

Frequently Asked Questions Regarding the Alaska Gasline Inducement Act (“AGIA”) and the AGIA Process

AGIA, the Alaska Gasline Inducement

Q. What is AGIA?

A: AGIA, the Alaska Gasline Inducement Act, is Alaska’s law designed to advance construction of a natural gas pipeline from the North Slope to a market where the gas will be sold. Enacted last year, AGIA requires a pipeline project builder to meet certain requirements that will advance the project, in exchange for a license that provides up to \$500 million in matching funds, which will help reduce the financial risks that such a huge project faces in its early stages.

Q. How does AGIA advance a gas pipeline?

By requiring AGIA applicants to commit to certain milestones within a specific timeframe, Alaska is taking steps that will get a gas pipeline built and in operation as soon as possible.

The commitments AGIA requires the applicants to make are essential to developing a gas pipeline in Alaska. For instance, it requires application by a specific date for the regulatory approvals that are required before a pipeline can be constructed. It requires the applicant to agree to and hold an “open season,” the process by which the pipeline builder seeks commitments from the North Slope gas producers for future shipments of gas on the pipeline.

AGIA also includes important incentives for current North Slope gas producers. By committing to transport gas to market a producer will receive a long-term exemption from tax changes.

AGIA also looks to the future, by requiring applicants for the pipeline license to commit to expand the pipeline on rate and tariff terms that will allow explorers to fully develop Alaska’s vast North Slope natural gas resources.

Q. If using AGIA to get a pipeline built means the state will pay the project sponsor \$500 million, how is that better than a pipeline project being built without AGIA?

A: AGIA’s requirements that the license holder to take definite steps toward developing a gas pipeline within certain time periods in exchange for matching reimbursements moves the pipeline project forward in a defined timeframe. The state’s \$500 million matching contribution under AGIA is substantially less than the more than \$10 billion in tax concessions that resulted from Stranded Gas Development Act (SGDA) negotiations.

Q. Why was AGIA necessary?

A: AGIA was necessary to jump start a natural gas pipeline project with concrete milestones within specific timeframes to move Alaska toward a gas pipeline built and in operation as soon as possible.

The AGIA process replaces the failed Stranded Gas Development Act (SGDA) effort, which resulted in a privately negotiated agreement with three North Slope producers that was rejected by the legislature and the Alaska public.

Unlike the agreement negotiated under the SGDA, AGIA does not require the state to give up its sovereign rights to regulate its oil and gas resources or to indefinitely freeze tax rates only for certain companies. AGIA provides matching contributions to a pipeline builder in exchange for real steps toward developing a pipeline to monetize Alaska's gas resources.

The privately negotiated SGDA agreement, which required Alaska to give up its ability to regulate taxes on the companies for 30 to 40 years, would have cost Alaskans at least \$10 billion in revenues over its term in exchange for no commitment to actually build the pipeline.

Q. What is an "open season"?

A: An open season is a process required by the Federal Energy Regulatory Commission ("FERC") as a means of publicly advertising available capacity on a pipeline and soliciting bids from gas producers and other shippers for that pipeline capacity. In an open season, the pipeline owners post the amount of capacity that is available for transporting gas, and the generic tariff terms for all services that will be offered to those who bid for capacity on the pipeline. The pipeline owners also post the basic transportation rates that will be available to shippers for sending their gas through the pipeline. Holding an open season as a means of initially contracting for pipeline capacity helps to ensure that all potential gas shippers have equal access to available capacity on the pipeline.

Q. How does the AGIA process work?

A: AGIA requires the evaluation and selection of the project sponsor to take place in an open, competitive, public process. Instead of conducting private negotiations with select companies, the State of Alaska issued a Request for Applications ("RFA") in July 2007 seeking proposals from any interested party willing to meet the AGIA requirements. AGIA requires the Commissioners to evaluate applications under specific criteria set forth in AGIA and in the RFA to determine which application, if any, merits the award of the AGIA license.

