

# B.C. System and Foothills Pipe Lines Shipper Meeting

Meeting Notes

May 17, 2006

## 1. Presentation

The presentation used for this meeting is available on TransCanada's website at [http://www.transcanada.com/BC\\_System/industry\\_committee/index.html](http://www.transcanada.com/BC_System/industry_committee/index.html).

## 2. B.C. System / Foothills Pipe Lines Zone 8 Integration

Bev Leggett, TransCanada, outlined the agenda for the meeting and explained the objective of the meeting. This meeting is a follow up to the April 18<sup>th</sup> meeting where TransCanada laid out its B.C. System / Foothills integration proposal.

One shipper requested that TransCanada circulate meeting materials 48 hours before the meeting so that shippers have time to review them in advance. TransCanada indicated that it will attempt, where practical, to do that in the future. The shipper also wanted to know what the frequency of the meetings related to integration would be. TransCanada believes that meetings will be every 2-3 weeks.

The first topic on the agenda was a discussion on the objectives of the integration. TransCanada explained that the way it can eliminate duplicate processes and realize cost savings is to eliminate one of the companies that is used to provide the existing gas transportation service. This will not impact the day-to-day operations of the pipelines but will allow for the reduction of duplicative administrative effort related to such activities as accounting, tax, treasury, audit, regulatory and legal. TransCanada also provided additional detail on how the forecast \$0.5 - \$1.0 million/year in cost savings are expected to be achieved.

A shipper asked how costs are allocated across the Foothills zones. All G&A costs, including the costs listed in slide 4, are allocated on a contract volume \* distance basis. Capital-related costs are allocated by rate base.

TransCanada also spoke about the integration process, indicating that the entities will be combined using a Section 85 tax election, which will allow the assets to be transferred to Foothills at existing values without creating any adverse tax consequences. From a regulatory perspective, the B.C. System assets can remain regulated under the National Energy Board Act. Similar to the existing de/re facilities, these facilities can be managed under the same tolling and tariff processes as the ANGTS pre-build assets owned by Foothills, so no duplication or work is created.

It was asked whether completing the integration by moving the Foothills Zone 8 assets into the B.C. System entity would have implications for the Northern Pipeline Act (NPA). TransCanada believes that this could complicate the interpretation of the NPA. The shipper further inquired whether this would similarly hold if zones 6 and 7 were rolled into the

Alberta System. In TransCanada's opinion the interpretation of the NPA could be similarly complicated.

TransCanada was asked whether the A to B and B to C concept was still in its plans because that concept looks quite different from what was originally approved for Alaska gas. TransCanada replied that it has not committed to anything at this time. A shipper asked whether TransCanada system expansions would be required for an incremental 4 bcf/d of gas from Alaska. TransCanada replied that it believes that if northern gas comes on to the Alberta System, the markets will decide on its destination and any facilities requirements determined by that.

A shipper enquired whether the proposed savings could be achieved by integrating zone 8 into the B.C. System and zones 6 and 7 into the Alberta System. TransCanada replied that they would not because there would still be three separate pipeline companies in the end. The savings in TransCanada's proposal to integrate the B.C. System into Zone 8 come from the elimination of a separate pipeline company. Consequently, TransCanada would have one less company to administer and would save on costs related to such functions as regulatory filings, legal work, accounting, financing, banking and taxation.

TransCanada also spoke about the need to develop an incentive package for the additional G&A costs that would be added to Foothills following the integration and indicated it is necessary for this package to have similar provisions, in particular the types of costs included and the term of the settlement, to the existing Foothills settlement so that it can be administered within the combined entity.

One shipper noted that the savings related to this proposal presented by TransCanada would be less for the shippers if there was a sharing mechanism.

One shipper asked about how tariff differences between the B.C. System and Foothills would be handled. TransCanada replied that the tariffs will be aligned to the extent possible but that where consequential differences exist between zones, they can be laid out specifically and separately in the new integrated tariff. There are already such cases in the current tariff. In the future, separate provisions can also be used if it is necessary due to differing circumstances between the east and west markets.

TransCanada was asked about what safeguards will be used to ensure representation of all affected shippers in these negotiations. The shipper wanted to know what would happen if one group significantly outnumbered the other. They stated that over 60% of the B.C. System capacity is held by out-of-province shippers while Foothills capacity is mostly held by local shippers. This makes it harder for B.C. shippers to participate when meetings are held in Calgary. TransCanada is looking to build consensus through consultation with all interested shippers and every attempt is made to allow for all interested parties to involve themselves in the process. While meetings are held in Calgary, teleconferencing is available at each meeting and shippers are welcome to call TransCanada at any time to discuss any issue. Meeting notes and presentations are also posted and available to all shippers.

The shipper also asked what would happen in the instance the proposal is supported by one group of shippers (i.e., east or west) but not the other. This proposal is intended to benefit shippers by reducing costs. If TransCanada is unable to reach substantial support, this is not a proposal that it would expect to litigate.

