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

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

OR

ý **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:

ý Annual Information Form ý 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 o No ý

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 ý No o

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.

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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:

Fees in millions of Canadian dollars	**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.

TRANSCANADA PIPELINES LIMITED

ANNUAL INFORMATION FORM

February 25, 2008

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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 *Canada Corporations Act* by Letters Patent, which included the alteration of its capital and change of name to TransCanada PipeLines Limited.
June 1, 1979	Continued under the *Canada Business Corporations Act.*
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 Canada *Business Corporations Act* 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.

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 **4**

2005

Pipeline Developments

- February 2005. TransCanada announced the Keystone oil pipeline project. In November 2005, TransCanada announced a memorandum of understanding with ConcoPhillips 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.

- 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.

- 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 *(millions of dollars)*	**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.

- 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, Oklahma. 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*.

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 Hamphire, 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 Valleau (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.

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 $66^{2}/_{3}$ 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:

Overall	**DBRS**	**Moody s**	**S&P**
Senior Unsecured Debt			
Debentures	A	A2	A-
Medium-term Notes	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 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

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

	Series U			Series Y		
Month	**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 additions, 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

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 sevices), 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

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 Québecois 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[2] 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.

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 TransCanda. 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