UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Gas Transmission Northwest Corporation) Docket No. RP06- -000

Prepared Direct Testimony of Amy Leong

Q: What is your name and business address?

A: My name is Amy Leong. My business address is 450 – 1st Street S.W. Calgary, Alberta, Canada T2P 5H1.

Q: What is your occupation?

A: I am the Director of Gas Transmission Accounting for TransCanada, which is the owner of Gas Transmission Northwest Corporation ("GTN").

Q: Please describe your educational background and your professional experience as they are related to your testimony in this proceeding.

A: I am a Chartered Accountant with the Institute of Chartered Accountants of Alberta. I hold a Bachelor of Commerce degree in Accounting from the University of Calgary. Prior to joining TransCanada in 1993, I worked as a senior accountant for KPMG LLP. In 1993, I joined TransCanada in the Internal Audit Department as senior auditor. In 1995, I moved into the Controller’s group where I held various accounting positions, including senior financial analyst, coordinator, and manager in the Corporate Accounting, Financial Reporting, and the Forecast and Budgeting areas. In 2003, I assumed the position of Manager, Gas Transmission Accounting and was promoted to my current position as Director of Gas Transmission Accounting in 2005.

Q: Have you ever testified before the Federal Energy Regulatory Commission?

A: No, I have not.

Q: What is the purpose of your testimony?

A: My testimony provides support for GTN's general section 4 rate change filing, including the company's overall cost of service and the various related statements and schedules.

Q: What are the base and test periods utilized by GTN for this filing?

A: GTN is utilizing a base period reflecting actual data for the twelve months ended March 31, 2006. The test period incorporates adjustments to the base period for changes which are known and measurable and which will become effective during the nine months succeeding the end of the base period (*i.e.*, the Test Period), or through December 31, 2006. Base period data were taken from GTN's books and records which are maintained in conformity with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (the "FERC" or "Commission").

Q: Please identify the statements and schedule that support your testimony.

A: I am supporting the statements and schedules listed below. I describe and, where appropriate, explain the following items included in GTN's rate filing:

Statement A	Overall Cost of Service
Statement B	Rate Base and Return Summary
Schedule B-1	Summary of Accumulated Deferred Income Taxes
Schedule B-2	Regulatory Assets and Liabilities
Statement C	Cost of Plant
Schedule C-1	Gas Plant by Account
Schedule C-2	Gas Plant Additions
Statement D	Accumulated Provision for Onshore Book Regulatory Depreciation, Depletion, and Amortization
Schedule D-1	Difference between Present Book Depreciation Rates and Depreciation Rates Not Yet Approved by FERC
Statement E	Working Capital

Schedule E-2	Materials and Supplies and Prepayments
Statement F-1	Statement of Rate of Return Claimed
Statement F-2	Capitalization and Cost of Capital
Statement F-3	Capitalization and Cost of Debt
Schedule G-5	Other Revenues
Statement H-1	Operation and Maintenance Expenses Summary
Statement H-2	Depreciation, Depletion, Amortization and Negative Salvage Expense
Statement H-3	Federal and State Income Taxes
Statement H-4	Other Taxes
Schedule I-1	Functionalized Cost of Service
Statement L	Balance Sheet as of March 31, 2005 and 2006
Statement M	Income Statement for the twelve months ended March 31, 2006
Exhibit No. GTN - 4	Example of Debt Cost Treatment
Exhibit No. GTN - 5	Operating Cost Allocation Policy

Q: Please explain Statement A.

A: Statement A, Column (c), shows GTN's overall cost of service of $303.5 million for the twelve months ended March 31, 2006 adjusted for the Test Period. The overall cost of service consists of operations and maintenance expense; depreciation and amortization expense; return allowance; income taxes; and taxes other than income taxes. Column (e) breaks out the overall cost of service attributable to GTN's Medford and Coyote Springs Laterals. Column (d) shows the overall cost of service for GTN's Rolled-in Mainline Transmission. The overall cost of service for GTN's Rolled-in Mainline Transmission is further broken out into three components, as shown on page 2 of 3 in Statement A. The components are: (1) pre-expansion Mainline, (2) 1998 Expansion, and (3) 2002 Expansion. The overall cost of service related to the 1998 Expansion, and the 2002 Expansion underpin the roll-in analyses found in Exhibit No. GTN-6 which is sponsored by GTN Witness Roscher. Details of the items comprising the overall cost of service are contained in supporting Statements and Schedules, which are referenced in Column (b).

Q: Please describe how the cost of service for the incrementally priced laterals was determined.

