

Foothills System 2006 Effective Rates

2006 Forecast Key Notes



- **The Foothills system will maintain its current:**
 - return on equity based on NEB formula (8.88%); and
 - depreciation rates (3%) for all asset classes.
- **The Foothills system will be filing for:**
 - An increase in equity thickness from 30% to 36% (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.**
- **Rates on the Foothills system reflect the G&A Settlement with the remainder of the revenue requirement under full cost-of-service with over and under collections trued up in the following year.**



Overview of Zone 9 2006 Revenue Requirement



The Revenue Requirement (\$millions):

- 2006 - \$69.8 (2005 Budget: \$57.3)

Majority of Cost Increase due to Income Taxes:

- Primarily due to end of deferred Income Tax payback.

G&A Settlement Savings:

- Cumulative Zone 9: \$1.3 million (including 2006);
- Cumulative FHLS: \$3.9 million (including 2006).

Results in a T-1 Rate of (¢/Mcf):

- 2006 – 9.2 (2005 Budget: 7.1)

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



	2005 BUDGET	2005 ¹ FORECAST	Difference	%
Cost				
O&M	12,404	11,425	(979)	
Return & Depr.	38,655	38,771	116	
Taxes (Income + Other)	5,914	6,033	119	
Special Charge	566	787	221	
	<u>57,538</u>	<u>57,016</u>	<u>(522)</u>	
Adjustments				
G&A Settlement	(285)	(384)	(99)	
Total²	<u>57,253</u>	<u>56,632</u>	<u>(621)</u>	(1%)
Other Revenue				
STFT	-	(7,365)	(7,365)	
IT & SGS-1	(22,026)	(7,557)	14,469	
T-1 Rev Rqmt²	<u>35,227</u>	<u>41,710</u>	<u>6,483</u>	18%

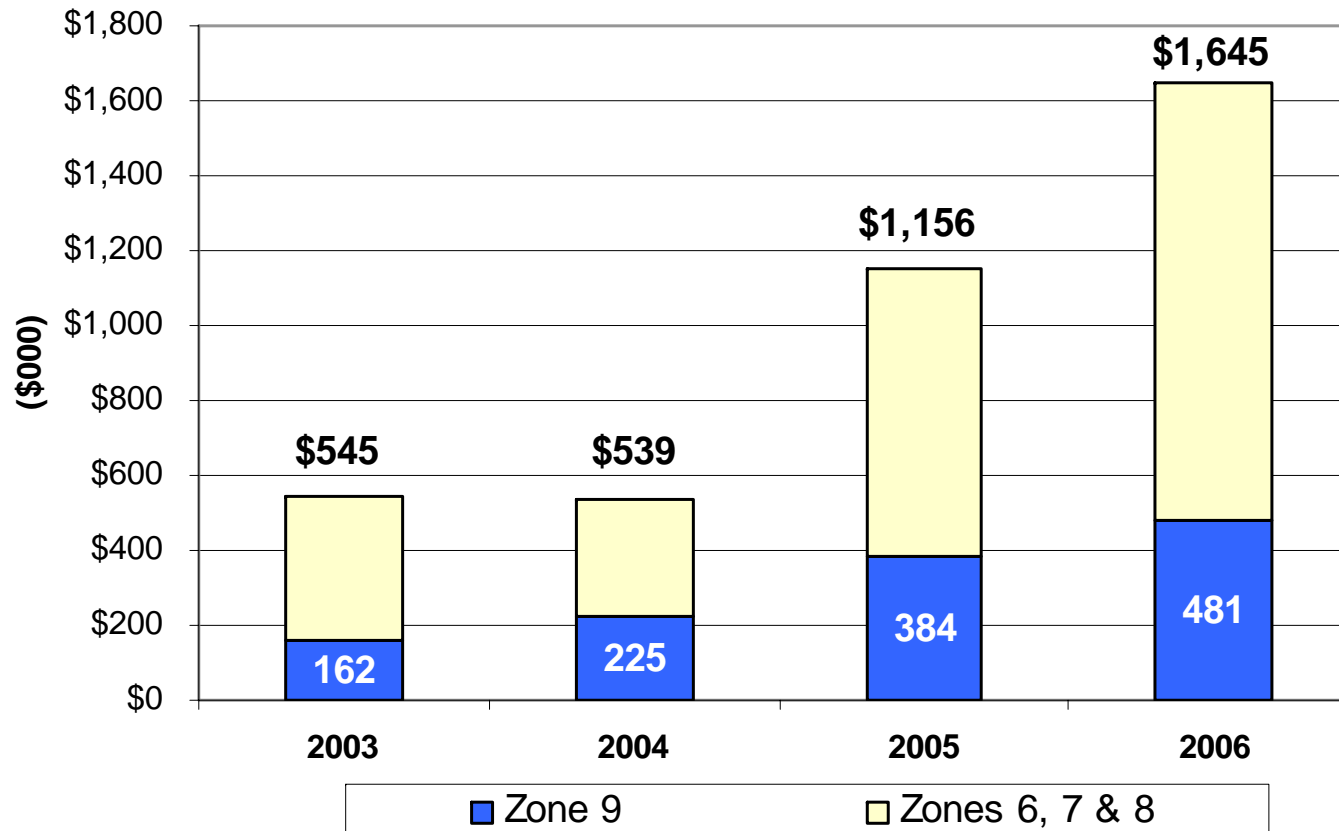
1. Based on most recent forecast available.

