STATEMENT OF TONY PALMER ON BEHALF OF TRANSCANADA PIPELINES LIMITED AND ALASKAN NORTHWEST NATURAL GAS TRANSPORTATION COMPANY

Good morning.

My name is Tony Palmer. I am Vice President for Alaska Business Development TransCanada Pipelines Limited ("TransCanada").

TransCanada is a longstanding developer of major new pipeline systems in North America, with significant expertise in frontier and cold-weather areas. TransCanada owns Alaska Northwest Natural Gas Transportation Company ("Alaskan Northwest"), the entity selected by the President, the United States Congress and the FERC to construct and operate the Alaskan segment of the Alaska Natural Gas Transportation System ("ANGTS") and the holder of the NGA certificate of public and necessity for the ANGTS.

TransCanada, through its subsidiary Foothills Pipe Lines Ltd., also holds the authorizations, granted by Act of Parliament pursuant to the Northern Pipeline Act, to own and construct the related transportation facilities through Canada, which are also recognized in a treaty between the Government of Canada and the Government of the United States. Foothills built, and has expanded numerous times, the "pre-build" facilities, which now transport approximately one-third of all gas exported from Alberta into the lower 48 states.

Last month, TransCanada also completed its acquisition of Gas Transmission – Northwest, the gas transmission system that comprises the original Western Leg of the ANGTA "pre-build facilities" in the United States.

TransCanada is also actively involved in Canada in developing the MacKenzie Valley reserves, working with other entities, including affiliates of Conoco-Phillips and Exxon, to develop the infrastructure to transport those reserves to market.

TransCanada has been, and remains, firmly committed to build and operate the transportation infrastructure necessary to transport Alaskan gas reserves to North American markets.

TransCanada and Alaskan Northwest are actively engaged in pursuing the commercialization of a pipeline for Alaska gas, and in obtaining the remaining regulatory approvals needed to construct an independent pipeline to deliver gas from Alaska to the lower 48 States. TransCanada, Alaskan Northwest and their affiliates do not own interests in any Alaskan gas reserves. TransCanada has consistently expressed its willingness, even its preference, that the project be developed jointly with multiple stake holders, including independent pipeline developers/investors, natural gas producers and Alaskan interests, including specifically the State of Alaska.

No matter who participates, TransCanada's vision is an independent, transportation-only pipeline whose sole corporate goal will be to maximize throughput by constructing a pipeline large enough to accommodate all interested initial shippers and by expanding the pipeline when new reserves and shipping commitments are available. Such an independent pipeline will support the interests of both initial and future shippers on the pipeline.

Background

The effort of TransCanada and Alaskan Northwest to construct an Alaskan pipeline system has a long, complex history. The full background will be described in more detail in our formal written comments to be filed later this month.

Briefly though, in 1977, the Commission issued a conditional certificate under the Alaska Natural Gas Transportation Act to the persons designated by the President to construct and operate the ANGTS. In 1980, the Commission issued final certificates authorizing construction and operation of the Eastern and Western Legs of the ANGTS in the United States. In Canada, "pre-build facilities" were constructed under the original certificates and have been expanded five times, most recently in 1998. In 1982, however, market changes resulted in decreased demand for gas and Alaskan Northwest announced suspension of activities on the yet-to-be built Alaskan portion of the ANGTS.

For the last 27 years, the ANGTS sponsors have been active in acquiring and maintaining the approvals necessary to permit prompt and efficient construction of the ANGTS when market conditions improved. Since the conditional certificate was issued, Alaskan Northwest obtained a right-of-way grant across federal lands from the U.S. Department of the Interior; numerous design approvals and environmental authorizations, such as wetlands permits under Section 404 of the Clean Water Act, from U.S. authorities. In addition, in 1981, Alaskan Northwest filed an application with the State of Alaska for a right-of-way lease of State lands needed for the ANGTS. During this period, the ANGTS sponsors also continued to study ways to take advantage of technological advances that would reduce the final costs of the ANGTS.

Despite the delay in completing the northernmost portions of the ANGTS, the certificates and permits obtained by Alaskan Northwest remain valid as confirmed by Section 110 of the recently enacted legislation. In addition, the related certificates in Canada held by Foothills remain valid and exclusive.

For the last few years, TransCanada has expended substantial money and worked diligently to update the pending Alaska right-of-way application. In June 2004, TransCanada, through Alaskan Northwest and TransCanada Alaska Company, LLC ("TransCanada Alaska"), submitted an updated application for the State right-of-way lease. On October 15, 2004, the State of Alaska published for comment its draft findings in support of the grant of the necessary State right of way lease as well as the draft lease document itself. Public hearings and comment are now underway. Following a public comment and hearing process, TransCanada anticipates that the Commissioner of the

Alaska Department of Natural Resources will issue a final determination and grant of the State of Alaska right-of-way lease for the ANGTS in the first quarter of 2005. TransCanada appreciates the focused and determined efforts of the State's Administration to move this application forward.