A: GTN is proposing to continue incremental pricing treatment for two laterals that connect to its mainline: the Medford Lateral and the Coyote Springs Lateral. Costs directly attributable to the laterals are recorded separately and are specifically identified. These costs include both plant investment costs and direct operations and maintenance costs. All other cost items, such as Administrative and General expenses, are allocated based on the generally accepted Kansas-Nebraska formula. The allocation of costs to the laterals is necessary to properly assign cost responsibility and rate levels for each of the separately-priced extensions of the GTN system.

Q: Please explain Statement B.

A: Statement B is a summary of the Test Period rate base and reflects the total return on rate base computed at the total weighted cost of capital derived on Statement F-2. The Test Period rate base includes gas plant in service, a deduction for accumulated provision for depreciation and amortization, working capital, regulatory assets and liabilities, and a deduction for accumulated deferred income taxes. The various items comprising the rate base have been established in the supporting Statements or Schedules referenced under Column (b).

Q: Please explain Schedule B-1.

A: Schedule B-1 Summary of Accumulated Deferred Income Taxes (ADIT) shows actual accumulated deferred income tax account balances and activity for the twelve months ended March 31, 2006, as well as adjustment to forecast accumulated deferred income tax balances and activity through the end of the Test Period. The accumulated deferred income taxes include the deferred taxes recorded in Account Nos. 190, 282, and 283. The combined balance of these accounts at the end of the Test Period is included in Rate Base, as shown on Statement B.

Q: Please explain the treatment of Accumulated Deferred Income Taxes for GTN as a result of its acquisition by TransCanada.

A: On November 1, 2004, TransCanada, through a wholly-owned subsidiary, purchased all the outstanding stock of Gas Transmission Northwest Corporation. The purchaser and seller made a joint election under Section 338(h)(10) of the Internal Revenue Code. The election effectively treats the transaction as an asset purchase for income tax purposes and a taxable event for the seller. Effective on the date of the sale, the seller's net ADIT liability balance was adjusted to zero. This was required to reflect the fact that as a result of the sale, all of the previous deferred taxes that had been booked by the prior owners were converted to a current tax liability that remained the responsibility of the prior owners following the sale. This adjustment to the prior ADIT balance was made to comply with FERC regulations, Part 201, Instructions for Account No. 282 and Internal Revenue Code Section 168(f)(2). In addition, the Section 338(h) (10) election permits the purchaser to step-up its tax basis in the acquired assets. Accordingly, a new tax basis was established for GTN's regulated assets; in other words, GTN's tax basis in its assets was stepped up to equal the depreciated original cost of the assets on the date of purchase.

Q: Please continue.

A: As a consequence of the acquisition and the 'step-up' to the net book depreciable basis of the assets as of November 1, 2004, GTN will record over time significantly more ADIT than GTN's previous owner. Additionally, a Deferred Tax Asset (DTA) was set up in Account 190 to reflect the tax impact of the premium paid related to the acquisition. The premium represents the excess of the fair value over the net book value of the assets purchased; as such, the DTA and its adjustments have been removed from the computation of rate base as reflected on page 2, line 15, Column (f) of Schedule B-1 in the determination of the forecast ADIT for the Test Period. The resulting adjusted ADIT liability, which is deducted from the Test Year rate base, relates to the difference between the net book value and the net tax basis of the assets.

Q: Has the Commission considered similar elections made pursuant to IRC Section 338 under which the ADIT balance became zero?

A: Yes. For example, in *Koch Gateway Pipeline Company* ("*Koch*"), Docket No. RP94-120-008, 74 FERC ¶ 61,088, FERC found that as a result of the IRC Section 338(h)(10) election, the deferred tax liability had been extinguished and, therefore, there was no ADIT to deduct from rate base.

Q: Are you proposing additional adjustments to the per book amounts to Account Nos. 190 and 283?

A: Yes, Column (f) of Schedule B-1, page 2 of 2, reflects the removal of the tax effect of all timing differences that are not related to the computation of rate base. The resulting adjusted ADIT liability, which is deducted from the Test Period rate base, relates to the difference between net book value and net tax basis of the assets.

Q: Please explain Schedule B-2.

A: Schedule B-2 reflects the inclusion of regulatory assets and regulatory liabilities recorded in Account Nos. 182.3 and 254 which have been included or which GTN is requesting to include in this proceeding in GTN's rate base.

Q: What is the nature of the regulatory assets included in Schedule B-2, page 1 of 2?

