

TRANSCANADA PIPELINES LTD  
Form 40-F/A  
February 27, 2012

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U.S. Securities and Exchange Commission  
Washington, D.C. 20549

**Form 40-F/A**  
**Amendment No. 1**

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, 2011

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)*

**TransCanada PipeLine USA Ltd., 717 Texas Street  
Houston, Texas, 77002-2761; (832) 320-5201**

*(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: **Debt Securities**

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

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, 2011, 4,000,000 Cumulative Redeemable First Preferred Shares Series U  
and 4,000,000 Cumulative Redeemable First Preferred Shares Series Y**

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were issued and outstanding.  
731,998,733 common shares which are all owned by TransCanada Corporation

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes  No

The documents (or portions thereof) forming part of this Form 40-F are incorporated by reference into the following registration statements under the *Securities Act of 1933*, as amended:

Form	Registration No.
F-9	333-163641
F-9	333-177789

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### EXPLANATORY NOTE

TransCanada PipeLines Limited ("TCPL" or "TransCanada") is filing this Form 40-F/A Amendment No. 1 to its Annual Report on Form 40-F for the year ended December 31, 2011 which was filed with the Securities and Exchange Commission on February 17, 2012, to include TCPL's Annual Information Form for the year ended December 31, 2011.

Other than as expressly set forth above, this Form 40-F/A does not, and does not purport to, amend, update, or restate the information in any Item of the Form 40-F or reflect any events that have occurred after the Form 40-F was filed.

### UNDERTAKING

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, 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.

### FORWARD-LOOKING INFORMATION

This document contains 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", "intend", "target", "plan" or other similar words are used to identify such forward-looking information. Forward-looking statements in this document are intended to provide TransCanada security holders and potential investors with information regarding TransCanada and its subsidiaries, including management's assessment of TransCanada's and its subsidiaries' future plans and financial outlook. Forward-looking statements in this document may include, but are not limited to, statements regarding:

anticipated business prospects;

financial performance of TransCanada and its subsidiaries and affiliates;

expectations or projections about strategies and goals for growth and expansion;

expected cash flows;

expected costs;

expected costs for projects under construction;

expected schedules for planned projects (including anticipated construction and completion dates);

expected regulatory processes and outcomes;

expected outcomes with respect to legal proceedings, including arbitration;

expected capital expenditures;

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expected operating and financial results; and

expected impact of future commitments and contingent liabilities.

These forward-looking statements reflect TransCanada's beliefs and assumptions based on information available at the time the statements were made and as such are not guarantees of future performance. By their nature, forward-looking statements are subject to various assumptions, risks and uncertainties which could cause TransCanada's actual results and achievements to differ materially from the anticipated results or expectations expressed or implied in such statements.

Key assumptions on which TransCanada's forward-looking statements are based include, but are not limited to, assumptions about:

inflation rates, commodity prices and capacity prices;

timing of debt issuances and hedging;

regulatory decisions and outcomes;

arbitration decisions and outcomes;

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foreign exchange rates;

interest rates;

tax rates;

planned and unplanned outages and utilization of the Company's pipeline and energy assets;

asset reliability and integrity;

access to capital markets;

anticipated construction costs, schedules and completion dates; and

acquisitions and divestitures.

The risks and uncertainties that could cause actual results or events to differ materially from current expectations include, but are not limited to:

the ability of TransCanada 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;

amount of capacity payments and revenues from the Company's energy business;

regulatory decisions and outcomes;

outcomes with respect to legal proceedings, including arbitration;

counterparty performance;

changes in environmental and other laws and regulations;

competitive factors in the pipeline and energy sectors;

construction and completion of capital projects;

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labour, equipment and material costs;

access to capital markets;

interest and currency exchange rates;

weather;

technological developments; and

economic conditions in North America.

Additional information on these and other factors is available in the reports filed by TransCanada with Canadian securities regulators and with the U.S. Securities and Exchange Commission (SEC).

Readers are cautioned against placing undue reliance on forward-looking information, which is given as of the date it is expressed in this document or otherwise, and not to use future-oriented information or financial outlooks for anything other than their intended purpose. TransCanada undertakes no obligation to publicly update or revise any forward-looking information in this document or otherwise, whether as a result of new information, future events or otherwise, except as required by law.

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**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/A and has duly caused this amendment to the 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/ DONALD R. MARCHAND

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Donald R. Marchand  
Executive Vice-President and Chief Financial Officer

Date: February 27, 2012

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**DOCUMENTS FILED AS PART OF THIS REPORT**

- \*13.1 Management's Discussion and Analysis (included on pages 2 through 90 of the TCPL 2011 Management's Discussion and Analysis and Audited Consolidated Financial Statements).
  - \*13.2 2011 Audited Consolidated Financial Statements (included on pages 91 through 149 of the TCPL 2011 Management's Discussion and Analysis and Audited Consolidated Financial Statements), including the auditors' report thereon.
  - \*13.3 Independent Auditors' Report of Registered Public Accounting Firm on the 2011 Audited Consolidated Financial Statements.
  - \*13.4 Report of Independent Registered Public Accounting Firm on the effectiveness of TCPL's Internal Control Over Financial Reporting, as of December 31, 2011.
  - 13.5 TCPL's Annual Information Form for the year ended December 31, 2011.
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\*  
previously filed.

**EXHIBITS**

- 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*.
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**TransCanada PipeLines Limited**

2011 Annual information form

February 17, 2012

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## Presentation of information

Unless the context indicates otherwise, a reference in this Annual Information Form ("AIF") to "TCPL" or the "Company", "we", "us" and "our" 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 legal entities controlled by, TransCanada or TCPL, as applicable.

Unless otherwise noted, the information contained in this AIF is given at or for the year ended December 31, 2011 ("Year End"). Amounts are expressed in Canadian dollars unless otherwise indicated. Information in relation to metric conversion can be found at Schedule A to this AIF. Terms defined throughout this AIF are listed in the Glossary found at the end of this AIF.

Financial information is presented in accordance with Canadian generally accepted accounting principles.

Certain portions of TCPL's Management's Discussion and Analysis dated February 13, 2012 ("MD&A") are incorporated by reference into this AIF as stated below. The MD&A can be found on SEDAR ([www.sedar.com](http://www.sedar.com)) under TCPL's profile.

Effective January 1, 2012, TCPL adopted U.S. generally accepted accounting principles ("U.S. GAAP") for reporting purposes. For more information regarding TCPL adoption of U.S. GAAP, refer to the MD&A under the headings *Accounting Changes* and *Future Accounting Changes*.

## Forward looking information

This AIF, including the MD&A disclosure incorporated by reference herein, contains 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", "intend", "target", "plan" or other similar words are used to identify such forward-looking information. Forward-looking statements in this document are intended to provide TCPL holders and potential investors with information regarding TCPL and its subsidiaries, including management's assessment of TCPL's and its subsidiaries' future plans and financial outlook. Forward-looking statements in this document may include, but are not limited to, statements regarding:

- anticipated business prospects
- financial performance of TCPL and its subsidiaries and affiliates
- expectations or projections about strategies and goals for growth and expansion
- expected cash flows
- expected costs
- expected costs for projects under construction
- expected schedules for planned projects (including anticipated construction and completion dates)
- expected regulatory processes and outcomes
- expected outcomes with respect to legal proceedings, including arbitration
- expected capital expenditures
- expected operating and financial results, and
- expected impact of future commitments and contingent liabilities.

These forward-looking statements reflect TCPL's beliefs and assumptions based on information available at the time the statements were made and as such are not guarantees of future performance. By their nature, forward-looking statements are subject to various assumptions, risks and uncertainties which could cause TCPL's actual results and achievements to differ materially from the anticipated results or expectations

expressed or implied in such statements.

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Key assumptions on which TCPL's forward-looking statements are based include, but are not limited to, assumptions about:

inflation rates, commodity prices and capacity prices  
timing of debt issuances and hedging  
regulatory decisions and outcomes  
arbitration decisions and outcomes  
foreign exchange rates  
interest rates  
tax rates  
planned and unplanned outages and utilization of the Company's pipeline and energy assets  
asset reliability and integrity  
access to capital markets  
anticipated construction costs, schedules and completion dates, and  
acquisitions and divestitures.

The risks and uncertainties that could cause actual results or events to differ materially from current expectations include, but are not limited to:

the ability of TransCanada 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  
amount of capacity payments and revenues from the Company's energy business  
regulatory decisions and outcomes  
outcomes with respect to legal proceedings, including arbitration  
counterparty performance  
changes in environmental and other laws and regulations  
competitive factors in the pipeline and energy sectors  
construction and completion of capital projects  
labour, equipment and material costs  
access to capital markets  
interest and currency exchange rates  
weather  
technological developments, and

economic conditions in North America.

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 against placing undue reliance on forward-looking information, which is given as of the date it is expressed in this AIF, or the MD&A disclosure incorporated by reference herein, and not to use future-oriented information or financial outlooks for anything other than their intended purpose. TCPL undertakes no obligation to publicly update or revise any forward-looking information in this AIF or the MD&A disclosure incorporated by reference herein 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 - 1<sup>st</sup> Street S.W., Calgary, Alberta, T2P 5H1.

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

<b>Date</b>	<b>Event</b>
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> ("CBCA").
July 2, 1998	Certificate of Arrangement issued in connection with the Plan of Arrangement with NOVA Corporation under which the companies merged and then split off the commodity chemicals business carried on by NOVA Corporation 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 CBCA 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 common shares of TCPL for one common share of TransCanada. The debt securities and preferred shares of TCPL remained obligations and securities of TCPL. TCPL continues to carry on business as the principal operating subsidiary of the TransCanada group of entities.

### Intercorporate relationships

The following diagram presents the name and jurisdiction of incorporation, continuance or formation of TCPL's principal subsidiaries as at Year End. Each of the subsidiaries shown has total assets that exceeded 10 per cent of the total consolidated assets of TransCanada or revenues that exceeded 10 per cent of the total consolidated revenues of TransCanada as at Year End. TransCanada beneficially owns, controls or directs, directly or indirectly, 100 per cent of the voting shares in each of these subsidiaries, with the exception of TransCanada Keystone Pipeline, LP in which TransCanada indirectly holds 100 per cent of the partnership interests.

The above diagram does not include all of the subsidiaries of TCPL. The assets and revenues of excluded subsidiaries in the aggregate did not exceed 20 per cent of the total consolidated assets or total consolidated revenues of TransCanada as at Year End.

### **General development of the business**

Our reportable business segments are "Natural Gas Pipelines", "Oil Pipelines" and "Energy". Natural Gas Pipelines and Oil Pipelines are principally comprised of the Company's respective natural gas and oil pipelines in Canada, the U.S. and Mexico and our regulated natural gas storage operations in the U.S. Energy includes the Company's power operations and the non-regulated natural gas storage business in Canada. Further information regarding our Natural Gas Pipelines, Oil Pipelines and Energy businesses is available in this AIF under the heading *Business of TCPL*.

Summarized below are significant developments that have occurred in TCPL's Natural Gas Pipelines, Oil Pipelines and Energy businesses, respectively, and the significant acquisitions, dispositions, events or conditions which have had an influence on that development, during the last three financial years.

## Developments in the Natural Gas Pipelines business

Date	Description of development
<b>Canadian Mainline</b>	
December 2009	The National Energy Board ("NEB") approved TCPL's application for 2010 final tolls for the Canadian Mainline, effective January 1, 2010. The 2010 calculated return on equity was 8.52 per cent. Reduced throughput and greater use of shorter distance transportation contracts resulted in an increase in tolls for 2010 compared to 2009.
December 2010	TCPL filed an application with the NEB for approval of the interim 2011 tolls for the Canadian Mainline which contained certain changes to the tolling mechanism to reduce long haul tolls. The NEB decided not to approve the tolls as requested in the interim tolls application and set the then current 2010 tolls as interim commencing January 1, 2011.
January - February 2011	TCPL received approval for revised interim tolls, effective March 1, 2011 which increased interim tolls to more closely align with tolls calculated in accordance with the 2007-2011 settlement with stakeholders and will more closely reflect the Canadian Mainline's costs and throughput for 2011.
September - October 2011	TCPL filed with the NEB a 2012 Tolls Application and Restructuring Proposal (the "Restructuring Proposal") designed to enhance the long-term economic viability of the Canadian Mainline. The application also seeks approval of tolls for 2012-2013, including an after tax weighted average cost of capital return of 7.0 percent assuming the Restructuring Proposal is approved. The Restructuring Proposal includes toll design and service and pricing modifications, a depreciation proposal, and geographic extension of the Alberta System service by NOVA Gas Transmission Ltd. ("NGTL") acquiring capacity on the Canadian Mainline and Foothills systems. The application has been set down for hearing (proceeding RH-003-2011) in the second to fourth quarters of 2012, and a decision is expected in late 2012 or early 2013.
November 2011	TCPL refiled a supplemental application with the NEB to construct \$130 million of new pipeline infrastructure on the Canadian Mainline, to receive Marcellus shale natural gas from the U.S. at the Niagara Falls receipt point for further transportation to Eastern markets. Subject to regulatory approval, deliveries from Niagara Falls are expected to begin at a rate of 230 million cubic feet per day ("MMcf/d") in November 2012 and then increase to 350 MMcf/d by November 2013.
November - December 2011	TCPL filed for and received approval to implement interim 2012 tolls on the Canadian Mainline effective January 1, 2012, at the same level as the currently approved 2011 final tolls. The NEB approved TCPL's application for 2011 final tolls for the Canadian Mainline at the level of the tolls that were being charged on an interim basis. Final 2011 tolls were calculated in accordance with previously approved toll methodologies and were based on the principles contained in the 2007-2011 settlement with stakeholders, with adjustments to reduce toll impacts. Certain aspects of the 2011 revenue requirement were rolled into the RH-003-2011

proceeding referred to above.

### **Alberta System**

February 2009	The NEB approved TCPL's June 2008 application for federal regulation of the Alberta System effective April 29, 2009.
February 2009	TCPL announced the successful completion of a binding open season, securing support for firm transportation contracts of 378 MMcf/d for the Horn River pipeline.
February 2010	TCPL filed an application with the NEB for approval to construct and operate the Horn River pipeline.
March 2010	The North Central Corridor expansion of the Alberta System was completed.
March 2010	The NEB approved TCPL's application after a public hearing to construct and operate the Groundbirch pipeline project.
June 2010	TCPL reached a three year settlement agreement with the Alberta System shippers and other interested parties and filed a 2010-2012 Revenue Requirement Settlement Application with the NEB.
August 2010	The NEB approved TCPL 's November 2009 application for the Alberta System's Rate Design Settlement and the commercial integration of the ATCO Pipelines system with the Alberta System.
September 2010	The NEB approved the Alberta System's 2010-2012 Revenue Requirement Settlement Application.
October 2010	The NEB approved final 2010 rates for the Alberta System, which reflect the Alberta System 2010-2012 Revenue Requirement Settlement and Rate Design Settlement.
December 2010	The NEB approved the interim 2011 tolls for the Alberta System reflecting the 2010-2012 Revenue Requirement Settlement and continuing to transition to the toll methodology approved in the Rate Design Settlement.
December 2010	Groundbirch pipeline was completed and began transporting natural gas from the Montney shale gas formation into the Alberta System.
January 2011	TCPL received approval from the NEB to construct the Horn River pipeline.

Date	Description of development
March 2011	TCPL commenced construction of the \$275 million Horn River project, with a targeted completion date of second quarter 2012. In addition, the Company executed an agreement to extend the Horn River pipeline by approximately 100 kilometer ("km") (62 miles) at an estimated cost of \$230 million. An application requesting approval to construct and operate this extension was filed with the NEB in October 2011. The total contracted volumes for Horn River, including the extension, are expected to be approximately 900 MMcf/d by 2020.
August 2011	The NEB approved construction of a 24 km (15 miles) extension of the Groundbirch pipeline and construction commenced in August, with an expected in service date of April 2012.
October 2011	Commercial integration of the NGTL and ATCO Pipelines systems commenced. Under an agreement, the facilities of NGTL and ATCO Pipelines are commercially operated as a single transmission system and transportation service is provided to customers by NGTL pursuant to NGTL's tariff and suite of rates and services. The agreement further identifies distinct geographic areas within Alberta for the construction of new facilities by each of NGTL and ATCO Pipelines.
October 2011	The NEB approved the construction of natural gas pipeline projects for the Alberta System with a capital cost of approximately \$910 million. Further pipeline projects with a total capital cost of approximately \$810 million are awaiting NEB decision.
November - December 2011	The regulatory decisions by which commercial integration of the NGTL and ATCO Pipelines systems were authorized are the subject of appeals to the Federal Court of Appeal. The timing of the hearing of the appeals is uncertain, but TCPL expects it to be before the end of 2012.
December 2011	TCPL filed for interim 2012 tolls on the Alberta System to be effective January 1, 2012. These tolls have been approved on an interim basis pending the outcome of the NEB's decision on the application filed for the Restructuring Proposal.

