

Alliance Pipeline L.P.
Cash Working Capital Allowance Documentation
12 Month Period Ending December 31, 2002, As Adjusted

Introduction

Alliance has included an allowance for cash working capital in the rate base, for purposes of determining the appropriate cost of service. During the course of the year, there are periods of time where a cash shortfall will arise as a result of expenditures being made in advance of the corresponding receipt of revenue. Alternatively, there are also periods of time when revenues are received ahead of the corresponding cash payments. The working capital allowance is calculated as an average of these excesses ("Lead") and shortfalls ("Lag").

To arrive at the working capital allowance the following categories of expenses were reviewed and compared against revenues received:

- Bond and Bank Principal and Interest Payments
- Internal Payroll Costs
- Operating & Maintenance Expenses
- Property Taxes

According to Alliance's FERC Gas Tariff, the monthly revenue from the contracted shippers is received on the 25th of the month following the provision of service. Using the 25th day of the following month as the standard day of revenue receipt, the ("Receipt Date"), the Lead/Lag time is calculated based on the timing difference between the Receipt Date and the date of the cash outlay for the expenditures to which the revenue is attributable.

Study Methodology

Revenue for a 12-month period relating to each category of expenses as defined below was deemed to equal the total expenditures for that category. Revenue was collectable in twelve equal installments starting on the first Receipt Date, that being, February 25th, 2002 (for service provided during January 2002) and continued in each subsequent month until the last payment was received on January 25th, 2003. The practice of setting revenue to be equivalent to the cash cost of service recovery eliminated distortions caused by any over/under in the given rate period.

With respect to Alliance expenditures, two main types of expenditures were analyzed, those being, cyclical and non-cyclical expenditures.

Cash expenditures that repeated in a relatively constant manner, ("Cyclical Expenditures") were assigned Lead/Lag days based upon the repeating cycle. Payroll costs, employee incentive

programs, intercompany settlements, interest payments, and debt principal repayments are examples of expenditures that had defined repeating cash payment dates. See Appendix 1 for a timeline showing the calculation of the Lead/Lag days for Cyclical Expenditures that repeat on a monthly basis. See Appendix 2 for a timeline showing the calculation of the Lead/Lag days for Cyclical Expenditures that occur on a yearly basis.

The second type of expenditures analyzed included cash payments that had expenditure profiles that occurred unevenly throughout the year ("Non-Cyclical Expenditures"). Included in this category were property taxes and operations and maintenance related expenses. Items in the Non-Cyclical category required further analysis in order to determine the appropriate Lead/Lag days.

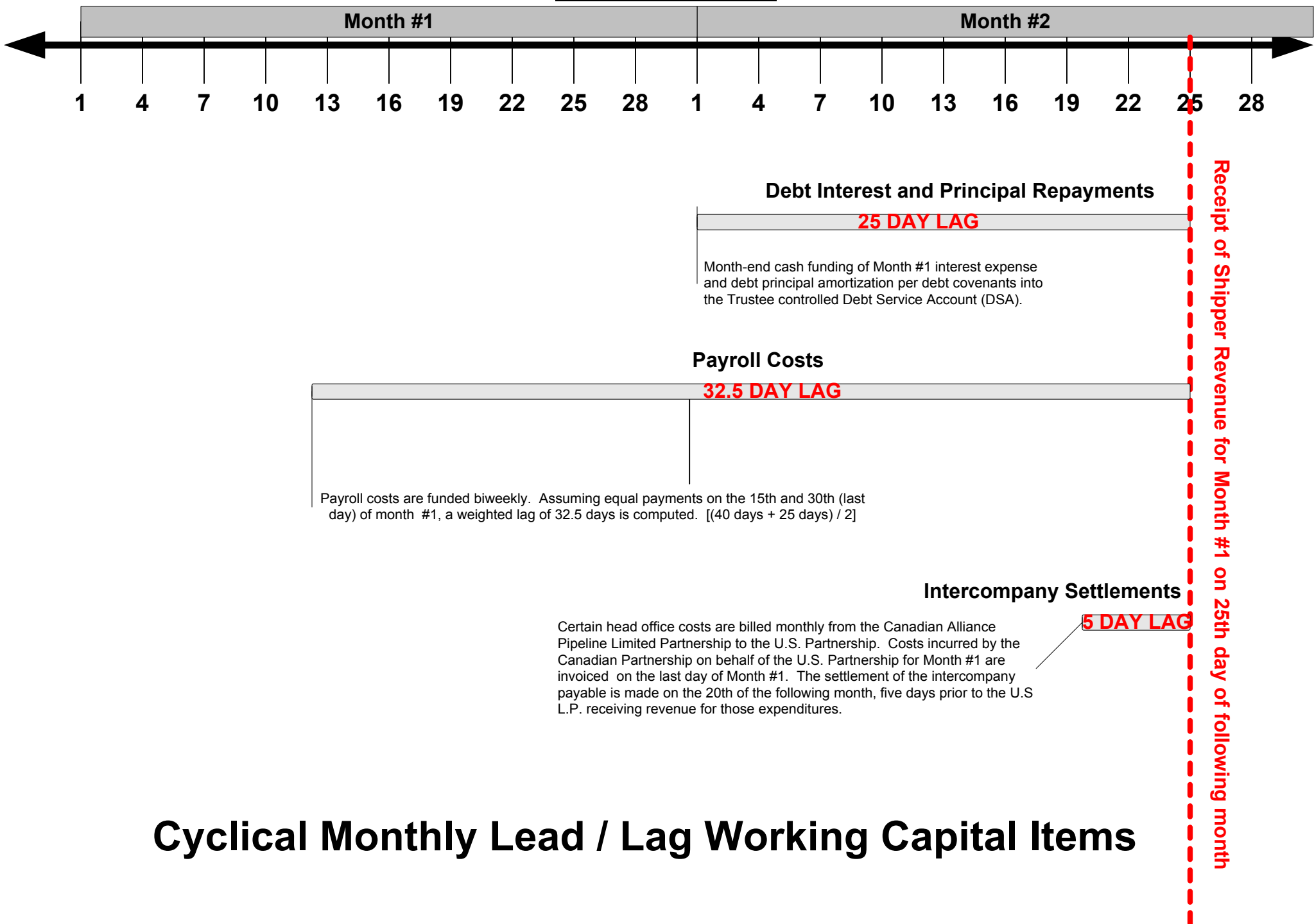
Given the volume of transactions, in order to determine Lead/Lag days on operations and maintenance related expenses and property taxes, the Accounts Payables (A/P) module of Alliance's accounting system was queried for data. Data relating to both the dollar value and the specific payment date of each check relating to these expenses was issued was analyzed. The analysis was further refined to include only cash disbursements that resulted from operating activities.

