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Financial Review of TransCanada and Proposal

June 10, 2008

Discussion Topics

- Key Findings
- Financial Strength of TransCanada
- Financing Review of Proposal

Summary of Findings

Is the Proposal Base Case Viable from a financing standpoint?

- Goldman Sachs believes that the Proposal Base Case is financeable based on the following:
  - Strength of project sponsor
  - Strength of prospective shippers
  - Proposal assumptions regarding contracts and cost over-run surcharge
  - Federal loan guarantee and cost over-run facility
  - Financial
    - Strong debt service coverage
    - Attractive equity returns
    - Favorable relationship between gas price forecasts and tariff
- Ongoing considerations
  - Obtaining shipper commitments
  - Obtaining federal loan guarantee commitments
  - Develop strong overall credit package
  - Strong project finance market

Cases Analyzed

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Proposal Base Case

Proposal Assumptions

- 4.5 bcf Pipeline
- 25-year Contracts
- 14% Return on Equity
- Cost over-run/ completion risk on shippers/investors
- Use of Federal loan

GS and Other Assumptions

- Project Costs
- Interest Rates
- Indicative Capital Structure

Cases

- Proposal Base Case: P50 Construction and 10 Year Average Rates/ Credit Spreads
- Stress Tests: P95 Construction, Base Rates
  P50 Construction, P95 Rates
  P95 Construction, P95 Rates

Financial Viability?

Alternatives to Base Case

Conservative Base Case
Smaller Gasline Project

- Conservative Base Case: 4.0 bcf with 20-year contracts and depreciation
- Sensitivities: contract length; depreciation period

LNG Options

- 2.7 bcf to Valdez
- 4.5 bcf to Valdez
- Y Line Expansion of 2.0 bcf to 6.5 Total bcf

Analytic Scope

- Comparative Financial Analysis
- Comparative Credit Discussion
- Feasibility Assessment

Summary of Findings

Does TransCanada Have the Financial Strength to Meet its AGIA Obligations?

- Goldman Sachs believes the TransCanada has the financial strength to meet its AGIA obligations
  - TransCanada has very stable, durable, and free cash flow generative businesses;
  - TransCanada generates substantial free cash flow at the corporate level that should enable the Company to debt-finance the majority of its equity contribution;
  - TransCanada's business and financial risk profiles substantially improve if the Project is completed;
  - Rating agency concerns about additional capital calls on TransCanada during construction likely would be alleviated by the cost overrun facility;
  - If capital calls are required because costs escalate, TransCanada should have the ability to contribute additional capital (if needed);
  - If TransCanada finances its capital contribution to the pipeline entirely with debt, ratings downgrades are possible (all else being equal) but maintenance of investment-grade ratings is expected; and
  - Maintenance of current ratings is possible if TransCanada takes actions to fortify its financial strength in anticipation of the project and ensures the agencies view the pipeline as having a high probability of success.

Financial Strength of TransCanada

How Will the Markets Assess TransCanada's Financial Strength?

- Lenders, ratings analysts, and investors will review:
  - TransCanada's existing financial and business profile
  - What can go wrong with the Project and within TransCanada's core businesses?
  - How will TransCanada finance their equity contribution?
  - Will TransCanada be required to make additional capital contributions if the pipeline project experiences delays or cost overruns?
  - Should analysis consolidate or not consolidate the project debt onto TransCanada's books?
  - Would TransCanada ever really "walk away" either during construction or after operations commence?
  - Overall Credit Assessment: Rate to the trough (i.e., the point in time during construction when financial pressure is highest), likely post-construction profile, or somewhere in between?

Key Rating Agency Commentary Regarding TransCanada

Moody's

Senior Unsecured Rating Outlook	A2[1] Review (Downgrade)

Key Strengths

- Predominately low risk, regulated gas pipeline operations with clear focus on gas transmission and power businesses
- Strong competitive position driven by importance of TransCanada's Canadian pipelines in transporting gas out of the WCSB
- TCPL's electricity generation assets tend to be characterized by either low marginal cost of production or long-term power purchase agreements with highly rated counterparties
- Stable and predictable free cash flow generation

Key Weaknesses

- Weak financial profile for the rating category – high leverage driven by deemed capital structure allowed on Canadian regulated pipelines and mitigated by generally more supportive regulatory and business environments in Canada
- Long-term declining WCSB production leads to increasing supply risk (may be offset by non-conventional production)
- Increasing exposure to power and unregulated businesses that may necessitate lower corporate leverage to offset a rise in business risk
- Growing portfolio of projects exposes the company to increasing levels of execution risk including allocation of management resources, management of construction cost and schedule risks and financing risk

