TransCanada
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April 22, 2008

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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 April 5, 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 question.

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

The first question posed to you in our fifth request was incorrect and the purpose of this letter is to restate this question correctly.

Following is the restated question:

TransCanada has proposed both Recourse and Negotiated Rates in Alaska, as the FERC requires, and only Negotiated Rates in Canada because this is all the NEB requires. ***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 Recourse Rates are not offered in Canada?***

TransCanada Response

Are there certain terms of the tariff that we should be aware of that react differently to Recourse Rates or Negotiated Rates?

Tabled below is a comparison of the rate setting principles that are different for the Recourse Rates and Negotiated Rates. Details of these rate setting principles are provided in Section 2.2.3.5 "Rate Structure and Supporting Information", Section 2.2.3.6 "Alternative Ratemaking Methods and Incentives", Section 2.2.3.7 "Negotiated Rates", Section 2.2.3.8 "Anchor Shipper Incentive Rates and Commitments to Rates for Expansion Capacity" and Section 2.2.3.11 "Minimizing the Effect of Cost Overruns on Rates" of TransCanada's AGIA Application.

	RECOURSE RATES	NEGOTIATED RATES
Term of Services	25 years	25, 30 or 35 years
Capitalization (Debt/Equity)	70/30 through initial development, construction and operation. 60/40 for all expansions.	70/30 through initial development and construction. 75/25 following FERC approval of final cost. 60/40 for all expansions.
Annual Depreciation Rates	25-year straight-line, i.e. 4% per annum	Fully depreciated over the shipping contract term with annual depreciation rates varying from year to year in order to provide a levelized tariff profile on a nominal dollar basis.

	RECOURSE RATES	NEGOTIATED RATES
Capital Cost Overrun Loan Servicing	It would form part of the base tariff. Recourse Rate Shippers are required to pay their share of this loan servicing cost regardless of the level of market gas prices.	If the U.S. Government agrees to TransCanada's Capital Cost Overrun Loan proposal, Negotiated Rate Shippers would have the option to pay their share of this loan servicing cost either through a Surcharge, or as part of their base tariff similar to the Recourse Rate Shippers. For those Negotiated Rate Shippers which have elected the Surcharge Option, payment will only be required when the market gas prices at the Alberta Hub are above a pre-determined threshold. If the U.S. Government does not agree to TransCanada's Capital Cost Overrun Loan proposal, then the payment obligations of the Negotiated Rate Shippers' would be the same as for Recourse Rate Shippers.

Is there a reason why Recourse Rates are not offered in Canada?

The term "negotiated rates" as used in relation to Canadian transportation services does not have the same meaning as that term is used in the American regulatory context. In the United States, a "negotiated rate" is effectively a market-based rate in that it is not required to be based on cost of service ratemaking principles. The FERC requires that a "recourse rate" (which is a cost of service based rate) be established so that potential shippers have a choice between the negotiated rate and the recourse rate. Historically, NEB has generally required that gas pipeline transportation rates be cost of service based. However, the pipeline and its customers may agree on the cost of service elements (including incentive related elements) that are the inputs to establishing the cost-based rate. It is in this context that TransCanada has used the term "negotiated rate" for the Canadian transportation component.