Plotting out these payments over the course of a year resulted in an expenditure profile for these Non-Cyclical items. By offsetting these expenditures with revenue collected on a monthly basis for the toll year, a daily working capital requirement was computed. A simple average of the daily working capital requirement/surplus divided by the total requirement for a given category multiplied by the number of days in the sample yielded the sample Lead/Lag days for these expenditure categories.

Result

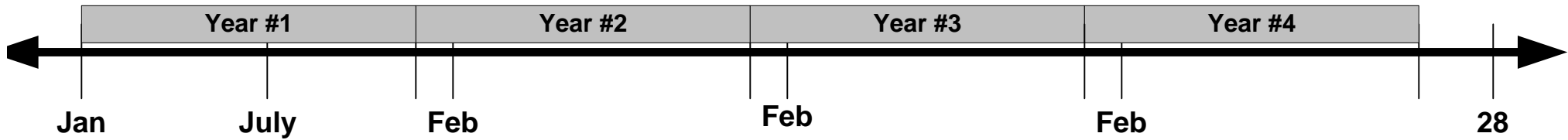
Alliance determined that on average, the Lead/Lag for the expenditures analyzed was 25.77 days which translates into a 7.06% cash working capital for those cost of service components. This percentage was applied to the adjusted recourse cost of service in order to determine the required cash working capital. This analysis results in a cash working capital requirement of approximately \$14.1 million dollars.

Appendix 1



Cyclical Monthly Lead / Lag Working Capital Items

Appendix 2



Short Term Incentive Program

218 DAY LEAD

Revenue relating to the yearly payment of the STIP payment is collected in twelve equal installments beginning on February 25th of Year #1 and continuing until January 25th of Year #2. The cash mid-point for revenue collection relating to a fiscal toll year is therefore July 25th of Year #1. The cash STIP payment to employees is made on February 28th of Year #2. A total of 218 lead days elapse between the midpoint for collection of revenue for STIP and the day the related cash outflow is recorded.

Long Term Incentive Program (KEIP)



The Long Term Incentive Program operates in much the same manner as the STIP in that revenue relating to the expenditure is collected wholly in advance of the corresponding cash payment. Revenue relating to the yearly payment of the KEIP payment is collected in twelve equal installments beginning on February 25th of Year #1 and continuing until January 25th of Year #2. The cash mid-point for revenue collection relating to a fiscal toll year is therefore July 25th of Year #1. In the case of KEIP however, the cash payment to employees is made in three equal installments on February 28th of Year's 2, 3, and 4. The lead days for KEIP can then be determined as the differences between the midpoints of the collection of revenue on July 25 of Year #1 and the midpoint of the KEIP Payment on February 28th of Year #3 or, alternatively, by the equation, $(\frac{3}{3} \times 218 \text{ days}) + (\frac{2}{3} \times (218 + 365 \text{ days})) + (\frac{1}{3} \times (218 + 365 + 365 \text{ days}))/3 = 583 \text{ days}$

Cyclical Yearly Lead / Lag Working Capital Items