### **Mackenzie Gas Project**

December 2009	A Joint Review Panel of the Canadian government released a report on environmental and socio-economic factors in relation to the Mackenzie Gas Project. The report was submitted to the NEB as part of the review process for approval of the project.
December 2010	The NEB approved the proponents' application to construct the Mackenzie Gas Project subject to numerous conditions.
March 2011	The NEB issued a Certificate of Public Convenience and Necessity for the Mackenzie Gas Project.

### **Alaska Pipeline Project**

June 2009

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TCPL reached an agreement with ExxonMobil Corporation to jointly advance the Alaska Pipeline Project. A joint project team is developing the engineering, environmental, aboriginal relations and commercial work.

April 2010

The Alaska Pipeline open season commenced.

Third Quarter 2010

Interested shippers on the proposed Alaska Pipeline Project submitted conditional commercial bids in the open season that closed in July 2010. The Alaska Pipeline Project team continued to work with shippers to resolve conditional bids received as part of the project's open season in working toward a U.S. Federal Energy Regulatory Commission ("FERC") application deadline of October 2012 for the Alberta option that would extend from Prudhoe Bay to points near Fairbanks and Delta Junction, and then to the Alaska/Canada border where the pipeline would connect with a new pipeline in Canada.

January 2012

TCPL commenced initial discussions with Alaska North Slope producers regarding an alternative pipeline route, the liquefied natural gas option, that would extend from Prudhoe Bay to liquefied natural gas facilities, to be built by third parties, located in south-central Alaska.

### **Bison**

December 2010

Construction of Bison pipeline, a 487 km (303 miles) pipeline, was completed.

January 2011

Bison pipeline was placed into commercial service.

May 2011

TCPL closed the sale of a 25 per cent interest in each of Gas Transmission Northwest LLC and Bison Pipeline LLC to TC PipeLines, LP for a total transaction value of \$605 million, which included U.S. \$81 million or 25 percent of Gas Transmission Northwest LLC's debt outstanding.

### **GTN**

May 2011

TCPL closed the sale of a 25 per cent interest in each of Gas Transmission Northwest LLC and Bison Pipeline LLC to TC PipeLines, LP for a total transaction value of \$605 million, which included U.S. \$81 million or 25 percent of Gas Transmission Northwest LLC's debt outstanding.

November 2011

The FERC approved a settlement agreement between GTN and its shippers for new transportation rates to be effective January 2012 through December 2015. This settlement also requires GTN to file for new rates that are to be effective January 2016.

### **Great Lakes**

November 2009

The FERC initiated an investigation to determine whether rates on Great Lakes were just and reasonable. In response, Great Lakes Gas Transmission Limited Partnership filed a cost and revenue study with the FERC in February 2010.

July 2010

The FERC approved, without modification, the settlement stipulation agreement reached among Great Lakes Gas Transmission Limited Partnership, active

participants and the FERC trial staff. As approved, the stipulation and agreement applies to all current and future shippers on Great Lakes.

<b>Date</b>	<b>Description of development</b>
<b>North Baja</b> July 2009	TCPL completed the sale of North Baja Pipeline, LLC to TC PipeLines, LP.
<b>Guadalajara</b> May 2009	TCPL announced that it was the successful bidder on a contract to build, own and operate the Guadalajara pipeline.
June 2011	The Guadalajara pipeline was completed. TCPL and the Comisión Federal de Electricidad, Mexico's federal government owned electrical company have agreed to add a US\$60 million compressor station to the pipeline that is expected to be operational early in 2013.

Further information about developments in the Natural Gas Pipelines business can be found in the MD&A under the headings *TransCanada's Strategy, Natural Gas Pipelines Highlights*, *Natural Gas Pipelines Financial Analysis* and *Natural Gas Pipelines Opportunities and Developments*.

Developments in the Oil Pipelines business

<b>Date</b>	<b>Description of development</b>
<b>Keystone</b> August 2009	TCPL became sole owner of the Keystone project through the purchase of ConocoPhillips' remaining interest for US\$553 million and the assumption of US\$197 million of short-term debt.
March 2010	The NEB approved TCPL's application to construct and operate the Canadian portion of the Keystone U.S. Gulf Coast expansion ("Keystone XL").
April 2010	The U.S. Department of State issued a Draft Environmental Impact Statement for Keystone XL.
June 2010	Keystone commenced operating at a reduced maximum operating pressure as the first section of Keystone began delivering oil from Hardisty, Alberta to Wood River and Patoka in Illinois ("Wood River/Patoka").
November 2010	The open seasons for the Bakken Marketlink and Cushing Marketlink projects, which commenced in September 2010, closed successfully.
December 2010	The reduced maximum operating pressure restriction on the Canadian conversion section of the Wood River/Patoka section of Keystone was removed by the NEB following the completion of in-line inspections.
Fourth Quarter 2010	Construction of the second section of Keystone extending the pipeline from Steele City, Nebraska to Cushing, Oklahoma (the "Cushing Extension") was completed, and line fill commenced in late 2010.

January 2011	Required operational modifications were completed on the Canadian conversion section of Keystone. As a result, the system was capable of operating at the approved design pressure.
February 2011	The commercial in service of the Cushing Extension commenced, and the Company also commenced recording earnings for the Wood River/Patoka section.
May 2011	Revised tolls came into effect for the Wood River/Patoka section.
Second Quarter 2011	The U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration issued a corrective action order on Keystone as a result of two above-ground incidents at pump stations in North Dakota and Kansas. TCPL filed a re-start plan with the U.S. Pipeline and Hazardous Material Safety Administration which was approved in June 2011.
August 2011	TCPL received a Final Environmental Impact Statement regarding the Keystone XL U.S. Presidential Permit application.
November 2011	The U.S Department of State announced that further analysis of route options for Keystone XL would need to be investigated, with a specific focus on the Sandhills area of Nebraska. The review could be completed as early as the first quarter of 2013.
December 2011	TCPL announced that it received additional binding commitments in support of Keystone XL following the conclusion of the Keystone Houston Lateral open season, which commenced in August 2011.
January 2012	The U.S. Department of State denied TCPL's application requesting a Presidential Permit to construct Keystone XL. The Company plans to submit a revised Presidential Permit application for Keystone XL.

Further information about developments in the Oil Pipelines business can be found in the MD&A under the headings *TCPL's Strategy, Oil Pipelines Highlights*, *Oil Pipelines Financial Analysis* and *Oil Pipelines Opportunities and Developments*.

Developments in the Energy business

Date	Description of development
<b>Ravenswood</b>	
May 2009	Ravenswood's 981 MW Unit 30 returned to service. Subsequent to closing the acquisition of Ravenswood in August 2008, TCPL experienced a forced outage event related to the unit. TCPL has filed claims against the insurers to enforce its rights under the insurance policies and litigation proceedings are ongoing.
Third and Fourth Quarters 2011	Since July 2011, spot prices for capacity sales in the New York Zone J market have been negatively impacted by the manner in which the New York Independent System Operator ("NYISO") has applied pricing rules for a new power plant that recently began service in this market. TCPL believes that this application of pricing rules by the NYISO is in direct contravention of a series of the FERC orders which direct how new entrant capacity is to be treated for the purpose of determining capacity prices. TCPL and other parties have filed formal complaints with the FERC that are currently pending. The outcome of the complaints and longer-term impact that this development may have on Ravenswood is unknown. During third quarter 2011, the demand curve reset process was completed following the FERC's acceptance of the NYISO's September 22, 2011 compliance filing. This resulted in increased demand curve rates that apply going forward to 2014. Until the above noted NYISO actions relative to new unit pricing are resolved, capacity prices are expected to remain volatile
<b>Bécancour</b>	
June 2011	Hydro-Québec Distribution ("Hydro-Québec") notified TCPL it would exercise its option to extend the agreement to suspend all electricity generation from Bécancour throughout 2012. Under the original agreement, Hydro-Québec has the option, to extend the suspension on an annual basis until such time as regional electricity demand levels recover. TCPL continues to receive capacity payments under the agreement similar to those that would have been received under the normal course of operation.
<b>Bruce Power</b>	
November 2011	Bruce Power commenced the approximately six month West Shift Plus outage as part of the life extension strategy for Unit 3. Subject to regulatory approval, Unit 3 is expected to return to service in second quarter 2012.
February 2011	The Bruce Power Refurbishment Implementation Agreement (the "BPRIA") was amended to extend the suspension date for Bruce A contingent support payments from December 31, 2011 to June 1, 2012. Contingent support payments received from the OPA by Bruce A are equal to the difference between the fixed prices under the BPRIA and spot market prices. As a result of the amendment, all output from Bruce A will be subject to spot prices effective June 1, 2012 until the restart of both Units 1 and 2 is complete. Bruce Power and the OPA had amended certain terms and conditions of the BPRIA in July 2009, which included: amendments to the Bruce B

floor price mechanism, the removal of a support payment cap for Bruce A, an amendment to the capital cost-sharing mechanism, and addition of a provision for deemed generation payments to Bruce Power at the contracted prices under circumstances where generation from Bruce A and Bruce B is reduced due to system curtailments on the Independent Electricity System Operator controlled grid in Ontario. Under the original BPRIA, which was signed in 2005, Bruce A committed to refurbish and restart the currently idle Units 1 and 2, extend the operating life of Unit 3 and replace the steam generators on Unit 4. Fuelling of both Unit 2 and Unit 1 has now been completed and the final phases of commissioning for Unit 2 are underway. Subject to regulatory approval, Bruce Power expects to commence commercial operations of Unit 2 in first quarter 2012 and commercial operations of Unit 1 in third quarter 2012.

### **Portlands Energy**

April 2009                      The 550 megawatt ("MW") Portlands Energy power plant was fully commissioned.

### **Oakville Generating Station**

September 2009              The OPA advised TCPL that it was awarded a 20 year Clean Energy Supply contract to build, own and operate a 900 MW generating station in Oakville, Ontario.

October 2010                 The Government of Ontario announced that it would not proceed with the Oakville generating station.

August 2011                  TCPL, the Government of Ontario and the OPA reached a formal agreement to use arbitration to settle a dispute resulting from termination of the 20 year Clean Energy Supply contract with the OPA referred to above.

### **Cartier Wind**

Third Quarter 2009         Construction activity began on the Cartier Wind's 212 MW Gros-Morne and 58 MW Montagne-Sèche wind farms.

November 2011              The Montagne-Sèche project and phase one of the Gros-Morne wind farm were completed.

### **Coolidge**

August 2009                 TCPL began construction of the 575 MW Coolidge power generating station.

May 2011                     Coolidge power generating station was completed and placed in service.

<b>Date</b>	<b>Description of development</b>
<b>Kibby Wind</b>	
October 2009	The 22 turbine, 66 MW first phase of Kibby Wind was completed and placed in service.
October 2010	The 22 turbine, 66 MW second phase of Kibby Wind was completed and placed in service.
<b>Sundance</b>	
February 2011	TCPL received notice from TransAlta Corporation ("TransAlta") under the Sundance A power purchase arrangement that TransAlta determined that the Sundance 1 and 2 generating units cannot be economically repaired, replaced, rebuilt or restored and that TransAlta therefore seeks to terminate the power purchase arrangement in respect of those units. In December 2010, the Sundance 1 and 2 generating units were withdrawn from service and were subject to a force majeure claim by TransAlta in January 2011. TCPL has disputed both claims under the binding dispute resolution process provided in the power purchase arrangement and both matters will be heard through a single binding arbitration process. The arbitration panel has scheduled a hearing in April 2012 for these claims.
<b>Halton Hills</b>	
September 2010	The 683 MW Halton Hills power plant was completed and placed in service.
<b>Ontario Solar</b>	
December 2011	Subject to a number of conditions precedent, TransCanada agreed to purchase nine Ontario solar power projects from Canadian Solar Solutions Inc. with a combined capacity of 86 MW for approximately \$470 million.

Further information about developments in the Energy business can be found in the MD&A under the headings *TCPL's Strategy*, *Energy Highlights*, *Energy Financial Analysis* and *Energy Opportunities and Developments*.

### **Business of TCPL**

We are a leading North American energy infrastructure company focused on Natural Gas Pipelines, Oil Pipelines and Energy. At Year End, Natural Gas Pipelines accounted for approximately 49 per cent of revenues and 48 per cent of TCPL's total assets, Oil Pipelines accounted for approximately 9 per cent of revenues and 19 per cent of TCPL's total assets and Energy accounted for approximately 42 per cent of revenues and 29 per cent of TCPL's total assets. The following table shows TCPL's revenues from operations by segment, classified geographically, for the years ended December 31, 2011 and 2010.

<b>Revenues from operations</b> <i>(millions of dollars)</i>	<b>2011</b>	<b>2010</b>
<b>Natural Gas Pipelines</b>		
Canada - Domestic	\$ 2,187	\$ 2,125
Canada - Export(1)	787	837

United States and other	1,526	1,411
	4,500	4,373
<b>Oil Pipelines</b>		
Canada - Domestic		
Canada - Export(1)	300	
United States and other	527	
	827	NIL
<b>Energy(2)</b>		
Canada - Domestic	2,649	2,243
Canada - Export(1)		1
United States and other	1,163	1,447
	3,812	3,691
<b>Total revenues(3)</b>	<b>\$ 9,139</b>	<b>\$ 8,064</b>

- (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.

The following is a description of each of TCPL's three main areas of operations.

#### Natural Gas Pipelines business

TCPL has substantial Canadian and U.S. natural gas pipeline and related holdings, including those listed below. The following natural gas pipelines are owned 100 per cent by TCPL unless otherwise stated.

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TCPL has the following natural gas pipelines and related holdings in Canada:

The Canadian Mainline is a 14,101 km (8,762 miles) pipeline 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.

The Alberta System is a 24,373 km (15,145 miles) pipeline system in Alberta and northeast British Columbia ("B.C.") which gathers natural gas for use within the province of Alberta and delivers it to provincial boundary points for connection with the Canadian Mainline and Foothills and with third party natural gas pipelines. During the past three completed financial years TCPL has enhanced the operating capacity of the Alberta System as follows:

the North Central Corridor, which extends the northern section of the Alberta System, was completed in March 2010;

the Groundbirch pipeline was completed in December 2010, connecting the Alberta System to natural gas supplies from the Montney shale gas formation in northeast B.C.; and

TCPL continues to advance further pipeline development in B.C. and Alberta to transport unconventional shale gas supply as follows:

in January 2011, TCPL received approval from the NEB to construct the proposed Horn River pipeline, an extension of the Alberta System to serve production from the new shale gas supply in the Horn River basin north of Fort Nelson, B.C. The Horn River pipeline is expected to be operational in the second quarter 2012. The Company has executed an agreement to extend the Horn River pipeline by approximately 100 km (62 miles), and an application requesting approval to construct and operate this extension was filed with the NEB in October 2011. This extension is projected to commence in 2014; and

the Company has filed applications with the NEB requesting approval for expansions to the Alberta System to accommodate requests for additional natural gas transmission service throughout the northwest and northeast portions of the Western Canada Sedimentary Basin. These new requests are expected to result in the need for further extensions and expansions of the Alberta System.

Foothills is a 1,241 km (771 miles) pipeline system in Western Canada which 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.

TransCanada Pipeline Ventures LP owns a 161 km (100 miles) pipeline and related facilities that supply natural gas to the oil sands region near Fort McMurray, Alberta as well as a 27 km (17 miles) pipeline that supplies natural gas to a petrochemical complex at Joffre, Alberta.

TQM is a 572 km (355 miles) pipeline system that connects with the Canadian Mainline near the Québec/Ontario border and transports natural gas to markets in Québec, and connects with the Portland system. TCPL has a 50 per cent ownership interest in TQM and operates this pipeline.

