

**REIMBURSEMENT AGREEMENT
BETWEEN THE
STATE OF ALASKA
AND
TRANSCANADA CORPORATION
AND
ALASKAN NORTHWEST NATURAL GAS TRANSPORTATION COMPANY
FOR USE OF INDEPENDENT CONTRACTORS UNDER
AS 43.82.240**

This Reimbursement Agreement (Agreement) is dated the 26 day of August, 2004, and is between the State of Alaska (the State) and the co-applicants, being and **Alaskan Northwest Natural Gas Transportation Company (“ANNGTC”) and TransCanada Corporation** (collectively, “the Sponsor Group”) and the State and the Sponsor Group shall be referred to collectively as the “Parties” and the State shall be referred to individually as a “Party.”

WHEREAS, the Sponsor Group has made an application for the development of a contract under the Stranded Gas Development Act, AS 43.82 (Application);

WHEREAS, AS 43.82.240(a) of the Alaska Stranded Gas Development Act provides for an agreement between the State and an applicant under the Stranded Gas Development Act under which the applicant will reimburse the State for up to a maximum of \$1,500,000 of the reasonable expenses incurred by the State for its use of independent contractors retained to assist the State in the evaluation of an application and in the development and approval of a contract under the Alaska Stranded Gas Development Act; and

WHEREAS, the Parties share a commitment to provide for the most efficient and coordinated application review process under AS 43.82, recognize the value of the use of independent contractors to assist the State in application evaluation and contract development and approval, and wish to accomplish these purposes without the State incurring expenses in excess of the reimbursement provided in this Agreement.

NOW, THEREFORE, the Parties agree as follows:

1. *Term of Agreement* – This Agreement shall be in effect as of June 16, 2004 upon approval of this Agreement by all of the Parties. This Agreement shall terminate upon the earliest of the following four events: (a) the date of the withdrawal of the Application under AS 43.82.180, (b) the date the maximum payment limit under Subsection 2 is reached, (c) thirty (30) days written notice by a Party, or (d) the later of: (i) the date a contract developed under the Stranded Gas Development Act and approved by the Alaska Legislature is executed by the Governor; and (ii) the date of the last amendment of any such contract that is approved by the Alaska Legislature and is executed by the Governor. Rights and obligations under this Agreement with regard to costs incurred prior to termination of this Agreement, including any

obligations for costs related to early termination of contracts with independent contractors after the termination, shall survive termination of this Agreement.

2. *Reimbursement* – The Sponsor Group will reimburse the State for expenses of independent contractors hired by the State as provided under AS 43.82.240 to assist the State in the evaluation of an application or in the development and approval of a contract under the Alaska Stranded Gas Development Act (Expenses), as provided herein.
 - a. The parties agree there shall be no reimbursement for independent contractor expenses incurred prior to August 1, 2004.
 - b. The parties agree the State may require and the Sponsor Group will reimburse the State's Expenses for independent contractors' work in furtherance of contract development activities at AS 43.82.200(1)-(6). However, the parties agree that before the State may require reimbursement for Expenses incurred under AS 43.82.240 and in furtherance of AS 43.82.200(7), the State will request the Sponsor Group's participation in reimbursement, which reimbursement may not be unreasonably withheld..
 - c. The amount to be reimbursed under this Agreement by the Sponsor Group shall not exceed the lesser of actual Expenses or the total sum of \$1,500,000, inclusive of any interest paid by the State to its contractors on past due amounts.
3. *Budget Report* – The State will provide the Sponsor Group with an initial budget including forecasted expenditures by month and by contractor and a monthly budget report comparing actual reimbursable expenditures with projected total expenditures, together with adjustments to the forecast, such as ones relating to addition or deletion of contractors or changes in work scope or timing.
4. *Confidentiality Agreements* – The State will provide the Sponsor Group with a copy of each confidentiality agreement that is executed by an independent contractor as provided in AS 43.82.240 (b) within seven (7) calendar days after the later of the date of approval of this Agreement or the date of the execution of the confidentiality agreement.
5. *Billings by the State* – The State will invoice ANNGTC on behalf of the Sponsor Group for the Expenses incurred by the State for independent contractors on a monthly basis, no more than sixty (60) days following the last day of the billing month. Such invoice shall include the time period of charges billed, a listing of the charges associated with each of the independent contractors included in the billing, and a brief, general description of the work activity conducted by each independent contractor. General procedures relating to the form of invoices are set forth in Attachment 1. Within sixty (60) days of receipt of the invoice, ANNGTC, on behalf of the Sponsor Group shall tender payment of undisputed amounts to the State addressed to the Commissioner, Department of Revenue (DOR). Interest at the prime rate as quoted in the Wall Street Journal on the day this Agreement is executed by all Parties shall accrue on all past due undisputed amounts until payment is tendered by

ANNGTC. Such interest payments shall not be included in the maximum contract amount of \$1.5 million.

