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April 22, 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 March 28, 2008 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: RECOURSE RATES AND NEGOTIATED RATES

Legislative Budget & Audit Committee Request #1

TransCanada proposes Recourse Rates for Alaska and both Recourse Rates and Negotiated Rates for Canada. ***Are there certain terms of the tariff that we should be aware of that react differently to Recourse Rates or Negotiated Rates? Is there a reason why Negotiated Rates were not offered in Alaska?***

TransCanada Response

This request is superseded and revised by the Committee's seventh request for additional information, forwarded to TransCanada on April 5, 2008. Accordingly, TransCanada's response is included under separate cover which references the April 5th correspondence.

SUBJECT: PRECEDENT AGREEMENTS

Legislative Budget & Audit Committee Request #2

Section 2.2.3.3 of the TransCanada Proposal states that "TransCanada expects to work with interested stakeholders prior to the Open Season to develop a mutually acceptable Precedent Agreement." The Proposal continues by saying that "...the final terms and conditions to be included in the Precedent Agreement would be determined during the pre-Open Season period as part of the engagement process with prospective Shippers and other interested stakeholders, such as the State." ***Does TransCanada intend to include Anadarko and other potential independent shippers in their engagement process as well?***

TransCanada Response

It is TransCanada's intention to engage as many prospective Shippers as possible during the pre-Open Season period. These prospective Shippers would include independent Shippers such as Anadarko, BP, Chevron, ConocoPhillips, ExxonMobil, Pioneer, and others.

SUBJECT: BIDS SUBMITTED AFTER THE CLOSE OF THE OPEN SEASON

Legislative Budget & Audit Committee Request #3

TransCanada at page 2.2-55 states that "All bids received prior to the expiry date of the Open Season will be evaluated." TransCanada then states its concerns with the FERC Open Season Regulations by stating: "The FERC Open Season Regulations require the Project sponsor to accept bids that are submitted late, unless to do so would adversely impact the timely development of the Project, as determined by FERC pursuant to 18 C.F.R. 157.34(d)(2). TransCanada is concerned that this might discourage participation by potential shippers in the initial Open Season and thereby has the potential to defer development." ***Please explain how TransCanada intends to comply with 18 C.F.R. 157.34(d)(2) and the AGIA "must have" at AS 43.90.130(3) (A). Does TransCanada intend to comply with the FERC and AGIA obligation to consider bids submitted after the close of the open season on the Canadian portion of the pipeline?***

TransCanada Response

Section 18 C.F.R. 157.34(d)(2) of the FERC Open Season Regulations for Alaska Gas Pipeline requires prospective applicants to consider any bids that are tendered after the close of the Open Season by qualifying bidders. Such bids may only be rejected if they cannot be accommodated due to economic, engineering, design, capacity or operational constraints, or if accommodating the request would otherwise adversely impact the timely development of the Project.

TransCanada is concerned that giving Shippers an open-ended opportunity to submit late bids might discourage the participation of prospective Shippers in the initial binding Open Season because this would effectively remove any opportunity cost for a prospective Shipper as a result of missing the Open Season deadline. Therefore, TransCanada believes that the application of this requirement needs to be balanced with a reasonable time constraint to ensure prospective Shippers do not take a "wait and see" attitude that could cause delay in the timely development of the Project.

TransCanada believes its concern is consistent with Section 18 C.F.R. 157.34(d)(2) of the FERC Open Season Regulations requirement, and hence the AGIA "must have" under AS 43.90.130(3)(A), since FERC has specifically provided the applicant with the ability to reject late bids, if their acceptance would adversely affect or cause delay in developing the Project.

In compliance with FERC 18 C.F.R. 157.34(d)(2) and the AGIA "must have" at AS 43.90.130(3)(A), TransCanada will consider bids that are submitted after the close of the Open Season. AGIA also requires TransCanada to commit to an aggressive schedule for FERC filings. Therefore, TransCanada must expeditiously complete its economic, engineering, design and capacity plan post-Open Season in order to meet the FERC schedule. Prospective Shippers that submit bids post-Open Season should be aware of those time constraints on TransCanada. In addition, TransCanada will consider holding follow-up open seasons as soon as practical if those late bids, in aggregate, would be sufficient to provide a reasonable prospect that the subsequent open season would be successful and could be accommodated in TransCanada's FERC schedule. TransCanada will apply the same principles for the Canadian portion of the Project.

SUBJECT: SHIPPER OBLIGATION

Legislative Budget & Audit Committee Request #4

TransCanada at page 2.2-59 lists the obligations of the Shippers. One of the requirements listed is for the shipper to demonstrate to the satisfaction of TransCanada that "sufficient take-away capacity has been secured at the Delivery Point" by the shipper. ***Is this a requirement that the shipper must meet at the time of the open season i.e., approximately 18 months from the license award? How developed would an LNG or in-state pipeline proposal need to be to demonstrate to TransCanada that it has satisfactorily met this requirement? Would a plan to build or expand another pipeline be sufficient to meet TransCanada's test or would it need to be developed beyond a plan?***

TransCanada Response

Is this a requirement that the shipper must meet at the time of the open season i.e., approximately 18 months from the license award?

No, this is not a requirement that Shippers must meet at the initial Open Season. It is a condition in the Precedent Agreements that Shippers would be required to meet to the satisfaction of TransCanada prior to executing the Transportation Services Agreement.

