TRANSCANADA CORP
Form 40-F
February 27, 2008

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U.S. Securities and Exchange Commission

Washington, D.C. 20549

Form 40-F

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

OR

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

For the fiscal year ended **December 31, 2007** Commission File Number **1-31690**

TRANSCANADA CORPORATION

(Exact Name of Registrant as specified in its charter)

Canada

(Jurisdiction of incorporation or organization)

4922, 4923, 4924, 5172
(Primary Standard Industrial Classification Code Number (if applicable))

Not Applicable
(I.R.S. Employer Identification Number (if applicable))

TransCanada Tower, 450 - 1 Street S.W.
Calgary, Alberta, Canada, T2P 5H1
(403) 920-2000
(Address and telephone number of Registrant's principal executive offices)

CT Corporation, Suite 2610, 520 Pike Street
Seattle, Washington, 98101; (206) 622-4511; (800) 456-4511
(Name, address (including zip code) and telephone number (including area code)
of agent for service in the United States)

Securities registered pursuant to section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Shares (including Rights under Shareholder Rights Plan)	New York Stock Exchange

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

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

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

ý Annual Information Form ý Audited annual financial statements

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

At December 31, 2007, 539,765,547 common shares were issued and outstanding

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

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

The 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.
S-8	333-5916
S-8	333-8470
S-8	333-9130
F-3	33-13564
F-3	333-6132
F-10	333-140150

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

A. Audited Annual Financial Statements

For consolidated audited financial statements, including the report of the independent chartered accountants see pages 75 through 129 of the TransCanada Corporation ("TransCanada") 2007 Annual Report to Shareholders included herein. See the related supplementary note entitled "Reconciliation to United States GAAP" for a reconciliation of the differences between Canadian and United States generally accepted accounting principles, including the auditors' report, attached as document 13.4.

B. Management's Discussion & Analysis

For management's discussion and analysis, see pages 6 through 74 of the TransCanada 2007 Annual Report to Shareholders included herein under the heading "Management's Discussion & Analysis".

For the purposes of this Report, only pages 6 through 74 and 75 through 129 of the TransCanada 2007 Annual Report to Shareholders shall be deemed incorporated herein by reference and filed, and the balance of such 2007 Annual Report, except as otherwise specifically incorporated by reference in the TransCanada Annual Information Form, shall be deemed not filed with the Securities and Exchange Commission as part of this Report under the Exchange Act.

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

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

i. "Report of Management" included in TransCanada's consolidated audited financial statements on page 75;

ii. the section entitled "Management's Annual Report on Internal Control Over Financial Reporting" under the heading "Controls and Procedures" in Management's Discussion and Analysis on page 63 of the TransCanada 2007 Annual Report to Shareholders; and

iii. Management's Report on Internal Control Over Financial Reporting attached as document 13.5.

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

UNDERTAKING

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

DISCLOSURE CONTROLS AND PROCEDURES

For information on disclosure controls and procedures, see "Controls and Procedures" in Management's Discussion and Analysis on page 69 of the TransCanada 2007 Annual Report to Shareholders.

AUDIT COMMITTEE FINANCIAL EXPERT

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

CODE OF ETHICS

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

PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

Fees in millions of Canadian dollars	**2007**[(1)]	2006[(1)]
Audit Fees	**$ 6.27**	$ 6.52
Audit-Related Fees	**0.07**	0.07
Tax Fees	**0.06**	0.22
All Other Fees	**0.00**	0.07
Total	**$ 6.40**	$ 6.88

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

The nature of each category of fees is described below.

Audit Fees

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

Audit-Related Fees

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

Tax Fees

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

All Other Fees

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

Pre-Approval Policies and Procedures

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 CDN or less which are not within the annual pre-approved limit, approval by the Audit Committee is not required, and for engagements between $25,000 CDN and $100,000 CDN, approval of the Audit Committee Chair is required, and the Audit Committee is to be informed of the engagement at the next scheduled Audit Committee meeting. For all engagements of $100,000 CDN or more, pre-approval of the Audit Committee is required. In all cases, regardless of dollar amount involved, where there is a potential for conflict of interest involving the external auditor on an engagement, the Audit Committee Chair must pre-approve the assignment.

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

OFF-BALANCE SHEET ARRANGEMENTS

The Registrant has no off-balance sheet arrangements, as defined in this Form, other than the guarantees described in Note 23 of the Notes to the Consolidated Financial Statements which are incorporated herein by reference.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

For information on Tabular Disclosure of Contractual Obligations, see "Management's Discussion and Analysis Contractual Obligations", which is incorporated herein by reference on pages 51 and 52 of the TransCanada 2007 Annual Report to Shareholders.

IDENTIFICATION OF THE AUDIT COMMITTEE

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

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

FORWARD-LOOKING INFORMATION

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

SIGNATURES

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

TRANSCANADA CORPORATION

Per: /s/ GREGORY A. LOHNES

GREGORY A. LOHNES
Executive Vice-President and Chief Financial Officer

Date: February 27, 2008

DOCUMENTS FILED AS PART OF THIS REPORT

13.1 TransCanada Corporation Annual Information Form for the year ended December 31, 2007.

13.2 Management's Discussion and Analysis (included on pages 6 through 74 of the TransCanada 2007 Annual Report to Shareholders).

13.3 2007 Consolidated Audited Financial Statements (included on pages 75 through 129 of the TransCanada 2007 Annual Report to Shareholders), including the auditors' report thereon.

13.4 Related supplementary note entitled "Reconciliation to United States GAAP" and the auditors' report thereon.

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

13.6 Report of the Independent Registered Accounting Firm on the effectiveness of TransCanada's Internal Control Over Financial Reporting, as at December 31, 2007.

99.1 Comments by Auditors for United States Readers on Canada-United States Reporting Differences.

EXHIBITS

23.1 Consent of KPMG LLP Chartered Accountants.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the *Sarbanes-Oxley Act of 2002*.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the *Sarbanes-Oxley Act of 2002*.

32.1 Certification of Chief Executive Officer regarding Periodic Report containing Financial Statements.

32.2 Certification of Chief Financial Officer regarding Periodic Report containing Financial Statements.

TRANSCANADA CORPORATION

ANNUAL INFORMATION FORM

February 25, 2008

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PRESENTATION OF INFORMATION

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

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

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

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

FORWARD-LOOKING INFORMATION

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

TRANSCANADA CORPORATION

Corporate Structure

TransCanada s head office and registered office are located at 450 - First Street S.W., Calgary, Alberta, T2P 5H1. TransCanada was incorporated pursuant to the provisions of the *Canada Business Corporation Act* on February 25, 2003 in connection with a plan of arrangement which established TransCanada as the parent company of TCPL. The arrangement was approved by TCPL common shareholders on April 25, 2003 and, following court approval and the filing of Articles of Arrangement, the arrangement became effective May 15, 2003. Pursuant to the arrangement, the common shareholders of TCPL exchanged each of their TCPL common shares for one common share of TransCanada. The debt securities and preferred shares of TCPL remained obligations and securities of TCPL. TCPL continues to hold the assets it held prior to the arrangement and continues to carry on business as the principal operating subsidiary of the TransCanada group of entities. TransCanada does not hold any material assets directly other than the common shares of TCPL and receivables from certain of TransCanada s subsidiaries.

At Year End, TransCanada s principal operating subsidiary, TCPL, had approximately 3,500 employees, substantially all of whom were employed in Canada and the U.S.

Intercorporate Relationships

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

GENERAL DEVELOPMENT OF THE BUSINESS

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

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

Developments in the Pipelines Business

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

Recent Pipeline Developments

- January 4 2008. The State of Alaska announced that TransCanada had submitted a complete *Alaska Gasline Inducement Act* application for a license to construct the Alaska Pipeline Project and would be advancing to the public comment stage.

- January 2008. Gas Transmission Northwest Corporation (*GTNC*) filed a Stipulation and Agreement with the U.S. Federal Regulatory Commission (*FERC*) on October 31, 2007 comprised of an uncontested settlement of all aspects of its 2006 General Rate Case. On January 7, 2008, the FERC issued an order approving the settlement. The settlement rates are effective retroactive to January 1, 2007.

- January 11, 2008. Keystone U.S. received, from the U.S. Department of State, the Final Environmental Impact Statement (*FEIS*) regarding the construction of the Keystone U.S. pipeline and its Cushing extension. The FEIS stated the pipeline would result in limited adverse environmental impacts. The FEIS is a requirement to proceed with the Presidential Permit process, which governs the construction and operation of facilities at the U.S. Canada border crossing. The Presidential Permit is expected to be issued in March 2008. Construction and material supply contracts totaling approximately $3.0 billion have been awarded for pipe, tanks, pumps and related materials, and engineering and construction management services.

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

2007

Pipeline Developments

- February 9, 2007. TransCanada received approval from the National Energy Board (the *NEB*) to transfer a section of the Canadian Mainline (as defined below) natural gas transmission facilities to the Keystone oil pipeline project to transport crude oil from Alberta to refining centres in the U.S. Midwest and to construct and operate new oil pipeline facilities in Canada. TransCanada announced in January 2007 the start of a binding open season for an expansion and extension of the proposed Keystone oil pipeline. The purpose of the open season was to obtain binding commitments to support the expansion of the proposed Keystone pipeline from approximately 435,000 barrels per day to 590,000 barrels per day and the construction of a 468 kilometre (*km*) extension of the U.S. portion of the pipeline.

- February 22, 2007. TransCanada closed its acquisitions of American Natural Resources Company and ANR Storage Company (collectively, *ANR*) and acquired an additional 3.6 per cent interest in Great Lakes Gas Transmission Partnership (*Great Lakes*) from El Paso Corporation for a total of US$3.4 billion, subject to certain post-closing adjustments, including approximately US$491 million of assumed long-term debt. Additionally, TransCanada increased its ownership in TC PipeLines, LP to 32.1 per cent in conjunction with the TC PipeLines, LP acquisition of a 46.4 per cent interest in the Great Lakes. TransCanada subsequently became the operator of the Northern Border Pipeline Company (*NBPL*) and now operates all three TC PipeLines, LP investments.

- November 2007. Keystone Canada filed an application with the NEB to add new pumping facilities to accommodate the increase in scope and scale of the project. An NEB oral hearing is scheduled to commence in April 2008.