The Mackenzie Gas Project is a proposed pipeline extending 1,196 km (743 miles) that would connect northern onshore natural gas fields with North American markets. TCPL has the right to acquire an equity interest in the project.

TCPL has the following natural gas pipelines and related holdings in the U.S.:

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ANR is a 16,656 km (10,350 miles) pipeline system which transports natural gas from producing fields located in the Texas and Oklahoma panhandle regions, from the offshore and onshore regions of the Gulf of Mexico, and from the U.S. midcontinent region to markets located mainly in Wisconsin, Michigan, Illinois, Indiana and Ohio. ANR also connects with other natural gas pipelines, providing access to diverse sources of North American supply, including Western Canada, and the mid-continent and Rocky Mountain supply regions, and a variety of markets in the Midwestern and Northeastern U.S.

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Underground gas storage facilities owned and operated by American Natural Resources Company and ANR Storage Company provide regulated gas storage services to customers on the ANR and Great Lakes systems in upper Michigan. The ANR business unit owns and operates natural gas storage facilities throughout the State of Michigan with total natural gas storage capacity of 250 billion cubic feet ("Bcf").

GTN is TCPL's 2,178 km (1,353 miles) pipeline system that transports Western Canada Sedimentary Basin and Rocky Mountain sourced natural gas to third party natural gas pipelines and markets in Washington, Oregon and California, and connects with the Tuscarora Gas Transmission Company's pipeline ("Tuscarora"). TCPL operates GTN and effectively owns 83.3 per cent of the system through the combination of its direct ownership and its 33.3 per cent interest in TC PipeLines, LP which owns a 25 per cent interest in the pipeline.

Great Lakes is a 3,404 km (2,115 miles) natural gas pipeline system connecting to the Canadian Mainline and serving markets primarily in Eastern Canada and the Northeastern and Midwestern U.S. TCPL operates Great Lakes and effectively owns 69.0 per cent of the system through its 53.6 per cent ownership interest and its indirect ownership, which it has through its 33.3 per cent interest in TC PipeLines, LP.

Bison is a 487 km (303 miles) pipeline from the Powder River Basin in Wyoming connecting to the Northern Border pipeline in Morton County, North Dakota. Bison became operational in January 2011. TCPL operates Bison and effectively owns 83.3 per cent of the system through the combination of its direct ownership interest and its indirect ownership, which it has through its 33.3 per cent interest in TC PipeLines, LP.

Northern Border is 50 per cent owned by TC PipeLines, LP and is a 2,265 km (1,407 miles) natural gas pipeline system, which serves the U.S. Midwest. TCPL operates Northern Border and effectively owns 16.7 per cent of the system through its 33.3 per cent interest in TC PipeLines, LP.

Tuscarora is 100 per cent owned by TC PipeLines, LP. TCPL operates Tuscarora, a 491 km (305 miles) pipeline system transporting natural gas from GTN at Malin, Oregon to Wadsworth, Nevada, with delivery points in northeastern California and northwestern Nevada. TCPL effectively owns 33.3 per cent of the system through its 33.3 per cent interest in TC PipeLines, LP.

North Baja is 100 per cent owned by TC PipeLines, LP. TCPL operates North Baja, a pipeline system which extends 138 km (86 miles) from Ehrenberg, Arizona to a point near Ogilby, California on the California/Mexico border and connects with a third party natural gas pipeline system in Mexico. TCPL operates North Baja and effectively owns 33.3 per cent of the system through its 33.3 per cent interest in TC PipeLines, LP.

Iroquois is a pipeline system that 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 (414 miles) pipeline system.

Portland is a 474 km (295 miles) 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 Portland and operates this pipeline.

TCPL holds a 33.3 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 Northern Border, 46.4 per cent interest in Great Lakes, 25 per cent interest in GTN, 25 per cent interest in Bison, 100 per cent of Tuscarora and 100 per cent of North Baja.

The Alaska Pipeline Project is a proposed natural gas pipeline and treatment plant. The pipeline would extend 2,737 km (1,700 miles) from the natural gas treatment plant at Prudhoe Bay, Alaska to Alberta, or an alternative pipeline to Valdez,

Alaska. The Alaska Pipeline Project is a joint effort between TCPL and ExxonMobil Corporation.

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

TransGas is a 344 km (214 miles) 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.

Owned 30 per cent by TCPL, Gas Pacifico is a 540 km (336 miles) 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.

Tamazunchale is a 130 km (81 miles) 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.

The Guadalajara pipeline was completed in June 2011, and extends 310 km (193 miles), transporting natural gas from a liquefied natural gas terminal near Manzanillo on Mexico's Pacific coast to Guadalajara in Mexico.

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

### Oil Pipelines business

The Company's Keystone pipeline system and other opportunities in TCPL's Oil Pipelines business are described below.

Keystone is a 3,467 km (2,154 miles) crude oil pipeline extending from Hardisty, Alberta, to U.S. markets at Wood River and Patoka in Illinois, and from Steele City, Nebraska to Cushing, Oklahoma. The Wood River/Patoka and Cushing Extension sections commenced commercial operations in June 2010 and February 2011, respectively. In January 2012, the U.S. Department of State denied TCPL's application to construct Keystone XL, a 2,673 km (1,661 miles) extension and expansion of the pipeline to the U.S. Gulf Coast. The Company intends to re-apply for a Presidential Permit for Keystone XL.

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

### Regulation of the Natural Gas and Oil Pipelines businesses

#### Canada

##### *Natural Gas Pipelines*

Under the terms of the National Energy Board Act (Canada), the Canadian Mainline, TQM, Foothills, and the Alberta System (collectively the "Systems") are regulated by the NEB. The NEB sets tolls that provide TCPL the opportunity to recover costs of transporting natural gas, including the return of capital (depreciation) and return on the average investment base for each of the Systems. In addition, new facilities are approved by the NEB before construction begins and the NEB regulates the operations of each of the Systems. Net earnings of the Systems may be affected by changes in investment base, the allowed return on equity, and any incentive earnings.

##### *Oil Pipelines*

The NEB regulates the terms and conditions of service, including rates, and the physical operation of the Canadian portion of the Keystone system. NEB approval is also required for facility additions. The rates for

transportation service on the Keystone system are calculated in accordance with a methodology agreed to in transportation service agreements between Keystone and its shippers, and approved by the NEB.

## United States

### *Natural Gas Pipelines*

TCPL's wholly owned and partially owned U.S. pipelines, including the ANR, Bison, GTN, Great Lakes, Iroquois, Portland, Northern Border, North Baja and Tuscarora systems, are considered "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.

### *Oil Pipelines*

The FERC also regulates the terms and conditions of service, including transportation rates, on the U.S. portion of the Keystone system. Certain states in which Keystone has rights of way also regulate construction and siting of Keystone.

## Energy business

The Energy segment of our 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.

The electrical power generation plants and power supply that TCPL has an interest in, including those under development, in the aggregate, represent more than 10,800 MW of power generation capacity. Power plants and power supply in Canadian power account for approximately 65 per cent of this total, and power plants in U.S. power account for the balance, being approximately 35 per cent.

TCPL owns and operates the following facilities:

Ravenswood generating station, a 2,480 MW power plant located in Queen's, New York which consists of multiple units employing dual fuel-capable steam turbine, combined-cycle and combustion turbine technology.

Halton Hills, a 683 MW natural gas-fired combined-cycle power plant in Halton Hills, Ontario which is contracted under a 20 year Clean Energy Supply contract with the OPA.

Kibby Wind, a 132 MW wind farm located in the Kibby and Skinner Townships in Maine.

TC Hydro, TCPL's hydroelectric facilities located in New Hampshire, Vermont and Massachusetts on the Connecticut and Deerfield Rivers, consists of 13 hydroelectric facilities, including stations and associated dams and reservoirs, with a total generating capacity of 583 MW.

Ocean State Power, a 560 MW natural gas-fired, combined-cycle facility in Burrillville, Rhode Island.

Bécancour, a 550 MW natural gas-fired cogeneration power plant located near Trois-Rivières, Québec. The entire power output is supplied to Hydro-Québec which is contracted under a 20 year power purchase agreement expiring in 2026.

Natural gas-fired cogeneration plants in Alberta at Carseland (80 MW), Redwater (40 MW), Bear Creek (80 MW) and MacKay River (165 MW).

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Grandview, a 90 MW natural gas-fired cogeneration power plant located on the site of the Irving Oil Limited oil refinery in Saint John, New Brunswick. Irving Oil Limited is under a 20 year tolling arrangement that expires in 2025, to supply fuel for the plant and to contract 100 per cent of the plant's heat and electricity output.

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Cancarb, a 27 MW facility located in Medicine Hat, Alberta fuelled by waste heat from TCPL's adjacent thermal carbon black facility.

Edson, an underground natural gas storage facility connected to the Alberta System near Edson, Alberta.

Coolidge, a 575 MW simple-cycle, natural gas-fired peaking power generation station in Arizona. Coolidge, which was placed in service in May 2011, operates under a 20 year power purchase agreement with the Salt River Project Agricultural Improvement and Power District.

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

TCPL has the rights to 100 per cent of the generating capacity of the 560 MW Sundance A coal-fired power generation facility under a power purchase arrangement that expires in 2017. TCPL also has a 50 per cent interest in ASTC Power Partnership, which has a power purchase arrangement that expires in 2020, in place for 100 per cent of the production from the 706 MW Sundance B power facility. The Sundance facilities are located in south-central Alberta.

The Sheerness facility, which consists of two coal-fired thermal power generating units, is located in Southeastern Alberta. TCPL has the rights to 756 MW of generating capacity from the Sheerness power purchase arrangement that expires in 2020.

TCPL has interests in the following:

Bruce Power is a nuclear power generation facility located northwest of Toronto, Ontario and comprises Bruce A and Bruce B. Bruce A has four 750 MW reactors, two of which are being refurbished. The two units being refurbished are expected to resume commercial operations in first and third quarter 2012, respectively. Bruce B has four operating reactors with a combined capacity of 3,200 MW. Bruce A subleases Units 1 to 4 from Bruce B, and Bruce B consists of Units 5 to 8. TCPL owns a 48.8 per cent interest in Bruce A and a 31.6 per cent interest in Bruce B.

A 60 per cent ownership in CrossAlta, which is a 68 Bcf underground natural gas storage facility connected to the Alberta System near Crossfield, Alberta. The facility's central processing system is capable of maximum injection and withdrawal rates of 550 MMcf/d of natural gas. TCPL owns 60 per cent of CrossAlta and, through an agreement made effective July 1, 2011, is now the operator of the facility.

A 62 per cent interest in the Cartier Wind energy project. The Carleton (109 MW), Anse-à-Valleau (101 MW) and Baie-des-Sables (110 MW) commenced commercial operation in November 2008, November 2007 and November 2006, respectively. Montagne-Sèche (58 MW) and the first phase of Gros-Morne (101 MW) commenced commercial operation in November 2011. The second phase of Gros-Morne (111 MW) is expected to be operational in December 2012. All of the power produced by Cartier Wind is sold to Hydro-Québec Distribution under a 20 year power purchase agreement.

Portlands Energy, a 550 MW, combined-cycle natural gas power plant located in Toronto, Ontario, is 50 per cent owned by TCPL, and is operated by TCPL under a 20 year Accelerated Clean Energy Supply contract with the OPA.

Further information about the Company's energy holdings and significant developments and opportunities in relation to Energy can be found in the MD&A under the headings *Energy*, *Energy Highlights*, *Energy Financial Analysis*, and *Energy Opportunities and Developments*.

## General

### Employees

At Year End, TCPL had approximately 4,300 full time active employees, substantially all of whom were employed in Canada and the U.S., as set forth in the following table.

Calgary	1,955
Western Canada (excluding Calgary)	451
Houston	467
U.S. Midwest	440
U.S. Northeast	403
Eastern Canada	253
U.S. Southeast/Gulf Coast	246
U.S. West Coast	79
Mexico and South America	5
<b>Total</b>	<b>4,299</b>

### Social and environmental policies

Health, safety and environment ("HSE") are top priorities in all of TCPL's operations and business activities. These areas are guided by our HSE Commitment Statement, which outlines guiding principles for a safe and healthy environment for TCPL's employees, contractors and the public, and for our commitment to protect the environment. All employees are responsible for TCPL's HSE performance. We are committed to being an industry leader in conducting our business so that it meets or exceeds all applicable laws and regulations, and minimizes risk to the public, and the environment. We are committed to continually improving our HSE performance, and to promoting safety on and off the job, in the belief that all occupational injuries and illnesses are preventable. We endeavour to do business with companies and contractors that share our perspective and expectation on HSE performance and influence them to improve their collective performance. We are committed to respecting the diverse environments and cultures in which we operate and to support open communication with our stakeholders.

The Health, Safety and Environment Committee of our Board of Directors (the "Board") monitors compliance with the Company's HSE corporate policy through regular reporting. TCPL's integrated HSE management system is modeled after the International Organization for Standardization standard for environmental management systems, ISO 14001; and the Occupational Health and Safety Assessment Series (OHSAS 18001) for occupational health and safety. Our HSE management system conforms to external industry consensus standards and voluntary regulatory programs and complies with applicable legislated requirements and various other internal management systems. Resources are focused on the areas of significant risk to the organization's HSE business activities. Management is informed regularly of all important and/or significant HSE operational issues and initiatives through formal reporting and incident management processes. TCPL's HSE management system and performance are assessed by an independent outside firm every three years. The most recent assessment occurred in 2009 and did not identify any material issues. The HSE management system is subject to ongoing internal and external review to ensure that it remains effective as circumstances change.

As one of TCPL's priorities, safety is an integral part of the way our employees work. In 2011, one of our objectives was to sustain health and safety performance year over year. Overall, TCPL's safety frequency rates in 2011 continued to be better than most industry benchmarks.

The safety and integrity of our existing and newly-developed infrastructure is also a top priority. All new assets are designed, constructed and commissioned with full consideration given to safety and integrity, and are brought in service only after all necessary requirements have been satisfied. We expect to spend approximately \$322 million in 2012 for pipeline integrity on pipelines we operate, an increase of approximately

\$78 million over 2011 primarily due to increased levels of in-line pipeline inspection on all systems. Under the approved regulatory models in Canada, non-capital pipeline integrity expenditures on our NEB-regulated pipelines are treated on a flow-through basis and, as a result, these expenditures have no impact on TCPL's earnings. Under the Keystone transportation contracts, pipeline integrity expenditures are recovered through the tolling mechanism and, as a result, these expenditures have no impact on TCPL's earnings. Our pipeline safety record in 2011 continued to be better than industry benchmarks. We experienced two pipeline breaks in 2011 on pipelines we operate. The first break occurred in a remote part of Northern Ontario on the Canadian Mainline pipeline system. The second break occurred in a remote part of Wyoming on the Bison pipeline system. Spending associated with public safety on the Energy assets is focused primarily on the Company's hydro dams and associated equipment and is slightly higher than previous years due to increased spending to repair damage from the high flow events of 2011 caused by Hurricane Irene.

Environmental controls including physical design, programs, procedures and processes are in place to effectively manage TCPL's environmental risk factors. With respect to physical risks arising from climate change, we have in place a set of procedures to manage our response to natural disasters such as forest fires, tornadoes, earthquakes, floods, volcanic eruptions and hurricanes regardless of cause. These procedures are included in TCPL's Operating Procedures and are part of the Company's Incident Management System. The procedures are in place to protect the health and safety of our employees and to limit the impact to the environment of any operational upsets caused by a natural disaster.

With respect to business opportunities, the Company has well established processes and criteria for assessing new business opportunities including those that may arise as a result of climate change policies. These processes have been and continue to be key contributors to our financial strength and success. Governments in North America are developing long-term plans for limiting greenhouse gas ("GHG") emissions. These plans, combined with a shift in consumer attitude and demand for low-emissions fuels, will require changes in energy supply and infrastructure. With the Company's experience in pipeline transmission and power generation, TCPL is well-positioned to participate in these opportunities.

