

TRANSCANADA PIPELINES LTD  
Form 40-F  
February 17, 2012

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

**Form 40-F**

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

**OR**

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

For the fiscal year ended **December 31, 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.

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**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  
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 ☐

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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       |

### EXPLANATORY NOTE

An amendment to this Form 40-F shall be filed to include the TransCanada PipeLines Limited ("TCPL") Annual Information Form for the year ended December 31, 2011. The amendment shall be filed no later than the date the Annual Information Form is required pursuant to home country requirements.

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

Except sections specifically referenced below which shall be deemed incorporated by reference herein and filed, no other portion of the TCPL 2011 Management's Discussion and Analysis and Audited Consolidated Financial Statements shall be deemed filed with the U.S. Securities and Exchange Commission (the "Commission") as part of this report under the Exchange Act.

#### A. Audited Annual Financial Statements

For audited consolidated financial statements, including the auditors' report, see pages 91 through 149 of the TCPL 2011 Management's Discussion and Analysis and Audited Consolidated Financial Statements included herein. See Note 25 of the Notes to Audited Consolidated Financial Statements on pages 144 through 149 of the TCPL 2011 Management's Discussion and Analysis and Audited Consolidated Financial Statements, reconciling the significant differences between Canadian and United States generally accepted accounting principles.

#### B. Management's Discussion & Analysis

For management's discussion and analysis, see pages 2 through 90 of the TCPL 2011 Management's Discussion and Analysis and Audited Consolidated Financial Statements included herein.

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

For management's report on internal control over financial reporting, see "Report of Management" that accompanies the Audited Consolidated Financial Statements on page 91 of the TCPL 2011 Management's Discussion and Analysis and Audited Consolidated Financial Statements included herein.

### 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.

### DISCLOSURE CONTROLS AND PROCEDURES

For information on disclosure controls and procedures, see "Controls and Procedures" in Management's Discussion and Analysis on pages 77 and 78 of the TCPL 2011 Management's Discussion and Analysis and Audited Consolidated Financial Statements.

#### **AUDIT COMMITTEE FINANCIAL EXPERT**

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

#### **CODE OF ETHICS**

The Registrant has adopted codes of business ethics for its President and Chief Executive Officer, Chief Financial Officer, Controller, directors, employees and contractors. The Registrant's codes are available on its website at [www.transcanada.com](http://www.transcanada.com). No waivers have been granted from any provision of the codes during the 2011 fiscal year.

#### **PRINCIPAL ACCOUNTANT FEES AND SERVICES**

##### **Pre-Approval Policies and Procedures**

TransCanada'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, TransCanada 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.

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### 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>   | \$ 6.9        | \$ 6.5        |
| 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          |               |               |
| <b>Audit-related fees</b>   | 0.2           | 0.2           |
| services related to the audit of the financial statements of certain TransCanada pension plans  |               |               |
| <b>Tax fees</b>   | 0.4           | 1.0           |
| Canadian and international tax planning and tax compliance matters, including the review of income tax returns and other tax filings        |               |               |
| <b>All other fees</b>   | 0.1           | 0.2           |
| services related to environmental compliance in 2011 and advice and training related to International Financial Reporting Standards in 2010 |               |               |
| <b>Total fees</b>   | <b>\$ 7.6</b> | <b>\$ 7.9</b> |

### OFF-BALANCE SHEET ARRANGEMENTS

The Registrant has no off-balance sheet arrangements, as defined in this Form, other than the guarantees and commitments described in Note 24 of the Notes to the Audited Consolidated Financial Statements attached to this Form 40-F and incorporated herein by reference.

### TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

For information on Tabular Disclosure of Contractual Obligations, see "Contractual Obligations" in Management's Discussion and Analysis on page 57 of the TCPL 2011 Management's Discussion and Analysis and Audited Consolidated Financial Statements.

### IDENTIFICATION OF THE AUDIT COMMITTEE

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

|          |             |
|----------|-------------|
| Chair:   | K.E. Benson |
| Members: | D.H. Burney |
|          | E.L. Draper |
|          | P.L. Joskow |

J.A. MacNaughton  
D.M.G. Stewart

### 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;

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;

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.



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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 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.



**SIGNATURES**

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

**TRANSCANADA PIPELINES LIMITED**

Per: /s/ DONALD R. MARCHAND

DONALD R. MARCHAND

*Executive Vice-President and Chief Financial Officer*

Date: February 17, 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.

