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March 14, 2008

Legislative Budget & Audit Committee
Alaska State Capitol,
Juneau, Alaska
99801-1182

Attention: Representative Ralph Samuels
Chairman

Subject: Alaska Gasline Inducement Act
TransCanada Application for License
Additional Clarifying Information

Dear Representative Samuels:

TransCanada acknowledges receipt of your correspondence dated February 19, 2008 (second of two documents) in which TransCanada is asked to provide additional clarifying information to its November 30, 2007 Application for License. In that regard, please find attached our response to the questions.

We are submitting this reply to you by two means:

- we are today e-mailing an electronic copy to your attention at Representative_Ralph_Samuels@legis.state.ak.us ; and
- we are today forwarding the originally signed document by courier to your office.

I remain available to provide further information or participate in discussions that the State may wish to initiate

Sincerely,

Anthony (Tony) M. Palmer
Vice President, Alaska Development

SUBJECT: OPEN SEASON AND EXPANSION AS IT RELATES TO RESERVE REQUIREMENTS AND OFF-TAKE LOCATIONS

Legislative Budget & Audit Committee Request #1

When companies bid expansions (especially smaller companies), do they usually have 100% of the reserves identified to back up the bid, e.g. for a 20 year FT commitment?

TransCanada Response

Considering the amount of capital required for an expansion of the pipeline to accommodate incremental volumes, TransCanada believes it is fair and equitable that expansion Shippers would be required to meet the same reserves requirements that the initial Shippers are required to satisfy.

As described in Section 2.2.3.3(2) “Precedent Agreements – Obligations of Shippers” on page 2.2-59 of TransCanada’s AGIA Application, TransCanada would require a prospective Shipper, initial or expansion, to demonstrate to the satisfaction of TransCanada that it has secured sufficient volumes of natural gas to cover at least the first 10 years of its shipping commitments for delivery to TransCanada at the Receipt Point. Assuming the subscribed annual capacity is constant throughout the contract term, a 25-year term Shipper must demonstrate that it has secured gas reserves to meet at least 40% of its total shipping commitments over the shipping term.

Legislative Budget & Audit Committee Request #2

When larger companies bid at open seasons, even the initial open season, do they need 100% of the reserves identified to back up their bid, e.g. for a 20 year FT commitment?

TransCanada Response

As described in Section 2.2.3.3(2) "Precedent Agreements – Obligations of Shippers" on page 2.2-59 of TransCanada's AGIA Application, TransCanada would require a prospective Shipper, initial or expansion, to demonstrate to the satisfaction of TransCanada that it has secured sufficient volumes of natural gas to cover at least the first 10 years of its shipping commitments for delivery to TransCanada at the Receipt Point. Assuming the subscribed annual capacity is constant throughout the contract term, a 25-year term Shipper must demonstrate that it has secured gas reserves to meet at least 40% of its total shipping commitments over the shipping term.

Legislative Budget & Audit Committee Request #3

What is the expected time commitment you will require at the initial open season, e.g. 20 year FT commitment, 25 year FT commitment? Would you consider changing that requirement if circumstances warranted?

TransCanada Response

As described in Section 2.2.3.4(1) "Proposed services and General Tariff Terms – Alaska Section and Yukon-BC Section" on page 2.2-61 of TransCanada's AGIA Application, TransCanada has indicated that it would offer 25-year, 30-year and 35-year Firm Transportation Services to prospective Shippers on the Alaska Section from the outlet of the GTP to the Yukon border; and on the Yukon-BC Section from the Alaska border to Boundary Lake, Alberta. At present, TransCanada does not contemplate that circumstances would warrant a change in these terms.

With respect to the Alberta Section, TransCanada anticipates the shipping commitment would be relatively short. For instance, the current Alberta System requires shippers to commit to a 4-year shipping term if the incremental volumes require a sizable system expansion. We expect that integrating the Alberta Section with the TransCanada Alberta System would allow the Alaska Shippers the benefit of a shorter term shipping commitment within Alberta as opposed to a typical 25-year term contract for service upstream of Alberta.