A: Column (b) FAS 106 Post Retirement Medical and Post Retirement Life represents the unamortized transition obligation resulting from the requirements of Statement of Financial Accounting Standards No. 106 (SFAS No. 106). SFAS No. 106 requires companies to adopt accrual accounting for post retirement benefits other than pensions ("PBOP"). GTN adopted SFAS No. 106 on January 1, 1993. Upon adoption, SFAS No. 106 requires the calculation of the PBOP obligation associated with the past service of employees and retirees. This is known as the transition obligation. As permitted under SFAS No. 106, GTN elected to recognize its transition obligation for post retirement medical and life insurance benefits over the plan participants' future service – 20 years. The unamortized transition obligation balance of $1.2 million is reflected in this regulatory asset account as of March 31, 2006. The adjustment period activity represents the continued amortization through to the end of the Test Period. The resulting unamortized transition obligation balance of $1.0 million at the end of the Test Period is then removed from computation of rate base because this is a non-cash item.

Column (c) reflects the estimated balance of SFAS No. 109, gross-up for equity AFUDC in Gas Plant In Service ("GPIS"), for the Test Period. This regulatory asset is entirely offset by corresponding deferred tax amounts in FERC Accounts 282 and 283. Both the regulatory asset and the associated offsetting deferred taxes are reflected in rate base.

Column (d) reflects the estimated balance of SFAS No. 109, gross-up for equity AFUDC in Construction Work In Progress ("CWIP"). Because the equity AFUDC is attributable to non-utility facilities, an adjustment has been made to remove the entire balance from regulatory assets in rate base.

Column (e) reflects a $4.5 million premium paid by GTN as a result of early redemption of its $150 million 7.8% senior unsecured debentures. On June 1, 2005 GTN's $250 million 7.10% senior unsecured notes matured. Concurrent with the maturity of this debt issue, GTN also redeemed its $150 million 7.80% senior unsecured debentures which had an original maturity of 2025. GTN replaced the combined $400 million of unsecured notes and debentures with $400 million of senior unsecured notes pursuant to a Note Purchase Agreement, comprising four tranches of senior unsecured notes: $75 million of 4.64% notes due June 1, 2010; $75 million of 5.09% notes due June 1, 2015; $100 million of 5.29% notes due June 1, 2020; and $150 million of 5.69% notes due June 1, 2035. The average interest rate on the combined $400 million Note Purchase Agreement is approximately 5.28%. In order to take advantage of lower interest rates, GTN paid a premium of $4.5 million to redeem its $150 million 7.80% senior unsecured debentures early; thereby reducing GTN's future debt costs. This early redemption was replaced with senior unsecured notes with an average interest rate of 5.28%, which results in approximately $3.8 million in interest savings per annum on $150 million of outstanding debt. GTN is including the premium paid as a regulatory asset. Regulatory asset treatment allows GTN to fully recover the cost of early redemption by recognizing that the premium paid comes from both equity and debt funds.

Q: Why did you choose regulatory asset treatment?

A: Inclusion in regulatory assets is an appropriate way to ensure that the pipeline has an opportunity to earn a fair return on its investment. The use of a 'yield to maturity' method as prescribed by the Commission's regulations does not afford a utility the opportunity to earn an appropriate return on its funds invested in the acquisition cost. This computation incorrectly assumes that all funds used to pay for the debt acquisition cost are, in fact, financed by debt and that none of the funds come from equity. With respect to the $4.5 million at issue here, the payment was financed from corporate funds; accordingly, the funds come from both debt and equity in the same ratio as debt and equity in the capitalization. Using the 'yield to maturity' computation, a regulated pipeline is not provided an opportunity to recover an appropriate return on the equity portion of the payment. In situations where debt is being refinanced to the ultimate benefit of ratepayers, as GTN has done by providing significant savings in interest costs, the pipeline should not be prevented from earning a fair return as a result of arbitrary rate treatment. By not providing a utility the opportunity to recover its cost, utilities may choose not to refinance high cost debt if that decision would negatively affect their earnings.

Q: Have you prepared an example that demonstrates how the utility is harmed by the Yield to Maturity treatment of debt acquisition cost?

A: Yes. I have prepared an example that clearly demonstrates that a utility would not be permitted to recover sufficient revenue to earn its allowed return if rate base treatment of the premium is not permitted. The example is shown on Exhibit No. GTN-4, pages 1 and 2. To properly reflect the earned return, the example includes a cost of service calculation, a tax return, and an income statement. The example uses the same capital structure and cost as that requested by GTN in this proceeding. The resulting return on equity using the Yield to Maturity methodology produces a return on equity of 13.88 % or 0.62% less than that requested. In contrast, the results shown on page 1 of the example illustrate that the utility is able to earn its allowed return by the inclusion of the acquisition premium in rate base.

Q: Please continue with your explanation of the rate treatment for the balance of GTN's regulatory asset and liabilities.