How developed would an LNG or in-state pipeline proposal need to be to demonstrate to TransCanada that it has satisfactorily met this requirement? Would a plan to build or expand another pipeline be sufficient to meet TransCanada's test or would it need to be developed beyond a plan?

One of TransCanada's key objectives in its AGIA Application was to establish terms that would encourage as many prospective Shippers as possible to participate in the initial binding Open Season, while fairly balancing the interests of future Shippers and other stakeholders.

TransCanada is fully aware that coordination is necessary in order to ensure that gas can be delivered from the wellhead to the burner-tip. Downstream take-away capacity projects should be at a similar development stage as TransCanada's proposed Project to ensure that a Shipper can accept gas at the nominated Delivery Point.

SUBJECT: NORTHERN PIPELINE ACT REQUIREMENTS

Legislative Budget & Audit Committee Request #5

TransCanada in its March 14, 2008, response to the Legislative Budget & Audit Committee stated that "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." ***Could you be more specific on what the Northern Pipeline Act requires? How many small communities must be provided delivery points? What is the specific capital contribution required? What is the estimated impact to the main line tariff from these requirements?***

TransCanada Response

Could you be more specific on what the Northern Pipeline Act requires? How many small communities must be provided delivery points? What is the specific capital contribution required?

The following are excerpts from the *Northern Pipeline Act* ("NPA") that deal with the provision of natural gas to Yukon communities.

Excerpt from:
Northern Pipeline Act Schedule III Condition 20

Remote Communities

20. The company shall, in implementing paragraph 3(b) of the Agreement, construct laterals for the pipeline and make arrangements for the supply of gas to remote communities in Yukon and the provinces through which the pipeline passes where the communities can be economically served and have applied to the appropriate authority for such service and that authority has approved such application, except that in Yukon, Foothills Pipe Lines (South Yukon) Ltd. shall make a financial contribution in respect of providing gas

- (a) to the communities of Beaver Creek, Burwash Landing, Destruction Bay, Haines Junction, Whitehorse, Teslin, Upper Liard and Watson Lake, in an amount not to exceed a total cost of 2.5 million dollars; and
- (b) to other remote communities, an amount not to exceed the lesser of
  - (i) the product of 2,500 dollars multiplied by the number of the customers in the communities; and
  - (ii) the total cost of 2.5 million dollars.

Excerpt from:
Northern Pipeline Socio-Economic and Environmental Terms and Conditions in Respect of the Certificate of Public Convenience and necessity Declared to be Issued Under Section 20(1) of the *Northern Pipeline Act* to Foothills Pipe Lines (South Yukon) Ltd. in Respect of that Portion of the Pipeline in the Yukon Territory.

Availability of Natural Gas to Communities of the Yukon Territory

54. Foothills shall
    (a) on a full cost-recovery basis, design and construct lateral pipelines and make arrangements for the supply of natural gas to those industrial and commercial users situated in any franchise area in the Yukon Territory through which the pipeline passes;
    (b) where a community so requests and if directed by the designated officer, assist that community, on a full cost recovery basis, in the establishment and operation of a community gas distribution system;
    (c) provide, in the design of the pipeline, for valves and fittings at appropriate points through which the pipeline passes to facilitate the future construction of natural gas distribution facilities to serve those communities referred to in condition 19 (please note now condition 20) of Schedule III to the *Act*;
    (d) where commercial or industrial user of natural gas situated in a remote area of the Yukon Territory through which the pipeline passes, other than a community, requests Foothills, prior to the approval of the designated officer of the final design of the pipeline, to provide valves and fittings at appropriate points to facilitate the future supply of gas to that user, Foothills shall, on a full cost-recovery basis, install such valves and fittings;
    (e) when directed by the designated officer, provide assistance through the government of the Yukon Territory to any community in the Yukon Territory situated in the area through which the pipeline passes in determining the number of potential users of the natural gas in that community and the economic feasibility of installing natural gas facilities in the community;
    (f) provide information and assistance through the government of the Yukon Territory to any community in the Yukon Territory situated in the area through which the pipeline passes in
        (i) the designing of any natural gas distribution system required by the community; and
        (ii) preparing, the required application to the appropriate authority for such system; and
    (g) when requested by any community in the Yukon Territory situated in any area through which the pipeline passes, provide advice to that community to ensure that the conversion of any existing equipment and system to natural gas occurs without undue cost and inconvenience.

What is the estimated impact to the main line tariff from these requirements?

In accordance with the NPA, the maximum contribution that Foothills may make for Yukon community access to gas is approximately Cdn$5 million. Therefore, TransCanada estimates the associated tariff impact would be nominal.

SUBJECT: FERC CERTIFICATE AFTER FAILED OPEN SEASON

Legislative Budget & Audit Committee Request #6

TransCanada at page 2.2-81 commits to "apply for FERC approval to use the pre-filing procedures set out in 18 C.F.R. § 157.21." ***In the event of an unsuccessful open season, what assumptions will TransCanada make regarding pipe size and throughput in order to complete the applications necessary to proceed to FERC Certificate? If TransCanada is ultimately wrong in its projection of pipe size and throughput, how much additional time and cost will be required to amend TransCanada's application to the FERC?***

TransCanada Response

In the event of an unsuccessful open season, what assumptions will TransCanada make regarding pipe size and throughput in order to complete the applications necessary to proceed to FERC Certificate?