#### **Aboriginal, Native American and stakeholder engagement**

We recognize that an enhanced level of engagement of a wide variety of stakeholders in our business activities can have a significant impact on the Company's ability to obtain approvals for new assets and to maintain our social licenses to operate. TCPL has a number of policies, guiding principles and practices in place to help manage stakeholder engagement. TCPL has adopted a code of business ethics which applies to our employees that is based on the Company's four core values of integrity, collaboration, responsibility and innovation, which guide the interaction between and among the Company's employees and serve as a standard for TCPL in our dealings with all stakeholders. The code may be viewed on our website ([www.transcanada.com](http://www.transcanada.com)).

Our approach to stakeholder engagement is based on building relationships, mutual respect and trust while recognizing the unique values, needs and interests of each community. Key principles that guide TCPL's engagement include: the Company's respect for the diversity of Aboriginal/Native American communities and recognition of the importance of the land to these communities; and our belief in engaging stakeholders from the earliest stages of our projects, through the project development process and into operations.

#### **Environmental protection**

TCPL's facilities are subject to stringent federal, state, provincial, and local environmental statutes and regulations governing environmental protection, including, but not limited to, air emissions and GHG emissions, water quality, wastewater discharges and waste management. Such laws and regulations generally require facilities to obtain or comply with a wide variety of environmental registrations, licences, permits and other approvals and requirements. Failure to comply with these laws and regulations may result in the assessment of administrative, civil or criminal penalties, the imposition of remedial requirements and/or the issuance of orders respecting future operations. We have ongoing inspection programs designed to keep all of our facilities in compliance with environmental requirements.

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At December 31, 2011, TCPL recorded liabilities of approximately \$69 million (2010 \$84 million) for remediation obligations and compliance costs associated with certain environmental regulations. We believe that the Company has considered all necessary contingencies and established appropriate reserves for environmental liabilities; however, there is the risk that unforeseen matters may arise requiring us to set aside additional amounts.

TCPL is not aware of any material outstanding orders, claims or lawsuits against it in relation to the release or discharge of any material into the environment or in connection with environmental protection.

The Company owns assets in four regions, Alberta, Québec, B.C., and the Northeastern U.S., where regulations exist to address industrial GHG emissions. We have procedures in place to comply with these regulations. In Alberta, under the *Specified Gas Emitters Regulation*, industrial facilities emitting GHG emissions over an intensity threshold level are required to reduce the intensity of GHG emissions by 12 per cent below an average baseline. Our Alberta-based facilities are subject to this regulation, as are the Sundance and Sheerness coal-fired power facilities with respect to which TCPL has certain rights under power purchase arrangements. TCPL has a program in place to manage the compliance costs incurred by these assets as a result of the regulation. Compliance costs on the Alberta System are recovered through tolls paid by customers. Some of the compliance costs from the Company's power generation facilities in Alberta are recovered through market pricing and contract flow-through provisions. TCPL has estimated and recorded GHG emissions related costs of \$13 million for 2011 (2010 \$22 million), after contracted cost recovery.

In Québec, the natural gas distributor collects the hydrocarbon royalty on behalf of the provincial government through a green fund contribution charge on gas consumed. In 2011, the cost pertaining to the Bécancour facility arising from the hydrocarbon royalty was less than \$1 million as a result of an agreement between TCPL and Hydro-Québec to temporarily suspend the facility's power generation.

The carbon tax in B.C., which came into effect in mid-2008, applies to carbon dioxide ("CO<sub>2</sub>") emissions from fossil fuel combustion. Compliance costs for fuel combustion at the Company's compressor and meter stations in B.C. are recovered through tolls paid by customers. Costs related to the carbon tax in 2011 were approximately \$3 million (2010 \$4 million). The cost per tonne of CO<sub>2</sub> will be increased in July 2012 to \$30.00 from \$25.00.

States in the northeastern U.S. that are members of the Regional Greenhouse Gas Initiative ("RGGI") implemented a CO<sub>2</sub> cap-and-trade program for electricity generators effective in January 2009. Under the RGGI, both the Ravenswood and Ocean State Power generation facilities were required to submit allowances following the end of the first compliance period on December 31, 2011. TCPL participated in the quarterly auctions of allowances for the Ravenswood and Ocean State Power generation facilities and incurred related costs of \$4 million in 2011 (2010 \$5 million). These costs were generally recovered through the power market and the net impact on TCPL was not significant.

### **Risk factors**

#### **Environmental risk factors**

##### **Environmental risks**

Environmental risks from our operating facilities typically include: air emissions and GHG emissions; potential impacts on land, including land reclamation or restoration following construction; the use, storage and release of hydrocarbons or other chemicals; the generation, handling and disposal of wastes and hazardous wastes; and water impacts such as uncontrolled water discharge.

TCPL's assets are located throughout North America and the Company's facility design must deal with different geographical areas. In northern regions, changing permafrost distribution due to warmer temperatures have been experienced, however, very few kilometers of our pipeline systems are currently in permafrost regions. If we build new facilities in northern areas, the Company's facility designs will take into account the potential for changing permafrost distribution.

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As mentioned above, our operations are subject to various environmental laws and regulations that establish compliance and remediation obligations. Compliance obligations can result in significant costs associated with installing and maintaining pollution controls, fines and penalties resulting from any failure to comply, and potential limitations on operations. Remediation obligations can result in significant costs associated with the investigation and remediation of contaminated properties, and with damage claims arising from the contamination of properties. It is not possible for TCPL to estimate the amount and timing of all future expenditures related to environmental matters due to:

uncertainties in estimating pollution control and clean up costs, including at sites where only preliminary site investigation or agreements have been completed

the potential discovery of new contaminated sites or additional information at existing contaminated sites

the uncertainty in quantifying the Company's liability under environmental laws that impose joint and several liability on all potentially responsible parties

the evolving nature of environmental laws and regulations, including the interpretation and enforcement of them; and

the potential for litigation on existing or discontinued assets.

### **Changing legislation and regulations**

The impact of new or proposed federal, state, and/or provincial safety and environmental laws, regulations, guidelines and enforcement in Canada and the U.S. on our business is not yet certain. We make assumptions about possible expenditures for safety and environmental matters based on current laws and regulations and interpretations thereof. If the laws or regulations or the interpretation thereof changes, the Company's assumptions may change. Incremental costs may or may not be recoverable under existing rate structures or commercial agreements. Proposed changes in environmental policy, legislation or regulation are routinely monitored by TCPL, and where the risks are potentially large or uncertain, the Company works independently or through industry associations to comment on proposals.

In April 2010, the Environmental Protection Agency ("EPA") published an Advanced Notice of Proposed Rulemaking to solicit comments with respect to EPA reassessment of current regulations under the *Toxic Substances Control Act*, governing the authorized use of polychlorinated biphenyls in certain equipment. Following a review of comments, the EPA has indicated that the use authorization for pipelines will likely remain in place but that requirements to use the authorization may become more strict. These changes would likely result in increased costs for our impacted pipelines. Proposed EPA rules are expected in 2012.

In Canada, development of the major elements of an Air Quality Management System ("AQMS") continued in 2011 following endorsement of the AQMS in October 2010 by the Canadian Council of Ministers of the Environment. Two key aspects of the AQMS are of particular interest to us: the Base Level Industry Emissions Standards, which assumes that all significant industrial sources of emissions in Canada should be expected to meet, base-level of environmental performance; and air zone management, which is intended to address the sources of air pollution and the actions that are required to ensure that a specified level of air quality is improved or maintained in a specified region. While our Canadian based facilities would likely be impacted by AQMS, the potential financial impact of this initiative is currently unknown.

Regulation of air pollutant emissions under the U.S. *Clean Air Act* and state regulations continue to evolve. A number of EPA initiatives could lead to impacts ranging from requirements to install enhanced emissions control equipment, to additional administrative and reporting requirements. At this time, there is insufficient detail to accurately determine the potential impacts of these initiatives. While the majority of the proposals are not expected to be material to TCPL, we anticipate additional future costs related to the monitoring and control of air emissions.

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In addition to those climate change policies already in place, there are also federal, regional, state, and provincial initiatives currently in development. While recent political and economic events may significantly affect the scope and timing of new policies, we anticipate that most of the Company's facilities in Canada and the U.S. are or will be subject to federal and/or regional climate change regulations to manage industrial GHG emissions.

In August 2011, the Canadian government published the first sector specific draft regulation that will impact industrial GHG emissions. This proposed regulation is focused on the coal-fired generation of electricity and requires a natural gas performance standard for all coal-fired facilities reaching the end of their economic life. The draft regulation is expected to come into effect in July 2015. This process is not expected to pose a significant risk or financial impact to our existing facilities and may present opportunities for new power generation investment. Additional sectors, including the natural gas-fired generation of electricity and upstream oil and gas facility sectors, are expected to begin consultations with Environment Canada.

The Western Climate Initiative ("WCI") continues to work toward implementing a regional cap-and-trade program. California and Québec are the only WCI members with cap-and-trade regulations. In December 2011, the Government of Québec adopted the "Regulation respecting the cap-and-trade system for greenhouse gas emission allowances". The initial phase of the cap-and-trade system will begin January 1, 2013. The regulation will have a limited impact on TCPL's Bécancour power generation facility and natural gas pipeline assets. With respect to California, the Air Resources Board adopted a cap-and-trade regulation in October 2011. The regulation is divided into two phases: the first, beginning in 2013, will include all major industrial sources and electricity utilities; the second, starting in 2015, will cover distributors of transportation fuels, natural gas and other fuels. The regulation may impact the Company's importation of electricity into the state.

TCPL monitors climate change policy developments and, when warranted, participates in policy discussions in jurisdictions where we have operations. We are also continuing our programs to manage GHG emissions from our facilities and to evaluate new processes and technologies that result in improved efficiencies and lower GHG emission rates. For example, in 2011 TCPL participated in a number of multi-stakeholder expert groups that were established to develop equipment standards in Canada. TCPL participated both independently and through industry associations.

### Other risk factors

A discussion of the Company's risk factors can be found in the MD&A under the headings *Natural Gas Pipelines Opportunities and Developments, Natural Gas Pipelines Business Risks, Natural Gas Pipelines Outlook, Oil Pipelines Opportunities and Developments, Oil Pipelines Business Risks, Oil Pipelines Outlook, Energy Opportunities and Developments, Energy Business Risks, Energy Outlook, and 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 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 in the following quarter. Currently, TransCanada's payment of dividends is primarily funded from dividends it receives as the sole common shareholder of TCPL. 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 holders of TCPL's cumulative redeemable first preferred shares, series U (the "Series U Preferred Shares") are entitled to receive as and when declared by the Board, fixed cumulative cash dividends at an annual rate of \$2.80 per share, payable quarterly. The dividends declared per share on TCPL's respective

common shares, Series U Preferred Shares, and cumulative redeemable first preferred shares, series Y (the "Series Y Preferred Shares") during the past three completed financial years are set forth in the following table.

	2011	2010	2009
Dividends declared on common shares <sup>(1)</sup>	\$ 1.75	\$ 1.67	\$ 1.62
Dividends declared on Series U Preferred Shares	\$ 2.80	\$ 2.80	\$ 2.80
Dividends declared on Series Y Preferred Shares	\$ 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 703,861,065 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 Preferred Shares and 4,000,000 Series Y 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.

### Series U Preferred Shares

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, the provisions described below.

The holders of the Series U Preferred Shares are entitled to receive dividends as set out above under *Dividends*.

The first preferred shares of each series rank on a parity with the first preferred shares of every other series, and are 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 of 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 Series U Preferred Shares 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 Series U Preferred Shares upon payment for each share at \$50.00 per share.

Except as provided by the CBCA 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 Series U Preferred Shares.

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 sixty-six and two-thirds per cent of the first preferred shares represented and voted at a meeting or adjourned meeting

of such holders.

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**Series Y Preferred Shares**

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

**Debt**

The following table sets out the issuances by TCPL of senior unsecured notes, medium term unsecured note debentures and junior subordinated notes with terms to maturity in excess of one year, during the 12 months ended December 31, 2011.

<b>Date Issued</b>	<b>Issue Price per \$1,000 Principal Amount of Notes</b>	<b>Aggregate Issue Price</b>
November 15, 2011	US\$998.67 <sup>(1)</sup>	US\$500,000,000
November 15, 2011	US\$994.00 <sup>(1)</sup>	US\$250,000,000

(1)

These notes were issued under the same base prospectus supplement. Notes maturing in 2021 were issued at 99.867 per cent and notes maturing in 2041 were issued at 99.400 per cent.

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 current credit ratings assigned to those outstanding classes of securities of TCPL which have been rated by DBRS Limited ("DBRS"), Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's ("S&P"):

	<b>DBRS</b>	<b>Moody's</b>	<b>S&amp;P</b>
Senior unsecured debt			
<i>Debentures</i>	A	A3	A-
<i>Medium-term notes</i>	A	A3	A-
Junior subordinated notes	BBB (high)	Baa1	BBB
Preferred shares	Pfd-2 (low)	Baa2	P-2
Commercial paper	R-1 (low)	-	A-2
Trending /rating outlook	Stable	Stable	Stable

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

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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.

The Company paid fees to each of DBRS, Moody's and S&P for the credit ratings rendered on each of the outstanding classes of securities noted above. No additional payments were made to DBRS, Moody's and S&P in respect of any other services provided to the Company during the past two years.

The information concerning the Company's credit ratings relates to the Company's financing costs, liquidity and operations. The availability of TCPL's funding options may be affected by certain factors, including the global capital market environment and outlook as well as the Company's financial performance. TCPL's access to capital markets at competitive rates is dependent on its credit rating and rating outlook, as determined by credit rating agencies such as DBRS, Moody's and S&P, and if TCPL's ratings were downgraded the Company's financing costs and future debt issuances could be unfavorably impacted. A description of the rating agencies' credit ratings listed in the table above is set out below.

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### DBRS Limited (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 all rating categories other than AAA and D. 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 in the third highest of ten rating categories and indicates good credit quality. The overall strength is not as favourable as higher rating categories, but any qualifying negative factors that exist are considered manageable. The A rating assigned to TCPL's senior unsecured debt is in the third highest of ten categories for long-term debt. Long-term debt rated A is good credit quality. The capacity for the payment of interest and principal is substantial, but of lesser credit quality than that of AA rated securities. Long-term debt rated A may be vulnerable to future events but qualifying negative factors are considered manageable. The BBB (high) rating assigned to junior subordinated notes is in the fourth highest of the ten categories for long-term debt. Long-term debt rated BBB is of adequate credit quality. The capacity for the payment of interest and principal is considered acceptable, but it may be vulnerable to future events. The Pfd-2 (low) rating assigned to TCPL's and TransCanada's preferred shares is in 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. In general, Pfd-2 ratings correspond with long-term debt rated in the A category.

