

TRANSCANADA PIPELINES LTD
Form 40-F
February 28, 2008

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U.S. Securities and Exchange Commission

Washington, D.C. 20549

Form 40-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2007** Commission File Number **1-8887**

TRANSCANADA PIPELINES LIMITED

(Exact Name of Registrant as specified in its charter)

Canada

(Jurisdiction of incorporation or organization)

4922, 4923, 4924, 5172

(Primary Standard Industrial Classification Code Number (if applicable))

Not Applicable

(I.R.S. Employer Identification Number (if applicable))

TransCanada Tower, 450 - 1 Street S.W.

Calgary, Alberta, Canada, T2P 5H1

(403) 920-2000

(Address and telephone number of Registrant's principal executive offices)

CT Corporation, Suite 2610, 520 Pike Street

Seattle, Washington, 98101; (206) 622-4511; (800) 456-4511

(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

Securities registered pursuant to section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

For annual reports, indicate by check mark the information filed with this Form:

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Annual Information Form

Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

**At December 31, 2007, 4,000,000 Cumulative Redeemable First Preferred Shares Series U
and 4,000,000 Cumulative Redeemable First Preferred Shares Series Y
were issued and outstanding**

All of the Registrant's common shares are owned by TransCanada Corporation.

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the file number assigned to the Registrant in connection with such Rule. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

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The following document is hereby filed with the Securities and Exchange Commission for the purpose of being and hereby is incorporated by reference into Registration Statement on Form F-9 (File No. 333-145980) of TransCanada PipeLines Limited.

CONSOLIDATED AUDITED ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION & ANALYSIS

A. Audited Annual Financial Statements

For consolidated audited financial statements, including the report of the independent chartered accountants, see pages 72 through 126 of the TransCanada PipeLines Limited ("TCPL") 2007 Management's Discussion and Analysis and Audited Consolidated Financial Statements included herein. See the related supplementary note entitled "Reconciliation to United States GAAP" for a reconciliation of the differences between Canadian and United States generally accepted accounting principles, including the auditors' report, attached as document 13.4.

B. Management's Discussion & Analysis

For management's discussion and analysis, see pages 2 through 71 of the TCPL 2007 Management's Discussion and Analysis and Audited Consolidated Financial Statements included herein.

For the purposes of this Report, only pages 2 through 71 and 72 through 126 of the TCPL 2007 Management's Discussion and Analysis and Audited Consolidated Financial Statements shall be deemed incorporated herein by reference and filed, and the balance of such 2007 Management's Discussion and Analysis and Audited Consolidated Financial Statements, except as otherwise specifically incorporated by reference in the TCPL Annual Information Form, shall be deemed not filed with the U.S. Securities and Exchange Commission (the "Commission") as part of this Report under the *Exchange Act*.

C. Management's Report on Internal Control Over Financial Reporting

For information on management's internal control over financial reporting, see:

- i. "Report of Management" included in TCPL's consolidated audited financial statements on page 72;
- ii. the section entitled "Management's Annual Report on Internal Control Over Financial Reporting" under the heading "Controls and Procedures" in Management's Discussion and Analysis on page 60 of the TCPL Management's Discussion and Analysis and Audited Consolidated Financial Statements; and
- iii. Management's Report on Internal Control Over Financial Reporting attached as document 13.5.

The effectiveness of internal control over financial reporting as of December 31, 2007 has been audited by TCPL's independent auditors, KPMG LLP, a registered public accounting firm, as stated in their audit report. KPMG LLP has issued a report on the effectiveness of internal control over financial reporting as of December 31, 2007, filed as document 13.6.

UNDERTAKING

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the staff of the Commission, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an Annual Report on Form 40-F arises; or transactions in said securities.

DISCLOSURE CONTROLS AND PROCEDURES

For information on disclosure controls and procedures, see "Controls and Procedures" in Management's Discussion and Analysis on page 60 of the TCPL 2007 Management's Discussion and Analysis and Audited Consolidated Financial Statements.

AUDIT COMMITTEE FINANCIAL EXPERT

The Registrant's board of directors has determined that it has at least one audit committee financial expert serving on its audit committee. Mr. Kevin E. Benson has been designated an audit committee financial expert and is independent, as that term is defined by the New York Stock Exchange's listing standards applicable to the Registrant. The Commission has indicated that the designation of Mr. Benson as an audit committee financial expert does not make Mr. Benson an "expert" for any purpose, impose any duties, obligations or liability on Mr. Benson that are greater than those imposed on members of the audit committee and board of directors who do not carry this designation or affect the duties, obligations or liability of any other member of the audit committee.

CODE OF ETHICS

The Registrant has adopted codes of business ethics for its employees, its President and Chief Executive Officer, Chief Financial Officer and Controller and its directors. The Registrant's codes are available on its website at www.transcanada.com. There has been no waiver of the codes granted during the 2007 fiscal year.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The aggregate fees for professional services rendered by KPMG LLP for the TransCanada group of companies for the 2007 and 2006 fiscal years are shown in the table below:

<i>Fees in millions of Canadian dollars</i>	2007 ⁽¹⁾	2006 ⁽¹⁾
Audit Fees	\$ 6.27	\$ 6.52
Audit-Related Fees	0.07	0.07
Tax Fees	0.06	0.22
All Other Fees	0.00	0.07
Total	\$ 6.40	\$ 6.88

(1) The disclosure of audit fees paid has been revised to be based on aggregate fees billed during the fiscal year as opposed to aggregate fees for professional services rendered during the fiscal year. For comparison purposes, both the 2007 and the 2006 amounts have been disclosed based on the aggregate fees billed during the year.

The nature of each category of fees is described below.

Audit Fees

Aggregate fees for audit services rendered for the audit of the annual consolidated financial statements or services provided in connection with statutory and regulatory filings or engagements, the review of interim consolidated financial statements and information contained in various prospectuses and other offering documents.

Audit-Related Fees

Aggregate fees for assurance and related services that are reasonably related to performance of the audit or review of the consolidated financial statements and are not reported as Audit Fees. The nature of services comprising these fees is related to the audit of the financial statements of certain pension plans.

Tax Fees

Aggregate fees for primarily tax compliance and tax advice. The nature of these services consisted of: tax compliance including the review of income tax returns; and tax items and tax services related to domestic and international taxation including income tax, capital tax and Goods and Services Tax.

All Other Fees

Aggregate fees for products and services other than those reported elsewhere in this table. The nature of these services consisted of advice related to compliance with the United States *Sarbanes-Oxley Act of 2002*.

Pre-Approval Policies and Procedures

TCPL's Audit Committee has adopted a pre-approval policy with respect to permitted non-audit services. Under the policy, the Audit Committee has granted pre-approval for specified non-audit services. For engagements of \$25,000 CDN or less which are not within the annual pre-approved limit, approval by the Audit Committee is not required, and for engagements between \$25,000 CDN and \$100,000 CDN, approval of the Audit Committee Chair is required, and the Audit Committee is to be informed of the engagement at the next scheduled Audit Committee meeting. For all engagements of \$100,000 CDN or more, pre-approval of the Audit Committee is required. In all cases, regardless of dollar amount involved, where there is a potential for conflict of interest involving the external auditor on an engagement, the Audit Committee Chair must pre-approve the assignment.

To date, TCPL has not approved any non-audit services on the basis of the de-minimis exemptions. All non-audit services have been pre-approved by the Audit Committee in accordance with the pre-approval policy described above.

OFF-BALANCE SHEET ARRANGEMENTS

The Registrant has no off-balance sheet arrangements, as defined in this Form, other than the guarantees described in Note 24 of the Notes to the Audited Consolidated Financial Statements which are incorporated herein by reference.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

For information on Tabular Disclosure of Contractual Obligations, see "Management's Discussion and Analysis - Contractual Obligations", which is incorporated herein by reference on page 48 of the TCPL 2007 Management's Discussion and Analysis and Audited Consolidated Financial Statements.

IDENTIFICATION OF THE AUDIT COMMITTEE

The Registrant has a separately-designated standing Audit Committee. The members of the Audit Committee are:

Chair:	K.E. Benson
Members:	D.H. Burney
	P. Gauthier
	P.L. Joskow
	J.A. MacNaughton

FORWARD-LOOKING INFORMATION

This document, the documents incorporated by reference, and other reports and filings made with the securities regulatory authorities may contain certain information that is forward-looking and is subject to important risks and uncertainties. The words "anticipate", "expect", "believe", "may", "should", "estimate", "project", "outlook", "forecast" or other similar words are used to identify such forward looking information. All forward-looking statements reflect TCPL's beliefs and assumptions based on information available at the time the statements were made. Actual results or events may differ from those predicted in these forward-looking statements. Factors that could cause actual results or events to differ materially from current expectations include, among other things, the ability of TCPL to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits, the operating performance of the Company's natural gas pipeline and energy assets, the availability and price of energy commodities, regulatory processes and decisions, changes in environmental and other laws and regulations, competitive factors in the natural gas pipeline and energy industry sectors, construction and completion of capital projects, labour, equipment and material costs, access to capital markets, interest and currency exchange rates, technological developments and the current economic conditions in North America. By its nature, forward-looking information is subject to various risks and uncertainties, which could cause TCPL's actual results and experience to differ materially from the anticipated results or other expectations expressed. The Company's material risks and assumptions are discussed further in TCPL's Management's Discussion and Analysis filed as document 13.2 hereto including under the headings "Pipelines Opportunities and Developments", "Pipelines Business Risks", "Energy Opportunities and Developments", "Energy Business Risks" and "Risk Management and Financial Instruments". Additional information on these and other factors is available in the reports filed by TCPL with Canadian securities regulators and with the U.S. Securities and Exchange Commission ("*SEC*"). Readers are cautioned not to place undue reliance on this forward-looking information, which is given as of the date it is expressed in this document or otherwise, and to not use future-oriented information or financial outlooks for anything other than their intended purpose. TCPL undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

SIGNATURES

Pursuant to the requirements of the *Exchange Act*, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this Annual Report to be signed on its behalf by the undersigned, thereto duly authorized, in the City of Calgary, Province of Alberta, Canada.

TRANSCANADA PIPELINES LIMITED

Per: /s/ GREGORY A. LOHNES

GREGORY A. LOHNES

Executive Vice-President and Chief Financial Officer

Date: February 28, 2008

DOCUMENTS FILED AS PART OF THIS REPORT

- 13.1 Annual Information Form for the year ended December 31, 2007.
- 13.2 Management's Discussion and Analysis (included on pages 2 through 71 of the TCPL 2007 Management's Discussion and Analysis and Audited Consolidated Financial Statements).
- 13.3 2007 Audited Consolidated Financial Statements (included on pages 72 through 126 of the TCPL 2007 Management's Discussion and Analysis and Audited Consolidated Financial Statements).
- 13.4 Related supplementary note entitled "Reconciliation to United States GAAP" and the auditors' report thereon.
- 13.5 Management's Report on Internal Control Over Financial Reporting.
- 13.6 Report of the Independent Registered Public Accounting Firm on the effectiveness of TCPL's Internal Control Over Financial Reporting as at December 31, 2007.
- 99.1 Comments by Auditors for United States Readers on Canada United States Reporting Differences.

EXHIBITS

- 23.1 Consent of KPMG LLP, Chartered Accountants.
 - 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the *Sarbanes-Oxley Act of 2002*.
 - 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the *Sarbanes-Oxley Act of 2002*.
 - 32.1 Certification of Chief Executive Officer regarding Periodic Report containing Financial Statements.
 - 32.2 Certification of Chief Financial Officer regarding Periodic Report containing Financial Statements.
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TRANSCANADA PIPELINES LIMITED

ANNUAL INFORMATION FORM

February 25, 2008

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TRANSCANADA PIPELINES LIMITED

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PRESENTATION OF INFORMATION

Unless otherwise noted, the information contained in this Annual Information Form (*AIF*) is given at or for the year ended December 31, 2007 (*Year End*). Amounts are expressed in Canadian dollars unless otherwise indicated. Financial information is presented in accordance with Canadian generally accepted accounting principles.

Unless the context indicates otherwise, a reference in this AIF to *TCPL* or the *Company* includes TCPL's parent, TransCanada Corporation (*TransCanada*) and the subsidiaries of TCPL through which its various business operations are conducted and a reference to *TransCanada* includes TransCanada Corporation and the subsidiaries of TransCanada Corporation, including TCPL. Where TCPL is referred to with respect to actions that occurred prior to its 2003 plan of arrangement with TransCanada, which is described below under the heading *TransCanada PipeLines Limited Corporate Structure*, these actions were taken by TCPL or its subsidiaries. The term *subsidiary*, when referred to in this AIF, with reference to TCPL means direct and indirect wholly owned subsidiaries of, and entities controlled by, TransCanada or TCPL, as applicable.

Certain portions of TCPL's Management's Discussion and Analysis dated February 25, 2008 (*MD&A*) are incorporated by reference into this AIF as stated below. The MD&A can be found on SEDAR at www.sedar.com under TCPL's profile.

Information relating to metric conversion can be found at Schedule A to this AIF.

FORWARD-LOOKING INFORMATION

This AIF, the documents incorporated by reference into this AIF, and other reports and filings made with the securities regulatory authorities may contain certain information that is forward-looking and is subject to important risks and uncertainties. The words *anticipate*, *expect*, *believe*, *may*, *should*, *estimate*, *project*, *outlook*, *forecast* or other similar words are used to identify such forward looking information. All forward-looking statements reflect TCPL's beliefs and assumptions based on information available at the time the statements were made. Actual results or events may differ from those predicted in these forward-looking statements. Factors that could cause actual results or events to differ materially from current expectations include, among other things, the ability of TCPL to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits, the operating performance of the Company's natural gas pipeline and energy assets, the availability and price of energy commodities, regulatory processes and decisions, changes in environmental and other laws and regulations, competitive factors in the natural gas pipeline and energy industry sectors, construction and completion of capital projects, labour, equipment and material costs, access to capital markets, interest and currency exchange rates, technological developments and the current economic conditions in North America. By its nature, forward-looking information is subject to various risks and uncertainties, including those material risks discussed in this AIF under *Risk Factors*, which could cause TCPL's actual results and experience to differ materially from the anticipated results or expectations expressed. Additional information on these and other factors is available in the reports filed by TCPL with Canadian securities regulators and with the U.S. Securities and Exchange Commission (*SEC*). Readers are cautioned to not place undue reliance on this forward-looking information, which is given as of the date it is expressed in this AIF or otherwise, and to not use future-oriented information or financial outlooks for anything other than their intended purpose. TCPL undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

TRANSCANADA PIPELINES LIMITED**Corporate Structure**

TCPL's head office and registered office are located at 450 - 1st Street S.W., Calgary, Alberta, T2P 5H1.

TCPL is a Canadian public company. Significant dates and events are set forth below.

Date	Event
March 21, 1951	Incorporated by Special Act of Parliament as Trans-Canada Pipe Lines Limited.
April 19, 1972	Continued under the <i>Canada Corporations Act</i> by Letters Patent, which included the alteration of its capital and change of name to TransCanada PipeLines Limited.
June 1, 1979	Continued under the <i>Canada Business Corporations Act</i> .
July 2, 1998	Certificate of Arrangement issued in connection with the Plan of Arrangement with NOVA Corporation (NOVA) under which the companies merged and then split off the commodity chemicals business carried on by NOVA into a separate public company.
January 1, 1999	Certificate of Amalgamation issued reflecting TCPL's vertical short form amalgamation with a wholly owned subsidiary, Alberta Natural Gas Company Ltd.
January 1, 2000	Certificate of Amalgamation issued reflecting TCPL's vertical short form amalgamation with a wholly owned subsidiary, NOVA Gas International Ltd.
May 4, 2001	Restated TransCanada PipeLines Limited Articles of Incorporation filed.
June 20, 2002	Restated TransCanada PipeLines Limited By-Laws filed.
May 15, 2003	Certificate of Arrangement issued in connection with the plan of arrangement with TransCanada. TransCanada was incorporated pursuant to the provisions of the <i>Canada Business Corporations Act</i> on February 25, 2003. The arrangement was approved by TCPL common shareholders on April 25, 2003 and following court approval, Articles of Arrangement were filed making the arrangement effective May 15, 2003. The common shareholders of TCPL exchanged each of their TCPL common shares for one common share of TransCanada. The debt securities and preferred shares of TCPL remained obligations and securities of TCPL. TCPL continues to hold the assets it held prior to the arrangement and continues to carry on business as the principal operating subsidiary of the TransCanada group of entities.

At Year End, TCPL had approximately 3,500 employees, substantially all of whom were employed in Canada and the United States.

TCPL's subsidiaries whose assets exceed ten per cent of TCPL's consolidated assets or whose sales and operating revenues exceeded ten per cent of TCPL's consolidated sales and operating revenues at year end are noted below. Also noted is the jurisdiction under which each subsidiary was incorporated. TCPL owns, directly or indirectly, 100 per cent of the voting shares of each of these subsidiaries.

TRANSCANADA PIPELINES LIMITED

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GENERAL DEVELOPMENT OF THE BUSINESS

The general development of TCPL's business during the last three financial years, and the significant acquisitions, dispositions, events or conditions which have had an influence on that development, are described below.

Effective June 1, 2006, TCPL revised the composition and names of its reportable business segments to *Pipelines* and *Energy*. Pipelines are principally comprised of the Company's pipelines in Canada, the U.S. and Mexico and its regulated natural gas storage operations in the U.S. Energy includes the Company's power operations, the non-regulated natural gas storage business, and liquefied natural gas (*LNG*) projects.

Developments in the Pipelines Business

TCPL's strategy in pipelines is focused on both growing its North American natural gas transmission network and maximizing the long-term value of its existing pipeline assets. Summarized below are significant developments that have occurred in TCPL's pipelines business over the last three years.

Recent Pipeline Developments

- January 4 2008. The State of Alaska announced that TCPL had submitted a complete *Alaska Gasline Inducement Act* application for a license to construct the Alaska Pipeline Project and would be advancing to the public comment stage.
- January 2008. Gas Transmission Northwest Corporation (*GTNC*) filed a Stipulation and Agreement with the U.S. Federal Regulatory Commission (*FERC*) on October 31, 2007 comprised of an uncontested settlement of all aspects of its 2006 General Rate Case. On January 7, 2008, the FERC issued an order approving the settlement. The settlement rates are effective retroactive to January 1, 2007.
- January 11, 2008. Keystone U.S. received, from the U.S. Department of State, the Final Environmental Impact Statement (*FEIS*) regarding the construction of the Keystone U.S. pipeline and its Cushing extension. The FEIS stated the pipeline would result in limited adverse environmental impacts. The FEIS is a requirement to proceed with the Presidential Permit process, which governs the construction and operation of facilities at the U.S. - Canada border crossing. The Presidential Permit is expected to be issued in March 2008. Construction and material supply contracts totaling approximately \$3.0 billion have been awarded for pipe, tanks, pumps and related materials, and engineering and construction management services.

- February 2008. In 2005, certain subsidiaries of Calpine Corporation (*Calpine*) filed for bankruptcy protection in both Canada and the U.S. The Portland Natural Gas Transmission System (*Portland*) and GTNC reached agreement with Calpine for allowed unsecured claims in the Calpine bankruptcy of US\$125 million and US\$192.5 million, respectively. Creditors were to receive shares in the re-organized Calpine and these shares will be subject to market price fluctuations as the new Calpine shares begin to trade. In February 2008, Portland and GTNC received partial distributions of 6.1 million shares and 9.4 million shares, respectively. Claims for Nova Gas Transmission Limited and Foothills Pipe Lines (South B.C.) Ltd. for \$31.6 million and \$44.4 million, respectively, were received in cash in January 2008 and will be passed on to shippers on these systems.

2007

Pipeline Developments

- February 9, 2007. TCPL received approval from the National Energy Board (the *NEB*) to transfer a section of the Canadian Mainline (as defined below) natural gas transmission facilities to the Keystone oil pipeline project to transport crude oil from Alberta to refining centres in the U.S. Midwest and to construct and operate new oil pipeline facilities in Canada. TCPL announced in January 2007 the start of a binding open season for an expansion and extension of the proposed Keystone oil pipeline. The purpose of the open season was to obtain binding commitments to support the expansion of the proposed Keystone pipeline from approximately 435,000 barrels per day to 590,000 barrels per day and the construction of a 468 kilometre (*km*) extension of the U.S. portion of the pipeline.
 - February 22, 2007. TCPL closed its acquisitions of American Natural Resources Company and ANR Storage Company (collectively, *ANR*) and acquired an additional 3.6 per cent interest in Great Lakes Gas Transmission Partnership (*Great Lakes*) from El Paso Corporation for a total of US\$3.4 billion, subject to certain post-closing adjustments, including approximately US\$491 million of assumed long-term debt. Additionally, TCPL increased
-

its ownership in TC PipeLines, LP to 32.1 per cent in conjunction with the TC PipeLines, LP acquisition of a 46.4 per cent interest in the Great Lakes. TCPL subsequently became the operator of the Northern Border Pipeline Company (*NBPL*) and now operates all three TC PipeLines, LP investments.

- November 2007. Keystone Canada filed an application with the NEB to add new pumping facilities to accommodate the increase in scope and scale of the project. An NEB oral hearing is scheduled to commence in April 2008.
- November 20, 2007. A non-routine application was filed with the Alberta Energy and Utilities Board (*EUB*) for the North Central Corridor pipeline expansion of the Alberta System (as defined below). The estimated cost of this project is \$983 million with construction expected to begin late 2008, subject to regulatory approval. The project is expected to be completed in two stages with the first stage completed in April 2009 and the second in April 2010.
- December 2007. ConocoPhillips contributed \$207 million to acquire a 50 per cent ownership interest in the Keystone oil pipeline project. Affiliates of TCPL will be responsible for constructing and operating Keystone, which is expected to have a capital cost of approximately US\$5.2 billion.
- TCPL continued funding of the Mackenzie Valley Aboriginal Pipeline Limited Partnership for its participation in the Mackenzie Gas Pipeline Project.

Regulatory Matters

- February 2007. TCPL received approval from the NEB to integrate the B.C. System into the Foothills System (as defined below) in southern B.C. which was effective April 1, 2007.
- May 2007. TCPL's five-year settlement with interested stakeholders for the years 2007 to 2011 on its Canadian Mainline was approved by the NEB. The settlement reflects, among other things, a deemed common equity ratio of 40 per cent.

Further information about these developments can be found in the MD&A under the heading *TCPL's Strategy* and *Pipelines - Opportunities and Developments* .

2006

Pipeline Developments

- April 2006. TC PipeLines, LP, an affiliate of TCPL, acquired an additional 20 per cent general partnership interest in NBPL for approximately US\$307 million which brought its total general partnership interest in NBPL owned by TC Pipelines, LP to 50 per cent. TC PipeLines, LP also indirectly assumed approximately US\$122 million of the debt of NBPL. TCPL is the parent company of TC PipeLines GP, Inc., the general partner of TC PipeLines, LP.
- April 2006. TCPL sold its 17.5 per cent general partner interest in Northern Border Partners, L.P. for proceeds of \$35 million, net of current taxes.
- December 2006. The 130 km Tamazunchale natural gas pipeline in east-central Mexico went into commercial service.
- December 2006. TC PipeLines, LP acquired 49 per cent in Tuscarora Gas Transmission Company (*Tuscarora*). TCPL became the operator of Tuscarora.

Regulatory Matters

- February 2006. TCPL filed an application with the FERC for a certificate for a two-phase expansion of its existing natural gas pipeline in southern California, the North Baja system (*North Baja*) and the construction of a new lateral pipeline in California's Imperial Valley.
- April 2006. The NEB approved a negotiated settlement of the 2006 Canadian Mainline tolls which included a deemed common equity ratio of 36 per cent from 33 per cent and incentives for managing cost through fixing certain components of the revenue requirement.
- June 2006. TCPL filed an application with the NEB seeking approval to transfer a portion of TCPL's Canadian Mainline natural gas transmission facilities to the Keystone oil pipeline project which was approved by the NEB in February 2007. Additionally, in December 2006, TCPL filed an application with the NEB for approval to construct and operate the Canadian portion of the Keystone oil pipeline.

TRANSCANADA PIPELINES LIMITED

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2005

Pipeline Developments

- February 2005. TransCanada announced the Keystone oil pipeline project. In November 2005, TransCanada announced a memorandum of understanding with ConocoPhillips which committed ConocoPhillips to ship crude oil on this pipeline and gave them the right to acquire a 50 per cent ownership interest in the oil pipeline project.
- June 2005. TCPL acquired an additional interest in the Iroquois Gas Transmission System L.P. (*Iroquois System*) for US\$13.6 million. The acquisition increased TCPL's ownership interest from 40.96 per cent to 44.48 per cent.
- June 2005. TCPL commenced construction of the Tamazunchale natural gas pipeline.

Regulatory Matters

- March 2005. TCPL reached a settlement with shippers and other interested parties regarding the annual revenue requirements of its Alberta System for the years 2005, 2006 and 2007. The settlement was approved by the regulator.
- May 2005. TCPL received the NEB's decision on the Canadian Mainline 2004 Tolls and Tariff Application (Phase II), approving an increase in the deemed common equity component of the Canadian Mainline's capital structure from 33 per cent to 36 per cent effective January 1, 2004.

Developments in the Energy Business

TCPL has built a substantial energy business over the past decade and has achieved a significant presence in power generation in selected regions of Canada and U.S. More recently, TCPL has also developed a significant non-regulated natural gas storage business in Alberta. Summarized below are significant developments that have occurred in TCPL's energy business over the last three years.

Recent Energy Developments

- January 11, 2008. The FERC issued its FEIS for the Broadwater LNG project (*Broadwater*), a proposed offshore LNG facility in Long Island Sound, New York. The FEIS confirmed project need, supported the location of the project with acknowledgement of its target market and delivery goals, and found safety and security risks to be limited and acceptable. The FEIS concluded that with adherence to federal and state permit requirements and regulations, Broadwaters' s proposed mitigation measures and the FERC' s recommendations, the project will not result in a significant impact on the environment.
- January 2008. A milestone in the Bruce Power A L.P. (*Bruce A*) Units 1 and 2 refurbishment and restart project was completed when the sixteenth and final new steam generator was installed. With the completion of this stage of the project, the authorized funding for Units 1 and 2 was increased from \$2.75 billion to approximately \$3.0 billion. Bruce Power is currently preparing a comprehensive estimate of the cost to complete the Unit 1 and 2 restart. This process is expected to result in a further increase in the total project cost. Project cost increases are subject to the capital cost-risk and reward-sharing mechanism under the agreement with the Ontario Power Authority. Bruce A Units 1 and 2 are expected to produce an additional 1,500 megawatts (*MW*) when completed in 2010.
- February 2008. The potential anchor LNG supplier for the Cacouna LNG project (*Cacouna*) terminal announced it would no longer be pursuing the development of its LNG supply as originally planned. As a result of this announcement, TCPL and Petro-Canada are currently reviewing their strategy for the project.

2007

Energy Developments

- June 2007. Following public hearings in 2006, the Québec government granted a provincial decree approving the Cacouna terminal. Cacouna also received federal approvals pursuant to the *Canadian Environmental Assessment Act*.
- September 2007. Cacouna announced that it was delaying the planned in-service date for the regassification terminal from 2010 to 2012. This delay resulted from a need to assess impacts of permit conditions, to review the

facility design in light of escalating costs and to align the schedule with potential LNG supply facilities.

- August 2007. TransCanada announced the expansion of the Unit 4 refurbishment on the revised Bruce A restart project that includes installing new fuel channels in Unit 4.
- November 2007. The second phase of the Cartier Wind Energy Project, the 101 MW Anse-à-Valleau wind farm, was placed into service. In addition, the Cartier Wind Energy Project began construction of a third project, the 110 MW Carleton wind farm.
- November 2007. TCPL entered into an agreement with Hydro-Québec to temporarily suspend all electricity generation from the Bécancour power plant during 2008. The agreement contains an option for Hydro-Québec to extend the suspension to 2009. TCPL will receive payments under the agreement similar to those that would have been received under the normal course of operation.

Further information about each of these energy developments can be found in the MD&A under the heading "TCPL's Strategy and Energy - Opportunities and Developments".

2006

Energy Developments

- TCPL continued construction of the Cartier Wind Energy Project, of which 62 per cent is owned by TCPL. The first of six proposed wind farm projects, Baie-des-Sables, went into commercial service in late 2006.
- September 2006. Portlands Energy Centre L.P., 50 per cent owned by TCPL, signed a 20-year Accelerated Clean Energy Supply contract with the Ontario Power Authority for Portlands Energy Centre.
- September 2006. Construction of the 550 MW Bécancour cogeneration plant near Trois Rivières, Québec, was completed and placed into service providing power to Hydro-Québec Distribution.

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- November 2006. TCPL was awarded a 20-year Clean Energy Supply contract by the Ontario Power Authority to build, own and operate a 683 MW natural gas-fired power plant near the Town of Halton Hills, Ontario.
- December 2006. The Edson gas storage facility was placed in service.

Regulatory Matters

- January 2006. TCPL, on behalf of Broadwater, filed an application with the FERC for approval of the LNG regasification project to be located in Long Island Sound, New York. Coincident with the FERC process, Broadwater applied to the New York Department of State for a determination that the project is consistent with New York's coastal zone policies.
- December 2006. A public hearing on Cacouna was held in May and June of 2006 and in December 2006 the Minister of the Environment for Québec and the federal Minister of the Environment, jointly released the report of the Joint Commission on Cacouna.

2005

Energy Developments

- February 2005. TCPL advanced the Cartier Wind Energy Project with the signing of long-term electricity supply contracts.
- April 2005. TCPL acquired hydroelectric power generation assets from USGen New England, Inc. for approximately US\$503 million.
- September 2005. TCPL sold all of its interests in TransCanada Power, L.P. to EPCOR Utilities Inc. for net proceeds of \$523 million.
- October 2005. Bruce A entered into agreements with the Ontario Power Authority to restart units 1 and 2, extend the operating life of unit 3 and replace the generators on unit 4 at Bruce A.

- December 2005. TCPL sold its approximate 11 per cent interest in P.T. Paiton Energy Company to subsidiaries of The Tokyo Electric Power Company, resulting in gross proceeds of US\$103 million.

- December 2005. TCPL acquired the remaining rights and obligations of the 756 MW Sheerness Power Purchase Arrangement (*PPA*) from the Alberta Balancing Pool for \$585 million.

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- TCPL commenced construction of a natural gas storage facility located near Edson, Alberta.
- Ocean State Power successfully restructured its long-term natural gas fuel supply contracts with its suppliers.

BUSINESS OF TCPL

TCPL is a leading North American energy infrastructure company focused on pipelines and energy. At Year End, Pipelines accounted for approximately 53 per cent of revenues and 73 per cent of TCPL's total assets and the Energy business accounted for approximately 47 per cent of revenues and 23 per cent of TCPL's total assets. The following is a description of each of TCPL's two main areas of operation.

The following table shows TCPL's revenues from operations by segment, classified geographically, for the years ended December 31, 2007 and 2006.

Revenues From Operations (<i>millions of dollars</i>)	2007	2006
Pipelines		
Canada - Domestic	\$2,227	\$2,390
Canada - Export(1)	1,003	971
United States	1,482	629
	4,712	3,990
Energy(2)		
Canada - Domestic	2,792	2,566
Canada - Export(1)	3	1
United States	1,321	963
	4,116	3,530
Total Revenues(3)	\$8,828	\$7,520

(1) Exports include pipeline revenues attributable to deliveries to U.S. pipelines and power deliveries to U.S. markets.

(2) Revenues include sales of natural gas.

(3) Revenues are attributed to countries based on country of origin of product or service.

Pipelines Business

TCPL is a leader in the responsible development and reliable operation of North American energy infrastructure including natural gas pipelines, regulated gas storage facilities and projects related to oil pipelines. TCPL's network of wholly owned pipelines extends more than 59,000 km (36,500 miles), tapping into virtually all major gas supply basins in North America.

TCPL has substantial Canadian and U.S. natural gas pipeline and related holdings, and one oil pipeline project, including those listed below.

Canada

- TCPL's 100 per cent owned, 14,957 km natural gas transmission system in Canada that extends from the Alberta/Saskatchewan border east to the Québec/Vermont border and connects with other natural gas pipelines in Canada and the U.S. (*Canadian Mainline*).
- TCPL's 100 per cent owned natural gas transmission system in Alberta gathers natural gas for use within the province and delivers it to provincial boundary points for connection with the Canadian Mainline and the Foothills System as well as the natural gas pipelines of other companies. The 23,570 km system is one of the largest carriers of natural gas in North America (*Alberta System*).
- TCPL's 100 per cent owned, 1,241 km natural gas transmission system in Western Canada carries natural gas for export from central Alberta to the U.S. border to serve markets in the U.S. Midwest, Pacific Northwest, California and Nevada. Effective April 1, 2007, the B.C. System was integrated into the Foothills System (*Foothills System*).
- TransCanada Pipeline Ventures LP, which is 100 per cent owned by TCPL, owns a 121 km pipeline and related facilities that supply natural gas to the oilsands region of northern Alberta as well as a 27 km pipeline that supplies natural gas to a petrochemical complex at Joffre, Alberta.

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- Keystone is a 3,456 km oil pipeline project under construction that is expected to transport crude oil from Hardisty, Alberta to U.S. Midwest markets at Wood River and Patoka in Illinois, and to Cushing, Oklahoma. Keystone is 50 per cent owned by TCPL.
- TransCanada Québec & Maritimes Pipeline Inc. (*TQM*) is 50 per cent owned by TCPL. TQM is a 572 km pipeline system that connects with the Canadian Mainline and transports natural gas from Montréal to Québec City in Québec,

and connects with the Portland system. TQM is operated by TCPL.

United States

- TCPL's ANR System (*ANR System*) is a 100 per cent owned, 17,000 km natural gas transmission system which transports natural gas from producing fields located primarily in Texas and Oklahoma on its southwest leg. Its southeast leg transports natural gas from producing fields located primarily in the Gulf of Mexico and Louisiana. The system extends to markets located mainly in Wisconsin, Michigan, Illinois, Ohio and Indiana. ANR's natural gas pipeline also connects with other natural gas pipelines to give access to diverse sources of North American supply, including Western Canada and the Rocky Mountain supply region, and a variety of markets in the midwestern and northeastern U.S. ANR also owns and operates underground regulated natural gas storage facilities in Michigan with a total capacity of approximately 235 billion cubic feet (*Bcf*).
- The GTN System (*GTN System*) System is TCPL's 100 per cent owned natural gas transmission system which extends 2,174 km and links the Foothills System with Pacific Gas and Electric Company's California Gas Transmission System, with Williams Companies, Inc.'s Northwest Pipeline in Washington and Oregon, and with Tuscarora.
- North Baja is TCPL's 100 per cent owned natural gas transmission system which extends 129 km from Ehrenberg in southwestern Arizona to a point near Ogilby, California on the California/Mexico border and connects with the Gasoducto Bajanorte natural gas pipeline system in Mexico.
- The Great Lakes Gas Transmission System (*Great Lakes System*) is owned 53.6 per cent by TCPL and 46.4 per cent by TC Pipelines, LP. The 3,404 km Great Lakes natural gas transmission system connects with the Canadian Mainline at Emerson, Manitoba, and serves markets in Central Canada and the Midwestern U.S. TCPL operates Great Lakes and effectively owns 68.5 per cent of the system through its 53.6 per cent ownership interest and its indirect ownership through its 32.1 per cent interest in TC Pipelines, LP.
- The Iroquois System connects with the Canadian Mainline near Waddington, New York and delivers natural gas to customers in the northeastern U.S. TCPL has a 44.5 per cent ownership interest in this 666 km pipeline system.
- The Portland system is a 474 km pipeline that connects with TQM near East Hereford, Québec and delivers natural gas to customers in the northeastern U.S. TCPL has a 61.7 per cent ownership interest in the Portland system and operates this pipeline.
- The Northern Border Pipeline System (*NBPL System*) is 50 per cent owned by TC PipeLines, LP and is a 2,250

km natural transmission pipeline system, which serves the U.S. Midwest from a connection with the Foothills System near Monchy, Saskatchewan. TCPL operates and effectively owns 16.1 per cent of NBPL through its 32.1 per cent interest in TC PipeLines, LP.