Standard & Poor's

Senior Unsecured Rating Outlook	A- Stable

Key Strengths

- Business profile is "excellent" driven by predictable earnings from TCPL's mature, wholly-owned Canadian and US natural gas transmission systems which are supported by transparent regulation
- Strong competitive position driven by importance of Canadian pipelines in transporting gas out of the WCSB
- Investments in other pipeline operations provide a stabilizing offset to gradually declining earnings from traditional pipelines
- Consistent free cash flow generation remains a fundamental Company strength and provides a buffer against cost overruns and other project setbacks

Key Weaknesses

- Somewhat high leverage levels although credit ratios remain acceptable for its ratings
- Increasing earnings volatility as TCPL purchases power for resale into primarily unregulated markets (somewhat mitigated by forward sales contracts)
- Declining rate base (related to maturity of gas production in western Canada) and ROE (due to linkage to interest rates) has reduced earnings in recent years
- Near-term cost and operating uncertainty related to Bruce A Restart

[1] Moody's has assigned an A2 corporate rating to TransCanada PipeLines Ltd., which is an operating company and intermediate holding company of TransCanada Corp. The A3 rating on TransCanada Corp. reflects the effect of structural subordination of TransCanada Corp. to debt at TransCanada PipeLines.

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Current Moody's and S&P Ratings for TransCanada Comparables[1]

	TransCanada	Enbridge	MidAmerican Energy Holdings	Spectra Energy	Kinder Morgan Energy Partners
Corporate Ratings	A3/A-	Baa1/A-	Baa1/A-	Baa1/BBB+	Baa2/BBB
Outlook	Negative/Stable	Stable/Stable	Stable/Stable	Stable/Stable	Stable/Stable
Assets ($ millions)	$30,717	$20,161	$39,216	$22,970	$15,178
Revenues	8,941	12,072	12,376	4,742	9,218
EBITDA	3,888	1,768	3,838	1,965	1,732
Net Income	1,239	716	1,189	957	590
Debt/EBITDA[2]	4.0x	6.0x	5.2x	4.8x	4.1x
Debt/Cap[2]	59%	64%	67%	55%	61%
EBIT/Interest[3]	2.7x	2.1x	2.1x	2.3x	3.0x
RCF/Debt	14%	9%	12%	12%	4%

[1] Credit statistics as of 12/31/07 from Capital IQ.
[2] Lower is better
[3] Higher is better

TransCanada and its Comparables Have Accessed the Financial Markets in Good and Troubled Times

TransCanada's Recent Issues

- ***2008*** - $1.1 billion in common shares
- ***2007*** - $1.725 billion in common shares and $600 million in common units; $2.6 billion of long term debt and $1 billion of junior subordinated notes
- ***2006*** - $700 million of medium-term notes and $500 million of senior unsecured notes
- ***2005*** - $400 million of senior debt and $300 million of medium-term notes

MidAmerican

- ***2008*** - $650 million of senior unsecured notes
- ***2007*** - $600 million of long-term debt
- ***2006*** - $1.7 billion of senior unsecured notes and $350 million of long-term debt
- ***2002*** - $700 million of senior notes

Spectra

- ***2007*** - $450 million of senior unsecured motes

Kinder Morgan

- ***2008*** - $290 million of ordinary shares
- ***2007*** - $300 million of LP common units and $300 million of common shares
- ***2006*** - $250 million of LP common units
- ***2005*** - $75 million in common shares and $380 million of LP common units

Enbridge

- ***2007*** - $800 million of notes and $450 million of common shares
- ***2002*** - $150 million of common shares
- ***2000*** - $100 million of common shares

Source: Thomson Financial.

