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DATE: May 1, 2008

CLIENT: State of Alaska

RE: Comments on TransCanada's business ethics for AGIA process

This memo provides comments to assist the Commissioners in assessing the business ethics of TransCanada Pipelines Limited ("TransCanada"), in the context of the ongoing assessment of the November 30, 2007 Application by TransCanada pursuant to the *Alaska Gasline Inducement Act* (the "Act"). Our comments focus on TransCanada's performance in Canada.

Analysis

TransCanada operates more than 59,000 kilometres (36,500 miles) of wholly owned pipeline across North America.¹ In Canada, TransCanada is generally viewed as a corporate leader in the energy sector, and more broadly, enjoying a solid reputation for performance and social responsibility.

This performance is reflected in TransCanada's latest results in the National Energy Board ("NEB") Pipelines Services Survey, which provides an assessment of shippers' satisfaction with the quality of services of major NEB-regulated pipeline companies. The survey was conducted in the first quarter of 2007 (and is the third in an annual series). The NEB Pipelines Services Survey sets out average industry performance against a series of benchmarks.² The performance of individual companies is not published by the NEB, however, these figures are provided to pipeline companies and for 2007 TransCanada has published its results compared to industry averages. Service attributes were measured on a scale of 1-5, where 5 indicates "Very Satisfied" and 1 indicates "Very Dissatisfied". Service attributes, in order from highest to lowest importance (as determined by shippers) are indicated in the table below, with the industry average followed by the TransCanada score.³ In most categories, TransCanada outperformed the industry average for Canadian transmission pipelines.

¹ www.transcanada.com/gas_transmission/index.html

² www.neb-one.gc.ca/clf-nsi/rpblctn/rprt/srvyrslt/pplnsrvcsrvyrslt2007-eng.pdf

³ www.transcanada.com/Customr_Express/Update/2008_01_january/05.html

Pipeline Service Attributes	Attribute Ranking	Scores	
		Ind. Avg	TC
Physical reliability of operations	1	3.79	4.28
Timeliness and usefulness of operations info	2	3.68	3.97
Satisfaction with transactional systems	3	3.69	3.98
Accessibility and responsiveness to issues/requests	4	3.41	3.53
Transportation tolls are competitive	5	3.16	3.65
Timeliness and usefulness of commercial information	6	3.53	3.73
Works towards fair and reasonable solutions	7	3.44	3.24
Timeliness and accuracy of invoices and statements	8	3.87	4.45
Attitude of continuous improvement and innovation	9	3.17	3.29
Suite of services	10	3.49	3.54
Collaborative processes	11	3.28	3.52
Settlement or tariff arrangements work well	12	3.26	3.44
Overall quality of service		3.60	3.83

TransCanada also sponsors annual independent surveys of customer satisfaction with its performance. The 2007 Customer Satisfaction Survey was conducted by independent market research firm Ipsos Reid via telephone interviews and web-based questionnaires of TransCanada customers. Results were augmented with one-on-one interviews with industry executives asked to provide candid feedback on TransCanada's performance.⁴

The TransCanada Customer Satisfaction Surveys suggest broad shipper satisfaction with TransCanada. Respondents were asked, *inter alia*: "based on your experiences or impressions and thinking about ALL ASPECTS of their pipeline business, how would you rate your satisfaction with TransCanada Pipelines OVERALL?". In 2007, 27% of respondents were "very satisfied" (compared to 14% in 2000), 62% were "somewhat satisfied" (compared to 70% in 2000), 10% were "somewhat dissatisfied" (compared to 9% in 2000), and 1% were "very dissatisfied" (compared to 6% in 2000).

TransCanada also appears to compare favourably to North American competitors in the transmission pipeline industry. Survey respondents were asked, "I'd like to know how you think TransCanada compares to other transportation pipelines in North America? Your answers can be based on anything you have seen, heard, read or personally experienced." In 2007, with respect to "Staff", 60% of respondents stated TransCanada was "better", 33% responded "about the same", 3% stated TransCanada was "worse", and 5% stated "don't know". With respect to "Transactional Systems", 47% responded "better", 25% responded "about the same", 8% responded "worse", and 25% stated "don't know". Regarding, "Transportation Services", 43% responded "better", 42% responded "about the same", 8% responded "worse", and 7% responded "don't know". In terms of "Value", 27% responded "better", 54% responded "about the same", 8% responded "worse", and 11% responded "don't know". Finally, regarding "Price", 15% responded "better", 54% responded "about the same", 16% responded "worse", and 15% responded "don't know".

⁴ www.transcanada.com/Customer_Express/Update/2008_01_january/01.html

Pursuant to NEB rules, TransCanada is bound to comply with a Code of Conduct for its Mainline Service, defined as TransCanada's high pressure natural gas transmission system extending from the Alberta border across Saskatchewan, Manitoba, Ontario, and through a portion of Quebec, and connecting to various downstream Canadian and international pipelines.⁵ The Mainline Service forms the core of TransCanada's long distance inter-provincial and international transmission business in Canada. The purpose of the Canadian Mainland Code of Conduct is to establish standards and conditions for interaction between TransCanada as a whole, TransCanada Mainline and Affiliate TransCanada companies, in relation to the provision of TCPL Mainline Services. The Code sets parameters for transactions, information sharing and the sharing of services and resources which protect TCPL Mainline's customers against inappropriate inter-Affiliate behaviour and practices. Compliance with the Code of Conduct, therefore, provides a crucial gauge of TransCanada business ethics in contexts where abuse of TransCanada's dominant industry position in Canada is a concern.

TransCanada is obliged to publish annual Compliance Reports since the Canadian Mainland Code of Conduct came into force in 2005. In all three reporting periods to date (2005, 2006, and 2007) TCPL Mainline did not receive any formal complaints or disputes with respect to the application of the Code from internal or external parties.⁶

TransCanada has received recognition in Canada for the environmental standards of its operations. For example, in 2006 TransCanada received a Pollution Prevention Award from the Canadian Council of Ministers of the Environment (CCME) for its "disciplined and cost-effective approach to reducing fugitive emissions releases of methane gas from pipeline systems by finding a means of measuring and understanding the scope of the problem, followed by developing the Fugitive Emissions Management Program." In 2005, implementation of the program avoided the release of more than 500 million cubic feet of methane to the atmosphere, roughly the equivalent of 201,000 tonnes of CO₂.⁷

⁵ www.transcanada.com/Mainline/regulatory/TCPL_Code_of_Conduct_Final_2007_12_21.pdf

⁶ See www.neb.gc.ca searching for TCPL Compliance Reports.

⁷ www.ccme.ca/ourwork/pollution.html?category_id=123