- November 20, 2007. A non-routine application was filed with the Alberta Energy and Utilities Board (*EUB*) for the North Central Corridor pipeline expansion of the Alberta System (as defined below). The estimated cost of this project is $983 million with construction expected to begin late 2008, subject to regulatory approval. The project is expected to be completed in two stages with the first stage completed in April 2009 and the second in April 2010.

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

- TransCanada continued funding of the Mackenzie Valley Aboriginal Pipeline Limited Partnership for its participation in the Mackenzie Gas Pipeline Project.

Regulatory Matters

- February 2007. TransCanada received approval from the NEB to integrate the B.C. System into the Foothills System (as defined below) in southern B.C. which was effective April 1, 2007.

- May 2007. TransCanada s five-year settlement with interested stakeholders for the years 2007 to 2011 on its Canadian Mainline was approved by the NEB. The settlement reflects, among other things, a deemed common equity ratio of 40 per cent.

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

2006

Pipeline Developments

- April 2006. TC PipeLines, LP, an affiliate of TransCanada, acquired an additional 20 per cent general partnership interest in NBPL for approximately US$307 million which brought its total general partnership interest in NBPL owned by TC Pipelines, LP to 50 per cent. TC PipeLines, LP also indirectly assumed approximately US$122 million of the debt of NBPL. TransCanada is the parent company of TC PipeLines GP, Inc., the general partner of TC PipeLines, LP.

- April 2006. TransCanada sold its 17.5 per cent general partner interest in Northern Border Partners, L.P. for proceeds of $35 million, net of current taxes.

- December 2006. The 130 km Tamazunchale natural gas pipeline in east-central Mexico went into commercial service.

- December 2006. TC PipeLines, LP acquired 49 per cent in Tuscarora Gas Transmission Company (*Tuscarora*). TransCanada became the operator of Tuscarora.

Regulatory Matters

- February 2006. TransCanada filed an application with the FERC for a certificate for a two-phase expansion of its existing natural gas pipeline in southern California, the North Baja system (*North Baja*) and the construction of a new lateral pipeline in California s Imperial Valley.

- April 2006. The NEB approved a negotiated settlement of the 2006 Canadian Mainline tolls which included a deemed common equity ratio of 36 per cent from 33 per cent and incentives for managing cost through fixing certain components of the revenue requirement.

- June 2006. TransCanada filed an application with the NEB seeking approval to transfer a portion of TransCanada s Canadian Mainline natural gas transmission facilities to the Keystone oil pipeline project which was approved by the NEB in February 2007. Additionally, in December 2006, TransCanada filed an application with the NEB for approval to construct and operate the Canadian portion of the Keystone oil pipeline.

2005

Pipeline Developments

- February 2005. TransCanada announced the Keystone oil pipeline project. In November 2005, TransCanada announced a memorandum of understanding with ConocoPhillips which committed ConocoPhillips to ship crude oil on this pipeline and gave them the right to acquire a 50 per cent ownership interest in the oil pipeline project.

- June 2005. TransCanada acquired an additional interest in the Iroquois Gas Transmission System L.P. (*Iroquois System*) for US$13.6 million. The acquisition increased TransCanada s ownership interest from 40.96 per cent to 44.48 per cent.

- June 2005. TransCanada commenced construction of the Tamazunchale natural gas pipeline.

Regulatory Matters

- March 2005. TransCanada reached a settlement with shippers and other interested parties regarding the annual revenue requirements of its Alberta System for the years 2005, 2006 and 2007. The settlement was approved by the regulator.

- May 2005. TransCanada received the NEB s decision on the Canadian Mainline 2004 Tolls and Tariff Application (Phase II), approving an increase in the deemed common equity component of the Canadian Mainline s capital structure from 33 per cent to 36 per cent effective January 1, 2004.

Developments in the Energy Business

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

Recent Energy Developments

- January 11, 2008. The FERC issued its FEIS for the Broadwater LNG project (*Broadwater*), a proposed offshore LNG facility in Long Island Sound, New York. The FEIS confirmed project need, supported the location of the project with acknowledgement of its target market and delivery goals, and found safety and security risks to be limited and acceptable. The FEIS concluded that with adherence to federal and state permit requirements and regulations, Broadwaters s proposed mitigation measures and the FERC s recommendations, the project will not result in a significant impact on the environment.

- January 2008. A milestone in the Bruce Power A L.P. (*Bruce A*) Units 1 and 2 refurbishment and restart project was completed when the sixteenth and final new steam generator was installed. With the completion of this stage of the project, the authorized funding for Units 1 and 2 was increased from $2.75 billion to approximately $3.0 billion. Bruce Power is currently preparing a comprehensive estimate of the cost to complete the Unit 1 and 2 restart. This process is expected to result in a further increase in the total project cost. Project cost increases are subject to the capital cost-risk and reward-sharing mechanism under the agreement with the Ontario Power Authority. Bruce A Units 1 and 2 are expected to produce an additional 1,500 megawatts (*MW*) when completed in 2010.

- February 2008. The potential anchor LNG supplier for the Cacouna LNG project (*Cacouna*) terminal announced it would no longer be pursuing the development of its LNG supply as originally planned. As a result of this announcement, TransCanada and Petro-Canada are currently reviewing their strategy for the project.

2007

Energy Developments

- June 2007. Following public hearings in 2006, the Québec government granted a provincial decree approving the Cacouna terminal. Cacouna also received federal approvals pursuant to the *Canadian Environmental Assessment Act*.

- September 2007. Cacouna announced that it was delaying the planned in-service date for the regasification terminal from 2010 to 2012. This delay resulted from a need to assess impacts of permit conditions, to review the facility design in light of escalating costs and to align the schedule with potential LNG supply facilities.

- August 2007. TransCanada announced the expansion of the Unit 4 refurbishment on the revised Bruce A restart project that includes installing new fuel channels in Unit 4.

- November 2007. The second phase of the Cartier Wind Energy Project, the 101 MW Anse-à-Valleau wind farm, was placed into service. In addition, the Cartier Wind Energy Project began construction of a third project, the 110 MW Carleton wind farm.

- November 2007. TransCanada entered into an agreement with Hydro-Québec to temporarily suspend all electricity generation from the Bécancour power plant during 2008. The agreement contains an option for Hydro-Québec to extend the suspension to 2009. TransCanada will receive payments under the agreement similar to those that would have been received under the normal course of operation.

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

2006

Energy Developments

- TransCanada continued construction of the Cartier Wind Energy Project, of which 62 per cent is owned by TransCanada. The first of six proposed wind farm projects, Baie-des-Sables, went into commercial service in late 2006.

- September 2006. Portlands Energy Centre L.P., 50 per cent owned by TransCanada, signed a 20-year Accelerated Clean Energy Supply contract with the Ontario Power Authority for Portlands Energy Centre.

- September 2006. Construction of the 550 MW Bécancour cogeneration plant near Trois Rivières, Québec, was completed and placed into service providing power to Hydro-Québec Distribution.

- November 2006. TransCanada was awarded a 20-year Clean Energy Supply contract by the Ontario Power Authority to build, own and operate a 683 MW natural gas-fired power plant near the Town of Halton Hills, Ontario.

- December 2006. The Edson gas storage facility was placed in service.

Regulatory Matters

- January 2006. TransCanada, on behalf of Broadwater, filed an application with the FERC for approval of the LNG regasification project to be located in Long Island Sound, New York. Coincident with the FERC process, Broadwater applied to the New York Department of State for a determination that the project is consistent with New York s coastal zone policies.

- December 2006. A public hearing on Cacouna was held in May and June of 2006 and in December 2006 the Minister of the Environment for Québec and the federal Minister of the Environment, jointly released the report of the Joint Commission on Cacouna.

2005

Energy Developments

- February 2005. TransCanada advanced the Cartier Wind Energy Project with the signing of long-term electricity supply contracts.

- April 2005. TransCanada acquired hydroelectric power generation assets from USGen New England, Inc. for approximately US$503 million.

- September 2005. TransCanada sold all of its interests in TransCanada Power, L.P. to EPCOR Utilities Inc. for net proceeds of $523 million.

- October 2005. Bruce A entered into agreements with the Ontario Power Authority to restart units 1 and 2, extend the operating life of unit 3 and replace the generators on unit 4 at Bruce A.

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

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

- TransCanada commenced construction of a natural gas storage facility located near Edson, Alberta.

- Ocean State Power successfully restructured its long-term natural gas fuel supply contracts with its suppliers.

BUSINESS OF TRANSCANADA

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

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

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

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

(2) Revenues include sales of natural gas.

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

Pipelines Business

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

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

Canada

- TransCanada s 100 per cent owned, 14,957 km natural gas transmission system in Canada that extends from the Alberta/Saskatchewan border east to the Québec/Vermont border and connects with other natural gas pipelines in Canada and the U.S. (*Canadian Mainline*).

- TransCanada s 100 per cent owned natural gas transmission system in Alberta gathers natural gas for use within the province and delivers it to provincial boundary points for connection with the Canadian Mainline and the Foothills System as well as the natural gas pipelines of other companies. The 23,570 km system is one of the largest carriers of natural gas in North America (*Alberta System*).

- TransCanada s 100 per cent owned, 1,241 km natural gas transmission system in Western Canada carries natural gas for export from central Alberta to the U.S. border to serve markets in the U.S. Midwest, Pacific Northwest, California and Nevada. Effective April 1, 2007, the B.C. System was integrated into the Foothills System (*Foothills System*).

- TransCanada Pipeline Ventures LP, which is 100 per cent owned by TransCanada, owns a 121 km pipeline and related facilities that supply natural gas to the oilsands region of northern Alberta as well as a 27 km pipeline that supplies natural gas to a petrochemical complex at Joffre, Alberta.

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

- TransCanada Québec & Maritimes Pipeline Inc. (*TQM*) is 50 per cent owned by TransCanada. TQM is a 572 km pipeline system that connects with the Canadian Mainline and transports natural gas from Montréal to Québec City in Québec, and connects with the Portland system. TQM is operated by TransCanada.

United States

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

- The GTN System (*GTN System*) is TransCanada s 100 per cent owned natural gas transmission system which extends 2,174 km and links the Foothills System with Pacific Gas and Electric Company s California Gas Transmission System, with Williams Companies, Inc. s Northwest Pipeline in Washington and Oregon, and with Tuscarora.