6. *Dispute Resolution* – If the Sponsor Group questions the appropriateness or accuracy of any item(s) in an invoice, the Sponsor Group may withhold payment for any disputed item(s) subject to review and decision by the Commissioner of DOR. Notice of any disputed item(s) must be received by the Commissioner prior to the date payment of the amount for the disputed item(s) is due. Prior to the Commissioner's review and decision as to the appropriateness and accuracy of the item(s) questioned by the Sponsor Group, the Sponsor Group and the Deputy Commissioner of DOR shall attempt to resolve the dispute. If the Sponsor Group and the Deputy Commissioner are unable to resolve the dispute within thirty (30) days of the date of the notice of dispute, then the Commissioner shall review any disputed item and decide if it is accurate and appropriate. If the Commissioner's decision is not acceptable to the Sponsor Group, the Sponsor Group and the State shall confer and agree upon a single person, unrelated to either the Sponsor Group or the State, to review the circumstances surrounding the disputed item(s) and, after notice and de novo hearing, the person shall deliver a written decision resolving the dispute. The person's decision is final and each party shall bear its own fees and costs. The Sponsor Group shall be responsible for interest at the prime rate as quoted in the Wall Street Journal on the day this Agreement is executed by all Parties on any disputed item(s) resolved in the State's favor, which interest shall not be included in the maximum contract amount of \$1.5 million; interest shall accrue on such amounts beginning on the original due date of the invoice.

7. *Audit of State Records* – The Sponsor Group shall have the right, upon fifteen (15) days written notice to the Commissioner of DOR to audit the books, records and other documents reasonably pertaining to the items on any reimbursement invoice for Expenses. The audit shall take place at the location of such books, records, and other documentation. The Sponsor Group shall provide notice of any such audit within 60 days after receipt of the final billing under this Agreement, and the audit shall be completed within 180 days of the notice to the Commissioner. Within 30 days after the completion of the audit, the Sponsor Group shall provide notice to the Commissioner of any dispute of any item(s) in any invoice subject to the audit. The dispute shall be considered under the Dispute Resolution provisions in Subsection 7, immediately above. The State is not required to maintain any books, records, and other documentation other than those usually maintained by the State, provided that such books, records, and other documentation reasonably segregate and identify the items for the State's reimbursement invoices for the Expenses of independent contractors. The State shall be responsible for interest at the prime rate as quoted in the Wall Street Journal on the day this Agreement is executed by all Parties on any disputed item(s) resolved in the Sponsor Group's favor; interest shall accrue on such amounts beginning on the date payment was made by the Sponsor Group.

8. *Effect on other legal obligations* – This Agreement relates solely to reimbursement of Expenses under AS 43.82.240(a), and does not affect the Sponsor Group’s responsibility for paying any other fees and other costs required by law.
9. *Notice/Points of Contact* – For purposes of this Agreement, Department of Natural Resources shall be the State Point of Contact. Any notice to the State from the Sponsor Group under this Agreement shall be mailed first class or hand delivered to:

Sheila Westfall
Alaska Department of Natural Resources
550 W. 7th Avenue, Suite 800
Anchorage, AK 99501

Note: Fax may be used to receive copies for information purposes only. The fax number is (907) 276-3338. The Point of Contact’s contact phone number is (907) 269-0082.

Any notice to the Sponsor Group under this Agreement shall be mailed to: Tony Palmer, the Point of Contact, at the address below.

Tony Palmer
Designated Member of the Executive Committee
Alaskan Northwest Natural Gas Transportation Company
450-1st Street, S.W.
Calgary, Alberta
Canada T2P 5H1

Note: Fax may be used to receive copies for information purposes only. The fax number is (403) 920-2351. The Point of Contact’s contact phone number is (403) 920-2035.

10. *Laws* – The laws of the State of Alaska shall govern the construction, validity, and performance of this Agreement.
11. *Third Party Rights* – The Parties to this Agreement do not intend to create any rights under this Agreement that may be enforced by a third party for their own benefit or for the benefit of others. This Agreement shall not be deemed to create a contractual relationship of any kind between the Sponsor Group and the independent contactors of the State.
12. *Entire Agreement and Amendments* – This Agreement represents the entire agreement between the Parties on the matters addressed herein and may be amended only in writing signed by all Parties.

13. *No Approvals* – This Agreement is entered into voluntarily by the Sponsor Group with the full understanding and acknowledgement that nothing in this Agreement guarantees the Sponsor Group will receive any qualification, approval, contract, other authorization(s), or a favorable review under any particular conditions, nor does this Agreement relieve the Sponsor Group of the responsibility for determining and securing all local, state, and federal approvals or authorizations which may be necessary for design, construction, operation, maintenance, reclamation or termination of any proposed project under AS 43.82.
14. *Retained Rights* – Nothing in this Agreement prohibits either the State or the Sponsor Group from enforcing any obligations required by law or other agreement, nor prohibits the State and the Sponsor Group from entering into other separate agreements for review, studies, or other activities associated with the Application and contract development.
15. *Counterparts* – This Agreement may be executed in counterparts, all of which together shall be regarded as a single document.

DATED this 26 day of August, 2004.

DEPARTMENT OF REVENUE

By: William A. Corbus
 William A. Corbus
 Commissioner

STATE OF ALASKA)
)
 FIRST JUDICIAL DISTRICT)

THIS IS TO CERTIFY that on this 26 day of August, 2004, before me personally appeared William Corbus of the Department of Revenue, of the State of Alaska, who executed the foregoing Agreement and acknowledged voluntarily signed the same.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed by official seal on the day and year shown above.

Carol B. Barney
 Notary Public in and for the State of Alaska.
 My Commission Expires: 2-22-07

DATED this 26 day of August, 2004