### Moody's Investors Service, Inc. (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 from Aa through Caa, with 1 being the highest and 3 being the lowest. The A3 rating assigned to TCPL's senior unsecured debt is in 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 Baa 1 and Baa2 ratings assigned to TCPL's junior subordinated debt and preferred shares, respectively, are in the fourth highest of nine rating categories for long-term obligations, with the junior subordinated debt ranking slightly higher within the Baa rating category with a modifier of 1 as opposed to the modifier of 2 on the preferred shares. 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 from AA through CCC 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 in 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 slightly more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. As guarantor of a U.S. subsidiary's commercial paper program, TCPL has been assigned a commercial paper rating of A-2 which is the second highest of nine rating categories for short-term debt obligations. A short term debt rated A-2 is somewhat more susceptible to adverse effects of changes in economic conditions than higher rated categories; however, the capacity to meet all financial commitments remains satisfactory. The BBB and P-2 ratings assigned to TCPL's junior subordinated notes and TCPL's and TransCanada's preferred shares 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. During 2011 and 2012 to date, 738,507,894 common shares of TCPL were issued to TransCanada as set out in the following table:

<b>Date</b>	<b>Number of TCPL Common Shares</b>	<b>Price per TCPL Common Share</b>	<b>Aggregate Issuance Price</b>
December 15, 2011	56,324,806	\$41.61	\$2,400,000,000
January 30, 2012	6,509,161	\$41.48	\$270,000,000

TransCanada's common shares are listed on the Toronto Stock Exchange ("TSX") and the New York Stock Exchange ("NYSE") under the symbol "TRP". TransCanada's cumulative redeemable first preferred shares, series 1, 3 and 5 have been listed for trading on the TSX since September 30, 2009, March 11, 2010 and June 29, 2010, under the symbols "TRP.PR.A", "TRP.PR.B", and "TRP.PR.C", respectively. The following tables set forth the reported monthly high, low, and month-end closing trading prices and monthly trading volumes of the common shares of TransCanada on the TSX and the NYSE, and the respective series 1, 3, and 5 preferred shares on the TSX, for the period indicated:

**Common shares**

<b>Month</b>	<b>TSX (TRP)</b>				<b>NYSE (TRP)</b>			
	<b>High (\$)</b>	<b>Low (\$)</b>	<b>Close (\$)</b>	<b>Volume Traded</b>	<b>High (US\$)</b>	<b>Low (US\$)</b>	<b>Close (US\$)</b>	<b>Volume Traded</b>
December 2011	44.74	42.03	44.53	38,155,545	43.95	40.55	43.67	10,540,577
November 2011	42.90	39.25	42.88	40,551,335	42.54	38.62	41.80	22,065,841
October 2011	44.10	39.81	42.37	41,926,225	44.38	37.58	43.04	15,887,005
September 2011	43.23	40.27	42.54	33,171,287	43.79	39.08	40.49	16,346,869
August 2011	42.36	37.00	42.36	41,333,472	43.20	37.29	43.15	26,402,340
July 2011	42.39	39.42	40.14	32,882,839	44.08	40.66	41.95	8,871,558
June 2011	43.72	41.07	42.35	33,597,026	45.09	41.76	43.84	8,832,316
May 2011	43.48	40.75	43.39	27,895,419	44.97	42.10	44.83	7,444,917
April 2011	40.71	38.95	40.71	24,366,705	43.02	40.37	42.94	7,523,263
March 2011	39.64	37.73	39.31	36,681,641	40.76	37.88	40.53	12,204,704
February 2011	39.19	36.53	39.04	37,966,180	40.32	36.76	40.21	9,750,606
January 2011	38.40	36.10	36.55	32,309,382	38.61	36.12	36.54	8,313,201

**Series 1 preferred shares**

<b>Month</b>	<b>TSX (TRP.PR.A)</b>			
	<b>High (\$)</b>	<b>Low (\$)</b>	<b>Close (\$)</b>	<b>Volume Traded</b>
December 2011	26.50	25.85	26.21	154,033
November 2011	26.38	25.66	26.02	215,475
October 2011	26.05	25.71	25.97	305,469
September 2011	26.32	25.78	25.85	221,164
August 2011	26.28	25.65	25.85	156,599
July 2011	26.20	25.81	26.07	226,612
June 2011	26.24	25.68	25.94	278,119

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May 2011	26.25	25.65	25.66	1,207,022
April 2011	26.00	25.70	25.80	172,341
March 2011	26.00	25.40	25.75	282,270
February 2011	26.36	25.40	25.64	479,357
January 2011	26.25	25.75	26.21	601,031

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## Series 3 preferred shares

Month	TSX (TRP.PR.B)			
	High (\$)	Low (\$)	Close (\$)	Volume Traded
December 2011	25.89	24.94	25.75	165,577
November 2011	25.45	24.97	25.16	359,674
October 2011	25.39	24.96	25.25	350,993
September 2011	25.38	25.00	25.12	221,672
August 2011	25.67	24.81	25.01	278,636
July 2011	25.92	25.15	25.67	501,178
June 2011	25.54	24.93	25.20	343,637
May 2011	25.44	24.85	24.99	326,765
April 2011	25.39	24.93	25.20	328,708
March 2011	25.20	24.42	24.96	389,964
February 2011	25.35	24.36	24.79	336,606
January 2011	25.48	24.70	25.02	499,120

## Series 5 preferred shares

Month	TSX (TRP.PR.C)			
	High (\$)	Low (\$)	Close (\$)	Volume Traded
December 2011	26.67	25.58	25.80	175,643
November 2011	25.98	25.45	25.84	388,764
October 2011	25.60	25.00	25.49	696,761
September 2011	26.44	25.27	25.46	281,423
August 2011	26.00	25.45	25.77	308,562
July 2011	26.10	25.50	25.88	199,978
June 2011	26.10	25.33	25.56	170,757
May 2011	25.90	25.45	25.80	450,511
April 2011	25.73	25.27	25.52	154,113
March 2011	25.89	25.19	25.73	724,705
February 2011	25.76	25.12	25.39	378,470
January 2011	26.15	25.28	25.49	541,030

In addition, the Series U Preferred Shares and Series Y Preferred Shares are listed on the TSX under the symbols "TCA.PR.X" and "TCA.PR.Y", respectively. The following table sets forth the reported monthly high and low trading prices and monthly trading volumes of the Series U Preferred Shares and the Series Y Preferred Shares.

## Series U Preferred Shares and Series Y Preferred Shares

Month	Series U (TCA.PR.X)				Series Y (TCA.PR.Y)			
	High (\$)	Low (\$)	Close (\$)	Volume Traded	High (\$)	Low (\$)	Close (\$)	Volume Traded

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December 2011	53.25	52.01	52.22	30,890	53.26	52.16	52.75	32,847
November 2011	53.20	50.00	52.86	37,032	53.34	52.12	52.72	47,968
October 2011	52.49	50.65	52.33	38,222	52.59	51.01	52.16	35,562
September 2011	52.21	50.87	51.05	35,488	53.27	50.90	51.39	41,283
August 2011	51.79	50.25	51.06	64,190	51.99	50.30	51.31	72,989
July 2011	50.65	50.04	50.42	56,925	50.74	50.01	50.12	52,823
June 2011	51.06	50.04	50.29	70,166	51.11	49.93	50.10	50,688
May 2011	50.94	50.04	50.52	44,395	50.79	49.96	50.63	69,084
April 2011	50.35	49.95	50.24	127,788	50.44	49.95	50.25	92,921
March 2011	50.60	49.82	49.91	164,677	50.61	49.80	49.91	157,497
February 2011	50.65	50.01	50.29	157,372	51.00	50.10	50.30	187,789
January 2011	50.60	49.78	50.38	65,989	50.80	49.50	50.60	93,867

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**Directors and officers**

As of February 17, 2012, the directors and officers of TransCanada as a group beneficially owned, or exercised control or direction, directly or indirectly, over an aggregate of 551,756 common shares of TransCanada. This constitutes less than one per cent of TransCanada's common shares. The Company collects this information from our directors and officers but otherwise we have no direct knowledge of individual holdings of TransCanada's securities.

**Directors**

The following table sets forth the names of the 14 directors who serve on the Board as at the date hereof, together with their jurisdictions of residence, all positions and offices held by them with TCPL and the Company's 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. Each director holds office until the next annual meeting or until his or her successor is earlier elected or appointed.

<b>Name and place of residence</b>	<b>Principal occupation during the five preceding years</b>	<b>Director since</b>
Kevin E. Benson Calgary, Alberta Canada	President and Chief Executive Officer, Laidlaw International, Inc. (transportation services) from June 2003 to October 2007. Director, Calgary Airport Authority.	2005
Derek H. Burney(1), O.C. Ottawa, Ontario Canada	Senior strategic advisor at Norton Rose Canada LLP (law firm). Chair (not a Director), International Advisory Board for Garda World Consulting and Investigation/Global Risks Group, a division of Garda World Security Corporation since 2008. Chair, Canwest Global Communications Corp. (communications) from August 2006 (director since April 2005) to October 2010 and lead director at Shell Canada Limited (oil and gas) from April 2001 to May 2007.	2005
Wendy K. Dobson Uxbridge, Ontario Canada	Professor, Rotman School of Management. Director, Institute for International Business, University of Toronto and Director, the Toronto-Dominion Bank. Vice Chair, Canadian Public Accountability Board until February 2010 and Chair of the Audit Committee of the same organization from 2003 to 2009.	1992
E. Linn Draper Lampasas, Texas U.S.	Director, Alliance Data Systems Corporation (data processing and services) and Director, Alpha Natural Resources, Inc. (mining). Chair, NorthWestern Corporation (conducting business as NorthWestern Energy) (oil and gas).	2005
The Hon. Paule Gauthier, P.C., O.C., O.Q., Q.C. Québec, Québec Canada	Senior Partner, Stein Monast L.L.P. (law firm). Director, Metro Inc., Royal Bank of Canada, Care Canada and the Fondation du Musée national des beaux-arts du Québec. Director, Institut Québécois des Hautes Études Internationales, Laval University from 2002 until 2009 and RBC Dexia Investors Trust until October 2009.	2002

Russell K. Girling Calgary, Alberta Canada	President and Chief Executive Officer, TransCanada since July 1, 2010. Chief Operating Officer from July 2009 to June 30, 2010 and President, Pipelines from June 2006 to June 30, 2010. Director, Agrium Inc.	2010
S. Barry Jackson Calgary, Alberta Canada	Chair of the Board, TransCanada since April 2005. Director, Nexen Inc. (oil and gas) and Director, WestJet Airlines Ltd. Director Cordero Energy Inc. from April 2005 to September 2008.	2002
Paul L. Joskow New York, New York U.S.	Economist and President of the Alfred P. Sloan Foundation. Professor of Economics, Emeritus, Massachusetts Institute of Technology (MIT) where he has been on the faculty since 1972. Director, Exelon Corporation (energy), and a trustee of Putnam Mutual Funds. Director of the MIT Center for Energy and Environmental Policy Research from 1999 to 2007 and Director of National Grid plc from 2000 to 2007.	2004

Name and place of residence	Principal occupation during the five preceding years	Director since
John A. MacNaughton(2), C.M. Toronto, Ontario Canada	Chair of the Business Development Bank of Canada. Chair of the Independent Nominating Committee of the Canada Employment Insurance Financing Board since 2008. Member of the Prime Minister's Advisory Committee on the Public Service. Chair, CNSX Markets Inc. (formerly the Canadian Trading and Quotation System Inc.) (stock exchange) from 2006 to July 2010. Director, Nortel Networks Corporation and Nortel Networks Limited (the principal operating subsidiary of Nortel Networks Corporation) (technology) from 2005 to September 2010.	2006
David P. O'Brien(4) 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 Enerplus Corporation. Member of the Science, Technology and Innovation Council of Canada.	2001
Paula Rosput Reynolds Seattle, Washington U.S.	President and Chief Executive Officer of PreferWest, LLC (business advisory group) since October 2009. Director of Anadarko Petroleum Corporation, Delta Air Lines, Inc. and BAE Systems plc. Vice Chairman and Chief Restructuring Officer of American International Group Inc. (insurance and financial services) from October 2008 to September 2009. President and Chief Executive Officer of Safeco Corporation (insurance) from 2006 to 2008.	2011
W. Thomas Stephens(3) Greenwood Village, Colorado U.S.	Trustee, Putnam Mutual Funds. Chair and Chief Executive Officer of Boise Cascade, LLC (paper, forest products and timberland assets) from November 2004 to November 2008. Director, Boise Inc. from February 2008 until April 2010.	2007(3)
D. Michael G. Stewart Calgary, Alberta Canada	Director, Canadian Energy Services & Technology Corp., Pengrowth Energy Corporation and C&C Energia Ltd. Director, Orleans Energy Ltd. from October 2008 to December 2010. Director, Pengrowth Corporation (the administrator of Pengrowth Energy Trust) from October 2006 to December 2010. Director, Canadian Energy Services Inc. (the general partner of Canadian Energy Services L.P.) from January 2006 to December 2009.	2006
Richard E. Waugh Toronto, Ontario Canada	President and Chief Executive Officer and director of The Bank of Nova Scotia (Scotiabank) since March 2003. Director and President, International Monetary Conference. Vice-Chair, Board of the Institute of International Finance.	2012

- (1) Canwest Global Communications Corp. ("Canwest") voluntarily entered into the Companies' Creditors Arrangement Act ("CCAA") and obtained an order from the Ontario Superior Court of Justice (Commercial Division) to start proceedings on October 6, 2009. Although no cease trade orders were issued, Canwest shares were de-listed by the TSX after the filing and started trading on the TSX Venture Exchange. Canwest emerged from CCAA protection, and Postmedia Network acquired its newspaper business on July 13, 2010 while Shaw Communications Inc. acquired its broadcast media business on October 27, 2010. Mr. Burney ceased to be a director of Canwest on October 27, 2010.
- (2) Nortel Networks Limited was the principal operating subsidiary of Nortel Networks Corporation (collectively referred to as "Nortel"). Mr. MacNaughton became a director of Nortel on June 29, 2005. Nortel was subject to a management cease trade order on April 10, 2006 issued by the Ontario Securities Commission ("OSC") and other provincial securities regulators. The cease trade order related to a delay in filing some of Nortel's 2005 financial statements. The order was revoked by the OSC on June 8, 2006, and the other provincial securities regulators shortly after. On January 14, 2009, Nortel and some of its Canadian subsidiaries filed for creditor protection under CCAA. The creditor protection proceedings related to this filing are ongoing.
- (3) Mr. Stephens previously served on the Board from 2000 to 2005.
- (4) Air Canada filed for protection under the CCAA and applicable bankruptcy protection statutes in the U.S. in April 2003. Mr. O'Brien resigned as a director of Air Canada on November 26, 2003.

## Board committees

TCPL has four committees of the Board: the Audit Committee, the Governance Committee, the Health, Safety and Environment Committee and the Human Resources Committee. The voting members of each of these committees, as of February 13, 2012, are identified below:

<b>Director</b>	<b>Audit Committee</b>	<b>Governance Committee</b>	<b>Health, Safety and Environment Committee</b>	<b>Human Resources Committee</b>
Kevin E. Benson	Chair	ü		
Derek H. Burney	ü	ü		
Wendy K. Dobson			ü	ü
E. Linn Draper	ü		Chair	
Paule Gauthier			ü	ü
S. Barry Jackson		ü		ü
John A. MacNaughton	ü	Chair		
David P. O'Brien		ü		ü
Paula Rosput Reynolds			ü	ü
W. Thomas Stephens			ü	Chair
D. Michael G. Stewart	ü		ü	
Richard E. Waugh		ü		

The charters of the Audit Committee, Governance Committee, the Health, Safety and Environment Committee and the Human Resources Committee can be found on our website ([www.transcanada.com](http://www.transcanada.com)) under *Corporate Governance – Board Committees*. Information about the Audit Committee can be found in this AIF under the heading *Audit Committee*.

Further information about the Board committees and corporate governance can also be found on our website.

## Officers

All of the executive officers and corporate officers of TCPL reside in Calgary, Alberta, Canada, with the exception of Mr. Hobbs who resides in Houston, Texas, U.S. References to positions and offices with TCPL prior to May 15, 2003 are references to the positions and offices held with TCPL. Current positions and offices

held with TCPL are also held by such person at TCPL. 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**

<b>Name</b>	<b>Present position held</b>	<b>Principal occupation during the five preceding years</b>
Russell K. Girling	President and Chief Executive Officer	Prior to July 2010, Chief Operating Officer since July 2009 and President, Pipelines since June 2006. Prior to June 2006, Executive Vice-President and Chief Financial Officer, Corporate Development, since March 2003 and Chief Financial Officer, since August 1999.
Wendy L. Hanrahan(1)	Executive Vice-President, Corporate Services	Prior to May 2011, Vice-President, Human Resources since January 2005.
Gregory A. Lohnes	President, Natural Gas Pipelines	Prior to July 2010, Executive Vice-President and Chief Financial Officer since June 2006.
Donald R. Marchand	Executive Vice-President and Chief Financial Officer	Prior to July 2010, Vice-President, Finance and Treasurer since September 1999.
Dennis J. McConaghy	Executive Vice-President, Corporate Development	Prior to July 2010, Executive Vice-President, Pipeline Strategy and Development.
Sean McMaster	Executive Vice-President, General Counsel and Chief Compliance Officer, and Executive Vice-President, Stakeholder Relations	Prior to February 2012, Executive Vice-President, Corporate and General Counsel and Chief Compliance Officer. Prior to January 2007, Executive Vice-President and General Counsel and Chief Compliance Officer. Prior to October 2006, General Counsel and Chief Compliance Officer.
Alexander J. Pourbaix	President, Energy and Oil Pipelines	President, Energy from July 2006 to July 2010 and Executive Vice-President, Corporate Development from July 2009 to July 2010.
Donald M. Wishart	Executive Vice-President, Operations and Major Projects	Prior to July 2009, Executive Vice-President, Operations and Engineering since March 2003.