In the event of an unsuccessful Open Season, TransCanada's current intention would be to use the same pipe design platform (48" pipe diameter, operating at 2500/2600 psi) that it has proposed in its AGIA Application and a throughput volume equal to its proposed base case volumes (4.5 bcf/d) to proceed with the FERC certificate application. The final decision on setting the pipe size and other related parameters will be determined based on the circumstances prior to the FERC application.

If TransCanada is ultimately wrong in its projection of pipe size and throughput, how much additional time and cost will be required to amend TransCanada's application to the FERC?

TransCanada's AGIA Application is based on a 48" pipe design platform that is capable of accommodating a wide range of potential volumes of throughput (3.5 bcf/d to 5.9 bcf/d) by varying the amount of required compression. This approach would establish the footprint for the pipeline and hence provide TransCanada with the flexibility to accommodate the various possible throughput outcomes in the initial binding Open Season without the need to significantly amend the FERC certificate. The change in throughput would not require a larger right of way or result in significant additional environmental impacts that would need to be investigated. Therefore, TransCanada expects that any additional time and cost required to seek an amendment to the FERC certificate to provide for a volume that is lower than the assumed base case would be minimal.

SUBJECT: POINT THOMSON IMPACTS ON FAILED OPEN SEASON

Legislative Budget & Audit Committee Request #7

In the event of a failed open season and if Point Thomson gas is not available to the pipeline at the time of commencement of pipeline production, what assumptions will TransCanada make regarding pipe size and throughput to complete the applications necessary to proceed to FERC Certificate?

TransCanada Response

See response to previous Request #6.

SUBJECT: POINT THOMSON IMPACTS ON SUCCESSFUL OPEN SEASON

Legislative Budget & Audit Committee Request #8

If Point Thomson gas is not available to commit to the first binding open season and is not available to the pipeline at the time of commencement of pipeline production resulting in an insufficient amount of gas available for FT commitment to warrant a 48 inch pipe, what size pipeline will TransCanada propose to the FERC and NEB? Will TransCanada design a pipe and take FT risk on the assumption that Point Thomson gas will eventually be committed to the pipeline? Based on TransCanada's requirement for the shipper to demonstrate it has sufficient volumes of natural gas covering the first 10 years of shipping commitments, will TransCanada allow any potential shipper to back its FT commitment with Point Thomson gas while its ownership is still being litigated?

TransCanada Response

If Point Thomson gas is not available to commit to the first binding open season and is not available to the pipeline at the time of commencement of pipeline production resulting in an insufficient amount of gas available for FT commitment to warrant a 48 inch pipe, what size pipeline will TransCanada propose to the FERC and NEB?

In response to this question, please see TransCanada's previous response to Request #6. As has been discussed in the response to Request #6, it is TransCanada's current intention to propose the same pipe design platform (48" pipe diameter, operating at 2500/2600 psi) for regulatory proceedings pertaining to both the Alaska and Yukon-BC Sections of the pipeline. That pipe design is not dependent on ownership of the Point Thomson volumes being resolved; and that pipe design platform would accommodate volumes between 3.5 bcf/d and 5.9 bcf/d, depending on the amount of compression utilized.

Will TransCanada design a pipe and take FT risk on the assumption that Point Thomson gas will eventually be committed to the pipeline?

TransCanada will move forward to sanction the pipeline once sufficient volumes are committed through unconditional firm service transportation agreements. TransCanada currently intends to establish the final pipeline design for the project based on committed volumes.

Based on TransCanada's requirement for the shipper to demonstrate it has sufficient volumes of natural gas covering the first 10 years of shipping commitments, will TransCanada allow any potential shipper to back its FT commitment with Point Thomson gas while its ownership is still being litigated?

In Section 2.2.3.3, commencing on page 2.2-58 of its AGIA Application, TransCanada has set out the obligations of TransCanada and Shippers regarding Precedent Agreements to advance the Project. These include a requirement that a Shipper must demonstrate to the satisfaction of TransCanada that sufficient volumes of natural gas, covering the first 10 years of shipping commitment, have been secured for delivery to TransCanada at the Receipt

Point. It is not possible to respond to the hypothetical question posed without understanding all the other relevant circumstances at that time. TransCanada will make its decision on this point based on all the information provided by the prospective Shipper - any Point Thomson gas, the status of any litigation or Point Thomson development results, as well as any other potential gas resources which may be available to backstop Shipper's transportation commitment.

SUBJECT: OTHER PERMITS

Legislative Budget & Audit Committee Request #9

TransCanada at page 2.2-81 states that "A comprehensive list of all of the primary required approvals for the Alaska portion of the Project is set forth in Appendix P1 "Major U.S. Regulatory Approvals." ***In the event of a failed open season, is it TransCanada's intent to pursue those regulatory approvals concurrent with pursuing the FERC certificate of public convenience and necessity? Will TransCanada pursue certification under the NPA and all regulatory approvals in Canada concurrent with pursuing the FERC certificate of public convenience and necessity? Will the absence of those additional approvals or any action towards obtaining them affect the ability to obtain FERC or NEB certificates? If TransCanada does not pursue the other primary approvals concurrent with the FERC and NEB certificates, how much additional time will be required to obtain the other approvals once TransCanada decides to proceed with the project?***

TransCanada Response

In the event of a failed open season, is it TransCanada's intent to pursue those regulatory approvals concurrent with pursuing the FERC certificate of public convenience and necessity?

