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March 20 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 29, 2008 (B) (second of three 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: ALBERTA HUB

Legislative Budget & Audit Committee Request

Executive Summary p. 4, states, *"That system [Pre-Build] currently consists of approximately 15,000 miles of pipe, 50 compressor stations, 1,000 receipt points and 200 delivery points."*

1. What can we expect to pay at the receipt points for entry into the TransCanada system?
2. Will Shippers have the option of entering the Hub at more than one receipt point?
3. What can we expect to pay at the delivery points upon exiting the TransCanada System?
4. How is the fee for the exit point computed?

TransCanada Response

Note that the "system" referred to in the Executive Summary p. 4 includes all of the facilities making up the Alberta System, not only the Pre-Build as the request indicates.

1. As discussed in Section 2.2.3.(2) "Plan for Open Season – Downstream of Boundary Lake" on page 2.2-56 of TransCanada's AGIA Application, TransCanada has projected the Alberta System receipt toll at Boundary Lake under the current rate design would be in the range of $0.12/mmBtu to $0.17/mmBtu, excluding fuel cost, expressed in nominal dollars.
2. The Alberta Section is an integral part of TransCanada's proposed Project. In order to maximize the Alberta System integration economics, the location where the Alberta Section will connect with the Yukon-BC Section has been determined to be at the Alberta/B.C. border near Boundary Lake. An independent study recently completed by the Canadian Energy Research Institute 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. This connection point is also consistent with the general route for the Pipeline System as set out in Canada's *Northern Pipeline Act*. Therefore, TransCanada does not intend to provide any alternate receipt point for Alaskan gas entering the Alberta Hub other than at Boundary Lake.
3. Alaska Shippers could decide to sell their gas to counterparties in Alberta. If they elect to sell their gas outside Alberta, then, based upon the same underlying assumptions used for estimating the receipt tolls, TransCanada has projected the Alberta System export delivery rate would be in the range of $0.10/mmBtu to $0.15/mmBtu, excluding fuel cost, expressed in nominal dollars.

4. In general, the Alberta System's export delivery rate is computed by the following formula:

$$\frac{\text{Total Annual System Revenue Requirement Less Expected Revenues from Sales of Other Services}^{1}}{\text{Sum of Contracted Receipt and Export Delivery Amounts}}$$

[1] Other Services include services such as non-transportation services, load retention services, interruptible services, point-to-point services, etc.

Legislative Budget & Audit Committee Request

Executive Summary p. 4, states, *"TransCanada is exploring options to move the Alberta System Receipt Point upstream of Boundary Lake to Fort Nelson, British Columbia. The objective would be to deliver toll savings to the Alaska Shippers by providing them with an equivalent toll from Fort Nelson to the Alberta Hub, as if the Pipeline System from Fort Nelson to Boundary Lake were integrated into the Alberta System."* Project description 2.10-7 states, *"…this would provide the Alaska Shippers a toll savings in the range of \$0.15/mmBtu to \$0.20/mmBtu or approximately \$275 million to \$370 million per year."*

1. Please explain how this would work. Do the receipt and delivery point costs stay the same?

TransCanada Response

Note that the numbers cited in this request were amended in TransCanada's response to the State's request for clarification dated January 15, 2008, and submitted on January 22, 2008.

The Fort Nelson Option would be a contractual arrangement between Foothills and TransCanada's Alberta System whereby the Alberta System would seek approval from its regulator to include the annual revenue requirement of the Foothills owned pipeline from Fort Nelson to Boundary Lake in its revenue requirement. Shippers would contract for transportation services with the Alberta System for receipt services at Fort Nelson and pay the Alberta System receipt toll for access to the Alberta Hub. This arrangement is commonly known as Transportation By Others ("TBO") and is the model utilized for the existing Foothills facilities in Alberta.

The Fort Nelson Option would provide Alaska Shippers the benefit of a lower toll by eliminating the need to pay a standalone toll for the section of the pipeline from Fort Nelson to Boundary Lake. This saving is somewhat offset by a slightly higher Alberta System receipt toll when compared to the base case (i.e. no Fort Nelson Option). The Alberta System's revenue requirement would be increased by the annual revenue requirement for the Foothills owned Fort Nelson to Boundary Lake pipeline, thereby resulting in a slight increase in the Alberta System delivery toll and average receipt toll.

TransCanada has estimated that the net effect of the Fort Nelson Option would provide a significant savings to Alaska Shippers of approximately \$240 million to \$330 million per year.