Another shipper asked whether the Operating Agreement between Foothills and NGTL would be expanded for the new facilities. This would not be necessary. This existing operating agreement was put in place when Foothills was a stand-alone entity, not wholly-owned by

TransCanada. TransCanada has put forward two settlement alternatives (April 18<sup>th</sup> meeting presentation) and in one alternative the operating agreement would continue and in the other there would no longer be a need for an operating agreement.

A shipper enquired whether the depreciation rate would increase if additional facilities are constructed to transport Alaska gas. TransCanada indicated that the addition of Alaska gas would extend the economic life of the existing, which would typically decrease depreciation rates. This is only speculation at this time, however, because it is a number of years until new Alaska gas facilities would be in service and there could be many changes between now and then. Today, there are consistent depreciation rates across the zones. If in the future if Zones 1-5 facilities are built, it is possible there may be different depreciation rates amongst the zones.

A shipper requested that TransCanada circulate the Foothills Pipe Lines incentive settlement. TransCanada will post the settlement on its website at: [http://www.transcanada.com/BC\\_System/industry\\_committee/index.html](http://www.transcanada.com/BC_System/industry_committee/index.html)

The second agenda item was a discussion on current provisions in the B.C. System tariff compared to those in the Foothills tariff for Zone 8. TransCanada identified where these provisions are currently aligned and where they differ, and what it proposes would be used for the integrated system.

One shipper believed that there should be a maximum term for expansion capacity. They felt that there could be problems, as seen in the past, where some shippers sign for very long terms and then their deals fall through. TransCanada recognizes that some shippers require long-term transportation contracts, often to backstop financing plans for the shipper's facilities.

A shipper asked what happens today if a contract expires on the B.C. System before all of the make-up quantities associated with that contract are used. TransCanada would make every attempt to complete all transactions with the shipper as soon as possible.

TransCanada was asked why the need to tie an expiry date for IT to the expiry date of the shipper's FT contracts if TransCanada has the ability to terminate IT contracts with appropriate notice. TransCanada has found this provision to work well on the Foothills System and considers it a best practice. The shipper did not see the need for both provisions because if a shipper lets all of their firm service expire they will need to set up a new IT contract if they want to continue shipping IT. TransCanada will consider removing the provision that lines up the expiry of IT contracts with FT contracts.

A shipper asked whether the potential cost savings identified in slide 4 were annual savings. TransCanada indicated that they are and explained that IC and LTIC are incentive compensation costs.

A shipper asked whether TransCanada would go ahead with this integration if there wasn't an agreement on an incentive. TransCanada cannot do this integration without a settlement on the B.C. System costs because once the systems are integrated the existing B.C. System costs are no longer separately identifiable from the rest of the Foothills costs that do fall under a settlement. The shipper asked whether TransCanada wanted to retain a portion of the incremental cost savings or whether it would be satisfied with being as well off after this integration as before. TransCanada believes it is appropriate that it share in the savings achieved by this integration. Over the past decade, TransCanada has put significant effort into cutting operating costs and has been very effective in this effort. Shippers on all of TransCanada's Canadian pipes have benefited from these savings and TransCanada has

shared in those benefits under various negotiated incentive agreements. B.C. System shippers have also enjoyed the benefits of these cost savings created throughout the broader TransCanada entity, although there has not been an incentive agreement for this system.

### **3. Next Steps**

TransCanada will blackline the Foothills Tariff with the proposed changes discussed today to integrate B.C. System provisions and will provide a copy to shippers. A meeting will be scheduled approximately two weeks after the Tariff has been circulated to answer any questions on the changes.

TransCanada will post the Foothills Settlement on its website.

TransCanada will provide a forecast of what the savings for shippers will be over the next few years as well as a breakdown of the allocation of the savings to the various Foothills zones.

TransCanada will re-circulate the email note that informed shippers as to where the presentation and meeting notes from the last meeting were located on the website. There was a problem with this note and the meeting notice for this meeting but TransCanada believes it has identified the source of the problem and does not expect it to recur.

The next meeting will be held on June 6 from 1:30 – 4:00 pm in Room 214 of the TransCanada Tower in Calgary to discuss settlement provisions for B.C. System G&A costs. TransCanada has provided two alternative proposals (slide 23 in the April 18 presentation) for discussion.

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Attendees

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COMPANY	SHIPPER
Avista Corporation	Bob Gruber
Canadian Association of Petroleum Producers	Ritch Fairbairn
Canadian Natural Resources Limited	Ken Jacobson
ConocoPhillips Canada	Jim Gilholme
Direct Energy	Amy Lam
EnCana	Rinde Powell
Husky Energy	Daniel LaPointe
Nexen Inc.	Debbie White
Pacific Gas & Electric Company	Dave Ellerton
Petro Canada	John MacPherson
Terasen Gas Inc.	Mike Shoemaker
TransCanada Pipelines Ltd.	Bev Leggett
TransCanada Pipelines Ltd.	Bruce Newberry
TransCanada Pipelines Ltd.	Mike Ritsch
TransCanada Pipelines Ltd.	Sherry Hill
TransCanada Pipelines Ltd.	Scott Yule
TransCanada Pipelines Ltd.	Patti Pugh
<b><u>Attending via Teleconference</u></b>	