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June 1, 2004

Tom Irwin, Commissioner
Department of Natural Resources
State of Alaska
550 West Seventh Avenue, Suite 1400
Anchorage, Alaska 99501-3561

Re: Updated Application for State Right-of-Way Lease, Natural Gas Pipeline

Dear Mr. Irwin:

Enclosed please find the complete, updated application of the Alaskan Northwest Natural Gas Transportation Company (“ANNGTC”) and TransCanada Alaska Company, LLC (“TransCanada Alaska”) for a natural gas pipeline right-of-way lease across Alaska State lands for the Alaska Natural Gas Transportation System (“ANGTS” or “Project”). The updated application is submitted pursuant to the Alaska Right-of Way Leasing Act, AS 38.35, and supplements ANNGTC’s application filed on April 15, 1981 (DNR File No. ADL 403427), hereinafter referred to as the “Original Application”.

Pursuant to the Memorandum of Understanding between the State of Alaska and TransCanada Corporation (“TransCanada”) entered into on April 19, 2004 (“MOU”), the updated application is submitted by TransCanada, through ANNGTC (through ANNGTC’s authorized agent, Foothills Pipe Lines Alaska, Inc. (“Foothills”)) and TransCanada Alaska. ANNGTC and TransCanada Alaska (the “Co-applicants”) are co-applicants for the right-of-way lease for the Project under AS 38.35.050(d). The ANNGTC Board of Partners has delegated to Foothills the specific duty, on behalf of ANNGTC, to prepare, file and prosecute with the appropriate Federal, State and local agencies and other governmental authorities such applications and requests for permits, authorizations and certificates as may be necessary for the further development of the ANGTS in Alaska. ANNGTC, Foothills, and TransCanada Alaska are all wholly-owned entities of TransCanada.¹

TransCanada’s designation of TransCanada Alaska as a Co-applicant under the application, in addition to ANNGTC as the original applicant, provides an alternate TransCanada entity to whom the right-of-way lease can be issued at TransCanada’s designation and in furtherance of the objectives of the MOU. Specifically, the MOU provides that (1) the State will expeditiously resume processing TransCanada’s lease application and (2) once the commercial

¹ TransCanada has established TransCanada Alaska as a Delaware corporation and is in the process of registering the company to do business in the State of Alaska.

arrangements with respect to the Project are sufficient to secure financing for the Project, TransCanada would be willing to convey, pursuant to certain specifically stated terms and conditions, the State right-of-way lease to a third party. The potential transfer of the lease pursuant to the terms of the MOU is facilitated by the addition of the second Co-applicant and will help to ensure that the lease will be used to benefit the entity that ultimately will develop the Project.

ANNGTC is the person selected and designated by the President,² the United States Congress,³ and the Federal Energy Regulatory Commission (“FERC”)⁴ to construct and operate the Alaska segment of the ANGTS. As such, ANNGTC is the current holder of the certificate of public convenience and necessity issued for the Project, the grantee of a right-of-way for the Project across federal lands in Alaska, and the holder of Clean Water Act Section 401 and Section 404 and Coastal Zone Management Act / Alaska Coastal Management Program permits and authorizations for the Project. As of the date of this updated application, pursuant to AS 38.35.050(d), ANNGTC and TransCanada Alaska are the only persons “owning or planning to own an interest in [the] pipeline . . . subject to [the] lease.”

The current design of the pipeline system, as reflected in this application, has been optimized and modernized using the latest in proven metallurgical technology, including a higher operating pressure. The current design minimizes the environmental footprint of the pipeline system with regard to compressor stations by over 60%. The ANGTS sponsors recognize that when commercial arrangements with respect to the Project are sufficient to secure financing of the Project, the initial capacity of the pipeline and, therefore, the number and location of the compressor stations, as well as other components of the Project, may change or need to be further optimized. Any updating of the Project will require the approval of the FERC through the tiering off of existing environmental analysis of the Project. The Co-applicants will secure any necessary amendments or other authorizations from the State necessitated by any amendment to the facilities authorized to be constructed by the FERC.

Nature of Interest Requested

The Co-applicants are applying for a right-of-way lease for the construction, operation, maintenance and termination of one (1) forty-eight inch (48”) natural gas pipeline, including related facilities, across certain State lands in the State of Alaska along the general route of the pipeline shown in the set of alignment sheets (Rev. 4B) for the ANGTS, submitted to the State herewith and as further defined herein.

² Executive Office of the President, Decision and Report to Congress on the Alaska Natural Gas Transportation System, Sept. 22, 1977.

³ H.R.J. 621, 95th Cong. (1977).

⁴ Alcan Pipeline Co., et al., 1 FERC ¶ 61,248 (1977).

As stated in the Original Application, the intent of the Co-applicants' request is to obtain a right-of-way lease for State-owned lands and lands in which the State owns a *bona fide* legal interest to the extent that such lands and interests in lands may be required for the construction, operation, maintenance and termination of the pipeline system, and as such lands and interests in lands exist upon the effective date of the lease, or may thereafter be acquired, along the general route of the pipeline. On December 1, 1980, ANNGTC received a Federal right-of-way grant that vested in ANNGTC certain legal rights to the use of Federal lands.⁵ Pursuant to the process established by the Alaska Statehood Act (P. L. 85-508; 72 Stat. 339) and the Alaska National Interest Lands Conservation Act (P. L. 96-487; 94 Stat. 2371), certain Federal lands included in the Federal grant have been, or may be in the future, transferred to the State, subject to "valid existing rights."⁶ Other lands that originally were believed to have been included in the Federal right-of-way grant have been deemed by the Director of the Department of the Interior's Office of Hearings and Appeals not to be included within the Federal grant, and accordingly, are covered by this updated application.⁷

As stated in the Original Application, the Co-applicants' interest is to ensure that they obtain whatever additional interests in lands are required to result in a complete, legally-perfected right-of-way covering the land-ownership interests of both the Federal and State governments, as necessary to construct, operate, maintain and terminate the pipeline system. The Co-applicants recognize that the changing nature of land ownership might warrant a partial overlap of the Federal and State rights-of-way at certain locations in order to ensure that no gaps occur. In this regard, the Co-applicants further recognize that the precise manner of leasing lands undergoing a change in status likely will require further discussion between the Co-applicants and appropriate State and Federal officials.