- North Baja is TransCanada s 100 per cent owned natural gas transmission system which extends 129 km from Ehrenberg in southwestern Arizona to a point near Ogilby, California on the California/Mexico border and connects with the Gasoducto Bajanorte natural gas pipeline system in Mexico.

- The Great Lakes Gas Transmission System (*Great Lakes System*) is a owned 53.6 per cent by TransCanada and 46.4 per cent by TC Pipelines, LP. The 3,404 km Great Lakes natural gas transmission system connects with the Canadian Mainline at Emerson, Manitoba and serves markets in Central Canada and the Midwestern U.S. TransCanada operates Great Lakes and effectively owns 68.5 per cent of the system through its 53.6 per cent ownership interest and its indirect ownership through its 32.1 per cent interest in TC Pipelines, LP.

- The Iroquois System connects with the Canadian Mainline near Waddington, New York and delivers natural gas to customers in the northeastern U.S. TransCanada has a 44.5 per cent ownership interest in this 666 km pipeline system.

- The Portland system is a 474 km pipeline that connects with TQM near East Hereford, Québec and delivers natural gas to customers in the northeastern U.S. TransCanada has a 61.7 per cent ownership interest in the Portland system and operates this pipeline.

- The Northern Border Pipeline System (*NBPL System*) is 50 per cent owned by TC PipeLines, LP and is a 2,250 km natural gas transmission system, which serves the U.S. Midwest from a connection with the Foothills System near Monchy, Saskatchewan. TransCanada operates and effectively owns 16.1 per cent of NBPL through its 32.1 per cent interest in TC PipeLines, LP.

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

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

International

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

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

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

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

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

Regulation of the Pipeline Business

Canada

CANADIAN MAINLINE, TQM AND FOOTHILLS SYSTEM

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

ALBERTA SYSTEM

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

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

United States

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

Energy Business

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

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

TransCanada owns and operates the following facilities:

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

- Grandview, a 90 MW natural gas-fired cogeneration power plant located in Saint John, New Brunswick. Under a 20-year operating lease for tolls, Irving Oil Limited receives 100 per cent of the plant s heat and electricity output.

- Cancarb, a 27 MW facility at Medicine Hat, Alberta fuelled by waste heat from TransCanada s adjacent thermal carbon black facility.

- OSP, a 560 MW natural gas-fired, combined-cycle facility in Rhode Island.

- TC Hydro, TransCanada s hydroelectric facilities located in New Hamphire, Vermont and Massachusetts on the Connecticut and Deerfield Rivers consist of 13 stations and associated dams and reservoirs with a total generating capacity of 583 MW.

- Bécancour, a 550 MW natural gas-fired cogeneration power plant located near Trois-Rivières, Québec. The entire power output is supplied to Hydro-Québec under a 20-year power purchase contract. Steam is also sold to an industrial customer for use in commercial processes.

- Edson, an underground natural gas storage facility connected to the Alberta System near Edson, Alberta. The facility s central processing system is capable of maximum injection and withdrawal rates of 725 million cubic feet per day (*mmcf/d*) of natural gas. Edson has a working natural gas storage capacity of approximately 50 Bcf.

- A long-term natural gas storage lease with a third party located in Alberta.

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

- The largest coal-fired electric generating facility in Western Canada, Sundance is located in south-central Alberta. TransCanada has the rights to 100 per cent of the generating capacity of the 560 MW Sundance A facility under a PPA, which expires in 2017. TransCanada also has the rights to 50 per cent of the generating capacity of the 706 MW Sundance B facility under a PPA, which expires in 2020 (*Sundance*).

- The Sheerness facility, which consists of two 390 MW coal-fired thermal power generating units, is located in southeastern Alberta. TransCanada has the rights to 756 MW of generating capacity from the Sheerness PPA, which expires in 2020 (*Sheerness*).

TransCanada has interests in the following:

- A 60 per cent ownership in CrossAlta, which is an underground natural gas storage facility connected to the Alberta System and is located near Crossfield, Alberta. CrossAlta has a working natural gas capacity of 54 Bcf with a maximum deliverability capability of 480 mmcf/d.

- A 62 per cent interest in Baie-des-Sables (110 MW) and Anse á Valleau (101 MW) wind farms.

- Consisting of two generating stations, Bruce A with approximately 3,000 MW of generating capacity and Bruce Power L.P. (*Bruce B*) with approximately 3,200 MW of generating capacity. Bruce Power is located in Ontario. TransCanada owns 48.7 per cent of Bruce A., which has four power generating units, two of which have been idled for refurbishing and are expected to restart in 2010. TransCanada owns 31.6 per cent of Bruce B, which also has four power generating units.

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

- The third phase of the 740 MW Cartier Wind Energy Project, the Carleton wind farms, which began construction in late 2007 as well as the remaining three projects which are under planning and development.

- The Portlands Energy Centre, a 550 MW high efficiency, combined-cycle natural gas generation power plant located near downtown Toronto, Ontario is 50 percent owned by TransCanada and is under construction. The plant is expected to be operational in simple-cycle mode, delivering 340 MW of electricity beginning June in 2008. It is anticipated to be fully commissioned in its combined-cycle mode, delivering 550 MW of power in the second quarter of 2009.

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

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

- A joint venture with Petro-Canada, Cacouna is a proposed LNG project in Québec at Gros Cacouna harbour on the St. Lawrence River in Québec, Cacouna would be capable of receiving, storing and regasifying imported LNG with an average send-out capacity of approximately 500 mmcf/d of natural gas. TransCanada has a 50 per cent interest in Cacouna.

- The proposed Kibby wind power project is located in Kibby and Skinner Townships in northwestern Franklin County, Maine. Subject to receipt of U.S. federal and state approvals, construction of the new facilities could begin in 2008 with an expected in-service date of 2009/2010.

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

HEALTH, SAFETY AND ENVIRONMENT RISK MANAGEMENT

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

Safety

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

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

Environment

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

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

Climate change policy continues to evolve at regional, national and international levels. Under the Specified Gas Emitters Regulation, as of July 1, 2007, industrial facilities in Alberta are required to reduce their greenhouse gas emissions intensities by 12 per cent. TransCanada s Alberta-based facilities are subject to this regulation which also extends to the Sundance and Sheerness facilities with which the Company has PPAs. Plans

have been developed to manage the costs of compliance incurred by these assets. The regulation is not expected to have a material impact on the Company s results. Compliance costs related to the Alberta System are expected to be recovered through tolls paid by customers. Recovery of compliance costs related to the Company s power generation facilities in Alberta is dependent ultimately on market prices for electricity. The Company recorded in 2007 a charge of $14 million for the period from July 1, 2007 to December 31, 2007 related to the new Alberta environmental regulation.

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

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

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

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

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

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

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

TransCanada and its subsidiaries are subject to various other legal proceedings and actions arising in the normal course of business. While the final outcome of such legal proceedings and actions cannot be predicted with certainty, it is the opinion of TransCanada s management that the resolution of such proceedings and actions will not have a material impact on TransCanada s consolidated financial position or results of operations.

MATERIAL CONTRACTS

The ANR Purchase and Sale Agreement as described in this AIF under General Development of the Business - Developments in the Pipelines Business is available on SEDAR at www.sedar.com under TransCanada s profile.

TRANSFER AGENT AND REGISTRAR

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

INTEREST OF EXPERTS

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

RISK FACTORS

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

DIVIDENDS

The Board has not adopted a formal dividend policy. The Board reviews the financial performance of TransCanada quarterly and makes a determination of the appropriate level of dividends to be declared in the following quarter. Currently, TransCanada s payment of dividends on its common shares is funded from dividends TransCanada 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 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 shares. In the opinion of TransCanada s management, such provisions do not currently restrict or alter TransCanada s ability to declare or pay dividends.

The dividends declared per common share of TransCanada during the past three completed financial years are set forth in the following table:

	2007	**2006**	**2005**
Dividends declared on common shares	$1.36	$1.28	$1.22

DESCRIPTION OF CAPITAL STRUCTURE

Share Capital

TransCanada s authorized share capital consists of an unlimited number of common shares, of which 539,765,547 were issued and outstanding at Year End, and an unlimited number of first preferred shares and second preferred shares, issuable in series, of which none are outstanding. The following is a description of the material characteristics of each of these classes of shares.

Common Shares

The common shares entitle the holders thereof to one vote per share at all meetings of shareholders, except meetings at which only holders of another specified class of shares are entitled to vote, and, subject to the rights, privileges, restrictions and conditions attaching to the first preferred shares and the second preferred shares, whether as a class or a series, and to any other class or series of shares of TransCanada which rank prior to the common shares, entitle the holders thereof to receive (i) dividends if, as and when declared by the Board out of the assets of TransCanada properly applicable to the payment of the dividends in such amount and payable at such times and at such place or places as the Board may from time to time determine and (ii) the remaining property of TransCanada upon a dissolution.

First 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, provisions to the following effect.

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, the second preferred 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 TransCanada in the event of a liquidation, dissolution or winding up of TransCanada.

Except as provided by the *Canada Business Corporations Act* or as referred to below, the holders of the first preferred shares will not have any voting rights nor will they be entitled to receive notice of or to attend shareholders meetings. The holders of any particular series of first preferred shares will, if the directors so determine prior to the issuance of such series, be entitled to such voting rights as may be determined by the directors if TransCanada fails to pay dividends on that series of preferred shares for any period as may be so determined by the directors.

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

Second Preferred Shares

The rights, privileges, restrictions and conditions attaching to the second preferred shares are substantially identical to those attaching to the first preferred shares, except that the second preferred shares are junior to the first preferred shares with respect to the payment of dividends, repayment of capital and the distribution of assets of TransCanada in the event of a liquidation, dissolution or winding up of TransCanada.

CREDIT RATINGS

Although TransCanada has not issued debt to the public, it has been assigned an issuer rating by Moody s Investors Service of A3 with a stable outlook. TransCanada does not presently intend to issue debt securities to the public in its own name and future financing requirements are expected to continue to be funded primarily through its subsidiary, TCPL. The following table sets out the credit ratings assigned to those outstanding classes of securities of TCPL which have been rated:

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

(1) Issued May 3, 2007.