TransCanada Could Employ a Range of Alternatives to Fund its AGIA Obligations

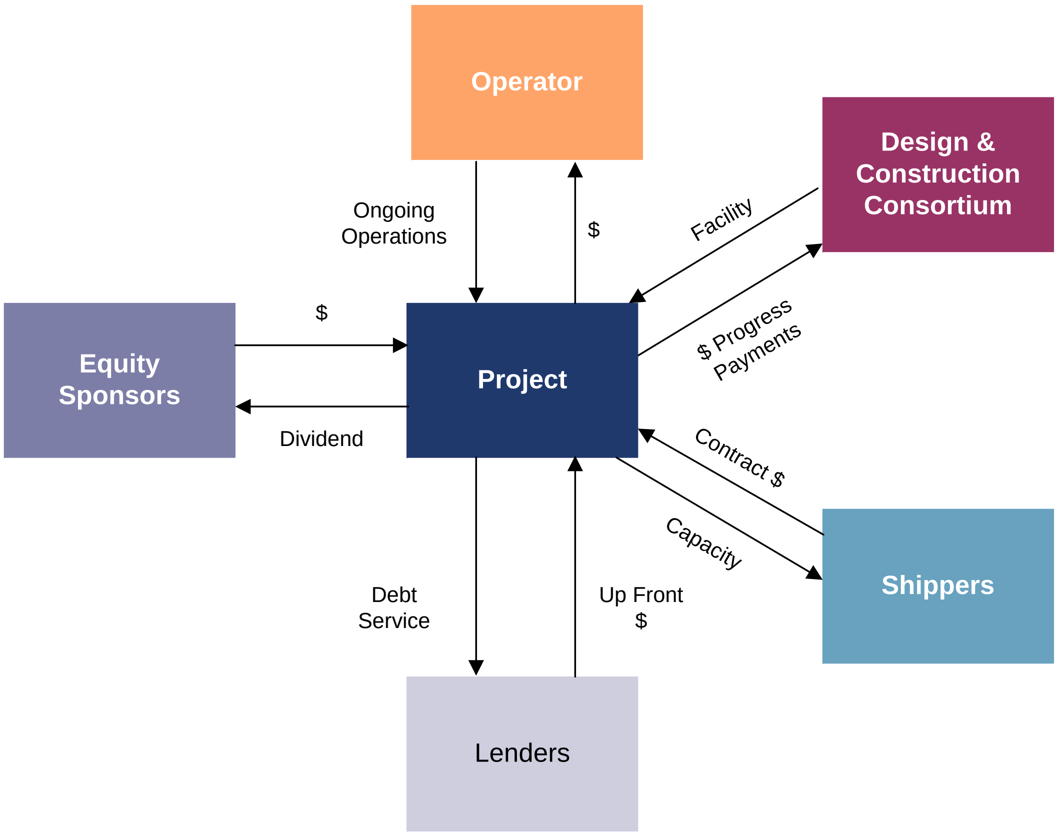
- Goldman Sachs Analyzed Four Alternative Approaches for TransCanada to Absorb Project Costs
  - ***Case 1 – "Base Case"***: Assumes that the costs related to TransCanada are equal to its equity investment only and are being financed 100% with debt. The equity method of consolidation accounting is used (i.e., revenues, costs, assets, debt, and cash flows at the Alaska pipeline level are not consolidated; only net income available to TransCanada is consolidated) and cash payments to TransCanada are equal to the amount distributed to equity holders and is recorded as other income.
  - ***Case 2 – "Fully Loaded"***: Assumes that TransCanada fully consolidates the project and all costs are on its balance sheet, financed 100% with debt. All income and expenses of the project are recorded on TransCanada's financial statements.
  - ***Case 3 – "50% JV Sell Down"***: Assumes TransCanada splits 50% of the project with a third party and proportional accounting is used. As such, 50% of the project's income and expenses are recorded on TransCanada's financial statements.
  - ***Case 4 – "Base with 25% Stock Financing"***: Uses the same methodology as Case 1, only instead of funding the costs with 100% debt, 25% of its capital commitment to the pipeline during years 2014-2017 are being financed through common equity issuance.

Financing Review of Proposal

Project Finance Loans are Based on a Complex Set of Contractual Arrangements

In a project financing, the lender's source of repayment is limited to project revenues and assets. Lenders will:

- Take limited completion risk – construction risk typically mitigated through EPC contracts and/or a combination of pre-completion guarantees or cost overrun protection facilities;
- Want to insure that all funding needs are provided for
- Assess operating risk as part of the overall project – seek protections from revenue interruption