Q. How many AGIA applications did the State receive?

- A. The State received five applications, from the following applicants:
- AEnergia, LLC
 - The Alaska Gasline Port Authority (“Port Authority”)
 - The Alaska Natural Gas Development Authority
 - Little Susitna Construction Company
 - TransCanada Alaska Co., LLC and Foothills Pipe Lines Ltd. (jointly, “TransCanada”).

Q. Since none of the North Slope gas producers applied, what if they refuse to commit their gas to the pipeline in the open season?

A: First, much of the gas is located on State land that the State has leased to the producers. Under their lease contracts with the State, those producers have a contractual duty to commit gas to a pipeline where it is economic to do so.

Second, and more importantly, forcing at least the three primary North Slope producers to abide by their contract terms likely will be unnecessary, since it would not be commercially rational for the leaseholders not to voluntarily commit their gas to the line. As reasonable commercial companies, the North Slope producers will want to make firm transportation commitments to ship gas on an economic pipeline project, regardless of who owns it.

In any event, Governor Palin is determined to use all commercially reasonable and legal means to assure that Alaska’s gas resources are developed. The State will take whatever actions are necessary to ensure that gas is produced from its lands consistent with the terms of the leases and unit agreements that the North Slope producers hold.

Q. If only one application met all 20 of the AGIA requirements, does that mean AGIA failed?

A: No. The goals of AGIA are to ensure exploration and development of the State’s natural gas resources on the North Slope, take steps to construct a natural gas pipeline as quickly as possible and make natural gas available to Alaskans through a public and open process. The AGIA application process was open to any party interested in the project. Because AGIA spells out the bedrock requirements identified by Alaskans through their elected representatives, even one application that agrees to satisfy the state’s needs is major progress. Whether the State received five applications or 20, the State only needs one qualifying application that can accomplish the goals defined in AGIA.

Q. As the lone remaining applicant, will TransCanada automatically receive the license?

A: No. The Commissioners must first thoroughly evaluate that application to ensure it accomplishes the goals in AGIA. The Commissioners will only award

the AGIA license if that the application sufficiently maximizes the benefits to the State and merits a license under the criteria in AGIA. The public's comments will assist the Commissioners in their evaluation of whether the TransCanada application meets the statutory test.

Q. Who makes the final decision concerning whether to issue the AGIA license?

A: The legislature. After the public comment period ends, the Commissioners will complete their evaluation of the value of the proposed project to the people of the state, review the comments submitted and issue a determination, with written findings, addressing the basis for their decision. If the Commissioners recommend issuance of the license, their findings will be forwarded to the legislature. The legislature then has 60 days to pass a bill approving the issuance of the license .

Q. What happens if the Commissioners determine the application doesn't warrant the AGIA license or a license is not approved?

A: AGIA provides that if no license results from the RFA process, the Commissioners may begin a new RFA process and request new applications for a license. Under AGIA, the Commissioners must determine that a proposed project "sufficiently maximizes the benefits to the people of this state and merits issuance of a license" before they recommend an AGIA license to the legislature. If the Commissioners were to determine that no application met that standard, they would issue a finding on that decision. If the Commissioners recommended a license to the Legislature, but the legislature did not pass a bill approving it within 60 days, AGIA remains in effect and the Commissioners have the authority to begin the RFA process over by requesting new applications for the AGIA license.

Q. What stage of the RFA process are we in now?

A: The Commissioners recently completed the initial application review process required to determine if the applications meet the 20 AGIA requirements (often called the "20 must haves"). Now the Commissioners are evaluating the remaining application as required by AGIA, and have commenced a public comment period.

Q. How can I submit a comment during the public comment period?

A: The 60-day public comment period ends on March 6, 2008 at 5:00 p.m. Alaska time. The public has three ways in which to submit a comment concerning TransCanada's complete application:

1. Electronically at: <http://www.dog.dnr.state.ak.us/agiacomments/>
2. By fax to: (907) 771-3930, Attn. Chris Rutz/Lana Steinert

3. By mail to the following address:

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

Q. What comes after the public comment period?

A: After the public comment period ends the Commissioners will consider all comments that have been submitted and will complete their evaluation. The Commissioners then will publish their findings and present them to the legislature along with a recommendation for or against issuing the AGIA License.