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

DBRS

DBRS has different rating scales for Short and Long-Term Debt and preferred shares. High or low grades are used to indicate the relative standing within a rating category. The absence of either a high or low designation indicates the rating is in the middle of the category. The R-1 (low) rating assigned to TCPL s Short-Term Debt is the third highest of ten rating categories and indicates satisfactory credit quality. The overall strength and outlook for key liquidity, debt and profitability ratios is not normally as favourable as with higher rating categories, but these considerations are still respectable. Any qualifying negative factors that exist are considered manageable, and the entity is normally of sufficient size to have some influence in its industry. The A rating assigned to TCPL s Senior Unsecured Debt is the third highest of ten categories for Long-Term Debt. Long-Term Debt rated A is of satisfactory credit quality. Protection of interest and principal is still substantial, but the degree of strength is less than that of AA rated securities. While a respectable rating, entities in the A category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher rated entities. The BBB (high) rating assigned to Junior Subordinated Notes is the fourth highest of the ten categories for Long-Term Debt. Long-Term Debt rated BBB is of adequate credit quality. Protection of interest and principal is considered acceptable but there may be other adverse conditions present which reduce the strength of the entity and its rated securities. The Pfd-2 (low) rating assigned to TCPL s preferred shares is the second highest of six rating categories for preferred shares. Preferred shares rated Pfd-2 are of satisfactory credit quality. Protection of dividends and principal is still substantial; however, earnings, the balance sheet and coverage ratios are not as strong as Pfd-1 rated companies.

Moody s Investor Services (Moody s)

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

Standard & Poor s (S&P)

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

MARKET FOR SECURITIES

TransCanada s common shares are listed on the Toronto Stock Exchange (*TSX*) and the New York Stock Exchange (*NYSE*). The following table sets forth the reported monthly high and low trading prices and monthly trading volumes of the common shares of TransCanada on the TSX for the period indicated:

Common Shares (TRP)

Month	**High ($)**	**Low ($)**	**Volume Traded**
December 2007	40.73	38.95	17,822,199
November 2007	40.69	38.10	28,532,491
October 2007	40.24	36.47	30,876,596
September 2007	37.19	35.80	28,163,823
August 2007	38.62	35.43	29,811,560
July 2007	39.83	36.17	33,442,298
June 2007	39.36	35.77	30,897,359
May 2007	40.29	38.77	25,520,203
April 2007	40.26	37.75	22,302,817
March 2007	39.80	36.75	30,461,884
February 2007	39.28	37.17	28,769,671
January 2007	41.35	38.28	29,422,031

In addition, TransCanada s subsidiary, TCPL, has Cumulative Redeemable First Preferred Shares, Series U and Series Y listed on the TSX.

DIRECTORS AND OFFICERS

As of February 25, 2008, the directors and officers of TransCanada as a group beneficially owned, directly or indirectly, or exercised control or direction over an aggregate of 312,588 common shares of TransCanada. This constitutes less than one per cent of TransCanada s common shares and less than one per cent of the voting securities of any of its subsidiaries or affiliates. In additions, officers held exercisable options to acquire an aggregate of 2,296,740 additional common shares. TransCanada collects this information from its directors and officers but otherwise has no direct knowledge of individual holdings of its securities.

Directors

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

Name and Place of Residence	Principal Occupation During the Five Preceding Years	Director Since
Kevin E. Benson[1] Wheaton, Illinois United States	President and Chief Executive Officer, Laidlaw International, Inc. (transportation services) from June 2003 to October 2007, and Laidlaw, Inc. from September 2002 to June 2003.	2005
Derek H. Burney, O.C. Ottawa, Ontario Canada	Senior strategic advisor at Ogilvy Renault LLP (law firm) and Chairman, CanWest Global Communications Corp. (communications). Lead director at Shell Canada Limited (oil and gas) from April 2001 to May 2007. President and Chief Executive Officer, CAE Inc. (technology) from October 1999 to August 2004.	2005
Wendy K. Dobson Uxbridge, Ontario Canada	Professor, Rotman School of Management and Director, Institute for International Business, University of Toronto. Vice Chair, Canadian Public Accountability Board. Director, Toronto-Dominion Bank.	1992
E. Linn Draper Lampasas, Texas United States	Director, Alliance Data Systems Corporation (data processing and services), Alpha Natural Resources, Inc. (mining), NorthWestern Corporation (conducting business as NorthWestern Energy) (oil and gas) and Lead Director of Temple-Inland Inc. (materials). Chairman, President and Chief Executive Officer of Columbus, Ohio-based American Electric Power Co., Inc. from April 1993 to April 2004.	2005
The Hon. Paule Gauthier, P.C., O.C., O.Q., Q.C. Québec, Québec Canada	Senior Partner, Stein Monast LLP (law firm). Director, Cossette Communication Group Inc., Institut Québecois des Hautes Études Internationales, Laval University, Metro Inc., RBC Dexia Investor Services Trust, Rothmans Inc. and Royal Bank of Canada.	2002
Kerry L. Hawkins Winnipeg, Manitoba Canada	Director, NOVA Chemicals Corporation. President, Cargill Limited (agricultural) from September 1982 to December 2005.	1996
S. Barry Jackson Calgary, Alberta Canada	Chair of the Board, TransCanada since April 2005. Director, Cordero Energy Inc. (oil and gas) and Nexen Inc. (oil and gas) Chair of Resolute Energy Inc. (oil and gas) from January 2002 to April 2005 and Chair of Deer Creek Energy Limited (oil and gas) from April 2001 to September 2005.	2002
Paul L. Joskow New York, New York United States	Economist and President of the Alfred P. Sloan Foundation. On leave from his position as Professor of Economics and Management, Massachusetts Institute of Technology (MIT) where he has been on the faculty since 1972. Director of the MIT Center for Energy and Environmental Policy Research from 1999 to 2007. Director of Exelon Corporation (energy) since July 2007. Trustee of Putnam Mutual Funds. President of the Yale University Council until July 1, 2006 and was on the Board of Directors of the Whitehead Institute of Biological Research until February 2005.	2004
Harold N. Kvisle Calgary, Alberta Canada	President and Chief Executive Officer of TransCanada since May 2003 and TCPL since May 2001. Director, Bank of Montreal.	2001
John A. MacNaughton, C.M. Toronto, Ontario Canada	Chairman of the Business Development Bank of Canada and of the Canadian Trading and Quotation System Inc. (stock exchange). Director, Nortel Networks Corporation and Nortel Networks Limited (the principal operating subsidiary of Nortel Networks Corporation) (technology). Founding President and Chief Executive Officer of the Canadian Pension Plan Investment Board from 1999 to 2005.	2006
David P. O Brien[2] Calgary, Alberta Canada	Chair, EnCana Corporation (oil and gas) since April 2002 and Chair, Royal Bank of Canada since February 2004. Director, Molson Coors Brewing Company, and C.D. Howe Institute. Chancellor, Concordia University and a member of the Science, Technology and Innovation Council of Canada.	2001

Name and Place of Residence	**Principal Occupation During the Five Preceding Years**	**Director Since**
W. Thomas Stephens Greenwood Village, Colorado United States	Chairman and Chief Executive Officer of Boise Cascade, LLC (paper, forest products and timberland assets) since November 2005. Trustee of Putnam Mutual Funds.	2007[(3)]
D. Michael G. Stewart Calgary, Alberta Canada	Principal of the privately held Ballinacurra Group of Investment Companies since March 2002. Director, Canadian Energy Services Inc. and Pengrowth Corporation. Director of Esprit Exploration Ltd. (oil and gas) from May 2002 to September 2004; a director of Canada Southern Petroleum Ltd. from June 2003 to August 2004; a trustee of Esprit Energy Trust (oil and gas) from August 2004 to October 2006; and a director of Creststreet Power & Income General Partner Limited, the General Partner of Creststreet Power & Income Fund L.P. (wind power) from December 2003 to February 2006.	2006

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

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

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

Each director holds office until the next annual meeting or until his or her successor is earlier elected or appointed.

Officers

All of the executive officers and corporate officers of TransCanada reside in Calgary, Alberta, Canada. References to positions and offices with TransCanada prior to May 15, 2003 are references to the positions and offices held with TCPL. Current positions and offices held with TransCanada are also held by such person at TCPL. As of the date hereof, the officers of TransCanada, their present positions within TransCanada and their principal occupations during the five preceding years are as follows:

Executive Officers

Name	**Present Position Held**	**Principal Occupation During the Five Preceding Years**
Harold N. Kvisle		President and Chief Executive Officer

	President and Chief Executive Officer	
Russell K. Girling	President, Pipelines	Executive Vice-President, Corporate Development and Chief Financial Officer, March 2003 to June 2006. Prior to March 2003, Executive Vice-President and Chief Financial Officer.
Gregory A. Lohnes	Executive Vice-President and Chief Financial Officer	Prior to June 2006, President and Chief Executive Officer of Great Lakes Gas Transmission Company.
Dennis J. McConaghy	Executive Vice-President, Pipeline Strategy and Development	Prior to June 2006, Executive Vice-President, Gas Development.
Sean McMaster	Executive Vice-President, Corporate and General Counsel and Chief Compliance Officer	Prior to October 2006, General Counsel and Chief Compliance Officer. Prior thereto, General Counsel since June 2006. Vice-President, Transactions, Power Division, TCPL from April 2003 to June 2006. President TransCanada Power Services Ltd., general partner of TransCanada Power, L.P. from June 2003 to August 2005. Prior to June 2003, Vice-President, TransCanada Power Services Ltd.

Name	Present Position Held	Principal Occupation During the Five Preceding Years
Alexander J. Pourbaix	President, Energy	Executive Vice-President, Power, March 2003 to June 2006. Prior to March 2003, Executive Vice-President, Power Development.
Sarah E. Raiss	Executive Vice-President, Corporate Services	Executive Vice-President, Corporate Services
Donald M. Wishart	Executive Vice-President, Operations and Engineering	Prior to March 2003, Senior Vice-President, Field Operations.

Corporate Officers

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

CORPORATE GOVERNANCE

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

Audit Committee

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

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

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

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

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

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

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

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

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-minimis exemptions. All non-audit services have been pre-approved by the Audit Committee in accordance with the pre-approval policy described above.

