LEGISLATIVE BUDGET & AUDIT COMMITTEE
Representative Ralph Samuels, Chairman

March 6, 2008

AGIA License Office
State of Alaska
Department of Revenue
550 West 7th Avenue, Suite 1820
Anchorage, AK. 99501

RE: Comment on Complete AGIA Application

Under the Alaska Gasline Inducement Act, the State of Alaska, through the Department of Natural Resources and the Department of Revenue, issued a Request for Applications on July 2, 2007. Of the five applicants who met the statutory deadline only one applicant met the minimum requirements of the statutes. AGIA has provided for a 60-day review and public comment period. Please consider this letter my response to that public comment opportunity.

The Legislative Budget and Audit Committee has sent a number of requests for information to TransCanada Pipelines Limited. The topics covered included open seasons, expansions, the Alberta Hub, cost overruns, and the economics of the project. We feel it is essential for the legislature and the administration to have the answers to these questions before moving forward with a recommendation for a license.

We request the administration pursue the answers to these questions and incorporate their response as a part of the record in this public hearing process. Also, please consider this a request for the administration to answer the questions we have previously posed to TransCanada. The letters to TransCanada Pipelines Limited requesting information are attached.

We look forward to your response to the attached questions.

Sincerely,

Representative Ralph Samuels, Chair
Legislative Budget & Audit Committee

LEGISLATIVE BUDGET & AUDIT COMMITTEE

REPRESENTATIVE RALPH SAMUELS, CHAIRMAN

February 19, 2008

Anthony M. Palmer
Vice-President Alaska Development
TransCanada PipeLines Limited
450 – 1st Street S.W.
Calgary, AB, T2P 5H1
Canada

Dear Mr. Palmer:

This letter is our first request for additional information and clarification on issues surrounding your AGIA application. We will have numerous questions and will attempt to categorize the issues in separate letters and would appreciate your responding in the same manner.

This letter addresses open season and expansion as it relates to the tariff. In reviewing the expansion analysis, we are attempting to determine which expansions would *increase* the tariff and which expansions would *decrease* the tariff.

1. What is the smallest economic expansion by compression?
2. What is a reasonable economic expansion increment that allows for same compressor size, etc.?
3. What is the smallest economic expansion by looping?
4. What is a reasonable economic expansion by looping?

In order to understand these issues more clearly we will pose some hypothetical scenarios.

1. What would the costs of expansion be for three expansions spaced two years apart:
    a. First expansion approximately 1 bcf/d two years after first gas (compression only).

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b. Second expansion approximately 1 bcf/d four years after first gas (compression only – completes expansion by compression).
c. Third expansion approximately 1 bcf/d six years after first gas (looping).
d. Please explain the tariff impact/change for each of the scenarios listed above.

2. If expansions were in reasonable economic increments, how many expansions would you expect to occur to get from 4.9 bcf/d to 5.9 bcf/d?

We look forward to your timely response to these questions.

Sincerely,

Ralph Samuels, Chair
Legislative Budget and Audit Committee

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February 19, 2008

Anthony M. Palmer
Vice-President Alaska Development
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Canada

Dear Mr. Palmer:

This letter is our second request for additional information and clarification on issues surrounding your AGIA application.

This letter addresses open season and expansion as it relates to reserve requirements and off-take locations.

1. When companies bid expansions (especially smaller companies), do they usually have 100% of the reserves identified to back up their bid, e.g. for a 20 year FT commitment?
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?
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?
4. Could there be other options or will all bidders be required to bid 20 or 25 years?
5. Will a non-binding open season help you make that determination?
6. What is the expected time commitment you will require for the expansion open season?
7. Does the size of the expansion make a difference?

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

Again, we look forward to your timely response to these questions.

Sincerely,

Ralph Samuels, Chair
Legislative Budget and Audit Committee

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Legislative Budget & Audit Committee

Representative Ralph Samuels, Chairman

February 29, 2008

Anthony M. Palmer
Vice-President Alaska Development
TransCanada PipeLines Limited
450 – 1st Street S.W.
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SENT BY FACSIMILIE TRANSMISSION

Dear Mr. Palmer:

This letter is our third request for additional information and clarification on issues surrounding your AGIA application. This letter will focus on questions relative to the Alberta Hub.

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?

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.*"

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

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?

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?

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?

We look forward to your timely response to these questions.

Sincerely,

Ralph Samuels, Chair
Legislative Budget and Audit Committee

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SENT BY FACSIMILIE TRANSMISSION

Dear Mr. Palmer:

This letter is our fourth request for additional information and clarification on issues surrounding your AGIA application. This letter will focus on questions relative to rates.