FAQ's regarding TransCanada's Application

Q. How can I review TransCanada's application?

The public can review all of the applications submitted under AGIA by visiting the Governor's AGIA website at: <http://www.dog.dnr.state.ak.us/agia/>

*Please remember that the portions of any applications containing proprietary information or trade secrets are not available for viewing by the general public.

Paper copies of TransCanada's application can be viewed at any of the 22 Legislative Information Offices located throughout the state. A complete listing of those offices can be found at: <http://w3.legis.state.ak.us/misc/lios.php>

Paper copies of all of the applications submitted pursuant to AGIA can be viewed at the Alaska Department of Natural Resources Public Information Centers located in Juneau, Anchorage and Fairbanks. For more information concerning these locations, please visit: <http://www.dnr.state.ak.us/pic/>

Q. What companies are involved in the TransCanada application?

A. TransCanada's application was submitted by co-applicants TransCanada Alaska Company, LLC and Foothills Pipe Lines, Ltd. TransCanada's application describes TransCanada Alaska Company, LLC as a subsidiary of Calgary-based TransCanada Corporation. TransCanada Corporation was founded in 1951 and employs more than 3,500 people. TransCanada Corporation operates two principal business segments: pipelines and power generation. The company owns pipeline assets totaling 36,500 miles in the

United States, Canada and Mexico in addition to power generation assets in North America capable of generating 7,700 megawatts of electricity.

TransCanada's application describes Foothills as a wholly owned subsidiary of TransCanada Pipelines Limited. The 1,241 km Foothills natural gas transmission system carries natural gas for export from central Alberta, Canada to the U.S. border to serve markets in the U.S. Midwest, Pacific Northwest, California and Nevada. The company's Canadian pipelines are regulated by the National Energy Board of Canada. According to TransCanada, Foothills holds the required certificates under Canada's Northern Pipeline Act ("NPA") for the Canadian portion of TransCanada's proposed Alaska natural gas pipeline project.

More information about TransCanada can be found at:
<http://www.transcanada.com/>

Q. Does TransCanada have the experience to build large natural gas pipeline projects like the one from the North Slope?

A: Yes. TransCanada's application explains that, in addition to owning pipeline systems that total more than 36,500 miles of pipeline and approximately 29.5 billion cubic feet of gas throughput per day (bcf/d), TransCanada also operates numerous affiliated pipelines in North America. TransCanada explains that it recently completed a \$6 billion (Canadian dollars) expansion of its Canadian Mainline system and, in the 1990's, completed a \$14 billion (Canadian dollars) expansion of its Alberta System, which now totals more than 14,500 miles of pipeline and 11.1 bcf/d of gas throughput.

Q. Other than the pipeline itself, are there other facilities that will need to be constructed?

A: Yes. A pipeline to carry Alaska's gas from the North Slope will require additional facilities to help move the several billions of cubic feet of gas through the pipeline and monitor the gas. TransCanada's application calls for 16 compressor stations to be built, 6 in Alaska and 10 in Canada. TransCanada will have to construct permanent metering stations and operations and maintenance centers at various locations along the pipeline. Temporary access roads, materials sites and construction camps will also be required.

A North Slope Gas Treatment Plant ("GTP") will also need to be constructed. Based upon TransCanada's application the GTP would process approximately 5 billion cubic feet per day of gas from the existing Central Gas Facility at Prudhoe Bay. TransCanada's application proposes to develop, own or operate the GTP only if no other third-party agrees to do so.

Q. Does TransCanada own rights to any Alaska gas to ship on the pipeline?

A: No. TransCanada’s proposal is to build an open-access pipeline and enter contracts with gas producers for shipping the gas on the pipeline to market. The open season required by AGIA is the first step in this process.

Q. Does TransCanada’s proposal condition its commitments on the federal government acting as a “bridge shipper”?

A: No. While TransCanada’s application mentioned the “bridge shipper” concept as a means of allowing the project to go forward even if the major North Slope producers refuse to participate in an open season, TransCanada did not make its commitments to fulfill any of AGIA’s requirements conditional in any way, including either the State’s or U.S. Government’s agreement to or participation in the bridge shipper concept. TransCanada unconditionally committed to all the 20 AGIA requirements.

