

Attachment 1 - Impact of Excessive Tariff Rates

Assumptions		
Asset Life	Yrs	80
Capital Recovery Period	Yrs	15
Initial Capital Investment	\$	100
Inflation Rate	%	2.5%
Risk Adjusted Market Rate of Return	%	8.0%
Monopoly Pricing Premium	%	7.0%
Annual Rate of Return for Pipeline Assets (No Economic Regulation)	%	15.0%

Fair Market Value Scenario (Economic Regulation)	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
	With Economic Regulation																
Capital Related Tariff Charges																	
Return on Investment (Reasonable Market Rate of Return of 8%)	\$	-	8.0	7.8	7.6	7.4	7.1	6.8	6.4	6.0	5.5	4.9	4.3	3.6	2.9	2.0	1.1
Return of Initial Pipeline Capital Investment (15-Year Payback)	\$	(100.0)	2.1	2.5	3.0	3.5	4.1	4.7	5.3	6.1	6.8	7.7	8.6	9.6	10.7	11.9	13.2
Total Capital Related Tariff Charges	\$	-	10.1	10.4	10.6	10.9	11.2	11.5	11.7	12.0	12.3	12.6	13.0	13.3	13.6	14.0	14.3

With Economic Regulation (15-Years)

Fair Market Value with Economic Regulation* \$ **100**

Unregulated Pricing Scenario (Monopolistic Pricing Power)	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21-80	
	No Economic Regulation																						
Capital Related Tariff Charges																							
Return on Investment (Reasonable Market Rate of Return of 8%)	\$	-	8.0	7.8	7.6	7.4	7.1	6.8	6.4	6.0	5.5	4.9	4.3	3.6	2.9	2.0	1.1	-	-	-	-	-	
Return on Investment (Monopoly Pricing Premium of 7%)	\$	-	7.0	7.1	7.2	7.3	7.4	7.3	7.2	7.1	6.8	6.4	5.9	5.2	4.3	3.2	1.7	22.0	22.6	23.1	23.7	24.3	3,388.6
Return of Initial Pipeline Capital Investment (15-Year Payback)	\$	(100.0)	0.2	0.6	1.1	1.7	2.3	3.1	4.0	5.0	6.2	7.6	9.2	11.1	13.3	15.8	18.7	-	-	-	-	-	
Total Capital Related Tariff Charges	\$	-	15.2	15.6	16.0	16.4	16.8	17.2	17.6	18.1	18.5	19.0	19.5	20.0	20.5	21.0	21.5	22.0	22.6	23.1	23.7	24.3	3,388.6

No Economic Regulation (80-Years)

Asset Value to Pipeline Owner with No Economic Regulation* \$ **272**

* NPV8 of Capital related tariff charge cash flows