A: Column (f) of Schedule B-2 reflects $8.6 million of costs related to the 1995 corporate relocation of GTN's headquarters from San Francisco and of GTN's gas control function from Spokane, Washington to the Portland, Oregon area. The costs incurred were incremental non-capital costs related to: (a) severances associated with employees who had declined to relocate; (b) employee relocation; (c) the acquisition of office space and planning/managing the relocation; (d) recruiting to replace employees who did not relocate; and (e) other miscellaneous items directly related to the relocation. The main objectives of the relocation were to enhance customer service and response times; to increase the ability to have direct customer contact; and to generate other operational and administrative efficiencies by being closer to GTN's major assets. GTN proposes to include such costs as a regulatory asset amortized over a 5-year period and the annual amortization is included as an adjustment in Account No. 921.

Columns (g) and (h) reflect pension related regulatory assets. Column (g) reflects the difference between the net periodic pension expense and the actual contribution made to the pension fund. Column (h) reflects the cumulative contribution made to the pension fund since the last rate case. The Stipulation and Agreement ("S&A") in GTN's 1994 rate case, Docket No. RP94-149, included a provision for actual pension fund payments. The parties agreed to a zero allowance for pension cost in Docket No. RP94-149, but permitted GTN to treat as a regulatory asset the sum of all future contributions made to the pension plan during Period I and Period II (as defined in the S&A). The total contribution projected through the end of the test period is proposed to be amortized over five years and the annual amortization is included as an adjustment in Account No. 926. An adjustment has been made to remove the balance under Column (g) from inclusion as a regulatory asset as this balance represents non-cash transactions, being the difference between the net periodic pension expense and the actual contribution made to the pension fund.

Column (i) reflects $11.1 million of costs associated with the development of the Caminus system.

Q: Please provide an explanation of the Caminus System.

A: In 2001, due to changes in GTN's business requirements and the inherent limitations of the legacy systems, GTN undertook to replace those systems with the Caminus System – a custom-built end-to-end energy transaction management application intended to automate and integrate the various processes involved in pipeline management. The legacy systems being replaced included the customer nominations, contracting and reporting application; the back office gas transportation scheduling and gas accounting application; and the billing and invoicing application, including discount management. Caminus represented and agreed that the Caminus System would be in service by early 2003. However, Caminus suffered delays and ongoing issues with customization, and ultimately was unable to deliver a viable product. Caminus stopped work on the project late in 2004, resulting in its termination.

Because the majority of the costs incurred were for intangibles (e.g., application license fees and customization), in early 2005 GTN recorded a write-down of $11.1 million related to the incremental costs incurred that were associated with the attempted development of the Caminus System. These costs were recorded in Account No. 182.3 to preserve GTN's ability to recover the costs in future rates. Although GTN has claims against Caminus', GTN has not recovered any monies to date. Accordingly, at this time GTN proposes to recover these yet-uncompensated costs by inclusion in regulatory asset and through amortization over a 5-year period. The annual amortization is included as an adjustment in Account No. 930.

Q: Please continue.

A. Column (j) reflects $5.2 million of costs related to Year 2000 Compliance. These costs were necessary and, in fact, were required to be incurred to meet compliance requirements. GTN is not seeking recovery of such costs and has removed the balance from the computation of rate base.

Column (k) reflects the total estimated regulatory expenses that GTN expects to incur as a result of the current rate proceedings. GTN proposes to amortize such amount over a 5-year period consistent with the amortization period requested for other regulatory assets. The annual amortization is reflected as an adjustment to Account No. 928. Regulatory expenses reflected in Account No. 928 capture expenses related to ongoing regulatory filings and do not include costs associated with the current rate proceedings.

Column (l) reflects $1.2 million related to inventory write-down as a result of an inventory cycle count performed in early 2006. During the inventory cycle count, GTN identified approximately $1.2 million of inventory listed in the inventory records yet not found in warehouses. These inventories have been used in the normal course of operations yet have not been properly reflected in the company's inventory records. GTN proposes to amortize such amount over a 5-year period. The annual amortization is reflected as an adjustment to Account No. 930.

Q: What is the nature of the regulatory liabilities included in Schedule B-2, page 2 of 2?

