charged 7% GST

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Current Foothills System Practice



T-1, STFT, OT-1 & IT Transportation services are zero rated;

SGS-1 Transportation service is charged 7% GST

Changes to BC & Foothills Systems Practice



A new contract declaration for transportation service will be introduced to facilitate zero rated GST;

- One time declaration
 - Optional: only if shipper wants zero rating
- Why:** Act requires that TC obtain a declaration

7% GST will be automatically applied to demand charges associated with all transportation services to domestic markets

Why: Domestic service must be charged 7% GST

Implementation of Changes



- September 23/26, telephone update for each Shipper;
- Late September, post bulletin;
- E-mail copy of bulletin to each Shipper;
- Shipper meetings, on request;
- Early October, issue declarations and *revised temporary assignments* for review and execution;
- September 28, All Shipper Meeting update;
- November 1, apply 7% GST unless executed declaration/*temporary assignment* received;
- November 1, apply 7% GST to domestic deliveries.

Summary

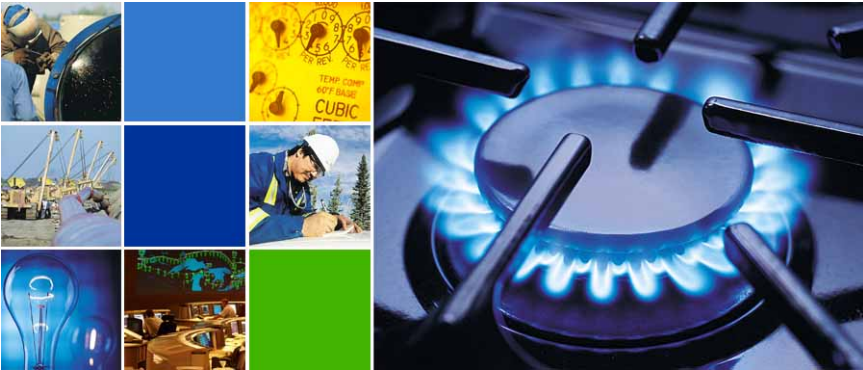


- Changes ensure continued compliance with Act given marketplace changes;
- BC & Foothills changes:
 - Contract level declaration;
 - Adjust billing to ensure 7% GST collected on transportation service to domestic markets;
 - *Temporary assignment* form modified to include a declaration component.

Thank you!



Questions?



Market Update



Outline

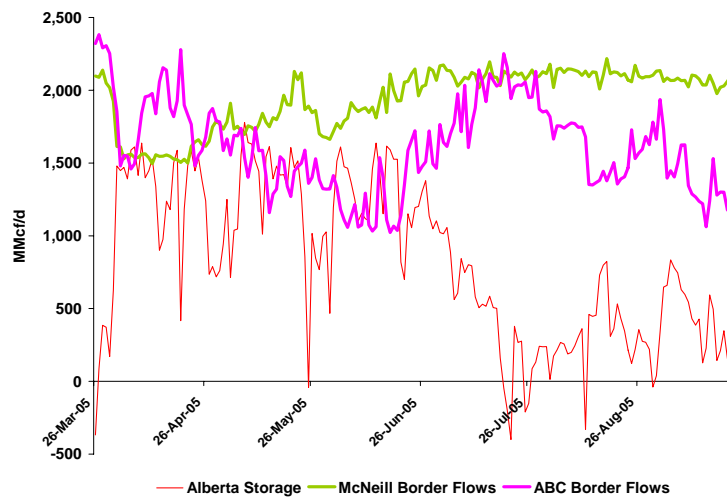


- Current Market Environment
- Alignment activities – TC West
- Future Open Seasons
- Maintenance Activity FH

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Current Market Environment



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Alignment



- Services
 - STFT NGTL
 - FT-DW NGTL
 - Proposals BC STFS -
- Open seasons between
 - TransCanada's pipelines
 - Downstream pipelines

Open Seasons - NGTL/BC/FH



- Ongoing plans to offer available capacity in Bid Week
- NGTL FT-D -currently in Daily Open season
- NGTL STFT/FT-DW
 - offered subject to EUB approval
 - Open season closed Sept 27
 - Open season planned for Oct 4-12
 - Open season planned for Oct 20 – 26
 - Daily open season after that
- BC and Foothills – Next open seasons will align
 - Closed FH Open Season (STFT) Sept 27 (3:00)
 - Close BC Open Season (STFS) Sept 29
- Plan to align with upstream & d/stream (when possible)

Maintenance Activity - BC



Potential Restrictions:

- Sept 28 – Oct 7:
 - NPS 36 BC Mainline - Pipeline maintenance
 - Capability:
 - 63.5 E6/d – typical flows 30 -65 E6
 - 2.24 Bcf/d – typical flows 1.06 -2.29 Bcf/d

Maintenance Activity – NGTL affecting BC flow



Potential Restrictions:

- October 25 – 31:
 - A/BC Border # 2 M/S Modifications
 - 2 days within the above window
 - Capability:
 - of 60 E6/d - typical flows 30 – 75 E6/d
 - of 2.13 Bcf/d - typical flows 1.06 – 2.65 Bcf/d
- Nov 2 – Nov 21
 - NPS 36 Western Alberta ML - Pipeline maintenance
 - 4 days within window
 - Capability:
 - 77 E6/d typical flows 30 – 75 E6/d
 - 2.73 Bcf/d typical flows 1.06 – 2.65 Bcf/d

Maintenance Activity - FH



Potential Restrictions

- Oct 12 – Oct 17
 - NPS 42 Foothills Zone 9 - Pipeline maintenance
 - 4 days within window
 - Capability of:
 - 50.5 E6/d typical flows 42 – 62 E6/d
 - 1.78 Bcf/d -typical flows 1.48 – 2.19 Bcf/d
- Outage forecast for AB/BC/FH
- <http://www.transcanada.com/Alberta/>
 - Reports
 - AB/BC/FH Outage Forecast

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