4.0 FINANCING

This section describes the partnership structure of, and the corporate limited partners in, the Energy East Project. It then describes the ability of the partners and their parent companies to finance the project and the proposed method of financing. Finally, this section discusses financial assurances that are proposed to manage potential risks and liabilities that could arise during the construction and operation of the Project.

4.1 CORPORATE STRUCTURE

Energy East Pipeline Limited Partnership (Energy East LP) will own all the facilities comprising the Project except for the Canaport Energy East marine terminal, which will be owned by Canaport Energy East Marine Terminal Limited Partnership (Canaport Energy East LP) (see Figure 4-1).

The general partner of Energy East LP and special general partner of Canaport Energy East LP is Energy East Pipeline Ltd.

Energy East Pipeline Ltd. is the applicant and will hold the *Certificate of Public Convenience and Necessity* (CPCN) in respect of the entire Project, including the Canaport Energy East marine terminal.

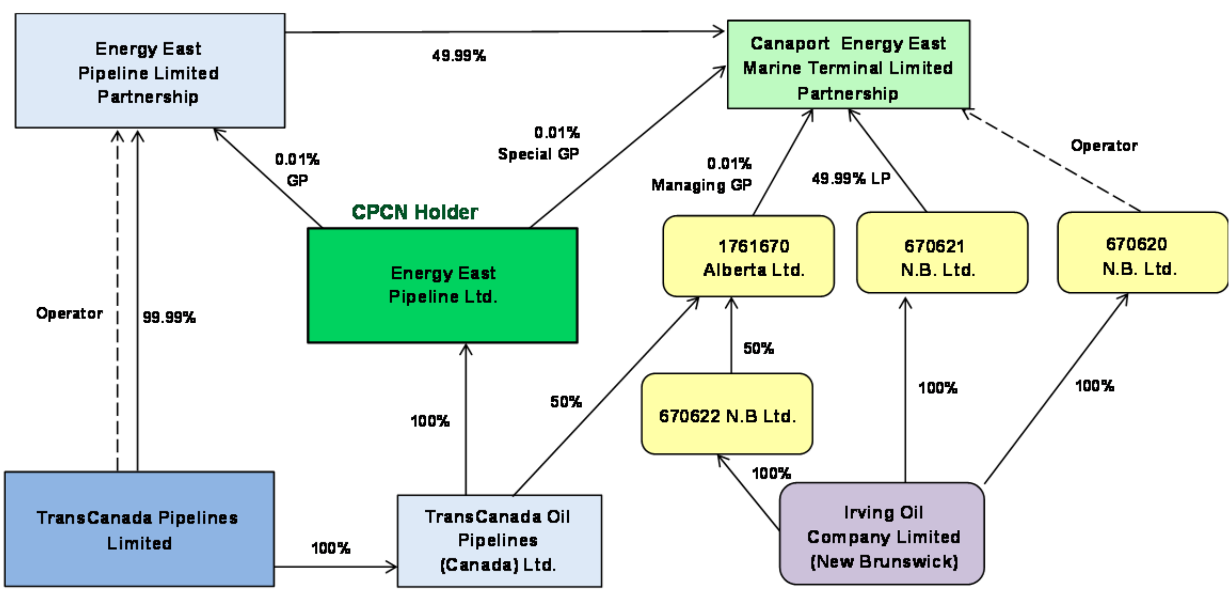

Figure 4-1: Corporate Structure (CA Rev.0)

4.1.1 Energy East Pipeline Limited Partnership

Energy East Pipeline Limited Partnership is an Alberta limited partnership governed by the *Partnership Act (Alberta)* and is registered in New Brunswick, Québec, Ontario, Manitoba, Saskatchewan and Alberta.

The general partner of Energy East Pipeline Limited Partnership is Energy East Pipeline Ltd. Energy East Pipeline Ltd. holds a 0.01% partnership interest in Energy East Pipeline Limited Partnership.

The sole limited partner of Energy East Pipeline Limited Partnership is TransCanada PipeLines Limited (TransCanada), a corporation formed under the laws of Canada.

TransCanada PipeLines Limited holds a 99.99% partnership interest in Energy East Pipeline Limited Partnership.

4.1.2 Energy East Pipeline Ltd.

Energy East Pipeline Ltd. is:

- a Canadian corporation governed by the *Canada Business Corporations Act* and is registered in New Brunswick, Québec, Ontario, Manitoba, Saskatchewan and Alberta
- a direct wholly owned subsidiary of TransCanada Oil Pipelines (Canada) Ltd., a Canadian corporation
- the general partner of Energy East Pipeline Limited Partnership, holding a 0.01% partnership interest in Energy East Pipeline Limited Partnership, and is the special general partner of Canaport Energy East Marine Terminal Limited Partnership, holding a 0.01% partnership interest in Canaport Energy East Marine Terminal Limited Partnership

4.1.3 TransCanada Oil Pipelines (Canada) Ltd.

TransCanada Oil Pipelines (Canada) Ltd.:

- is a Canadian corporation governed by the *Canada Business Corporations Act* and is registered in Canada
- is a direct wholly owned subsidiary of TransCanada PipeLines Limited, a Canadian corporation
- wholly owns Energy East Pipeline Ltd. and owns a 50% interest in 1761670 Alberta Ltd. The role of 171670 Alberta Ltd. in the partnership structure is discussed below.