A: Column (b) reflects the amount by which SFAS No. 106 cost recovery in rates has exceeded the actuarially determined expense since recovery in rates began. As noted previously, SFAS No. 106 required companies to adopt accrual accounting for PBOP. Historically, utilities had recognized these PBOP expenses on a cash basis for both ratemaking and accounting purposes. SFAS No. 106 required companies to recognize PBOP expenses as a current expense during the years an employee provides service, *i.e.*, when such benefits are earned rather than when such benefits are actually paid at a later time. As described in the last rate case settlement, Article IV, Section 2 (b), of the Docket No. RP94-149, FERC permitted the inclusion of an annual PBOP allowance in GTN's rates of $2.1 million. GTN is also required to make quarterly cash deposits to an external trust fund in amounts that are "proportional and, on an annual basis equal, to the amounts specified in Article IV, Section 2(b)(ii) of Docket No. RP94-149 for PBOPs and for the benefits of employees which amount has been determined on an accrual basis." Further, to the extent that actuarially determined PBOP expenses differ from the PBOP allowance in rates, the difference would be recorded in a regulatory asset or liability account until the next rate case. The balance of $15.2 million as at March 31, 2006 represents the accumulation of the PBOP allowance which has been included in rates offset by actuarially determined PBOP expenses to date. The $15.2 million increases to $16.5 through the end of the test period. As required by GTN's 1994 rate case order, this net liability has been brought forward for disposition. The adjustment period activity reflects the previously approved PBOP expense for ratemaking purposes offset by anticipated PBOP actuarial expenses during the adjustment period. GTN has also removed the resulting balance from inclusion in rate base as of the end of the Test Period.

Q: Why did you exclude the $16.5 million from rate base?

A: The net regulatory liability of $16.5 million as of the end of the Test Period represents the excess of the recovery of the PBOP allowance of $2.1 million per annum in rates over the actuarially determined PBOP expense. This net amount reflects the funding made on behalf of GTN's employees, whether in the form of deposits made to the external trust fund or in the form of direct payments made for benefits of retired employees. Because the funds held in trust are held externally, GTN is restricted from accessing such funds for other than their intended purpose. Additionally, by depositing such funds in an external trust fund, the ratepayers benefit through reduction in future costs because interest earnings on the $16.5 million are generated within the fund.

Q: What is your explanation of the rate treatment for the balance of GTN's regulatory liabilities?

A: Columns (c) and (d) of Schedule B-2 relate to linepack sales and linepack fuel. The linepack sales balance under Column (c) represents the cumulative amount by which GTN's periodic sales of linepack for operational purposes have been transacted at prices greater or lower than the weighted average cost of its linepack inventory. As stipulated in the last rate case settlement, Article IV, Section 2(d) of Docket No. RP94-149, "gains from the sale of system gas will be recorded as a regulatory liability in Account No. 254 and losses on the sale of system gas will be recorded as a regulatory asset in Account No. 182.3" until GTN's next rate case where such assets/liabilities shall be amortized and reflected in rates. The regulatory liability of $4.8 million reflects net linepack sales at prices greater than the weighted average cost of linepack inventory.

Consistent with the last rate case settlement, GTN proposes to include this regulatory liability in rate base and amortize it over a period of 5 years. The annual amortization is reflected as an adjustment to Account No. 930. Linepack fuel under Column (d) is the balance representing the current condition of GTN's fuel tracker mechanism, which provides for the truing-up of in-kind fuel provided by shippers to power GTN's compressor units. The fuel tracker represents the difference between the value of 'in-kind' natural gas received from customers for compressor fuel use and the actual amount of natural gas used by GTN including line gains/losses. GTN's fuel tracker mechanism, as approved by FERC in Docket No. RP94-88-000 on January 21, 1994 and recently modified effective July 1, 2006 in Docket No. RP06-371-000, provides for 100-percent recovery of such gas. To the extent that GTN's actual compressor fuel and line gain/loss differ from amounts collected through its fuel rates then in effect, the value of such differences is reflected as a regulatory asset or liability. If GTN over-collects fuel gas, a liability is created. If GTN under-collects, a regulatory asset is created. GTN's fuel tracker rates are updated annually with FERC to include these differences along with fuel estimates for the next twelve months. GTN proposes to continue with this fuel tracker mechanism and, therefore, the balance of $3.0 million accumulated in this account as of March 31, 2006 has been removed from regulatory liabilities in its entirety.

Q: What is contained in Statement C and Schedules C-1 and C-2?

A: Statement C summarizes the beginning and ending balances as well as the changes in the plant accounts during the twelve months ended March 31, 2006. The Test Period adjustments reflected in Column (h) represent plant additions which are expected to be in service by December 31, 2006. These adjustments are reflected on Schedule C-1 by plant accounts. Schedule C-2 sets forth a listing of major additions by project included in Accounts 106 and 107.

Q: What is contained in Statement D?

A: Statement D summarizes the beginning balance, changes and ending balance in the Accumulated Provision for Depreciation and Amortization for the twelve months ended March 31, 2006. Columns (g) and (i) show the estimated provisions for depreciation, net retirements, and transfers to arrive at the resulting Test Period balances. The Test Period balance reflected in Column (j) is included in Rate Base and has been carried forward to Statement B.

Q: What is contained in Statement E and Schedule E-2?