As stated in the Original Application, the Co-applicants further recognize that there may be additional categories or parcels of State-owned lands or interests therein that are not specifically identified on the alignment sheets, but that nonetheless may be required for the pipeline system. In this regard, it is the Co-applicants' intent that the term "general route of the pipeline" be construed broadly in order to provide reasonable flexibility for site-specific adjustments to the final pipeline alignment. Accordingly, the Co-applicants request that the lease cover any such adjustments to the alignment, regardless of whether or not the relevant parcels have been specifically listed on the alignment sheets, as may hereafter be agreed to between the

⁵ Grant of Right of Way for the Alaska Natural Gas Transportation System's Alaska Segment, Serial No. F-24538 (BLM, Dec. 1, 1980).

⁶ In this regard, the Co-applicants request that the State right-of-way lease include any lands and interests therein included in the Federal grant to which the State, subsequent to the effective date of the State right-of-way lease, obtains an interest sufficient to permit the State to lease such lands and interests under State law. This request is intended to ensure the continuity of a complete right-of-way for the entire route of the pipeline in the event that certain lands originally subject to the Federal grant could become no longer subject to the grant, such as possibly upon the renewal of the Federal grant.

⁷ Northwest Alaskan Pipeline Co. (On Reconsideration III), 9 OHA 143 (Mar. 24, 1992); Northwest Alaskan Pipeline Co. (On Reconsideration II), 99 IBLA 201 (Apr. 11, 1989); Northwest Alaskan Pipeline Co. (On Reconsideration), 99 IBLA 201 (June 16, 1988).

Mr. Tom Irwin
June 1, 2004
Page 4

Co-applicants and appropriate State officials responsible for monitoring the design and construction of the pipeline. Consistent with the Original Application, the Co-applicants will provide updated copies of the alignment sheets from time-to-time to reflect such localized adjustments to the alignment.

The Co-applicants request a lease for the maximum term of thirty (30) years, renewable for additional periods of thirty (30) years each, as authorized under AS 38.35.110. As stated in the Original Application, the multi-billion dollar cost of the Alaska segment of the ANGTS will require a substantial investment by the Co-applicants, and the assurance of an acceptable long-term lease will be necessary in order to obtain financing for the pipeline. Moreover, the expected useful life of the pipeline will be more than twenty-five (25) years, and a five (5) year period for preconstruction and construction activities is required.

Supplemental Information

In addition to the attached updated application, which contains supplemental answers to the Form DL-10-130 Right-of-Way Lease Application questions, the Co-applicants hereby submit to the State other supplemental materials. These materials include, among other information: environmental information supplements; technical information supplements; socioeconomic and subsistence information supplements; a complete Project Description; a list of required permits and authorizations; navigable waters and lands lists; a list of ANGTS stream crossings; lists regarding pipeline construction camp locations, airfield locations, access road locations, and material sites and storage yard locations; facility site location and size; a legal description of state lands covered by the lease; and updated alignment sheets. With the submission of these documents, the State now has on file a complete, updated State right-of-way lease application for the ANGTS, which supplements the Original Application filed in 1981. The ANGTS sponsors recognize that when commercial arrangements with respect to the Project are sufficient to secure financing of the Project, the supplemental information provided will be further reviewed and amended, where appropriate, for changes to the number and location of the compressor stations, as well changes in other components of the Project noted above.

Request for Confidential Treatment of Digital GIS Information

As part of the updated application, the Co-applicants hereby submit a current set of alignment sheets (Rev. 4B) for the ANGTS, along with digital GIS information. The Co-applicants request that the State maintain the confidential and proprietary status of the digital GIS information and resist its release to third parties. The Co-applicants further request that, upon the State's receipt of any request for disclosure or reproduction of this information, they be notified promptly in writing of such request and be given a reasonable opportunity to object to any proposed release of this information.

Mr. Tom Irwin
June 1, 2004
Page 5

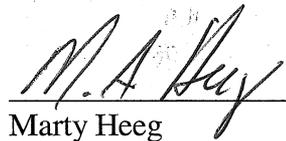
Conclusion

On the basis of the facts cited herein and in the Original Application, as updated by the attached updated application and other supplemental information submitted to the State in support of the application, Co-applicants believe that they qualify for a favorable determination by the Commissioner, which is prerequisite to issuance of the lease. TransCanada looks forward to continuing to work with the State to obtain a right-of-way lease for the ANGTS and to make the pipeline a reality.

Yours very truly,



Anthony Palmer
President
TransCanada Alaska Company, LLC



Marty Heeg
Vice President, Development
Foothills Pipe Lines Alaska, Inc.,
on behalf of the Alaskan Northwest Natural Gas
Transportation Company

Enclosures

cc: Marty Rutherford (w/o enclosures)
Dick LeFebvre (w/o enclosures)
Ken Taylor (w/o enclosures)