- The Tuscarora System is 100 per cent owned by TC PipeLines, LP and is a 491 km pipeline system transporting natural gas from the GTN System at Malin, Oregon to Wadsworth, Nevada with delivery points in northeastern California and northwestern Nevada. TCPL operates Tuscarora and its 32.1 per cent ownership interest in TC PipeLines, LP gives TCPL a 32.1 per cent interest in the system.

- TCPL holds a 32.1 per cent interest in TC PipeLines, LP, a publicly held limited partnership of which a subsidiary of TCPL acts as the general partner. The remaining interest of TC PipeLines, LP is widely held by the public. TC PipeLines, LP owns a 50 per cent interest in NBPL, the remaining 46.4 per cent in the Great Lakes System and 100 per cent of Tuscarora.

International

TCPL also has the following natural gas pipeline and related holdings in Mexico and South America:

- TransGas is a 344 km natural gas pipeline system which runs from Mariquita in the central region of Colombia to Cali in the southwest of Colombia. TCPL holds a 46.5 per cent ownership interest in this pipeline.

- Gas Pacifico is a 540 km natural gas pipeline extending from Loma de la Lata, Argentina to Concepción, Chile. INNERGY is an industrial natural gas marketing company based in Concepción that markets natural gas transported on Gas Pacifico. TCPL holds a 30 per cent ownership interest both in Gas Pacifico and INNERGY.

- Tamazunchale is a 100 per cent owned, 130 km natural gas pipeline in east-central Mexico which extends from the facilities of Pemex Gas near Naranjos, Veracruz to an electricity generating station near Tamazunchale, San Luis Potosi. This pipeline went into service on December 1, 2006.

Further information about TCPL's pipeline holdings, developments and opportunities and significant regulatory developments which relate to pipelines can be found in the MD&A under the headings Pipelines - Opportunities and Developments and Pipelines - Financial Analysis .

Regulation of the Pipeline Business

Canada

CANADIAN MAINLINE, TQM AND FOOTHILLS SYSTEM

Under the terms of the *National Energy Board Act* (Canada), the Canadian Mainline, TQM and the Foothills Systems are regulated by the NEB. The NEB sets tolls which provide TCPL the opportunity to recover projected costs of transporting natural gas, including the return on the Canadian Mainline, TQM and Foothills Systems' average investment base. In addition, new facilities are approved by the NEB before construction begins and the NEB regulates the operation of the Canadian Mainline, TQM and Foothills Systems. Net earnings of the Canadian Mainline, TQM and Foothills Systems may be affected by changes in investment base, the allowed return on equity, the level of deemed common equity and any incentive earnings.

ALBERTA SYSTEM

The Alberta System was regulated in 2007 by the EUB primarily under the provisions of the *Gas Utilities Act* (*GUA*) and the *Pipeline Act*. Under the *GUA*, the Alberta System rates, tolls and other charges, and terms and conditions of services were subject to approval by the EUB. Under the provisions of the *Pipeline Act*, the EUB oversaw various matters including the economic, orderly and efficient development of pipeline facilities, the operation and abandonment of the facilities and certain related pollution and environmental conservation issues. In addition to requirements under the *Pipeline Act*, the construction and operation of natural gas pipelines in Alberta are subject to certain provisions of other provincial legislation such as the *Environmental Protection and Enhancement Act*.

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Effective January 1, 2008, the EUB was reorganized into the Energy Resources Conservation Board and the Alberta Utilities Commission (AUC). The AUC will regulate all the physical and economic aspects of the Alberta System which were previously regulated by the EUB.

United States

TCPL's wholly owned and partially owned U.S. pipelines, including the ANR System, the GTN System, the Great Lakes System, the Iroquois System, the Portland system, the NBPL System, North Baja and the Tuscarora System, are natural gas companies operating under the provisions of the *Natural Gas Act of 1938* and the *Natural Gas Policy Act of 1978*, and are subject to the jurisdiction of the FERC. The *Natural Gas Act of 1938* grants the FERC authority over the construction and operation of pipelines and related facilities. The FERC also has authority to regulate rates for natural gas transportation and interstate commerce.

Energy Business

The Energy segment of TCPL's business includes the acquisition, development, construction, ownership and operation of electrical power generation plants, the purchase and marketing of electricity, the provision of electricity account services to energy and industrial customers, and the development, construction, ownership and operation of non-regulated natural gas storage in Alberta, and LNG facilities in Canada and the U.S.

The electrical power generation plants and power supply that TCPL has an interest in, including those under development, in the aggregate, represent approximately 7,700 MW of power generation capacity. Power plants and power supply in Canada account for approximately 85 per cent of this total, and power plants in the U.S. account for the balance, being approximately 15 per cent.

TCPL owns and operates the following facilities:

- Natural gas-fired cogeneration plants in Alberta at Carseland (80 MW), Redwater (40 MW), Bear Creek (80 MW) and MacKay River (165 MW).
- Grandview, a 90 MW natural gas-fired cogeneration power plant located in Saint John, New Brunswick. Under a 20-year operating lease for tolls, Irving Oil Limited receives 100 per cent of the plant's heat and electricity output.
- Cancarb, a 27 MW facility at Medicine Hat, Alberta fuelled by waste heat from TCPL's adjacent thermal carbon black facility.
- OSP, a 560 MW natural gas-fired, combined-cycle facility in Rhode Island.
- TC Hydro, TCPL's hydroelectric facilities located in New Hampshire, Vermont and Massachusetts on the Connecticut and Deerfield Rivers consist of 13 stations and associated dams and reservoirs with a total generating capacity of 583 MW.
- Bécancour, a 550 MW natural gas-fired cogeneration power plant located near Trois-Rivières, Québec. The entire power output is supplied to Hydro-Québec under a 20-year power purchase contract. Steam is also sold to an industrial customer for use in commercial processes.
- Edson, an underground natural gas storage facility connected to the Alberta System near Edson, Alberta. The facility's central processing system is capable of maximum injection and withdrawal rates of 725 million cubic feet per day (*mmcf/d*) of natural gas. Edson has a working natural gas storage capacity of approximately 50 Bcf.
- A long-term natural gas storage lease with a third party located in Alberta.

TCPL has the following long-term power purchase arrangements in place:

- The largest coal-fired electric generating facility in Western Canada, Sundance is located in south-central Alberta, TCPL has the rights to 100 per cent of the generating capacity of the 560 MW Sundance A facility under a PPA, which expires in 2017. TCPL also has the rights to 50 per cent of the generating capacity of the 706 MW Sundance B facility under a PPA which expires in 2020 (*Sundance*).
- The Sheerness facility, which consists of two 390 MW coal-fired thermal power generating units, is located in southeastern Alberta. TCPL has the rights to 756 MW of generating capacity from the Sheerness facility PPA, which expires in 2020 (*Sheerness*).

TCPL has interest in the following:

- A 60 per cent ownership in CrossAlta, which is an underground natural gas storage facility connected to the Alberta System and is located near Crossfield, Alberta. CrossAlta has a working natural gas capacity of 54 Bcf with a maximum deliverability capability of 480 mmcf/d.
- A 62 per cent interest in Baie-des-Sables (110 MW) and Anse á Valteau (101 MW) wind farms.
- Consisting of two generating stations, Bruce A with approximately 3,000 MW of generating capacity and Bruce Power L.P. (*Bruce B*) with approximately 3,200 MW of generating capacity. Bruce Power is located in Ontario. TCPL owns 48.7 per cent of Bruce A., which has four power generating units, two of which have been idled for refurbishing and are expected to restart in 2010. TCPL owns 31.6 per cent of Bruce B, which also has four power generating units.

TCPL owns the following facilities which are under construction or development:

- The third phase of the 740 MW Cartier Wind Energy Project, the Carleton wind farms, which began construction in late 2007 as well as the remaining three projects which are under planning and development.
- The Portlands Energy Centre, a 550 MW high efficiency, combined-cycle natural gas generation power plant located near downtown Toronto, Ontario is 50 percent owned by TCPL and is under construction. The plant is expected to be operational in simple-cycle mode, delivering 340 MW of electricity beginning June in 2008. It is anticipated to be fully commissioned in its combined-cycle mode, delivering 550 MW of power in the second quarter of 2009.

- A 683 MW natural gas-fired power plant near the town of Halton Hills, Ontario is under construction and is expected to be placed in service in the third quarter of 2010.

- A joint venture with Shell, Broadwater is a proposed offshore LNG project located in the New York waters of Long Island Sound, capable of receiving, storing and regasifying imported LNG with an average send-out capacity of approximately one Bcf per day of natural gas. TCPL holds a 50 per cent interest in Broadwater.

- A joint venture with Petro-Canada, Cacouna is a proposed LNG project in Québec at Gros Cacouna harbour on the St. Lawrence River in Québec, Cacouna would be capable of receiving, storing and regasifying imported LNG with an average send-out capacity of approximately 500 mmcf/d of natural gas. TCPL has a 50 per cent interest in Cacouna.
- The proposed Kibby wind power project is located in Kibby and Skinner Townships in northwestern Franklin County, Maine. Subject to receipt of U.S. federal and state approvals, construction of the new facilities could begin in early 2008 with an expected in-service date of 2009/2010.

Further information about TCPL's energy holdings and significant developments and opportunities relating to energy can be found in the MD&A under the headings Energy - Financial Analysis and Energy - Opportunities and Developments .

HEALTH, SAFETY AND ENVIRONMENT RISK MANAGEMENT

TCPL is committed to providing a safe and healthy environment for its employees, contractors and the public, and to protecting the environment. Health, safety and environment (*HS&E*) is a priority in all of TCPL's operations and the Company is committed to ensuring it is in conformance with its internal policies and regulated requirements, and is an industry leader. The HS&E Committee of TCPL's Board of Directors monitors conformance with TCPL's HS&E corporate policy through regular reporting. TCPL's HS&E management system is modeled to the elements of the International Organization of Standardization's (*ISO*) standard for environmental management systems, ISO 14001, and focuses resources on the areas of significant risk to the organization's HS&E business activities. Management is regularly advised of all important HS&E operational issues and initiatives by way of formal reporting processes. TCPL's HS&E management system and performance are assessed by an independent outside firm every three years or more often if requested by the HS&E Committee. The most recent assessment was conducted in November 2006. These assessments involve senior management and employee interviews, review of policies, procedures, objectives, performance measurement and reporting.

Safety

In 2007, employee and contractor health and safety performance continued to improve relative to previous years and benchmarked within the top level of industry peers. The Company's assets were highly reliable in 2007 and there were no incidents that were material to the Company's operations.

Under the approved regulatory models in Canada, pipeline integrity expenditures on NEB and AUC regulated pipelines are treated on a flow-through basis and, as a result, have no impact on TCPL's earnings. The Company expects to spend approximately \$120 million in 2008 for pipeline integrity on its wholly owned pipelines, which is slightly higher than the amount spent in 2007, reflecting the acquisition of ANR and slightly increased spending in Canada. Spending associated with public safety on the Energy assets is focused primarily on hydro dams and associated equipment, and is consistent with previous years.

Environment

TCPL's operations are subject to various environmental laws and regulations that establish compliance and remediation obligations. There are no outstanding orders, material claims or lawsuits against the Company in relation to the release or discharge of any material into the environment or in connection with environmental protection. The Company believes that it has established appropriate reserves, where required, for environmental liabilities.

Environmental risks from TCPL's facilities typically include air emissions such as nitrogen oxides (NOx), particulate matter and greenhouse gases, potential land impacts, including land reclamation following construction, releases, chemical and hydrocarbon storage, and waste management control to minimize hazardous wastes, and water impacts such as water discharge. TCPL utilizes a risk-based environmental assessment approach. All businesses are assessed annually and specific facilities, installations and activities are reviewed on a one- to three-year cycle, depending on the Company's assessment risk. Business and/or facility inspections are also completed on a monthly, quarterly or annual basis, depending on the entity and the assessment of risk. There were no materially significant environmental matters arising from these assessments conducted during 2007.

Climate change policy continues to evolve at regional, national and international levels. Under the Specified Gas Emitters Regulation, as of July 1, 2007, industrial facilities in Alberta are required to reduce their greenhouse gas emissions intensities by 12 per cent. TCPL's Alberta-based facilities are subject to this regulation which also extends to the Sundance and Sheerness facilities with which the Company has PPAs. Plans have been developed to manage the costs of compliance incurred by these assets. The regulation is not expected to have a material impact on the Company's results. Compliance

costs related to the Alberta System are expected to be recovered through tolls paid by customers. Recovery of compliance costs related to the Company's power generation facilities in Alberta is dependent ultimately on market prices for electricity. The Company recorded in 2007 a charge of \$14 million for the period from July 1, 2007 to December 31, 2007 related to the new Alberta environmental regulation.

A hydrocarbon royalty tax took effect in Québec on October 1, 2007 and is expected to affect mainly the Bécancour power generation facility. A regulatory proceeding is under way to determine the method of collecting the tax. The Company recorded a charge of \$2 million for the period October 1, 2007 to December 31, 2007 for Québec royalties.

British Columbia recently announced a carbon tax, with an effective date of July 2008, which is expected to be applied to fuel usage at the Company's pipeline compressor facilities in that province. The specifics of the application of the tax are still being assessed. Compliance costs related to this tax are anticipated to be recovered through tolls paid by customers.

The Government of Canada released in April 2007 the Regulatory Framework for Air Emissions ("*Framework*"). The Framework outlines short-, medium- and long-term objectives for managing both greenhouse gas emissions and air pollutants in Canada. The Company expects a number of its facilities will be affected by pending Federal climate change regulations that will be put in place to meet the Framework's objectives. It is unknown at this time whether the impacts from the pending regulations will be material as the final form of compliance options is still evolving.

Climate change legislation is evolving at both the federal and state levels in the U.S. The Company expects a number of its facilities could be affected by these legislative initiatives, but timing and specific policy objectives remain uncertain.

The Company continues to be involved in discussions with governments in jurisdictions where TCPL has operations and where climate change policy is under development. TCPL is also continuing its programs to manage greenhouse gas emissions from its facilities and to evaluate new processes and technologies that result in improved efficiencies and lower greenhouse gas emission rates.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

The Canadian Alliance of Pipeline Landowners' Association (*CAPLA*) and two individual landowners commenced an action in 2003 under Ontario's *Class Proceedings Act*, 1992, against TCPL and Enbridge Inc. for damages of \$500 million alleged to arise from the creation of a control zone within 30 metres of a pipeline pursuant to Section 112 of the *National Energy Board Act*. On November 20, 2006, TCPL and Enbridge Inc. were granted a dismissal of the case but CAPLA has appealed that decision. The appeal was heard on December 18, 2007 and the Ontario Court of Appeal reserved their decision. TCPL continues to believe the claim is without merit and will vigorously defend the action. TCPL has made no provision for any potential liability. Liabilities, if any, would be dealt with through the NEB.

TCPL and its subsidiaries are subject to various other legal proceedings and actions arising in the normal course of business. While the final outcome of such legal proceedings and actions cannot be predicted with certainty, it is the opinion of TCPL's management that the resolution of

such proceedings and actions will not have a material impact on TCPL's consolidated financial position or results of operations.

TRANSFER AGENT AND REGISTRAR

TCPL's transfer agent and registrar is Computershare Trust Company of Canada with transfer facilities in the Canadian cities of Vancouver, Calgary, Winnipeg, Toronto, Montréal and Halifax.

INTEREST OF EXPERTS

Our auditors, KPMG LLP, have confirmed that they are independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

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RISK FACTORS

A discussion of the Company's risk factors can be found in the MD&A for the year ended December 31, 2007, which is incorporated by reference herein, under the headings "Pipelines - Opportunities and Developments", "Pipelines - Business Risks", "Energy - Opportunities and Developments", "Energy - Business Risks" and "Risk Management and Financial Instruments".

DIVIDENDS

All of TCPL's common shares are held by TransCanada and as a result, any dividends declared by TCPL on its common shares are paid to TransCanada. TCPL's Board of Directors has not adopted a formal dividend policy. The Board reviews the financial performance of TCPL quarterly and makes a determination of the appropriate level of dividends to be declared on its common shares in the following quarter. Provisions of various trust indentures and credit arrangements to which TCPL is a party, restrict TCPL's ability to declare and pay dividends to TransCanada and preferred shareholders under certain circumstances and, if such restrictions apply, they may, in turn, have an impact on TransCanada's ability to declare and pay dividends on its common and preferred shares. In the opinion of TCPL management, such provisions do not currently restrict or alter TCPL's ability to declare or pay dividends.

The dividends declared per share during the past three completed financial years are set forth in the following table.

	2007	2006	2005
Dividends declared on common shares(1)	\$1.39	\$1.28	\$1.23
Dividends declared on preferred shares, Series U	\$2.80	\$2.80	\$2.80
Dividends declared on preferred shares, Series Y	\$2.80	\$2.80	\$2.80

(1) TCPL dividends on its common shares are declared in an amount equal to the aggregate cash dividend paid by TransCanada to its public shareholders. The amounts presented reflect the aggregate amount divided by the total outstanding common shares of TCPL.

DESCRIPTION OF CAPITAL STRUCTURE**Share Capital**

TCPL's authorized share capital consists of an unlimited number of common shares, of which 533,008,044 were issued and outstanding at Year End, and an unlimited number of first preferred shares and second preferred shares, issuable in series. There were 4,000,000 Series U and 4,000,000 Series Y first preferred shares issued and outstanding at Year End. The following is a description of the material characteristics of each of these classes of shares.

Common Shares

As the holder of all of TCPL's common shares, TransCanada holds all the voting rights in those common shares.

First Preferred Shares, Series U

Subject to certain limitations, the Board may, from time to time, issue first preferred shares in one or more series and determine for any such series, its designation, number of shares and respective rights, privileges, restrictions and conditions. The first preferred shares as a class, have, among others, provisions to the following effect.

The holders of the first preferred shares, Series U are entitled to receive as and when declared by the Board, fixed cumulative preferential cash dividends at an annual rate of \$2.80 per share, payable quarterly.

The first preferred shares of each series shall rank on a parity with the first preferred shares of every other series, and shall be entitled to preference over the common shares and any other shares ranking junior to the first preferred shares with respect to the payment of dividends, the repayment of capital and the distribution of assets to TCPL in the event of a liquidation, dissolution or winding up of TCPL.

TCPL is entitled to purchase for cancellation, some or all of the first preferred shares, Series U outstanding at the lowest price which such shares are obtainable, in the opinion of the Board, but not exceeding \$50.00 per share plus costs of purchase. Furthermore, TCPL may redeem, on or after October 15, 2013, some or all of the first preferred shares, Series U upon payment for each share at \$50.00 per share.

Except as provided by the *Canada Business Corporations Act* or as referred to below, the holders of the first preferred shares will not have any voting rights nor will they be entitled to receive notice of or to attend shareholders' meetings unless and until TCPL fails to pay, in the aggregate, six quarterly dividends on the first preferred shares, Series U.

The provisions attaching to the first preferred shares as a class may be modified, amended or varied only with the approval of the holders of the first preferred shares as a class. Any such approval to be given by the holders of the first preferred shares may be given by the affirmative vote of the holders of not less than $66\frac{2}{3}$ per cent of the first preferred shares represented and voted at a meeting or adjourned meeting of such holders.

First Preferred Shares, Series Y

The rights, privileges, restrictions and conditions attaching to the first preferred shares, Series Y are substantially identical to those attaching to the first preferred shares, Series U except that the first preferred shares, Series Y are redeemable by TCPL after March 5, 2014.

DEBT

The following table sets out the issuances by TCPL of senior unsecured notes and junior subordinated notes with terms to maturity in excess of one year, during the 12 months ended December 31, 2007.

Date Issued	Issue Price per \$1,000 Principal Amount of Notes	Aggregate Issue Price
May 3, 2007	US\$998.21	US\$998,210,000
October 5, 2007	US\$995.65	US\$995,650,000

There are no provisions associated with this debt that entitle debt holders to voting rights. From time to time, TCPL issues commercial paper for terms not exceeding nine months.

CREDIT RATINGS

The following table sets out the credit ratings assigned to those outstanding classes of securities of TCPL which have been rated:

	DBRS	Moody's	S&P
Overall			
Senior Unsecured Debt			
<i>Debentures</i>	A	A2	A-
<i>Medium-term Notes</i>	A	A2	A-
Junior Subordinated Notes ⁽¹⁾	BBB (high)	A3	BBB
Preferred Shares	Pfd-2 (low)	Baa1	BBB
Commercial Paper	R-1 (low)	P-1	-
Trend/Rating Outlook	Stable ⁽¹⁾	Stable	Negative

(1) Issued May 3, 2007.

Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. Credit ratings are not recommendations to purchase, hold or sell securities and do not address the market price or suitability of a specific security for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant. A description of the rating agencies' credit ratings listed in the table above is set out below.

DBRS

DBRS has different rating scales for Short and Long-Term Debt and preferred shares. "High" or "low" grades are used to indicate the relative standing within a rating category. The absence of either a "high" or "low" designation indicates the rating is in the "middle" of the category. The R-1 (low) rating assigned to TCPL's Short-Term Debt is the third highest of ten rating categories and indicates satisfactory credit quality. The overall strength and outlook for key liquidity, debt and profitability ratios is not normally as favourable as with higher rating categories, but these considerations are still respectable. Any qualifying negative factors that exist are considered manageable, and the entity is normally of sufficient size to have some influence in its industry. The A rating assigned to TCPL's Senior Unsecured Debt is the third highest of ten categories for Long-Term Debt. Long-Term Debt rated A is of satisfactory credit quality. Protection of interest and principal is still substantial, but the degree of strength is less than that of AA rated securities. While a respectable rating, entities in the A category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher rated entities. The BBB (high) rating assigned to Junior Subordinated Notes is the fourth highest of the ten categories for Long-Term Debt. Long-Term Debt rated BBB is of adequate credit quality. Protection of interest and principal is considered acceptable but there may be other

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adverse conditions present which reduce the strength of the entity and its rated securities. The Pfd-2 (low) rating assigned to TCPL's preferred shares is the second highest of six rating categories for preferred shares. Preferred shares rated Pfd-2 are of satisfactory credit quality. Protection of dividends and principal is still substantial; however, earnings, the balance sheet and coverage ratios are not as strong as Pfd-1 rated companies.

Moody's Investor Services (Moody's)

Moody's has different rating scales for short and long-term obligations. Numerical modifiers 1, 2 and 3 are applied to each rating classification, with 1 being the highest and 3 being the lowest. The P-1 rating assigned to TCPL's Short-Term Debt is the highest of four rating categories and indicates a superior ability to repay Short-Term Debt obligations. The A2 rating assigned to TCPL's senior secured and Senior Unsecured Debt and the A3 rating assigned to its junior subordinated debt is the third highest of nine rating categories for long-term obligations. Obligations rated A are considered upper-medium grade and are subject to low credit risk. The Baa1 rating assigned to TCPL's preferred shares is the fourth highest of nine rating categories for long-term obligations. Obligations rated Baa are subject to moderate credit risk, are considered medium-grade, and as such, may possess certain speculative characteristics.

Standard & Poor's (S&P)

S&P has different rating scales for short and long-term obligations. Ratings may be modified by the addition of a plus (+) or minus (-) sign to show the relative standing within a particular rating category. The A- rating assigned to TCPL's senior unsecured debt is the third highest of ten rating categories for long-term obligations. An A rating indicates the obligor's capacity to meet its financial commitment is strong; however, the obligation is somewhat susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. The BBB ratings assigned to TCPL's Junior Subordinated Notes and preferred shares are the fourth highest of ten rating categories for long-term obligations. An obligation rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

MARKET FOR SECURITIES

TransCanada holds all of the common shares of TCPL and these are not listed on a public market. TransCanada's common shares are listed on the Toronto Stock Exchange (*TSX*) and the New York Stock Exchange (*NYSE*). The following table sets forth the reported monthly high and low trading prices and monthly trading volumes of the common shares of TransCanada on the TSX for the period indicated:

Common Shares (TRP)

Month	High (\$)	Low (\$)	Volume Traded
December 2007	40.73	38.95	17,822,199

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November 2007	40.69	38.10	28,532,491
October 2007	40.24	36.47	30,876,596
September 2007	37.19	35.80	28,163,823
August 2007	38.62	35.43	29,811,560
July 2007	39.83	36.17	33,442,298
June 2007	39.36	35.77	30,897,359
May 2007	40.29	38.77	25,520,203
April 2007	40.26	37.75	22,302,817
March 2007	39.80	36.75	30,461,884
February 2007	39.28	37.17	28,769,671
January 2007	41.35	38.28	29,422,031

In addition, the following securities of TCPL are listed:

**TCPL's Cumulative Redeemable First Preferred Shares,
Series U (TCA.PR.X) and Series Y (TCA.PR.Y), which are listed on the TSX**

Month	Series U			Series Y		
	High (\$)	Low (\$)	Volume Traded	High (\$)	Low (\$)	Volume Traded
December 2007	50.75	49.80	36,215	51.65	50.11	37,319
November 2007	50.50	49.96	60,707	50.75	50.05	55,112
October 2007	50.44	49.25	39,635	50.44	49.51	47,627
September 2007	51.80	49.00	30,091	51.95	49.61	32,310
August 2007	51.80	50.50	37,226	51.25	50.50	28,572
July 2007	51.98	50.50	27,358	51.80	50.01	32,150
June 2007	52.88	51.50	56,999	52.80	51.50	50,316
May 2007	54.33	51.85	271,282	54.15	51.60	157,425
April 2007	54.69	54.00	29,521	54.60	53.75	44,051
March 2007	54.99	53.80	33,430	54.80	54.25	42,213
February 2007	54.98	53.95	35,035	54.96	54.01	24,557
January 2007	54.65	53.60	37,913	54.58	53.85	28,836

DIRECTORS AND OFFICERS

As of February 25, 2008, the directors and officers of TransCanada as a group beneficially owned, directly or indirectly, or exercised control or direction over an aggregate of 312,558 common shares of TransCanada. This constitutes less than one per cent of TransCanada's common shares and less than one per cent of the voting securities of any of its subsidiaries or affiliates. In addition, officers held exercisable options to acquire an aggregate of 2,296,740 additional common shares. TransCanada collects this information from its directors and officers but otherwise has no direct knowledge of individual holdings of its securities.

Directors

Set forth below are the names of the thirteen directors who served on the Board at Year End, together with their jurisdictions of residence, all positions and offices held by them with TCPL and its significant affiliates, their principal occupations or employment during the past five years and the year from which each director has continually served as a director of TCPL. Positions and offices held with TransCanada are also held by such person at TCPL.

Name and Place of Residence	Principal Occupation During the Five Preceding Years	Director Since
		2005

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Kevin E. Benson ⁽¹⁾ Wheaton, Illinois United States	President and Chief Executive Officer, Laidlaw International, Inc. (transportation services) from June 2003 to October 2007, and Laidlaw, Inc. from September 2002 to June 2003.	
Derek H. Burney, O.C. Ottawa, Ontario Canada	Senior strategic advisor at Ogilvy Renault LLP (law firm) and Chairman, CanWest Global Communications Corp. (communications). Lead director at Shell Canada Limited (oil and gas) from April 2001 to May 2007. President and Chief Executive Officer, CAE Inc. (technology) from October 1999 to August 2004.	2005
Wendy K. Dobson Uxbridge, Ontario Canada	Professor, Rotman School of Management and Director, Institute for International Business, University of Toronto. Vice Chair, Canadian Public Accountability Board. Director, Toronto-Dominion Bank.	1992
E. Linn Draper Lampasas, Texas United States	Director, Alliance Data Systems Corporation (data processing and services), Alpha Natural Resources, Inc. (mining), NorthWestern Corporation (conducting business as NorthWestern Energy) (oil and gas) Lead Director of and Temple-Inland Inc. (materials), Chairman, President and Chief Executive Officer of Columbus, Ohio-based American Electric Power Co., Inc. from April 1993 to April 2004.	2005

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Name and Place of Residence	Principal Occupation During the Five Preceding Years	Director Since
The Hon. Paule Gauthier, P.C., O.C., O.Q., Q.C. Québec, Québec Canada	Senior Partner, Stein Monast LLP (law firm). Director, Cossette Communication Group Inc., Institut Québécois des Hautes Études Internationales, Laval University, Metro Inc., RBC Dexia Investor Services Trust, Rothmans Inc. and Royal Bank of Canada.	2002
Kerry L. Hawkins Winnipeg, Manitoba Canada	Director, NOVA Chemicals Corporation. President, Cargill Limited (agricultural) from September 1982 to December 2005.	1996
S. Barry Jackson Calgary, Alberta Canada	Chair of the Board, TCPL since April 2005. Director, Cordero Energy Inc. (oil and gas) and Nexen Inc. (oil and gas), Chair of Resolute Energy Inc. (oil and gas) from January 2002 to April 2005 and Chair of Deer Creek Energy Limited (oil and gas) from April 2001 to September 2005.	2002
Paul L. Joskow New York, New York United States	Economist and President of the Alfred P. Sloan Foundation. On leave from his position as Professor of Economics and Management, Massachusetts Institute of Technology (MIT) where he has been on the faculty since 1972. Director of the MIT Center for Energy and Environmental Policy Research from 1999 to 2007. Director of Exelon Corporation (energy) since July 2007. Trustee of Putnam Mutual Funds. President of the Yale University Council until July 1, 2006 and was on the Board of Directors of the Whitehead Institute of Biological Research until February 2005.	2004
Harold N. Kvisle Calgary, Alberta Canada	President and Chief Executive Officer of TCPL since May 2003 and TCPL since May 2001. Director, Bank of Montreal.	2001
John A. MacNaughton, C.M. Toronto, Ontario Canada	Chairman of the Business Development Bank of Canada and of the Canadian Trading and Quotation System Inc. (stock exchange). Director, Nortel Networks Corporation and Nortel Networks Limited (the principal operating subsidiary of Nortel Networks Corporation) (technology). Founding President and Chief Executive Officer of the Canadian Pension Plan Investment Board from 1999 to 2005.	2006
David P. O'Brien ⁽¹⁾ Calgary, Alberta Canada	Chair, EnCana Corporation (oil and gas) since April 2002 and Chair, Royal Bank of Canada since February 2004. Director, Molson Coors Brewing Company, and C.D. Howe Institute. Chancellor, Concordia University and a member of the Science, Technology and Innovation Council of Canada.	2001
W. Thomas Stephens Greenwood Village, Colorado United States	Chairman and Chief Executive Officer of Boise Cascade, LLC (paper, forest products and timberland assets) since November 2005. Trustee of Putnam Mutual Funds.	2007 ⁽³⁾
D. Michael G. Stewart Calgary, Alberta Canada	Principal of the privately held Ballinacurra Group of Investment Companies since March 2002. Director, Canadian Energy Services Inc. and Pengrowth Corporation. Director of Esprit Exploration Ltd. (oil and gas) from May 2002 to September 2004; a director of Canada Southern Petroleum Ltd. from June 2003 to August 2004; a trustee of Esprit Energy Trust (oil and gas) from August 2004 to October 2006; and a director of Creststreet Power & Income General Partner Limited, the General Partner of Creststreet Power & Income Fund L.P. (wind power) from December 2003 to February 2006.	2006

(1) Mr. Benson was President and Chief Executive Officer of Canadian Airlines International Ltd. from July 1996 to February 2000. Canadian Airlines International Ltd. filed for protection under the *Companies Creditors Arrangement Act* (Canada) and applicable bankruptcy protection statutes in the U.S. on March 24, 2000.

(2) Mr. O'Brien was a director of Air Canada in April 2003 when Air Canada filed for protection under the *Companies Creditors Arrangement Act* (Canada) and applicable bankruptcy protection statutes in the U.S.

(3) Mr. Stephens previously served on the Board from 2000 to 2005.

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TransCanada will hold its annual meeting of common shareholders on Friday, April 25, 2008, and subject to the election of the thirteen nominees proposed for election to TransCanada's board, these directors will be elected by the sole shareholder of TCPL as directors of TCPL on that date. Each director holds office until TCPL's next annual meeting or until his or her successor is earlier elected or appointed.

Officers

All of the executive officers and corporate officers of TCPL reside in Calgary, Alberta, Canada. Current positions and offices held with TCPL are also held by such person at TransCanada. As of the date hereof, the officers of TCPL, their present positions within TCPL and their principal occupations during the five preceding years are as follows:

Executive Officers

Name	Present Position Held	Principal Occupation During the Five Preceding Years
Harold N. Kvisle	President and Chief Executive Officer	President and Chief Executive Officer
Russell K. Girling	President, Pipelines	Executive Vice-President, Corporate Development and Chief Financial Officer, March 2003 to June 2006. Prior to March 2003, Executive Vice-President and Chief Financial Officer.
Gregory A. Lohnes	Executive Vice-President and Chief Financial Officer	Prior to June 2006, President and Chief Executive Officer of Great Lakes Gas Transmission Company.
Dennis J. McConaghy	Executive Vice-President, Pipeline Strategy and Development	Prior to June 2006, Executive Vice-President, Gas Development.
Sean McMaster	Executive Vice-President, Corporate and General Counsel and Chief Compliance Officer	Prior to October 2006, General Counsel and Chief Compliance Officer. Prior thereto, General Counsel since June 2006. Vice-President, Transactions, Power Division, TCPL from April 2003 to June 2006. President TransCanada Power Services Ltd., general partner of TransCanada Power, L.P. from June 2003 to August 2005. Prior to June 2003, Vice-President, TransCanada Power Services Ltd.
Alexander J. Pourbaix	President, Energy	Executive Vice-President, Power, March 2003 to June 2006. Prior to March 2003, Executive Vice-President, Power Development.
Sarah E. Raiss	Executive Vice-President, Corporate Services	Executive Vice-President, Corporate Services
Donald M. Wishart	Executive Vice-President, Operations and Engineering	Prior to March 2003, Senior Vice-President, Field Operations.

Corporate Officers

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Name	Present Position Held	Principal Occupation During the Five Preceding Years
Ronald L. Cook	Vice-President, Taxation	Vice-President, Taxation.
Donald J. DeGrandis	Corporate Secretary	Prior to June 2006, Associate General Counsel, Corporate.
Garry E. Lamb	Vice-President, Risk Management	Vice-President, Risk Management
Donald R. Marchand	Vice-President, Finance and Treasurer	Vice-President, Finance and Treasurer
G. Glenn Menuz	Vice President and Controller	Prior to June 2006, Assistant Controller.

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CORPORATE GOVERNANCE

The Board and the members of TCPL's management are committed to the highest standards of corporate governance. TCPL's corporate governance practices comply with the governance rules of the Canadian Securities Administrators (CSA), those of the NYSE applicable to foreign issuers and of the U.S. Securities and Exchange Commission (SEC), and those mandated by the U.S. *Sarbanes-Oxley Act of 2002* (SOX). As a non-U.S. company, TCPL is not required to comply with most of the NYSE corporate governance listing standards; however, except as summarized on its website at www.transcanada.com, the governance practices followed are in compliance with the NYSE standards for U.S. companies in all significant respects. TCPL is in compliance with the CSA's Multilateral Instrument 52-110 pertaining to audit committees. TCPL is also in compliance with the CSA's National Policy 58-201, Corporate Governance Guidelines, and National Instrument 58-101, Disclosure of Corporate Governance Practices. Further information about TCPL's corporate governance can be found on TransCanada's website at www.transcanada.com under the heading "Corporate Governance".