**EXHIBITS**

- 23.1 Consent of KPMG LLP, Independent Registered Public Accounting Firm.
  - 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the *Sarbanes-Oxley Act of 2002*.
  - 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the *Sarbanes-Oxley Act of 2002*.
  - 32.1 Certification of Chief Executive Officer regarding Periodic Report containing Financial Statements.
  - 32.2 Certification of Chief Financial Officer regarding Periodic Report containing Financial Statements.
-











## Financial Highlights

| <i>Year ended December 31</i>                    |               |        |        |        |        |
|--|---------------|--------|--------|--------|--------|
| <i>(millions of dollars)</i>                     | <b>2011</b>   | 2010   | 2009   | 2008   | 2007   |
| <b>Income</b>                                    |               |        |        |        |        |
| Net income attributable to common shares         | <b>1,504</b>  | 1,234  | 1,357  | 1,420  | 1,210  |
| <b>Cash Flow</b>                                 |               |        |        |        |        |
| Funds generated from operations                  | <b>3,572</b>  | 3,279  | 3,044  | 2,992  | 2,603  |
| Decrease/(increase) in operating working capital | <b>282</b>    | (256)  | (88)   | 128    | 63     |
| Net cash provided by continuing operations       | <b>3,854</b>  | 3,023  | 2,956  | 3,120  | 2,666  |
| Capital expenditures and acquisitions            | <b>3,274</b>  | 5,036  | 6,319  | 6,363  | 5,874  |
| <b>Balance Sheet</b>                             |               |        |        |        |        |
| Total assets                                     | <b>49,723</b> | 48,126 | 44,670 | 40,735 | 31,737 |
| Long-term debt                                   | <b>17,632</b> | 17,028 | 16,186 | 15,368 | 12,377 |
| Junior subordinated notes                        | <b>1,009</b>  | 985    | 1,036  | 1,213  | 975    |
| Common shareholders' equity                      | <b>18,073</b> | 15,358 | 14,483 | 12,574 | 9,664  |
| TRANSCANADA PIPELINES LIMITED 1                  |               |        |        |        |        |

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*This Management's Discussion and Analysis (MD&A) dated February 13, 2012 should be read in conjunction with the accompanying audited Consolidated Financial Statements of TransCanada PipeLines Limited (TCPL or the Company) and the notes thereto for the year ended December 31, 2011 which are prepared in accordance with Canadian generally accepted accounting principles as defined in Part V of the Canadian Institute of Chartered Accountants (CICA) Handbook (CGAAP). This MD&A covers TCPL's financial position and operations as at and for the year ended December 31, 2011. "TCPL" or "the Company" includes TransCanada PipeLines Limited and its subsidiaries, unless otherwise indicated. Amounts are stated in Canadian dollars unless otherwise indicated. Abbreviations and acronyms not defined in this MD&A are defined in the Glossary of Terms in the Company's 2011 Annual Report.*

### TCPL OVERVIEW

With more than 60 years experience, TCPL is a leader in the responsible development and reliable operation of North American energy infrastructure including natural gas and oil pipelines, power generation and natural gas storage facilities.

Today, TCPL is:

One of the largest natural gas transmission companies in North America with a network of wholly- and partially-owned natural gas pipelines extending more than 68,500 kilometres (km) (42,500 miles), tapping into virtually all major gas supply basins;

One of the continent's largest providers of natural gas storage and related services with approximately 380 billion cubic feet (Bcf) of storage capacity;

The largest private sector power company in Canada and owns or has interests in over 10,800 megawatts (MW) of power generation in Canada and the United States (U.S.); and

A significant player in the oil transmission business with the start up of the Keystone oil pipeline system and the large expansion opportunity to the U.S. Gulf Coast (Keystone XL).

In pursuing its vision to be the leading energy infrastructure company in North America, TCPL continually strives to execute a large portfolio of attractive growth projects. Each of these new projects are large scale, long life assets supported by strong business fundamentals and long-term contracts that provide attractive and sustainable returns to shareholders over a long-term time horizon.

With assets of approximately \$50 billion and a substantial growth portfolio, TCPL believes it is well positioned to build on its track record of strong and sustainable earnings, cash flow and dividends. Since the spring of 2010, TCPL has brought \$10 billion of growth projects in service and is positioned to complete another \$12 billion of new projects by the end of 2014.