Consistent with the commitment in its Application, TransCanada intends to pursue all regulatory approvals that are necessary to obtain the FERC Certificate of Public Convenience and Necessity (the "CPCN"). FERC regulations generally require a project sponsor to have requested all of the other necessary authorizations from the relevant federal agencies at the time of submission of the application for the CPCN. However, through its policies and practice, FERC has made it clear that it is willing to exercise discretion in applying this general requirement when determining whether an application is complete.

Will TransCanada pursue certification under the NPA and all regulatory approvals in Canada concurrent with pursuing the FERC certificate of public convenience and necessity? Will the absence of those additional approvals or any action towards obtaining them affect the ability to obtain FERC or NEB certificates?

TransCanada, through the subsidiaries of Foothills, holds a CPCN issued under the *Northern Pipeline Act* (the "NPA"). It is TransCanada's current intention to undertake the necessary activities to obtain the Leave to Proceed under the NPA concurrently with its FERC application. The Leave to Proceed will be granted when all preconditions to construction have been satisfied. Pursuant to the NPA, the powers and authorities of other federal agencies and departments can be delegated to the federal Minister responsible for the NPA and the Designated Officer. This allows all other approvals necessary for the issuance of Leave to Proceed to be obtained in a "single window" fashion, thereby ensuring their timely issuance.

If TransCanada does not pursue the other primary approvals concurrent with the FERC and NEB certificates, how much additional time will be required to obtain the other approvals once TransCanada decides to proceed with the project?

At this point, it is not possible for TransCanada to respond to this hypothetical question without knowing the complete set of circumstances at that future date.

SUBJECT: ANCHOR SHIPPER

Legislative Budget & Audit Committee Request #10

TransCanada at page 2.2-69 states: "TransCanada recognizes the desire of some potential Shippers to have an ownership position in the GTP, Alaska Section, and Yukon-BC; therefore, as an inducement to attract Shippers in the initial Open Season, TransCanada is prepared to offer an ownership option in these segments of the Project to Shippers that subscribe in the initial Open Season, subject to a minimum threshold volume for each Shipper, and whose volume commitments, in aggregate, meet the minimum 3.5 bcf/d firm shipping capacity requirement for the Project." ***What percentage of equity ownership is TransCanada prepared to offer on each of the pipeline Sections? Will TransCanada offer differing ownership participation for the GTP on the Alaska Section and the Canadian Section? If there are expansions or new builds downstream of the Alberta Hub, what ownership positions on those pipelines will TransCanada offer shippers?***

TransCanada Response

What percentage of equity ownership is TransCanada prepared to offer on each of the pipeline Sections?

TransCanada has not yet determined the percentage of equity ownership for the GTP (if owned by TransCanada), Alaska Section and Yukon-BC Section that it will offer to Shippers which subscribe capacity in the initial binding Open Season. TransCanada expects the equity ownership percentages will be established through commercial negotiations with prospective Shippers.

Will TransCanada offer differing ownership participation for the GTP on the Alaska Section and the Canadian Section?

As indicated in its AGIA Application, TransCanada prefers that another capable party would own and develop the GTP. However, TransCanada is prepared to build, own and operate that facility if no third party is committed to do so. TransCanada is willing to offer differing equity ownership percentages for the GTP, Alaska Section and Yukon-BC Section of the Project.

If there are expansions or new builds downstream of the Alberta Hub, what ownership positions on those pipelines will TransCanada offer shippers?

TransCanada has not proposed an ownership position for prospective Shippers downstream of the Yukon-BC Section.

SUBJECT: RIGHTS-OF-WAY

Legislative Budget & Audit Committee Request #11

TransCanada at page 2.2-84 states: "The Foothills Subsidiaries have easement rights for the entire route through Yukon. The exercise of rights under the easement agreement is subject only to the prior written consent of the Minister responsible for the Northern Pipeline Agency." In the AGIA public comments by Chief David Johnny on behalf of White River First Nation, Chief Laird Mcmillan on behalf of Laird First Nation, and Eric Morris on behalf of Teslin Tlingit Council expressed a different position on TransCanada's authority to move forward without their consent. ***Does TransCanada have the authority to move forward with the pipeline project in the Yukon without the approval of the First Nations?***

TransCanada Response

As described in Section 2.2.4.2(2) "Rights-of Way – Canada" on page 2.2-84 of TransCanada's AGIA Application, TransCanada only requires the prior written consent of the Minister responsible for the Northern Pipeline Agency to exercise the easement right in Yukon. TransCanada does not require the First Nations' consent.

Over the last three decades TransCanada, through its Foothills subsidiary, has established a long-standing engagement process with the First Nations in Yukon. TransCanada has developed an engagement plan with First Nations to build long-term relationships in accordance with its Aboriginal Relations Policy and to meet the various Northern Pipeline Socio-Economic and Environmental terms and conditions with respect to "information, consultation and liaison" with First Nations, imposed by the Northern Pipeline Agency.

