LEGISLATIVE BUDGET & AUDIT COMMITTEE

REPRESENTATIVE RALPH SAMUELS, CHAIRMAN

February 29, 2008

Anthony M. Palmer
Vice-President Alaska Development
TransCanada PipeLines Limited
450 – 1st Street S.W.
Calgary, AB, T2P 5H1
Canada

SENT BY FACSIMILIE TRANSMISSION

Dear Mr. Palmer:

This letter is our fourth request for additional information and clarification on issues surrounding your AGIA application. This letter will focus on questions relative to rates.

On December 14, 2007, TransCanada responded to a December 11, 2007, letter from the Department of Natural Resources. In its response to State of Alaska Request #4, TransCanada stated that, *"TransCanada determined that an equitable and balanced proposal would include firm service for 25 or more years, authorized overrun service ("AOS"), but no other interruptible service for the initial years. Although TransCanada recognizes the State's interest in offering interruptible service to delivery points in Alaska, TransCanada determined that offering interruptible service other than AOS in the initial years could make it more difficult to obtain financing for the initial Project."*

The State is interested in offering interruptible service to delivery points in Alaska. Can TransCanada define what it means by initial years? Are the initial years the term of years committed to by the shippers at the first binding open season, i.e., 25 to 35 years, or could the initial years be a term of years less than that?

In the same response letter TransCanada goes on to say, "TransCanada will utilize all revenues collected from AOS to first service the Capital Cost Overrun Loan. Once the Capital Cost Overrun Loan is repaid in full, TransCanada will credit all AOS revenues to the account of the firm transportation shippers."

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Please explain more fully how this works through the use of an example.

Executive Summary p.13, states, *"The rate of return on equity will be set annually at 965 basis points above the rate for U.S. 10-year Treasury Note in effect at the beginning of that year."*

1. Is this a common means for establishing return on equity in Canada or the U.S.?
2. How is return on equity normally established in Canada and in the U.S.?
3. How is the present proposal consistent with or different than what is normal in Canada and the U.S.?

Executive Summary p. 14, states, *"Consistent with FERC's Open Season regulations, the Alaska Section would provide a distance sensitive transportation rate for deliveries and receipts within the State. If acceptable to FERC, one single in-State zone based on weighted average volume distance will be created to represent all in-state deliveries. In accordance with AS 43.90.130(12), TransCanada commits to provide a minimum of five in-State delivery points ... with one of these points anticipated to make gas available to a potential intrastate pipeline delivering gas to the Alaska Rail Belt region."*

1. Please explain how the weighted average volume distance works.
2. Do you use the distance to the border in your calculation or the distance to the last delivery point in Alaska?

The application states one of the delivery points may make gas available to a potential intrastate pipeline that would make deliveries to the Alaska Rail Belt region. However, the possibility of an off-take point for LNG export is not discussed.

3. Will the option for an off-take point for LNG export also be accommodated in the open season?
4. Will a distance sensitive rate be available for this option as well?

Executive Summary p. 16, states, *"TransCanada will work with the State to jointly seek authorization to use the Federal loan guarantee available for the APP to fund any construction cost overruns. Negotiated Rate Shippers will have the option to repay those loans using a toll surcharge that is only to be paid when natural gas commodity prices at the Alberta Hub are above a pre-determined minimum threshold."*

1. When will the Shippers know the pre-determined minimum threshold?
2. Will they know by the initial binding open season?

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3. How will the pre-determined minimum threshold be determined? You mentioned that the Negotiated Rate shippers will have this alternative available, how will it affect the recourse rate shippers in Alaska?

Development Plan pp. 2.2-67-68, states, *"For the purposes of tariff/toll calculations herein, TransCanada has assumed the rate of return on equity would be 14% throughout the Project Development, Execution and Operations Phases."*

1. If the NEB or FERC authorize less than a 14% rate of return, do any of the other proposed TransCanada terms change? For example, the 2% cost overrun reduction in rate of return?
2. Will the State be required to support TransCanada's proposed 14% rare of return on equity before the FERC and NEB?

We look forward to your timely response to these questions.

Sincerely,

Ralph Samuels, Chair
Legislative Budget and Audit Committee

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