Recent Legislation and the Commission's NOPR

TransCanada presented testimony and participated generally in the many legislative inquiries that led to enactment of the Alaska Natural Gas Pipelines Act ("ANGPA"). In our view, the open season requirements of that act were designed to allow for a resolution of competing interests for pipeline capacity in a way that best serves the public interest. Specifically, the open season requirement along with the provisions for voluntary and Commission-mandated pipeline expansion are designed to bring to market proven reserves that so far have been stranded on the North Slope as soon as possible, while promoting the exploration and development of potentially significant additional reserves by ensuring that future reserves can obtain meaningful access to the pipeline.

We think the rules proposed by the Commission fulfill the spirit and the requirements of the ANGPA. The proposed rules are not overly prescriptive and provide a fair and open process for allocating capacity on an Alaskan Pipeline. At the same time, the proposed rules recognize that at this stage of development project sponsors require flexibility to design both initial and expansion open seasons that will yield firm transportation contracts necessary to secure the capital to develop and construct a project of this scale. In our view, such flexibility is critical to promote the timely and essential delivery of Alaskan natural gas to the Lower 48 States, the primary goal of the legislation.

Regarding the proposed regulatory text, TransCanada expects to have additional written comments, but today, I would like to comment on only one issue. The balance of my remarks will address the general questions posed by the Commission.

Section 157.33(b)(17): Requirement to Make Information Available

The proposed rule requires that the published notice of an open season contain

> "all other information that may be relevant to the open season, including information pertaining to the proposed service to be offered, projected pipeline capacity, and design, proposed tariff provision, and cost projections, made available to or in the hands of any potential shipper, including any affiliates of the project sponsor and any shippers with presubscribed capacity, prior to the issuance of public notice of open season."

We think the rule is too broadly worded. To avoid unnecessary burdens, covered information should be limited to data that is relevant to avoid undue discrimination and ensure transparency in the open season process. For instance, open season participants have a legitimate interest in understanding how recourse rates were developed, knowing what factors were involved in a prearranged deal, and understanding any projections of the costs of future expansions.

As an active participant since ANGTA was enacted, Northwest Alaskan has accumulated a vast quantity of data, including engineering data, land surveys, and environmental studies, spanning over 27 years. Much of the data is proprietary to Alaskan Northwest and virtually none of it is relevant to the design of, or participation in, an open season today. Nevertheless, if an affiliate of Northwest Alaskan or any other pipeline partner is interested in shipping gas on the pipeline, the proposed regulation might be interpreted to require the production of information that could be useful to a competitor but would have no practical value to participation in an open season. Instead of referring generally to "all other information that may be relevant to the open season," we think the proposed requirement should give more specific guidance on the type of data that is considered relevant to the open season process.

TransCanada intends to provide specific language to address this concern in its written comments later this month.

Specific Questions

In addition to comments on the proposed rules, the Commission has asked for comments on several specific questions. TransCanada will address each of these questions further in its filed comments, but there are some specific comments that I would like to offer today.

Notice and Comment on Open Season Proposals

In the NOPR the Commission asks whether it should require applicants to file open season proposals with the Commission in advance and whether such proposals should be filed for notice and comment only , or for a mandatory determination by the Commission that they conform to the regulations.

The Commission's proposed rules, if adopted, would provide sufficient guidance as to what is required to conduct an open season. Also, the proposed rules require an applicant to post notice of an open season on its website at least 30 days in advance of commencement. Therefore, we think that additional requirements for prior notice and comment on the open season are unnecessary.

It might be helpful, however, to allow an applicant the option to file a open season proposal for a 45-day comment period and request a predetermination from the Commission of its compliance with the regulations, if the applicant is uncertain whether its particular proposal is in conformance with the open season rules. The flexibility to allow the project sponsor to decide whether and at what stage to seek a Commission predetermination will accommodate the many scenarios under which the project may unfold.

For example, a project sponsor may conduct a series of non-binding open seasons to gauge interest in various alternative tariff and/or design options. Each of these open season materials may not need to be burdened with filing requirements at the Commission, given their non-binding nature. Another scenario is where there have been wide-ranging discussions with multiple shippers and the open season materials are well within Commission guidelines and precedent. In such a case, adding additional regulatory filings and approvals may only delay further development of the project. For these reasons, TransCanada recommends that the Commission forego mandatory review, but allow project sponsors voluntarily to seek prior approval of their open season processes.