TransCanada is aware of the common law duty of the Crown, both provincial and federal, to consult with and, where required, to accommodate the interests of First Nations before taking any action or making decisions which might impact First Nation rights, titles or interests. However, the current duty to consult First Nations applies to the Crown, and does not extend to third parties such as TransCanada. In addition, the Crown's duty to consult does not require that the Crown and First Nation reach an agreement (*Haida Nation v. British Columbia (Minister of Forests)*, [2004] 3 S.C.R. 511, 2004 SCC 73 and *Taku River Tlingit First Nation v. British Columbia (Project Assessment Director)*, [2004] 3 S.C.R. 550, 2004 SCC 74).

SUBJECT: ALASKA HIRE AND CONTRACTING

Legislative Budget & Audit Committee Request #12

In its Execution Plan, TransCanada addresses its obligation under AS 43.90.130 for local hire and contracting. Its contracting strategy on page 2.3-18 does not mention its obligation to Alaska businesses and the Alaska Hire Section on page 2.3-19 is merely a restatement of the statute without elaboration. ***Can you elaborate on how TransCanada plans to comply with the Alaska hire and contracting requirements of AGIA?***

TransCanada Response

TransCanada is committed to complying with the AGIA Alaska hire, contracting and use of job centers as stipulated in AS 43.90.130, for work associated with the GTP and the Alaska section of the pipeline. The commitment to negotiate a Project Labor Agreement is also an integral element of optimizing benefits for Alaska residents. TransCanada recognizes the need for these provisions, as well as the benefits to the Project.

Further detail and elaboration as to how these commitments will be honored will be established early during the Development Phase of the Project, in consultation with stakeholders, to ensure relevant issues are understood and addressed.

An example of work that needs to be incorporated into a detailed plan is the State's recently released AGIA Training Strategic Plan, which addresses the "issues of capacity and competition for workers" (page 7, Draft AGIA Training Strategic Planning Document).

SUBJECT: PROJECT VIABILITY/CASH FLOW

Legislative Budget & Audit Committee Request #13

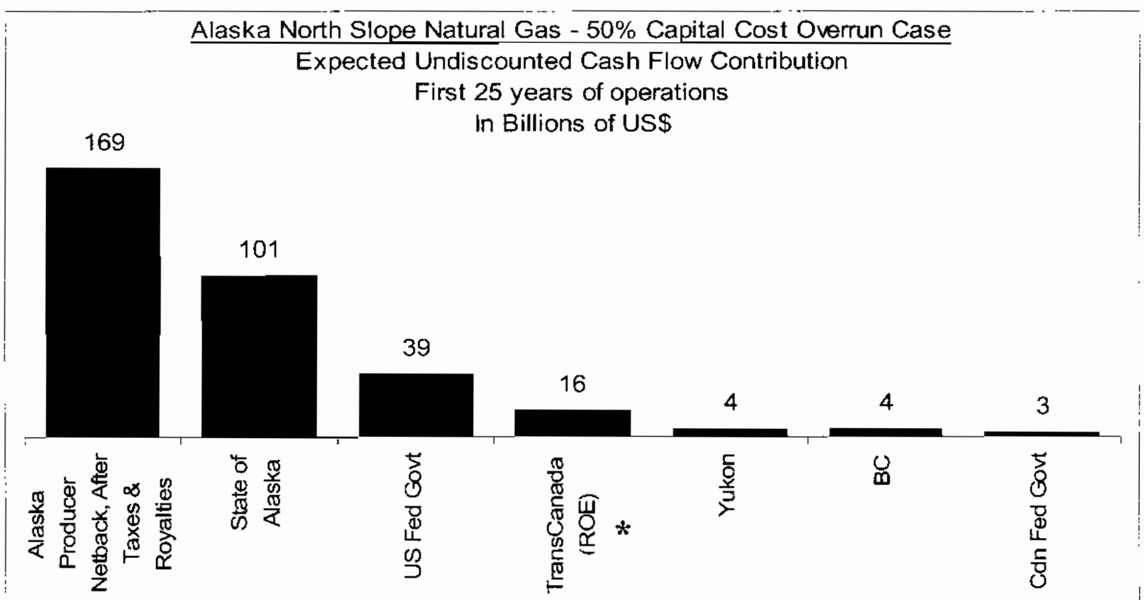
TransCanada at page 2.10-6 estimates the aggregate cash flows of the various Project stakeholders. ***If there is a 50% or 100% cost overrun, how does the aggregate cash flow change for the various Project stakeholders?*** TransCanada referred to a 100% cost overrun as an example of a stress case in its presentation before the House Open Caucus. ***Please recreate the TransCanada chart on p. 2.10-6 based on a 50% cost overrun and 100% cost overrun.***

TransCanada Response

TransCanada has made the following assumptions in this response:

1. The U.S. Government accepts TransCanada's Capital Cost Overrun Loan proposal as described in Section 2.2.3.11 "Minimizing the Effect of Cost Overruns on Rates" on page 2.2-71 of TransCanada's AGIA Application. All capital cost overruns would be financed with 100% U.S. Government guaranteed debt.
2. Market gas prices at the Alberta Hub stay above the surcharge threshold throughout the period from 2018 to 2042.
3. All assumptions set forth in Section 2.10(2) "Project Economics" of TransCanada's AGIA Application, as amended and submitted on January 22, 2008, remain applicable.

Below is the sensitivity chart as requested that shows the expected aggregate cash flow to various Project stakeholders in the event of a 50% Capital Cost Overrun. TransCanada does not consider your proposed 100% overrun case to be an appropriate stress test.