External Auditor Service Fees

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

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

Fee Category	2007 (millions of dollars)	2006	Description of Fee Category
All Other Fees	**0.00**	**0.07**	Aggregate fees for products and services other than those reported elsewhere in this table. The nature of these services consisted of advice related to compliance with SOX.
Total	**$6.40**	**$6.88**	

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

Other Board Committees

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

Governance Committee		**Health, Safety & Environment Committee**		**Human Resources Committee**	
Chair:	W.K. Dobson	Chair:	E.L. Draper	Chair:	K.L. Hawkins
Members:	D.H. Burney	Members:	P. Gauthier	Members:	W.K. Dobson
	P.L. Joskow		K.L. Hawkins		E.L. Draper
	J.A. MacNaughton		W.T. Stephens		D.P. O Brien
	D.P. O Brien		D.M.G. Stewart		W.T. Stephens

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

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

Conflicts of Interest

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

ADDITIONAL INFORMATION

1. Additional information in relation to TransCanada may be found under TransCanada s profile on SEDAR at www.sedar.com.

2. Additional information including directors and officers remuneration and indebtedness, principal holders of TransCanada s securities and securities authorized for issuance under equity compensation plans (all where applicable), is contained in TransCanada s Proxy Circular for its most recent annual meeting of shareholders that involved the election of directors and can be obtained upon request from the Corporate Secretary of TransCanada.

3. Additional financial information is provided in TransCanada s audited consolidated financial statements and MD&A for its most recently completed financial year.

GLOSSARY

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

SCHEDULE A

METRIC CONVERSION TABLE

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

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

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

SCHEDULE B

CHARTER OF THE AUDIT COMMITTEE

1. Purpose

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

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

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

2. Roles and Responsibilities

I. Appointment of the Company s External Auditors

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

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

II. Oversight in Respect of Financial Disclosure

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

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

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

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

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

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

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

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

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

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

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

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

(i) review disclosures made to the Audit Committee by the Company s CEO and CFO during their certification process for the periodic reports filed with securities regulators about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company s internal controls;

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

III. Oversight in Respect of Legal and Regulatory Matters

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

IV. Oversight in Respect of Internal Audit

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

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

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

(d) review the adequacy of the resources of the internal auditor to ensure the objectivity and independence of the internal audit function, including reports from the internal audit department on its audit process with associates and affiliates;

(e) ensure the internal auditor has access to the Chair of the Audit Committee and of the Board and to the Chief Executive Officer and meet separately with the internal auditor to review with him any problems or difficulties he may have encountered and specifically:

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

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

(iii) the internal audit department responsibilities, budget and staffing;

and to report to the Board on such meetings;

(f) bi-annually review officers expenses and aircraft usage reports.

V. Insight in Respect of the External Auditors

(a) review the annual post-audit or management letter from the external auditors and management s response and follow-up in respect of any identified weakness, inquire regularly of management and the external auditors of any significant issues between them and how they have been resolved, and intervene in the resolution if required;

(b) review the quarterly unaudited financial statements with the external auditors and receive and review the review engagement reports of external auditors on unaudited financial statements of the Company;

(c) receive and review annually the external auditors formal written statement of independence delineating all relationships between itself and the Company;

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

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

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

and to report to the Board on such meetings;

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

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

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

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

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

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

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

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

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

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

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

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

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

VII. **Oversight in Respect of Certain Policies**

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

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

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

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

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

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

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

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

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

(d) review and approve annually the Statement of Investment Policies and Procedures (SIP&P);

(e) approve the appointment or termination of auditors and investment managers.

IX. Oversight in Respect of Internal Administration

(a) review annually the reports of the Company s representatives on certain audit committees of subsidiaries and affiliates of the Company and any significant issues and auditor recommendations concerning such subsidiaries and affiliates;

(b) review the succession plans in respect of the Chief Financial Officer, the Vice President, Risk Management and the Director, Internal Audit;

(c) review and approve guidelines for the Company s hiring of employees or former employees of the external auditors who were engaged on the Company s account.

X. Oversight Function

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

3. Composition of Audit Committee

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

4. Appointment of Audit Committee Members

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

5. Vacancies

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

6. Audit Committee Chair

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

(a) review and approve the agenda for each meeting of the Audit Committee and as appropriate, consult with members of management;

(b) preside over meetings of the Audit Committee;

(c) report to the Board on the activities of the Audit Committee relative to its recommendations, resolutions, actions and concerns; and

(d) meet as necessary with the internal and external auditors.

7. Absence of Audit Committee Chair

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

8. Secretary of Audit Committee

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

9. Meetings

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

10. Quorum

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

11. Notice of Meetings

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

12. Attendance of Company Officers and Employees at Meeting

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

13. Procedure, Records and Reporting

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

14. Review of Charter and Evaluation of Audit Committee

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

15. Outside Experts and Advisors

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

16. Reliance

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

Financial Highlights

Year ended December 31 *(millions of dollars)*	**2007**	2006	2005	2004	2003
Income					
Net income					
Continuing operations	**1,223**	1,051	1,209	980	801
Discontinued operations		28		52	50
	1,223	1,079	1,209	1,032	851
Cash Flow					
Funds generated from operations	**2,621**	2,378	1,951	1,703	1,822
Decrease/(increase) in operating working capital	**215**	(303)	(49)	29	93
Net cash provided by operations	**2,836**	2,075	1,902	1,732	1,915
Capital expenditures and acquisitions	**5,874**	2,042	2,071	2,046	965
Balance Sheet					
Total assets	**30,330**	25,909	24,113	22,422	20,887
Long-term debt	**12,377**	10,887	9,640	9,749	9,516
Junior subordinated notes	**975**				
Common shareholders' equity	**9,785**	7,701	7,206	6,565	6,091

Common Share Statistics *Year ended December 31*	**2007**	2006	2005	2004	2003
Net income per share Basic					
Continuing operations	**$2.31**	$2.15	$2.49	$2.02	$1.66
Discontinued operations		0.06		0.11	0.10
	$2.31	$2.21	$2.49	$2.13	$1.76
Net income per share Diluted					
Continuing operations	**$2.30**	$2.14	$2.47	$2.01	$1.66
Discontinued operations		0.06		0.11	0.10
	$2.30	$2.20	$2.47	$2.12	$1.76
Dividends declared per share	**$1.36**	$1.28	$1.22	$1.16	$1.08
Common shares outstanding (millions)					
Average for the year	**529.9**	488.0	486.2	484.1	481.5
End of year	**539.8**	489.0	487.2	484.9	483.2

Chairman's Message

Good governance is a cornerstone of a company's financial success. But it's more than rules and compliance, it is active Board involvement in the strategic direction and decisions of the company.

2007 was another successful year for TransCanada. We remained focused on our goal of being the leading energy infrastructure company in North America.

This past year saw continued growth and value creation for our shareholders, strong financial performance and key developments on many major projects in our businesses. As a result, and for the eighth year in a row, your Board of Directors has increased the dividend on common shares. Further, we approved a 2% discount on common shares issued under our dividend reinvestment and share purchase plan (DRP) which allows common and preferred shareholders to purchase additional common shares by reinvesting their cash dividend.

Corporate governance remains a top priority for TransCanada and the Board of Directors plays an integral role in setting the tone for leadership, and ultimately oversees the strategic direction and decisions made. The diversity of views represented on our board and the independent mindedness of the directors are key attributes that we have worked hard to create. Our strategy of long-term economic growth is rooted in this sound governance as well as risk-based economic modeling. Together, they enhance our competitiveness, benefit our shareholders and other stakeholders, and encourage the sustainable development of the natural resources upon which our society depends for its quality of life.

When companies succeed financially, they are able to make significant contributions to the societies in which they operate. TransCanada was named to the Dow Jones Sustainability World and North American Indexes and one of only three Canadian companies named to the Global 100 Most Sustainable Companies in the World. This recognition acknowledges TransCanada's commitment to sound governance and responsible management of environmental and social risks. TransCanada also received the 2007 Governance Gavel Award for Excellence in Compensation Disclosure from the Canadian Coalition for Good Governance.

These elements are at the heart of TransCanada's values and success.

I know I speak for all Board members when I thank management and employees for their efforts in 2007. Their hard work and dedication to TransCanada's goals and objectives were critical to the company's prosperity this year.

On behalf of the Board of Directors,

S. Barry Jackson

Letter to Shareholders

TransCanada is well-positioned for continued success. Our strong financial performance and the significant project milestones we achieved in our Pipelines and Energy businesses in 2007 have set the stage for continued growth and value creation in 2008 and beyond.

Our strength is a result of solid contributions from our existing assets and growing cash flow and earnings from newly acquired and developed assets such as the ANR pipeline system and the Edson gas storage facility in Alberta.

2007 began on a successful note with the closure and integration of the ANR and Great Lakes acquisition. We also continued to achieve major milestones in many of our key projects including several regulatory approvals related to the Keystone Oil Pipeline project and the successful installation of the sixteenth and final new steam generator as part of the Bruce Power Unit 1 and 2 restart and refurbishment project.

Our strategic focus remains clear. Our vision is to become the leading energy infrastructure company in North America. In pursuing our goal, we will strive to deliver strong financial performance and maximize our financial flexibility, to execute on our current portfolio of large, attractive projects and initiatives and to continue to work to create and cultivate a high-quality portfolio of future growth opportunities.

Delivering strong financial performance and maximizing financial flexibility

In 2007, TransCanada's net income and net income from continuing operations (net earnings) was $1.223 billion ($2.31 per share) compared to net income of $1.079 billion ($2.21 per share), and net earnings of $1.051 billion ($2.15 per share) in 2006. Net earnings increased seven per cent on a per share basis in 2007.

Comparable earnings(1) increased to $1.107 billion or $2.09 per share in 2007, compared to $925 million or $1.90 per share for 2006. Comparable earnings grew by 10 per cent on a per share basis in 2007.

Funds generated from operations(1) increased to $2.621 billion in 2007, an increase of $243 million or 10 per cent above 2006. This strong underlying cash flow enabled us to make significant capital investments in our Pipelines and Energy businesses. We invested approximately $5.9 billion in growth initiatives in 2007.