#### *TCPL's 2011 Key Developments*

The Company advanced its significant entry into the oil pipelines transmission business:

Achieved full commercial operations in February 2011 on the sections of the Keystone crude oil pipeline system, extending from Hardisty, Alberta to Wood River and Patoka in Illinois (Wood River/Patoka) and from Steele City, Nebraska, to Cushing, Oklahoma (Cushing Extension) and recorded earnings before interest, taxes, depreciation and amortization (EBITDA) of \$0.6 billion in Keystone's first eleven months of operations;

Received a favourable Final Environmental Impact Statement (FEIS) in August from the U.S. Department of State (DOS) for Keystone XL;

Secured commercial support for an extension and expansion of Keystone XL to provide crude oil transportation service from Hardisty, Alberta to Houston, Texas; and

Received notice that the DOS had denied the Presidential Permit for Keystone XL, based on the DOS's position that it did not have sufficient time to receive and review additional information necessary to assess alternative routes that would avoid the Sandhills region

of Nebraska. TCPL will submit a revised Presidential Permit application to the DOS.

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The Company completed construction, placed in service and advanced the following initiatives in Natural Gas Pipelines, which included connecting new shale and unconventional natural gas supply:

Continued to advance pipeline development projects on the Alberta System to transport new natural gas supply from the Horn River and Montney shale basins in northeastern British Columbia (B.C.) as well as the Deep Basin in Alberta:

Received approval from the National Energy Board (NEB) for the construction of natural gas pipeline projects on the Alberta System with capital costs totalling approximately \$910 million including the \$275 million Horn River pipeline; and

Filed additional pipeline development projects with the NEB costing approximately \$810 million that included new agreements to further extend the Horn River pipeline by approximately 100 km (62 miles) at an estimated cost of \$230 million.

Placed in service:

The US\$630 million Bison pipeline in January 2011, which delivers natural gas from the Powder River Basin in Wyoming to an interconnection with the Northern Border Pipeline; and

The US\$360 million Guadalajara pipeline in June 2011, which transports natural gas from Manzanillo to Guadalajara in Mexico.

Filed a comprehensive application, with the NEB in September 2011, to change the business structure and the terms and conditions of service for the Canadian Mainline to address tolls for 2012 and 2013;

Closed the sale of a 25 per cent interest in each of Gas Transmission Northwest LLC (GTN LLC) and Bison Pipeline LLC (Bison LLC) to TC PipeLines, LP for an aggregate purchase price of US\$605 million, which included US\$81 million or 25 per cent of GTN LLC debt outstanding; and

Filed a supplemental application with the NEB to construct \$130 million of new pipeline infrastructure on the Canadian Mainline to receive Marcellus shale basin natural gas from the U.S. at the Niagara Falls receipt point for further transportation to Eastern markets.

The Company completed, placed in service and advanced the following power generation assets in Energy:

Placed in service the US\$500 million Coolidge generation station in May 2011, capable of producing 575 MW;

Completed construction and placed in service the Montagne-Sèche and phase one of the Gros-Morne wind farms in November 2011, capable of producing 159 MW of renewable energy;

Executed an agreement in December 2011 for the purchase of nine Ontario solar projects, with a combined capacity of 86 MW, for approximately \$470 million that are expected to come into service between late 2012 and mid-2013; and

Continued to progress the \$4.8 billion refurbishment and restart of two reactors at the Bruce Power nuclear facility in Ontario. TCPL's expected net capital cost of the project is \$2.4 billion. Fuelling of both Unit 1 and Unit 2 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.

The following are other key developments in Energy in 2012:

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Both units at Sundance A were not operational throughout 2011 and have been subject to force majeure and economic destruction claims by the asset owner. TCPL has recorded revenues and costs throughout 2011 as it considers this event to be an interruption of supply in accordance with the terms of the power purchase arrangement (PPA). An arbitration hearing is scheduled for April 2012 to hear both claims.

Since July 2011, spot prices for capacity sales applicable to Ravenswood have been negatively impacted by the manner in which New York Independent System Operator (NYISO) has applied pricing rules for a new power plant in the New York City Zone J market. TCPL has filed formal complaints with the Federal Energy Regulatory Commission (FERC) that are pending.