* Unchanged due to rounding. Note that TransCanada's expected undiscounted cash flow would be reduced by $375 million due to lower ROE as a result of a 50% cost overrun.

SUBJECT: ECONOMICS OF COST OVERRUNS

Legislative Budget & Audit Committee Request #14

TransCanada has proposed several vehicles to pay for cost overruns in their application. ***What would the impact be on the following elements under both a 50% and 100% cost overrun?***

- **Capital Cost Overrun Loan** – TransCanada has proposed to allocate the portion necessary of the U.S. Loan Guarantee to finance the Capital Cost Overrun. Should there be a Capital Cost Overrun, it would be funded 100% by the U.S. Loan Guarantee backstopped Project Loan. ["Capital Cost Overrun Loan"]. ***If there are insufficient funds to backstop both the capital cost overruns and the initial project costs, how would using the U.S. Loan to backstop the cost overruns affect the financing of the initial project costs?***
- **Surcharge Concept** – TransCanada proposes to use the surcharge concept to service the Capital Cost Overrun Loan.
  a. **Negotiated Rate Shippers** – Negotiated Rate shippers will be provided the option to elect for their share of the Capital Cost Overrun Loan servicing requirement to be collected via the surcharge. The surcharge would be required to be paid only when market gas prices at the Alberta Hub are above a predetermined threshold. ***Does the percentage of what TransCanada uses to pay off the Capital Cost Overrun Loan above the predetermined threshold change as the cost overruns increase?***
  b. **Recourse Rate Shippers** – Recourse Rate Shippers and those Negotiated Rate Shippers that have not elected the surcharge option would be required to pay a transportation toll that is inclusive of their share of the Capital Cost Overrun Loan servicing requirement regardless of the level of the market gas prices. ***Since Recourse rate shippers are paying for the cost overruns in their initial tolls, does their tariff rate decrease with the first couple of expansions or do they pay the additional expansion toll surcharge just like the negotiated rate shippers until the cost overruns are paid off?***
- **Expansion Tolls** – In addition to collecting surcharges from the Surcharge Shippers and tolls from the Non-Surcharge Shippers, TransCanada proposes to keep the transportation rates for all Shippers at the initial rate for any expansions that normally would result in lower rolled-in rates and utilize such incremental revenue to service the Capital Cost Overrun Loan. ***If the pipeline is expanded to 5.9 bcf/d, how long would it take for TransCanada to pay off the cost overruns using the surcharge from expansion tolls?***
- **Authorized Overrun Service** – TransCanada also proposes to use the revenues collected from selling the non-firm based transportation services, such as balancing services and authorized overrun service, to pay for the cost overrun debt. ***How much AOS service do you project? Will this have a significant impact on paying off the cost overruns?***

- **TransCanada's Reduced ROE** – Even though TransCanada's return on equity is reduced in the event of a Capital Cost Overrun, TransCanada proposes that Shippers would continue to pay a transportation rate that reflects the full rate of return on equity until the Capital Cost Overrun Loan is paid off. Until the earlier of (i) 5 years following the In-Service Date, or (ii) the date the Capital Cost Overrun Loan is paid off, TransCanada would utilize revenues collected from the spread of the rate of return on equity to service the Capital Cost Overrun Loan to pay for the cost overrun debt. ***What is the value of this surcharge? How much of the cost overruns will this surcharge pay off in 5 years?***
- **Rejection of Proposal by FERC or NEB** – The above proposed use of U.S. Loan Guarantee for Capital Cost Overrun credit support and the associated surcharge tolling concept are contingent upon approvals of the FERC and the NEB. In the event TransCanada is unsuccessful in securing approvals from these authorities to use the U.S. Loan Guarantee as contemplated above, all Capital Cost Overruns will be financed and treated the same as the Base Capital Cost and Shippers would be required to pay a base toll that includes 100% recovery of Capital Cost Overruns. ***See question below regarding DOE rejection of TransCanada Capital Cost Overrun Proposal.***

TransCanada Response

As per TransCanada's response to Request #13, TransCanada has not run the 100% overrun case. We believe the 50% overrun case is a good illustration of the contributions from the various sources of incremental revenues for servicing the Capital Cost Overrun Loan.

- ***If there are insufficient funds to backstop both the capital cost overruns and the initial project costs, how would using the U.S. Loan to backstop the cost overruns affect the financing of the initial project costs?***

  TransCanada does not expect that any allocation of the U.S. Loan Guarantee for Capital Cost Overrun credit support would cause any difficulties in raising financing for the initial Project. In fact, TransCanada believes it would enhance the financing flexibility for the initial Project as it would provide the lenders a greater degree of certainty that the Project would be completed in the event there is a Capital Cost Overrun.

  TransCanada believes that the initial Project costs could be financed on the merits of the Project, including - the track record of the sponsor, equity commitment of the sponsor, shipping commitment from the Shippers, etc. The primary benefit of using the U.S. Loan Guarantee to provide credit support for the initial Project costs is to reduce the interest rate. Should part of the U.S. Loan Guarantee be required to backstop a Capital Cost Overrun, and if there is insufficient remaining U.S. Loan Guarantee to cover the entire initial Project costs, then the interest rate for a portion of the initial Project costs would be higher than it would be otherwise. For example, using the interest rate assumptions as discussed in Section 2.2.3.5 "Rate Structure and Supporting Information" on page 2.2-65 of TransCanada's AGIA Application, the interest rate for a portion of the initial Project costs would be 6.2% instead of 4.7% if the U.S. Loan Guarantee is not available for the entire initial Project costs.