Our continued strong financial performance once again enabled our Board of Directors to increase the quarterly dividend on the company's common shares in January 2008 by six per cent to $0.36 per share, or $1.44 per share on an annualized basis. This is the eighth year in a row the Board has increased the dividend.

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(1) Non-GAAP measure that does not have any standardized meaning prescribed by generally accepted accounting principles. For more information on non-GAAP measures see page 14 in the Management's Discussion and Analysis of the 2007 Annual Report.

TransCanada's balance sheet remains strong and provides the financial flexibility to execute our portfolio of opportunities. In 2007, we raised $1.725 billion in common equity through a public offering to help fund the ANR acquisition. It was the largest fully-funded subscription receipts transaction in Canadian history. In addition, we initiated a 2% discount on common shares issued under our dividend reinvestment and share purchase plan which allows common and preferred shareholders to purchase additional common shares by reinvesting their cash dividend without incurring brokerage or administrative fees. TransCanada raised over $150 million in common equity through this plan and experienced a 30% participation rate in 2007. We also sold U.S. $1 billion of 30-year senior notes and issued U.S. $1 billion of junior subordinated notes, both at very competitive market rates reflective of our strong financial position and 'A' credit ratings.

TransCanada's financial performance in 2007 continued to build on our strong track record of delivering strong and sustainable financial returns to our shareholders. In the last eight years, TransCanada has invested approximately $18 billion in value-creating pipeline and energy growth opportunities. Comparable earnings per share increased at a compound average annual growth rate of 8.6 per cent from $1.08 per share in 1999 to $2.09 per share in 2007. Funds generated from operations, during the same period, grew at a compound average annual growth rate of 12.2 per cent from $1 billion to $2.6 billion. This strong financial performance has created significant returns and longer-term value for our shareholders. The compound average annual total shareholder return over the past eight years is approximately 21 per cent.

Execute on large and attractive projects and initiatives

TransCanada is committed to maximizing and sustaining the long-term value of existing assets. In addition to our $30 billion of assets, we have a superior growth portfolio that will see us invest approximately $10 billion in a number of energy infrastructure projects throughout North America. The majority of these projects are under construction and will be completed over the next three years.

In our Pipelines business we have committed approximately $5.3 billion of capital to projects that include the Alberta System's North Central Corridor and the Keystone Oil Pipeline project. The Keystone Oil Pipeline project is an important initiative that will allow customers to move up to 590,000 barrels per day of growing Canadian oil sands production to U.S. markets and provide TransCanada with a platform to pursue other opportunities in the crude oil transmission business.

In Energy, we continued to advance a number of growth opportunities which will see us invest more than $4.6 billion in a variety of projects. One of these projects is the Bruce A restart and refurbishment project, one of the largest infrastructure projects underway in North America today. When completed, Bruce Power will be capable of producing 6,200 MW of power. Other key projects include the Halton Hills Generating Station, the Portlands Energy Centre and Cartier Wind.

As we look forward, we are excited about the significant opportunities available to TransCanada in the years ahead. Our approach is to select only the very best opportunities and move those initiatives forward.

Continue to create and cultivate a high-quality portfolio of future growth opportunities

At no other time in TransCanada's history have we had such a large and attractive portfolio of projects and investment opportunities as we have today in both our Pipelines and Energy businesses. Over the long term, we will continue to cultivate a portfolio that gives the company the ability to reinvest its substantial discretionary cash flow into opportunities in natural gas and crude oil pipelines, power generation facilities, natural gas storage and LNG terminals. As we look ahead, we see TransCanada capitalizing on North America's increased demand for cleaner and more efficient energy. We build and operate the energy infrastructure that North America needs.

TransCanada's success is a reflection of our exceptional team of motivated employees who bring skill, experience, energy and knowledge to the work that they do. Our employees truly are our competitive advantage and remain a key part of future accomplishments.

As we meet the energy needs of North America, we will continue to deliver strong and sustainable financial returns to our shareholders. We will continue to maximize our financial strength and execution capability to enable us to capture large-scale, value-creating opportunities and create value for our customers and shareholders through the selection and superb execution of the very best of these opportunities. We created significant shareholder value in 2007 and we look forward to ever greater accomplishments in 2008 and beyond.

Hal Kvisle
President and Chief Executive Officer

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

TRANSCANADA OVERVIEW

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

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

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

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

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

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

Pipelines Assets

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

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

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

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

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

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

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

Energy Assets

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

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

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

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

TRANSCANADA'S STRATEGY

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

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

Grow the North American pipeline and related infrastructure business;

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

Grow North American power and energy businesses;

- Drive for operational excellence; and
- Maximize TransCanada's competitive strength and enduring value.

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

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

Grow the North American pipeline and related infrastructure business

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

Other possible avenues of growth include:

- Acquiring synergistic natural gas transmission assets that complement TransCanada's existing core regions;
- Acquiring partners' interests in associated pipelines to enhance strategic control, profitability and value; and
- Acquiring stand-alone gas transmission enterprises in new regions of North America where critical mass and solid competitive advantage can be established.

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

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

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

Grow North American power and energy businesses

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

Drive for operational excellence

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

Maximize TransCanada's competitive strength and enduring value

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

- Managing relationships with key stakeholder groups;
- Managing counterparty and commodity exposures within the Company's limits;
- Maintaining high standards in corporate governance practices;
- Enhancing strategic thinking, analysis and constructive debate that lead to astute investment decision-making;
- Attracting, retaining and engaging employees to maximize performance; and
- Maintaining access to abundant, low-cost capital in all market environments.

CONSOLIDATED FINANCIAL REVIEW

SELECTED THREE-YEAR CONSOLIDATED FINANCIAL DATA[1]

(millions of dollars, except per share amounts)

	2007	2006	2005
Income Statement			
Revenues	**8,828**	7,520	6,124
Net income			
Continuing operations	**1,223**	1,051	1,209
Discontinued operations		28	
	1,223	1,079	1,209
Comparable earnings[2]	**1,107**	925	839
Per Common Share Data			
Net income basic			
Continuing operations	**$2.31**	$2.15	$2.49
Discontinued operations		0.06	
	$2.31	$2.21	$2.49
Net income diluted			
Continuing operations	**$2.30**	$2.14	$2.47
Discontinued operations		0.06	
	$2.30	$2.20	$2.47
Comparable earnings per share[2]	**$2.09**	$1.90	$1.72
Dividends declared	**$1.36**	$1.28	$1.22
Summarized Cash Flow			
Funds generated from operations[2]	**2,621**	2,378	1,951
Decrease/(increase) in operating working capital	**215**	(303)	(49)
Net cash provided by operations	**2,836**	2,075	1,902
Balance Sheet			
Total assets	**30,330**	25,909	24,113
Total long-term liabilities	**16,511**	14,464	13,012

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

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

HIGHLIGHTS

Net Income

Net income and net income from continuing operations (net earnings) was $1,223 million or $2.31 per share in 2007 compared to net income of $1,079 million or $2.21 per share and net earnings of $1,051 million or $2.15 per share in 2006.

Comparable Earnings

TransCanada's comparable earnings in 2007 excluded favourable income tax adjustments of $102 million and a gain of $14 million on sale of land. Comparable earnings increased $182 million to $1,107 million or $2.09 per share in 2007 compared to $925 million or $1.90 per share in 2006.

Cash from Operations

Net cash provided by operations was $2,836 million in 2007, an increase of $761 million from 2006.

Funds generated from operations were $2,621 million in 2007, an increase of $243 million from 2006, due primarily to increased earnings.

Investing Activities

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

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

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

Financing Activities

TransCanada issued approximately $2.6 billion of Long-Term Debt, US$1.0 billion of Junior Subordinated Notes and approximately $1.9 billion of Common Shares in 2007, comprised primarily of:

- TransCanada issued US$1.0 billion of Senior Unsecured Notes in October 2007.

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

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

- TransCanada issued US$1.0 billion of Junior Subordinated Notes in April 2007.

- The issue of 45.4 million common shares at $38.00 each in first-quarter 2007, resulted in gross proceeds of approximately $1.7 billion.

In accordance with its Dividend Reinvestment and Share Purchase Plan (DRP), TransCanada issued 4.1 million common shares from treasury in 2007 in lieu of making cash dividend payments totalling $157 million.

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

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

The Company entered into an agreement in February 2007 for a US$2.2-billion one-year bridge loan facility.

Balance Sheet

Total assets increased by $4.4 billion to $30.3 billion in 2007 compared with 2006, due primarily to the ANR and Great Lakes acquisitions.

TransCanada's Shareholders' Equity increased by $2.1 billion to $9.8 billion in 2007 compared with the previous year.

Dividend

On January 28, 2008, the Board of Directors of TransCanada increased the quarterly dividend on the Company's outstanding common shares for the quarter ending March 31, 2008 by six per cent to $0.36 per share from $0.34 per share. This was the eighth consecutive annual increase in the common share dividend.

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

RESULTS OF OPERATIONS

Net income was $1,223 million or $2.31 per share in 2007 compared to $1,079 million or $2.21 per share in 2006 and $1,209 million or $2.49 per share in 2005. Results in 2006 included net income from discontinued operations of $28 million or $0.06 per share, reflecting bankruptcy settlements with Mirant Corporation and certain of its subsidiaries (Mirant) related to their transactions with TransCanada's Gas Marketing business. TransCanada divested its Gas Marketing business in 2001.

Net earnings were $1,223 million or $2.31 per share in 2007 compared to $1,051 million or $2.15 per share in 2006 and $1,209 million or $2.49 per share in 2005. Net earnings in 2007 included $102 million of favourable income tax adjustments and an after-tax gain of $14 million on the sale of land. Net earnings in 2006 included $95 million of favourable income tax adjustments, an $18-million after-tax bankruptcy settlement with Mirant and an after-tax gain of $13 million from the sale of TransCanada's general partner interest in Northern Border Partners, L.P. Net earnings of $1,209 million in 2005 included after-tax gains of $193 million on the sale of the Company's interest in TransCanada Power, L.P. (Power LP), $115 million on the sale of the Company's interest in P.T. Paiton Energy Company (Paiton Energy), $49 million on the sale of PipeLines LP units, and $13 million arising from a Canadian Mainline tolls settlement adjustment related to 2004 earnings.