A: Statement E is a summary of the items comprising the Test Period working capital for materials and supplies, and prepayments. The detail is set forth on supporting Schedule E-2 as referenced in Columns (b) and (c). Schedule E-2 shows the thirteen monthly balances of materials and supplies, and prepayments for the Base Period ended March 31, 2006, as well as the average balance and any adjustment to arrive at the Test Period amount. The total working capital amount on Statement E has been carried forward to Statement B.

Q: What is the appropriate capital structure to use in this proceeding?

A: GTN proposes to use its actual capital structure as projected through the end of the Test Period because that capital structure appropriately reflects the current business risks faced by GTN. In addition, the use of GTN's own capitalization conforms to FERC's policy. First, GTN issues its own non-guaranteed debt. Second, GTN has its own debt ratings that are separate from those of its parent, TransCanada. Third, GTN's debt is currently rated by Moody's Investors service. Finally, GTN's common equity ratio of 62.99% is in line with capital structures previously approved by FERC.

Q: What is contained in Statements F-2 and F-3?

A: Statement F-2 sets forth the capital structure that GTN used to calculate the overall rate of return. The balances as of March 31, 2006 were adjusted for known and measurable changes for the period ending December 31, 2006 (the Test Period). GTN's filed capital structure comprises 62.99% equity and 37.01% debt. The Overall Rate of Return is 11.33%. This return is computed using an embedded cost of debt of 5.96% and a return on equity of 14.50%. The testimony of GTN Witness Moul, Exhibit No. GTN-48 supports the range of required return on common equity expected by investors. The testimonies of GTN Witnesses Levine and Ferron-Jones, Exhibit Nos. GTN-42 and GTN-26, respectively, support GTN's business risks.

Q: What is the basis for GTN's 5.96% cost of debt?

A: The calculation of GTN's 5.96% cost of debt is set forth on Statement F-3. As shown on Statement F-3, GTN's embedded cost of debt relates to $400 million of senior unsecured notes outstanding as of March 31, 2006. The $400 million senior unsecured notes comprise four issuances: (1) $75 million of 4.64% senior notes due 2010; (2) $75 million of 5.09% senior unsecured notes due 2015; (3) $100 million of 5.29% senior unsecured notes due 2020; and (4) $150 million of 5.69% senior unsecured notes due 2035. In addition, the annual amortization of discounts and premiums on reacquired debts is included in the calculation of net weighted average cost of debt capital, as provided in General Instruction 17B of the Uniform System of Accounts.

Q: What is the basis for GTN's capital structure used to calculate the overall return allowance?

A: Statement F-2 sets forth the calculation of the capital structure utilized in developing the overall rate of return in this filing. The capital structure reflects GTN's actual capital structure as of March 31, 2006 adjusted for known and measurable changes through the end of the Test Period. Common Stock Equity has been decreased approximately $52.5 million to reflect the expected reduction in common stock equity for the nine-month Test Period.

Q: What is contained in Schedule G-5?

A: Schedule G-5 sets forth other revenues related to scheduling and nomination services provided to Alberta Natural Gas by GTN. These revenue credits have been deducted from overall cost of service as shown on Statement A.

Q: What is contained in Statement H-1?

A: Statement H-1 shows the summary of monthly operation and maintenance expenses by FERC Account for the base period and adjusted for the Test Period. Column (q), As Adjusted, reflects the operation and maintenance expenses by FERC Account included in GTN's Test Period cost of service adjusted for known and measurable items. The total Test Period operation and maintenance expenses in cost of service shown in Column (q), line 42, is carried forward to Statement A.

Q: Please provide an overview of Adjusted Operating and Maintenance expenses compared with the Base Period.

A: Total Adjusted Operating and Maintenance expenses (line 42, Column (q)) are $71.6 million. This represents a decrease of $7.7 million compared with the Base Period. A summary of the changes is provided below. The increased maintenance expenses related to Mains and Compressor Station Equipment is discussed in the testimony of Witness King found in Exhibit No. GTN-21.

Operating and Maintenance Expenses
Comparison of Base Period to Adjusted Expenses
($millions)