Compliance with Canadian Governance Guidelines

The "Disclosure of Corporate Governance Practices" addressing disclosure in accordance with the Canadian Governance Guidelines is attached to this AIF at Schedule B. It has been approved by the Governance Committee and the Board.

Audit Committee

TCPL has an Audit Committee which is responsible for assisting the Board in overseeing the integrity of TCPL's financial statements and compliance with legal and regulatory requirements and in ensuring the independence and performance of TCPL's internal and external auditors. The members of the Audit Committee at Year End were Kevin E. Benson (Chair), Derek H. Burney, Paule Gauthier, Paul L. Joskow and John A. MacNaughton.

The Board believes that the composition of the Audit Committee reflects a high level of financial literacy and expertise. Each member of the Audit Committee has been determined by the Board to be independent and financially literate within the meaning of the definitions under Canadian and U.S. securities laws and the NYSE rules. In addition, the Board has determined that Mr. Benson is an Audit Committee Financial Expert as that term is defined under U.S. securities laws. The Board has made these determinations based on the education and breadth and depth of experience of each member of the Audit Committee. The following is a description of the education and experience, apart from their respective roles as directors of TCPL, of each member of the Audit Committee that is relevant to the performance of his or her responsibilities as a member of the Audit Committee:

Mr. Benson earned a Bachelor of Accounting from the University of Witwatersrand (South Africa) and was a member of the South African Society of Chartered Accountants. Mr. Benson was the President and Chief Executive Officer of Laidlaw International, Inc. until October, 2007. In prior years, he has held several executive positions including one as President and Chief Executive Officer of Canadian Airlines International Ltd. and has served on other public company boards.

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Mr. Burney earned a Bachelor of Arts (Honours) and Master of Arts from Queen's University. He is currently a senior strategic advisor at Ogilvy Renault LLP. Mr. Burney previously served as President and Chief Executive Officer of CAE Inc. and as Chairman and Chief Executive Officer of Bell Canada International Inc. Mr. Burney was the lead director at Shell Canada Limited until May 2007 and is the Chairman of CanWest Global Communications Corp. He has served on one other organization's audit committee.

Mme. Gauthier earned a Bachelor of Arts from the Collège Jésus-Marie de Sillery, a Bachelor of Laws from Laval University and a Master of Laws in Business Law (Intellectual Property) from Laval-University. She has served on the boards of several public companies and other organizations and on the audit committees of certain of those boards.

Mr. Joskow earned a Bachelor of Arts with Distinction in Economics from Cornell University, a Masters of Philosophy in Economics from Yale University, and Ph.D. in Economics from Yale University. He is currently the President of the Alfred P. Sloan Foundation and on leave from his position as a Professor of Economics and Management, MIT. He has served on the boards of several public companies and other organizations and on the audit committees of certain of those boards.

Mr. MacNaughton earned a Bachelor of Arts in Economics from the University of Western Ontario. Mr. MacNaughton is currently the Chairman of the Business Development Bank of Canada and of Canadian Trading and Quotation System Inc. In prior years, he has held several executive positions including founding President and Chief Executive Officer of the Canadian Pension Plan Investment Board and President of Nesbitt Burns Inc. He is currently the Chair of an audit committee of one other public company.

The Charter of the Audit Committee can be found in Schedule C of this AIF and on TCPL's website under the Corporate Governance - Board Committees page, at www.transcanada.com.

Pre-Approval Policies and Procedures

TCPL's Audit Committee has adopted a pre-approval policy with respect to permitted non-audit services. Under the policy, the Audit Committee has granted pre-approval for specified non-audit services. For engagements of \$25,000 or less which are not within the annual pre-approved limit, approval by the Audit Committee is not required, and for engagements between \$25,000 and \$100,000, approval of the Audit Committee Chair is required, and the Audit Committee is to be informed of the engagement at the next scheduled Audit Committee meeting. For all engagements of \$100,000 or more, pre-approval of the Audit Committee is required. In all cases, regardless of the dollar amount involved, where there is a potential for conflict of interest involving the external auditor to arise on an engagement, the Audit Committee Chair must pre-approve the assignment.

To date, TCPL has not approved any non-audit services on the basis of the de-minimis exemptions. All non-audit services have been pre-approved by the Audit Committee in accordance with the pre-approval policy described above.

External Auditor Service Fees

The aggregate fees for external auditor services rendered by, KPMG LLP, the External Auditor for the TransCanada group of companies for the 2007 and 2006 fiscal years, are shown in the table below:

Fee Category	2007	2006	Description of Fee Category
	(millions of dollars)		
Audit Fees ⁽¹⁾	\$6.27	\$6.52	Aggregate fees for audit services rendered for the audit of the annual consolidated financial statements or services provided in connection with statutory and regulatory filings or engagements, the review of interim consolidated financial statements and information contained in various prospectuses and other offering documents.
Audit Related Fees	0.07	0.07	Aggregate fees for assurance and related services that are reasonably related to performance of the audit or review of the consolidated financial statements and are not reported as Audit Fees. The nature of services comprising these fees related to the audit of the financial statements of certain pension plans.
Tax Fees	0.06	0.22	Aggregate fees rendered for primarily tax compliance and tax advice. The nature of these services consisted of: tax compliance including the review of income tax returns; and tax items and tax services related to domestic and international taxation including income tax, capital tax and Goods and Services Tax.
All Other Fees	0.00	0.07	Aggregate fees for products and services other than those reported elsewhere in this table. The nature of these services consisted of advice related to compliance with SOX.
Total	\$6.40	\$6.88	

(1) The disclosure of audit fees paid has been revised to be based on aggregate fees billed during the fiscal year as opposed to aggregate fees for professional services rendered during the fiscal year. For comparison purposes, both the 2007 and the 2006 amounts have been disclosed based on the aggregate fees billed during the year.

Other Board Committees

In addition to the Audit Committee, TCPL has three other Board committees: the Governance Committee, the Health, Safety and Environment Committee and the Human Resources Committee. Mr. Jackson, the Chair of the Board, is a non-voting member of the Human Resources Committee and the Governance Committee. The voting members of each of these committees, as of Year End, are identified below:

Governance Committee

Chair: W.K. Dobson
Members: D.H. Burney
P.L. Joskow
J.A. MacNaughton
D.P. O'Brien

Health, Safety & Environment Committee

Chair: E.L. Draper
Members: P. Gauthier
K.L. Hawkins
W.T. Stephens
D.M.G. Stewart

Human Resources Committee

Chair: K.L. Hawkins
Members: W.K. Dobson
E.L. Draper
D.P. O'Brien
W.T. Stephens

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The charters of the Governance Committee, the Health, Safety & Environment Committee and the Human Resources Committee can be found on TransCanada's website under the Corporate Governance - Board Committees page located at www.transcanada.com.

Further information about the Board committees and the text of the Charter of the Board of Directors can be found in Schedule D and E, respectively, attached to this AIF and on TransCanada's website at www.transcanada.com.

Conflicts of Interest

Directors and officers of TCPL and its subsidiaries are required to disclose the existence of existing or potential conflicts in accordance with TCPL policies governing directors and officers and in accordance with the *Canada Business Corporations Act*. Although some of the directors sit on boards or may be otherwise associated with companies that ship natural gas on TCPL's pipeline systems, TCPL, as a common carrier in Canada, cannot, under its tariff, deny transportation service to a credit-worthy shipper. Further, due to the specialized nature of the industry, TCPL believes that it is important for its Board to be composed of qualified and knowledgeable directors, so some of them must come from oil and gas producers and shippers; the Governance Committee closely monitors relationships among directors to ensure that business associations do not affect the Board's performance. In a circumstance where a director declares an interest in any material contract or material transaction being considered at a meeting, the director generally absents himself or herself from the meeting during the consideration of the matter, and does not vote on the matter.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

As at the date hereof and since the beginning of the most recently completed financial year, no executive officer, director, or former executive officer or director of TCPL or its subsidiaries, no proposed nominee for election as a director of TCPL, or any associate of any such director, executive officer or proposed nominee has been indebted to TCPL or any of its subsidiaries. There is no indebtedness of any such person to another entity that is the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by TCPL or any of its subsidiaries.

SECURITIES OWNED BY DIRECTORS

The following table sets out the number of each class of securities of TCPL or any of its affiliates beneficially owned, directly or indirectly, or over which control or direction is exercised and the number of deferred share units credited to each director, as of February 25, 2008.

Director	TransCanada Common Shares ⁽²⁾	Deferred Share Units ⁽¹⁾
K. Benson	3,000	13,377
D. Burney	1,070	12,479
W. Dobson	3,000	33,631

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E.L. Draper	0	13,299
P. Gauthier	1,000	25,876
K. Hawkins ⁽³⁾	4,932	39,346
S.B. Jackson	39,000	24,366
P.L. Joskow	5,000	13,809
H. Kvisle ⁽⁴⁾⁽⁵⁾	869,297	N/A
J. MacNaughton	30,000	8,610
D. O'Brien	19,164	25,876
W. T. Stephens	1,470	3,236
D.M.G. Stewart ⁽⁶⁾	7,500	6,156

(1) The information as to shares beneficially owned or over which control or direction is exercised, not being within the knowledge of TCPL, has been furnished by each of the nominees. Except as indicated in these notes, the nominees have sole voting and dispositive power with respect to the securities listed above. As to each class of shares of TCPL, its subsidiaries and affiliates, the percentage of outstanding shares beneficially owned by any one director or nominee or by all directors and officers of TCPL as a group does not exceed 1% of the class outstanding.

(2) The value of a deferred share unit is tied to the value of TransCanada's common shares. A deferred share unit is a bookkeeping entry, equivalent to the value of a TransCanada common share, and does not entitle the holder to voting or other shareholder rights, other than the accrual of additional deferred share units for the value of dividends. A director cannot redeem deferred share units until the director ceases to be a member of the Board. Canadian directors can then redeem their units for cash or shares while U.S. directors can only redeem their units for cash.

(3) The shares listed include 3,500 shares held by Mr. Hawkins' wife.

- (4) Securities owned, controlled or directed include common shares that Mr. Kvisle has a right to acquire through the exercise of stock options that are vested under the Stock Option Plan, which is described elsewhere in this AIF. Directors as such do not participate in the Stock Option Plan. Mr. Kvisle, as an employee of TCPL, has the right to acquire 814,981 common shares under vested stock options, which amount is included in this column.
- (5) Mr. Kvisle is an employee of TCPL and participates in the ESU program; he does not participate in the DSU program.
- (6) The shares listed include 500 shares held by Mr. Stewart's wife.

COMPENSATION OF DIRECTORS

Unless as otherwise defined in the following sections, all capitalized terms used from herein shall have the same meaning ascribed to them in TransCanada's Management Proxy Circular (the *Proxy Circular*), dated February 25, 2008.

TransCanada's directors also serve as directors of TCPL. An aggregate fee is paid for serving on the Boards of TransCanada and TCPL. Since TransCanada does not hold any assets directly, other than the common shares of TCPL and receivables from certain of TransCanada's subsidiaries, all directors' costs are assumed by TCPL according to a management services agreement between the two companies. The meetings of the boards and committees of TransCanada and TCPL run concurrently.

MINIMUM SHARE OWNERSHIP GUIDELINES

The Board believes that directors can more effectively represent the interests of shareholders if they have a significant investment in the common shares of TransCanada, or their economic equivalent. As a result, TCPL requires each director (other than Mr. Kvisle who is subject to executive share ownership guidelines) to acquire and hold a minimum number of common shares of TransCanada, or their economic equivalent, equal in value to five times the director's annual cash retainer fee. Directors have a maximum of five years to reach this level of ownership. The level of ownership can be achieved by direct purchase of common shares, by participation in the TransCanada Dividend Reinvestment Plan or by means of directing all or a portion of their retainer fees, attendance fees and travel fees into, or otherwise acquiring Deferred Share Units under, the Share Unit Plan for Non-Employee Directors (1998) (the *Deferred Share Unit Plan*), described under the heading *Share Unit Plan for Non-Employee Directors* below.

All of the directors have achieved the minimum share ownership.

BOARD AND COMMITTEE REMUNERATION

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TCPL's director compensation practices are designed to reflect the size and complexity of TCPL and to reinforce the emphasis TCPL places on shareholder value by linking a portion of directors' compensation to the value of common shares. The market competitiveness of director compensation is assessed against the Comparator Group (as defined in Schedule F) under the heading Executive Compensation and Other Information - Report on Executive Compensation and a general industry sample of Canadian companies of similar size and scope to TCPL.

For the financial year ended December 31, 2007, each director who was not an employee of TCPL, other than the Chair, was paid in quarterly installments in arrears as follows:

Retainer fee	\$30,000 per annum
Committee retainer fee	\$3,000 per annum
Committee Chair retainer fee	\$4,000 per annum
Board and Committee attendance fee	\$1,500 per meeting
Committee Chair attendance fee	\$1,500 per meeting

The Chair, who was paid none of the directors' fees outlined above, was paid a retainer fee of \$330,000 per annum in respect of his duties as Chair, \$3,000 per chaired Board meeting, and was reimbursed for certain office and other expenses. Approximately half of Mr. Jackson's retainer fee for acting as Chair was paid in Deferred Share Units, which was represented by a grant of 5,000 Deferred Share Units. Mr. Jackson also elected to direct the remaining portion of his retainer fee to be paid in Deferred Share Units. Each committee chair is entitled to claim a per diem for time spent on committee activities outside of the committee meetings. Additionally, directors other than the Chair and the CEO receive, in respect of their service as directors, an annual grant of units under the Deferred Share Unit Plan, see Share Unit Plan for Non-Employee Directors below for details on this plan. Fees are paid quarterly and are pro-rated from the date of the director's appointment to the Board and the relevant committees.

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TCPL pays a travel fee of \$1,500 per meeting for which round trip travel time exceeds three hours, and reimburses the directors for out-of-pocket expenses incurred in attending such meetings.

Directors who are U.S. residents are paid the same amounts as outlined above in U.S. dollars.

Fees Paid to Directors in 2007

The following table sets out the total fees paid in cash and the value of the Deferred Share Units awarded or credited for each non-employee director in 2007 as at the date of the grant, unless otherwise stated. Mr. Kvisle, as an employee of TCPL, receives no cash fees or Deferred Share Units as a director.

Directors may direct their retainer fees, attendance fees and travel fees to be paid in Deferred Share Units until the minimum share ownership guideline is reached, and are always entitled to direct all or a portion of their retainer fees, attendance fees and travel fees to be paid in Deferred Share Units. In 2007, Mr. Benson, Mr. Burney, Dr. Draper, Mr. Hawkins, Mr. MacNaughton and Mr. Stephens directed all of their retainer fees, attendance fees and travel fees to the Deferred Share Unit Plan. Ms. Gauthier and Mr. O'Brien directed their Board retainer fees to the Deferred Share Unit Plan. In addition, Mr. Jackson directed the cash portion of his Chair retainer fee as well as his Board attendance fee and travel fees to the Deferred Share Unit Plan. For further information on the Deferred Share Unit Plan, see the description under the heading Share Unit Plan for Non-Employee Directors below.

Name	Board Retainer Fee	Committee Retainer Fee	Committee Chair Retainer Fee	Board Attendance Fee	Committee Attendance Fee	Travel Fee	Strategic Planning Sessions	Total Fees Paid in Cash	Total Value of DSUs Credited(2)	Total Cash & Value of DSUs Credited(1)
K.E. Benson ⁽³⁾⁽⁴⁾	\$30,000	\$3,000	\$2,703	\$13,500	\$16,500	\$12,000	\$1,500	\$0	\$188,523	\$188,523
D.H. Burney	30,000	6,000	N/A	12,000	13,500	7,500	1,500	0	179,820	179,820
W.K. Dobson ⁽³⁾	30,000	6,000	4,000	15,000	13,500	6,000	1,500	76,000	109,320	185,320
E.L. Draper ⁽³⁾⁽⁴⁾	30,000	6,000	4,000	15,000	16,500	10,500	1,500	0	192,820	192,820
P. Gauthier	30,000	6,000	N/A	15,000	16,500	7,500	1,500	46,500	139,320	185,820
K.L. Hawkins ⁽³⁾	30,000	6,000	4,000	15,000	19,500	10,500	1,500	0	195,820	195,820
S.B. Jackson ⁽⁵⁾	330,000	N/A	N/A	30,000	0	1,500	3,000	0	364,500	364,500
P.L. Joskow ⁽⁴⁾	30,000	6,000	N/A	15,000	15,000	10,500	1,500	78,000	109,320	187,320
J.A. MacNaughton	30,000	6,000	N/A	15,000	16,500	7,500	0	0	184,320	184,320
D.P. O'Brien	30,000	6,000	N/A	13,500	10,500	1,500	1,500	33,000	139,320	172,320
H.G. Schaefer ⁽³⁾⁽⁶⁾	12,725	1,945	1,296	7,500	16,500	0	0	39,967	0	39,967
W.T. Stephens ⁽⁴⁾⁽⁷⁾	20,275	4,055	N/A	7,500	6,000	6,000	1,500	0	118,210	118,210
D.M.G. Stewart	30,000	3,000	N/A	15,000	9,000	1,500	1,500	60,000	109,320	169,320

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- (1) Total Deferred Share Units credited includes the amount of the retainer fees, attendance fees and travel fees elected to be received in Deferred Share Units and the grant of 3,000 Deferred Share Units made in September 2007 to all directors except Mr. Stephens who received 2,000 Deferred Share Units (prorated from April 27, 2007), which had an initial cash value of approximately \$36.44 per Deferred Share Unit.
- (2) Fees are aggregate amounts respecting duties performed on both TransCanada and TCPL Boards.
- (3) The committee chair retainer fee amount includes per diem fees paid in addition to the committee retainer fee in respect of duties performed and meetings held in preparation for committee meetings.
- (4) U.S. directors are paid or credited these amounts, including Deferred Share Unit equivalents, based on U.S. dollars.
- (5) Mr. Jackson's Board attendance fee includes the fee of \$3,000 in respect of each Board meeting chaired. Approximately half of Mr. Jackson's retainer fee for acting as Chair was paid in Deferred Share Units, which was represented by a grant of 5,000 Deferred Share Units in September 2007. These Deferred Share Units had an initial cash value of approximately \$36.44 per Deferred Share Unit.
- (6) Mr. Schaefer's retainer fee amount includes the fee of \$3,000 in respect of duties performed as Vice-Chair from January 1, 2007 to April 27, 2007. Mr. Schaefer retired from the Board on April 27, 2007.
- (7) Mr. Stephens was elected to the Board on April 27, 2007. Mr. Stephens previously served on the Board from 2000 to 2005.

Share Unit Plan for Non-Employee Directors

The Share Unit Plan for Non-Employee Directors (1998) was established in 1998 and was amended and restated effective January 1, 2007. Prior to the January 1, 2007 amendment, the Deferred Share Unit Plan allowed eligible Board members, on a quarterly basis, to direct their annual directors' retainer fee or, at the discretion of the Governance Committee, other Board related fees, to acquire units representing the right to acquire common shares or their cash equivalent. Subsequent to January 1, 2007, Board members are permitted to elect to receive any portion of their fees (including travel fees) in Deferred Share Units. The Deferred Share Unit Plan also allows the Governance Committee to grant units as additional directors

compensation. In September 2007, a grant of 3,000 Deferred Share Units was made to each director other than the Chair, the CEO and Mr. Stephens. As the Chair of the Board, Mr. Jackson received 5,000 Deferred Share Units and Mr. Stephens received 2,000 Deferred Share Units as he joined the Board on April 27, 2007.

Initially the value of a Deferred Share Unit is equal to the market value of a common share at the time the directors are credited with the units. Thus each grant of 3,000 Deferred Share Units in September 2007 had an initial cash value of approximately \$109,320. Mr. Stephen's grant of 2,000 units had an initial cash value of approximately \$72,880 and Mr. Jackson's grant of 5,000 units had an initial cash value of approximately \$182,200. The value of a Deferred Share Unit, when redeemed, is equivalent to the market value of a common share at the time the redemption takes place. In addition, at the time dividends are declared and paid on the common shares, each Deferred Share Unit accrues an amount equal to such dividends, which amount is then reinvested in additional Deferred Share Units at a price equal to the then market value of a common share. Deferred Share Units cannot be redeemed until the director ceases to be a member of the Board. Canadian directors may redeem for cash or common shares at their option. U.S. directors may only redeem for cash.

EXECUTIVE COMPENSATION AND OTHER INFORMATION

Information relating to TCPL's executive compensation and other information is provided in Schedule F to this AIF. The information is excerpts from TransCanada's Proxy Circular. Board and committee meetings of TransCanada and TCPL run concurrently. TCPL is the principal operating subsidiary of TransCanada.

ADDITIONAL INFORMATION

1. Additional information in relation to TCPL may be found under TCPL's profile on SEDAR at www.sedar.com.
2. Additional financial information is provided in TCPL's audited consolidated financial statements and MD&A for its most recently completed financial year.

GLOSSARY

AIF	Annual Information Form of TransCanada PipeLines Limited dated February 25, 2008	HS&E	Health, Safety and Environment
Alberta System	A natural gas transmission system throughout the province of Alberta	Iroquois System	A natural gas pipeline system in New York and Connecticut
ANR	American Natural Resources Company and ANR Storage Company	LNG	Liquefied Natural Gas
ANR Purchase and Sale Agreement	An agreement between TransCanada and El Paso Corporation, dated December 22, 2006, whereby TransCanada agreed to acquire ANR from El Paso Corporation	MD&A	TCPL S Management s Discussion and Analysis dated February 25, 2008
ANR System	A natural gas transmission system which extends approximately 17,000 km from producing fields in Louisiana, Oklahoma, Texas and the Gulf of Mexico to markets in Wisconsin, Michigan, Illinois, Ohio and Indiana	mmcf/d	Million cubic feet per day
AUC	Alberta Utilities Commission	MW	Megawatts
Bcf	Billion cubic feet	NBPL	Northern Border Pipeline Company
Bécancour	A power plant near Trois-Rivières, Québec	NBPL System	A natural gas transmission system located in the upper midwestern portion of the U.S.
Board	TCPL s Board of Directors	NEB	National Energy Board
Broadwater	A proposed offshore LNG facility in Long Island Sound, New York	Noarth Baja	A natural gas pipeline in southern California
Bruce A	Bruce Power A L.P.	NOVA	NOVA Corporation
Bruce B	Bruce Power L.P.	NYSE	New York Stock Exchange
Cacouna	The Cacouna Energy LNG facility in Cacouna, Québec	Portland	A natural gas pipeline that runs through Maine and New Hampshire into Massachusetts
Canadian Mainline	A natural gas pipeline system running from the Alberta border east to delivery points in eastern Canada and along the U.S. border	PPA	Power Purchase Arrangement
CAPLA	Canadian Alliance of Pipeline Landowner s Association	Proxy Circular	TransCanda s Management Proxy Circular dated February 25, 2008
Cartier Wind Energy Project	Six wind energy projects contracted by Hydro-Québec Distribution representing a total of 740 MW in the Gaspé region of Québec	Sheerness	A power plant consisting of two 390 MW coal-fired thermal powered generating units
CSA	Canadian Securities Administrators	Shell	Shell US Gas & Power LLC
EUB	Alberta Energy and Utilities Board	SOX	U.S. <i>Sarbanes-Oxley Act of 2002</i>
External Auditors	KPMG LLP	Sundance	Two coal fired electrical generating facilities which produce 560 MW and 706 MW, respectively.
FEIS	Final Environment Impact Statement	TCPL or the Company	TransCanada PipeLines Limited
FERC Framework	Federal Energy Regulatory Commission (USA) The Regulatory Framework for Air Emissions	TQM	Trans Québec & Maritimes Pipeline Inc.
Foothills System	A natural gas pipeline system in southeastern B.C., southern Alberta and southwestern Saskatchewan	TransCanada	TransCanda Corporation
GTNC	Gas Transmission Northwest Corporation	TSX	Toronto Stock Exchange
GTN System	A natural gas transmission system running from northwestern Idaho, through Washington and Oregon to the California border	Tuscarora	Tuscarora Gas Transmission Company
Great Lakes	Great Lakes Gas Transmission Limited Partnership	Tuscarora System.	A natural gas pipeline that runs from Oregon through northeast California to Reno, Nevada
Great Lakes System	A natural gas pipeline system in the north central U.S., roughly parallel to the Canada-U.S. Border	U.S.	United States
GUA	<i>Gas Utilities Act (Alberta)</i>	Year End	December 31, 2007

SCHEDULE A**METRIC CONVERSION TABLE**

The conversion factors set out below are approximate factors. To convert from Metric to Imperial multiply by the factor indicated. To convert from Imperial to Metric divide by the factor indicated.

Metric	Imperial	Factor
Kilometres (km)	Miles	0.62
Millimetres	Inches	0.04
Gigajoules	Million British thermal units	0.95
Cubic metres*	Cubic feet	35.3
Kilopascals	Pounds per square inch	0.15
Degrees Celsius	Degrees Fahrenheit	to convert to Fahrenheit multiply by 1.8, then add 32 degrees; to convert to Celsius subtract 32 degrees, then divide by 1.8

* The conversion is based on natural gas at a base pressure of 101.325 kilopascals and at a base temperature of 15 degrees Celsius.

SCHEDULE B**DISCLOSURE OF CORPORATE GOVERNANCE PRACTICES**

The Board and the members of TCPL's management are committed to the highest standards of corporate governance. TCPL's corporate governance practices comply with the governance rules of the Canadian Securities Administrators (CSA), those of the New York Stock Exchange (NYSE) applicable to foreign issuers and of the U.S. Securities and Exchange Commission (SEC), and those mandated by the United States Sarbanes Oxley Act of 2002 (SOX). As a non-U.S. company, TCPL is not required to comply with most of the NYSE corporate governance listing standards; however, except as summarized on its website at www.transcanada.com, the governance practices followed are in compliance with the NYSE standards for U.S. companies in all significant respects. TCPL is in compliance with the CSA's Multilateral Instrument 52-110 pertaining to audit committees (Canadian Audit Committee Rules); National Policy 58-201, Corporate Governance Guidelines; and National Instrument 58-101, Disclosure of Corporate Governance Practices (collectively, the Canadian Governance Guidelines).

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TCPL's principal objective in directing and managing its business and affairs is to enhance shareholder value. TCPL believes that effective corporate governance improves corporate performance and benefits all shareholders. TCPL also believes that director, management and employee honesty and integrity are vital factors in ensuring good corporate governance. The discussion that follows relates primarily to the Canadian Governance Guidelines and highlights various elements of the Company's corporate governance program. It has been approved by the Governance Committee and by the Board.

Board of Directors

The Board believes that, as a matter of policy, there should be a majority of independent directors on TCPL's Board. The Board is charged with making this determination. The Board is currently comprised of 13 directors, of whom 11 (85%) were determined by the Board in 2007 to be independent directors. Thirteen nominees are being put forward for election at the Meeting, 11 (85%) of whom have been determined by the Board to be independent. The Board annually determines the independent status of each of its members and each nominee for election, based on a written set of criteria developed in accordance with the definition of "independent" in the Canadian Audit Committee Rules and the Canadian Governance Guidelines. The independence criteria also conforms with the applicable rules of the SEC, the NYSE and those set out under SOX. The Board has determined that none of the nominees for director, with the exception of Mr. Kvisle and Mr. Stewart, have a direct or indirect material relationship with TCPL that could interfere with their ability to act in the best interests of TCPL.

Mr. Kvisle, as the President and CEO of TCPL, is not independent. Mr. Stewart was determined not to be independent as the company of which he is the sole shareholder provided consulting services to TCPL and received more than \$75,000 in compensation during the 2005 financial year. Mr. Stewart's consulting contract terminated on December 31, 2005 and, assuming no other factors affect his status as an independent director, he will be considered independent on November 1, 2008.

The Governance Committee reviews, at least annually, the existence of any relationship between each director and TCPL to ensure that the majority of directors are independent of TCPL.

Further, the Board considered whether directors serving on boards of non-profit organizations which receive donations from TCPL pose any potential conflict. The Board determined that such relationships, where they exist, do not interfere with any such director's ability to act in the best interests of TCPL, as all decisions on making donations to non-profit organizations are made by a management committee on which no directors serve. The Board also considered family relationships and possible associations with companies which have relationships with TCPL, in its determination of independence.

Although some of the proposed nominees sit on boards or may be otherwise associated with companies that ship natural gas on TCPL's pipeline systems, TCPL as a common carrier in Canada cannot, under its tariff, deny transportation service to a credit-worthy shipper. Further, due to the specialized nature of the industry, TCPL believes that it is important for its Board to be composed of qualified and knowledgeable directors, so some of them must come from oil and gas producers and shipper community; the Governance Committee closely monitors relationships among directors to ensure that business associations do not affect the Board's performance. In a circumstance where a director declares an interest in any material contract or material transaction being considered at a meeting, the director generally absents himself or herself from the meeting during the consideration of the matter, and does not vote on the matter.

All reporting issuers of which the nominees are presently directors of are set out in the table in TransCanada's Proxy Circular under the heading "Business to be Transacted at the Meeting - Election of Directors - Other Public Entity Directorships and Committee Memberships".

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In 2007, independent directors of the Board met separately after every regularly scheduled meeting. There were seven such meetings during 2007.

Mr. Jackson has served as the Chair of TCPL since April 30, 2005. He has also acted as chair-person for Deer Creek Energy Limited (from 2001 to 2005) and Resolute Energy Inc. (from 2002 to 2005).

The attendance record of each director for all Board and committee meetings held for the 12-month period ending December 31, 2007 is set out with each director's biography in TransCanada's Proxy Circular under the heading "Business to be Transacted at the Meeting - Election of Directors".

Board Mandate

The Board discharges its responsibilities directly and through committees. At regularly scheduled meetings, members of the Board and management discuss a broad range of issues relevant to TCPL's strategy and business interests and the Board is responsible for the approval of TCPL's strategic plan. In addition, the Board receives reports from management on TCPL's operational and financial performance. The Board had seven scheduled meetings in 2007. Unscheduled meetings are held from time to time as required; there were three unscheduled meetings of the Board in 2007. There was also four strategic issue sessions and one full-day strategic planning session of the Board held in 2007.

The Board operates under a written charter while retaining plenary power. Any responsibility not delegated to management or a committee of the Board remains with the Board. The Charter of the Board of Directors addresses Board composition and organization, and the Board's duties and responsibilities for managing the affairs of TCPL and its oversight responsibilities with respect to: management and human resources; strategy and planning; financial and corporate issues; business and risk management; policies and procedures; compliance reporting and corporate communications; and general legal obligations of TCPL. The charter is available on TransCanada's website at www.transcanada.com and is attached to this TCPL's AIF under Schedule E.

The Board also closely oversees any potential conflicts of interest between the Company and its affiliates including TC PipeLines, LP, a public limited partnership.

Charters have been adopted for each of the committees outlining their principal responsibilities. The Board and each committee reviews its charter annually to ensure it is in line with the current developments in corporate governance. The Board and each committee is responsible to update its respective charter. All charters are available on TransCanada's website at www.transcanada.com.

Position Descriptions

The Board has developed written position descriptions for its chair, the chair of each of the Board committees and for the CEO. The responsibilities of each committee chair are set out in each respective committee's Charter. The written position descriptions and the committee charters are available on TransCanada's website at www.transcanada.com.

The Human Resources Committee and the Board annually review and approve the CEO's personal performance objectives and review with him his performance against the previous year's objectives. The Human Resources Committee's report on executive compensation can be found in TCPL's AIF under Schedule F under the heading "Executive Compensation and Other Information - Report on Executive Compensation".

Orientation and Continuing Education

New directors are provided with an orientation and education program that includes a directors' manual containing information about the duties and obligations of directors, the business and operations of TransCanada, copies of governance charters, copies of past public filings and documents from recent Board meetings. New directors are given additional historical and financial information, a session on corporate strategy, are provided opportunities to visit TransCanada's facilities and project sites, and are provided with opportunities for meetings and discussions with the executive leadership team and other directors. Briefing sessions are also held for new committee members, as appropriate. The directors manual and the director induction and continuing education process are reviewed annually by the Governance Committee. The details of the orientation of each new director are tailored to each director's individual needs and expressed areas of interest.

Senior management as well as external experts make presentations to the Board and to its committees periodically on various business-related topics and on changes in legal, regulatory and industry requirements. Directors tour certain TransCanada operating facilities and project sites on an annual basis. TransCanada encourages continuing education for its directors, periodically suggests programs which may be relevant to the directors and provides funding for director education where appropriate. All Canadian directors are members of the Canadian Institute of Corporate Directors which provides another source of director education.

Ethical Business Conduct

The Board has formally adopted and published a set of Corporate Governance Guidelines, which affirms TCPL's commitment to maintaining a high standard of corporate governance. The guidelines address the structure and composition of the Board and its committees and also provide guidance to both the Board and management in clarifying their respective responsibilities. The Board's strengths include: an independent, non-executive Chair; well informed and experienced directors who ensure that standards exist to promote ethical behaviour throughout TCPL; an effective board size; alignment with shareholders through director share ownership requirements; and annual assessments of Board, committee and individual director effectiveness. TransCanada's Corporate Governance Guidelines are available on TransCanada's website at www.transcanada.com.

The Board has also adopted a code of business ethics for directors which incorporates as its basis, principles of good conduct and highly ethical behaviour. TCPL has adopted codes of business ethics for its employees and one applicable to its CEO, Chief Financial Officer and Controller, all of which must be certified on an annual basis. Compliance with the Company's various codes is monitored by the Audit Committee and reported to the Board. Any waiver of the codes of business ethics by executive officers or directors must be approved by the Board or appropriate committee and disclosed. There have been no material departures from these codes in 2007. TCPL's codes of business ethics may be viewed on TransCanada's website at www.transcanada.com.

In a circumstance where a director declares an interest in any material contract or material transaction being considered at a meeting, the director generally absents himself or herself from the meeting during the consideration of the matter, and does not vote on the matter.

Nomination of Directors

The Governance Committee, which is composed entirely of independent directors, is responsible for proposing new nominees to the Board, which in turn is responsible for identifying suitable candidates for election by the shareholders. The Governance Committee annually reviews the qualifications of persons proposed for election to the Board and submits its recommendations to the Board for consideration. The objective of this review is to maintain the composition of the Board in a way that provides the best mix of skills and experience to guide the long-term strategy and ongoing business operations of TCPL. New nominees must have experience in the industries in which TCPL participates or experience in general business management of corporations that are a similar size and scope to TCPL, the ability to devote the time required, and a willingness to serve. The Governance Committee also advises the Board on the criteria for, and determination of, the independence of each director.

The Governance Committee maintains a matrix of skills and requirements and periodically assesses the skill set of the current Board members to identify necessary skills and backgrounds for Board candidates. The Governance Committee also maintains a list of potential candidates for its future consideration.

The Board has determined that no person shall stand for election or re-election to the Board if he or she attains the age of 70 years on or before the date of the annual meeting held in relation to the election of directors; provided however, that if a director attains the age of 70 before serving a full seven consecutive years on the Board, that director may stand for re-election, upon the recommendation of the Board each year

until that director has served a full seven years on the Board.

Further information relating to the Governance Committee can be found in TCPL's AIF under Schedule D, under the heading Description of Board Committees and Their Charters - Governance Committee.

Compensation

The Governance Committee reviews the compensation of the directors on an annual basis, taking into account such matters as time commitment, responsibility, and compensation provided by comparable companies, and makes an annual recommendation to the Board for consideration. Towers Perrin provides an annual report on directors' compensation paid by comparable companies to facilitate the Governance Committee's review of director compensation. Directors may receive their annual retainer, committee and/or chair fees in the form of cash and/or Deferred Share Units. With the exception of Mr. Kvisle, who follows the Share Ownership Guidelines for executives, Directors must hold a minimum of five times their annual cash retainer fee in common shares or related Deferred Share Units of TransCanada. Directors have a maximum of five years from the time they join the Board to reach this level of share ownership. The value of ownership levels is recalibrated when the annual cash retainer is increased.