Legislative Budget & Audit Committee Request

Executive Summary p. 17, states, *"TransCanada's proposed Project yields an expected aggregate undiscounted direct cash flows during the first 25 years of operations commencing in 2018 of:*

- *$207 billion to the Alaska Shippers after taxes and royalties;*
- *$131 billion to the State of Alaska;*
- *$52 billion to the United States federal government; and*
- *$17 billion to TransCanada in equity return."*

TransCanada's value was attributed to equity return on the pipe.

1. Does the equity return on the pipe include your receipt fees for entrance into the Hub and exit fees from the Hub?
2. What is your expected aggregate undiscounted direct cash flow from those receipt and exit fees?
3. What further benefit does TransCanada receive from using its pipelines downstream of the Hub?

TransCanada Response

Note that the aggregate undiscounted cash flows cited in this request were amended in TransCanada's response to the State's request for clarification dated January 15, 2008, and submitted on January 22, 2008.

1. TransCanada's Alberta System operates under a cost-of-service tariff model. Its equity return is not affected by receipt and delivery quantities; it is based on the equity that has been invested in the Alberta System. Therefore, the undiscounted cash flow to TransCanada as shown in TransCanada's AGIA Application, as amended, would not be changed by the receipt and delivery tolls that TransCanada collects from the Alaska Shippers.
2. At this point, TransCanada currently estimates that Foothills would have to construct an additional $1.4 billion (in 2007 dollars) of new facilities within Alberta.

   Using the same economic parameters as assumed in TransCanada's AGIA Application for the Yukon-BC Section, TransCanada estimates the $1.4 billion incremental capital investment would result in $350 million equity investment, in 2007 dollars, to TransCanada and that equity investment would generate approximately $0.9 billion of ROE in aggregate undiscounted cash flow to TransCanada over a period of 25 years.
3. Since TransCanada anticipates there will be sufficient takeaway capacity available for the Alaska gas downstream of the Alberta Hub, it is unlikely there will be a need to expand any downstream pipelines. With no incremental investment opportunity, TransCanada believes its primary additional benefit will come from lower tolls for customers, and therefore a more competitive system downstream of the Alberta Hub.

TransCanada believes it would be to the benefit of Alaska Shippers to utilize the available capacity on the existing pipelines downstream of Alberta Hub as this would provide them the lowest tolls with access to multiple markets as compared to a dedicated bullet line to a single market; and as a result would yield the highest netback to the Alaskan producers and the State of Alaska.

Legislative Budget & Audit Committee Request

Project Description p. 2.1-1, states, *"The Alaska Pipeline Project as proposed by TransCanada would connect natural gas from the North Slope of Alaska to all major markets in North America via the existing Alberta Hub… extending from Boundary Lake to the Alberta Hub and providing connections to the existing Foothills Pre-Build."*

1. Are the shippers required to use the Alberta Hub?
2. Are they required to use the Foothills Pre-Build?

TransCanada Response

1. 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 the 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 and highest value opportunity to monetize their gas, and NGLs, at the most liquid gas market in North America. In order to access the Alberta Hub, Shippers will pay a receipt toll on the Alberta System at Boundary Lake, or at Fort Nelson if the Fort Nelson Option is secured.

   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.

2. Within Alberta, the Foothills Pre-Build is fully integrated into TransCanada's Alberta System, and therefore the Alberta Hub, via Transportation By Others contracts.

   Downstream of the Alberta Hub, Shippers or counterparties can determine how they transport their gas to Lower 48 markets whether on the Foothills Pre-Build or other TransCanada or third-party owned pipelines.

Legislative Budget & Audit Committee Request

Project Description p. 2.1-11, states, *"When Alaska's natural gas reached the BC/Alberta border, Shippers would contract with the Alberta System and enter the Alberta Hub."*

1. Is this a requirement of the TransCanada application or a recommendation?
2. Will a Shipper be provided an opportunity at the open season to ship gas to an alternate receipt point other than the Alberta Hub?

TransCanada Response

1. Connecting to the Alberta Hub provides the best netback for Alaskan gas. To access the Alberta Hub, it is necessary to contract for service on the Alberta System. This is a requirement of TransCanada's AGIA Application.
2. Shippers will have the opportunity to contract to Delivery Points in Alaska and to Whitehorse and several smaller communities in Yukon. Downstream of these points, Shippers will be required to contract with the Alberta System to obtain access to the Alberta Hub, which provides the highest value to Alaska Shippers. Once on the Alberta System, Alaskan gas will have access to 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.