TCPL reached a formal agreement to use an arbitration process to settle the Oakville contract dispute resulting from the termination of a 20-year Clean Energy Supply contract with the Ontario Power Authority (OPA).

### 4 MANAGEMENT'S DISCUSSION AND ANALYSIS

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**TCPL's Businesses Are Organized Into Three Segments    Natural Gas Pipelines, Oil Pipelines and Energy**

The Natural Gas Pipelines and Oil Pipelines businesses consist of large-scale natural gas and crude oil pipelines, respectively, primarily situated in Canada and the U.S. TCPL is also the general partner of TC PipeLines, LP, a master limited partnership that owns interests in U.S. natural gas pipelines.

*Natural Gas Pipelines*

TCPL's natural gas pipeline systems consist of a network of more than 57,000 km (35,500 miles) of wholly owned natural gas pipelines, and more than 11,500 km (7,000 miles) of partially owned natural gas pipelines. The network connects major natural gas supply basins and markets, transporting approximately 20 per cent of the natural gas consumed in North America or 14 Bcf of natural gas per day, which is delivered to local distribution companies, power generation facilities and other businesses in markets across North America. The Company's U.S. Natural Gas Pipelines include regulated natural gas storage facilities in Michigan with a total capacity of 250 Bcf.

TCPL is also pursuing additional natural gas pipeline projects to diversify both the supply and market sides of this business and add incremental value to existing assets. Key areas of focus include greenfield development opportunities that connect TCPL's natural gas pipelines to emerging Canadian and U.S. shale gas and other supplies and that play a critical role in satisfying increased natural gas demand in North America especially for power generation. TCPL continues to advance opportunities to optimize its existing natural gas pipelines systems to respond to the changing flow patterns of natural gas supply in North America.

*Oil Pipelines*

The Company's Keystone crude oil pipeline system currently operates on the Wood River/Patoka and the Cushing Extension sections and has a nominal design capacity of 591,000 barrels per day (bbl/d). With increasing production of crude oil in Alberta and new crude oil discoveries in the U.S., including the Bakken shale play in Montana and North Dakota, combined with growing demand for secure, reliable sources of energy, TCPL has identified additional opportunities to develop new oil pipeline capacity.

The Company plans to expand and extend the existing system through Keystone XL which includes the construction of a new crude oil pipeline from Cushing, Oklahoma to the U.S. Gulf Coast, the addition of operational storage facilities at Hardisty, Alberta and the construction of a new crude oil pipeline from Hardisty, Alberta to Steele City, Nebraska. The expanded oil pipeline system is collectively referred to as Keystone. The completion of Keystone XL is expected to increase total system capacity to approximately 1.4 million bbl/d.

*Energy*

TCPL's Energy segment primarily consists of a portfolio of essential power generation assets in select regions of Canada and the U.S., and unregulated natural gas storage assets in Alberta.

TCPL owns, controls or is developing more than 10,800 MW of power generation, comprising a diverse portfolio that includes power sourced from natural gas, nuclear, coal, hydro, wind and solar assets. TCPL's power business is primarily located in Canada in Alberta, Ontario and Québec, in the northeastern U.S. mainly in the New England states and New York, and in Arizona. The assets are largely underpinned by long-term tolling contracts or represent low-cost baseload generation and essential capacity.

From offices in Western Canada, Ontario and the northeastern U.S., TCPL complements these assets by conducting wholesale and retail electricity marketing and trading throughout North America.

In addition to power generation assets in the Energy business, TCPL owns or controls approximately 130 Bcf of unregulated natural gas storage capacity in Alberta, or approximately one-third of all storage capacity in the province. Combined with the regulated natural gas storage in Michigan included in the Natural Gas Pipelines segment, TCPL provides natural gas storage and related services for approximately 380 Bcf of capacity.