Presubscribed Capacity

In its NOPR, the Commission asks whether it should allow pre-subscribed, reserved capacity such as was allowed for certain pipelines on the Outer Continental Shelf. TransCanada believes that such pre-subscriptions should not be precluded and, in fact, may be necessary for the pipeline to secure the significant capital required for even the pre-application stages of a project. Given the expense, risk, and long lead time for construction that an Alaskan project presents, investors will not provide either equity or debt financing without firm transportation, or at least binding precedent, agreements. The Commission acknowledged this reality in the *Garden Bank* and *Green Canyon* cases, which represented far less risk and expense than an Alaskan pipeline.

Therefore, TransCanada believes that, in order to attract capital for a project of this scale, pipeline sponsors should be allowed to enter agreements for presubscribed capacity, provided that such presubscriptions do not deny other bidders a fair opportunity to secure initial capacity. Pre-agreements with "anchor shippers" could take a variety of forms, all of which could provide a fair and reasonable balance between the interests of anchor and subsequent shippers.

For example, project developers may negotiate prearranged precedent agreement with prospective shippers who will then be obligated to bid into the open season subject to being outbid. Such prearranged agreements are probably a minimum permissible type of agreement for a project of this scale and gap between concept and in-service date.

Another commercial option may be for the project developers to secure binding prearranged precedent agreements from "backstop" or "transition shippers" who are willing to sign firm transportation agreements if no other shipper comes forward but who are willing to step down their capacity commitments to pre-agreed levels in favor of other shippers deciding to bid into the open season on terms acceptable to the project developers but not necessarily at a higher net present value. Such flexibility in awarding capacity – provided the rules are clear in the notice – may be necessary to jump start this project. Flexibility, transparency and reasonable opportunities for all shippers should be the guiding hallmarks of the Commission's rules in this area.

TransCanada is appreciative of the Commission's concerns for transparency coupled with reasonable rules of the road. However, it is also clear to the entire industry in both Canada and the United States that this project is under consideration – that is an understatement, who the key players are, and that any final project plan must balance the need to deliver today's known reserves and provide access to Lower 48 markets for additional reserves. Thus, TransCanada submits that the Commission should lean more in the direction of granting much needed flexibility to project sponsors and prospective shippers rather than prescribing strict, inflexible or impractical regulations. The Commission should remain open to creative attempts to allocate capacity in a way that will help the project attract financing, as long as the process is open and fair to all.

Expansions Under Section 105

The Commission asks whether it should issue regulations now pursuant to its authority to require expansions under section 105 of the ANGPA. We believe that it should not. At this point, it makes sense to focus on the requirement to establish open season rules for initial construction and expansion initiated by the pipeline.

There is no urgency that requires specifying what rules should apply for requiring expansion of a pipeline that will not be built for a number of years. It seems quite possible that factors not currently known will emerge as a result of the pipeline's operating experience. We think it makes sense to wait until the pipeline is in operation before trying to develop the specific requirements that will govern any required expansion.

Indeed, under TransCanada's vision for an ANGPA pipeline and the tests established by section 105, TransCanada believes that it is very likely that any expansion that would satisfy the tests of section 105 would be voluntarily embraced by the pipeline. We note that TransCanada and it subsidiary, Alaskan Northwest are independent pipeline companies whose goal is to deploy capital in search of a profitable rate of return. As such, Alaskan Northwest has a clear incentive to maximize throughput on its facility and can be expected to make fairly compensated investments to accommodate all initial commitments as well as to expand its system as new reserves come on line.

Rolled in Rates

Finally, the Commission has asked whether any tension may exist between the goals of promoting open competition in the exploration, development and production of Alaskan natural gas and the application of existing Commission policies to the open access rules. On this issue, we agree with views expressed by Anadarko Petroleum Company that the rate uncertainty accompanying serial expansions of an Alaskan system could discourage exploration and development and the concerns that the nature of pipeline expansions could create a wide range of rates for shippers who are similarly situated.

Under existing policy, the Commission approves a rolled in rate for a pipeline expansion only if the rolled in rate will be equal to or less than the pipeline's existing recourse rates.

(This happens where increased revenues resulting from an expansion exceed the costs of the incremental facilities). For this unique project, though, we think the Commission should give an early signal that it will be open to rolled in pricing, under other scenarios, in order to promote exploration and development and to avoid regulation that creates different rates for similar services. Indeed, given the long lead time and extraordinary expense required to explore for and develop the reserves necessary to support future expansions, we think the Commission should establish a rebuttable presumption in favor of rolled in rates for expansions of an Alaskan pipeline.

CONCLUSION

Thank you for the opportunity to offer comments today on behalf of TransCanada and Alaskan Northwest. I will be happy to answer any questions.