Legislative Budget & Audit Committee Request #4

Could there be other options or will all bidders be required to bid 20 or 25 years?

TransCanada Response

See response to Request #3.

Legislative Budget & Audit Committee Request #5

Will a non-binding open season help you make that determination?

TransCanada Response

TransCanada's initial Open Season will be binding on Shippers, although we do intend to hold preliminary discussions with potential Shippers prior to the Open Season.

Legislative Budget & Audit Committee Request #6

What is the expected time commitment you will require for the expansion open season?

TransCanada Response

The expected term commitment for Expansion Shippers would be the same as the term commitment for the initial Shippers. As per TransCanada's AGIA Application, these choices are currently 25 years, 30 years and 35 years.

Legislative Budget & Audit Committee Request #7

Does the size of the expansion make a difference?

TransCanada Response

In order to ensure all Shippers are treated on an equitable basis, as discussed in the response to Request #6, expansion Shippers would be offered the same shipping terms that are available to the initial Shippers. Therefore, TransCanada does not anticipate the size of expansion would change the shipping term requirement.

Legislative Budget & Audit Committee Request #8

Will you have non-binding open seasons prior to an expansion or is your periodic solicitation (every two years) sufficient?

TransCanada Response

It is TransCanada's business practice to stay in touch with the shipper community (producers, explorers, LDCs, gas marketers, etc.) on an on-going basis. These day-to-day engagement activities provide TransCanada with market intelligence relating to timing and quantities for pipeline expansions. TransCanada is committed to undertake a public non-binding solicitation at least once every two years, and would do so more frequently if potential Shippers are ready to make the appropriate commitments.

Legislative Budget & Audit Committee Request #9

In Alaska, someone may bid one of several off-take locations. Will that option be available in Canada? For example, if someone wanted to take gas off at Whitehorse and send it to Southeast Alaska, will that be an option in the initial open season or in any of the expansions?

TransCanada Response

The Northern Pipeline Act requires Foothills to provide delivery points at Whitehorse and several small communities in Yukon, as well as a specific capital contribution towards the cost of that service. A potential customer wishing to serve Southeast Alaska from the Whitehorse delivery point could do so, subject to that party making all appropriate arrangements with TransCanada from Prudhoe Bay to Whitehorse, and also providing their own transportation for their natural gas away from the delivery point.

Legislative Budget & Audit Committee Request #10

It is difficult to see 20 to 40 years out and what may be available to the State at that time. What if someone wanted to take their gas prior to entering the Alberta Hub and ship it south or north? Will that option be provided in the open season or in any of the expansions?

TransCanada Response

TransCanada’s proposal is inclusive of the Alberta Section as described in Section 2.1(1) “Project Components” on page 2.1-1 of TransCanada’s AGIA Application. It is TransCanada’s opinion that connecting Alaska gas to the Alberta Hub will result in the highest netback and access to multiple market options and spare capacity on downstream infrastructure. The Alberta Hub provides Alaska Shippers the first opportunity to monetize their gas, and NGLs, at the most liquid gas market in North America.

A recent study by Canadian Energy Research Institute (“CERI”) dated July 2007 entitled “Capacity of the Western Canada Natural Gas Pipeline System (Volume 2)” has confirmed TransCanada’s conclusion that the best option for Alaskan gas is to integrate with the Alberta System once it arrives at the British Columbia/Alberta border at Boundary Lake.

In order to access the Alberta Hub, Shippers will pay a receipt toll on the Alberta System downstream of Boundary Lake, or downstream of Fort Nelson if the Fort Nelson Option is secured.

Downstream of the Alberta Hub, Shippers can elect to transport their Alaskan gas to the Lower 48 via multiple existing pipelines, including TransCanada’s Mainline, Foothills - Northern Border, TransCanada Gas Transmission Northwest, and either directly or indirectly, other non-affiliated pipelines such as Alliance, Spectra, ATCO or other North American pipeline systems.

Also see response to Request #9.