2. Totals may not add due to rounding.

G&A Settlement Performance



Shippers' Share of G&A Savings



Zone 9 - 2006 Forecasted Costs and Revenue (\$000)



	2005 ¹ FORECAST	2006 ² BUDGET	Difference	%
Cost				
O&M	11,425	10,122	(1,303)	
Return & Depr.	38,771	38,241	(530)	
Taxes (Income + Other)	6,033	18,675	12,642	
Special Charge	787	581	(206)	
	57,016	67,619	10,603	
Adjustments				
2005 Over / Under	-	2,652	2,652	
G&A Settlement	(384)	(481)	(97)	
Total ²	56,632	69,790	13,158	23%
Other Revenue				
STFT	(7,365)	(12,870)	(5,505)	
IT & SGS-1	(7,557)	(9,646)	(2,089)	
T-1 Rev Rqmt ³	41,710	47,274	5,564	13%

1. Based on most recent forecast available.
2. 2006 Budget based on 36% Equity Thickness.
3. Totals may not add due to rounding.

Zone 9 - MDQ and Throughput (mmcf/d)



	2005 ¹ FORECAST	2006 BUDGET	Difference	%
T-1 Contract Demand ²	1,510	1,410	(100)	(7%)
Throughput to Services:				
T-1 Volumes (97.7% LF)	1,475	1,377	(98)	(7%)
STFT Volumes (100% LF)	283	384	101	36%
Interruptible Volumes	246	261	15	6%
Total ³	<u>2,004</u>	<u>2,023</u>	<u>19</u>	<u>1%</u>

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	1,410	1,500	1,489	8.7
Throughput to Services:				
T-1 Volumes	1,377	1,466	1,455	
STFT Volumes	384	408	405	
Interruptible Volumes	261	278	276	9.6
Total ⁴	2,023	2,153	2,137	

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 36% Equity Thickness
4. Totals may not add due to rounding.

Zone 9 - Analysis of 2006 Proposed Rates



<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	2,652	0.5	7%
O&M	(2,282)	(0.4)	(6%)
Return on Rate Base	(140)	(0.0)	(0%)
Income Taxes	12,387	2.4	34%
Other Rev Rqmt	(81)	(0.0)	(0%)
Other Service Revenue	(489)	(0.1)	(1%)
T-1 Contracts	-	(0.3)	(4%)
2006 T-1 Rev Rqmt ²	47,274	9.2	29%

1. 2006 Budget based on 36% 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 0.5¢ 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 communication prior to filing
- 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

2006 Proposed Rates - Contacts



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