



Memorandum

TO: Antony Scott

FROM: Kenneth M. Minesinger

cc: Donald C. Shepler

DATE: March 14, 2007

RE: Examples of Approved Capital Structure and Return on Equity (“ROE”) for Major New/Expansion Projects (Initial Rates)

The attached table -- which, as requested, contains more detail than the one we sent you on March 10 -- lists several major new pipelines and expansion projects, and the capital structure and return on equity (“ROE”) approved by the Federal Energy Regulatory Commission (“FERC”) for each project as part of the initial rates approved in the pipeline’s certificate proceeding. The table reflects an average capital structure for these projects of approximately 66 percent debt and 34 percent equity. The table also indicates that a 70/30 debt/equity ratio, with a ROE of 13-14 percent, is fairly common for new/expansion projects. There are some notable exceptions, however, such as Rockies Express, which has a capital structure of 45 percent debt and 55 percent equity.

In addition, this table provides: (1) a short description of each project; (2) the project’s length, diameter, and capacity; and (3) the project’s cost. Of course, none of the listed projects is as large as the anticipated size of an Alaska natural gas pipeline project, either in terms of capacity or cost. Nevertheless, the table provides a reasonable sample of recent major new or expansion projects in the Lower 48 states, including some that have a capacity greater than 1 billion cubic feet per day (“Bcf/day”), along with several projects with a capacity significantly less than 1 Bcf/day.

FERC Certificate Orders

Examples of Approved Capital Structure and Return on Equity (“ROE”) for Major New/Expansion Projects (Initial Rates)

Pipeline	Project Description ¹	Capital Structure (Debt/Equity)	ROE	Length, Diameter and Capacity ²	Project Cost (estimate from application; older projects not in 2007 dollars)
<i>Millennium Pipeline Co., LLC, 117 FERC ¶ 61,319 (2006)</i>	Proposal to construct new pipeline in New York state to serve increased demand in the New York City area	70/30	14.00%	181.7 miles of 30-inch pipeline Approx. 525,400 Dth/d	\$664 million
<i>North Baja Pipeline, LLC, 117 FERC ¶ 61,022 (2006)</i>	Expansion of existing natural gas pipeline running from the Arizona/California border into Southern California, and then into Mexico, to accommodate anticipated LNG supplies; also modification of the pipeline to accommodate bi-directional gas flow	70/30	14.00%	New loop of 68.1 miles of 48-inch pipeline and 11.2 miles of 42-inch pipeline, and smaller lateral facilities Expansion from approx. 512,500 Dth/d to 2.7 Bcf/d	\$291 million
<i>Entrega Gas Pipeline, Inc., 112 FERC ¶ 61,177 (2005)</i>	New pipeline for Rockies gas extending from the Piceance Basin in Colorado to the Cheyenne, Wyoming Hub (Note: this pipeline has since been consolidated into Rockies Express -- see next entry)	35/65	12.00%	136 miles of 36-inch pipeline and 191 miles of 42-inch pipeline Approx. 1.5 Bcf/d	\$664 million
<i>Rockies Express Pipeline, LLC, 116 FERC ¶ 61,272 (2006)</i>	An extension of the former Entrega pipeline, which ultimately will ship Rockies gas to Ohio; this is the “REX-West” portion, which primarily involves new pipeline facilities extending from the Cheyenne Hub to an interconnection with Panhandle Eastern Pipe Line Company located in Missouri	45/55	13.00%	Primarily 713 miles of 42-inch pipeline Approx. 1.5 Bcf/d	\$1.6 billion

¹ All of the information contained in this chart was derived from the orders cited in the “Pipeline” column.

² Compression associated with these facilities has not been specifically discussed on this chart, although it is reflected in the capacity figures that are listed.