Excluding the above-noted items, comparable earnings for the years 2007, 2006 and 2005 were $1,107 million ($2.09 per share), $925 million ($1.90 per share) and $839 million ($1.72 per share), respectively. Comparable earnings in 2007 increased $182 million or $0.19 per share compared to 2006 due primarily to additional earnings from the acquisition of ANR in February 2007 and the first full year of earnings from the Bécancour cogeneration plant and the Edson gas storage facility as well as positive impacts from rate case settlements for the GTN System and the Canadian Mainline. These increases were partially offset by a lower contribution by Bruce Power A L.P. (Bruce A) and Bruce Power L.P. (Bruce B) (collectively, Bruce Power) in 2007.

Comparable earnings increased $86 million or $0.18 per share in 2006 compared to 2005. The increase was due primarily to significantly higher operating income from Western Power, Eastern Power and the Company's investment in Bruce Power. The higher operating income was partially offset by decreased Pipelines results as net earnings from the Canadian Mainline and the Alberta System declined due to lower approved rates of return on common equity (ROE) and lower average investment bases in 2006. In addition, the Company's Other Pipelines businesses and the GTN System and North Baja (collectively, GTN) experienced lower earnings in 2006.

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

FORWARD-LOOKING INFORMATION

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

NON-GAAP MEASURES

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

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

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

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

OUTLOOK

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

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

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

SEGMENT RESULTS-AT-A-GLANCE
Reconciliation of Comparable Earnings to Net Income

Year ended December 31 *(millions of dollars except per share amounts)*	**2007**	2006	2005
Pipelines			
Comparable earnings	**686**	529	617
Specific items:			
Bankruptcy settlement with Mirant		18	
Gain on sale of Northern Border Partners, L.P. interest		13	
Gain on sale of PipeLines LP units			49
Canadian Mainline NEB decision related to 2004			13
Net earnings	**686**	560	679
Energy			
Comparable earnings	**466**	429	258
Specific items:			
Income tax reassessments and adjustments	**34**	23	
Gain on sale of land	**14**		
Gain on sale of Power LP units			193
Gain on sale of Paiton Energy			115
Net earnings	**514**	452	566
Corporate			
Comparable expenses	**(45)**	(33)	(36)
Specific item:			
Income tax reassessments and adjustments	**68**	72	
Net earnings	**23**	39	(36)
Net Income			
Continuing operations[(1)]	**1,223**	1,051	1,209
Discontinued operations		28	
Net Income	**1,223**	1,079	1,209
Comparable Earnings[(1)]	**1,107**	925	839
Net Income per Share			
Continuing operations[(2)]	**$2.31**	$2.15	$2.49
Discontinued operations		0.06	
Basic	**$2.31**	$2.21	$2.49
Comparable Earnings per Share[(2)]	**$2.09**	$1.90	$1.72

[(1)]**Comparable Earnings**	**1,107**	925	839
Specific items (net of tax, where applicable):			
Income tax reassessments and adjustments	**102**	95	
Gain on sale of land	**14**		
Bankruptcy settlement with Mirant		18	
Gain on sale of Northern Border Partners, L.P. interest		13	
Gain on sale of Power LP units			193
Gain on sale of Paiton Energy			115
Gain on sale of PipeLines LP units			49
Canadian Mainline NEB decision related to 2004			13
Net Income from Continuing Operations	**1,223**	1,051	1,209
[(2)]**Comparable Earnings Per Share**	**$2.09**	$1.90	$1.72
Specific items per share:			
Income tax reassessments and adjustments	**0.19**	0.18	
Gain on sale of land	**0.03**		
Bankruptcy settlement with Mirant		0.04	
Gain on sale of Northern Border Partners, L.P. interest		0.03	
Gain on sale of Power LP units			0.40
Gain on sale of Paiton Energy			0.24
Gain on sale of PipeLines LP units			0.10
Canadian Mainline NEB decision related to 2004			0.03
Net Income per Share from Continuing Operations	**$2.31**	$2.15	$2.49

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PIPELINES HIGHLIGHTS

Net Earnings

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

Expanding Asset Base

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

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

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

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

Canadian Mainline

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

Alberta System

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

GTN System

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

Foothills

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

Other Pipelines

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

PIPELINES RESULTS-AT-A-GLANCE

Year ended December 31 *(millions of dollars)*

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

(1) ANR was acquired February 22, 2007.

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

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

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

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

(6) INNERGY Holdings S.A.

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

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

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

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

PIPELINES FINANCIAL ANALYSIS

Canadian Mainline

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

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

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

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

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

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

Alberta System

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

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

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

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

ANR

TransCanada completed the acquisition of ANR on February 22, 2007 and included its net earnings from this date. The operations of ANR are regulated primarily by the FERC. ANR provides natural gas transportation, storage and various capacity-related services to a variety of customers in both the U.S. and Canada. The transmission system has a peak-day capacity of 6.8 Bcf/d. ANR also owns and operates numerous underground natural gas storage facilities in Michigan. ANR's FERC-regulated natural gas storage and transportation services operate under current FERC-approved tariff rates. These tariffs include maximum and minimum rate levels for services and permit ANR to discount or negotiate rates on a non-discriminatory basis. ANR Pipeline's rates were established pursuant to a settlement approved by a FERC order issued in February 1998 and the settlement rates became effective November 1, 1997. ANR Storage Company's rates were established pursuant to a settlement approved by the FERC in April 1990 and these settlement rates became effective June 1, 1990. None of ANR's FERC-regulated operations are required to file for new rates at any time in the future, nor are any of the operations prohibited from filing a rate case. ANR's revenues are derived primarily from its interstate natural gas transmission and storage, gathering and related services. Due to the seasonal nature of the business, ANR's volumes, revenues and net earnings are generally expected to be higher in the winter months. ANR's net earnings were $104 million from the date of its acquisition by TransCanada on February 22, 2007, to December 31, 2007 and were in line with the Company's expectations.

GTN

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

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

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

Other Pipelines

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

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

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

PIPELINES OPPORTUNITIES AND DEVELOPMENTS

Keystone

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

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

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

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

Canadian Mainline

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

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

Alberta System

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

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

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

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

ANR

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

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

GTN

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

North Baja

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

Foothills

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

Tamazunchale

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

Mackenzie Gas Pipeline Project

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

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

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

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

Alaska Pipeline Project

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

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

PIPELINES BUSINESS RISKS

Supply, Markets and Competition

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

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

TransCanada's Alberta System is the major natural gas gathering and transportation system for the WCSB, connecting most of the natural gas processing plants in Alberta to domestic and export markets. Despite reduced overall drilling levels, activity remains robust in certain areas of the WCSB, which has resulted in the need for new transmission infrastructure. The primary areas of high activity have been deeper conventional drilling in western Alberta and in the foothills region of B.C., and coalbed methane development in central Alberta. The Alberta System has faced, and will continue to face, increasing competition from other natural gas pipelines. An emerging competitive issue for the Alberta System is the existence and access to natural gas liquids (NGL) contained in the natural gas transported by the pipeline system. In 2007, the EUB began a proceeding in relation to NGL extraction matters. The outcome of this proceeding may affect the way in which regulated natural gas pipelines compete within Alberta.

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

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

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

The GTN System must compete with other pipelines to access natural gas supplies and markets. Transportation service capacity on the GTN System provides customers in the U.S. Pacific Northwest, California and Nevada with access to supplies of natural gas primarily from the WCSB. These three markets may also access supplies from other basins. In the Pacific Northwest market, natural gas transported on the GTN System competes with the Rocky Mountain natural gas supply and with additional western Canadian supply transported by other natural gas pipelines. Historically, natural gas supplies from the WCSB have been competitively priced in relation to supplies from the other regions serving these markets. The GTN System experienced significant contract non-renewals in 2005 and 2006 as natural gas transported from the WCSB on the GTN System competed for the California and Nevada markets against supplies from the Rocky Mountain and southwestern U.S. supply basins. Recently, Pacific Gas and Electric Company, the GTN System's largest customer, filed an application with the California Public Utilities Commission (CPUC) requesting approval to commit to capacity on a proposed project out of the Rocky Mountain basin to the California border. This project has not yet been filed with the FERC and TransCanada is protesting the application filed with the CPUC.

Regulatory Financial Risk

Regulatory decisions continue to have a significant impact on the financial returns from existing investments in TransCanada's Canadian wholly owned pipelines and are expected to have a similarly significant impact on financial returns from future investments. TransCanada remains concerned that financial returns approved by regulators could potentially fail to be competitive with returns from assets with similar risk profiles. In recent years, TransCanada applied to the NEB and the EUB for an ROE of 11 per cent on 40 per cent deemed common equity for both the Canadian Mainline and the Alberta System, respectively. The NEB has reaffirmed its ROE formula and the EUB has established a generic ROE, which largely aligns with the NEB formula. Through rate applications and negotiated settlements, TransCanada has been able to improve the common equity components of its Canadian Mainline and Alberta System capital structures to the current 40 per cent and 35 per cent respectively.

TQM filed an application with the NEB in December 2007 requesting a fair return on capital, consisting of an ROE of 11 per cent on 40 per cent deemed common equity. The outcome of this proceeding may influence the regulators' view of fair financial returns on equity associated with TransCanada's other Canadian wholly owned pipelines.

Throughput Risk

As transportation contracts expire, TransCanada's U.S. natural gas pipelines are expected to be more exposed to the risk of reduced throughput and their revenues more likely to experience increased variability. Throughput risk is created by supply and market competition, gas basin pricing, economic activity, weather variability, natural gas pipeline competition and pricing of alternative fuels.

Execution and Capital Cost Risk

The construction of Keystone is subject to execution and capital cost risks, which is subject to a capital cost risk- and reward-sharing mechanism with its customers.

Refer to the "Risk Management and Financial Instruments" section of this MD&A for information on managing risks in the Pipelines business.

PIPELINES OUTLOOK

Demand for natural gas and crude oil is expected to continue to grow across North America in 2008. TransCanada's Pipelines business will continue to focus on the delivery of natural gas to growing markets, connecting new supply, progressing development of new infrastructure to connect natural gas from the north and unconventional supplies such as coalbed methane and LNG, and development of the Keystone oil pipeline.