If the Project was completed on budget without incurring any overruns, the portion of the U.S. Loan Guarantee that was allocated to the Capital Cost Overrun would be reallocated for credit support to the initial Project costs. This would result in the higher interest charges applying only during the construction period.

- ***Does the percentage of what TransCanada uses to pay off the Capital Cost Overrun Loan above the predetermined threshold change as the cost overruns increase?***

  Details of the surcharge mechanism will not be finalized until discussions with the U.S. Government on using the U.S. Loan Guarantee for Capital Cost Overrun are concluded. There are different potential methods to recover Capital Cost Overruns. These methods, and how they might be applied, generally relate to the magnitude of any overruns and the degree that gas prices are above the predetermined threshold.

- ***Since Recourse rate shippers are paying for the cost overruns in their initial tolls, does their tariff rate decrease with the first couple of expansions or do they pay the additional expansion toll surcharge just like the negotiated rate shippers until the cost overruns are paid off?***

  Since Recourse Rate Shippers would pay for any cost overruns in their initial tolls, their tariff rate would be decreased if expansions result in lower rolled-in rates.

- ***If the pipeline is expanded to 5.9 bcf/d, how long would it take for TransCanada to pay off the cost overruns using the surcharge from expansion tolls?***

  Assuming the pipeline expands to a volume of 5.9 bcf/d in Year 1, the incremental revenues generated over 25 years by maintaining the tariffs unchanged as if the rates were set at a 4.5 bcf/d throughput would be sufficient to recover approximately 80% of a 50% Capital Cost Overrun without accounting for the interest charges, assuming no other revenues applicable to overrun recovery were available, i.e. no AOS revenues, ROE reduction contributions, etc. This means it would take approximately 31 years to recover a 50% Capital Cost Overrun through incremental revenue collection derived solely from a 5.9 bcf/d expansion.

- ***How much AOS service do you project? Will this have a significant impact on paying off the cost overruns?***

  Until prospective Shippers have tendered their capacity subscription, TransCanada cannot accurately project AOS availability. TransCanada has conducted an analysis which assumes there would be a theoretical annual average 100 mmcf/d of AOS available. If the entire 100 mmcf/d of AOS is fully utilized by Shippers over 25 years, these AOS revenues would be sufficient to recover approximately 23% of a 50% Capital Cost Overrun without accounting for the interest charges.

- ***Reduced ROE - What is the value of this surcharge? How much of the cost overruns will this surcharge pay off in 5 years?***

  TransCanada estimates that the ROE reduction for a 50% Capital Cost Overrun would provide about $375 million total value through the 5-year reduction period. This would represent approximately 3% of a 50% Capital Cost Overrun without accounting for the interest charges.

SUBJECT: ANNGT WITHDRAWN PARTNERS

Legislative Budget & Audit Committee Request #15

In its response to the State of Alaska regarding the ANNGT liabilities TransCanada states that "neither the TransCanada AGIA Applicants nor any other TransCanada entity will have any obligation to the Withdrawn Partners if the TransCanada AGIA Applicants succeed in building the pipeline proposed in their November 30, 2007 AGIA application." ***If TransCanada is found liable to the withdrawn partners and the liability was incorporated into the tariff, would only the Alaska section of the pipeline be impacted or would TransCanada spread that liability over the entire pipeline?*** TransCanada has made a statement assuring the State that "in the highly unlikely event that the TransCanada AGIA Applicants or any of their affiliates or subsidiaries were somehow required to pay an obligation to a Withdrawn Partner of ANNGT, the TransCanada AGIA Applicants hereby commit not to include such payment in the rates for the project proposed in their AGIA application." ***What form of documentation will your commitment take, e.g., waiver, release letter of credit, etc., and when can the State expect to see that documentation?***

TransCanada Response

It is entirely within TransCanada's control whether it seeks to recover damages of any kind within its tariff rates. A regulator cannot direct the pipeline to include damages in its rates if the pipeline does not intend to seek recovery of those costs from its shippers. TransCanada has already committed to the State that it will not include any such liability within the rates. This commitment was made to the State in TransCanada's response to Request #9 of the Request for Information issued to TransCanada on January 16, 2008, which states: "in the highly unlikely event that the TransCanada AGIA Applicants or any of their affiliates or subsidiaries were to be somehow required to pay an obligation to a Withdrawn Partner of ANNGTC, the TransCanada AGIA Applicants hereby commit not to include such payment in the rates for the project proposed in their AGIA application." Accordingly, the question is premised on a hypothetical that cannot occur since the liability will never be incorporated into the tariff.

As previously stated, TransCanada has committed in its response to Request #9 of the Request for Information issued to TransCanada on January 16, 2008 that it will not include any potential liability to withdrawn partners in rates for the Project. Pursuant to Section 1.17 of the Request for Applications, "All responses to data requests shall become part of Applicant's Application and binding upon Applicant as if part of the original Application." Section 4.3 of the Request for Applications provides that, "The License is an integrated document comprised of AGIA, Certificate of License, accepted Application, RFA and Terms and Conditions constituting one instrument." If the State recommends approval of TransCanada's Application and the Legislature approves issuance of an AGIA License to TransCanada, this commitment will be incorporated into such License.

