



TransCanada

In business to deliver

TransCanada PipeLines Limited
450 - 1st Street S.W
Calgary, Alberta, Canada T2P 5H1

tel 403.920 2035

fax 403.920 2318

email tony_palmer@transcanada.com

web www.transcanada.com

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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 February 19, 2008 (first of two 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: OPEN SEASON AND EXPANSION AS IT RELATES TO TARIFF

Legislative Budget & Audit Committee Request #1

What is the smallest economic expansion by compression?

TransCanada Response

TransCanada's pipeline system design is based on certain assumptions and parameters contained in its AGIA Application:

- Initial volumes of 4.5 bcf/d inlet to the pipe at Prudhoe Bay
- Ultimate flow of 5.9 bcf/d with compression only expansions
 - No change in compressor station spacing for interim expansions
- 48" pipe at 2500/2600 psig
- Expansion compressors will be the same size as the initial compressors
- Economic assumptions as per TransCanada's AGIA Application
- Expansions occur on the same date as the initial build

TransCanada estimates the first engineering increment above the initial 4.5 bcf/d, using compression only, is approximately 250 mmcf/d. This assumes the entire 250 mmcf/d of incremental gas will be received at Prudhoe Bay and delivered at the Alberta Hub, less fuel.

Legislative Budget & Audit Committee Request #2

What is a reasonable economic expansion increment that allows for same compressor size, etc?

TransCanada Response

Using the same assumptions as in TransCanada's response to Request #1, TransCanada's hydraulic design and analysis shows that the most logical economic expansion increment beyond the initial 4.5 bcf/d is to 5.1 bcf/d.

Legislative Budget & Audit Committee Request #3

What is the smallest economic expansion by looping?

TransCanada Response

TransCanada's AGIA Application indicated that expansions up to 5.9 bcf/d will be through the addition of compression only. Volumes above 5.9 bcf/d can be accommodated by either looping only, compression only, or a combination of both. The final decision on the make-up of facilities for expansions beyond 5.9 bcf/d will be taken at that time based on an updated analysis of the relative costs of pipe versus compression.

The smallest engineering increment, using looping only, above 5.9 bcf/d could theoretically be as small as 1 mmcf/d, if no consideration is given to the next logical large increment of capacity.

Legislative Budget & Audit Committee Request #4

What is a reasonable economic expansion by looping?

TransCanada Response

Using the same assumptions as in TransCanada's response to Request #3, TransCanada's hydraulic design and analysis shows that the most logical economic expansion increment beyond 5.9 bcf/d for the Project is to 6.5 bcf/d, either by looping or compression.

Legislative Budget & Audit Committee Scenario #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).
- (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.

TransCanada Response

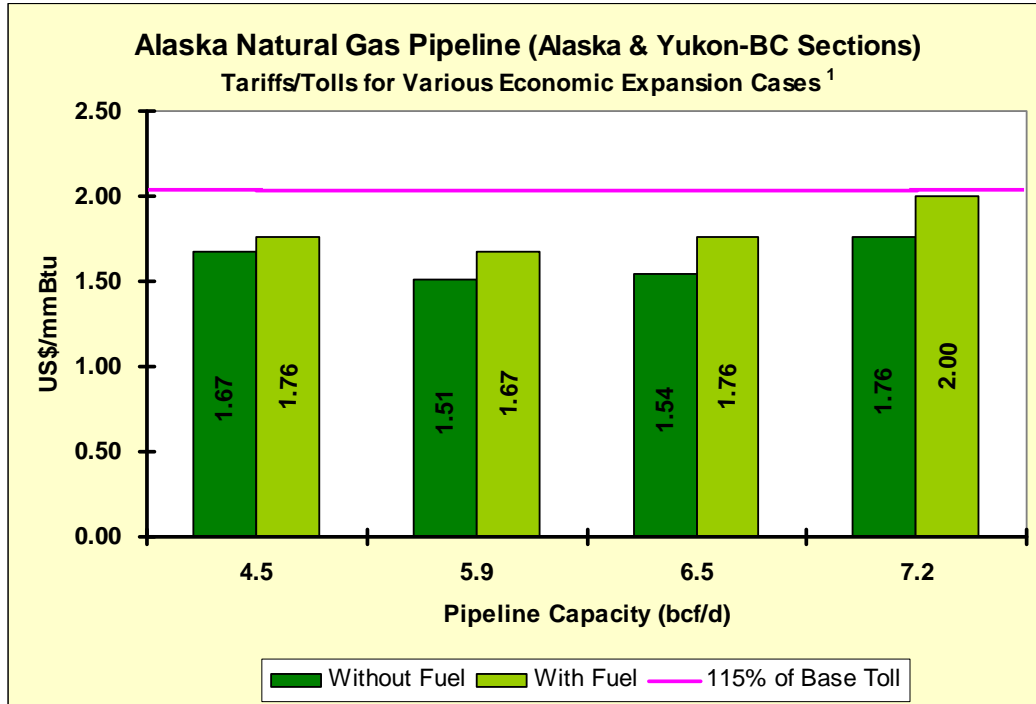
In responding to this request, TransCanada utilized the expansion cases it has available. This required some modifications to the expansion assumptions in your Scenario #1.