**TCPL'S STRATEGY**

TCPL's vision is to be the leading energy infrastructure company in North America, focusing on pipeline and power generation opportunities in regions where it has or can develop a significant competitive advantage. TCPL's key



strategies continue to evolve with the Company's growth and development and its changing business environment. TCPL's corporate strategy integrates four fundamental value-creating activities:

Maximize the full-life value of TCPL's infrastructure assets and commercial positions

Commercially develop and physically execute new asset investment programs

Cultivate a focused portfolio of high-quality development options

Maximize TCPL's competitive strengths

*Maximize the full-life value of TCPL's infrastructure assets and commercial positions*

TCPL relies on a low-risk business model to maximize the full-life value of existing assets and commercial positions. The Company's pipeline assets include large-scale natural gas and crude oil pipelines that connect long-life supply basins with stable and growing markets, generating predictable and sustainable cash flows and earnings. In Energy, highly efficient, large-scale power generation facilities supply power markets through long-term power purchase and sale agreements and low-volatility, shorter-term commercial arrangements. TCPL's growing investments in natural gas, nuclear, wind, hydro-power, and solar generating facilities demonstrate the Company's commitment to clean, sustainable energy. Long-life infrastructure assets and long-term commercial arrangements are expected to continue as cornerstones of TCPL's business model.

*Commercially develop and physically execute new asset investment programs*

TCPL's expertise, scale and financial capacity enable access to attractive commercial, financing and input cost arrangements that influence the quality of projects, notably the current \$12 billion capital program. These projects are expected to provide further contributions to the Company's earnings over the next three years as they are put in service. Success in this capital program requires effective performance in engineering and in project set-up and delivery. It also requires expert regulatory, legal and financing support, as well as outstanding operational set-up. TCPL's model for managing construction risks and maximizing capital productivity helps ensure disciplined attention to quality, cost and schedule that produces superior service for its customers and quality returns to shareholders. Many of these functional capabilities also create the basis for successful acquisition and integration of new energy and pipeline facilities, an important dimension of the growth strategy.

*Cultivate a focused portfolio of high-quality development options*

The Company's core regions within North America are the focus of pipelines and energy growth initiatives. TCPL will continue to pursue opportunities to connect long-life shale and conventional natural gas resources in Western and Northern Canada, as well as Alaska, the U.S. Rockies, the U.S. Midcontinent and the U.S. Gulf Coast supply regions. TCPL will also continue to pursue opportunities to connect growing crude oil volumes from the Alberta oil sands and U.S. sources, including the Bakken formation in Montana and North Dakota, to preferred North American markets. The Company will continue to assess energy infrastructure acquisition opportunities that complement its existing pipeline network and provide access to new supply and market regions. In Energy, the Company will continue to focus on low-cost, long-life baseload power generating and natural gas storage assets supported by firm, long-term contracts with reputable and creditworthy counterparties. Selected opportunities will be advanced to full development and construction when market conditions are appropriate and project risks are manageable.

*Maximize TCPL's competitive strengths*

TCPL continues to build competitive strength in areas that directly drive long-term shareholder value. At the core of the Company's competitive advantage are powerful capabilities in strategy development, implementation, and continuous improvement. The Company relies on its scale, presence, operating capabilities, leadership and teams to compete effectively and deliver outstanding value to customers. A disciplined approach to capital investment combined with access to sizeable amounts of competitive-cost capital allows the Company to create significant shareholder value from its large capital projects. TCPL recognizes that constructive relationships with key customers and stakeholders are critically important in the long-term energy infrastructure business. TCPL values its reputation for consistent financial performance and long-term financial stability. The Company clearly communicates its financial performance to equity and debt investors, providing insight into both value upside and business risks. We work to sustain the trust and support of our long-term investors and to attract new investors who see long-term value in our disciplined approach to the energy infrastructure business. The Company continues to identify and build on all aspects of competitive strength.



**CONSOLIDATED FINANCIAL REVIEW****SELECTED THREE-YEAR CONSOLIDATED FINANCIAL DATA**

| <i>(millions of dollars except per share amounts)</i> | <b>2011</b>   | 2010   | 2009   |
|---|---------------|--------|--------|
| <b>Income Statement</b>                               |               |        |        |
| Revenues  | <b>9,139</b>  | 8,064  | 8,181  |
| Comparable EBITDA <sup>(1)</sup>                      | <b>4,806</b>  | 3,941  | 4,107  |
| Net Income Attributable to Common Shares              | <b>1,504</b>  | 1,234  | 1,357  |
| Comparable Earnings <sup>(1)</sup>                    | <b>1,542</b>  | 1,368  | 1,308  |
| <b>Per Share Data</b>                                 |               |        |        |
| Net Income per Common Share Basic and Diluted         | <b>\$2.22</b> | \$1.87 | \$2.20 |
| Dividends Declared                                    |               |        |        |
| Series U Preferred Shares                             | <b>\$2.80</b> | \$2.80 | \$2.80 |
| Series Y Preferred Shares                             | <b>\$2.80</b> | \$2.80 | \$2.80 |
| <b>Cash Flows</b>                                     |               |        |        |
| Funds Generated from Operations <sup>(1)</sup>        | <b>3,572</b>  | 3,279  | 3,044  |
| Decrease/(Increase) in Operating Working Capital      | <b>282</b>    | (256)  | (88)   |
| <b>Net Cash Provided by Operations</b>                | <b>3,854</b>  | 3,023  | 2,956  |
| Capital Expenditures                                  | <b>3,274</b>  | 5,036  | 5,417  |
| Acquisitions, Net of Cash Acquired                    |               |        | 902    |
| <b>Balance Sheet</b>                                  |               |        |        |
| Total Assets  | <b>49,723</b> | 48,126 | 44,670 |
| Total Long-Term Liabilities                           | <b>24,326</b> | 25,923 | 24,065 |