The Human Resources Committee, which is composed entirely of independent directors, is accountable, on behalf of the Board to determine the compensation for the executive officers of TCPL and to recommend to the Board the remuneration package for the CEO. The Human Resources Committee reviews the executive compensation disclosure prior to publicly disclosing this information. The process the Human Resources Committee uses for these determinations can be found in TCPL's AIF under Schedule F under the heading Executive Compensation and Other Information - Report on Executive Compensation.

Further information relating to the Human Resources Committee can be found in TCPL's AIF under Schedule D under the heading Description of Board Committees and Their Charters - Human Resources Committee .

Information relating to compensation consulting services provided by Towers Perrin during the 2007 financial year can be found in TCPL's AIF under Schedule F under the heading Executive Compensation and Other Information - Report on Executive Compensation - Executive Compensation Advisory Services .

Other Board Committees

The Board has the following Committees: Audit; Health, Safety and Environment; Governance; and Human Resources. Details relating to these committees can be found in TCPL's AIF under Schedule D under the heading Description of Board Committees and Their Charters .

Assessments

The Governance Committee is responsible for making an annual assessment of the overall performance of the Board, its committees and its individual members, and reporting its findings to the Board. An annual questionnaire is utilized as part of this process. This questionnaire is circulated to each of the directors and is administered by the Corporate Secretary.

The questionnaire examines the effectiveness of the Board as a whole, and of each committee, and solicits input on areas of potential vulnerability or areas that the members believe could be improved or enhanced to ensure the continued effectiveness of the Board and its committees. The questionnaire also includes questions regarding personal and peer individual performance. Each committee also conducts an annual self-assessment, based on specific questions in the annual questionnaire. Responses are provided to the Chair and collated results are distributed to directors and discussed at the Board.

The annual questionnaire and individual director's terms of reference are then used in the evaluation of the contribution of individual directors. Formal interviews with each director and each member of TCPL's executive leadership team are carried out annually by the Chair. The Chair of the Governance Committee also interviews each director annually on his or her assessment of the Chair's performance. Each of these assessments are reported annually to the full Board. One outcome of this process in the past year was a streamlining of the meeting schedule to make more effective use of directors' time.

TCPL believes that due to the specialized nature of the industry, it is important for its Board to be composed of qualified and knowledgeable directors. During the last year, all directors demonstrated a strong commitment to their roles and responsibilities through an average 97% overall attendance rate at Board meetings and an average 99% attendance.

Financial Literacy of Directors

The Board has determined that all of the members of its Audit Committee are financially literate. An individual is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by TCPL's financial statements.

Majority Voting for Directors

TransCanada has adopted a policy whereby, at any meeting where the number of nominees for election is the same as the number of director positions on the Board, if proxy votes withheld for the election of any particular director are greater than 5% of the votes cast by proxy, a ballot pertaining to the election of each of the directors will be held at that meeting. A director is required to tender his resignation if the director receives more votes withheld than for that director's election when such ballot is held. In the absence of extenuating circumstances, the Board is expected to accept that resignation within 90 days. The Board may fill a vacancy in accordance with TransCanada's by-laws and the *Canada Business Corporations Act*. The policy does not apply in the event of a proxy contest with respect to the election of directors. This policy is part of TransCanada's Corporate Governance Guidelines which are published on its website at www.transcanada.com.

TRANSCANADA PIPELINES LIMITED

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SCHEDULE C

CHARTER OF THE AUDIT COMMITTEE

1. Purpose

The Audit Committee shall assist the Board of Directors (the Board) in overseeing and monitoring, among other things, the:

- Company's financial accounting and reporting process;
- integrity of the financial statements;
- Company's internal control over financial reporting;
- external financial audit process;
- compliance by the Company with legal and regulatory requirements; and
- independence and performance of the Company's internal and external auditors.

To fulfill its purpose, the Audit Committee has been delegated certain authorities by the Board of Directors that it may exercise on behalf of the Board.

2. Roles and Responsibilities

I. *Appointment of the Company's External Auditors*

Subject to confirmation by the external auditors of their compliance with Canadian and U.S. regulatory registration requirements, the Audit Committee shall recommend to the Board the appointment of the external auditors, such appointment to be confirmed by the Company's shareholders at each annual meeting. The Audit Committee shall also recommend to the Board the compensation to be paid to the external auditors for audit services and shall pre-approve the retention of the external auditors for any permitted non-audit service and the fees for such service. The Audit Committee shall also be directly responsible for the oversight of the work of the external auditor (including resolution of disagreements between management and the external auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The external auditor shall report directly to the Audit Committee.

The Audit Committee shall also receive periodic reports from the external auditors regarding the auditors' independence, discuss such reports with the auditors, consider whether the provision of non-audit services is compatible with maintaining the auditors' independence and the Audit Committee shall take appropriate action to satisfy itself of the independence of the external auditors.

II. *Oversight in Respect of Financial Disclosure*

The Audit Committee, to the extent it deems it necessary or appropriate, shall:

(a) review, discuss with management and the external auditors and recommend to the Board for approval, the Company's audited annual financial statements, annual information form including management discussion and analysis, all financial statements in prospectuses and other offering memoranda, financial statements required by regulatory authorities, all prospectuses and all documents which may be incorporated by reference into a prospectus, including without limitation, the annual proxy circular, but excluding any pricing supplements issued under a medium term note prospectus supplement of the Company;

(b) review, discuss with management and the external auditors and recommend to the Board for approval the release to the public of the Company's interim reports, including the financial statements, management discussion and analysis and press releases on quarterly financial results;

(c) review and discuss with management and external auditors the use of pro forma or adjusted non-GAAP information and the applicable reconciliation;

(d) review and discuss with management and external auditors financial information and earnings guidance provided to analysts and rating agencies; provided, however, that such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made). The Audit Committee need not discuss in advance each instance in which the Company may provide earnings guidance or presentations to rating agencies;

(e) review with management and the external auditors major issues regarding accounting and auditing principles and practices, including any significant changes in the Company's selection or application of accounting principles, as well as major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies that could significantly affect the Company's financial statements;

(f) review and discuss quarterly reports from the external auditors on:

(i) all critical accounting policies and practices to be used;

(ii) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditor;

(iii) other material written communications between the external auditor and management, such as any management letter or schedule of unadjusted differences;

(g) review with management and the external auditors the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements;

(h) review with management, the external auditors and, if necessary, legal counsel, any litigation, claim or contingency, including tax assessments, that could have a material effect upon the financial position of the Company, and the manner in which these matters have been disclosed in the financial statements;

(i) review disclosures made to the Audit Committee by the Company's CEO and CFO during their certification process for the periodic reports filed with securities regulators about any significant deficiencies in the design or operation of internal controls or material

weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls;

(j) discuss with management the Company's material financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.

III. Oversight in Respect of Legal and Regulatory Matters

(a) review with the Company's General Counsel legal matters that may have a material impact on the financial statements, the Company's compliance policies and any material reports or inquiries received from regulators or governmental agencies.

IV. Oversight in Respect of Internal Audit

(a) review the audit plans of the internal auditors of the Company including the degree of coordination between such plan and that of the external auditors and the extent to which the planned audit scope can be relied upon to detect weaknesses in internal control, fraud or other illegal acts;

(b) review the significant findings prepared by the internal auditing department and recommendations issued by the Company or by any external party relating to internal audit issues, together with management's response thereto;

(c) review compliance with the Company's policies and avoidance of conflicts of interest;

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- (d) review the adequacy of the resources of the internal auditor to ensure the objectivity and independence of the internal audit function, including reports from the internal audit department on its audit process with associates and affiliates;
 - (e) ensure the internal auditor has access to the Chair of the Audit Committee and of the Board and to the Chief Executive Officer and meet separately with the internal auditor to review with him any problems or difficulties he may have encountered and specifically:
 - (i) any difficulties which were encountered in the course of the audit work, including restrictions on the scope of activities or access to required information, and any disagreements with management;
 - (ii) any changes required in the planned scope of the internal audit; and
 - (iii) the internal audit department responsibilities, budget and staffing;
- and to report to the Board on such meetings;
- (f) bi-annually review officers' expenses and aircraft usage reports.

V. *Insight in Respect of the External Auditors*

- (a) review the annual post-audit or management letter from the external auditors and management's response and follow-up in respect of any identified weakness, inquire regularly of management and the external auditors of any significant issues between them and how they have been resolved, and intervene in the resolution if required;
- (b) review the quarterly unaudited financial statements with the external auditors and receive and review the review engagement reports of external auditors on unaudited financial statements of the Company;
- (c) receive and review annually the external auditors' formal written statement of independence delineating all relationships between itself and the Company;

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(d) meet separately with the external auditors to review with them any problems or difficulties the external auditors may have encountered and specifically:

(i) any difficulties which were encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information, and any disagreements with management; and

(ii) any changes required in the planned scope of the audit;

and to report to the Board on such meetings;

(e) review with the external auditors the adequacy and appropriateness of the accounting policies used in preparation of the financial statements;

(f) meet with the external auditors prior to the audit to review the planning and staffing of the audit;

(g) receive and review annually the external auditors' written report on their own internal quality control procedures; any material issues raised by the most recent internal quality control review, or peer review, of the external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, and any steps taken to deal with such issues;

(h) review and evaluate the external auditors, including the lead partner of the external auditor team;

(i) ensure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law.

VI. Oversight in Respect of Audit and Non-Audit Services

(a) pre-approve all audit services (which may entail providing comfort letters in connection with securities underwritings) and all permitted non-audit services, other than non-audit services where:

(i) the aggregate amount of all such non-audit services provided to the Company constitutes not more than 5% of the total fees paid by the Company and its subsidiaries to the external auditor during the fiscal year in which the non-audit services are provided;

(ii) such services were not recognized by the Company at the time of the engagement to be non-audit services; and

(iii) such services are promptly brought to the attention of the Audit Committee and approved prior to the completion of the audit by the Audit Committee or by one or more members of the Audit Committee to whom authority to grant such approvals has been delegated by the Audit Committee;

(b) approval by the Audit Committee of a non-audit service to be performed by the external auditor shall be disclosed as required under securities laws and regulations;

(c) the Audit Committee may delegate to one or more designated members of the Audit Committee the authority to grant pre-approvals required by this subsection. The decisions of any member to whom authority is delegated to pre-approve an activity shall be presented to the Audit Committee at its first scheduled meeting following such pre-approval;

(d) if the Audit Committee approves an audit service within the scope of the engagement of the external auditor, such audit service shall be deemed to have been pre-approved for purposes of this subsection.

VII. Oversight in Respect of Certain Policies

(a) review and recommend to the Board for approval policy changes and program initiatives deemed advisable by management or the Audit Committee with respect to the Company's codes of business conduct and ethics;

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(b) obtain reports from management, the Company's senior internal auditing executive and the external auditors and report to the Board on the status and adequacy of the Company's efforts to ensure its businesses are conducted and its facilities are operated in an ethical, legally compliant and socially responsible manner, in accordance with the Company's codes of business conduct and ethics;

(c) establish a non-traceable, confidential and anonymous system by which callers may ask for advice or report any ethical or financial concern, ensure that procedures for the receipt, retention and treatment of complaints in respect of accounting, internal controls and auditing matters are in place, and receive reports on such matters as necessary;

(d) annually review and assess the adequacy of the Company's public disclosure policy;

(e) review and approve the Company's hiring policies for employees or former employees of the external auditors (recognizing the Sarbanes-Oxley Act of 2002 does not permit the CEO, controller, CFO or chief accounting officer to have participated in the Company's audit as an employee of the external auditors during the preceding one-year period) and monitor the Company's adherence to the policy.

VIII. Oversight in Respect of Financial Aspects of the Company's Pension Plans, specifically:

(a) provide advice to the Human Resources Committee on any proposed changes in the Company's pension plans in respect of any significant effect such changes may have on pension financial matters;

(b) review and consider financial and investment reports and the funded status relating to the Company's pension plans and recommend to the Board on pension contributions;

(c) receive, review and report to the Board on the actuarial valuation and funding requirements for the Company's pension plans;

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- (d) review and approve annually the Statement of Investment Policies and Procedures (SIP&P);
- (e) approve the appointment or termination of auditors and investment managers.

IX. Oversight in Respect of Internal Administration

- (a) review annually the reports of the Company s representatives on certain audit committees of subsidiaries and affiliates of the Company and any significant issues and auditor recommendations concerning such subsidiaries and affiliates;
- (b) review the succession plans in respect of the Chief Financial Officer, the Vice President, Risk Management and the Director, Internal Audit;
- (c) review and approve guidelines for the Company s hiring of employees or former employees of the external auditors who were engaged on the Company s account.

X. Oversight Function

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company s financial statements and disclosures are complete and accurate or are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the external auditors. The Audit Committee, its Chair and any of its members who have accounting or related financial management experience or expertise, are members of the Board, appointed to the Audit Committee to provide broad oversight of the financial disclosure, financial risk and control related activities of the Company, and are specifically not accountable nor responsible for the day to day operation of such activities. Although designation of a member or members as an audit committee financial expert is based on that individual s education and experience, which that individual will bring to bear in carrying out his or her duties on the Audit Committee, designation as an audit committee financial expert does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Audit Committee and Board in the absence of such designation. Rather, the role of any audit committee financial expert, like the role of all Audit Committee members, is to oversee the process and not to certify or guarantee the internal or external audit of the Company s financial information or public disclosure.

3. Composition of Audit Committee

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The Audit Committee shall consist of three or more Directors, a majority of whom are resident Canadians (as defined in the Canada Business Corporations Act), and all of whom are unrelated and/or independent for the purposes of applicable Canadian and U.S. securities law and applicable rules of any stock exchange on which the Company's shares are listed. Each member of the Audit Committee shall be financially literate and at least one member shall have accounting or related financial management expertise (as those terms are defined from time to time under the requirements or guidelines for audit committee service under securities laws and the applicable rules of any stock exchange on which the Company's securities are listed for trading or, if it is not so defined as that term is interpreted by the Board in its business judgment).

4. Appointment of Audit Committee Members

The members of the Audit Committee shall be appointed by the Board from time to time, on the recommendation of the Governance Committee and shall hold office until the next annual meeting of shareholders or until their successors are earlier appointed or until they cease to be Directors of the Company.

5. Vacancies

Where a vacancy occurs at any time in the membership of the Audit Committee, it may be filled by the Board on the recommendation of the Governance Committee.

6. Audit Committee Chair

The Board shall appoint a Chair of the Audit Committee who shall:

- (a) review and approve the agenda for each meeting of the Audit Committee and as appropriate, consult with members of management;
- (b) preside over meetings of the Audit Committee;
- (c) report to the Board on the activities of the Audit Committee relative to its recommendations, resolutions, actions and concerns; and
- (d) meet as necessary with the internal and external auditors.

7. Absence of Audit Committee Chair

If the Chair of the Audit Committee is not present at any meeting of the Audit Committee, one of the other members of the Audit Committee present at the meeting shall be chosen by the Audit Committee to preside at the meeting.

8. Secretary of Audit Committee

The Corporate Secretary shall act as Secretary to the Audit Committee.

9. Meetings

The Chair, or any two members of the Audit Committee, or the internal auditor, or the external auditors, may call a meeting of the Audit Committee. The Audit Committee shall meet at least quarterly. The Audit Committee shall meet periodically with management, the internal auditors and the external auditors in separate executive sessions.

10. Quorum

A majority of the members of the Audit Committee, present in person or by telephone or other telecommunication device that permit all persons participating in the meeting to speak to each other, shall constitute a quorum.

11. Notice of Meetings

Notice of the time and place of every meeting shall be given in writing or facsimile communication to each member of the Audit Committee at least 24 hours prior to the time fixed for such meeting; provided, however, that a member may in any manner waive a notice of a meeting. Attendance of a member at a meeting is a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

12. Attendance of Company Officers and Employees at Meeting

At the invitation of the Chair of the Audit Committee, one or more officers or employees of the Company may attend any meeting of the Audit Committee.

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13. Procedure, Records and Reporting

The Audit Committee shall fix its own procedure at meetings, keep records of its proceedings and report to the Board when the Audit Committee may deem appropriate but not later than the next meeting of the Board.

14. Review of Charter and Evaluation of Audit Committee

The Audit Committee shall review its Charter annually or otherwise, as it deems appropriate, and if necessary propose changes to the Governance Committee and the Board. The Audit Committee shall annually review the Audit Committee's own performance.

15. Outside Experts and Advisors

The Audit Committee is authorized, when deemed necessary or desirable, to retain independent counsel, outside experts and other advisors, at the Company's expense, to advise the Audit Committee or its members independently on any matter.

16. Reliance

Absent actual knowledge to the contrary (which shall be promptly reported to the Board), each member of the Audit Committee shall be entitled to rely on (i) the integrity of those persons or organizations within and outside the Company from which it receives information, (ii) the accuracy of the financial and other information provided to the Audit Committee by such persons or organizations and (iii) representations made by Management and the external auditors, as to any information technology, internal audit and other non-audit services provided by the external auditors to the Company and its subsidiaries.

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SCHEDULE D

DESCRIPTION OF BOARD COMMITTEES AND THEIR CHARTERS

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The Board has four standing committees: the Audit Committee; the Governance Committee; the Health, Safety and Environment Committee; and the Human Resources Committee. The Board does not have an Executive Committee. The Audit, Human Resources and Governance committees are required to be composed entirely of independent directors. The Health, Safety and Environment Committee is required to have a majority of independent directors.

Each of the committees has the authority to retain advisors to assist in the discharge of its respective responsibilities. Each of the committees reviews its respective charter at least annually and, as required, recommends changes to the Governance Committee and to the Board. Each of the committees also reviews its respective performance annually.

Each of the committees has a charter; the committee charters are published on TransCanada's website at www.transcanada.com.

AUDIT COMMITTEE

Chair: K.E. Benson

Members: D.H. Burney, P. Gauthier, P.L. Joskow, J.A. MacNaughton

This committee is comprised of five independent directors and is mandated to assist the Board in monitoring, among other things, the integrity of the financial statements of TCPL, the compliance by TCPL with legal and regulatory requirements, and the independence and performance of TCPL's internal and external auditors. The committee is also mandated to review and recommend to the Board approval of TCPL's audited annual and unaudited interim consolidated financial statements and related management discussion and analysis, and other corporate disclosure documents including information circulars, the annual information form, all financial statements in prospectuses and other offering memoranda, any financial statements required by regulatory authorities and all prospectuses and documents which maybe incorporated by reference into a prospectus, before they are released to the public or filed with the appropriate regulatory authorities. In addition, the committee reviews and recommends to the Board the appointment and compensation of the external auditor, oversees the accounting, financial reporting, control and audit functions, and recommends funding of TCPL's pension plans.

Audit Committee information as required under the Canadian Audit Committee Rules (as defined in Schedule "B" of TCPL's AIF) is contained in TCPL's Annual Information Form for the year ending December 31, 2007 in the section "Corporate Governance - Audit Committee". Audit committee information includes the charter, committee composition, relevant education and experience of each member, reliance on exemptions, financial literacy of each member, committee oversight, pre-approval policies and procedures, and external auditor service fees by category. The Annual Information Form is available on SEDAR at www.sedar.com under TCPL's profile and is published on TransCanada's website at www.transcanada.com.

The committee oversees the operation of an anonymous and confidential toll-free telephone number for employees, contractors and the public to call with respect to perceived accounting irregularities and ethical violations, and has set up a procedure for the receipt, retention, treatment and regular review of any such reported activities. This telephone number is published on TransCanada's website at www.transcanada.com, on its intranet for employees and in the Company's Annual Report to shareholders.

The committee reviews the audit plans of the internal and external auditors and meets with them at the time of each committee meeting, in each case both with and without the presence of management. The committee annually receives and reviews the external auditor's formal written statement of independence delineating all relationships between itself and TCPL and its report on recommendations to management regarding

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internal controls and procedures, and ensures the rotation of the lead audit partner having primary responsibility for the audit as required by law. The committee pre-approves all audit services and all permitted non-audit services. In addition, the committee discusses with management TCPL's material financial risk exposures and the actions management has taken to monitor and control such exposures, reviews the internal control procedures to oversee their effectiveness, monitors compliance with TCPL's policies and codes of business ethics, and reports on these matters to the Board. The committee reviews and approves the investment objectives and choice of investment managers for the Canadian pension plans and considers and approves any significant changes to those plans relating to financial matters.

There were eight meetings of the Audit Committee in 2007 (six regularly scheduled and two special).

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GOVERNANCE COMMITTEE

Chair: W.K. Dobson

Members: D.H. Burney, P.L. Joskow, J.A. MacNaughton, D.P. O'Brien

This committee is comprised of five independent directors and is mandated to enhance TCPL's governance through a continuing assessment of TCPL's approach to corporate governance. The committee is mandated to identify qualified individuals to become Board members, to recommend to the Board nominees for election as directors at each annual meeting of shareholders and to annually recommend to the Board placement of directors on committees. The committee annually reviews the independence status of each director in accordance with written criteria in order to provide the Board with guidance for its annual determination of director independence and for the placement of members on committees.

The committee reviews and reports to the Board on the performance of individual directors, the Board as a whole and each of the committees, in conjunction with the Chair of the Board. The committee also monitors the relationship between management and the Board, and reviews TCPL's structures to ensure that the Board is able to function independently of management. The committee chair annually reviews the performance of the Chair of the Board. The committee is also responsible for an annual review of director compensation and for the administration of the Share Unit Plan for Non-Employee Directors (1998), including the granting of units under the plan.

The committee monitors best governance practice and ensures any corporate governance concerns are raised with management. The committee ensures the Company has a best practice orientation package and monitors continuing education for all directors. In addition, the Committee has responsibility for oversight of the Company's Strategic Planning process.

There were two meetings of the Governance Committee in 2007.

HUMAN RESOURCES COMMITTEE

Chair: K.L. Hawkins

Members: W.K. Dobson, E.L. Draper, D.P. O'Brien, W.T. Stephens

This committee is comprised of five independent directors and is mandated to review the Company's human resources policies and plans, monitor succession planning and to assess the performance of the CEO and other senior officers of TCPL against pre-established performance objectives. The committee approves the salary and other remuneration to be awarded to senior executive officers of TCPL. A report on senior management development and succession is prepared annually for presentation to the Board. The committee reports to the Board with recommendations on the remuneration package for the CEO. The committee approves executive compensation plans, including actual compensation awards for the most senior officers and approves any major changes to TCPL's compensation and benefit plans. The committee considers and approves any changes to TCPL's pension plans relating to benefits provided under these plans. The committee approves grants

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under the Stock Option Plan and accruals pursuant to the Performance Unit Plan and has oversight responsibilities for the Executive Share Unit Plan, the Performance Share Unit Plan, the Stock Option Plan and the Performance Unit Plan. The Committee is also responsible for the review of the executive share ownership levels.

There were five meetings of the Human Resources Committee in 2007 (four regularly scheduled and one special).

HEALTH, SAFETY AND ENVIRONMENT COMMITTEE

Chair: E.L. Draper

Members: P. Gauthier, K.L. Hawkins, W.T. Stephens, D.M.G. Stewart

This committee is comprised of five directors, four of whom are considered independent (all members other than Mr. Stewart), and is mandated to monitor the health, safety, security and environmental practices and procedures of TCPL and its subsidiaries for compliance with applicable legislation, conformity with industry standards and prevention or mitigation of losses. The committee also considers whether the implementation of TCPL's policies related to health, safety, security and environmental matters are effective, including policies and practices to prevent loss or injury to TCPL's employees and its assets, networks or infrastructure from malicious acts, natural disasters or other crisis situations. The committee reviews reports and, when appropriate, makes recommendations to the Board on TCPL's policies and procedures related to health, safety, security and the environment. This committee meets separately with officers of TCPL and its business units who have responsibility for these matters and reports to the Board on such meetings.

There were three meetings of the Health, Safety and Environment Committee in 2007.

CHAIR S PARTICIPATION IN COMMITTEES

Mr. S.B. Jackson, the Chair of the Board, is an independent director. The Chair is appointed by the Board and serves in a non-executive capacity. The Chair was a non-voting member of all committees of the Board up until October 29, 2007. Subsequent to that date, the Board adopted the practice of holding simultaneous meetings of certain committees and as a result, the Chair remained a non-voting member of the Governance and Human Resources Committees. The simultaneous sitting of certain committees allows more time to be available for each committee to focus on its respective responsibilities.

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SCHEDULE E

CHARTER OF THE BOARD OF DIRECTORS

I. INTRODUCTION

A. The Board's primary responsibility is to foster the long-term success of the Company consistent with the Board's fiduciary responsibility to the shareholders to maximize shareholder value.

B. The Board of Directors has plenary power. Any responsibility not delegated to management or a committee of the Board remains with the Board. This Charter is prepared to assist the Board and management in clarifying responsibilities and ensuring effective communication between the Board and management.

II. COMPOSITION AND BOARD ORGANIZATION

A. Nominees for directors are initially considered and recommended by the Governance Committee of the Board, approved by the entire Board and elected annually by the shareholders of the Company.

B. The Board must be comprised of a majority of members who have been determined by the Board to be independent. A member is independent if the member has no direct or indirect relationship which could, in the view of the Board, reasonably interfere with the exercise of a member's independent judgment.

C. Directors who are not members of management will meet on a periodic basis to discuss matters of interest independent of any influence from management.

D. Certain of the responsibilities of the Board referred to herein may be delegated to committees of the Board. The responsibilities of those committees will be as set forth in their Charter, as amended from time to time.

III. DUTIES AND RESPONSIBILITIES

A. Managing the Affairs of the Board

The Board operates by delegating certain of its authorities, including spending authorizations, to management and by reserving certain powers to itself. Certain of the legal obligations of the Board are described in detail in Section IV. Subject to these legal obligations and to the Articles and By-laws of the Company, the Board retains the responsibility for managing its own affairs, including:

- (i) planning its composition and size;
- (ii) selecting its Chair;
- (iii) nominating candidates for election to the Board;
- (iv) determining independence of Board members;
- (v) approving committees of the Board and membership of directors thereon;
- (vi) determining director compensation; and
- (vii) assessing the effectiveness of the Board, committees and directors in fulfilling their responsibilities.

B. Management and Human Resources

The Board has the responsibility for:

- (i) the appointment and succession of the Chief Executive Officer (CEO) and monitoring CEO performance, approving CEO compensation and providing advice and counsel to the CEO in the execution of the CEO's duties;
- (ii) approving a position description for the CEO;

- (iii) reviewing CEO performance at least annually, against agreed-upon written objectives;

- (iv) approving decisions relating to senior management, including the:
 - (a) appointment and discharge of officers of the Company and members of the senior leadership team;

 - (b) compensation and benefits for members of the senior leadership team;

 - (c) acceptance of outside directorships on public companies by executive officers (other than not-for-profit organizations);

 - (d) annual corporate and business unit performance objectives utilized in determining incentive compensation or other awards to officers; and

(e) employment contracts, termination and other special arrangements with executive officers, or other employee groups if such action is likely to have a subsequent material(1) impact on the Company or its basic human resource and compensation policies.

(v) taking all reasonable steps to ensure succession planning programs are in place, including programs to train and develop management;

(vi) approving certain matters relating to all employees, including:

(a) the annual salary policy/program for employees;

(b) new benefit programs or changes to existing programs that would create a change in cost to the Company in excess of \$10,000,000 annually;

(c) pension fund investment guidelines and the appointment of pension fund managers; and

(d) material benefits granted to retiring employees outside of benefits received under approved pension and other benefit programs.

C. Strategy and Plans

The Board has the responsibility to:

(i) participate in strategic planning sessions to ensure that management develops, and ultimately approve, major corporate strategies and objectives;

(ii) approve capital commitment and expenditure budgets and related operating plans;

- (iii) approve financial and operating objectives used in determining compensation;

- (iv) approve the entering into, or withdrawing from, lines of business that are, or are likely to be, material to the Company;

- (v) approve material divestitures and acquisitions; and

- (vi) monitor management's achievements in implementing major corporate strategies and objectives, in light of changing circumstances.

D. Financial and Corporate Issues

The Board has the responsibility to:

- (i) take reasonable steps to ensure the implementation and integrity of the Company's internal control and management information systems;

- (ii) monitor operational and financial results;

- (iii) approve annual financial statements and related Management's Discussion and Analysis, review quarterly financial results and approve the release thereof by management;

- (iv) approve the Management Proxy Circular, Annual Information Form and documents incorporated by reference therein;

- (v) declare dividends;

- (vi) approve financings, changes in authorized capital, issue and repurchase of shares, issue and redemption of debt securities, listing of shares and other securities, issue of commercial paper, and related prospectuses and trust indentures;

- (vii) recommend appointment of external auditors and approve auditors' fees;
- (viii) approve banking resolutions and significant changes in banking relationships;
- (ix) approve appointments, or material changes in relationships with corporate trustees;
- (x) approve contracts, leases and other arrangements or commitments that may have a material impact on the Company;
- (xi) approve spending authority guidelines; and
- (xii) approve the commencement or settlement of litigation that may have a material impact on the Company.

(1) For purposes of this Charter, the term "material" includes a transaction or a series of related transactions that would, using reasonable business judgment and assumptions, have a meaningful impact on the Corporation. The impact could be relative to the Corporation's financial performance and liabilities as well as its reputation.

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E. Business and Risk Management

The Board has the responsibility to:

- (i) take all reasonable steps to ensure that management has identified the principal risks of the Company's business and implemented appropriate strategies to manage these risks, understands the principal risks and achieves a proper balance between risks and benefits;
- (ii) review reports on capital commitments and expenditures relative to approved budgets;
- (iii) review operating and financial performance relative to budgets or objectives;
- (iv) receive, on a regular basis, reports from management on matters relating to, among others, ethical conduct, environmental management, employee health and safety, human rights, and related party transactions; and
- (v) assess and monitor management control systems by evaluating and assessing information provided by management and others (e.g. internal and external auditors) about the effectiveness of management control systems.

F. Policies and Procedures

The Board has responsibility to:

- (i) monitor compliance with all significant policies and procedures by which the Company is operated;
- (ii) direct management to ensure the Company operates at all times within applicable laws and regulations and to the highest ethical and moral standards;

(iii) provide policy direction to management while respecting its responsibility for day-to-day management of the Company's businesses; and

(iv) review significant new corporate policies or material amendments to existing policies (including, for example, policies regarding business conduct, conflict of interest and the environment).

G. Compliance Reporting and Corporate Communications

The Board has the responsibility to:

(i) take all reasonable steps to ensure the Company has in place effective disclosure and communication processes with shareholders and other stakeholders and financial, regulatory and other recipients;

(ii) approve interaction with shareholders on all items requiring shareholder response or approval;

(iii) take all reasonable steps to ensure that the financial performance of the Company is adequately reported to shareholders, other security holders and regulators on a timely and regular basis;

(iv) take all reasonable steps to ensure that financial results are reported fairly and in accordance with generally accepted accounting principles;

(v) take all reasonable steps to ensure the timely reporting of any other developments that have significant and material impact on the Company; and

(vi) report annually to shareholders on the Board's stewardship for the preceding year (the Annual Report).

IV. GENERAL LEGAL OBLIGATIONS OF THE BOARD OF DIRECTORS

The Board is responsible for:

- (i) directing management to ensure legal requirements have been met and documents and records have been properly prepared, approved and maintained;

- (ii) approving changes in the By-laws and Articles of Incorporation, matters requiring shareholder approval, and agendas for shareholder meetings;

- (iii) approving the Company's legal structure, name, logo, mission statement and vision statement; and

- (iv) performing such functions as it reserves to itself or which cannot, by law, be delegated to Committees of the Board or to management.

SCHEDULE F

EXECUTIVE COMPENSATION AND OTHER INFORMATION

REPORT ON EXECUTIVE COMPENSATION

The following is the Human Resources Committee (the Committee) Report on Executive Compensation which outlines the policies of the Committee for determining the compensation of TransCanada's CEO, Presidents, and Executive Vice-Presidents (collectively, the Executives).

COMMITTEE INFORMATION

Composition of the Committee

The Committee is composed of five directors, K.L. Hawkins (Chair), W.K. Dobson, E.L. Draper, D.P. O'Brien, and W.T. Stephens all of whom are independent, as required by securities regulations. There are no interlocking relationships between the members of the Committee or between any member of the Committee and any of TransCanada's current Executives. The Committee reports to the Board on all material matters considered, recommended or approved by the Committee.

For further information on the composition and mandate of the Committee please refer to "Description of Board Committees and their Charters - Human Resources Committee". For further information on the independence of the Committee members please refer to Schedule "B" of TCPL's AIF - Disclosure of Corporate Governance Practices - Board of Directors."

Committee Processes

The Committee recognizes the importance of maintaining sound governance practices for the development and administration of executive compensation and benefit programs, and has instituted processes that enhance the Committee's ability to effectively carry out its responsibilities. Examples of process steps that the Committee uses include:

holding in-camera sessions without Company management present prior to and following every regularly scheduled Committee meeting;

hiring external consultants and advisors and requiring their attendance at specified Committee meetings;

annually approving a Committee checklist that sets out the timetable of all regularly occurring accountabilities and that provides context for the discussion of related items;

using a two-step review process where most recurring items are provided for the Committee's initial review at a meeting prior to the approval meeting;

conducting annual reviews of detailed compensation tally sheets and modeled compensation outcomes for the Executives;

granting stock options once per year during the concurrent annual deliberation of Total Direct Compensation for the Executives, and granting outside of that process only under extenuating circumstances.

The Committee directs management to gather information on its behalf, and provide initial analysis and commentary. The Committee reviews this material along with other information received from external advisors in its deliberations before considering and/or rendering decisions. The Committee has full discretion to adopt management recommendations or to alter them and to consult its own external advisors.

External Advice

The Committee engages its own consultants and, from time-to-time legal advisors, to gather information and deliver opinions and advice on various subjects including executive compensation, securities law and compensation disclosure practices.

EXECUTIVE COMPENSATION ADVISORY SERVICES

The Committee engaged the services of an individual consultant (the Consultant) from Towers Perrin to provide executive compensation consulting services to the Committee during 2007. The mandate of the Consultant was to provide an assessment of management's proposals relating to the compensation of the Executives. In 2007, the Consultant provided services to the Committee in accordance with this mandate and attended portions of all Committee meetings, as requested by the Chair of the Committee. The fees paid to Towers Perrin in 2007 for the Consultant's services to the Committee were approximately \$107,000. The performance of the Consultant is reviewed and their engagement is approved by the Committee on an annual basis.

Under the mandate, the Consultant could also provide advice to management on significant changes to compensation philosophy or programs, or other compensation matters of the Company if the work was directed or approved by the Chair of the Committee. These additional services were not provided by the Consultant to TransCanada in 2007. In 2007, other, separate consultants from Towers Perrin did provide the Company with executive and non-executive compensation analysis, Board compensation analysis, benefit and pension actuarial consulting services for both U.S. and Canadian operations and the fees paid for these services were approximately \$2.4 million. All service fees and related expenses paid to Towers Perrin, including those for the services of the Consultant, are reviewed by the Committee.

EXECUTIVE COMPENSATION PROGRAM

Compensation Philosophy

The design of TransCanada's Executive Compensation Program is based on a compensation philosophy that:

supports employee attraction, engagement and retention;

is competitive with the external compensation market;

aligns executive interests with shareholders and customers; and

rewards accomplishments through pay-for-performance.

The Executive Compensation Program specifically provides for Total Direct Compensation which is a combination of base salary and performance-based incentives that reflect competitive pay in light of business achievement, fulfillment of individual objectives and overall job performance. The Committee approves, or recommends for approval, all remuneration to be awarded through the Executive Compensation Program.

Determining Individual Executive Compensation

Context For Decisions

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All compensation awarded annually to the Executives under the following plans is considered for each individual and approved by the Committee or, in the case of the CEO, recommended by the Committee to the Board for approval. The Committee approves or recommends the compensation awards, which are not contingent on the number, term or current value of other outstanding compensation previously awarded to the individual. However, the Committee is provided with summaries of the three-year history of awarded compensation, which is intended to provide further context for its annual decision-making.