Assumptions:

- (a) 4.5 bcf/d initial volumes with in-service date November 1, 2017.
- (b) First expansion to 5.9 bcf/d, 1.4 bcf/d above initial volumes, two years after first gas with compression only.
- (c) Second expansion to 6.5 bcf/d, 2.0 bcf/d above initial volumes, four years after first gas with compression only.
- (d) Third expansion to 7.2 bcf/d, 2.7 bcf/d above initial volumes, six years after first gas with looping only above a series of compression expansions up to 6.5 bcf/d.
- (e) U.S. EIA gas price forecast as provided in the AGIA RFA. The U.S. EIA forecasts for Henry Hub natural gas spot prices are in constant 2005 dollars per mmbtu. TransCanada has inflated these forecasted prices by the U.S. EIA All-Urban Consumer Price Indices to nominal dollars.
- (f) Fuel costs are assumed to be the same as the netback prices at the wellhead.
- (g) Rolled-in toll treatment for all expansions, both the Alaska Section and the Yukon-BC Section.
- (h) Capital costs are estimated in 2007 dollars.
- (i) Tariffs/tolls are calculated based upon the same economic assumptions as stated in TransCanada's AGIA Application and are based upon a 25-year levelized rate model as discussed in Section 2.2.3.7 "Negotiated Rates" of TransCanada's AGIA Application.

Based on these assumptions, TransCanada has estimated the tariffs/tolls for the Alaska Section and Yukon-BC Section, with fuel and without fuel, for the above volume cases. These results are shown below. It is noteworthy that the rolled-in toll for the pipeline through 7.2 bcf/d (assuming compression expansions to 6.5 bcf/d and looping only from 6.5 bcf/d to 7.2 bcf/d) remains below 115% of the initial toll. TransCanada is confident

that it has selected a pipeline platform that is flexible and robust over a wide range of volumes.



1 Expansion sequence:
4.5 bcf/d - Year 1 & 2; 5.9 bcf/d - Year 3 & 4; 6.5 bcf/d - Year 5 & 6; 7.2 bcf/d - Year 7 & beyond

| TARIFF/TOLL FOR EXPANSION CASES AS A PERCENTAGE OF INITIAL 4.5 BCF/D TARIFF/TOLL | | |
|--|--------------|-----------|
| Pipeline Capacity | Without Fuel | With Fuel |
| 4.5 bcf/d | 100% | 100% |
| 5.9 bcf/d | 90% | 95% |
| 6.5 bcf/d | 92% | 100% |
| 7.2 bcf/d | 105% | 114% |

Legislative Budget & Audit Committee Scenario #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?

TransCanada Response

As per TransCanada's AGIA Application, the most logical economic expansion above 4.5 bcf/d would be to 5.1 bcf/d, and then to 5.9 bcf/d.