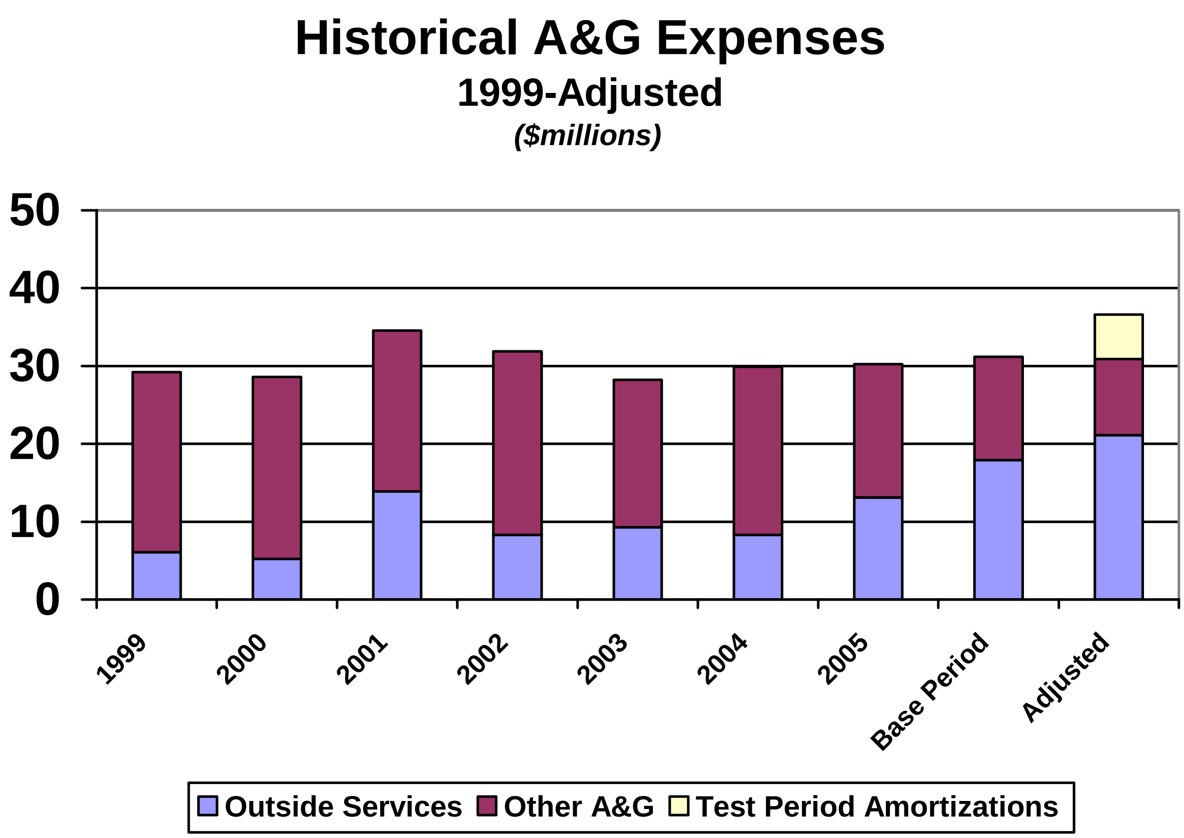
Base Period Expenses		79.3
Less Gas for Compressor Station Fuel		(25.8)
Increased Maintenance of Mains and Compressor Station Equipment		12.2
Amortizations included in the test period:		
Acct 921 - Corporate relocation costs	1.7	
Acct 926 - Pension funding	1.7	
Acct 928 - Rate case costs	0.8	
Acct 930 - Caminus/Inventory write-off/Linepack sales	1.5	5.7
Other		0.2
Adjusted Operations and Maintenance Expenses		71.6

Q: Please explain the basis for recording the operation and maintenance expenses.

A: TransCanada's business operations are performed by functional areas that provide integrated services to its various lines of business. Where possible, TransCanada's cost centers assign costs to GTN based on direct charges. GTN's operation and maintenance expenses include expenses that are directly charged to GTN, as well as an allocated portion of the shared support service costs by TransCanada.

Q: Adjusted Total Administrative and General Expenses ("A&G") (line 40, Column (q)) increase by $5.4 million. Please explain.

A: The increase in A&G expenses is due primarily to amortizations included in the test period of $5.7 million, as noted in the above table. These amortizations affect Accounts 921, 926, 928, and 930. Excluding these amortizations, A&G costs decline by $0.3 million. Changes in other account balances within A&G are primarily due to a change in the business model for support service costs. Provision of support services by TransCanada has resulted in lower direct A&G salaries (Account No. 920) offset by higher outside services (Account No. 923) and employee benefits (Account No. 926) provided centrally. Outside services include costs charged from TransCanada for various services. The following chart indicates how total A&G costs have trended over time, including an increase in Outside Services and a corresponding decline in other A&G accounts.



Q: What is the nature of shared support service costs and the methodology used for determining the portion applicable to GTN?