Market Competitiveness

As one factor in the decision-making process, the Committee considers market compensation data provided by various external compensation sources. This data consists of summary compensation information from selected Canadian-based companies that are generally of similar size and scope to TransCanada, and represent the market in which TransCanada may compete for talent (the Comparator Group).

The composition of the Comparator Group is reviewed annually by the Committee for its on-going business relevance to TransCanada. An overview of the 2006 characteristics of the Comparator Group, as compared to TransCanada, is provided in the following table:

	TransCanada	Comparator Group	
INDUSTRY	North. American Pipelines, Power	Canadian Oil and Gas, Pipelines, Power, Utilities	
LOCATION	Calgary	Principally Alberta	
		MEDIAN	75th PERCENTILE
REVENUE ⁽¹⁾	\$7.5 billion	\$5.8 billion	\$13.2 billion
MARKET CAPITALIZATION ⁽²⁾	\$21.6 billion	\$21.0 billion	\$44.7 billion
ASSETS ⁽¹⁾	\$25.9 billion	\$15.3 billion	\$18.4 billion
EMPLOYEES ⁽¹⁾	Approximately 2,350	3,010	4,802

(1) Revenue, assets and number of employees reflect 2006 information.

(2) Market Capitalization value noted is calculated as at October 31, 2007 by multiplying the monthly closing price by the quarterly common shares outstanding for the most recently available quarter.

Pay For Performance**PERFORMANCE OBJECTIVES**

TransCanada's Board sets annual corporate objectives directed at achieving the results required to deliver on TransCanada's key longer-term strategies for growth and value creation. The Committee then approves annual individual performance objectives for the Executives that align with these corporate objectives. The objectives for both corporate and individual Executive performance reflect a combination of quantitative and qualitative measures with no pre-determined weightings assigned.

At the end of the fiscal year, the Board looks at the corporate results achieved and, following discussion with management, assesses the relative outcomes against these objectives. To make this assessment, where appropriate, the Board looks at both absolute and relative performance against specific peer companies in order to give a balanced perspective of achievement against the pre-established objectives.

The Committee considers the Board's assessment of corporate performance as general context for their review of individual Executive performance which, in turn, is then used to determine the Total Direct Compensation for the Executives.

AWARDING COMPENSATION

When awarding annual compensation to the Executives, the Committee considers actual performance and results achieved against performance objectives. The annual Total Direct Compensation an Executive is awarded will vary in accordance with the following guidelines:

<u>If actual performance</u>	<u>Total Direct Compensation will be</u>
meets objectives (satisfactory) à	comparable to median compensation from the Comparator Group Total Direct Compensation data
exceeds objectives (above satisfactory) à	comparable to above-median compensation ⁽¹⁾
falls short of objectives (below satisfactory) à	adjusted downward from the previous year ⁽²⁾

(1) The degree to which an Executive is compensated above the median is relative to his or her assessed performance level.

(2) The degree to which the pay is adjusted downward is relative to individual performance. However, the adjustment is typically made through variable and not fixed compensation.

2007 CORPORATE PERFORMANCE

The following is a summary of the performance categories, examples of some of the performance measures used in each respective category and highlights of results achieved in 2007.

PERFORMANCE CATEGORY	EXAMPLES OF PERFORMANCE MEASURES	HIGHLIGHTS OF RESULTS ACHIEVED
Financial Performance	<p>Earnings per share</p> <p>Revenue</p> <p>Funds generated from operations</p> <p>Total Shareholder Return</p>	<p>IN 2007</p> <p>Strong financial performance in 2007 including: Net earnings of \$1.22 billion (\$2.31 per share) increased from \$1.08 billion (\$2.21 per share) in 2006 – an increase of approximately five per cent on a per share basis.</p> <p>Comparable earnings for the year of \$1.107 billion (\$2.09 per share) - an increase of approximately 10 per cent on a per share basis compared to 2006.</p> <p>Funds generated from operations for the year of \$2.621 billion - an increase of approximately 10 per cent from 2006.</p> <p>Annual dividend of \$1.36 per share – an increase of six per cent from an annual dividend of \$1.28 per share in 2006.</p>

PERFORMANCE CATEGORY	EXAMPLES OF PERFORMANCE MEASURES	HIGHLIGHTS OF RESULTS ACHIEVED IN 2007
Operational Excellence	<p>Costs</p> <p>Safety</p> <p>Environment</p>	<p>Met departmental and common cost objectives while achieving overall productivity gains in pipe and power operations.</p> <p>Top level safety performance compared with industry peers.</p> <p>Named again to the Dow Jones Sustainability World Index and the Dow Jones Sustainability North American Index in 2007.</p>
Maximize TransCanada's competitive strength and enduring value	<p>Stakeholder relationships</p> <p>Corporate reputation</p> <p>Organizational and people strengths</p> <p>Financial capacity and flexibility</p> <p>Excellence in value-creating strategy, analysis and investment execution</p>	<p>Continued outstanding performance on pipeline customer satisfaction and service, as reflected in external customer satisfaction surveys.</p> <p>Recognized for corporate governance practices in external rankings and excellence in compensation disclosure by the Canadian Coalition for Good Governance.</p> <p>Significant progress toward becoming a higher performing organization through implementation of comprehensive leadership development and performance management processes.</p> <p>Maintained strong financial capacity and credit ratings in Canada and the U.S. which has allowed the Company to complete large transactions.</p>
Grow and maximize longer-term value of Pipeline and Energy businesses	<p>Progress on longer-term value adding initiatives</p> <p>Greenfield projects</p> <p>Completed acquisitions</p>	<p>Achieved negotiated settlements on Canadian Mainline and GTN System.</p> <p>Submitted a complete application for a license to construct the Alaska Pipeline project under the Alaska Gasline Inducement Act.</p> <p>Regulatory approvals received and commercial arrangements progressed related to a number of core infrastructure initiatives, including the Keystone oil pipeline project.</p>

Continuing notable progress on longer-term initiatives including liquefied natural gas opportunities, northern gas pipeline development, Bruce A refurbishment and restart, wind power projects.

Successful integration of newly acquired U.S. pipeline businesses or operations (ANR, Great Lakes, Northern Border, Tuscarora).

The Committee and the Board were of the opinion that TransCanada's 2007 performance delivered results that exceeded objectives in the areas of financial performance and growth and were above satisfactory on other notable objectives. Based on this corporate performance achievement and the assessment of individual performance, the Committee, in aggregate, awarded above-median Total Direct Compensation for Executives.

Value of Awarded Compensation

While annual compensation awards made to the Executives are based on current year corporate and individual performance, the ultimate value from longer-term components of the Total Direct Compensation awards is linked to, and dependent upon, TransCanada's ability to replicate and sustain annual performance over the longer term.

To ensure that the Company's longer-term compensation programs are effective in delivering on this intent, in 2007 the Committee reviewed modeled compensation scenarios for the Executives that illustrated the impact of various future corporate performance outcomes on previously awarded and outstanding compensation. The Committee found that the intended relationship between pay and corporate performance was appropriate for all of the Executives and that, in aggregate, the resulting compensation modeled under various corporate performance scenarios was reasonable, not excessive, and delivered the intended differentiation of compensation value.

Components of Total Direct Compensation

TransCanada's Total Direct Compensation is structured with an emphasis on variable compensation. This places most of the Executive's compensation at risk where the value ultimately received by the Executive is contingent on meeting or exceeding performance requirements. Disclosure of the actual components of Total Direct Compensation for the CEO, the Chief Financial Officer and the three other most highly compensated executive officers based on salary and bonus value earned and received during the 2007 financial year (collectively, the Named Executive Officers) is noted under the heading, Executive Compensation Program - Elements of the Executive Compensation Program below.

Elements of the Executive Compensation Program

In 2007, the Executive Compensation Program consisted of four direct compensation elements: base salary, short-term annual cash incentives, performance share units issued under the mid-term incentive plan and stock options issued under the long-term incentive plan. The following table provides an overview of these elements.

Component of Total Direct Compensation	Type of Compensation	Average 2007		Form	Plan	Performance Period
		Pay Mix(1)	Element			
FIXED	Annual	22%	Base Salary	Cash	Base Pay Program	1 year
VARIABLE	Annual	29%	Short-term Incentive	Cash	Incentive Compensation Program	1 year
	Longer-term	37%	Medium-term Incentive	Performance Share Units	Executive Share Unit Plan	Up to 3 years with vesting at end of term
		12%	Long-term Incentive	Stock Options	Stock Option Plan	Vesting 33 1/3% each year for 3 years with a 7 year term

(1) Pay Mix is the resulting relative value of each pay element following the determination of Total Direct Compensation. It is expressed as an aggregate average percentage of Total Direct Compensation for the Named Executive Officers. The relative value of Total Direct Compensation allocated to specific forms of variable compensation for individual Executives is aligned with the Executive's ability to contribute to short, medium and long-term business results based on the Committee's assessment.

Overview of Executive Compensation Elements**Fixed Compensation**

BASE PAY PROGRAM

The Base Pay Program provides a fixed level of income based on the market value of a role. In accordance with TransCanada's market-based compensation practices, all Executive roles are individually matched to similar roles in the Comparator Group. Base pay rates are typically targeted at the median of the market and are reviewed annually. Variance from the median could occur on the basis of sustained individual performance or material differences in an Executive's responsibilities versus the market comparator role. Changes in base pay are typically made effective April 1st.

Variable Compensation Annual

For Executives, the Committee has intentionally moved away from a formulaically driven variable compensation program to a program based on sound judgment and discretion at the Board and Committee levels. The Committee is of the view that formulas and weightings applied to forward-looking objectives may lead to unintended consequences for compensation purposes. For this reason, there are no pre-established weightings applied to measures or formulaic calculations used to determine payments for Executives from TransCanada's performance-based annual variable compensation program. The Committee's comprehensive assessment of the overall business performance of TransCanada, including corporate performance against stated objectives, business circumstances and, where appropriate, relative performance against peers, provides the context for individual Executive evaluations for annual variable compensation payments.

INCENTIVE COMPENSATION PROGRAM

Short-term incentives are awarded through the Incentive Compensation Program. The Incentive Compensation Program provides the opportunity to receive annual cash payments based on individual performance measured against pre-established annual business and individual objectives, within the context of overall corporate performance.

Corporate performance provides the baseline from which individual assessments are made. The actual incentive awards for the Executives are based on the Committee's subjective and discretionary assessment of the Executive's contribution to the corporate results based on his or her achievement against individual objectives. The awards are provided under the pay-for-performance guidelines noted above. Payments from the Incentive Compensation Program are made in the first quarter following the completion of the financial year.

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Variable Compensation Longer-Term

The total value of longer-term incentive compensation (Total Long Term Incentive Value) granted each year is established as part of an Executive's overall performance-based Total Direct Compensation. Total Long Term Incentive Value is derived from the established Total Direct Compensation value minus Total Cash (the sum of Base Pay and actual awards from the Incentive Compensation program).

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Once the Total Long Term Incentive Value has been established by the Committee, the value is then divided between the Executive Share Unit Plan and the Stock Option Plan. The Committee determines the actual division of Total Long Term Incentive Value in a given year at its discretion and takes into account a number of factors including:

- business strategy objectives;
- consideration of the funding requirements for awards from both plans;
- the individual plan designs and each Executive's ability to impact medium and longer-term performance outcomes; and
- the valuation of grants.

Under this approach the Total Long Term Incentive Value could potentially be different year over year based on performance or operational considerations. As a result, the number of Executive Share Units and stock options granted each year may also vary. In recent years, approximately 70% to 80% of the Total Long Term Incentive Value has been awarded through the Executive Share Unit Plan and 20% to 30% through the Stock Option Plan.

EXECUTIVE SHARE UNIT PLAN

Medium-term incentives are granted through the Executive Share Unit Plan. The purpose of this plan is to align a portion of each participant's compensation with medium-term performance objectives that support the interests of shareholders and other stakeholders. These performance objectives play a key role in the company's strategy for growth and sustainability. Participants in this plan include all executive and senior management employees of TransCanada.

Under the Executive Share Unit Plan, Executives receive a provisional grant of notional units that is based on the allocated award value from Total Long Term Incentive Value divided by the price of TransCanada's common shares at the time of grant. Vesting of the grants is subject to the attainment of specific business performance objectives set by the Committee at the time of grant. Throughout the three-year term of the grant, participants are provisionally credited with additional value from dividends declared and paid to TransCanada's shareholders.

At the end of the grant term, actual results are compared against the performance objectives and participant unit totals are adjusted based on this assessment. The resulting total vested units are then valued based on the price of TransCanada's common shares at the time of vesting. Participants receive a cash payment, less statutory withholdings, for their total settlement value.

In 2007, participants received a grant of units that was valued based on the volume-weighted average closing price for TransCanada's common shares on the TSX for the five trading days prior to and including the grant date. The Committee established specific objectives for threshold, target and maximum performance levels, the achievement of which will adjust payment amounts as follows:

PERFORMANCE LEVEL		UNIT TOTAL ADJUSTMENT
Below threshold	à	zero units vest; no payment is made
At threshold	à	50% of units vest for payment
At target	à	100% of units vest for payment
At or above maximum	à	150% of units vest for payment

The performance measures that will be used by the Committee to determine the vesting of the 2007 grant consist of:

- (1) TransCanada's absolute total shareholder return (TSR);
- (2) TransCanada's relative TSR as compared to specified companies with which TransCanada may compete for capital (known as the ESU Peer Group); and
- (3) Corporate financial measures of earnings per share and funds generated from operations per share.

The Committee establishes performance criteria that cover a full range of performance outcomes including the potential for a zero payout. There are no pre-established weightings applied to these criteria nor are there formulaic calculations used to create the final performance achievement for the grant. The Committee uses its judgment and discretion to assess overall performance in light of the stated criteria and business circumstances surrounding the performance achieved.

If the actual performance achievement is determined by the Committee to align at a point between threshold and target, or target and maximum levels, the Committee will determine the number of units that vest on a pro-rata basis. The formula to determine the value of the vested units is based on the volume-weighted average closing price of TransCanada's common shares on the TSX during the five trading days immediately prior to and including the vesting date.

For the purposes of executive compensation disclosure, grants under the Executive Share Unit Plan are reported as long term incentives.

STOCK OPTION PLAN

Long-term incentives are granted to the Executives through the Stock Option Plan. This plan aligns the Executives' interests with the longer term growth and profitability of TransCanada, ultimately enhancing shareholder value. Participants benefit only if the market value of TransCanada's common shares at the time of stock option exercise is greater than the market value of such shares at the time of grant. Only executive-level employees received grants from the Stock Option Plan in 2007.

For 2007, the exercise price of a stock option granted to Canadian executives was set as the volume-weighted average trading price for the five trading days preceding the date of the grant. Changes recently made to this price determination methodology are noted under "Changes Made to the Executive Compensation Program - Stock Option Plan Exercise Price Determination", below.

Stock options granted in 2007 vest 33 1/3% on each anniversary of the grant date for a period of three years and expire seven years from the grant date.

SHARE OWNERSHIP GUIDELINES

The Committee believes that executives can more effectively represent the interests of shareholders if they have a significant investment in the common shares of TransCanada, or their economic equivalent. In January 2003, all of the Executives and certain additional executive and senior-level employees of the Company were given guidelines to achieve an interest level that the Committee viewed as significant in relation to each employee's base salary rate.

The level of ownership required under the Share Ownership Guidelines (the "Guidelines") can be achieved by direct purchase of common shares, by participation in the TransCanada Dividend Reinvestment Plan or through unvested units granted under the Executive Share Unit Plan. In June 2006, the Committee approved an amendment to the current Guidelines to require that at least 50% of the ownership level be TransCanada common shares or units of any TransCanada sponsored limited partnership. Unvested units from the Executive Share Unit Plan count to a maximum of 50% of the ownership level. Executives and other employees generally have five years to meet the ownership requirements based on either the date they are initially included under the Guidelines or when there is a material amendment made to the Guidelines.

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The Committee receives regular updates on Executive ownership levels and conformity with the Guidelines. The following table sets out the Guideline ownership levels for the Named Executive Officers based on their base salary rate as of December 31, 2007 and the 20-day volume-weighted average closing price of TransCanada's common shares at year end which was \$39.77.

Named Executive Officer	Minimum Ownership Requirement(1)	ACTUAL GUIDELINE OWNERSHIP VALUE AS AT DECEMBER 31, 2007					Multiple of Base Salary Rate (3)
		Minimum Guideline Ownership Value (\$)	Value from Outstanding Executive Share Unit Plan Grants (\$)(2)	Value from Common Shares or LP Units (\$)	Total Value (\$)		
H.N. Kvisle	3 times base salary	3,600,000	1,800,000	2,145,631 ⁽⁴⁾	3,945,631	3.29	
G.A. Lohnes	2 times base salary	740,000	370,000	351,249	721,249	1.95	
R.K. Girling	2 times base salary	1,260,000	630,000	537,770	1,167,770	1.85	
A.J. Pourbaix	2 times base salary	1,260,000	630,000	277,475	907,475	1.44	
D.M. Wishart	2 times base salary	1,000,000	500,000	1,275,503	1,775,503	3.55	

(1) Other senior employees of TransCanada have a minimum ownership requirement of one times base salary.

(2) Under the Guidelines, the value from invested units from the Executive Share Unit Plan is counted only to a maximum of 50% of the minimum ownership requirement.

(3) The Named Executive Officers have until the end of 2010 to meet the requirements outlined in the most recent amendment to the Guidelines, with the exception of Mr. Lohnes who has until the end of 2011.

(4) Mr. Kvisle, Director, President and Chief Executive Officer, held 53,951 common shares as of TransCanada as of December 31, 2007.

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CHANGES MADE TO THE EXECUTIVE COMPENSATION PROGRAM

The following section provides information regarding recent design or practice changes that have been made to plans in TransCanada's Executive Compensation program. These changes impact compensation values disclosed as compensation for the Named Executive Officers in the tables contained under the heading "Executive Compensation" below.

Stock Option Plan Granting Practice

In 2007, the Committee used a modified process to grant stock options to better support the Total Direct Compensation deliberation process. This process involved having the Committee determine the dollar values to be granted via the Stock Option Plan.

During their deliberation of Total Direct Compensation for Executives, the Committee was provided with the estimated number of stock options that would be granted to reflect proposed dollar values. The dollar values were converted to the number of stock options that were approved based on an economic value per stock option. An analysis of the economic value per option was provided by an external consulting firm.

Prior to 2007, a set number of stock options per participant were approved by the Committee and were generally rounded to the nearest 500 stock options. Under the current practice there is no longer a rounding of the number of stock options granted. This difference may be apparent when comparing the reported number of stock options granted for various years in the Summary Compensation Table and the Equity Compensation Plan Tables below.

Stock Option Plan Exercise Price Determination

For grants made prior to 2007, the exercise price for stock options was determined based on the greater of the closing price of TransCanada's common shares on the grant date and the volume-weighted average trading price for the five days preceding the grant date. In February 2007, TransCanada revised the exercise price determination process in its Stock Option Plan to be the volume-weighted average trading price for the five days preceding the date of the grant. In November 2007, TransCanada further revised the exercise price of a stock option to be the closing market price of TransCanada common shares on the TSX for the last trading day immediately preceding the award date of the option. For more information, please refer to the section, "Equity Compensation Plan Information - Stock Option Plan".

GRANDFATHERED EXECUTIVE COMPENSATION PLAN

The following section provides information pertaining to an executive compensation plan under which grants are no longer made. However, outstanding grants or awards from this noted plan continue to be disclosed as compensation for the Named Executive Officers in the various

tables contained under the heading Executive Compensation below.

Performance Unit Plan

The Performance Unit Plan was established in 1995 and included participants in the executive and senior management employee groups. In July 2002, the Committee amended the plan so that, starting in 2003, no further grants would be made under the Performance Unit Plan but accruals on existing grants would continue until the last grants expire in 2012, if not redeemed prior to this date. Until 2003, one unit from the Performance Unit Plan was granted in tandem with each stock option granted under the Stock Option Plan.

Performance Unit Plan units vest three years after the grant date and are considered to be automatically redeemed on the tenth anniversary of the grant date. A vested Performance Unit Plan unit may be exercised for the dollar value accrued on the unit at any time prior to the tenth anniversary of the grant. However, a vested unit from the Performance Unit Plan may only be exercised if the stock option granted in tandem with the Performance Unit Plan unit is concurrently exercised, or has been previously exercised. If the underlying stock option is exercised before the Performance Unit Plan unit is vested, the Performance Unit Plan unit is forfeited.

In 2006, the Committee approved a few operational modifications to the Performance Unit Plan effective for 2007 onward, in order to maintain the alignment of this plan with the active plans. The most notable of these modifications are:

- the calculation of the maximum dividend accrual will be based on the dividends declared versus paid in a given year; and
- the performance outcome determined by the Committee for the Executive Share Unit grant that vests during the financial year in question will directly determine the awarding of the annual Performance Unit Plan accrual for that same year.

COMPENSATION OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

The components of Total Direct Compensation for the CEO are the same as those for the other Executives. Annually, the Committee makes recommendations to the Board regarding the CEO's compensation based on the same market-based, performance-related criteria as for the other Executives.

Overview of Performance

The Committee assesses the performance of the CEO on the basis of achievement against his personal performance objectives that were approved by the Board at the beginning of the year, as well as his overall contribution to the performance of the Company. As with all other Executives, there are no pre-determined weightings assigned to the performance objectives.

In 2007, Mr. Kvisle's personal objectives were focused on the areas of Value Creation, Creating a Strong Management Team, Building Relationships, Operational Excellence, Investor Confidence and Corporate Governance and Reputation. The following provides a summary of the Committee's assessment of Mr. Kvisle's performance in these performance areas:

Value Creation

Mr. Kvisle played a key role in several major strategic initiatives during 2007. The Company welcomed over 1,100 new employees through the completion of several U.S. asset acquisitions, including the acquisition of ANR Pipeline and ANR Gas Storage. These assets were successfully integrated into the TransCanada organization and have generated accretive earnings in 2007. Under Mr. Kvisle's leadership, the Company successfully negotiated tolling settlements for the Canadian Mainline and the GTN System. Significant progress was made on gaining the necessary approvals for the Keystone oil pipeline project and construction activities are set to begin in early 2008.

Mr. Kvisle also played a pivotal role in the continuing progress on longer-term initiatives including liquefied natural gas opportunities, northern gas pipeline development including the Alaska Pipeline, the Bruce A refurbishment and restart and various wind power projects.

Creating A Strong Management Team

Mr. Kvisle continued to lead the organization in its pursuit of high performance by championing the implementation of comprehensive leadership development and performance management processes.

Building Relationships

Mr. Kvisle provided leadership for the organization in continuing to develop strong relationships with key stakeholders including shareholders, customers, governments, regulators and First Nations. The Company's annual customer satisfaction survey in 2007 reflected a very high regard customers have for the service provided by TransCanada.

Operational Excellence

The Company achieved success in effectively managing several major projects to budget despite significant market cost pressures. Mr. Kvisle continued to demonstrate his commitment to managing costs, providing outstanding customer service, and meeting or exceeding health, safety and environmental standards.

Investor Confidence

The corporate strategy developed under Mr. Kvisle's leadership continued to deliver strong financial results allowing the Board to increase the dividend declared in 2007 from \$1.28 per share to 1.36 per share. In April, Standard & Poor's changed its outlook on TransCanada from A- with a negative outlook to A- stable.

Corporate Governance and Reputation

Mr. Kvisle sets a high standard and encourages excellence in corporate governance for the Company. TransCanada gives consideration to following best practices in corporate governance and the Company has an excellent reputation in this regard as evidenced, for example, by the recognition TransCanada received from the Canadian Coalition for Good Governance in 2007 for excellence in compensation disclosure. The Company was again recognized externally in 2007 for its social responsibility and community investment practices.

Summary of Performance

The Committee assessed Mr. Kvisle's results and concluded that his performance exceeded his individual objectives in 2007 and presented this conclusion to the Board.

The Board was also of the view that Mr. Kvisle's overall achievements and performance exceeded his individual objectives in 2007, resulting in his Total Direct Compensation being positioned above median Total Direct Compensation for similar roles in the Comparator Group. In making this determination, the Board considered the achievement of the Company and Mr. Kvisle's individual objectives (both financial and non-financial) as well as significant economic, industry and market circumstances that influenced the performance of TransCanada.

COMMITTEE SUMMARY

The Committee is satisfied that TransCanada's current Executive Compensation Program reflects competitive market practices and the levels of compensation delivered under this program are relative to the company's performance. The Committee fully understands and supports the implications of awarded compensation. The Committee will continue to monitor market conditions and modify TransCanada's Executive Compensation Program, if required, to ensure it remains competitive and aligned with TransCanada's compensation philosophy.

This Report on Executive Compensation is submitted on behalf of the voting members of the Human Resources Committee of the Board:

Chair: K.L. Hawkins

Members: W.K. Dobson, E.L. Draper, D.P. O'Brien, W.T. Stephens

PERFORMANCE GRAPH

The following chart compares TransCanada's five-year cumulative total shareholder return to the S&P/TSX composite index (assuming reinvestment of dividends and considering a \$100 investment on December 31, 2002 in TransCanada's common shares).

	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2007	Compound Annual Growth
TransCanada	100.0	127.0	141.6	180.8	207.7	214.5	16.5%
TSX	100.0	126.7	145.1	180.1	211.2	231.9	18.3%

REMUNERATION OF EXECUTIVE OFFICERS OF TCPL

The Executives also serve as executive officers of TCPL. An aggregate remuneration is paid for serving as an executive of TransCanada and for service as an executive officer of TCPL. Since TransCanada does not hold any material assets directly other than the common shares of TCPL and receivables from certain of TransCanada's subsidiaries, all executive employee costs are assumed by TCPL according to a management services agreement between the two companies.

EXECUTIVE COMPENSATION

All compensation values disclosed in this section, unless otherwise noted, are expressed in Canadian dollars and are derived from compensation plans and programs that are described in detail under the section "Report on Executive Compensation" or from retirement arrangements reported under the section "Pension and Retirement Benefits" elsewhere in this Schedule F.

SUMMARY COMPENSATION TABLE

The following table outlines the summary of compensation earned in the 2007, 2006 and 2005 financial years by the Named Executive Officers.

Name and Principal Position of the Named Executive Officers	Year	ANNUAL COMPENSATION		LONG-TERM COMPENSATION			All Other Compensation ⁽¹⁰⁾	
		Salary ⁽⁵⁾ (\$)	Bonus ⁽⁶⁾ (\$)	Other Annual Compensation ⁽⁷⁾ (\$)	Awards	Payouts		LTIP Payouts ⁽⁹⁾ (\$)
					Shares or Securities Units Subject to Resale Restrictions (\$)			
H.N. Kvisle	2007	1,175,001	1,550,000	-	202,442	-	3,624,707	11,708
President & Chief Executive Officer	2006	1,100,004	1,500,000	-	250,000	-	2,980,971	11,000
	2005	1,050,003	1,300,000	-	160,000	-	1,852,433	10,417
G.A. Lohnes	2007	362,508	490,000	106,557	35,990	-	471,509	3,613
Executive Vice-President & Chief Financial Officer	2006 ⁽¹⁾	331,973	320,000	266,013	64,000	-	345,000	11,786
	2005 ⁽²⁾	318,914	208,240	62,077	20,000	-	254,562	9,167
R.K. Girling	2007	602,502	900,000	-	107,326	-	1,263,779	5,979
President, Pipelines	2006 ⁽³⁾	498,346	700,000	-	190,000	-	1,192,429	28,192
	2005	460,032	500,000	-	60,000	-	740,973	25,600
A.J. Pourbaix	2007	602,502	900,000	-	107,326	-	868,810	61,479
President, Energy	2006 ⁽⁴⁾	494,172	700,000	-	190,000	-	1,064,734	71,065
	2005	440,001	500,000	-	60,000	-	740,973	49,691
D.M. Wishart	2007	475,005	550,000	-	64,267	-	936,860	46,708
Executive Vice-President, Operations & Engineering	2006	395,007	500,000	-	55,000	-	877,367	24,942
	2005	372,504	400,000	-	40,000	-	370,487	3,713

(1) Mr. Lohnes was appointed Executive Vice-President and Chief Financial Officer for TransCanada in June 2006 and continued in his role as President of Great Lakes Transmission Company (Great Lakes) until September 1, 2006. As such, the values denoted for the 2006 financial year represent compensation earned in this position for a four month period, combined with compensation earned for eight months in his previous position as President and Chief Executive Officer of Great Lakes. The values Mr. Lohnes received during his tenure as President and Chief Executive Officer of Great Lakes were provided in U.S. dollars (or equivalent value) but have been expressed here in Canadian dollars based on the Bank of Canada's average annual exchange rate for 2006 of 1.2116 with the exception of the LTIP Payout which has been converted at 1.1340 based on the exchange rate as at the payment date of the grant.

(2) These values reflect the compensation Mr. Lohnes received during his tenure as President and Chief Executive Officer of Great Lakes. Mr. Lohnes became President and Chief Executive Officer in August 2000 and during his term, Great Lakes was a pipeline joint venture owned equally by TransCanada and El Paso Corporation. The values denoted were provided to Mr. Lohnes in U.S. dollars (or equivalent value) but have been expressed here in Canadian dollars based on the Bank of Canada's average annual exchange rate for 2005 of 1.3015 with the exception of the LTIP Payout which has been converted at 1.560 based on the exchange rate as at the date of grant.

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(3) Mr. Girling was appointed President, Pipelines in June 2006. As such, values denoted for the 2006 financial year represent compensation earned in this position for a seven month period, combined with compensation earned for five months in his previous position as Executive Vice-President, Corporate Development and Chief Financial Officer for TransCanada.

(4) Mr. Pourbaix was appointed President, Energy in June 2006. As such, values denoted for the 2006 financial year represent compensation earned in this position for a seven month period, combined with compensation earned for five months in his previous position as Executive Vice-President, Power.

(5) This column reflects actual base salary earnings during the noted financial year. Salary adjustments are typically effective April 1.

(6) Amounts referred to in this table as Bonus are paid pursuant to the Incentive Compensation Program and are attributable to the noted financial year. Payments from the Incentive Compensation Program are made in the first quarter following the completion of the financial year.

(7) This column includes payments made to Mr. Lohnes for tax equalization on exercised stock options of USD\$124,842 for 2006, and USD\$47,697 for 2005. The aforementioned payments are disclosed here in Canadian dollars based on the Bank of Canada's average annual exchange rate for the financial year noted, namely 1.2116 for 2006, and 1.3015 for 2005. As part of his repatriation to Canada, Mr. Lohnes also received a one-time special tax-protected bonus payment of \$200,000. This value is being paid to Mr. Lohnes in annual installments of \$70,000 in 2006, \$65,000 in 2007 and \$65,000 in 2008. The installments disclosed include tax reimbursements of \$44,754 for 2006 and \$41,557 for 2007.

The value of perquisites for each Named Executive Officer is less than \$50,000 and 10% of total annual salary and bonus for the financial year and, as such, is not included in this column. For information, the average annual value for perquisites provided to the Named Executive Officers in 2007 was \$32,882 and included such things as a car allowance or lease and the associated maintenance fees, Company paid parking, luncheon and/or recreation club memberships and financial counseling/tax preparation.

(8) This column shows the total number of stock options granted under the Stock Option Plan to each of the Named Executive Officers during each of the financial years noted. Due to the corporate restructuring in June 2006 there was a special grant made to certain Named Executive Officers that was in addition

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to those granted during the annual determination of Total Direct Compensation in February. Specifically, Mr. Lohnes received an additional 50,000 options, Mr. Girling and Mr. Pourbaix each received an additional 100,000 options.

(9) LTIP Payouts include the value of the payments made or to be made for the grants of Executive Share Units that vested and became eligible for payout in the noted financial year, namely:

Name	2007	2006	2005
H.N. Kvisle	\$3,624,707	\$2,980,971	\$1,852,433
G.A. Lohnes	\$256,655	\$345,000	\$254,562
R.K. Girling	\$1,018,223	\$1,192,429	\$740,973
A.J. Pourbaix	\$868,810	\$1,064,734	\$740,973
D.M. Wishart	\$691,304	\$877,367	\$370,487

A portion of the value denoted for 2007 was provided to Mr. Lohnes in U.S. dollars (or equivalent value) and has been disclosed here in Canadian dollars based on the Bank of Canada's average annual exchange rate of 1.0748. In 2007 certain Named Executive Officers redeemed units from the Performance Unit Plan and received payments of accrued value, specifically Mr. Lohnes received \$214,854, Messrs. Girling and Wishart each received \$245,556. There were no Performance Unit Plan redemptions made by the Named Executive Officers in 2006 or 2005.

(10) The amounts in this column include payments made to the Named Executive Officers by subsidiaries and affiliates of TransCanada (including directors' fees paid by affiliates and amounts paid for serving on management committees of entities in which TransCanada holds an interest), specifically: Mr. Girling - \$23,250 for 2006 and \$21,000 for 2005; Mr. Pourbaix - \$55,500 for 2007, \$59,250 for 2006 and \$39,000 for 2005; Mr. Wishart - \$42,000 for 2007 and \$21,000 for 2006.

This column includes TransCanada's contributions under the 401K pension plan for Mr. Lohnes in the amounts of 10,653 for 2006 and \$9,167 for 2005. The aforementioned payments are disclosed here in Canadian dollars based on the Bank of Canada's average annual exchange rate for the financial year noted, namely 1,2116, and 1,3015 for 2005.

Also included in this column is the value of TransCanada's contributions under the Employee Stock Savings Plan made on behalf of the Named Executive Officer for the noted financial year.

LONG-TERM INCENTIVE PLAN TABLES

Executive Share Unit Plan Grants

The following tables outline various outstanding grants made under the Executive Share Unit Plan. General operation and performance criteria relating to this plan are described in the section, Overview of Executive Compensation Elements; Variable Compensation - Longer-Term; Executive Share Unit Plan in the Report on Executive Compensation, above.

2007 Executive Share Unit Plan Grants

The following table outlines the Executive Share Unit Plan grants that were approved in February 2007. These grants are still unvested and outstanding as at December 31, 2007 and have therefore not yet been recorded as LTIP Payouts in the Summary Compensation Table, above.

Name	Securities, Units or Other Rights ⁽¹⁾ (#)	Performance or Other Period Until Maturation or Payout	ESTIMATED FUTURE PAYOUTS UNDER NON-SECURITIES-PRICE-BASED PLANS (units) ⁽²⁾			
			Below Threshold (#)	Threshold (#)	Target (#)	Maximum (#)
H.N. Kvisle	58,806	Dec. 31, 2009	0	29,403	58,806	88,209
G.A. Lohnes	10,383	Dec. 31, 2009	0	5,192	10,383	15,575
R.K. Girling	30,964	Dec. 31, 2009	0	15,482	30,964	46,446
A.J. Pourbaix	30,964	Dec. 31, 2009	0	15,482	30,964	46,446
D.M. Wishart	18,541	Dec. 31, 2009	0	9,271	18,541	27,812

(1) This is the grant of units under the Executive Share Unit Plan.

(2) Does not include the units related to reinvested dividend value.

2006 Executive Share Unit Plan Grants

The following table outlines the Executive Share Unit Plan grants that were approved in February 2006. These grants are still unvested and outstanding as at December 31, 2007 and have therefore not yet been recorded as LTIP Payouts in the Summary Compensation Table, above.