Project Financings are Common in the Energy and Oil & Gas Sectors

Borrower Name	Project Name	Amount ($Mm)	Country	Sector	Financial Close
Emirates Aluminum - EMAL	Abu Dhabi Aluminum Smelter	$7,050	United Arab Emirates	Processing Plant	12-Dec-2007
Qatar Liquefied Gas Co Ltd (Qatargas) IV	Qatargas 4	5,714	Qatar	Oil Refinery /LNG and LPG Plants	30-Jul-2007
Fujian Refining & Petrochemical Co Ltd - FREP	Fujian Refining and Ethylene Joint Venture Project	5,600	China	Petrochem/ Chemical Plant	6-Sep-2007
Qatalum	Qatar Aluminum Plant	4,739	Qatar	Processing Plant	23-Aug-2007
Red de Carreteras de Occidente	FARAC Toll Road PPP	4,280	Mexico	Road	27-Sep-2007
Ambatovy Minerals SA	Ambatovy Nickel Project	3,700	Madagascar	Mining	22-Aug-2007
Tokyo Crimson Energy Holdings Corp (Mirant)	Mirant Acquisition	3,678	Philippines	Power	7-Jun-2007
Bombela Concession Co Pty Ltd	Gautrain Rapid Rail Link	3,630	South Africa	Rail-Infrastructure	25-Jan-2007
Yucpa Finance BV	Western Energy Development and Anaco Project - PDVSA	3,500	Venezuela	Oil Refinery/ LNG and LPG Plants	21-Feb-2007
Jubail Power & Water Co	Marafiq IWPP	3,500	Saudi Arabia	Power	14-May-2007

Source: Project Finance Magazine March 2008

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Proposal Assumptions that Impact the Proposal Base Case Financing Structure

- The Project is a 4.5 bcf/day system to transport natural gas from Prudhoe Bay to the Alberta market hub;
- 25-year ship-or-pay contracts with market standard shipper credit requirements;
- Debt is non-recourse to TransCanada (i.e., the debt is ‘project debt’);
- Capitalization of 70% debt and 30% equity during construction;
- Capital cost overruns to be financed through federally guaranteed cost overrun loans;
- Federally guaranteed capital cost overrun loans to be repaid through shipper surcharge; and
- No project completion guarantee or pre-completion debt guarantee from equity sponsors is assumed.

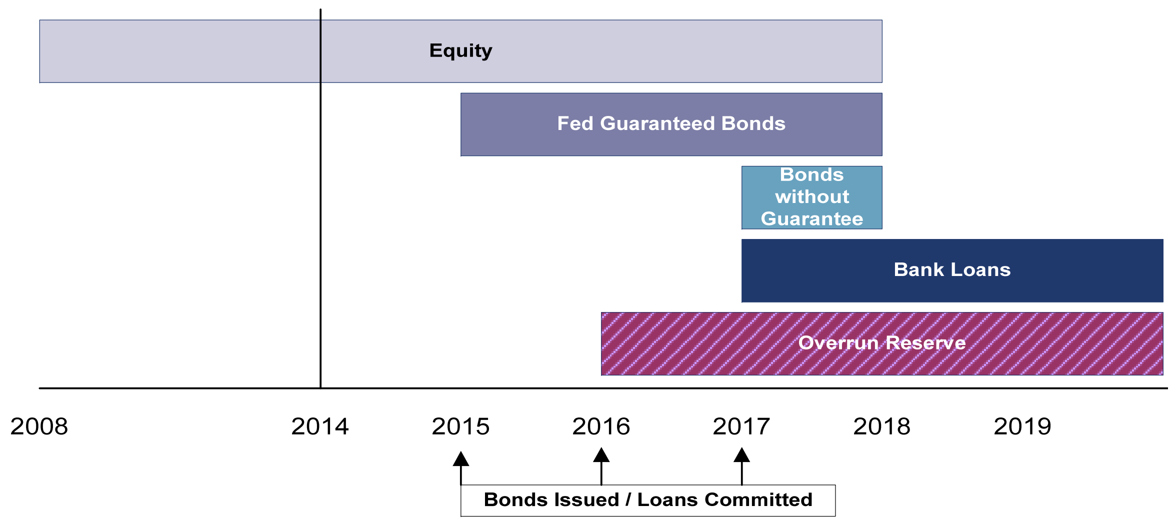
It is important to note that these assumptions underlie all of our conclusions with regards to the Proposal, and unless otherwise noted, any cases based on the Proposal.

Developing the Proposal Base Case Capital Structure

Key Drivers	Funding Considerations
■ Annual Funding Requirements	■ Timing of Equity vs. Debt
■ Mix of Funding Sources	■ Debt: Bank Loans vs. Bonds
■ Use of the Federal Loan Guarantee	■ Allocation of Federal Loan Guarantee
■ Interest Rate Assumptions	

Allocation of Funding Sources

- Equity requirement is significant and front loaded to attract lenders and to ensure investment grade ratings
- Optimize impact of Federal Loan Guarantee
- Minimize overall interest costs



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