A: Shared support services costs have been included in Account No. 923, Outside Services Employed, on Statement H-1. These costs are charged to GTN from TransCanada based on TransCanada's Operating Cost Allocation Policy. TransCanada operates a shared services organization that supports multiple lines of business. Costs included in this category represent departmental and general expenses common to, and shared by, the entire enterprise. In order to ensure that costs are reasonably charged to the appropriate line of business, a two-step process is utilized. First, costs that can be identified as attributable to a specific line of business are charged directly to that business. Residual costs are allocated among the various lines of business using TransCanada's Operating Cost Allocation Policy. This policy uses cost drivers to allocate remaining shared and common enterprise costs. The primary drivers are time, the number of full-time equivalent staff ("FTE"), and the amount of capital employed in each line of business. A copy of the policy is included in Exhibit No. GTN-5.

Q: Has the TransCanada Operating Cost Allocation Policy been previously accepted by the FERC or another recognized regulatory body as a reasonable basis of allocating costs?

A: Yes. Although the Policy has not previously been presented to the FERC for acceptance, the policy has been accepted in Canadian rate applications by both the National Energy Board (NEB) and the Alberta Energy and Utilities Board ("EUB").

Q: How does the TransCanada cost allocation methodology compare with other methodologies adopted or accepted by the FERC?

A: The TransCanada Operating Cost Allocation Policy addresses both shared services costs and residual administrative and general costs. After removal of time-based shared services costs from the pool, the residual costs would be similar to those utilized in the generally accepted Distrigas and Modified Massachusetts formulas. TransCanada's use of FTEs and capital employed to allocate residual costs is conceptually similar to the use of labor and plant in Distrigas and Massachusetts methodologies.

Q: What does Statement H-2 contain?

A: Statement H-2 sets forth by plant account the Depreciation and Amortization expense for the Base Period and also shows Test Period adjustments. The resulting Test Period expense is shown on Statement A, Column (c), line 2. As supported by GTN Witness Feinstein's testimony, Exhibit No. GTN – 23, GTN is filing to increase the depreciation rates for GTN's transmission facilities as reflected in Statement H-2, Column (g). This increase will change the current depreciation rate for Transmission Plant from 2.302% to 2.76%. In addition, as discussed by GTN Witness Feinstein, GTN is proposing to include in the Depreciation and Amortization expense an increase to the negative salvage allowance rate from 0.050% to a rate of 0.74% on transmission plant.

Q: What does Statement H-3 contain?

A: Statement H-3 sets forth the federal and state income tax calculations. The computation of income taxes is based on a gross-up calculation on the taxable portion of the return allowance. This calculation begins with the Rate Base as shown on Statement B and applies to it the rate of return also shown on Statement B. Deducted from this amount is the income deduction for the cost of debt from Statement B. The resulting amount represents the Taxable Portion of Return. Line 8 represents the Total Tax Adjustments to the Taxable Portion of Return to arrive at the Taxable Base, or taxable income after income taxes. This Taxable Base is then grossed-up to a pre-tax number by dividing by one minus the composite income tax rate to arrive at the Taxable Income Before income taxes on line 11. State income taxes are then calculated using the currently effective state income tax rates. The State income taxes are then deducted from the Taxable Base to arrive at the Taxable Net income After State Income Taxes. Federal income tax is then calculated on this subtotal using the appropriate Federal income tax rate. The sum of State income taxes and Federal income taxes is then carried forward to Statement A on line 5.

Q: Is GTN's proposal to receive an income tax allowance consistent with Commission policy and recent precedent?

A. Yes. For U.S. federal income tax purposes, GTN is a taxable C corporation. TransCanada Pipeline USA Ltd. (TransCanada USA) is the common parent of GTN and files a U.S. consolidated federal income tax return which includes the taxable income or loss of GTN. GTN is obligated through a "Federal Tax Allocation Agreement" with its parent to allocate its tax liability using the basic method of Regulation Section 1.1552-1(a)(2) (separate return method). Although GTN does not pay corporate income tax directly to IRS, it is not a pass-through entity. For example, if GTN's tax obligation in a particular year was $1,000,000 on a stand-alone basis, that payment would have to be made to GTN's parent, TransCanada USA and in turn, TransCanada USA would include GTN's taxable income in their consolidated return filed with the IRS.

Q: What does Statement H-4 contain?

A: Statement H-4 summarizes Other Taxes by Function which comprises the following categories: (1) ad valorem taxes, (2) payroll taxes (FICA and unemployment taxes), and (3) compressor fuel use tax.

Q: What does Schedule I-1?

A: Schedule I-1 and related sub-schedules detail the breakdown of the overall cost of service into the two rolled-in expansions and the incremental facilities. The remainder of the I statements are sponsored by GTN Witness Roscher, Exhibit No. GTN– 6.

Q: What do Statements L and M contain?

A: Statement L contains the Balance Sheets for GTN as of March 31, 2005 and March 31, 2006. Statement M is the Income Statement for GTN for the twelve months ended March 31, 2006.

Q: Does this conclude your Prepared Direct Testimony?

A: Yes.