



July 13, 2006

VIA FAX: (907) 465-3889

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Hal Kvisle
President and CEO

Dear Governor Murkowski:

Re: Letter from Governor Frank H. Murkowski to the Honorable Ben Stevens, dated June 22, 2006 regarding a Pipeline to Transport Natural Gas from the Alaska North Slope to North American Markets (the "Project")

I am writing to provide comments on your June 22nd letter to Senator Ben Stevens, in which you encourage Senator Stevens to support the ratification of the agreement that your Administration has reached with the Alaska North Slope ("ANS") producers, regarding the construction of a gas pipeline and related facilities for the movement of ANS natural gas to market.

TransCanada, its predecessors and the State of Alaska have enjoyed a constructive working relationship since the Project was first conceived some thirty years ago. TransCanada has worked particularly closely with your Administration in recent years, and we value the relationship we have developed with you and your Administration. We have also worked closely with many members of the Alaska State Legislature, and we value those relationships as well.

It is within the long term context of TransCanada's relationship with the State of Alaska that I wish to provide comments on three issues:

- (i) The gas pipeline agreement you have reached with the ANS producers
- (ii) Provisions regarding Canada, contained within that agreement
- (iii) The viability of independent pipelines, as referenced in your June 22nd letter to Senator Ben Stevens.

1. Gas Pipeline Agreement Between the State of Alaska and the ANS Producers

TransCanada recognizes the importance of the agreement you have reached with the ANS producers – it is difficult to see how a gas pipeline from the North Slope to North American markets could proceed expeditiously without the agreement and support of the ANS producers. As you will recall, TransCanada has consistently advised your Administration to be wary of independent pipeline proposals that would seek to develop a pipeline without the agreement and

support of the ANS producers. You will also recall that TransCanada declined to join various consortiums seeking to develop independent pipelines without ANS producer support.

TransCanada recognizes the technical, financial and regulatory challenges of building a single high volume gas transmission system from the North Slope to the Alberta Hub. While we are prepared to lead and manage the entire Project, we recognize that our unique expertise lies on the Canadian side of the border. We hold significant rights, extensive technical and environmental information and other assets within Alaska, which we are willing to convey to a producer-led Project that involves TransCanada on the Canadian side of the border. We remain willing to do that.

There is much debate around the specific terms of your agreement with the ANS producers. These are issues to be resolved between the State of Alaska and the ANS producers, and we do not wish to take a position on any specific covenants, except as noted under section 2 of this letter.

To the extent that your agreement with the ANS producers would lead to the expeditious construction of the Project, and provided that the matters addressed in section 2 are resolved, we are generally supportive of the gas pipeline agreement which you have reached with the ANS producers. We encourage the State of Alaska to resolve the outstanding issues, ratify the agreement and move forward.

2. Provisions Regarding Canada, contained within the Gas Pipeline Agreement

Notwithstanding our general support for the agreement you have reached with the ANS producers, TransCanada is concerned that specific provisions within that agreement will lead to difficulty in Canada. Specifically, we object to provisions that specify joint State-producer ownership within Canada, as well as provisions that commit the State to an NEB regulatory process within Canada. As you know, TransCanada holds valid property rights to build and own the Canadian section of the Project, and we have no option but to defend those rights on behalf of our Canadian shareholders. We have invested several billion dollars to pre-build and pre-engineer the Project within Canada, and we will take all necessary actions to protect investments that were reviewed, approved and implemented pursuant to Canada's Northern Pipeline Act.

Most recently, TransCanada has developed commercial proposals for the construction, ownership and operation of the Canadian section of the Project, and we continue to discuss those proposals with the ANS producers. We believe commercial negotiations will lead to a reasonable "win-win" outcome in Canada, if the determination of ownership of the Canadian section can be deferred until matters in Alaska are finalized. Alternatively, we are prepared to engage immediately to negotiate a commercial framework for the Canadian section, with the intention of including that framework in your agreement with the producers, prior to State ratification.

We respectfully ask that you consider amending your agreement with the ANS producers, to either defer determination of ownership in Canada or to reflect the key elements of a commercial agreement with TransCanada. Either approach would minimize the risk of delay within Canada.

3. The Viability of Independent Pipelines

Your June 22nd letter to Senator Stevens states that neither an "All Alaska Gas Pipeline" nor "independent pipeline proposals" are "economically sound", or "based on the realities of the gas transmission business". The Letter concludes that neither are "viable alternatives" for the movement of ANS natural gas to market.

TransCanada owns and operates the largest natural gas transmission facilities in North America, and has been a leader in the gas transmission business for over 50 years. We have an enviable track record, having developed successful pipeline projects in Canada, the United States and internationally. The independent pipeline commercial arrangement that TransCanada proposed and diligently negotiated with the State over many months is both realistic and economically sound. I would note that our proposal was developed at your Administration's request, as a competitive alternative, available at the State's election, to assist the State in unlocking its stranded natural gas reserves.

TransCanada has at all times recognized that our independent pipeline proposal could lead to delay and litigation if the ANS producers were unwilling to commit their gas to an independent project. At all times, we stressed the need to seek and obtain ANS producer support for our independent pipeline proposal – in that way, our proposal was different from those put forth by parties who would seek to build an independent pipeline without producer support. Our proposal was specifically designed to encourage the ANS producers to participate in the Project by offering them a commercially viable arrangement and an opportunity for ownership in the Alaska portion of the Project.

Our independent pipeline proposal was developed and presented to the State as a constructive alternative that remains available to the State in the event the current State-producer arrangement does not proceed. Our proposal does reflect the realities of the North American gas transmission business – I would note that the vast majority of North American gas moves to market through independent gas transmission systems. The shipping terms and risk sharing mechanisms contained in our proposal were innovative, competitive and economically sound. We continue to see our proposal as a realistic alternative in the event you are not able to reach closure on your current arrangement with the ANS producers.

In Conclusion

TransCanada looks forward to working with the State of Alaska and the ANS producers to move this important project forward. We look forward to discussing, negotiating and concluding a

commercial arrangement for the movement of Alaska gas from the Alaska border to the Alberta Hub, and on to Lower 48 markets. We would welcome your support for the early commencement of commercial negotiations.

Governor Murkowski, I would again emphasize that TransCanada remains willing and able to devote its proven expertise, financial strength and proprietary Canadian rights to the development of an Alaska-Canada pipeline that will deliver enormous economic benefits for all Alaskans.

Sincerely,

TRANSCANADA CORPORATION

A handwritten signature in black ink, appearing to read 'Hal Kvisle', with a large, sweeping flourish at the end.

Hal Kvisle
Chief Executive Officer

cc: Senator Ben Stevens
Alaska State Legislators
Mr. J. Mulva, ConocoPhillips
Mr. R. Tillerson, ExxonMobil
Mr. B. Frank, BP Canada