(1)

Ms. Hanrahan has held the position of Executive Vice-President, Corporate Services since May 1, 2011, upon the retirement of Ms. Sarah Raiss who had held the position since January 2002.

**Corporate officers**

<b>Name</b>	<b>Present position held</b>	<b>Principal occupation during the five preceding years</b>
Sean M. Brett	Vice-President and Treasurer	Prior to July 2010, Vice-President, Commercial Operations of TC PipeLines GP, Inc., and Director, LP Operations of TCPL. Prior to December 2009, Director, Joint Venture Management, Keystone Pipeline Project of TCPL. Prior to December 2008, Vice-President and Treasurer of TC PipeLines GP, Inc.
Ronald L. Cook	Vice-President, Taxation	Vice-President, Taxation since April 2002.
Donald J. DeGrandis	Vice-President and Corporate Secretary	Prior to February 2009, Corporate Secretary since June 2006.
Lee G. Hobbs	President, U.S. Natural Gas Pipelines	Senior Vice-President and General Manager, U.S. Pipelines, Pipelines Division, TCPL, June 2009 to July 2010. Vice-President and General Manager, U.S. Pipelines Central, Pipelines Division, TCPL, March 2007 to June 2009. President, Great Lakes Gas Transmission Company and Great Lakes Gas Transmission Limited Partnership, September 2006 to March 2007.
Joel E. Hunter	Vice-President, Finance	Director, Corporate Finance, January 2008 to July 2010. Prior to January 2008, Senior Analyst, Corporate Finance. Prior to January 2007 Mr. Hunter held a number of positions of increasing responsibility with TransCanada's Finance and Treasury Group.
Garry E. Lamb	Vice-President, Risk Management	Vice-President, Risk Management since October 2001.
G. Glenn Menuz	Vice-President and Controller	Vice-President and Controller since June 2006.

**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 CBCA. 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 our tariff, deny transportation service to a creditworthy shipper. Further, due to the specialized nature of the industry, TCPL believes that it is important for our Board to be composed of qualified and knowledgeable directors, so some of them must come from the oil and gas producer and shipper community; the Governance Committee 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.

## Corporate governance

Information about TCPL's corporate governance, including the Company's Board committees and their charters, can be found on our website ([www.transcanada.com](http://www.transcanada.com)) under the heading *Corporate Governance* or at Schedule B to this AIF.

## Audit committee

The Audit Committee is responsible for assisting the Board in overseeing the integrity of our financial statements and our compliance with legal and regulatory requirements. It is also responsible for overseeing and monitoring the internal accounting and reporting process and the process, performance and independence of our internal and external auditors. The charter of the Audit Committee can be found in Schedule C of this AIF and on our website ([www.transcanada.com](http://www.transcanada.com)) under the *Corporate Governance Board Committees* page.

## Relevant education and experience of members

The members of the Audit Committee as of February 13, 2012 are Kevin E. Benson (Chair), Derek H. Burney, E. Linn Draper, Paul L. Joskow, John A. MacNaughton, and D. Michael G. Stewart.

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 TransCanada, of each member of the Audit Committee that is relevant to the performance of his responsibilities as a member of the Audit Committee.

### Kevin E. Benson

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 The Insurance Corporation of British Columbia and has served on other public company boards and on the audit committees of certain of those boards.

### Derek H. Burney

Mr. Burney earned a Bachelor of Arts (Honours) and Master of Arts from Queen's University. He is currently a senior strategic advisor at Norton Rose Canada LLP. Mr. Burney previously served as President and Chief Executive Officer of CAE Inc. and as Chair and Chief Executive Officer of Bell Canada International Inc. Mr. Burney was the lead director at Shell Canada Limited until May 2007 and was the Chair of Canwest Global Communications Corp. until October 2010. He has served on one other organization's audit committee, and has participated in Financial Reporting Standards Training offered by KPMG.

### E. Linn Draper

Dr. Draper holds a Bachelor of Science in Chemical Engineering from Rice University and a Ph.D. in Nuclear Science and Engineering from Cornell University. Dr. Draper was Chair, President and Chief Executive Officer of American Electric Power Co., Inc. until 2004. He previously served as Chair, President and Chief Executive Officer of Gulf States Utilities Company. Dr. Draper has served and continues to serve on several other public company boards.

**Paul L. Joskow**

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

**John A. MacNaughton**

Mr. MacNaughton earned a Bachelor of Arts in Economics from the University of Western Ontario. Mr. MacNaughton is currently the Chair of the Business Development Bank of Canada, and was Chair of CNSX Markets Inc. (formerly Canadian Trading and Quotation System Inc.) until July 2010. 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 has served on the audit committee of other public companies.

**D. Michael G. Stewart**

Mr. Stewart earned a Bachelor of Science (Honours) in Geological Science from Queen's University. Mr. Stewart has served and continues to serve on the boards of several public companies and other organizations and on the audit committees of certain of those boards. Mr. Stewart held a number of senior executive positions with Westcoast Energy Inc. including Executive Vice-President, Business Development. He has been active in the Canadian energy industry for over 38 years.

**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-minimus 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 following table provides information about the fees paid by the Company to KPMG LLP, the external auditor of the TransCanada group of companies, for professional services rendered for the 2011 and 2010 fiscal years.

(\$ millions)	2011	2010
<b>Audit fees</b>		
audit of the annual consolidated financial statements		
services related to statutory and regulatory filings or engagements		
reviewing interim consolidated financial statements and information contained in various prospectuses and other offering documents	\$ 6.9	\$ 6.5
<b>Audit-related fees</b>		
services related to the audit of the financial statements of certain TransCanada pension plans	0.2	0.2
<b>Tax fees</b>		
Canadian and international tax planning and tax compliance matters, including the review of income tax returns and other tax filings	0.4	1.0
<b>All other fees</b>		
services related to environmental compliance in 2011 and advice and training related to International Financial Reporting Standards in 2010	0.1	0.2
<b>Total fees</b>	<b>\$ 7.6</b>	<b>\$ 7.9</b>

**Loans to directors and executive officers**

Information relating to the indebtedness of directors and executive offices to TCPL and its subsidiaries is provided in Schedule D to this AIF under the heading *Loans to directors and executive officers*.

**Securities owned by directors**

Information relating to the securities of TCPL and its subsidiaries owned by directors is provided in the attached Schedule D to this AIF under the heading *Securities owned by directors*.

**Compensation of directors**

Information relating to the compensation of directors, including information regarding compensation paid by TCPL to directors in 2011, the Company's minimum share ownership guidelines and TCPL's share unit plan for non-employee directors, is provided in Schedule D to this AIF under the heading *Compensation of directors*.

**Executive compensation discussion and analysis**

Information relating to TCPL's compensation governance is provided in Schedule E to this AIF. Information relating to TCPL's executive compensation is provided in Schedule F to this AIF under the heading *Executive compensation discussion and analysis*, which is excerpted from TransCanada's Management Information Circular dated February 13, 2012 ("Information Circular"). Board and committee meetings of TransCanada and TCPL run concurrently. TCPL is the principal operating subsidiary of TransCanada.

Executive officers of TCPL also serve as executive officers of TransCanada. An aggregate remuneration is paid for serving as an executive of TCPL and for service as an executive officer of TransCanada. 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.



## **Legal proceedings and regulatory actions**

TCPL and its subsidiaries are subject to various legal proceedings and regulatory actions arising in the normal course of business. While the final outcome of such legal proceedings and regulatory actions cannot be predicted with certainty and there can be no assurance that such matters will be resolved in TCPL's favour, it is the opinion of TCPL's management that the resolution of such proceedings and regulatory actions will not have a material impact on TransCanada's consolidated financial position, results of operations or liquidity.

The Company believes that TransAlta's claims with respect to Sundance A do not meet the test of force majeure or destruction as specified in the power purchase arrangement and has therefore recorded revenues and costs throughout 2011 under the power purchase arrangement as though this event was an interruption of supply. While the outcome of any arbitration process is not certain, TCPL believes the matter will be resolved in its favour.

Further information about the Sundance arbitration can be found in this AIF under the heading *Developments in the Energy Business* and in the MD&A under the heading *Energy Opportunities and Developments*.

## **Transfer agent and registrar**

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

## **Interest of experts**

TCPL's 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.

## **Additional information**

1. Additional information in relation to TCPL may be found under TCPL's profile on SEDAR ([www.sedar.com](http://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 17, 2012
Alaska Pipeline	A proposed natural gas pipeline extending from Prudhoe Bay, Alaska to either Alberta or Valdez, Alaska
Alberta System	A natural gas transmission system in Alberta and B.C.
ANR	A natural gas transmission system extending from producing fields located primarily in Texas, Oklahoma, the Gulf of Mexico and U.S. midcontinent region to markets located primarily in Wisconsin, Michigan, Illinois, Indiana and Ohio, and regulated underground natural gas storage facilities in Michigan
AQMS	Air Quality Management System
B.C.	British Columbia
BPRIA	Bruce Power Refurbishment Implementation Agreement
Bcf	Billion cubic feet
Bécancour	A natural gas-fired cogeneration plant near Trois-Rivières, Québec
Bison	A natural gas pipeline extending from the Powder River Basin in Wyoming to Northern Border in North Dakota
Board	TransCanada's Board of Directors
Bruce A	A partnership interest in a nuclear power generation facility consisting of Units 1 to 4 of Bruce Power (Bruce Power A L.P.)
Bruce B	A partnership interest in a nuclear power generation facility consisting of Units 5 to 8 of Bruce Power (Bruce Power L.P.)
Bruce Power	A nuclear power generating facility located northwest of Toronto, Ontario (Bruce A and Bruce B, collectively)
Canadian Mainline	A natural gas transmission system extending from the Alberta/Saskatchewan border east into Québec
Canwest	Canwest Global Communications Corp.
Cartier Wind	Five wind farms in Gaspé, Québec, four plus the first phase of the fifth which are operational and phase two of the fifth under construction
CBCA	<i>Canada Business Corporations Act</i>
CCAA	<i>Companies' Creditors Arrangement Act</i>
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CO <sub>2</sub>	Carbon dioxide
Coolidge	A simple-cycle, natural gas-fired peaking power generation station in Coolidge, Arizona
CSA	Canadian Securities Administrators
Cushing Extension	A crude oil pipeline extending from Steele City, Nebraska to Cushing, Oklahoma
DBRS	DBRS Limited
DSU(s)	Deferred share unit(s)
Energy	As defined in this AIF under the heading <i>General development of the business</i>
EPA	Environmental Protection Agency (U.S.)
ESU(s)	Executive share unit(s) executive leadership team TCPL's CEO and executive vice-presidents
executive leadership team	TCPL's President and CEO and executive vice-presidents
FERC	Federal Energy Regulatory Commission (U.S.)

Foothills	A natural gas transmission system extending from central Alberta to the B.C./U.S. border and to the Saskatchewan/U.S. border
GHG	Greenhouse gas
Great Lakes	A natural gas transmission system that connects to the Canadian Mainline and serves markets in Eastern Canada and the northeastern and midwestern U.S.
GTN	A natural gas transmission system extending from the B.C./Idaho border to the Oregon/California border, traversing Idaho, Washington and Oregon
Guadalajara	A natural gas pipeline in Mexico extending from Manzanillo, Colima to Guadalajara, Jalisco
Halton Hills	A natural gas-fired, combined-cycle power plant in Halton Hills, Ontario
HSE	Health, safety and environment
Hydro-Québec	Hydro-Québec Distribution
Information Circular	TransCanada's Management Information Circular dated February 13, 2012
Iroquois	A natural gas transmission system that connects with the Canadian Mainline near Waddington, New York, and delivers natural gas to the northeastern U.S.
JHSEC	Joint Health, Safety and Environment Committee
Keystone	A crude oil pipeline system which extends from Hardisty, Alberta to the U.S. markets and includes Wood River/Patoka and the Cushing Extension
Keystone XL	Keystone XL includes the construction of a new crude oil pipeline from Cushing, Oklahoma to the U.S. Gulf Coast, the expansion of existing facilities at Hardisty, Alberta and the construction of a new crude oil pipeline from Hardisty to Steele City, Nebraska
Kibby Wind	A wind farm located in Kibby and Skinner townships in northwestern Franklin County, Maine
km	Kilometer(s)
Mackenzie Gas Project	A proposed natural gas pipeline extending from a point near Inuvik, Northwest Territories to the northern border of Alberta
MD&A	TCPL's Management's Discussion and Analysis dated February 13, 2012
MMcf/d	Million cubic feet per day
Moody's	Moody's Investors Service, Inc.
MW	Megawatt(s)
Natural Gas Pipelines	As defined in this AIF under the heading <i>General development of the business</i>
NEB	National Energy Board
NI 58-101	National Instrument 58-101, <i>Disclosure of Corporate Governance Practices</i>
North Baja	A natural gas transmission system extending from Arizona to the Baja California, Mexico/California border
Northern Border	A natural gas transmission system extending from a point near Monchy, Saskatchewan to the U.S. Midwest
NGTL	Nova Gas Transmission Ltd.
Nortel	Nortel Networks Limited and Nortel Networks Corporation, collectively
NYISO	New York Independent System Operator
NYSE	New York Stock Exchange
Ocean State Power	A natural gas-fired, combined-cycle plant in Burrillville, Rhode Island
Oil Pipelines	As defined in this AIF under the heading <i>General Development of the Business</i>
OPA	Ontario Power Authority
OSC	Ontario Securities Commission
Portland	A natural gas transmission system extending from a point near East Hereford, Québec to the northeastern U.S.

Portlands Energy	A natural gas-fired, combined-cycle power plant in Toronto, Ontario
Ravenswood	A natural gas-and oil-fired generating facility consisting of multiple units employing steam turbine, combined-cycle and combustion turbine technology located in Queens, New York
Restructuring Proposal	Canadian Mainline 2012 Tolls Application and Restructuring Proposal
RGGI	Regional Greenhouse Gas Initiative
S&P	Standard & Poor's
SEC	U.S. Securities and Exchange Commission
Series U Preferred Shares	TCPL's cumulative, redeemable, first preferred shares, series U
Series Y Preferred Shares	TCPL's cumulative, redeemable, first preferred shares, series Y
Sheerness subsidiary	A coal-fired power generating facility near Hanna, Alberta As defined in this AIF under the heading <i>Presentation of information</i>
Sundance	Two coal-fired power generating facilities near Wabamun, Alberta (Sundance A and Sundance B, collectively)
Systems	As defined in this AIF under the heading <i>Regulation of the Natural Gas and Oil Pipelines businesses</i>
TCPL	TransCanada PipeLines Limited
TQM	A natural gas transmission system that connects with the Canadian Mainline near the Québec/Ontario border and transports natural gas to markets in Québec, and connects with Portland
TransCanada or the Company	TransCanada Corporation
TransAlta	TransAlta Corporation
TSX	Toronto Stock Exchange
Tuscarora	A natural gas transmission system extending from Malin, Oregon to Wadsworth, Nevada
U.S. or US	United States
U.S. GAAP	U.S. generally accepted accounting principles
WCI	Western Climate Initiative
Wood River/Patoka	A crude oil pipeline extending from Hardisty, Alberta to U.S. Markets at Wood River and Patoka in Illinois
Year End	December 31, 2011

**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.

<b>Metric</b>	<b>Imperial</b>	<b>Factor</b>
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

### Corporate Governance

#### About our governance practices

Our Board and management are committed to the highest standards of ethical conduct and corporate governance.

TCPL is a public company listed on the TSX and the NYSE, and we recognize and respect rules and regulations in both Canada and the U.S.

Our corporate governance practices comply with the Canadian governance guidelines, which include the governance rules of the CSA:

National Instrument 52-110, *Audit Committees*

National Policy 58-201, *Corporate Governance Guidelines*, and

National Instrument 58-101, *Disclosure of Corporate Governance Practices* ("NI 58-101").

We also comply with the governance listing standards of the NYSE and the governance rules of the SEC that apply to foreign private issuers.

Our governance practices comply with the NYSE standards for U.S. companies in all significant respects, except as summarized on our website ([www.transcanada.com](http://www.transcanada.com)). As a non-U.S. company, we are not required to comply with most of the governance listing standards of the NYSE. As a foreign private issuer, however, we must disclose how our governance practices differ from those followed by U.S. companies that are subject to the NYSE standards.