For a more detailed discussion of this issue, see “Response to Mischaracterization of TransCanada Application as Conditional” posted on the Governor’s AGIA website at <http://www.dog.dnr.state.ak.us/agia/>

Q. Has TransCanada conditioned its commitments to go forward with the project on the receipt of federal loan guarantees?

A: No. While TransCanada’s application offers a creative way to use federal loan guarantees, TransCanada did not condition its commitments under AGIA on obtaining the federal loan guarantees, or on either the State or U.S. Government approving TransCanada’s concept of how to use the loan guarantees. TransCanada unconditionally committed to all 20 of AGIA’s mandatory requirements.

For a more detailed discussion of this issue, see “Response to Mischaracterization of TransCanada Application as Conditional” posted on the Governor’s AGIA website at <http://www.dog.dnr.state.ak.us/agia/>

Q. Is TransCanada financially stable?

A: TransCanada’s application states that has a strong credit rating (a rating of “A3” from Moody’s Investors Services), nearly \$30 billion (in Canadian dollars) in assets and a net annual income of more than one billion dollars (Canadian).

More information concerning TransCanada’s finances can be found at: <http://www.transcanada.com/investor/financial.html>

Q. Once completed, how much gas would TransCanada’s Alaska pipeline be able to ship?

A: As proposed, the initial capacity of the pipeline would be 4.5 billion cubic feet per day. TransCanada's application also contemplates expansion by the construction of 7 additional Alaskan-based compressor stations and 9 additional Canadian-based compressor stations. The addition of extra compression would allow the system capacity to increase to 5.9 billion cubic feet of gas per day. The application also contemplates even further expansion through pipeline "looping" and the installation of additional compressors.

Q. What route does TransCanada propose to follow?

A: In Alaska, TransCanada's proposed pipeline will originate on the North Slope near Prudhoe Bay and generally follow the Trans Alaska Pipeline System south to a location near Prospect Creek. The pipeline will then diverge from the TAPS route and continue south-east following the Alaska Highway to the Alaska-Canada (Yukon Territory) border near Beaver Creek. Once in Canada, the proposed pipeline will follow the Alaska Highway through the Yukon crossing into British Columbia near Watson Lake. The pipeline will continue to run south-easterly through British Columbia, crossing into Alberta near Boundary Lake. Once in Alberta, the pipeline will interconnect with other existing pipelines at what is referred to as the "Alberta hub".

Q. How many miles is the pipeline proposed by TransCanada?

A: The total length of the proposed pipeline would be approximately 1,715 miles. The Alaska portion of the proposed pipeline is 750 miles of 48-inch diameter pipeline. The Canadian portion of the proposed pipeline is 965 miles long.

Q. Will the pipeline be above or below ground?

A: According to TransCanada, the pipeline will be buried below ground, except at compressor and metering stations, river and certain highway crossings and major faults.

Q. According to TransCanada's application, when does it anticipate beginning construction?

A: TransCanada's application states that it anticipates filing for Federal Energy Regulatory Commission (FERC) approval at the end of 2011 and receiving the FERC Certificate of Public Convenience and Necessity, allowing pre-construction activities to begin, in 2013. In its proposal, construction of the pipeline would begin in 2015.

Q. When would construction of the pipeline be finished?

A: TransCanada's application states that it anticipates completion of the pipeline by November 2017.

Q. When will gas start to flow through the pipeline?

A: TransCanada's application states that it anticipates commercial operations (gas flowing on the system) would begin by November 2017.

Q. What is the estimated cost of the project?

A: TransCanada's application states that during the Development Phase, the period after the AGIA license is issued through the start of the construction of the project, it anticipates spending an estimated \$600 million requiring over 3.7 million hours of labor (this phase would cover approximately a 5-year period from 2008-2013). The money would cover engineering work, environmental work and work on regulatory filings. During the Execution Phase, which would begin in 2013 and extend through the completion of pipeline construction, the project has an estimated cost of \$25 billion.