Accordingly, the commitment made by TransCanada in its response on this issue is binding as part of the final contractual agreement and nothing further is required.

SUBJECT: COST OVERRUNS SURCHARGE

Legislative Budget & Audit Committee Request #16

TransCanada states at p. 2.2-71 that "For Negotiated Rate Shippers who have elected the Capital Cost Overrun Surcharge option ("Surcharge Shippers") their share of the Capital Cost Overrun Loan servicing requirement will be collected via the surcharge. Such surcharge would be required to be paid only when market gas prices at the Alberta Hub are above a predetermined threshold." ***What is that predetermined threshold? Please explain the elements of what will be used in determining the threshold? When will the shippers know how the threshold will be calculated? Is it TransCanada's intent to base the threshold on the cost of the tariff, the cost of the tariff plus a return to the shipper, etc.? What portion of the "net profit" above the predetermined threshold would be retained by TransCanada? For example, if the predetermined threshold was $3, and the sales price of the gas was $8, how much of the $5 above the predetermined threshold would TransCanada retain to pay off the cost overruns?***

TransCanada Response

It is premature to attempt to determine the predetermined threshold and the percentage of "net profit" sharing until a thorough discussion of TransCanada's proposed Capital Cost Overrun Loan is held with the U.S. Government. Prospective Shippers will know how the threshold is calculated prior to their commitment date in the initial Open Season.

SUBJECT: DOE REJECTION OF TRANSCANADA CAPITAL COST OVERRUN PROPOSAL

Legislative Budget & Audit Committee Request #17

TransCanada states at p. 2.2-72 "In the event TransCanada is unsuccessful in securing approvals from these authorities to use the U.S. Loan Guarantee as contemplated above, all Capital Cost Overruns will be financed and treated the same as the Base Capital Cost and Shippers would be required to pay a base toll that includes 100% recovery of Capital Cost Overruns." ***Does this mean that TransCanada will withdraw its proposed reduction in return on equity? If not, would the result be a reduction in toll? Does this mean that the Capital Cost Surcharge option is not available to Negotiated Rate Shippers? Does this mean that Expansion tolls would be reduced instead of paying off the Capital Cost Overruns? How will AOS receipts be allocated?***

TransCanada Response

In the event the U.S. Government decides not to support the Capital Cost Overrun Loan proposal as outlined in TransCanada's AGIA Application, the following would happen:

Does this mean that TransCanada will withdraw its proposed reduction in return on equity?

TransCanada's proposed reduction in return on equity as a result of Capital Cost Overrun would remain effective.

If not, would the result be a reduction in toll?

Yes, the toll would be reduced for 5 years.

Does this mean that the Capital Cost Surcharge option is not available to Negotiated Rate Shippers?

The Capital Cost Surcharge option would no longer be available to Negotiated Rate Shippers.

Does this mean that Expansion tolls would be reduced instead of paying off the Capital Cost Overruns?

Shippers' tariffs would change to reflect the actual rolled-in rate in an expansion. If such expansions result in a lower rolled-in rate, Shippers' rates would also be reduced.

How will AOS receipts be allocated?

Revenues collected from AOS would be credited to the account of the firm Shippers.

SUBJECT: TRANSCANADA CONDITIONS PRECEDENT TO PROCEED TO CONSTRUCTION

Legislative Budget & Audit Committee Request #18

TransCanada states at pp 2.2-60 to 61 that commencement of construction by TransCanada would be subject to several precedent conditions. The State of Alaska, in AS 43.90.240, requires the project to be abandoned only if it is determined that the project is proved to be uneconomic. Some of TransCanada's conditions precedent to moving forward with construction of the project do not seem to rise to the level of proving to be uneconomic required by 43.90.240. ***How does TransCanada reconcile the two positions?***

TransCanada Response

TransCanada does not believe there is any inconsistency between these provisions because they are not overlapping. Section 2.2.3.3 of the RFA entitled "Precedent Agreements", requires the Applicant to set forth "the material terms of any Precedent Agreements it plans to offer shippers, including the terms and conditions upon which Applicant will agree to construct facilities" (emphasis added). This requirement of the RFA would be meaningless and superfluous if in fact the only allowable condition precedent to the decision to construct was encompassed within the determination of whether the project was "uneconomic" as defined in AS 43.90.240. The principles of statutory and contractual interpretation would not allow for such an interpretation of the RFA. Instead, the requirement of Section 2.2.3.3 of the RFA can have no other purpose than to ensure that the State is informed of the Applicant's own criteria for proceeding with construction.

TransCanada has been pursuing the Alaska gas pipeline project for more than 30 years. TransCanada has met all of the AGIA requirements by committing to advance the Project through an initial Open Season and apply to the FERC for a Certificate of Necessity and Public Convenience. The conditions precedent to construction that TransCanada has set forth are standard in the natural gas pipeline industry. TransCanada is an independent pipeline company that continually seeks out economic investment opportunities in the North America pipeline industry. In addition, TransCanada is highly motivated to connect new natural gas supplies to its existing pipeline systems. TransCanada has every incentive to proceed with construction once the Project is ready to proceed. TransCanada's dedication and relentless efforts to advance the Project over the last 30 years, as well as the commitments it has made in its AGIA Application, are concrete evidence which demonstrates its motivation to complete the Project as early as possible.