Name	Securities, Units or Other Rights ⁽¹⁾ (#)	Performance or Other Period Until Maturation or Payout	ESTIMATED FUTURE PAYOUTS UNDER NON-SECURITIES-PRICE-BASED PLANS (units) ⁽²⁾			
			Below Threshold (#)	Threshold (#)	Target (#)	Maximum (#)
H.N. Kvisle	52,391	Dec. 31, 2008	0	26,195	52,391	78,586
G.A. Lohnes	3,401	Dec. 31, 2008	0	1,701	3,401	5,102
R.K. Girling	16,893	Dec. 31, 2008	0	8,447	16,893	25,340
A.J. Pourbaix	16,893	Dec. 31, 2008	0	8,447	16,893	25,340
D.M. Wishart	8,958	Dec. 31, 2008	0	4,479	8,958	13,436

(1) This is the grant of units under the Executive Share Unit Plan.

(2) Does not include the units related to reinvested dividend value.

2005 Executive Share Unit Plan Grants

The following table outlines the Executive Share Unit Plan grants that were made in 2005 and vested in 2007. The table reconciles the value that was paid to the Named Executive Officers which is disclosed under LTIP Payouts in the Summary Compensation Table, above.

Name	Securities, Units or Other Rights ⁽¹⁾ (#)	Performance or Other Period Until Maturation or Payout	Vested Units From Grants ⁽²⁾ (#)	Vested Value From Grants ⁽³⁾ (\$)	Vested Value From Dividends ⁽⁴⁾ (\$)	Total Settlement ⁽⁵⁾⁽⁶⁾ (\$)
H.N. Kvisle	65,320	Dec. 31, 2007	81,650	3,255,386	369,321	3,624,707
G.A. Lohnes	4,441	Dec. 31, 2007	5,551	221,318	35,337	256,655
R.K. Girling	18,349	Dec. 31, 2007	22,936	914,458	103,765	1,018,223
A.J. Pourbaix	15,657	Dec. 31, 2007	19,571	780,296	88,514	868,810
D.M. Wishart	12,458	Dec. 31, 2007	15,572	620,856	70,448	691,304

(1) This is the grant of units under the Executive Share Unit Plan that is used to determine vesting. The range of units that are eligible to vest under this grant are between 50% and 150%, based on performance between Threshold and Maximum, or 0% if Threshold performance is not met.

(2) Based on the Committee's assessment of the performance achieved against objectives, 125% of the granted units vested for settlement. This number does not include units related to reinvested dividends.

(3) Vested units noted were valued at \$39.87 per unit based on the five day volume-weighted closing price of common shares on the TSX at December 31, 2007.

(4) The additional value related to the accrued value from dividends and paid relative to the vested unit total.

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(5) Includes both the Vested Value from Grants and Vested Value from Dividends. This settlement value is reported as an LTIP Payout in the Summary Compensation Table, above.

(6) A portion of the Total Settlement value denoted here was provided to Mr. Lohnes in U.S. dollars (or equivalent value) and has been expressed here in Canadian dollars based on the Bank of Canada's average annual exchange rate as at the payment date of the grant, namely 1.0748.

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Supplemental Disclosure 2008 Executive Share Unit Plan Grants

Decisions regarding Executive Share Unit Plan grants are made annually by the Committee in February prior to the publication of TransCanada's Proxy Circular. Although not a requirement, TransCanada discloses these compensation grants for the Named Executive Officers. The following table outlines the grants under the Executive Share Unit Plan made in 2008.

Name	Securities, Units or Other Rights ⁽¹⁾ (#)	Performance or Other Period Until Maturity or Payout	ESTIMATED FUTURE PAYOUTS UNDER NON-SECURITIES PRICE-BASED PLANS (units) ⁽²⁾			
			Below Threshold (#)	Threshold (#)	Target (#)	Maximum (#)
H.N. Kvisle	75,245	Dec. 31, 2010	0	37,622	75,245	112,867
G.A. Lohnes	13,732	Dec. 31, 2010	0	6,866	13,732	20,598
R.K. Girling	37,622	Dec. 31, 2010	0	18,811	37,622	56,433
A.J. Pourbaix	37,622	Dec. 31, 2010	0	18,811	37,622	56,433
D.M. Wishart	22,573	Dec. 31, 2010	0	11,287	22,573	33,860

(1) This is the grant of units under the Executive Share Unit Plan.

(2) Does not include the units related to reinvested dividend value.

PERFORMANCE UNIT PLAN GRANTS OUTSTANDING

The following table outlines Performance Unit Plan grants made to the Named Executive Officers. The estimated future payouts set out in the table include all accruals up to and including the accrual approved for the most recently completed financial year. For further information on the material terms and general operation of the Performance Unit Plan, see the Report on Executive Compensation - Grandfathered Executive Compensation Plan Performance Unit Plan .

Name	Securities, Units or Other Rights ⁽¹⁾ (#)	Performance or Other Period Until Maturity or Payout ⁽²⁾	ESTIMATED FUTURE PAYOUTS UNDER NON-SECURITIES-PRICE-BASED PLANS ⁽³⁾		Settlement Value for 2007 ⁽⁵⁾ (\$)
			Below Threshold ⁽⁴⁾ (\$)	Maximum ⁽⁴⁾ (\$)	
H.N. Kvisle	150,000	25-Feb-12	0	1,015,350	-
	100,000	20-Mar-11	0	766,900	-
	42,500	27-Feb-11	0	325,933	-
	55,000	28-Feb-10	0	470,195	-

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	50,000	01-Feb-10	0	427,450	-
	90,000	01-Sep-09	0	769,410	-
G.A. Lohnes	20,000	25-Feb-12	0	135,380	-
	17,500	27-Feb-11	0	134,208	-
	17,500	28-Feb-10	0	149,608	-
-	0	9-Dec-07	0	214,854	214,854
R.K. Girling	65,000	25-Feb-12	0	439,985	-
	45,000	27-Feb-11	0	345,105	-
	45,000	28-Feb-10	0	384,705	-
	50,000	01-Feb-10	0	427,450	-
	20,000	29-Jul-09	0	170,980	-
	25,000	01-Mar-09	0	213,725	-
	25,000	03-Dec-08	0	213,725	-
	0	09-Dec-07	0	245,556	245,556

Name	ESTIMATED FUTURE PAYOUTS UNDER NON-SECURITIES-PRICE-BASED PLANS(3)				Settlement
	Securities, Units or Other	Performance or Other Period	Below		Value for
	Rights ⁽¹⁾	Until Maturity	Threshold ⁽⁴⁾	Maximum ⁽⁴⁾	2007 ⁽⁵⁾
	(#)	or Payout ⁽²⁾	(\$)	(\$)	(\$)
A.J. Pourbaix	65,000	25-Feb-12	0	439,985	-
	35,000	27-Feb-11	0	268,415	-
	20,000	28-Feb-10	0	170,980	-
	20,000	01-Feb-10	0	170,980	-
	20,000	01-Mar-09	0	170,980	-
D.M. Wishart	17,500	03-Dec-08	0	149,608	-
	30,000	25-Feb-12	0	203,070	-
	35,000	27-Feb-11	0	268,415	-
	20,000	28-Feb-10	0	170,980	-
	20,000	01-Feb-10	0	170,980	-
	20,000	01-Mar-09	0	170,980	-
	0	09-Dec-07	0	245,556	245,556

(1) As no further awards will be made under the Performance Unit Plan, it will be phased out over the remaining life of the outstanding units.

(2) The exercise period for all Performance Unit Plan units commences upon vesting, which is the third anniversary of the grant date, and expires on the tenth anniversary of the grant date, with the exception of the Performance Unit Plan units maturing on February 1, 2010. These units were granted under a one time special performance incentive program which vested on February 22, 2002.

(3) The Committee determined in January 2008 that \$1.36 per outstanding Performance Unit Plan unit would accrue for 2007 in respect of the grants made from December 9, 1997 to February 25, 2002.

(4) The Company is no longer including the Threshold and Target columns since the values reported were equal to the ones noted here in the Maximum column. Once the accrued value is approved by the Committee and assigned to each outstanding Performance Unit Plan unit, no further variance of future value may be applied. However, the plan does provide for a risk of zero value payments from the plan should the exercise provision in the plan not be met.

(5) Values contained in this column are amounts received during the current financial year following the exercise of vested Performance Unit Plan units. A blank (-) denotes that there were no units exercised from the grant. A zero value denotes that all Performance Unit Plan units from the grant were forfeited. When applicable, settlement values are also reported as LTIP Payouts in the Summary Compensation Table, above.

Equity Compensation Plan Tables

2007 Stock Option Plan Grant

The following table outlines the grants made under the Stock Option Plan to each of the Named Executive Officers during the 2007 financial year.

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Name	Date of Grant	% of		Exercise Price (\$/common share) ⁽³⁾	Market Value of Common Shares Underlying Options on the Date of Grant (\$/common share)	Expiration Date
		Number of Common Shares Under Options	Total Options Granted to Employees in 2007 ⁽²⁾			
H.N. Kvisle	22-Feb-07	202,442	18.69%	38.10	38.10	22-Feb-14
G.A. Lohnes	22-Feb-07	35,990	3.32%	38.10	38.10	22-Feb-14
R.K. Girling	22-Feb-07	107,326	9.91%	38.10	38.10	22-Feb-14
A.J. Pourbaix	22-Feb-07	107,326	9.91%	38.10	38.10	22-Feb-14
D.M. Wishart	22-Feb-07	64,267	5.93%	38.10	38.10	22-Feb-14

(1) On each anniversary date of the grant for a period of three years, one-third of these options vest and are exercisable.

(2) Based on total stock options granted on February 22, 2007.

(3) The exercise price is equal to the volume weighted average trading price of common shares on the TSX during the five trading days immediately prior to the grant date of the stock options.

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Aggregate Stock Option Exercises During 2007 and 2007 Year-End Stock Option Values

The following table provides information relating to options exercised and the number or value of options outstanding as at December 31, 2007 for each of the Named Executive Officers.

Name	Common Shares Acquired on Exercise (#)	Aggregate Value Realized (\$)	UNEXERCISED OPTIONS AT DECEMBER 31, 2007		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 2007(1)	
			(#) Exercisable	(#) Unexercisable	(\$) Exercisable	(\$) Unexercisable
H.N. Kvisle	0	0747,500	422,442		11,282,043	1,936,290
G.A. Lohnes	11,000	115,74025,167	85,323		189,157	455,708
R.K. Girling	0	0308,333	253,993		4,346,314	1,286,811
A.J. Pourbaix	0	0200,833	253,993		2,356,139	1,286,811
D.M. Wishart	25,162	358,594210,000	114,267		3,413,068	490,843

(1) The value of unexercised in-the-money stock options at December 31, 2007 is the difference between the exercise price and the closing price of \$40.54 per share of a common share on the TSX on December 31, 2007. The underlying stock options have not been and will not necessarily be exercised and the actual gains, if any, on exercise will depend on the value of common shares on the date of exercise.

Supplemental Disclosure 2008 Stock Option Plan Grants

Decisions regarding stock option grants are made annually by the Human Resources Committee in February prior to the publication of TransCanada's Proxy Circular. Although not a requirement, TransCanada discloses these compensation grants for the Named Executive Officers. The following table outlines the stock option grants under the Stock Option Plan made in 2008.

Name	Date of Grant	Number of Common Shares Under Options Granted(1)	% of Total Options Granted to Employees in 2008(2)	Exercise Price(3) (\$/common share)	Market Value of Common Shares Underlying Options on the Date of Grant(3) (\$/common share)	Expiration Date
H.N. Kvisle	25-Feb-08	167,715	19.24%	39.75	39.75	25-Feb-15
G.A. Lohnes	25-Feb-08	30,608	3.51%	39.75	39.75	25-Feb-15
R.K. Girling	25-Feb-08	83,857	9.62%	39.75	39.75	25-Feb-15
A.J. Pourbaix	25-Feb-08	83,857	9.62%	39.75	39.75	25-Feb-15
D.M. Wishart	25-Feb-08	50,314	5.77%	39.75	39.75	25-Feb-15

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- (1) On each anniversary date of the grant for a period of three years, one-third of these stock options vest and are exercisable.
- (2) Based on total stock options granted in February 25, 2008.
- (3) Equal to the closing market price of common shares on the TSX for the last trading day immediately preceding the award date of the option.

EQUITY COMPENSATION PLAN INFORMATION

Stock Option Plan

The Stock Option Plan is the only compensation plan under which equity securities of TransCanada have been authorized for issuance. Stock options may be granted to such employees of TransCanada as the Human Resources Committee may from time to time determine. Starting in 2005, the Human Resources Committee determined that only executive-level employees will participate in the plan. The following provides key information regarding the Stock Option Plan provisions:

- The plan was first approved by shareholders in 1995;
- As at February 25, 2008, there were approximately:
 - 9,217,941 common shares issuable upon the exercise of outstanding stock options; this represents 1.7% of issued and outstanding common shares;
 - 4,133,117 common shares remaining available for issuance; this represents 0.8% of issued and outstanding common shares;
 - 17,148,942 common shares have been issued upon the exercise of stock options, representing 3.2% of issued and outstanding common shares of the Company; and
- The exercise price for unexercised issued stock options ranges from \$10.03 to \$39.75, with expiry dates ranging from December 3, 2008 to February 25, 2015.

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In addition to the amendments which were disclosed in TransCanada's February 22, 2007 Management Proxy Circular and approved by its shareholders, where applicable, there were two additional amendments to the Stock Option Plan that occurred during 2007 that did not require shareholder approval was not required for the following amendments. First definition of retirement was revised to ensure that the interpretation is consistent with the plan's intent. Second, in order to maintain compliance with U.S. tax law, the definition of exercise price was amended to provide that the exercise price of a stock option be the closing market price of common shares on the TSX for the last trading day immediately preceding the award date of the option. This amendment was approved by the TSX. Related to the amendment of the definition of exercise price ,

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the exercise price of stock options that were granted to United States tax filers on February 22, 2007 was increased retroactively from \$38.10 (the exercise price based on the plan provisions at the time of the grant) to \$38.14 (the closing price of TransCanada's common shares the day of the grant). None of the named Executive Officers are United States tax filers, and as such were not impacted by this exercise price increase.

An amending provision was approved by shareholders at the April 27, 2007 Annual and Special meeting of Shareholders whereby the Human Resources Committee is permitted to amend certain items of the Stock Option Plan without shareholder approval and certain amendments require shareholder approval. Among other things, shareholder approval is required for an increase in the number of shares available for issuance under the plan, lowering the exercise price of a previously granted option, the cancellation and reissue of an option and to extend the expiry date of an option beyond its original expiry date.

Under the terms of the Stock Option Plan, the maximum number of common shares reserved for issuance as stock options to any one participant in any fiscal year cannot exceed 20% of the total number of options granted in that fiscal year and the number of common shares that may be reserved for issuance to insiders, or issued within any one year period, under all of TransCanada's security based compensation arrangements cannot exceed 10% of TransCanada's issued and outstanding common shares. There are no restrictions on the number of stock options that may be granted to insiders, subject to the foregoing limitations. Stock options cannot be transferred or assigned by participants other than a personal representative being permitted to exercise stock options in the case of death of a participant or if a participant is unable to manage his or her affairs.

Stock options granted as of 2003 onward vest as to one-third on each anniversary of the grant date for a period of three years and have a seven year term.

The following table outlines the action currently prescribed for grants under the Stock Option Plan. Unless a stock option expires earlier, as outlined below, stock options expire on the seventh anniversary of the date of the grant:

Event	Action
Resignation	The participant may exercise outstanding vested and exercisable stock options no later than six months after the last day of active employment, after which date all outstanding stock options are forfeited.
Retirement	All outstanding stock options vest and become exercisable as at the date of retirement and the participant may exercise these, and all other vested and exercisable stock options no later than three years past the date of retirement.
Termination without cause	The participant may exercise outstanding vested and exercisable stock options no later than the later of the last day of the notice period and six months after the last day of active employment, after which date all outstanding stock options are forfeited.
Termination for cause	The participant may exercise outstanding vested and exercisable stock options no later than six months after the last day of active employment, after which date all outstanding stock options are forfeited.
Death	All outstanding stock options vest and become exercisable as at the date of death and may be exercised no later than the first anniversary of the date of death.

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Securities Authorized for Issuance under Equity Compensation Plans

The following table outlines the number of common shares to be issued upon the exercise of outstanding stock options under the Stock Option Plan, the weighted average exercise price of the outstanding stock options, and the number of common shares available for future issuance under the Stock Option Plan, all as at December 31, 2007.

Plan Category	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	8,609,320	\$27.32	5,004,850
Equity compensation plans not approved by security holders	Nil	Nil	Nil
TOTAL	8,609,320	\$27.32	5,004,850

PENSION AND RETIREMENT BENEFITS FOR EXECUTIVES**PENSION AND RETIREMENT BENEFITS**

Effective January 1, 2008, TransCanada's Pension Plans have been amended to allow existing and new employees with less than 10 years of service with TransCanada the choice of either participating in the Pension Plans or receiving an annual 7% contribution to a new TransCanada Savings Plan. Participation in the Pension Plans is mandatory at 10 years of service.

Base Pension Plan

All TransCanada Canadian employees participate in the TransCanada Registered Pension Plan, which is now solely a non-contributory defined benefit pension plan.

The normal retirement age under the Registered Pension Plan is age 60 or any age between 55 and 60 where the sum of an employee's age and continuous service equals 85. Employees are eligible to retire prior to their normal retirement date, but the benefit payable is subject to early retirement reduction factors. The defined benefit plan is integrated with Canada Pension Plan benefits. The benefit calculation is:

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1.25% of an employee's Highest Average Earnings(1) **plus** 1.75% of an employee's Highest Average Earnings above the Final Average YMPE(3) **multiplied by** the employee's years of credited service in the Registered Pension Plan (Credited Pensionable Service)

- (1) Highest Average Earnings means the average of an employee's best consecutive 36 months of Pensionable Earnings in the last 15 years before retirement. Pensionable Earnings means an employee's base salary plus actual payments from the Incentive Compensation Program up to a pre-established maximum amount as provided in the plan. Pensionable Earnings do not include overtime, shift and premium differentials or any other forms of compensation.
- (2) Final Average YMPE means the average of the year's maximum pensionable earnings in effect for the latest calendar year from which earnings are included in an employee's highest earnings calculation plus the two previous years.
- (3) YMPE means Year's Maximum Pensionable Earnings under the Canada/Québec Pension Plan.

Registered defined benefit pension plans are subject to a maximum annual benefit accrual under the *Income Tax Act* (Canada), which is currently \$2,333 for each year of Credited Pensionable Service, with the result that benefits cannot be earned in the Registered Pension Plan on compensation above approximately \$146,000 per annum.

Supplemental Pension Plan

All TransCanada employees with pensionable earnings over the *Income Tax Act* (Canada) ceiling of approximately \$146,000, including the Named Executive Officers, participate in the Company's non-contributory defined benefit Supplemental Pension Plan. Approximately 525 TransCanada employees currently participate in the Supplemental Pension Plan.

The Registered Pension Plan and Supplemental Pension Plan were amended at January 1, 2007 to change from an earnings maximum approach, where the earnings are capped each year based on the maximum annual benefit accrual under the *Income Tax Act* (Canada), to a hold harmless approach, where the maximum amount allowable under the *Income Tax Act* (Canada) will

be paid from the Registered Pension Plan and the remainder is paid from the Supplemental Pension Plan. The overall benefit remains the same.

The Supplemental Pension Plan is funded through a retirement compensation arrangement under the *Income Tax Act* (Canada). Subject to the Board's approval, contributions to the fund are based on an annual actuarial valuation of the Supplemental Pension Plan obligations calculated on the basis of the plan terminating at the beginning of each calendar year.

The annual pension benefit under the Supplemental Pension Plan is equal to 1.75% multiplied by the employee's Credited Pensionable Service multiplied by the amount by which such employee's Highest Average Earnings exceed the ceiling imposed under the *Income Tax Act* (Canada) and is recognized under the Registered Pension Plan.

Generally, neither the Registered Pension Plan nor the Supplemental Pension Plan provide for the recognition of past service. However, the Committee may, under the provisions of the Supplemental Pension Plan, at its sole discretion, grant additional years of credited service to executive employees.

Under the Registered Pension Plan and the Supplemental Pension Plan, TransCanada employees, including the Named Executive Officers, will receive the following normal form of pension:

- (a) in respect of credited service prior to January 1, 1990, upon retirement, a monthly pension payable for life with 60% continuing thereafter to the participant's designated joint annuitant; and
- (b) in respect of credited service on and after January 1, 1990, upon retirement, a monthly pension as described in (a) above and, for unmarried participants, a monthly pension payable for life with payments to the participant's estate guaranteed for the balance of 10 years if the participant dies within 10 years of retirement.

In lieu of the normal form of pension, optional forms of pension payment may be chosen provided that any legally required waivers are completed.

The following table sets out the estimated annual defined benefit plan benefits (based on the joint and 60% survivor method) payable for credited service under the Registered Pension Plan and the Supplemental Pension Plan (excluding amounts payable under the Canada Pension Plan) for employees with the following Highest Average Earnings and Credited Pensionable Service. The benefits listed in the table are not subject to any deduction for social security or other offset amounts such as Canada Pension Plan or the Québec Pension Plan.

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Highest Average Earnings	YEARS OF CREDITED PENSIONABLE SERVICE					
	10 Years	15 Years	20 Years	25 Years	30 Years	35 Years
\$ 400,000	\$68,000	\$102,000	\$136,000	\$170,000	\$203,000	\$237,000
600,000	103,000	154,000	206,000	257,000	308,000	360,000
800,000	138,000	207,000	276,000	345,000	413,000	482,000
1,000,000	173,000	259,000	346,000	432,000	518,000	605,000
1,200,000	208,000	312,000	416,000	520,000	623,000	727,000
1,400,000	243,000	364,000	486,000	607,000	728,000	850,000
1,600,000	278,000	417,000	556,000	695,000	833,000	972,000
1,800,000	313,000	469,000	626,000	782,000	938,000	1,095,000
2,000,000	348,000	522,000	696,000	870,000	1,043,000	1,217,000
2,200,000	383,000	574,000	766,000	957,000	1,148,000	1,340,000
2,400,000	418,000	627,000	836,000	1,045,000	1,253,000	1,462,000
2,600,000	453,000	679,000	906,000	1,132,000	1,358,000	1,585,000
2,800,000	488,000	732,000	976,000	1,220,000	1,463,000	1,707,000
3,000,000	523,000	784,000	1,046,000	1,307,000	1,568,000	1,830,000

Based on their current Highest Average Earnings and assuming the Named Executive Officers remain employed by TransCanada until age 60 and that the Registered Pension Plan and Supplemental Pension Plan remain in force substantially in their present form, the Named Executive Officers will have the number of years of credited pensionable service and benefit payable set out below under their names.

	H.N. Kvisle(1)	G.A. Lohnes(2)	R.K. Girling(3)	A.J. Pourbaix(3)	D.M. Wishart
Years of Credited Service to December 31, 2007	16.33	14.33	12.00	12.00	10.59
Accrued Pension at December 31, 2007 and Payable at age 60	\$584,000	\$100,000	\$160,000	\$155,000	\$115,000
Years of Credited Service to age 60	23.16	22.92	26.50	29.58	17.50
Annual Benefit Payable at age 60	\$832,000	\$160,000	\$361,000	\$392,000	\$191,000

(1) In 2002, the Human Resources Committee approved an arrangement with Mr. Kvisle to grant him additional credited pensionable service. The arrangement resulted in him receiving five years of additional credited pensionable service in 2004 on his fifth anniversary date with TransCanada. In addition, for each year after 2004, until and including 2009, Mr. Kvisle will be granted one additional year of credited pensionable service on the date of the anniversary of his employment. All such additional service will not exceed ten additional years of credited pensionable service and is to be recognized solely in the Supplemental Pension Plan with respect to earnings in excess of the maximum set under the *Income Tax Act* (Canada).

(2) Mr. Lohnes continued to accrue credited service in the Canadian Registered Pension Plan and Supplemental Pension Plan while employed in the United States from August 16, 2000 to August 31, 2006. Pensionable earnings were established on the basis that one U.S. dollar is equal to one Canadian dollar, and included both the U.S. Base Salary and actual payments from the Incentive Compensation Program up to a pre-established maximum amount as provided in the plan.

(3) In 2004, the Human Resources Committee also approved arrangements for Mr. Girling and Mr. Pourbaix to obtain additional credited pensionable service. Subject to Mr. Girling and Mr. Pourbaix maintaining continuous employment with TransCanada until September 8, 2007, each received an additional three years of credited pensionable service on that date which are to be recognized solely in the Supplemental Pension Plan with respect to earnings in excess of the maximum set under the *Income Tax Act* (Canada).

Fiscal 2007 Pension Expense Related to Service and Compensation

Amounts reported in the table below represent the pension expense related to services provided in the 2007 year for each of the Named Executive Officers under both the Registered Pension Plan and the Supplemental Pension Plan including the impact of differences between actual compensation paid in 2007 and the actuarial assumptions used for the year.

Name	Fiscal 2007 pension expense related to service and compensation
H.N. Kvisle	\$1,324,000
G.A. Lohnes	\$181,000
R.K. Girling	\$594,000
A.J. Pourbaix	\$575,000
D.M. Wishart	\$467,000

Accrued Pension Obligations

As at December 31, 2007, TransCanada's accrued obligation for the Supplemental Pension Plan was approximately \$208.0 million. The 2007 current service costs and interest costs of the Supplemental Pension Plan were approximately \$5.7 and \$10.0 million, respectively, for a total of \$15.7 million. The accrued pension obligation is calculated following the method prescribed by the Canadian Institute of Chartered Accountants and is based on management's best estimate of future events that affect the cost of pensions, including assumptions about future salary adjustments and bonuses. More information on the accrued obligations and the assumptions utilized may be found in Note 21 (Employee Future Benefits) of the Notes to TransCanada's 2007 Consolidated Financial Statements which are available on the Company's website at www.transcanada.com and filed on SEDAR at www.sedar.com.

The accrued pension obligations for the Named Executive Officers under both the Registered Pension Plan and the Supplemental Pension Plan are outlined in the following table. Changes include the fiscal 2007 expense attributed to service and compensation, as well as the normal increases to pension obligations arising from the annual valuation of the Company's pension plans. The normal increases include interest on the beginning of year obligations and changes in interest rate assumptions as a result of changes in long-term bond yields.

Name	Accrued obligation at December 31, 2006(1) (A)	Change in accrued obligation for 2007(1),(2) (B)	Accrued obligation at December 31, 2007(1) (C) = (A) + (B)
H.N. Kvisle	\$7,537,000	\$1,510,000	\$9,047,000
G.A. Lohnes	\$1,640,000	\$266,000	\$1,906,000
R.K. Girling	\$1,751,000	\$696,000	\$2,447,000
A.J. Pourbaix	\$1,679,000	\$664,000	\$2,343,000
D.M. Wishart	\$1,487,000	\$519,000	\$2,006,000

(1) The calculation of reported amounts use actuarial assumptions and methods that are consistent with those used for calculating pension obligations and annual expense as disclosed in the Company's 2006 and 2007 consolidated financial statements. As the assumptions reflect the Company's best estimate of future events, the values shown in the above table may not be directly comparable to similar estimates of pension obligations that may be disclosed by other corporations.

(2) Excluded from the change in accrued obligation for 2007 is the impact of investment returns on the Company's pension plan assets.

Savings Plan

New or eligible employees that opt out of the Pension Plan and participate in the TransCanada Savings Plan will receive a Company contribution equal to 7% of base salary plus 7% of annual incentive compensation paid up to a set percentage. The Savings Plan offers a selection of mutual funds (RRSP or taxable accounts). Vesting in the plan is immediate and withdrawals from the plan are allowed at any time. Participants in the Savings Plan have the opportunity to re-enter the Pension Plan on an annual basis, but must re-enter the Pension Plan at 10 years of service. Currently no Named Executive Officers with less than ten years of service have elected this option.

EXECUTIVE SEPARATION AGREEMENTS

Executive separation agreements with the Executives (including each of the Named Executive Officers) outline the terms and conditions applicable in the event of the Executive's separation from TransCanada due to retirement, termination (with or without cause), resignation (with or without good reason), disability or death. Good reason is an event which constitutes a constructive dismissal of the Executive. A change of control by itself without an event that constitutes constructive dismissal would not be good reason.

The following table summarizes the material terms and provisions that apply in the event of termination without cause or resignation with good reason.

Severance Payment	Annualized salary rate as of the termination date, plus the average of the previous three years' annual short-term compensation plan payments (the "Annual Compensation"), multiplied by a notice period.
Benefits	Continuation of benefits during the notice period or a cash payment in lieu of continued benefits.
Perquisites	A cash payment for perquisites the Executive would have received during the notice period.
Pension	Continued accrual of pensionable service until the earlier of retirement, death and expiry of the notice period. ⁽²⁾ However, if the termination date is within two years of a change of control, then the Executive would

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immediately receive the credit of pensionable service as though the full notice period has occurred and any vesting requirements under the pension plans would be deemed to have been met upon a change of control.

Short-term Compensation	A cash amount equal to the average amount of the annual bonus paid to the Executive in respect of the three years prior to the year in which the termination occurs, pro-rated based on the number of days of service in the year in which the termination occurs up to the termination date.
Mid-term Compensation	If the termination date is within two years of a change of control, all unvested grants under the Executive Share Unit Plan shall be deemed vested and shall be paid out in cash to the Executive. Otherwise, the Executive is provided with a pro-rated payment. This payment is based on the granted dollar value and the number of months the Executive participated in the grant term prior to termination (as per other plan participants).
Long-term Compensation	The participant may exercise outstanding vested and exercisable stock options no later than the later of the last day of the notice period and six months after the last day of active employment, after which date all outstanding stock options are forfeited. No options vest during the notice period.

(1) In the case of Mr. Kvisle, the President and CEO, the notice period is three years. In the case of the other Executives, the notice period is two years.

(2) For Mr. Kvisle, the President and CEO, Mr. Girling, President Pipelines and Mr. Pourbaix, President Energy, their respective notice periods would also be considered in the calculation of additional credited pensionable service as agreed to in their specific arrangements as described below.

A change of control includes (but is not limited to) another entity becoming the beneficial owner of more than 20% of the voting shares of TransCanada or more than 50% of the voting shares of TCPL (not including the voting shares of TCPL held by TransCanada). A change of control in itself does not trigger any cash payments under the agreements. However, in the month

following the one year anniversary after a change of control, Mr. Kvisle may provide notice of his intention to leave TransCanada and receive all of the entitlements of a resignation for good reason.

The following table summarizes the material terms and provisions provided for all Executives under the executive separation agreements in the event of a change of control.

Mid-term Compensation	If the Executive's termination date is within two years of a change of control, all unvested grants under the Executive Share Unit Plan shall be deemed vested and shall be paid out in cash to the Executive.
Long-term Compensation	Following a change of control, there is an acceleration of stock option vesting under the Stock Option Plan. If for any reason the Company is unable to affect the acceleration of such vesting, the Company will pay the Executive a cash payment. This payment would be equal to the net amount of compensation the Executive would have received if the Executive had, on the date of a change of control, exercised all vested options and unvested options for which vesting would have been accelerated.

The agreements provide that TransCanada may elect to take advantage of a non-competition provision effective for a period of 12 months from the date of termination upon payment to the Executive of an amount valued at one additional year of Annual Compensation.

SUPPLEMENTAL DISCLOSURE TOTAL DIRECT COMPENSATION AWARDS

Annually, the Committee approves compensation awards that deliver market competitive and performance-relevant Total Direct Compensation, which is a combination of base salary and variable incentives, to the Executives. TransCanada also considers the annual value of the Base and Supplemental Pension Plans to be an integral part of the Company's Executive Compensation Program and, as such, the values are provided for reference.

For all tables in this section, the following definitions are applicable for the noted compensation elements:

Annual Base Salary Unless otherwise noted, the annual base salary rate as at April 1st of the noted financial year.

Salary

Cash Bonus The total lump-sum cash award under the Incentive Compensation Program for performance attributable to the noted financial year, and paid in the first quarter following the completion of the financial year.

ESUs The value granted under the Executive Share Unit Plan on the date of grant. The number of units granted for each financial year is based on this grant value and is reported in the various Executive Share Unit Plan Grant tables in the section Long-Term Incentive Plan Tables. The number of units that vest from these grants is subject to specified performance conditions over a three-year period. Payments received from vested units are variable based on the valuation price as of the date of vesting.

Stock Options The stock option values are based on the number of stock options granted for each financial year as reported in the Summary Compensation Table multiplied by an economic value per stock option. A valuation of the economic value of each stock option grant is provided by an external consulting firm. This valuation methodology considers, among other things, the exercise price on the date of grant and the seven year term of the options. This method may not be identical to

the methods or assumptions used by other companies, and as such, may not be directly comparable to other companies.

Annual Pension Expense Pension expense related to the year of service under both the Registered Pension Plan and the Supplemental Pension Plan. The amount includes the impact of differences between actual compensation paid in the financial year and the actuarial assumptions used for that year. The value noted is rounded to the nearest one thousand dollars.

The following tables outline the value of Total Direct Compensation awarded to the Named Executive Officers as determined by the Committee for the last three financial years.

H.N. Kvisle	2007	2006	2005
FIXED	(\$)	(\$)	(\$)
Annual Base Salary	1,200,000	1,100,000	1,100,000
VARIABLE			
Cash Bonus	1,550,000	1,500,000	1,300,000
ESUs	2,378,696	1,917,500	1,940,004
Stock Options	771,304	782,500	360,000
Total Direct Compensation	5,900,000	5,300,000	4,700,004
Annual Pension Expense	1,324,000	713,000	1,604,000
G.A. Lohnes	2007	2006(1)	2005(2)
FIXED	(\$)	(\$)	(\$)
Annual Base Salary	370,000	340,000	272,664
VARIABLE			
Cash Bonus	490,000	320,000	208,240
ESUs	420,000	124,477	131,898
Stock Options	137,122	186,320	45,000
Total Direct Compensation	1,417,122	970,797	657,802
Annual Pension Expense	181,000	626,000	71,583

(1) The value noted for Annual Base Salary reflects Mr. Lohnes' rate of pay as of June 1, 2006 following his appointment to the position of Executive Vice-President and Chief Financial Officer for TransCanada. The value noted for Stock Options reflects the total from two grants, namely \$43,820 from the annual grant in February and \$142,500 from a special one-time grant in June.

(2) These values reflect the compensation Mr. Lohnes was awarded during his tenure as President and Chief Executive Officer of Great Lakes. Mr. Lohnes became President and CEO in August 2000 and during his term, Great Lakes was a pipeline joint venture owned equally by TransCanada and El Paso Corporation. The values denoted were provided to Mr. Lohnes in U.S. dollars (or equivalent value) but are expressed here in Canadian dollars based on the Bank of Canada's average annual exchange of 1.3015 for 2005.

R.K. Girling	2007	2006(1)	2005
FIXED	(\$)	(\$)	(\$)
Annual Base Salary	630,000	520,000	460,000
VARIABLE			

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Cash Bonus	900,000	700,000	500,000
ESUs	1,252,500	618,300	544,965
Stock Options	408,912	566,700	135,000
Total Direct Compensation	3,191,412	2,405,000	1,639,965
Annual Pension Expense	594,000	384,000	158,000

(1) The value noted for Annual Base Salary reflects Mr. Girling's rate of pay as of June 1, 2006 following his appointment to the position of President, Pipelines. The value noted for Stock Options reflects the total from two grants, namely \$281,700 from the annual grant in February and \$285,000 from a special one-time grant in June.

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	2007	2006(1)	2005
	(\$)	(\$)	(\$)
A.J. Pourbaix			
FIXED			
Annual Base Salary	630,000	520,000	450,000
VARIABLE			
Cash Bonus	900,000	700,000	500,000
ESUs	1,252,500	618,300	465,103
Stock Options	408,912	566,700	135,000
Total Direct Compensation	3,191,412	2,405,000	1,550,013
Annual Pension Expense	575,000	393,000	218,000

(1) The value noted for Annual Base Salary reflects Mr. Pourbaix's rate of pay as of June 1, 2006 following his appointment to the position of President, Energy. The value noted for Stock Options reflects the total from two grants, namely \$281,700 from the annual grant in February and \$285,000 from a special one-time grant in June.