4.1.4 Canaport Energy East Marine Terminal Limited Partnership

Canaport Energy East Marine Terminal Limited Partnership is an Alberta limited partnership governed by the *Partnership Act* (Alberta) and is registered in New Brunswick and Alberta.

The general partners of Canaport Energy East Marine Terminal Limited Partnership are Energy East Pipeline Ltd. (special general partner) and 1761670 Alberta Ltd. (managing general partner). Energy East Pipeline Ltd. and 1761670 Alberta Ltd. each hold a 0.01% partnership interest in Canaport Energy East Marine Terminal Limited Partnership.

The limited partners of Canaport Energy East Marine Terminal Limited Partnership are Energy East Pipeline Limited Partnership and 670621 N.B. Ltd. Energy East Pipeline Limited Partnership and 670621 N.B. Ltd. Each holds a 49.99% partnership interest in Canaport Energy East Marine Terminal Limited Partnership.

4.1.5 1761670 Alberta Ltd.

1761670 Alberta Ltd.:

- is an Alberta corporation governed by the *Business Corporations Act (Alberta)* and is registered in New Brunswick and Alberta
- holds a 0.01% partnership interest in Canaport Energy East Marine Terminal Limited Partnership

TransCanada Oil Pipelines (Canada) Ltd. and 670622 N.B. Ltd. each own a 50% interest in 1761670 Alberta Ltd.

4.1.6 670621 N.B. Ltd.

670621 N.B. Ltd.:

- is a New Brunswick corporation governed by the *Business Corporations Act (New Brunswick)* and is registered in New Brunswick
- is a direct wholly owned subsidiary of Irving Oil Company, Limited (Irving Oil), a New Brunswick corporation
- holds a 49.99% partnership interest in Canaport Energy East Marine Terminal Limited Partnership

4.1.7 670622 N.B. Ltd

670622 N.B. Ltd.:

- is a New Brunswick corporation governed by the *Business Corporations Act* (New Brunswick) and is registered in New Brunswick

- is a direct wholly owned subsidiary of Irving Oil, a New Brunswick corporation
- owns a 50% interest in 1761670 Alberta Ltd.

4.1.8 670620 N.B. Ltd.

670620 N.B. Ltd.:

- is a New Brunswick corporation governed by the *Business Corporations Act* (New Brunswick) and is registered in New Brunswick
- is a direct wholly owned subsidiary of Irving Oil, a New Brunswick corporation
- will be the operator of the Canaport Energy East marine terminal

4.1.9 Irving Oil Company, Limited

Irving Oil:

- is a New Brunswick corporation governed by the *Business Corporations Act* (New Brunswick) and is registered in New Brunswick
- wholly owns 670621 N.B. Ltd., 670622 N.B. Ltd., and 670620 N.B. Ltd.

4.1.10 Management and Operation

Energy East Pipeline Ltd. is responsible for the management of the Energy East Pipeline Limited Partnership. 1761670 Alberta Ltd. is responsible for the management of the Canaport Energy East Marine Terminal Limited Partnership.

TransCanada PipeLines Limited will be, directly or through subcontractors, the operator of the entire Energy East Project with the sole exception of the Canaport Energy East marine terminal. 670620 N.B. Ltd. will be, directly or through subcontractors, the operator of the Canaport Energy East marine terminal.

As the holder of the CPCN for the Project, Energy East Pipeline Ltd. will have the ability to do or cause to be done all actions necessary to give effect to certificate conditions and any directions or orders of the National Energy Board related to the construction and operation of the Project.

4.2 FINANCING CAPACITY

4.2.1 TransCanada Financing

Financing for the approximate $15.6 billion Project will be provided primarily by TransCanada PipeLines Limited.[1]

[1] Before AFUDC and the transfer price of gas assets.

TransCanada and its parent, TransCanada Corporation, are well-positioned to finance TransCanada's current capital program, including the Project, through mechanisms such as:

- predictable cash flow generated from operations
- new senior debt
- subordinated capital (e.g., additional preferred shares and hybrid securities)
- issuance of common shares
- portfolio management[2]

The Canaport Energy East marine terminal component of the Project will be jointly funded by TransCanada and Irving Oil. As the parent of the numbered company that is one of the limited partners in the Canaport Energy East marine terminal, Irving Oil will be responsible for its 50% partnership share of the Canaport Energy East marine terminal. The capital cost of the Canaport Energy East marine terminal is estimated at approximately $1 billion (see Volume 1, Section 2.2.3: Estimated Project Costs).

TransCanada and TransCanada Corporation's "A-" level investment grade credit rating was reaffirmed for 2015 by Moody's Investor Service, Inc. (Moody's) and by Standard and Poor's Ratings Services (Standard and Poor's) in the United States, and by Dominion Bond Rating Service (DBRS) Limited in Canada.