We benchmark our policies and procedures against major North American companies to assess our standards and we adopt best practices as appropriate. Some of our best practices are derived from the NYSE rules and comply with applicable rules adopted by the SEC to meet the requirements of the *Sarbanes-Oxley Act of 2002* and the *Dodd-Frank Wall Street Reform and Consumer Protection Act*.

#### Board characteristics

The characteristics of our Board and its members exemplify strong principles of corporate governance:

an independent, non-executive Chair

an effective number of directors and all but one are independent

knowledgeable and experienced directors who ensure that we promote ethical behaviour throughout TCPL

qualified directors who can make a meaningful contribution to the Board and the development of our business

significant share ownership requirements to align the directors' interests with those of our shareholders, and

annual assessments of Board, committee and director effectiveness.

#### Size and composition

TCPL's articles state that the Board must have 10 to 20 directors.

We believe our Board must consist of qualified and knowledgeable directors. This includes directors with direct experience in the oil and gas, pipelines and power sectors.

#### Independence

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An independent board is a fundamental principle of governance. We believe that the majority of our directors must be *independent* within the meaning of "independence" in NI 58-101, and consistent with the independence criteria of the regulations of the SEC and rules of the NYSE.

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The Governance Committee and the Board review the independence of every board member and nominated director against these criteria once a year. It also reviews family relationships and possible associations with companies that have relationships with TCPL when it reviews director independence.

The Board has determined that all of the nominated directors are independent, except for Mr. Girling because of his role as President and Chief Executive Officer ("CEO"). None of the directors have a direct or indirect material relationship with TCPL that could reasonably be expected to interfere with the exercise of their independent judgment.

### **Independent Chair**

The Chair is appointed by the Board, and serves in a non-executive capacity. We have had separate Chair and CEO positions since our incorporation in 2003 and at our predecessor company since 1994. Mr. Jackson has served as the independent non-executive Chair since April 30, 2005.

In 2011, the independent directors met separately before and after every regularly scheduled Board meeting. All of the directors are available to meet with management as required.

### **Independent advice**

The Board and each of its four standing committees can retain independent advisors to assist it in carrying out its duties and responsibilities.

### **Serving on other boards**

As of 2012, our directors are limited to serving on a total of six public company boards to ensure we do not have overboarding or interlocking relationships that would conflict with a director's independence or interfere with fulfilling duties and responsibilities for our Board. We discuss the time commitment and duties and responsibilities with every candidate so they have a full understanding of the role and our expectations of directors. The Governance Committee monitors director relationships to ensure their business associations do not hinder their role as a director of TCPL or Board performance overall.

The Board believes that it is important for it to be composed of qualified and knowledgeable directors. As a result, due to the specialized nature of the industry, some of the nominated directors are associated with or sit on the boards of companies that ship natural gas or crude oil through our pipeline systems. Since we are a regulated carrier in Canada and the U.S., we cannot deny transportation service to a creditworthy shipper. The Governance Committee monitors relationships among directors to ensure that business associations do not affect the Board's performance.

If a director declares that they have an interest in a material contract or transaction that is being considered by the Board, the director leaves the meeting when the matter is being discussed and voted on.

See the director profiles in the *Business of the meeting* – *The nominated directors* section of the Information Circular for the other public company boards each nominated director serves on.

### **Governance philosophy**

TCPL believes that effective corporate governance improves corporate performance and benefits all shareholders. We believe that honesty and integrity are vital to ensuring good corporate governance.

The Board has formally adopted the corporate governance guidelines recommended by the Governance Committee. These guidelines address the structure and composition of the Board and its committees, and clarify the responsibilities of the Board and management.

### **Ethical business conduct**

Our codes of business ethics incorporate principles of good conduct and ethical and responsible behaviour to guide our decisions and actions and the way we conduct business.

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We have a code for employees (including our CEO, Chief Financial Officer ("CFO") and Controller) and a separate one for directors. The codes apply to both TransCanada and TCPL and are certified every year by all employees and directors.

Employees are required to report any unusual behaviour or suspected violations of the code immediately. They can report a concern to their supervisor, Compliance, Internal Audit, their Compliance Coordinator, the next level of management, or to our Ethics Help-Line. The Help-Line allows employees, contractors, consultants and the public to report a concern about any perceived accounting irregularities, legal or ethical violations or other suspected breaches of the code of business ethics, confidentially and anonymously. We publish the telephone number on our website and our employee intranet and in our Annual Report available on our website ([www.transcanada.com](http://www.transcanada.com)) and under TCPL's profile on SEDAR ([www.sedar.com](http://www.sedar.com)).

Internal Audit handles most investigations, including any concerns about directors and senior management. Human Resources professionals handle any concerns relating to human resources such as harassment.

Our policy strictly prohibits reprisals or retaliation against anyone who files an ethics concern or complaint in good faith. The Audit Committee monitors compliance with the codes and reports any violations to the Board.

The Audit Committee has procedures for receiving complaints, reviewing them, determining a course of action and retaining the information on file. It also oversees the operation of the Ethics Help-Line as part of its responsibilities.

Any waiver of the codes by our executives or directors must be approved by the Board, or the appropriate Board committee, and disclosed. There were no material departures from the codes in 2011.

The codes are posted on our website ([www.transcanada.com](http://www.transcanada.com)).

### **Conflicts of interest**

The codes of business ethics cover many potential conflicts of interest. In 2011, the Board looked specifically at corporate conflicts that could arise as a result of serving on non-profit organizations and the operations of our affiliates.

#### *Serving on other boards*

The Board considered whether directors serving on the boards of non-profit organizations pose any potential conflict. The Board reviewed these relationships and determined that they do not interfere with a director's ability to act in our best interests.

#### *Affiliates*

The Board closely oversees relationships between TCPL and any affiliates to avoid any potential conflicts of interest. This includes our relationship with TC PipeLines, LP, a master limited partnership listed on the NYSE.

The employee code of business ethics was amended in 2011 to require employees to receive consent before accepting a directorship with an entity that is not an affiliate. The CEO and executive vice-presidents (our "executive leadership team") must receive the consent of the Governance Committee. All other employees must receive the consent of their immediate supervisor.

### **Majority voting**

We have a majority voting policy for electing a new board when the number of nominated directors is the same as the number of director positions available. If a nominated director receives "withheld" proxy votes before the meeting that total more than 5 per cent of the total votes cast by proxy, we will hold a vote by ballot for all directors. If a director receives more "withheld" than "for" votes cast by ballot, the director must tender his or her resignation to the Board. We expect the Board to accept the resignation within 90 days, unless there are extenuating circumstances.

This policy does not apply if there is a proxy contest over the election of directors.

The Board may fill the vacancy, as described in our by-laws and according to the terms of the CBCA.

### **Share ownership**

We have share ownership requirements for our directors and executives to align their interests with those of our shareholders. Ownership levels are significant, and both directors and executives must meet the requirements within five years of assuming the position.

See the *Compensation of directors – Minimum share ownership guidelines* section of the attached Schedule D and the *Director compensation and analysis* section of the Information Circular for more information.

### **Role and responsibilities of the Board**

The primary responsibilities of the Board are to foster TCPL's long-term success and oversee our business affairs and management, and act honestly and in good faith and in the best interests of the Company.

The Board's main objective is to promote our best interests in order to maximize long-term shareholder value and enhance stakeholder returns.

The Board retains key duties and responsibilities and attends to them, delegates some duties to its four standing committees and discharges others to management for managing the day-to-day affairs of the business.

### **Charters and position descriptions**

The Board and each Board committee have adopted a charter that outlines its principal responsibilities.

They review the charters every year to ensure they reflect current developments in corporate governance and corporate practices, and approve any necessary changes.

The Board has also developed position descriptions for the Chair of the Board, each committee Chair and the CEO.

The Board Charter describes the:

- composition and organization of the Board

- duties and responsibilities for managing our affairs, and

- oversight responsibilities for:

  - management and human resources

  - strategy and planning

  - financial and corporate issues

  - business and risk management, including compensation risk

  - policies and procedures

  - compliance reporting and corporate communications, and

  - general legal obligations, including its ability to use independent advisors as necessary.

See Schedule G attached to this AIF for a copy of the Board charter, and Schedule C to this AIF for a copy of the Audit Committee charter. The Board charter, committee charters and position descriptions for the Chair of the Board, each committee Chair and the CEO are posted on our website ([www.transcanada.com](http://www.transcanada.com)).

### **Strategic planning**

We have a multi-year strategic plan that balances risk and reward.

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The Board provides oversight and direction in the strategic planning process to ensure management develops corporate strategies that support our vision to be the leading energy infrastructure company in North America. We set annual corporate objectives to support our core strategies for achieving growth and creating value for shareholders. These are established with the Board, and the Board approves our corporate objectives every year.

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The Board monitors management's progress toward achieving the strategic plan, and discusses a broad range of issues related to our strategy and business interests at each regularly scheduled meeting. Management also reports regularly on our operational and financial performance.

The Board generally holds a full day session on strategic planning every year and sessions on strategic issues throughout the year. See the *Meeting attendance* section of the Information Circular for more information about the meetings held in 2011.

### **Risk oversight**

The Governance Committee oversees our risk management activities as part of its duties. It monitors the identified business risks using a risk matrix which categorizes the risks and shows the Board committee and executives responsible for specific oversight of each risk. The committee reviews the risk matrix with management at each committee meeting to ensure there is proper Board and committee oversight according to the terms of their charters, and that we have management programs in place to mitigate those risks. It also recommends any enhancements to our risk management program and policies to the Board.

We manage risk by identifying the key business risks and categorizing them under six main areas:

- corporate strategy
- business strategy and execution
- business opportunity
- commercial operations
- physical operations, and
- general corporate risk (including compensation risk).

All of our executives are involved in the process and are accountable for developing plans and actions to the risks from occurring and to minimize any associated costs.

The Audit Committee, Human Resources Committee and the Health, Safety and Environment Committee provide oversight on financial, human resources and compensation, and operational safety and environmental risks.

The Audit Committee oversees management's role in monitoring compliance with risk management policies and procedures and reviewing the adequacy of our financial risk management. Our financial risk management strategies, policies and limits are designed to ensure TCPL's risks and related exposures are in line with our business objectives and risk tolerance. Risks are managed within limits that are ultimately established by the Board, implemented by senior management and monitored by risk management and internal audit personnel.

The Health, Safety and Environment Committee monitors compliance with our HSE corporate policy through regular reporting from management. We have an integrated HSE management system that establishes a framework for managing HSE issues and is used to capture, organize and document our related policies, programs and procedures.

Our management system for HSE is modeled after international standards for environmental management systems, conforms to external industry consensus standards and voluntary regulatory programs, and complies with applicable legislative requirements and various other internal management systems. It follows a continuous improvement cycle organized into four key areas:

*Planning:* risk and regulatory assessment, objectives and targets, and structure and responsibility

*Implementing:* development and implementation of programs, procedures and practices aimed at operational risk management

*Reporting:* document and records management, communication and reporting, and

*Action:* ongoing audit and review of HSE performance.

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The committee reviews HSE performance quarterly compared to targets, incidents and highlights, and reviews program plans and performance targets for subsequent years. It receives detailed reports on our operational risk management, including governance of these risks, operational performance and preventive maintenance, pipeline integrity, operational risk issues and applicable legislative developments. The

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committee also receives updates on any specific areas of operational risk management review currently being conducted by management.

See the CD&A in the attached Schedule F for more information about how we manage our compensation risk.

### **Succession planning for management**

The committee oversees succession planning for management, and is directly responsible for developing the CEO succession plan and presenting it to the Board for discussion. Succession planning for the CEO position occurs over several years so potential candidates can grow into the role. This includes ongoing analysis of each potential candidate's performance, skills and experience, and an assessment of the personal attributes and characteristics that the committee and the Board believe are necessary for the role.

The CEO prepares an overview of the executive vice-president roles, noting the required skills and expertise for each position and the individual's areas of strength. He also prepares development plans for each of the executives to ensure his or her ongoing performance is satisfactory, and presents them to the committee.

The committee identifies potential future candidates for the executive vice-president positions, with input from the CEO and Human Resources. Each candidate is assessed based on his or her skills and experience and the competencies that are required for promotion to the senior executive level. Development opportunities are also identified so each candidate can receive additional or varied management experience, training, development and educational opportunities.

The Committee reviews each position and the performance assessment and competencies of potential successors at least once a year.

### **Access to management**

The Board has complete access to management, but gives reasonable advance notice to avoid disrupting the business and operations.

The Board encourages the executive leadership team to include key managers in Board meetings so they can share their expertise on specific matters. This gives the Board an opportunity to meet individuals who have the potential to assume more senior positions in the future, and for these individuals to gain exposure with the Board.

### **Orientation and education**

New directors participate in an orientation program that includes sessions on corporate strategy, our main business issues, and historical and financial information about TCPL. They also have an opportunity to visit our facilities and project sites and meet with the executive leadership team and other directors.

We tailor the sessions for each director based on his or her needs and specific areas of interest. New directors also meet with the Vice-President, Corporate Development and Strategy for an overview of the different areas of our business and operations and a discussion of key areas of interest. Briefing sessions are also held for new committee members, as appropriate.

Directors receive a reference manual with:

details about their duties and obligations as a member of the Board

information about our business and operations

copies of the Board and committee charters

copies of past public filings, and

documents from recent Board meetings.

The Governance Committee reviews the orientation program and manual every year, to ensure it continues to meet our needs and those of new directors.

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Continuing education helps strengthen a director's knowledge and understanding of the business, industry, governance and other issues. Senior management and external experts make presentations to the Board and committees from time to time on various topics related to the business, including changes to legal, regulatory

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and industry requirements. Directors also have an opportunity to tour our operating facilities and project sites twice a year.

Our 2011 program included:

a tour of our hydropower facility in Vernon, Vermont

a site visit to our gas storage assets in Michigan, including the Cold Springs 1 well field control room and liquid stabilization facility and the Blue Lake compressor station, and

three sessions on strategic issues.

The Governance Committee develops the program every year based on current and emerging issues, our corporate objectives and input from other members of the Board.

We also suggest seminars and education programs that may be relevant, and pay the registration fee and travel expenses as appropriate.

The table below lists the details of our 2011 director education program:

<b>2011</b>	<b>Topic</b>	<b>Presented/hosted by</b>	<b>Attended by</b>
February 14	Strategic Issues Session - Operational Risk Review: Keystone Update	Executive Vice-President, Operations and Major Projects Vice-President, Keystone Pipeline	All directors
June 13 - 14	Strategic Planning Session - Strategy to Maximize Shareholder Returns, Energy Infrastructure Strategic Outlook (Canada, US), Power Business Strategic Outlook	Vice-President, Corporate Development and Strategy	All directors
September 12	Strategic Issues Session - U.S. GAAP	Chief Financial Officer KPMG	All directors, except Mr. Jackson and Mr. O'Brien
September 13	Site visit to Hydropower facility in Vernon, Vermont	Executive Vice-President, Operations and Major Projects	All directors, except Mr. Burney and Mr. O'Brien
October 4-6	Site visit to ANR Natural Gas Storage Facilities in Michigan	Executive Vice-President, Operations and Major Projects Vice-President, Community, Safety and Environment	Health, Safety and Environment Committee
October 4-6	Annual Meeting of TCPL's Joint Health, Safety and Environment Committee ("JHSEC")	Executive Vice-President, Operations and Major Projects Vice-President, Community, Safety and Environment JHSEC employee representatives from Canada and the U.S.	Health, Safety and Environment Committee
November 30	Strategic Issues Session - Keystone XL Pipeline	Executive Vice-President, Operations and Major Projects Vice-President, Keystone Pipeline	All directors



### **Ensuring effectiveness**

The Governance Committee assesses the performance of the Board, Board committees and individual directors every year and reports the results to the Board. The Chair of the Board conducts one-on-one interviews with each director, and each committee also conducts a self-assessment led by its committee Chair.

Assessments focus on the effectiveness of the Board and each committee and solicit director input about areas of potential improvement. Interviews include questions about personal and individual peer performance. The Chair of the Board summarizes the interview responses and reports them to the Governance Committee and the Board.

The Chair of the Governance Committee interviews each director about the performance of the Chair of the Board, and presents the results to the Board for discussion.

The Chair of the Board also conducts interviews with each member of the executive leadership team every year and reports the results to the Board.