	2007	2006	2005
	(\$)	(\$)	(\$)
D.M. Wishart			
FIXED			
Annual Base Salary	500,000	400,000	380,000
VARIABLE			
Cash Bonus	550,000	500,000	400,000
ESUs	750,000	327,850	370,003
Stock Options	244,857	172,150	90,000
Total Direct Compensation	2,044,857	1,400,000	1,240,003
Annual Pension Expense	467,000	154,000	155,000

**Financial
Highlights**

<i>Year ended December 31</i> <i>(millions of dollars)</i>	2007	2006	2005	2004	2003
Income					
Net income applicable to common shares					
Continuing operations	1,210	1,049	1,208	978	801
Discontinued operations		28		52	50
Net income applicable to common shares	1,210	1,077	1,208	1,030	851
Cash Flow					
Funds generated from operations	2,603	2,374	1,950	1,701	1,822
Decrease/(increase) in operating working capital	215	(300)	(48)	28	93
Net cash provided by operations	2,818	2,074	1,902	1,729	1,915
Capital expenditures and acquisitions	5,874	2,042	2,071	2,046	965
Balance Sheet					
Total assets	31,165	26,386	24,113	22,421	20,884
Long-term debt	12,377	10,887	9,640	9,749	9,516
Junior subordinated notes	975				
Common shareholder's equity	9,664	7,618	7,164	6,484	6,044

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MANAGEMENT'S DISCUSSION AND ANALYSIS 3

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The Management's Discussion and Analysis (MD&A) dated February 25, 2008 should be read in conjunction with the audited Consolidated Financial Statements of TransCanada PipeLines Limited (TCPL or the Company) and the notes thereto for the year ended December 31, 2007. This MD&A covers TCPL's financial position and operations as at and for the year ended December 31, 2007. Amounts are stated in Canadian dollars unless otherwise indicated. Abbreviations and acronyms used in this MD&A are identified in the Glossary of Terms in the Company's 2007 Annual Report.

TCPL OVERVIEW

With more than 50 years experience, TCPL is a leader in the responsible development and reliable operation of North American energy infrastructure, including natural gas pipelines, power generation, natural gas storage facilities and projects related to oil pipelines and liquefied natural gas (LNG) facilities. TCPL's network of wholly owned natural gas pipelines extends more than 59,000 kilometres (km), tapping into virtually all major gas supply basins in North America. TCPL is one of the continent's largest providers of natural gas storage and related services with approximately 355 billion cubic feet (Bcf) of natural gas storage capacity. A growing independent power producer, TCPL owns, or has interests in, approximately 7,700 megawatts (MW) of power generation in Canada and the United States (U.S.).

In addition to having total assets in excess of \$30 billion, TCPL plans to invest approximately \$10 billion in a number of energy infrastructure projects in North America, with the expectation that a majority of these projects will be completed by 2010. Over the longer-term, TCPL has a significant portfolio of large-scale infrastructure opportunities that will continue to be pursued and developed.

North America's demand for natural gas, oil and electricity is expected to continue to grow. By 2020, it is expected that demand for natural gas will grow by 15 billion cubic feet per day (Bcf/d), demand for crude oil will increase by 3 million barrels per day (Bbl/d) and demand for power will grow by 155 gigawatts.

Demand for natural gas in North America is expected to increase due primarily to a growing demand for electricity. The long lead times required to complete new coal and nuclear projects could slow the development and completion of new coal or nuclear generation facilities over the next five to ten years. As a result, North America is expected to continue to rely on natural gas-fired generation to satisfy a large portion of its growing electricity needs. North America has entered a period when it will no longer be able to rely solely on traditional sources of natural gas supply to meet its growing needs. This outlook for traditional sources of natural gas means that northern gas and offshore LNG could be required to fill the shortfall between supply and demand for natural gas. TCPL is well positioned to capture related opportunities in natural gas transmission, LNG infrastructure and power generation.

TCPL is also expanding into the crude oil transmission business with the development of a 590,000 Bbl/d crude oil pipeline from Hardisty, Alberta to refineries in U.S. midwest markets. TCPL has partnered with ConocoPhillips, a global, integrated oil and gas producer and refiner to construct the Keystone oil pipeline to transport crude oil from Alberta to refineries in Illinois and Oklahoma. The partnership provides TCPL with a platform for developing future crude oil pipeline opportunities. Significant oilsands development in Alberta is providing opportunities for new crude oil transmission infrastructure.

TCPL has the financial strength and flexibility to build new infrastructure to support increased energy demand, to respond to shifting energy supply-demand dynamics and to replace aging North American infrastructure.

Pipelines Assets

TCPL's natural gas pipeline assets link gas supplies from basins in Western Canada, the U.S. mid-continent and Gulf of Mexico to premium North American markets. These assets are well-positioned to connect emerging natural gas supplies, including northern gas and offshore LNG imports, to growing markets. With increasing production from the oilsands in Alberta and growing demand for secure, reliable sources of energy, TCPL has identified opportunities to develop oil pipeline capacity.

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TCPL's Alberta System gathered 68 per cent of the natural gas produced in Western Canada or 16 per cent of total North American production in 2007. TCPL exports natural gas from the Western Canada Sedimentary Basin (WCSB) to Eastern Canada and the U.S. West, Midwest and Northeast through three wholly owned pipeline systems: the Canadian Mainline, the GTN System and Foothills Pipe Lines Ltd. (Foothills).

American Natural Resources Company and ANR Storage Company (collectively, ANR) were acquired in February 2007. ANR Pipeline Company (ANR Pipeline), a subsidiary of American Natural Resources Company, transports natural gas from producing fields located primarily in Oklahoma, Texas, Louisiana and the Gulf of Mexico to markets located primarily in Wisconsin, Michigan, Illinois, Ohio and Indiana. ANR Pipeline also connects with numerous other natural gas pipelines, providing customers with access to diverse sources of North American supply, including Western Canada and the Rocky Mountain region, and access to a variety of end-user markets in the midwestern and northeastern U.S.

As a result of the ANR acquisition, TCPL owns and operates approximately 235 Bcf of regulated natural gas storage capacity in Michigan, making it one of North America's largest gas storage operators.

TCPL also exports natural gas from the WCSB to Eastern Canada and to the U.S. West, Midwest and Northeast through six partially owned natural gas pipeline systems: Great Lakes Transmission Limited Partnership (Great Lakes), Iroquois Gas Transmission System, L.P. (Iroquois), Portland Natural Gas Transmission System (Portland), Trans Québec & Maritimes System (TQM), Northern Border Pipeline Company (Northern Border) and Tuscarora Gas Transmission Company (Tuscarora). Certain of these pipeline systems are held through the Company's 32.1 per cent interest in TC PipeLines, LP (PipeLines LP).

The Company also transports natural gas through the wholly owned TransCanada Pipeline Ventures Limited Partnership (Ventures LP) pipeline in Alberta, North Baja pipeline in the U.S. and Tamazunchale pipeline in Mexico, as well as the partially owned TransGas de Occidente S.A. (TransGas) pipeline in Columbia and Gasoducto del Pacifico S.A. (Gas Pacifico) pipeline in Argentina.

In addition, the Company has a 50 per cent ownership interest in each of TransCanada Keystone Pipeline Limited Partnership (Keystone Canada) and TransCanada Keystone Pipeline LP (Keystone U.S.), (collectively Keystone). Currently beginning its construction phase, Keystone will transport crude oil from Hardisty, Alberta, to U.S. Midwest markets at Wood River and Patoka in Illinois, and to Cushing, Oklahoma.

Energy Assets

TCPL has built a substantial energy business over the past decade and has achieved a significant presence in power generation in selected regions of Canada and the U.S. TCPL owns, or has rights or interests in, approximately 7,700 MW of power generation in Canada and the U.S. These assets are primarily low-cost, base-load generation and/or are assets backed by secure, long-term power sales agreements. More recently, TCPL has also developed a significant non-regulated natural gas storage business in Alberta.

The Company's power assets are concentrated in two main regions: Western Power in Alberta and Eastern Power in the Eastern Canada and New England markets. TCPL's portfolio of power supply is shown in the accompanying chart.

All of TCPL's non-regulated natural gas storage assets are located in Alberta. TCPL owns or has rights to 120 Bcf or approximately one-third of the natural gas storage capacity in the province.

Opportunities and developments in the Company's Pipelines and Energy businesses are discussed further in the "Pipelines" and "Energy" sections of this MD&A.

TCPL'S STRATEGY

TCPL's vision is to be the leading energy infrastructure company in North America, with a strong focus on pipelines and power generation opportunities located in regions where the Company enjoys significant competitive advantages. Since 2000, TCPL's key strategies have evolved with the Company's progression and the changing business environment. Today, TCPL's corporate strategy consists of the following six components:

Maximize the long-term value of the Company's natural gas transmission business;

Grow the North American pipeline and related infrastructure business;

Maximize the long-term value of existing power generation and power marketing and related businesses;

Grow North American power and energy businesses;

Drive for operational excellence; and

Maximize TCPL's competitive strength and enduring value.

Maximize the long-term value of the Company's natural gas transmission business

TCPL continues to place a priority on maximizing the long-term value of its natural gas transmission business. There is a strong focus on connecting supply with markets through expansions, extensions, acquisitions and strategic relationships. The Company also aims to offer competitive rates and services to meet stakeholder needs and enhance the value of its natural gas pipeline assets.

Grow the North American pipeline and related infrastructure business

TCPL is pursuing the development of greenfield and brownfield pipeline projects to grow its North American pipeline and related infrastructure business. These include frontier natural gas pipeline projects such as the Mackenzie Gas Pipeline (MGP) and the Alaska Pipeline as well as crude oil pipeline projects to meet the growing demand for transportation of Alberta oilsands production.

Other possible avenues of growth include:

Acquiring synergistic natural gas transmission assets that complement TCPL's existing core regions;

Acquiring partners' interests in associated pipelines to enhance strategic control, profitability and value; and

Acquiring stand-alone gas transmission enterprises in new regions of North America where critical mass and solid competitive advantage can be established.

The Company is also pursuing the development of natural gas pipeline infrastructure and associated LNG regasification terminals in Mexico and aims to grow pipeline earnings from PipeLines LP through acquisitions and organic growth.

Maximize the long-term value of existing power generation and power marketing and related businesses

TCPL aims to maximize the long-term value of existing power generation and power marketing and related businesses, such as unregulated natural gas storage. The Company's approach involves engaging in marketing activities guided by strategic criteria and defined risk boundaries that optimize the value of owned assets, as well as exercising disciplined asset management and being actively involved in regulatory and market developments.

Grow North American power and energy businesses

The Company is focusing primarily on the core western and eastern regions to grow its North American power and energy businesses. Consideration will be given to new markets with attractive fundamentals where TCPL can take advantage of its competencies to enhance its competitive strengths. There is a continued focus on low-cost, base-load power assets or assets backed by firm long-term contracts with reputable counterparties. The Company is also pursuing the development of LNG regasification terminals and associated natural gas pipeline infrastructure terminals to feed TCPL's gas transmission grids in Eastern Canada and the U.S. Northeast, Pacific Northwest, and Gulf of Mexico. Greenfield development and acquisition of power generation, transmission and natural gas storage will be considered if they meet the Company's rigorous strategic and value creation criteria.

6 MANAGEMENT'S DISCUSSION AND ANALYSIS

Drive for operational excellence

TCPL maintains a commitment to provide safe, low-cost, reliable and responsible service to customers under its operational excellence business model. The Company will continue to focus efforts in this critical area on efficiencies, operational reliability, the environment and safety.

Maximize TCPL's competitive strength and enduring value

In addition to the strategies discussed above, a number of other initiatives are being pursued in order to maximize TCPL's competitive strength and enduring value. These include:

Managing relationships with key stakeholder groups;

Managing counterparty and commodity exposures within the Company's limits;

Maintaining high standards in corporate governance practices;

Enhancing strategic thinking, analysis and constructive debate that lead to astute investment decision-making;

Attracting, retaining and engaging employees to maximize performance; and

Maintaining access to abundant, low-cost capital in all market environments.

CONSOLIDATED FINANCIAL REVIEW**SELECTED THREE-YEAR CONSOLIDATED FINANCIAL DATA⁽¹⁾**

(millions of dollars, except per share amounts)

	2007	2006	2005
Income Statement			
Revenues	8,828	7,520	6,124
Net income applicable to common shares			
Continuing operations	1,210	1,049	1,208
Discontinued operations		28	
	1,210	1,077	1,208
Comparable earnings ⁽²⁾	1,094	923	838
Per Common Share Data			
Net income – basic and diluted			
Continuing operations	\$2.28	\$2.17	\$2.50
Discontinued operations		0.06	
	\$2.28	\$2.23	\$2.50

Summarized Cash Flow

Funds generated from operations ⁽²⁾	2,603	2,374	1,950
Decrease/(increase) in operating working capital	215	(300)	(48)
<hr/>			
Net cash provided by operations	2,818	2,074	1,902
<hr/>			

Balance Sheet

Total assets	31,165	26,386	24,113
Total long-term liabilities	17,832	15,014	13,012
<hr/>			

(1) The selected three-year consolidated financial data is based on the Company's financial statements which are prepared in accordance with Canadian generally accepted accounting principles (GAAP).

(2) Refer to the "Non-GAAP Measures" section of this MD&A for further discussion of comparable earnings and funds generated from operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS 7

HIGHLIGHTS

Net Income

Net income applicable to common shares and net income applicable to common shares from continuing operations (net earnings) was \$1,210 million in 2007 compared to net income applicable to common shares of \$1,077 million and net earnings of \$1,049 million in 2006.

Comparable Earnings

TCPL's comparable earnings in 2007 excluded favourable income tax adjustments of \$102 million and a gain of \$14 million on sale of land. Comparable earnings increased \$171 million to \$1,094 million in 2007 compared to \$923 million in 2006.

Cash from Operations

Net cash provided by operations was \$2,818 million in 2007, an increase of \$744 million from 2006.

Funds generated from operations were \$2,603 million in 2007, an increase of \$229 million from 2006, due primarily to increased earnings.

Investing Activities

TCPL invested approximately \$5.9 billion in its Pipelines and Energy businesses in 2007, comprised primarily of the following:

The Company completed the acquisition, in February 2007, of ANR and acquired an additional 3.6 per cent interest in Great Lakes for a total of US\$3.4 billion, subject to certain post-closing adjustments, including US\$491 million of assumed long-term debt. The additional interest in Great Lakes increased TCPL's direct ownership to 53.6 per cent.

PipeLines LP completed its acquisition in February 2007 of a 46.4 per cent interest in Great Lakes for US\$942 million, subject to certain post-closing adjustments, including US\$209 million of assumed long-term debt.

Financing Activities

TCPL issued approximately \$2.6 billion of Long-Term Debt, US\$1.0 billion of Junior Subordinated Notes and approximately \$1.8 billion of Common Shares in 2007, comprised primarily of:

TCPL issued US\$1.0 billion of Senior Unsecured Notes in October 2007.

The Company entered into an agreement in February 2007 for a US\$1.0-billion committed five-year term and revolving credit facility.

PipeLines LP increased the size of its revolving credit and term loan to US\$950 million from US\$410 million in February 2007.

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TCPL issued US\$1.0 billion of Junior Subordinated Notes in April 2007.

The issue of 48.2 million common shares to TransCanada Corporation (TransCanada) in first-quarter 2007, resulted in gross proceeds of approximately \$1.8 billion.

PipeLines LP completed a private placement offering in February 2007 of 17.4 million common units at a price of US\$34.57 per unit for gross proceeds of US\$600 million. TCPL acquired 50 per cent of the units for US\$300 million and made an additional investment of approximately US\$12 million to maintain its general partner interest, increasing its total ownership to 32.1 per cent from 13.4 per cent.

The Company redeemed US\$460 million of preferred securities in July 2007.

Balance Sheet

Total assets increased by \$4.8 billion to \$31.2 billion in 2007 compared with 2006, due primarily to the ANR and Great Lakes acquisitions.

TCPL's Shareholder's Equity increased by \$2.0 billion to \$10.1 billion in 2007 compared with the previous year.

8 MANAGEMENT'S DISCUSSION AND ANALYSIS

Dividend

On January 28, 2008, TCPL's Board of Directors declared a quarterly dividend for the quarter ending March 31, 2008 in an aggregate amount equal to the quarterly dividend to be paid on TransCanada's issued and outstanding common shares at the close of business on March 31, 2008. The Board also declared regular dividends on TCPL's preferred shares.

Refer to "Results of Operations" below and to the "Liquidity and Capital Resources" section of this MD&A for further discussion of these highlights.

RESULTS OF OPERATIONS

Net income applicable to common shares was \$1,210 million in 2007 compared to \$1,077 million in 2006 and \$1,208 million in 2005. Results in 2006 included net income from discontinued operations of \$28 million, reflecting bankruptcy settlements with Mirant Corporation and certain of its subsidiaries (Mirant) related to their transactions with TCPL's Gas Marketing business. TCPL divested its Gas Marketing business in 2001.

Net earnings were \$1,210 million in 2007 compared to \$1,049 million in 2006 and \$1,208 million in 2005. Net earnings in 2007 included \$102 million of favourable income tax adjustments and an after-tax gain of \$14 million on the sale of land. Net earnings in 2006 included \$95 million of favourable income tax adjustments, an \$18-million after-tax bankruptcy settlement with Mirant and an after-tax gain of \$13 million from the sale of TCPL's general partner interest in Northern Border Partners, L.P. Net earnings of \$1,208 million in 2005 included after-tax gains of \$193 million on the sale of the Company's interest in TransCanada Power, L.P. (Power LP), \$115 million on the sale of the Company's interest in P.T. Paiton Energy Company (Paiton Energy), \$49 million on the sale of PipeLines LP units, and \$13 million arising from a Canadian Mainline tolls settlement adjustment related to 2004 earnings.

Excluding the above-noted items, comparable earnings for the years 2007, 2006 and 2005 were \$1,094 million, \$923 million and \$838 million, respectively. Comparable earnings in 2007 increased \$171 million compared to 2006 due primarily to additional earnings from the acquisition of ANR in February 2007 and the first full year of earnings from the Bécancour cogeneration plant and the Edson gas storage facility as well as positive impacts from rate case settlements for the GTN System and the Canadian Mainline. These increases were partially offset by a lower contribution by Bruce Power A L.P. (Bruce A) and Bruce Power L.P. (Bruce B) (collectively, Bruce Power) in 2007.

Comparable earnings increased \$85 million in 2006 compared to 2005. The increase was due primarily to significantly higher operating income from Western Power, Eastern Power and the Company's investment in Bruce Power. The higher operating income was partially offset by decreased Pipelines results as net earnings from the Canadian Mainline and the Alberta System declined due to lower approved rates of return on common equity (ROE) and lower average investment bases in 2006. In addition, the Company's Other Pipelines businesses and the GTN System and North Baja (collectively, GTN) experienced lower earnings in 2006.

Results from each business segment are discussed further in the "Pipelines", "Energy" and "Corporate" sections of this MD&A.

FORWARD-LOOKING INFORMATION

This MD&A may contain certain information that is forward-looking and is subject to important risks and uncertainties. The words "anticipate", "expect", "believe", "may", "should", "estimate", "project", "outlook", "forecast" or other similar words are used to identify such forward looking information. All forward-looking statements reflect TCPL's beliefs and assumptions based on information available at the time the statements were made. Actual results or events may differ from those predicted in these forward-looking statements. Factors that could cause actual results or events to differ materially from current expectations include, among other things, the ability of TCPL to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits, the operating performance of

the Company's pipeline and energy assets, the availability and price of energy commodities, regulatory processes and decisions, changes in environmental and other laws and regulations, competitive factors in the pipeline and energy industry sectors, construction and completion of capital projects, labour, equipment and material costs, access to capital markets, interest and currency exchange rates, technological developments and the current economic conditions in North America. By its nature, forward-looking information is subject to various risks and uncertainties, which could cause TCPL's actual results and experience to differ materially from the anticipated results or expectations expressed. Additional information on these and other factors is available in the reports filed by TCPL with Canadian securities regulators and with the U.S. Securities and Exchange Commission (SEC). Readers are cautioned to not place undue reliance on this forward-looking information, which is given as of the date it is expressed in this MD&A or otherwise, and to not use future-oriented information or financial outlooks for anything other than their intended purpose. TCPL undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

NON-GAAP MEASURES

TCPL uses the measures "comparable earnings", "funds generated from operations" and "operating income" in this MD&A. These measures do not have any standardized meaning prescribed by GAAP. They are, therefore, considered to be non-GAAP measures and are unlikely to be comparable to similar measures presented by other entities. Management of TCPL uses non-GAAP measures to increase its ability to compare financial results between reporting periods and to enhance its understanding of operating performance, liquidity and ability to generate funds to finance operations. Non-GAAP measures are also provided to readers as additional information on TCPL's operating performance, liquidity and ability to generate funds to finance operations.

Comparable earnings comprise net earnings adjusted for specific items that are significant but not typical of the Company's operations. Specific items are subjective, however, management uses its best judgement and informed decision-making when identifying items to be excluded in calculating comparable earnings. Specific items may include but are not limited to certain income tax refunds and adjustments, gains or losses on sales of assets, legal settlements, and bankruptcy settlements with former customers. The table in the "Segment Results-at-a-Glance" section of this MD&A presents a reconciliation of comparable earnings to net income.

Funds Generated from Operations comprises net cash provided by operations before changes in operating working capital. A reconciliation of funds generated from operations to net cash provided by operations is presented in the "Liquidity and Capital Resources" section of this MD&A.

Operating Income is reported in the Company's Energy business segment and comprises revenues less operating expenses as shown on the consolidated income statement. A reconciliation of operating income to net earnings is presented in the Energy section of this MD&A.

OUTLOOK

The Company's net earnings and cash flow, combined with a strong balance sheet, are expected to continue to provide the financial flexibility TCPL will need in 2008 and beyond to complete its current capital expenditure program and continue to pursue opportunities and create additional long-term value for its shareholder.

TCPL views diligence and discipline as important elements of its strategy for long-term growth in its Pipelines and Energy businesses. In 2008, the Company will continue to implement its strategy and grow its Pipelines and Energy businesses as discussed in the "TCPL's Strategy" section of this MD&A.

The Company's results in 2008 may be affected positively or negatively by a number of factors and developments as discussed throughout this MD&A, including in the "Forward-Looking Information" section. Refer to the "Pipelines Outlook", "Energy Outlook" and "Corporate Outlook" sections of this MD&A for further discussion regarding outlook.

10 MANAGEMENT'S DISCUSSION AND ANALYSIS

SEGMENT RESULTS-AT-A-GLANCE**Reconciliation of Comparable Earnings to Net Income
Applicable to Common Shares**

Year ended December 31

(millions of dollars except per share amounts)

	2007	2006	2005
Pipelines			
Comparable earnings	686	529	617
Specific items:			
Bankruptcy settlement with Mirant		18	
Gain on sale of Northern Border Partners, L.P. interest		13	
Gain on sale of PipeLines LP units			49
Canadian Mainline NEB decision related to 2004			13
Net earnings	686	560	679
Energy			
Comparable earnings	466	429	258
Specific items:			
Income tax reassessments and adjustments	34	23	
Gain on sale of land	14		
Gain on sale of Power LP units			193
Gain on sale of Paiton Energy			115
Net earnings	514	452	566
Corporate			
Comparable expenses	(58)	(35)	(37)
Specific item:			
Income tax reassessments and adjustments	68	72	
Net earnings	10	37	(37)
Net Income Applicable to Common Shares			
Continuing operations ⁽¹⁾	1,210	1,049	1,208
Discontinued operations		28	
Net Income Applicable to Common Shares	1,210	1,077	1,208
Comparable Earnings⁽¹⁾	1,094	923	838
Net Income per Common Share			
Continuing operations	\$2.28	\$2.17	\$2.50
Discontinued operations		0.06	
Basic	\$2.28	\$2.23	\$2.50
⁽¹⁾ Comparable Earnings	1,094	923	838

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Specific items (net of tax, where applicable):

Income tax reassessments and adjustments	102	95	
Gain on sale of land	14		
Bankruptcy settlement with Mirant		18	
Gain on sale of Northern Border Partners, L.P. interest		13	
Gain on sale of Power LP units			193
Gain on sale of Paiton Energy			115
Gain on sale of PipeLines LP units			49
Canadian Mainline NEB decision related to 2004			13

Net Income from Continuing Operations	1,210	1,049	1,208
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MANAGEMENT'S DISCUSSION AND ANALYSIS 11

CANADIAN MAINLINE Owned 100 per cent by TCPL, the Canadian Mainline is a 14,957-km natural gas transmission system in Canada that extends from the Alberta/Saskatchewan border east to the Québec/Vermont border and connects with other natural gas pipelines in Canada and the U.S.

ALBERTA SYSTEM Owned 100 per cent by TCPL, the Alberta System is a 23,570-km natural gas transmission system in Alberta. One of the largest transmission systems in North America, it gathers natural gas for use within the province and delivers it to provincial boundary points for connection with the Company's Canadian Mainline and Foothills natural gas pipelines as well as the natural gas pipelines of other companies.

12 MANAGEMENT'S DISCUSSION AND ANALYSIS

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ANR Owned 100 per cent by TCPL, the 17,000-km ANR transmission system transports natural gas from producing fields located primarily in Texas and Oklahoma on its southwest leg and in the Gulf of Mexico and Louisiana on its southeast leg. The system extends to markets located mainly in Wisconsin, Michigan, Illinois, Ohio and Indiana. ANR's natural gas pipeline also connects with other natural gas pipelines to give access to diverse sources of North American supply including Western Canada and the Rocky Mountain supply basin, and a variety of markets in the midwestern and northeastern U.S. ANR also owns and operates regulated underground natural gas storage facilities in Michigan with a total capacity of approximately 235 Bcf.

GTN SYSTEM Owned 100 per cent by TCPL, the GTN System is a 2,174-km natural gas transmission system that links Foothills with Pacific Gas and Electric Company's California Gas Transmission System, with Williams Companies Inc.'s Northwest Pipeline in Washington and Oregon, and with Tuscarora.

FOOTHILLS Owned 100 per cent by TCPL, the 1,241 km Foothills transmission system in Western Canada carries natural gas for export from central Alberta to the U.S. border to serve markets in the U.S. Midwest, Pacific Northwest, California and Nevada. TCPL's BC System was integrated into Foothills effective April 1, 2007.

NORTH BAJA Owned 100 per cent by TCPL, the North Baja natural gas transmission system extends 129 km from Ehrenberg in southwestern Arizona to a point near Ogilby, California on the California/Mexico border and connects with the Gasoducto Bajanorte natural gas pipeline system in Mexico.

GREAT LAKES Owned 53.6 per cent by TCPL and 46.4 per cent by PipeLines LP, the 3,404-km Great Lakes natural gas transmission system connects with the Canadian Mainline at Emerson, Manitoba, and serves markets in Central Canada and the midwestern U.S. TCPL operates Great Lakes and effectively owns 68.5 per cent of the system through its 53.6 per cent direct ownership interest and its indirect ownership through its 32.1 per cent interest in PipeLines LP.

NORTHERN BORDER Owned 50 per cent by PipeLines LP, the 2,250-km Northern Border natural gas transmission system serves the U.S. Midwest from a connection with Foothills near Monchy, Saskatchewan. TCPL operates Northern Border and effectively owns 16.1 per cent of the system through its 32.1 per cent interest in PipeLines LP.

TUSCARORA Owned 100 per cent by PipeLines LP, Tuscarora is a 491-km pipeline system transporting natural gas from the GTN System at Malin, Oregon, to Wadsworth, Nevada, with delivery points in northeastern California and northwestern Nevada. TCPL operates Tuscarora and its 32.1 per cent interest in PipeLines LP gives TCPL a 32.1 per cent ownership interest in the system.

IROQUOIS Owned 44.5 per cent by TCPL, the 666-km Iroquois pipeline system connects with the Canadian Mainline near Waddington, New York, and delivers natural gas to customers in the northeastern U.S.

TRANSGAS Owned 46.5 per cent by TCPL, TransGas is a 344-km natural gas pipeline system extending from Mariquita in the central region of Colombia to Cali in southwestern Colombia.

PORTLAND Owned 61.7 per cent by TCPL, Portland is a 474-km pipeline that connects with TQM near East Hereford, Québec and delivers natural gas to customers in the northeastern U.S. Portland is operated by TCPL.

VENTURES LP Owned 100 per cent by TCPL, Ventures LP has a 121-km pipeline and related facilities that supply natural gas to the oilsands region of northern Alberta as well as a 27-km pipeline that supplies natural gas to a petrochemical complex at Joffre, Alberta.

TAMAZUNCHALE Owned 100 per cent by TCPL, the 130-km Tamazunchale natural gas pipeline in east central Mexico extends from the facilities of Pemex Gas near Naranjos, Veracruz, to an electricity generating station near Tamazunchale, San Luis Potosi. Tamazunchale went into service on December 1, 2006.

TQM Owned 50 per cent by TCPL, TQM is a 572-km pipeline system that connects with the Canadian Mainline and transports natural gas from Montréal to Québec City in Québec, and connects with the Portland system. TQM is operated by TCPL.

GAS PACIFICO/INNERGY Owned 30 per cent by TCPL, Gas Pacifico is a 540-km natural gas pipeline extending from Loma de la Lata, Argentina to Concepción, Chile. TCPL also has a 30 per cent ownership interest in INNERGY, an industrial natural gas marketing company based in Concepción that markets natural gas transported on Gas Pacifico.

KEYSTONE Owned 50 per cent by TCPL, Keystone is a 3,456-km oil pipeline project under construction that is expected to transport crude oil from Hardisty, Alberta to U.S. midwest markets at Wood River and Patoka in Illinois, and to Cushing, Oklahoma.

PIPELINES HIGHLIGHTS

Net Earnings

Net earnings from Pipelines were \$686 million in 2007, an increase of \$126 million from \$560 million in 2006. The growth was due primarily to the acquisitions of ANR and additional interest in Great Lakes, higher earnings as a result of the Canadian Mainline and GTN System rate settlements, and an increased ownership interest in PipeLines LP.

Expanding Asset Base

TCPL expanded its North American natural gas pipeline and storage operations through its US\$3.4-billion acquisitions of ANR and additional interest in Great Lakes in 2007.

At December 31, 2007, TCPL has secured sufficient long-term contracts to underpin construction of the US\$5.2-billion Keystone oil pipeline, including an extension to Cushing, Oklahoma, in which the Company holds a 50 per cent ownership interest.

TCPL applied to the Alberta Energy and Utilities Board (EUB) in late 2007 for approval to further expand its Alberta System by adding 300 km of natural gas pipeline at an estimated total capital cost of \$983 million.

TCPL received approval from the EUB in 2007 to construct four new natural gas transmission facilities to serve the firm intra-Alberta delivery contract requirements of oilsands developers in the Fort McMurray, Alberta area. The capital cost of the four pipeline facilities, which total 150 km, together with a 15-MW compression facility, is expected to be \$367 million.

Canadian Mainline

The National Energy Board (NEB) approved a negotiated five-year settlement of Canadian Mainline tolls, which included a deemed common equity ratio of 40 per cent and certain performance-based and operating, maintenance and administration (OM&A) cost-saving incentive arrangements.

Alberta System

The Alberta System operated under the terms of the 2005-2007 Revenue Requirement Settlement in 2007 and is currently negotiating a settlement with stakeholders for 2008.

GTN System

The Federal Energy Regulatory Commission (FERC) approved in January 2008 the GTN System's uncontested rate case settlement. Under the settlement, the GTN System's rates increased by approximately 27 per cent, effective January 1, 2007.

Foothills

After receiving NEB approval, the BC System was integrated into Foothills effective April 1, 2007.

Other Pipelines

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TCPL acquired approximately eight million units of PipeLines LP in February 2007, increasing the Company's ownership interest to 32.1 per cent. Through its increased ownership interest in PipeLines LP, TCPL increased its effective ownership in Great Lakes to 68.5 per cent.

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PIPELINES RESULTS-AT-A-GLANCEYear ended December 31 (*millions of dollars*)

	2007	2006	2005
Wholly Owned Pipelines			
Canadian Mainline	273	239	270
Alberta System	138	136	150
ANR ⁽¹⁾	104		
GTN	58	46	71
Foothills ⁽²⁾	26	27	27
	599	448	518
Other Pipelines			
Great Lakes ⁽³⁾	47	44	46
PipeLines LP ⁽⁴⁾	18	4	9
Iroquois	15	15	17
TransGas	15	11	11
Portland	11	13	11
Ventures LP	11	12	12
Tamazunchale ⁽⁵⁾	10	2	
TQM	6	7	7
Gas Pacifico/INNERGY ⁽⁶⁾	3	8	6
Northern Development	(7)	(5)	(4)
General, administrative, support costs and other	(42)	(30)	(16)
	87	81	99
Comparable earnings ⁽⁷⁾	686	529	617
Bankruptcy settlement with Mirant		18	
Gain on sale of Northern Border Partners, L.P. interest		13	
Gain on sale of PipeLines LP units			49
Canadian Mainline NEB decision related to 2004			13
Net earnings	686	560	679

(1) ANR was acquired February 22, 2007.

(2) Foothills' results reflect the combined operations of Foothills and the BC System.

(3) Great Lakes' results reflect TCPL's 53.6 per cent ownership in Great Lakes since February 22, 2007, and 50 per cent ownership prior to this date.

(4) PipeLines LP's results include a 46.4 per cent ownership interest in Great Lakes since February 22, 2007, as well as an additional 20 per cent ownership of Northern Border since April 6, 2006, and an additional 49 per cent ownership of Tuscarora since December 19, 2006. PipeLines LP's results also reflect TCPL's 32.1 per cent ownership since February 22, 2007.

(5) Tamazunchale's results include operations since December 1, 2006.

(6) INNERGY Holdings S.A.

(7) Refer to the "Non-GAAP Measures" section of this MD&A for further discussion of comparable earnings.

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Net earnings from the Pipelines business were \$686 million in 2007 compared to \$560 million in 2006 and \$679 million in 2005. Net earnings in 2006 included the \$18-million bankruptcy settlement with Mirant and the \$13-million gain on sale of TCPL's general partner interest in Northern Border Partners, L.P. Net earnings in 2005 included the \$49-million gain on sale of PipeLines LP units. Net earnings in 2005 also included a \$13-million positive adjustment related to 2004 as a result of the NEB's decision in 2005 to increase the deemed common equity ratio to 36 per cent from 33 per cent under the Canadian Mainline's 2004 Tolls and Tariff Application (Phase II).

Comparable earnings from the Pipelines business were \$686 million in 2007, an increase of \$157 million compared to \$529 million in 2006. The increase was due primarily to the acquisitions of ANR and additional interest in Great Lakes, higher earnings as a result of the Canadian Mainline and GTN System rate settlements and an increased ownership in PipeLines LP.

Comparable earnings decreased \$88 million to \$529 million in 2006 compared to \$617 million in 2005. The decline was due primarily to lower net earnings from the Canadian Mainline, the Alberta System, GTN and Other Pipelines.

PIPELINES FINANCIAL ANALYSIS

Canadian Mainline

The Canadian Mainline is regulated by the NEB. The NEB sets tolls that provide TCPL with the opportunity to recover its projected costs of transporting natural gas, including a return on the Canadian Mainline's average investment base. The NEB also approves new facilities before their construction begins. Net earnings of the Canadian Mainline are affected by changes in the investment base, the ROE, the level of deemed common equity and potential incentive earnings.

In February 2007, TCPL reached a five-year tolls settlement effective January 1, 2007 to December 31, 2011 on the Canadian Mainline. In May 2007, the NEB approved TCPL's application of the settlement as filed, including TCPL's request that interim tolls be made final for 2007.