<i>Colorado Interstate Gas Co. and Cheyenne Plains Gas Pipeline Co., 105 FERC ¶ 61,095 (2003)</i>	A new interstate natural gas pipeline receiving Rockies supplies at the Cheyenne Hub and extending southeastward across Colorado and Kansas to a terminus in southwestern Kansas	69/31	14.00%	380 miles of 30-inch diameter pipeline 560,000 Dth/d	\$332 million
<i>Islander East Pipeline Co., LLC, 97 FERC ¶ 61,363 (2001)</i>	A proposed new pipeline extending from an interconnection with Algonquin near North Haven, Connecticut, across Long Island Sound and terminating on Long Island	70/30	14.00%	Approximately 50 miles of 24-inch pipeline 285,000 Dth/d	\$149.6 million
<i>Iroquois Gas Transmission System, LP, 100 FERC ¶ 61,275 (2002)</i>	Named the Eastern Long Island Expansion Project (ELI Project), this project was designed to provide service to eastern Long Island, New York	75/25	12.38%	29.1 miles of 20-inch pipeline 175,000 Dth/d	\$105 million
<i>Guardian Pipeline, LLC, 91 FERC ¶ 61,285 (2000)</i>	A new natural gas pipeline serving Wisconsin, extending from the Chicago Hub to a terminus in Wisconsin, together with a lateral off of its mainline to another point in Wisconsin	70/30	14.00%	140.3 miles of new 36-inch pipeline 750,000 Dth/d	\$224.3 million
<i>Gulfstream Natural Gas System, LLC, 91 FERC ¶ 61,119 (2000)</i>	New natural gas transmission facility designed to transport up to 1.13 Bcf per day from supply areas in Alabama and Mississippi across the Gulf of Mexico to load centers in central and eastern Florida	70/30	14.00%	744 miles of pipeline of diameters ranging from 36-inch to 24-inch 1.13 Bcf/d	\$1.654 billion
<i>Vector Pipeline LP, 85 FERC ¶ 61,083 (1998)</i>	New pipeline extending from near Chicago through Indiana and Michigan to the U.S.-Canada border near St. Clair, Michigan	70/30	14.00%	270 miles of 42-inch pipeline 1 MMDth/d	\$447 million
<i>Alliance Pipeline LP, 80 FERC ¶ 61,149 (1997)</i>	New pipeline from British Columbia to the U.S./Canada border near Sherwood, North Dakota, to an interconnection with Peoples Gas Light and Coke Company near Chicago (figures are for U.S. portion only)	70/30	14.00%	887 miles of 36-inch pipeline 1.325 Bcf/d	\$1.34 billion
<i>Nautilus Pipeline Co., LLC, 78 FERC ¶ 61,325 (1997)</i>	Facilities that transport natural gas from offshore Louisiana to onshore Louisiana	50/50	13.25%	101 miles of 30-inch diameter pipeline 600 MMcf/d	\$121 million

<i>Maritimes & Northeast Pipeline, LLC, 76 FERC ¶ 61,124 (1996)</i>	New pipeline extending from a point of interconnection with Tennessee Gas Pipeline in Massachusetts to a point of interconnection with Granite State Gas Transmission in Maine	75/25	14.00%	64 miles of 24-inch pipeline 60,000 MMBtu/d	\$82 million
<i>Portland Natural Gas Transmission System, 76 FERC ¶ 61,123 (1996)</i>	New pipeline extending from an interconnection with TransCanada at the Canadian border near North Troy, Vermont to points in Maine, New Hampshire, and Massachusetts	75/25	14.00%	242 miles of 20-inch pipeline 178 MMcf/d	\$271 million
<i>Kern River Gas Transmission Co., 98 FERC ¶ 61,205 (2002)</i>	2003 Expansion of Kern River's system, which ships Rockies gas from points in Wyoming to delivery points located primarily in California	70/30	13.25%	634.3 miles of 36-inch pipeline and 82.4 miles of 42-inch pipeline 885.6 MMcf/d	\$1.27 billion

Average Debt = 66 percent; High = 75 percent; Low = 35 percent