(1) Refer to the Non-GAAP Measures section in this MD&A for further discussion of Comparable EBITDA, Comparable Earnings and Funds Generated from Operations.

## HIGHLIGHTS

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### Earnings

Net Income Attributable to Common Shares was \$1.5 billion in 2011 compared to \$1.2 billion in 2010.

TCPL's Comparable Earnings in 2011 were \$1.5 billion compared to the \$1.4 billion reported in 2010.

### Cash Flow

Funds Generated from Operations were \$3.6 billion in 2011, an increase of \$0.3 billion or nine per cent from \$3.3 billion in 2010.

TCPL invested \$3.3 billion in its Natural Gas Pipelines, Oil Pipelines and Energy capital projects in 2011, including the following:

capital expenditures of \$0.9 billion for Natural Gas Pipelines projects, including expansion of the Alberta System and completion of Bison and Guadalajara;

capital expenditures of \$1.2 billion for Keystone; and

capital expenditures of \$1.1 billion for Energy projects, including the refurbishment and restart of Bruce A Units 1 and 2, completion of Coolidge and construction of Cartier Wind, including completion of Montagne-Sèche and phase one of the Gros-Morne project.

In 2011, TCPL issued approximately \$1.6 billion of long-term debt and \$2.4 billion of common shares, primarily comprising the following:

in December 2011, the issuance of 56.3 million common shares resulting in proceeds of \$2.4 billion;

in December 2011, TC PipeLines, LP made a draw of US\$300 million on its senior revolving credit facility;

in November 2011, the issuance of \$750 million of medium-term notes; and

in June 2011, TC PipeLines, LP issued US\$350 million of senior notes.

### Balance Sheet

Total assets increased by \$1.6 billion to \$49.7 billion in 2011 from 2010, primarily due to investments in capital projects, described above.

TCPL's Equity Attributable to Controlling Interests increased by \$2.8 billion to \$18.5 billion in 2011 from 2010.

### Dividends

On February 13, 2012, the Board of Directors of TCPL declared a dividend for the quarter ending March 31, 2012 in an aggregate amount equal to the quarterly dividend to be paid on TransCanada Corporation's (TransCanada) issued and outstanding common

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shares at the close of business on March 30, 2012. In addition, the Board of Directors declared regular dividends on TCPL preferred shares.

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

### 8 MANAGEMENT'S DISCUSSION AND ANALYSIS

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**Reconciliation of Non-GAAP Measures**

**Year  
ended  
December 31,  
2011**

*(millions  
of  
dollars)*

|                                     | <b>Natural Gas<br/>Pipelines</b> | <b>Oil Pipelines</b> | <b>Energy</b> | <b>Corporate</b> | <b>Total</b>   |
|-------------------------------------|----------------------------------|----------------------|---------------|------------------|----------------|
| <b>Comparable<br/>EBITDA</b>        | <b>2,967</b>                     | <b>587</b>           | <b>1,338</b>  | <b>(86)</b>      | <b>4,806</b>   |
| Depreciation<br>and<br>amortization | <b>(986)</b>                     | <b>(130)</b>         | <b>(398)</b>  | <b>(14)</b>      | <b>(1,528)</b> |
| <b>Comparable<br/>EBIT</b>          | <b>1,981</b>                     | <b>457</b>           | <b>940</b>    | <b>(100)</b>     | <b>3,278</b>   |

**Other Income Statement**

**Items**

Comparable  
interest  
expense