As part of the settlement, it was agreed that the cost of capital reflect an ROE on a deemed common equity ratio of 40 per cent, an increase from 36 per cent, as determined under the NEB's ROE formula. The remaining capital structure will consist of short- and long-term debt, following the agreed upon redemption of the US\$460 million 8.25 per cent Preferred Securities that were included in the Canadian Mainline's capital structure.

The settlement also established certain elements of the Canadian Mainline's fixed OM&A costs for each year of the settlement. The variance between actual and agreed upon OM&A costs will accrue to TCPL from 2007 to 2009, and will be shared equally between TCPL and its customers in 2010 and 2011. The settlement also allows for performance-based incentive arrangements that will provide mutual benefits to both TCPL and its customers.

Net earnings of \$273 million in 2007 were \$34 million higher than 2006 net earnings of \$239 million. The increase primarily reflected the positive impact of the increase in deemed common equity ratio in the Canadian Mainline tolls settlement, performance-based incentive arrangements and OM&A cost savings, partially offset by a lower allowed ROE of 8.46 per cent in 2007 (8.88 per cent in 2006), as determined under the NEB's formula, and a lower average investment base.

Canadian Mainline generated comparable earnings of \$239 million in 2006, a decrease of \$31 million from 2005. The decrease was due primarily to a combination of a lower allowed ROE and a lower average investment base in 2006 compared to 2005. Comparable earnings in 2005 excluded the \$13-million positive adjustment from the NEB decision related to 2004. TCPL reached a tolls settlement with its Canadian Mainline customers and other interested parties that included an NEB-allowed ROE of 8.88 per cent for 2006, which was determined under the NEB's return adjustment formula on a deemed common equity ratio of 36 per cent. The NEB-allowed ROE for 2005 was 9.46 per cent.

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Alberta System

The EUB was reorganized into the Energy Resources Conservation Board and the Alberta Utilities Commission (AUC) effective January 1, 2008. The AUC regulates construction and operation of facilities and the terms and conditions of services, including rates, for the Alberta System, primarily under the provisions of the *Gas Utilities Act* and the *Pipeline Act*.

The Alberta System has been operating for the past three years under the 2005-2007 Revenue Requirement Settlement. The settlement addresses all elements of the Alberta System including OM&A costs, ROE, depreciation and income and municipal taxes. The settlement fixed OM&A costs at \$207 million for 2007, \$201 million for 2006, and \$193 million for 2005. In each year, any variance between actual OM&A and other fixed costs and those agreed to in the settlement accrued to TCPL. The majority of other cost elements of the 2005, 2006 and 2007 revenue requirements are treated on a flow-through basis.

Alberta System net earnings of \$138 million in 2007 were \$2 million higher than in 2006. The increase was due primarily to OM&A cost savings, partially offset by a lower allowed ROE and a lower investment base in 2007. The allowed ROE prescribed by the EUB was 8.51 per cent in 2007 compared with 8.93 per cent in 2006 on deemed common equity of 35 per cent.

Net earnings of \$136 million in 2006 were \$14 million lower than in 2005. The decrease was due primarily to a lower investment base and a lower allowed ROE in 2006. The allowed ROE prescribed by the EUB was 9.50 per cent in 2005 on deemed common equity of 35 per cent.

ANR

TCPL completed the acquisition of ANR on February 22, 2007 and included its net earnings from this date. The operations of ANR are regulated primarily by the FERC. ANR provides natural gas transportation, storage and various capacity-related services to a variety of customers in both the U.S. and Canada. The transmission system has a peak-day capacity of 6.8 Bcf/d. ANR also owns and operates numerous underground natural gas storage facilities in Michigan. ANR's FERC-regulated natural gas storage and transportation services operate under current FERC-approved tariff rates. These tariffs include maximum and minimum rate levels for services and permit ANR to discount or negotiate rates on a

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non-discriminatory basis. ANR Pipeline's rates were established pursuant to a settlement approved by a FERC order issued in February 1998 and the settlement rates became effective November 1, 1997. ANR Storage Company's rates were established pursuant to a settlement approved by the FERC in April 1990 and these settlement rates became effective June 1, 1990. None of ANR's FERC-regulated operations are required to file for new rates at any time in the future, nor are any of the operations prohibited from filing a rate case. ANR's revenues are derived primarily from its interstate natural gas transmission and storage, gathering and related services. Due to the seasonal nature of the business, ANR's volumes, revenues and net earnings are generally expected to be higher in the winter months. ANR's net earnings were \$104 million from the date of its acquisition by TCPL on February 22, 2007, to December 31, 2007 and were in line with the Company's expectations.

GTN

The FERC regulates GTN. Both of GTN's systems, the GTN System and North Baja, are subject to FERC-approved tariffs that establish maximum and minimum rates for various services. The systems are permitted to discount or negotiate these rates on a non-discriminatory basis. On October 31, 2007, the GTN System filed a Stipulation and Agreement with the FERC that comprises an uncontested settlement of all aspects of its 2006 General Rate Case. The settlement rates went into effect on an interim basis on November 1, 2007, in accordance with the FERC's Order dated November 16, 2007. The FERC approved the settlement on January 7, 2008, with settlement rates effective January 1, 2007. GTN's financial results in 2007 reflect the terms of the settlement. The net earnings of GTN are affected by variations in contracted volume levels, volumes delivered and prices charged under the various service types that are provided, as well as by variations in the costs of providing services.

GTN's comparable earnings increased \$12 million in 2007, compared to 2006 due primarily to the positive impact of the rate case settlement, partially offset by lower long-term firm contracted volumes and a weaker U.S. dollar in 2007. In addition, comparable earnings in 2007 were negatively affected by a higher provision taken in 2007 for non-payment of contract revenues from a subsidiary of Calpine Corporation (Calpine) that filed for bankruptcy protection.

Net earnings were \$46 million in 2006, a \$25-million decrease from 2005. This decrease was due primarily to lower transportation revenues, higher operating costs, the impact of the weaker U.S. dollar and the provision for non-payment of contract revenues from the Calpine subsidiary.

Other Pipelines

TCPL's direct and indirect investments in various natural gas pipelines and its project development activities relating to natural gas and oil transmission opportunities throughout North America are included in Other Pipelines.

TCPL's comparable earnings from Other Pipelines were \$87 million in 2007 compared to \$81 million in 2006. The increase was due primarily to higher earnings in PipeLines LP, which were affected positively by TCPL's increased ownership interests in PipeLines LP and Great Lakes, and Tamazunchale, which completed its first full year of operations in 2007. These increases were partially offset by higher project development and support costs associated with growing the Pipelines business, the effects of the weaker U.S. dollar in 2007, and proceeds of a bankruptcy settlement received by Portland in 2006.

Comparable earnings from Other Pipelines were \$81 million in 2006, \$18 million lower than in 2005. The decrease was due primarily to higher project development and support costs associated with growing the Pipelines business, reduced ownership in PipeLines LP, the effects of the weaker U.S. dollar, and proceeds of bankruptcy settlements received by Iroquois in 2005. These decreases were partially offset by higher net earnings from Portland due to the proceeds it received in 2006 from the bankruptcy settlement.

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PIPELINES OPPORTUNITIES AND DEVELOPMENTS

Keystone

Keystone is expected to extend 3,456 km and is designed to deliver 590,000 Bbl/d of crude oil from Hardisty, Alberta, to U.S. Midwest markets at Wood River and Patoka in Illinois, and to Cushing, Oklahoma. The Company has currently secured long-term contracts for a total of 495,000 Bbl/d with an average duration of 18 years. Deliveries to Patoka are expected to begin in late 2009.

TCPL and Keystone Canada received regulatory approval from the NEB in 2007 to transfer a portion of TCPL's Canadian Mainline natural gas transmission facilities to Keystone Canada, and to construct and operate new oil pipeline facilities in Canada. Keystone Canada filed an application with the NEB in November 2007 to add new pumping facilities to accommodate the increase in scope and scale of the project. An NEB oral hearing is scheduled to commence in April 2008.

Keystone U.S. received, from the U.S. Department of State in January 2008, the Final Environmental Impact Statement (FEIS) regarding construction of the Keystone U.S. pipeline and its Cushing extension. The FEIS stated the pipeline would result in limited adverse environmental impacts. The FEIS is a requirement to proceed with the Presidential Permit process, which governs the construction and operation of facilities at the U.S.-Canada border crossing. The Presidential Permit is expected to be issued in March 2008.

ConocoPhillips contributed \$207 million to acquire a 50 per cent ownership interest in Keystone in December 2007. Affiliates of TCPL will be responsible for constructing and operating Keystone, which is expected to have a capital cost of approximately US\$5.2 billion.

Canadian Mainline

In July 2007, the NEB approved TCPL's request to add a new LNG receipt point at Gros Cacouna, Québec, as well as its request to calculate tolls for service from this point on a rolled-in basis. The approvals will be effective on the date the facilities required to connect the Gros Cacouna receipt point are placed in service.

On November 29, 2007, the NEB announced that, pursuant to its formula, the 2008 allowed ROE for NEB-regulated pipelines, including the Canadian Mainline, will be 8.71 per cent, up from 8.46 per cent in 2007.

Alberta System

TCPL received approval from the EUB in July 2007 to initiate negotiations on the Alberta System revenue requirement with the intent of reaching a settlement for a term of up to three years commencing January 1, 2008. Settlement negotiations with stakeholders are progressing. TCPL has a requirement to file a 2008 General Rate application or a settlement in first-quarter 2008.

On November 30, 2007 the EUB finalized the Alberta System's 2008 allowed ROE at 8.75 per cent, compared to 8.51 per cent in 2007.

TCPL received approval from the EUB in 2007 to construct four new natural gas transmission facilities to serve the firm intra-Alberta delivery contract requirements of oilsands developers in the Fort McMurray, Alberta area. The capital cost of the four pipeline facilities, which total 150 km, together with a 15-MW compression facility are expected to be \$367 million.

TCPL submitted an application to the EUB in November 2007 for a permit to construct the North Central Corridor expansion, which comprises a 300-km natural gas pipeline and associated facilities on the northern section of the Alberta System. The expansion, if approved, will connect the northwest portion of the Alberta System with the northeast portion of the system. The estimated capital cost of this expansion is \$983 million. The project is expected to be completed in two stages, the first one beginning in late 2008 with an in-service date of April 1, 2009 and the second one with an in-service date of April 1, 2010.

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ANR

As of December 31, 2007, ANR substantially completed a project that increased its saleable natural gas storage capacity by 13 Bcf, of which 10 Bcf was previously used for system operations. Construction has commenced on a second storage enhancement project, which is expected to increase ANR's natural gas storage capacity by 14 Bcf in 2008.

ANR is considering an additional storage expansion project, which, along with the utilization of other natural gas pipeline assets across TCPL's system, is intended to allow customers to access additional storage and markets. ANR is also pursuing potential additions of supply on both its southwest and southeast legs. Supply on the southwest leg was increased in early 2008 as a result of an interconnect with the Rockies Express natural gas pipeline, which commenced service in January 2008. There is potential for new supply on the southeast leg from LNG additions, shale gas from the mid-continent, and a potential additional interconnect with the Rockies Express pipeline.

GTN

In August 2007, Gas Transmission Northwest Corporation (GTNC), a wholly owned subsidiary of TCPL, and Northwest Natural Gas Company (NW Natural) formed an equally owned joint venture, Palomar Gas Transmission LLC (Palomar), to develop a 354-km (220 mile) natural gas pipeline to serve the Oregon, Pacific Northwest and Western U.S markets. The proposed Palomar pipeline would connect TCPL's existing GTN System in central Oregon with NW Natural's distribution system near Molalla, Oregon, and could be extended to a proposed pipeline near the town of Wauna, Oregon. The Palomar pipeline is in the preliminary stages of the FERC permitting process.

North Baja

North Baja received a FERC expansion certificate in October 2007 authorizing modifications that would allow it to import natural gas from the Costa Azul LNG terminal in northwestern Mexico, which is nearing completion. The imported gas would serve markets in California and the U.S. Southwest. The FERC certificate authorizes phased expansion of North Baja. The first phase of the expansion includes system modifications to allow for bi-directional natural gas flow and the addition of a lateral natural gas pipeline to interconnect with a Southern California Gas Co. pipeline near Blythe, California. The first phase will also give North Baja the ability to import approximately 600 million cubic feet per day (mmcf/d) of natural gas from Mexico.

Foothills

TCPL's BC System was integrated into Foothills in 2007. In first quarter 2007, the NEB approved the transfer of assets and finalized the revised tolls for 2007. Foothills will continue to be regulated on a complaint basis only.

Tamazunchale

The Company's Tamazunchale natural gas pipeline in Mexico is designed to transport initial volumes of 170 mmcf/d. The pipeline's capacity is expected to be expanded to approximately 430 mmcf/d, to meet the needs of two additional proposed power plants near Tamazunchale. The timing of the expansion will be driven by the Comisión Federal de Electricidad's requirements for the power plants.

Mackenzie Gas Pipeline Project

The MGP is a proposed 1,200-km natural gas pipeline to be constructed from a point near Inuvik, Northwest Territories to the northern border of Alberta, where it is expected to connect to the Alberta System.

TCPL's involvement with the MGP arises from a 2003 agreement between the Mackenzie Valley Aboriginal Pipeline Group (APG) and the MGP, whereby TCPL agreed to finance the APG's one-third share of the pre-development costs associated with the project. Cumulative advances made by TCPL in this respect totalled \$137 million at December 31, 2007 and are included in Other Assets. These amounts constitute a loan to the APG, which becomes repayable only after the pipeline commences commercial operations. The total amount of the loan is expected to form part of the rate base of the pipeline and subsequently be repaid from the APG's share of future natural gas pipeline revenues or from alternate financing. If the project does not proceed, TCPL has no recourse against the APG for recovery of advances made. Accordingly, TCPL's ability to recover its investment is dependant upon a successful outcome of the project.

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Under the terms of certain MGP agreements, TCPL holds an option to acquire up to a five per cent equity ownership in the natural gas pipeline at the time of the decision to construct. In addition, TCPL gains certain rights of first refusal to acquire 50 per cent of any divestitures by existing partners and an entitlement to obtain a one-third interest in all expansion opportunities once the APG reaches a one-third ownership share, with the other natural gas pipeline owners and the APG sharing the balance.

TCPL and the other co-venture companies involved in the MGP continue to pursue approval of the proposed project, focusing on the regulatory process and discussions with the Canadian government on fiscal framework. Project timing is uncertain and is conditional upon resolution of regulatory and fiscal matters.

Alaska Pipeline Project

TCPL continued its discussions with Alaska North Slope producers and the State of Alaska in 2007 to advance the proposed Alaska Pipeline Project. TCPL submitted an application in November 2007 for a license to construct the Alaska Pipeline Project under the *Alaska Gasline Inducement Act* (AGIA). The State of Alaska announced on January 4, 2008, that TCPL had submitted a complete AGIA application and would be advancing to the Public Comment stage. No other applicant met all the AGIA requirements. If approved by the Alaska Administration and the Alaska Legislature, TCPL could be granted the AGIA license by mid-2008. Upon receipt of the AGIA license, TCPL will proceed with an open season to secure shipping commitments from shippers.

Foothills holds the priority right to build, own and operate the first natural gas pipeline through Canada for the transportation of Alaskan gas. This right was granted under the *Northern Pipeline Act of Canada* (NPA) following a lengthy competition hearing before the NEB in the late 1970s, which produced a decision in favour of Foothills. The NPA creates a single-window regulatory regime that is uniquely available to Foothills. It has been used by Foothills to construct facilities in Alberta, British Columbia (B.C.) and Saskatchewan that constitute a pre-build for the Alaska Pipeline Project, and to expand these facilities five times, the latest of which was in 1998. Continued development of the Alaska Pipeline Project under the NPA is expected to ensure the earliest in-service date for the project.

PIPELINES BUSINESS RISKS

Supply, Markets and Competition

TCPL faces competition at both the supply and market ends of its systems. This competition comes from other natural gas pipelines accessing the increasingly mature WCSB and markets served by TCPL's pipelines. In addition, the continued expiration of long-term firm transportation (FT) contracts has resulted in significant reductions in long-term firm contracted capacity and shifts to short-term firm contracts on the Canadian Mainline, the Alberta System, Foothills and the GTN System.

TCPL's primary source of natural gas supply is the WCSB. As of December 2006, the WCSB had remaining discovered natural gas reserves of approximately 57 trillion cubic feet and a reserves-to-production ratio of approximately nine years at current levels of production. Historically, sufficient additional reserves have been discovered on an ongoing basis to maintain the reserves-to-production ratio at close to nine years. However, gas supply is expected to decline due to a continued reduction in levels of drilling activity in the WCSB. The reduced drilling activity is a result of lower prices, higher supply costs, which include higher royalties, and the stronger Canadian dollar. TCPL anticipates there will be excess natural gas pipeline capacity out of the WCSB in the foreseeable future as a result of capacity expansion on its wholly owned and partially owned natural gas pipelines over the past decade, competition from other pipelines, and significant growth in natural gas demand in Alberta driven by oilsands and electricity generation requirements.

TCPL's Alberta System is the major natural gas gathering and transportation system for the WCSB, connecting most of the natural gas processing plants in Alberta to domestic and export markets. Despite reduced overall drilling levels, activity remains robust in certain areas of the WCSB, which has resulted in the need for new transmission infrastructure. The primary areas of high activity have been deeper conventional drilling in western Alberta and in the foothills region of B.C., and coalbed methane development in central Alberta. The Alberta System has faced, and will continue to face,

increasing competition from other natural gas pipelines. An emerging competitive issue for the Alberta System is the existence and access to natural gas liquids (NGL) contained in the natural gas transported by the pipeline system. In 2007, the EUB began a proceeding in relation to NGL extraction matters. The outcome of this proceeding may affect the way in which regulated natural gas pipelines compete within Alberta.

Historically, TCPL's eastern natural gas pipeline system has been supplied by long-haul flows from the WCSB and by short-haul volumes received from storage fields and interconnecting pipelines in southwestern Ontario. Over the last few years, the Canadian Mainline has experienced reductions in long-haul flows, which have been partially offset by increases in short-haul volumes. This reflects the combined impact of new U.S. Midwest-to-Ontario pipeline capacity and lower supply available for export from the WCSB region.

Demand for natural gas in TCPL's key eastern markets, which are served by the Canadian Mainline, is expected to continue to increase, particularly to meet the expected growth in natural gas-fired power generation. Although there are opportunities to increase market share in Canadian and U.S. export markets, TCPL faces significant competition in these regions. Consumers in the northeastern U.S. generally have access to an array of natural gas pipeline and supply options. Eastern markets that historically received Canadian supplies only from TCPL are now capable of receiving supplies from new natural gas pipelines that can source U.S. and Western and Atlantic Canadian supplies.

ANR's primary natural gas supply is sourced from the Gulf of Mexico and mid-continent U.S. regions, which are served by competing natural gas pipelines. ANR also has competition from other natural gas pipelines in its primary markets in the U.S. Midwest. The Gulf of Mexico region is extremely competitive given its extensive natural gas pipeline network. ANR is one of many interstate and intrastate pipelines in the region competing for new and existing production as well as for new supplies from LNG, from shale production in the mid-continent, and from the Rockies Express natural gas pipeline originating in the Rocky Mountain region. Several new natural gas pipelines are proposed or under construction to connect new supplies to the numerous pipelines in the Gulf of Mexico region. ANR competes with other natural gas pipelines in the region to attract supply to its pipeline for alternative markets and storage. The most recent changes in ANR's market region are the FERC-approved expansions of two competing pipelines, which will provide approximately 500 mmcf/d of incremental capacity into the Wisconsin market and approximately 200 mmcf/d of incremental capacity into the market extending from Chicago, Illinois, to Dawn, Ontario. The expanded transportation capacity competes directly with alternatives provided by ANR and Great Lakes, while incremental storage connections provide competitive alternatives to ANR's storage in Michigan.

The GTN System must compete with other pipelines to access natural gas supplies and markets. Transportation service capacity on the GTN System provides customers in the U.S. Pacific Northwest, California and Nevada with access to supplies of natural gas primarily from the WCSB. These three markets may also access supplies from other basins. In the Pacific Northwest market, natural gas transported on the GTN System competes with the Rocky Mountain natural gas supply and with additional western Canadian supply transported by other natural gas pipelines. Historically, natural gas supplies from the WCSB have been competitively priced in relation to supplies from the other regions serving these markets. The GTN System experienced significant contract non-renewals in 2005 and 2006 as natural gas transported from the WCSB on the GTN System competed for the California and Nevada markets against supplies from the Rocky Mountain and southwestern U.S. supply basins. Recently, Pacific Gas and Electric Company, the GTN System's largest customer, filed an application with the California Public Utilities Commission (CPUC) requesting approval to commit to capacity on a proposed project out of the Rocky Mountain basin to the California border. This project has not yet been filed with the FERC and TCPL is protesting the application filed with the CPUC.

Regulatory Financial Risk

Regulatory decisions continue to have a significant impact on the financial returns from existing investments in TCPL's Canadian wholly owned pipelines and are expected to have a similarly significant impact on financial returns from future investments. TCPL remains concerned that financial returns approved by regulators could potentially fail to be competitive with returns from assets with similar risk profiles. In recent years, TCPL applied to the NEB and the EUB for an ROE of 11 per cent on 40 per cent deemed common equity for both the Canadian Mainline and the Alberta System, respectively. The NEB has reaffirmed its ROE formula and the EUB has established a generic ROE, which largely aligns

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with the NEB formula. Through rate applications and negotiated settlements, TCPL has been able to improve the common equity components of its Canadian Mainline and Alberta System capital structures to the current 40 per cent and 35 per cent respectively.

TQM filed an application with the NEB in December 2007 requesting a fair return on capital, consisting of an ROE of 11 per cent on 40 per cent deemed common equity. The outcome of this proceeding may influence the regulators' view of fair financial returns on equity associated with TCPL's other Canadian wholly owned pipelines.

Throughput Risk

As transportation contracts expire, TCPL's U.S. natural gas pipelines are expected to be more exposed to the risk of reduced throughput and their revenues more likely to experience increased variability. Throughput risk is created by supply and market competition, gas basin pricing, economic activity, weather variability, natural gas pipeline competition and pricing of alternative fuels.

Execution and Capital Cost Risk

The construction of Keystone is subject to execution and capital cost risks, which is subject to a capital cost risk- and reward-sharing mechanism with its customers.

Refer to the "Risk Management and Financial Instruments" section of this MD&A for information on managing risks in the Pipelines business.

PIPELINES OUTLOOK

Demand for natural gas and crude oil is expected to continue to grow across North America in 2008. TCPL's Pipelines business will continue to focus on the delivery of natural gas to growing markets, connecting new supply, progressing development of new infrastructure to connect natural gas from the north and unconventional supplies such as coalbed methane and LNG, and development of the Keystone oil pipeline.

TCPL expects producers will continue to explore and develop new fields in Western Canada, particularly in northeastern B.C. and the west central foothills regions of Alberta. There is also expected to be significant activity aimed at unconventional resources such as coalbed methane, which will be further incented starting in 2009 due to the new royalty structure in Alberta benefiting lower productivity wells.

Most of TCPL's current expansion plans in Canadian natural gas transmission are focused on the Alberta System. New facilities are expected to be needed to expand the integrated Alberta System to reflect changes in the distribution of supply and market within Alberta, connect new discrete supply sources, as well as new delivery points, primarily in the Alberta oilsands region and the central Alberta industrial heartland.

In the U.S., TCPL expects unconventional production will continue to be developed from the coalbed methane and tight gas sands of the Rocky Mountain region, as well as from shale plays in east Texas, southwestern Oklahoma and Arkansas. In addition, incremental supplies are anticipated from LNG imports into the U.S. Significant infrastructure is being built in the U.S. to accommodate these supply sources. The resulting growth in supply from LNG and the unconventional supply sources is likely to offer additional commercial opportunities for TCPL. In particular, the southwest leg of ANR is expected to continue to remain fully subscribed for the foreseeable future, and new transport routes are being developed to move additional Rocky Mountain production to midwestern and eastern U.S. markets, including interconnections with ANR. The southeast leg of ANR has the capacity to transport additional volumes of LNG and mid-continent shale production as these supplies develop.

Producers continue to develop new oil supply in the WCSB. In 2008, there are several new oilsands projects that will begin production, along with growth at existing projects. Oilsands production is expected to grow from 1.2 million Bbl/d in 2007 to 3.0 million Bbl/d in 2015, while total WCSB oil supply is projected to grow from 2.5 million Bbl/d to 3.9 million Bbl/d over the same period. The primary market for this new oilsands production is the U.S., extending from

the U.S. Midwest to the Gulf of Mexico region, which contains a number of very large refineries, well equipped to handle Canadian heavy crude oil blends. WCSB crude oil is expected to replace declining U.S. imports of heavy crude oil from other countries.

This increase in WCSB crude oil exports requires new pipeline capacity, including Keystone, and further expansions to the Gulf of Mexico. TCPL will continue to pursue additional opportunities to move crude oil from the Alberta oilsands to U.S. markets.

TCPL will continue to focus on operational excellence and on collaborative efforts with all stakeholders to achieve negotiated settlements and service options that will increase the value of the Company's business to customers and shareholders.

Earnings

The Company expects continued growth on its Alberta System. The Company anticipates a modest level of investment in its other existing Canadian natural gas pipelines, resulting in an expected continued net decline in the average investment base due to annual depreciation. A net decline in the average investment base has the effect of reducing year-over-year earnings from these assets. However, this impact will be partially mitigated in 2008 by a slight increase in the formula-based regulated ROEs. Additionally, a settlement resulting from the current negotiations on the Alberta System may provide the opportunity for additional earnings contribution in 2008. Under the current regulatory model, earnings from Canadian pipelines are not affected by short-term fluctuations in the commodity price of natural gas, changes in throughput volumes or changes in contract levels.

Reduced FT contract volumes due to customer defaults, reduced supply available for export from the WCSB and expiry of long-term contracts could have a negative impact on short-term earnings from TCPL's U.S. natural gas pipelines, unless the available capacity can be recontracted. The ability to recontract available capacity is influenced by prevailing market conditions and competitive factors including competing natural gas pipelines and supply from other natural gas sources in markets served by TCPL's U.S. pipelines. Earnings from Pipelines' foreign operations are impacted by changes in foreign currency exchange rates. Pipelines' earnings in 2008 are expected to be positively impacted by a full year of operations from ANR and the additional interests in Great Lakes.

Certain subsidiaries of Calpine filed for bankruptcy protection in both Canada and the U.S. in 2005. Portland and GTNC have reached agreements with Calpine for allowed unsecured claims of US\$125 million and US\$192.5 million, respectively, in the Calpine bankruptcy. Creditors will receive shares in the re-organized Calpine and these shares will be subject to market price fluctuations as the new Calpine shares begin to trade. In February 2008, Portland and GTNC received initial distributions of 6.1 million shares and 9.4 million shares, respectively, which are expected to result in a significant increase in TCPL's net earnings in first-quarter 2008.

Claims by NOVA Gas Transmission Limited and Foothills Pipe Lines (South B.C.) Ltd. for \$31.6 million and \$44.4 million, respectively, were received in cash in January 2008 and will be passed on to shippers on these systems.

Capital Expenditures

Excluding the cost of acquiring ANR and additional interests in Great Lakes, total capital spending for the wholly owned pipelines in 2007 was \$487 million. Capital spending for the wholly owned pipelines in 2008 is expected to be approximately \$1.0 billion. In addition, capital spending for TCPL's 50 per cent share of constructing the Keystone pipeline is expected to be approximately \$800 million.

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NATURAL GAS THROUGHPUT VOLUMES*(Bcf)*

	2007	2006	2005
Canadian Mainline ⁽¹⁾	3,183	2,955	2,997
Alberta System ⁽²⁾	4,015	4,051	3,999
ANR ⁽³⁾	1,210		
GTN System	827	790	777
Foothills ⁽⁴⁾	1,441	1,403	1,372
North Baja	90	95	84
Great Lakes	829	816	850
Northern Border	800	799	808
Iroquois	394	384	394
TQM	207	158	166
Ventures LP	178	179	138
Gas Pacifico	71	52	34
Portland	58	52	62
Tamazunchale ⁽⁵⁾	29		
Tuscarora	28	28	25
TransGas	24	22	19

(1) Canadian Mainline deliveries originating at the Alberta border and in Saskatchewan in 2007 were 2,199 Bcf (2006 2,224 Bcf; 2005 2,215 Bcf).

(2) Field receipt volumes for the Alberta System in 2007 were 4,047 Bcf (2006 4,160 Bcf, 2005 4,034 Bcf).

(3) ANR was acquired February 22, 2007 and its volumes are included from this date.

(4) Foothills volumes reflects the combined operations of Foothills and the BC System.

(5) Tamazunchale's results include volumes since December 1, 2006.

BEAR CREEK An 80-MW natural gas-fired cogeneration plant, Bear Creek is located near Grande Prairie, Alberta.

MACKAY RIVER A 165-MW natural gas-fired cogeneration plant, MacKay River is located near Fort McMurray, Alberta.

REDWATER A 40-MW natural gas-fired cogeneration plant, Redwater is located near Redwater, Alberta.

SUNDANCE A&B The largest coal-fired electric power generating facility in Western Canada, Sundance is located in south-central Alberta. TCPL has the rights to 100 per cent of the generating capacity of the 560-MW Sundance A facility under a power purchase arrangement (PPA), which expires in 2017. TCPL also has the rights to 50 per cent of the generating capacity of the 706-MW Sundance B facility under a PPA, which expires in 2020.

SHEERNESS Consisting of two 390-MW coal-fired thermal power generating units, the Sheerness plant is located in southeastern Alberta. TCPL has the rights to 756 MW of generating capacity from the Sheerness PPA, which expires in 2020.

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CARSELAND An 80-MW natural gas-fired cogeneration plant, Carseland is located near Carseland, Alberta.

CANCARB A 27-MW facility fuelled by waste heat from TCPL's adjacent thermal carbon black facility, Cancarb is located in Medicine Hat, Alberta.

BRUCE POWER Consisting of two generating stations, Bruce A with approximately 3,000 MW of generating capacity and Bruce B with approximately 3,200 MW of generating capacity, Bruce Power is located in Ontario. TCPL owns 48.7 per cent of Bruce A, which has four power generating units, two of which have been idled for refurbishing and are expected to restart in 2010. TCPL owns 31.6 per cent of Bruce B, which also has four power generating units.

HALTON HILLS A 683-MW natural gas-fired power plant, Halton Hills is under construction near the town of Halton Hills, Ontario, and is expected to be in service in third-quarter 2010.

PORTLANDS ENERGY A 550-MW high-efficiency, combined-cycle natural gas generation power plant, Portlands Energy is under construction near downtown Toronto, Ontario. The plant is 50 per cent owned by TCPL and is expected to be operational in simple-cycle mode, delivering 340 MW of electricity to the City of Toronto, beginning in June 2008. It is expected to be fully commissioned in its combined-cycle mode, delivering 550 MW of power, in second-quarter 2009.

BÉCANCOUR A 550-MW natural gas-fired cogeneration power plant, Bécancour is located near Trois-Rivières, Québec. The entire power output is supplied to Hydro-Québec under a 20-year power purchase contract. Steam is also sold to an industrial customer for use in commercial processes.

CARTIER WIND The 740-MW Cartier wind farm project consists of six wind power projects located in Québec. Cartier Wind is 62 per cent owned by TCPL. Baie-des-Sables, with a generation capacity of 110 MW, and Anse-à-Valleau, with a generation capacity of 101 MW, were placed into service in November 2006 and November 2007, respectively. Construction of a third project, the 110-MW Carleton wind farm, began in late 2007. Planning and construction of the remaining three projects will continue, subject to future approvals.

GRANDVIEW A 90-MW natural gas-fired cogeneration power plant, Grandview is located in Saint John, New Brunswick. Irving Oil Limited receives 100 per cent of the plant's heat and electricity output under a 20-year tolling agreement.

KIBBY WIND A 132-MW wind power project, the proposed Kibby Wind includes 44 turbines located in Kibby and Skinner Townships in northwestern Franklin County, Maine. Subject to U.S. federal and state approvals, construction could begin in early 2008 and the new facilities could go into service in 2009-2010.

TC HYDRO With a total generating capacity of 583 MW, TC Hydro comprises 13 hydroelectric facilities, including stations and associated dams and reservoirs, on the Connecticut and Deerfield rivers in New Hampshire, Vermont and Massachusetts.

OSP A 560-MW natural gas-fired, combined-cycle facility, OSP is located in Rhode Island.

EDSON An underground natural gas storage facility, Edson is connected to the Alberta System near Edson, Alberta. The facility's central processing system is capable of maximum injection and withdrawal rates of 725 mmcf/d of natural gas. Edson has a working natural gas storage capacity of approximately 50 Bcf.

CROSSALTA An underground natural gas storage facility, CrossAlta is connected to the Alberta System and is located near Crossfield, Alberta. TCPL owns 60 per cent of CrossAlta, which has a working natural gas capacity of 54 Bcf with a maximum deliverability capability of 480 mmcf/d.

CACOUNA A proposed LNG project at Gros Cacouna Harbour on the St. Lawrence River in Québec, Cacouna would be capable of receiving, storing and regasifying imported LNG with an average send-out capacity of approximately 500 mmcf/d of natural gas. TCPL has a 50 per cent ownership interest in Cacouna.

BROADWATER A proposed offshore LNG project located in the New York waters of Long Island Sound, Broadwater would be capable of receiving, storing and regasifying imported LNG with an average send-out capacity of approximately 1 Bcf/d of natural gas. TCPL has a 50 per cent ownership interest in Broadwater.

ENERGY HIGHLIGHTS*Net Earnings*

Energy's net earnings were \$514 million in 2007, an increase of \$62 million from \$452 million in 2006.

Energy's comparable earnings were \$466 million in 2007, up \$37 million from \$429 million in 2006. Comparable earnings excluded positive income tax adjustments in 2007 and 2006 and a gain on sale of land in 2007, and increased primarily due to higher operating income from Eastern Power and Natural Gas Storage.

Results in 2007 included the first full year of earnings from the Bécancour cogeneration plant, the Baie-des-Sables Cartier Wind project, and the Edson natural gas storage facility.

Expanding Asset Base

Approximately 2,000 MW of additional generation capacity was under construction at December 31, 2007, with an anticipated capital cost of more than \$4.2 billion.

Since 1999, TCPL's Energy business has grown its nominal generating capacity by approximately 5,300 MW, excluding 2,000 MW currently under construction, representing an investment of more than \$5 billion to the end of 2007.

The Anse-à-Valleau Cartier Wind project was completed and placed into service in November 2007.

Construction continued in 2007 on the Bruce A refurbishment and restart project, which includes restart of the currently idle power generating Units 1 and 2, and replacement of the steam generators and installation of new fuel channels on Units 3 and 4.

Plant Availability

Weighted average power plant availability was 91 per cent in 2007, which was consistent with 2006.

Weighted average power plant availability, excluding Bruce, was 93 per cent in 2007, which was consistent with 2006.

ENERGY RESULTS-AT-A-GLANCE

Year ended December 31 (*millions of dollars*)

	2007	2006	2005
Western Power	308	297	123
Eastern Power	255	187	137
Bruce Power	167	235	195
Natural Gas Storage	146	93	32
Power LP Investment			29
General, administrative, support costs and other	(158)	(144)	(129)
Operating income	718	668	387
Financial charges	(22)	(23)	(11)

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Interest income and other	10	5	5
Income taxes	(240)	(221)	(123)
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Comparable earnings ⁽¹⁾	466	429	258
Income tax adjustments	34	23	
Gain on sale of land	14		
Gain on sale of Paiton Energy			193
Gain on sale of Power LP units			