See the following appendices for copies of the most recent rating reports issued by the credit agencies:

- Appendix 3-7 and Appendix 3-8: Moody's rating reports on TransCanada PipeLines Limited dated June 2014 and June 2015, respectively
- Appendix 3-9 and Appendix 3-10: Standard and Poor's rating reports on TransCanada Corporation and TransCanada PipeLines Limited dated May 2014 and September 2015, respectively
- Appendix 3-11 and Appendix 3-12: DBRS rating reports on TransCanada Corporation and TransCanada PipeLines Limited dated June 2014 and June 2015, respectively

TransCanada Corporation's 2015 annual report, attached as Appendix 3-13, can be accessed electronically at http://www.transcanada.com/financial-information.html.

[2] This involves a dropdown of all of TransCanada's US natural gas pipeline assets into its master limited partnership, TC PipeLines LP. Utilization of TC PipeLines LP as a financing vehicle provides TransCanada the ability to monetize its ownership interest in the assets vended in while maintaining operational control of those assets.

4.2.2 Irving Oil Company, Limited Financing

Financing for Irving Oil’s partnership share of the Canaport Energy East marine terminal is expected to be funded from cash flow from operations.

Irving Oil is the parent of Irving Oil Limited, which operates Canada’s largest refinery representing approximately 15% of Canada’s total refining capacity. Irving Oil Limited, founded in 1924, also maintains eight distribution terminals, a fleet of delivery trucks and over 900 retail locations serving wholesale, commercial and retail customers throughout eastern Canada and the US northeast.

Irving Oil Limited has a history of successfully implementing and completing capital intensive projects. In 1998, the company financed a $1 billion upgrade of its refinery and in 2003 made an additional $100 million investment allowing the company to produce ultra-low sulfur diesel. In 2004, Irving Oil partnered with Spanish energy company Repsol to develop a liquefied natural gas (LNG) terminal in Saint John, NB. This facility officially commenced operations in June 2009.

Irving Oil Limited routinely accesses the capital markets to maintain its ongoing investments, to finance its refinery operations, to optimize safety, reliability and environmental performance in its overall business, and to upgrade and expand its wholesale and retail networks.

As a privately-owned company, Irving Oil is not rated and does not issue annual reports. It has multiple sources of cash flow that could be used for debt service.

4.2.3 Covenants

There are no financial covenants expected to prevent TransCanada or Irving Oil from satisfying its respective obligations with respect to financing the Project.

4.3 FINANCIAL ASSURANCES PLAN

Energy East will have the financial resources to ensure that it can financially sustain management of all potential risks including those liabilities that may arise from an accident or malfunction during the construction or operation of the Project.

This section describes the types of financial instruments available to fund activities associated with an accident or malfunction situation that could arise during the construction or operation of the Project’s facilities. Refer also to Volume 12, Risk Assessment, for additional information on the available financial instruments.

For a description of the safety features engineered into the design of the Project’s facilities, refer to the appropriate facility section in Volume 6 of this Consolidated Application. For a description of how potential risks associated with construction and operation of the Project's facilities will be managed, see the appropriate section in Volume 7 of this Consolidated Application.

As Energy East is not proposing to operate or own any of the crude oil tankers that will be calling on either of the Project's marine terminals, accidents and/or malfunctions associated with these vessels are the responsibility of the ship owner. For a description of the pollution liability regime that exists for the marine environment, see Volume 7, Section 5.1: Regulatory Framework for Shipping.

4.3.1 Financial Instruments

The types of financial resources that are required during an emergency scenario vary depending on the stage of the response activities. Financial resources used in funding response activities fall into two categories, short-term and long-term.

Short-Term Financial Instruments

To fund immediate response activities, Energy East will maintain sufficient liquid financial instruments through the use of lines of credit, and by holding cash (or equivalents) and short-term financial certificates.

4.3.2 Insurance Coverage

Energy East will look to secure a dedicated general liability insurance policy, including sudden and accidental pollution coverage. The policy will cover liabilities that may arise as a result of the construction activities, including converting existing natural gas pipeline to crude oil pipeline service, new pipeline builds, associated facilities, pump stations, tank terminals, two marine terminals and ongoing operations. The policy will respond to the legal liability for third-party liability claims, cleanup costs and remediation costs. General liability insurance has standard exclusions typical for a company constructing and operating an oil pipeline.

In addition to the dedicated policy, TransCanada's corporate general liability policy will provide excess coverage. This policy covers all of TransCanada's controlled companies and subsidiaries and would include Energy East construction and operations. Should a specific claim or claims within a policy year result in significant decrease of these limits, TransCanada will seek to reinstate the limits.

The amount and type of insurance available is subject to insurance market conditions at the time of purchase. Market conditions are influenced by the loss history of the company and industry as a whole. Changes in re-insurance conditions, and changes in underwriters' appetite or tolerance for a specific class of business, can all have an impact on the amount and type of insurance coverage available. The future availability of sudden and accidental pollution coverage under general liability or other policies is not certain.

Marine vessel owners will be required to provide protection and indemnity insurance, including sudden and accidental pollution that would respond to events of vessel grounding or other events out of Energy East's control.

For additional information on insurance coverage, refer to Volume 12, Section 5.1: Financial Instruments.