The Governance Committee believes the interview process is the most effective way for directors to give feedback that can be reviewed by the entire Board. The committee also monitors developments in board governance and evolving best practices in corporate governance.

### **Financial literacy**

The Board has determined that all members of the Audit Committee are "financially literate", which means each member can read and understand a set of financial statements that are similar to ours in terms of breadth and complexity of accounting issues. You can find more information about their education and financial experience in the director profiles in the *Business of the meeting – The nominated directors* section of the Information Circular and the *Audit Committee* section of this AIF.

### **Board renewal**

The Governance Committee regularly assesses the skill set of each director, and reviews them against the director retirement schedule, their ages and the composition of each Board committee.

The Board is responsible for identifying suitable director candidates, while the Governance Committee is responsible for assessing the individuals and proposing the strongest candidates for nomination to the Board.

The committee looks for a mix of skills and experience required for overseeing our affairs. Candidates are nominated as directors based on their background and ability to contribute to the Board and committee meetings.

The committee ensures that the Board includes members with expertise in 10 key areas:

Government (regulatory)

Energy/Utilities

Operations

HSE

Governance

Engineering

Accounting & Finance

Management / Leadership

International, and

Law.

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Candidates who are being nominated for the first time must have experience in industries similar to ours, or experience in general business management or with corporations that are similar in size and scope. Candidates must also be willing to serve on the Board, able to devote the necessary time to fulfill their duties and responsibilities and be under 70 years old.

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The committee recommends potential candidates based on their qualifications and independence and how these qualities balance with the skill set of the current Board, the structure and composition of the committees and the director retirement schedule. This assessment helps the Board determine the best mix of skills and experience to guide our long-term strategy and ongoing business operations.

### **Director tenure**

The Governance Committee reviews events or matters that may trigger the resignation or retirement of a director such as age, changes in principal occupation or other relevant circumstances.

Once a director turns 70 and has served at least seven consecutive years, he or she must retire either on or before the date of the next annual meeting to elect directors. If a director has turned 70 before serving the full, seven consecutive years, the Board may recommend that a director stand for re-election each year until he or she has served a full seven-year term. The Board may, in exceptional circumstances and depending on its needs, recommend that a director stand for re-election after a director has turned 70 or served the full, seven consecutive years because of the specific skills and experience he or she brings to the Board.

The graphs below show the composition of our Board by years of service as of the date of this circular and after the annual meeting, assuming all of the nominated directors are elected:

#### **Current composition**

#### **Post-meeting composition**

The table below lists the likely retirement dates of the current non-executive directors, the Board committees they serve on, their education and their particular areas of expertise. The Governance Committee considers

these factors and others when discussing Board renewal. Ms. Dobson and Mr. O'Brien will retire on April 27, 2012 prior to the annual meeting.

<b>Retirement year</b>	<b>Director</b>	<b>Board committees</b>	<b>Education</b>	<b>Skills and experience</b>
2012	Wendy K. Dobson	Human Resources Health, Safety & Environment	Ph.D. Economics Masters in Public Administration S.M. Hyg., BSN	Accounting & Finance (Audit) Governance Government International Economics
	David P. O'Brien	Governance Human Resources	LL.B. B.A. Economics	Governance Law Oil & Gas/Utilities Operations & HSE Organization & Leadership Transportation
2013	Derek H. Burney	Audit Governance	M.A. Political Science B.A. Political Science	Civil Aviation and Defence Government (Regulatory & Law) Power/Utilities Telecommunications
	E. Linn Draper	Audit Health, Safety & Environment (Chair)	Ph.D. Nuclear Science B.Sc. Chemical Engineering	Engineering Operations & HSE Organization & Leadership Power/Utilities
	W. Thomas Stephens	Human Resources (Chair) Health, Safety & Environment	M.Sc. Industrial Engineering	Building & Commercial Products Engineering Forestry Operations & HSE Organization & Leadership

<b>Retirement year</b>	<b>Director</b>	<b>Board committees</b>	<b>Education</b>	<b>Skills and experience</b>
2014	Paule Gauthier	Health, Safety & Environment Human Resources	LL.M. LL.B. B.A.	Law Governance Government (Regulatory)
2015	John A. MacNaughton	Governance (Chair) Audit	B.A. Economics	Accounting & Finance Investment Banking/Management Organization & Leadership
2017	Kevin E. Benson	Audit (Chair) Governance	B.A. Accounting	Accounting & Finance Economics Organization & Leadership Transportation
2018	Paul L. Joskow	Audit Governance	Ph.D. Economics M.A. Economics B.A. Economics	Accounting & Finance Economics Governance (Law) Government (Regulatory) Power/Utilities
	Richard E. Waugh	Governance	MBA B.Comm.	Banking International Markets Organization & Leadership
2022	D. Michael G. Stewart	Audit Health, Safety & Environment	B.Sc. Geological Sciences	Geology Oil & Gas/Utilities Operations & HSE Organization & Leadership
2023	Barry Jackson	Board Chair Governance Human Resources	B.Sc. Engineering	Engineering Oil & Gas/Utilities Operations & HSE Organization & Leadership
2027	Paula Rosput Reynolds	Health, Safety & Environment Human Resources	B.A. Economics	Economics Insurance Organization & Leadership Power/Utilities Risk Management

**Communicating with the Board**

Shareholder engagement allows us to hear first hand from shareholders and other important stakeholders.

Shareholders, employees and others can communicate directly with the Board by writing to:

Chair of the Board of Directors  
TransCanada PipeLines Limited  
450 First Street S.W.  
Calgary, Alberta T2P 5H1

**Board committees**

The Board has four standing committees:

Audit Committee

Governance Committee

Health, Safety and Environment Committee

Human Resources Committee

Each Board committee must consist entirely of independent directors, except for the Health, Safety and Environment Committee, which must have a majority of independent directors. Each committee has the authority to retain advisors to help it carry out its responsibilities. The Board does not have an executive committee.

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Each committee reviews its charter at least once a year, and recommends any changes to the Governance Committee and the Board. You can find the committee charters on our website ([www.transcanada.com](http://www.transcanada.com)). Each committee also conducts a performance self-assessment every year (see the *Corporate Governance Ensuring effectiveness* section above for details).

The Audit and the Human Resources Committees hold simultaneous meetings as do the Governance and Health, Safety and Environment Committees to ensure each committee has sufficient time to focus on its responsibilities. As a result, Mr. Jackson, the independent non-executive Chair of the Board, is a voting member of the Governance Committee and the Human Resources Committee, and is not a member of the Audit Committee or the Health, Safety and Environment Committee.

The committees will be reconstituted after the annual meeting to take into account the retirement of Ms. Dobson and Mr. O'Brien, and the new board members, Ms. Reynolds and Mr. Waugh.

All meetings have scheduled periods when members can discuss the committee operations and responsibilities without management present.

### Audit Committee

#### Members

Kevin E. Benson (Chair)  
Derek H. Burney  
E. Linn Draper

Paul L. Joskow  
John A. MacNaughton  
D. Michael G. Stewart

#### Meetings in 2011

5 regularly scheduled meetings (February, April, July, October, November)  
2 special meetings (June, September)

#### Independent

6 independent directors, 100% independent and financially literate  
Mr. Benson, Chair of the Audit Committee, is an "audit committee financial expert" as defined by the SEC in the U.S., and has the accounting or related financial management experience required under the NYSE rules.

#### Mandate

The Audit Committee is responsible for assisting the Board in overseeing the integrity of our financial statements and our compliance with legal and regulatory requirements.  
It is also responsible for overseeing and monitoring the internal accounting and reporting process, and the process, performance and independence of our internal and external auditors.

The Audit Committee meets in-camera with the CFO at the beginning of each meeting, and also meets separately with the external and internal auditors and management. Additionally, the committee meets in-camera at the end of each meeting.

#### 2011 highlights

**Reviewed** our 2011 interim and annual disclosure documents, including the unaudited interim and audited annual consolidated financial statements and related MD&A, AIF and any financial statements required by regulatory authorities and recommended them to the Board for approval.

**Reviewed** the appointment of the external auditors and estimated fees and recommended them to the Board for approval.

**Reviewed** the audit plans of the internal and external auditors and the non-audit services performed by KPMG relating to tax services and our pension plans.

**Reviewed** our equity and debt securities documents to be filed with Canadian and U.S. securities regulators, as applicable, and recommended them to the Board for approval.

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**Oversaw** our financial reporting risks, including issues relating to materiality, risk assessment and rotation of the audit partner.

**Received** the external auditors' formal written statement of independence (which sets out all of its relationships with TCPL) and its recommendations to management about our internal controls and procedures.

**Recommended** changes to the Canadian Pension Plan Statement of Investment Policies and Procedures as part of its annual review.

**Reviewed** the major accounting policies and estimates and oversaw implementation of financial reporting using U.S. GAAP.

**Monitored** Canadian and U.S. financial reporting and legal and regulatory developments affecting our financial reporting process, controls and disclosure.

The *Audit Committee* section of this AIF includes more information about the Audit Committee, including oversight responsibilities, each member's education and experience, and policies and procedures for pre-approving services. The charter of the Audit Committee can be found at Schedule C to this AIF and on our website ([www.transcanada.com](http://www.transcanada.com)) under the *Corporate Governance Board Committees* page.

### Governance Committee

<b>Members</b>	John A. MacNaughton (Chair) Kevin E. Benson Derek H. Burney S. Barry Jackson	Paul L. Joskow David P. O'Brien Richard E. Waugh
<b>Meetings in 2011</b>	3 regularly scheduled meetings (February, April, October)	
<b>Independent</b>	7 independent directors, 100% independent	
<b>Mandate</b>	<p>The Governance Committee is responsible for assisting the Board with maintaining strong governance policies and practices at TCPL, reviewing the independence and financial literacy of directors, managing director compensation and the board assessment process, and overseeing our strategic planning process and risk management activities.</p> <p>It monitors the relationship between management and the Board, directors' share ownership levels, governance developments and emerging best practices. It is also responsible for identifying qualified candidates for the Board to consider as potential directors.</p> <p>It also recommends the meeting schedule for Board and committee meetings, site visits, and oversees matters related to the timing of our annual meeting.</p>	

The Governance Committee meets in-camera at the beginning and end of each meeting.

### 2011 highlights

**Reviewed** the independence of each director according to our written criteria to give the Board guidance in its annual assessment of independence and the structure and composition of each committee and other directorships.

**Introduced** an overboarding policy that limits directors to serving on a total of six boards.

**Oversaw** our strategic planning process, including strategic issues to be considered and planning of our two-day strategic planning meeting in June.

**Oversaw** our risk management activities, including receiving updates on key business risks and making recommendations to the Board as appropriate.

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**Reviewed** the identified principal risks with management to ensure we have proper Board and committee oversight and management programs in place to mitigate risks and our director share ownership requirements and recommended an increase from five to six times the annual cash retainer.

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**Amended** our corporate governance guidelines to limit the number of executives or senior managers of TCPL or its subsidiaries who can serve on our Board to a maximum of two and the code of business ethics to require all employees (including the CEO and other members of the executive leadership team) to receive consent before accepting a directorship in an unaffiliated entity.

**Examined** the suitability of instituting a clawback policy to recoup executive compensation in the event we must restate our financial statements because of material non-compliance with any financial reporting requirements. The committee continues to monitor legal developments in the U.S., emerging best practices in Canada and any legal or tax issues associated with a clawback policy.

**Reviewed** "say on pay" updates and voting trends.

**Monitored** updates to securities regulation (regulation and legal updates affecting our policies, procedures and disclosure practices) and matters relating to the financial markets.

**Oversaw** the Board's retirement policy, Board renewal and the selection of new director candidates.

**Reviewed** our trading policy for employees and insiders and approved an amendment to include an anti-hedging policy.

**Reviewed** the charters and checklists of the other committees and recommended them to the Board for approval.

### Health, Safety and Environment Committee

<b>Members</b>	E. Linn Draper (Chair) Wendy K. Dobson Paule Gauthier	W. Thomas Stephens D. Michael G. Stewart Paula Rospud Reynolds
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**Meetings in 2011** 3 regularly scheduled meetings (February, April and October)

**Independent** 6 independent directors, 100% independent

**Mandate** The Health, Safety and Environment Committee is responsible for overseeing our health, safety, security and environmental practices and procedures.

It monitors our compliance with applicable legislation and meeting industry standards, and oversees our policies and procedures to prevent or mitigate losses and to protect our assets, network and infrastructure from malicious acts, natural disasters or other crisis situations.

The Health, Safety and Environment Committee meets in-camera with the Vice-President, Community, Safety and Environment and separately at the end of each meeting. The committee also meets in-camera at the beginning of each meeting if determined necessary.

### *2011 highlights*

**Received** quarterly reports on our health, safety, security, environmental activities and performance, including governance activities, leadership objectives and emergency management and detailed reports and analysis on operational risk management, governance and performance, including regulatory compliance matters and pipeline integrity.

**Met** separately at each meeting with executives and directors of the business areas responsible for health, safety, security and environmental matters.

**Toured** the ANR gas storage facilities in Michigan and met with employee representatives of the Canadian and U.S. JHSEC.

**Participated** in the joint annual meeting of the Canadian and U.S. employee JHSEC.

**Monitored** Canadian and U.S. air emissions and greenhouse gas policies.

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**Oversaw** an update to the alcohol and drug use program for employees and contractors.

**Received** a positive report for four annual emergency exercises in Canada and the U.S., involving a complete activation of regional emergency medical systems and incident management teams on site and at the corporate office.

**Human Resources Committee**

W. Thomas Stephens (Chair)  
Wendy K. Dobson  
Paule Gauthier

Paula Rosput Reynolds  
S. Barry Jackson  
David P. O'Brien

**Meetings in 2011** 3 regularly scheduled meetings (February, October, November)  
2 special meetings (January, September)

**Independent** 6 independent directors, 100% independent

**Mandate** The Human Resources Committee is responsible for assisting the Board with developing strong human resources policies and plans and succession planning, overseeing the compensation programs, and assessing the performance of the CEO and other members of the executive leadership team against pre-established objectives and recommending their compensation.

It approves all long-term incentive awards, including stock options, and any major changes to the compensation program and benefits plans for employees. It is also responsible for the benefits under our Canadian pension plans and reviewing our share ownership requirements for executives.

The Human Resources Committee meets in-camera at the beginning and end of each meeting.

*2011 highlights*

**Approved** changes to our executive compensation program for 2011, including positioning base salary within a range where guidepost is aligned with reference to the market median, basing the short-term incentive award on a target value that is adjusted based on actual corporate and individual performance, and granting long-term incentive awards based on a target value that is adjusted based on individual performance and future potential.

**Assessed** the performance of the executive leadership team and recommended the 2011 executive compensation awards to the Board for review and approval.

**Held** special meetings on executive compensation in January and September.

The committee also undertook a number of other activities during the year, and these go into effect beginning in 2012:

**Reviewed** the long-term incentive mix for our executive leadership team and approved an adjustment to the weighting so that 50% of the value is allocated each to executive share units (ESUs) and stock options.

**Reviewed** the methodology for determining the fair value of stock options and confirmed its approach of using TCPL's accounting value as determined under the Binomial valuation model.

**Adopted** relative total shareholder return as the single performance measure under the ESU plan, and adjusted the voting terms by introducing a minimum payout of 50% of target while keeping the maximum payout of 150%.

**Reviewed and approved** amendments to the retirement provisions for ESUs and stock options.

**Reviewed and approved** the reappointment of Towers Watson as the committee's external compensation consultant beginning in 2012.

**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;

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- (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)

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

(c)

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

(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;

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(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;

### 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;

(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, but at least every five years;

**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;

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- (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 the implementation and amendments to policies and program initiatives deemed advisable by management or the Audit Committee with respect to the Company's codes of business ethics and Risk Management and Financial Reporting policies;
- (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 partners, employees and former partners and employees of the present and former 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 Canadian Pension Plans (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 in relation to the Company's pension plans and recommend to the Board on pension contributions;
- (c)

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

- (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 the policy and guidelines for the Company's hiring of partners, employees and former partners and 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**

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 United States 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) make suggestions and provide feedback from the Audit Committee to management regarding information that is or should be provided to the Audit Committee;
- (d) report to the Board on the activities of the Audit Committee relative to its recommendations, resolutions, actions and concerns; and
- (e) 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.