Imperial Oil

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National Energy Board
444-7th Avenue SW
Calgary Alberta
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Attention: Mr. Michel L. Mantha
Secretary

Dear Sir:

Re: TransCanada PipeLines Limited ("TransCanada")
Application for Approval of a Mainline Negotiated Settlement and 2007 Mainline Tolls

Imperial Oil Resources ("Imperial") is writing with respect to the application by TransCanada for approval of the negotiated tolls settlement ("Settlement") dated March 14, 2007.

It will be apparent to the Board not all terms of the Settlement are consistent with accepted rate-making principles and precedents. Of particular note is TransCanada's redemption of its junior subordinated debentures ("JSDs") in exchange for a deemed common equity ratio of 40 percent, notwithstanding the Board's findings in its RH-2-2004 Phase II Decision. It concluded no changes to the Mainline's equity would be warranted should the JSDs be redeemed [p.25], and a reassessment of capital structure should only be considered in the event of a significant change in business risk, in corporate structure, corporate financial fundamentals, or other changes of significance [p.84].

Paragraph 1(B)(5)(d) states "TransCanada's agreement for the redemption of the JSDs which have a remaining term of 40 years ... is made in exchange for an increased deemed common equity ratio, which changes the deemed capital structure." No evidence is provided to demonstrate the significant change in circumstances required to justify an increased deemed equity ratio. Paragraph 1 (B)(5)(e) cites "Stakeholder's agreement for an increased deemed common equity ratio in this settlement in exchange for the realization of a foreign exchange gain." Based on the evidence on record, this settlement simply contemplates a trade, for the five year term, of a foreign exchange gain for a temporal increase in equity ratio.

In this regard, Imperial opposed this settlement at CAPP and the TransCanada Task Force. Before this Board, however, Imperial will take no position to cause litigation as it appears the industry generally accepts this settlement. Notwithstanding, Imperial has two concerns:

1. the agreement that has increased equity thickness shall not set a precedent for other pipelines; and

2. the fact that the equity thickness should be subject to reduction following the term of the Settlement, based on the business and financial risks then faced by the Mainline.

Should the Board choose to approve this settlement in an absence of evidence demonstrating a significant change in risk circumstances, Imperial requests the Board clearly state in its Decision, the temporary increase in deemed equity ratio is recognized simply as an exchange and solely for the five year settlement. This is consistent with the Board's findings in its RH-2-2004 Phase II Decision. The reason is simple. Absent this trade, the risk justified deemed equity ratio is 36%. At the end of the settlement, the onus remains on TransCanada to reasonably justify a higher equity ratio. To address such in any other manner places an undue and unfair reverse onus on TransCanada's stakeholders.

Yours very truly,

Theresa B. Redburn
Gas, Power & NGL Marketing Manager