On December 14, 2007, TransCanada responded to a December 11, 2007, letter from the Department of Natural Resources. In its response to State of Alaska Request #4, TransCanada stated that, *"TransCanada determined that an equitable and balanced proposal would include firm service for 25 or more years, authorized overrun service ("AOS"), but no other interruptible service for the initial years. Although TransCanada recognizes the State's interest in offering interruptible service to delivery points in Alaska, TransCanada determined that offering interruptible service other than AOS in the initial years could make it more difficult to obtain financing for the initial Project."*

The State is interested in offering interruptible service to delivery points in Alaska. Can TransCanada define what it means by initial years? Are the initial years the term of years committed to by the shippers at the first binding open season, i.e., 25 to 35 years, or could the initial years be a term of years less than that?

In the same response letter TransCanada goes on to say, "TransCanada will utilize all revenues collected from AOS to first service the Capital Cost Overrun Loan. Once the Capital Cost Overrun Loan is repaid in full, TransCanada will credit all AOS revenues to the account of the firm transportation shippers."

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Please explain more fully how this works through the use of an example.

Executive Summary p.13, states, *"The rate of return on equity will be set annually at 965 basis points above the rate for U.S. 10-year Treasury Note in effect at the beginning of that year."*

1. Is this a common means for establishing return on equity in Canada or the U.S.?
2. How is return on equity normally established in Canada and in the U.S.?
3. How is the present proposal consistent with or different than what is normal in Canada and the U.S.?

Executive Summary p. 14, states, *"Consistent with FERC's Open Season regulations, the Alaska Section would provide a distance sensitive transportation rate for deliveries and receipts within the State. If acceptable to FERC, one single in-State zone based on weighted average volume distance will be created to represent all in-state deliveries. In accordance with AS 43.90.130(12), TransCanada commits to provide a minimum of five in-State delivery points ... with one of these points anticipated to make gas available to a potential intrastate pipeline delivering gas to the Alaska Rail Belt region."*

1. Please explain how the weighted average volume distance works.
2. Do you use the distance to the border in your calculation or the distance to the last delivery point in Alaska?

The application states one of the delivery points may make gas available to a potential intrastate pipeline that would make deliveries to the Alaska Rail Belt region. However, the possibility of an off-take point for LNG export is not discussed.

3. Will the option for an off-take point for LNG export also be accommodated in the open season?
4. Will a distance sensitive rate be available for this option as well?

Executive Summary p. 16, states, *"TransCanada will work with the State to jointly seek authorization to use the Federal loan guarantee available for the APP to fund any construction cost overruns. Negotiated Rate Shippers will have the option to repay those loans using a toll surcharge that is only to be paid when natural gas commodity prices at the Alberta Hub are above a pre-determined minimum threshold."*

1. When will the Shippers know the pre-determined minimum threshold?
2. Will they know by the initial binding open season?

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3. How will the pre-determined minimum threshold be determined? You mentioned that the Negotiated Rate shippers will have this alternative available, how will it affect the recourse rate shippers in Alaska?

Development Plan pp. 2.2-67-68, states, *"For the purposes of tariff/toll calculations herein, TransCanada has assumed the rate of return on equity would be 14% throughout the Project Development, Execution and Operations Phases."*

1. If the NEB or FERC authorize less than a 14% rate of return, do any of the other proposed TransCanada terms change? For example, the 2% cost overrun reduction in rate of return?
2. Will the State be required to support TransCanada's proposed 14% rare of return on equity before the FERC and NEB?

We look forward to your timely response to these questions.

Sincerely,

Ralph Samuels, Chair
Legislative Budget and Audit Committee

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SENT BY FACSIMILIE TRANSMISSION

Dear Mr. Palmer:

The Legislative Budget & Audit Committee has contracted with several individuals and firms to be responsive to applications submitted to the State for a gas pipeline. At present we have, Econ One Research, Inc., Dr. John A. Neri of Benjamin Schlesinger, Inc., Dan E. Dickinson, CPA, and Steven B. Porter.

We have asked all of our consultants to review your proposal and they all have the same request.

Please provide your spreadsheets in electronic format with the formulas intact with a list or schedule of inputs.

This information is not available in the DNR data room and our consultants need the information to fully understand the TransCanada proposal. WE look forward to your quick response to this request. Thank you.

Representative Ralph Samuels

Legislative Budget & Audit Committee, Chair

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