TransCanada expects producers will continue to explore and develop new fields in Western Canada, particularly in northeastern B.C. and the west central foothills regions of Alberta. There is also expected to be significant activity aimed at unconventional resources such as coalbed methane, which will be further incented starting in 2009 due to the new royalty structure in Alberta benefiting lower productivity wells.

Most of TransCanada's current expansion plans in Canadian natural gas transmission are focused on the Alberta System. New facilities are expected to be needed to expand the integrated Alberta System to reflect changes in the distribution of supply and market within Alberta, connect new discrete supply sources, as well as new delivery points, primarily in the Alberta oilsands region and the central Alberta industrial heartland.

In the U.S., TransCanada expects unconventional production will continue to be developed from the coalbed methane and tight gas sands of the Rocky Mountain region, as well as from shale plays in east Texas, southwestern Oklahoma and Arkansas. In addition, incremental supplies are anticipated from LNG imports into the U.S. Significant infrastructure is being built in the U.S. to accommodate these supply sources. The resulting growth in supply from LNG and the unconventional supply sources is likely to offer additional commercial opportunities for TransCanada. In particular, the southwest leg of ANR is expected to continue to remain fully subscribed for the foreseeable future, and new transport routes are being developed to move additional Rocky Mountain production to midwestern and eastern U.S. markets, including interconnections with ANR. The southeast leg of ANR has the capacity to transport additional volumes of LNG and mid-continent shale production as these supplies develop.

Producers continue to develop new oil supply in the WCSB. In 2008, there are several new oilsands projects that will begin production, along with growth at existing projects. Oilsands production is expected to grow from 1.2 million Bbl/d in 2007 to 3.0 million Bbl/d in 2015, while total WCSB oil supply is projected to grow from 2.5 million Bbl/d to 3.9 million Bbl/d over the same period. The primary market for this new oilsands production is the U.S., extending from the U.S. Midwest to the Gulf of Mexico region, which contains a number of very large refineries, well equipped to handle Canadian heavy crude oil blends. WCSB crude oil is expected to replace declining U.S. imports of heavy crude oil from other countries.

This increase in WCSB crude oil exports requires new pipeline capacity, including Keystone, and further expansions to the Gulf of Mexico. TransCanada will continue to pursue additional opportunities to move crude oil from the Alberta oilsands to U.S. markets.

TransCanada will continue to focus on operational excellence and on collaborative efforts with all stakeholders to achieve negotiated settlements and service options that will increase the value of the Company's business to customers and shareholders.

Earnings

The Company expects continued growth on its Alberta System. The Company anticipates a modest level of investment in its other existing Canadian natural gas pipelines, resulting in an expected continued net decline in the average investment base due to annual depreciation. A net decline in the average investment base has the effect of reducing year-over-year earnings from these assets. However, this impact will be partially mitigated in 2008 by a slight increase in the formula-based regulated ROEs. Additionally, a settlement resulting from the current negotiations on the Alberta System may provide the opportunity for additional earnings contribution in 2008. Under the current regulatory model, earnings from Canadian pipelines are not affected by short-term fluctuations in the commodity price of natural gas, changes in throughput volumes or changes in contract levels.

Reduced FT contract volumes due to customer defaults, reduced supply available for export from the WCSB and expiry of long-term contracts could have a negative impact on short-term earnings from TransCanada's U.S. natural gas pipelines, unless the available capacity can be recontracted. The ability to recontract available capacity is influenced by prevailing market conditions and competitive factors including competing natural gas pipelines and supply from other natural gas sources in markets served by TransCanada's U.S. pipelines. Earnings from Pipelines' foreign operations are impacted by changes in foreign currency exchange rates. Pipelines' earnings in 2008 are expected to be positively impacted by a full year of operations from ANR and the additional interests in Great Lakes.

Certain subsidiaries of Calpine filed for bankruptcy protection in both Canada and the U.S. in 2005. Portland and GTNC have reached agreements with Calpine for allowed unsecured claims of US$125 million and US$192.5 million, respectively, in the Calpine bankruptcy. Creditors will receive shares in the re-organized Calpine and these shares will be subject to market price fluctuations as the new Calpine shares begin to trade. In February 2008, Portland and GTNC received initial distributions of 6.1 million shares and 9.4 million shares, respectively, which are expected to result in a significant increase in TransCanada's net earnings in first-quarter 2008.

Claims by NOVA Gas Transmission Limited and Foothills Pipe Lines (South B.C.) Ltd. for $31.6 million and $44.4 million, respectively, were received in cash in January 2008 and will be passed on to shippers on these systems.

Capital Expenditures

Excluding the cost of acquiring ANR and additional interests in Great Lakes, total capital spending for the wholly owned pipelines in 2007 was $487 million. Capital spending for the wholly owned pipelines in 2008 is expected to be approximately $1.0 billion. In addition, capital spending for TransCanada's 50 per cent share of constructing the Keystone pipeline is expected to be approximately $800 million.

NATURAL GAS THROUGHPUT VOLUMES
(Bcf)

	2007	2006	2005
Canadian Mainline[(1)]	**3,183**	2,955	2,997
Alberta System[(2)]	**4,015**	4,051	3,999
ANR[(3)]	**1,210**		
GTN System	**827**	790	777
Foothills[(4)]	**1,441**	1,403	1,372
North Baja	**90**	95	84
Great Lakes	**829**	816	850
Northern Border	**800**	799	808
Iroquois	**394**	384	394
TQM	**207**	158	166
Ventures LP	**178**	179	138
Gas Pacifico	**71**	52	34
Portland	**58**	52	62
Tamazunchale[(5)]	**29**		
Tuscarora	**28**	28	25
TransGas	**24**	22	19

(1) Canadian Mainline deliveries originating at the Alberta border and in Saskatchewan in 2007 were 2,199 Bcf (2006 2,224 Bcf; 2005 2,215 Bcf).

(2) Field receipt volumes for the Alberta System in 2007 were 4,047 Bcf (2006 4,160 Bcf, 2005 4,034 Bcf).

(3) ANR was acquired February 22, 2007 and its volumes are included from this date.

(4) Foothills volumes reflects the combined operations of Foothills and the BC System.

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

BEAR CREEK An 80-MW natural gas-fired cogeneration plant, Bear Creek is located near Grande Prairie, Alberta.

MACKAY RIVER A 165-MW natural gas-fired cogeneration plant, MacKay River is located near Fort McMurray, Alberta.

REDWATER A 40-MW natural gas-fired cogeneration plant, Redwater is located near Redwater, Alberta.

SUNDANCE A&B The largest coal-fired electric power generating facility in Western Canada, Sundance is located in south-central Alberta. TransCanada has the rights to 100 per cent of the generating capacity of the 560-MW Sundance A facility under a power purchase arrangement (PPA), which expires in 2017. TransCanada also has the rights to 50 per cent of the generating capacity of the 706-MW Sundance B facility under a PPA, which expires in 2020.

SHEERNESS Consisting of two 390-MW coal-fired thermal power generating units, the Sheerness plant is located in southeastern Alberta. TransCanada has the rights to 756 MW of generating capacity from the Sheerness PPA, which expires in 2020.

CARSELAND An 80-MW natural gas-fired cogeneration plant, Carseland is located near Carseland, Alberta.

CANCARB A 27-MW facility fuelled by waste heat from TransCanada's adjacent thermal carbon black facility, Cancarb is located in Medicine Hat, Alberta.

BRUCE POWER Consisting of two generating stations, Bruce A with approximately 3,000 MW of generating capacity and Bruce B with approximately 3,200 MW of generating capacity, Bruce Power is located in Ontario. TransCanada owns 48.7 per cent of Bruce A, which has four power generating units, two of which have been idled for refurbishing and are expected to restart in 2010. TransCanada owns 31.6 per cent of Bruce B, which also has four power generating units.

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

PORTLANDS ENERGY A 550-MW high-efficiency, combined-cycle natural gas generation power plant, Portlands Energy is under construction near downtown Toronto, Ontario. The plant is 50 per cent owned by TransCanada and is expected to be operational in simple-cycle mode, delivering 340 MW of electricity to the City of Toronto, beginning in June 2008. It is expected to be fully commissioned in its combined-cycle mode, delivering 550 MW of power, in second-quarter 2009.

BÉCANCOUR A 550-MW natural gas-fired cogeneration power plant, Bécancour is located near Trois-Rivières, Québec. The entire power output is supplied to Hydro-Québec under a 20-year power purchase contract. Steam is also sold to an industrial customer for use in commercial processes.

CARTIER WIND The 740-MW Cartier wind farm project consists of six wind power projects located in Québec. Cartier Wind is 62 per cent owned by TransCanada. Baie-des-Sables, with a generation capacity of 110 MW, and Anse-á-Valleau, with a generation capacity of 101 MW, were placed into service in November 2006 and November 2007, respectively. Construction of a third project, the 110-MW Carleton wind farm, began in late 2007. Planning and construction of the remaining three projects will continue, subject to future approvals.

GRANDVIEW A 90-MW natural gas-fired cogeneration power plant, Grandview is located in Saint John, New Brunswick. Irving Oil Limited receives 100 per cent of the plant's heat and electricity output under a 20-year tolling agreement.

KIBBY WIND A 132-MW wind power project, the proposed Kibby Wind includes 44 turbines located in Kibby and Skinner Townships in northwestern Franklin County, Maine. Subject to U.S. federal and state approvals, construction could begin in early 2008 and the new facilities could go into service in 2009 2010.

TC HYDRO With a total generating capacity of 583 MW, TC Hydro comprises 13 hydroelectric facilities, including stations and associated dams and reservoirs, on the Connecticut and Deerfield rivers in New Hampshire, Vermont and Massachusetts.

OSP A 560-MW natural gas-fired, combined-cycle facility, OSP is located in Rhode Island.

EDSON An underground natural gas storage facility, Edson is connected to the Alberta System near Edson, Alberta. The facility's central processing system is capable of maximum injection and withdrawal rates of 725 mmcf/d of natural gas. Edson has a working natural gas storage capacity of approximately 50 Bcf.

CROSSALTA An underground natural gas storage facility, CrossAlta is connected to the Alberta System and is located near Crossfield, Alberta. TransCanada owns 60 per cent of CrossAlta, which has a working natural gas capacity of 54 Bcf with a maximum deliverability capability of 480 mmcf/d.

CACOUNA A proposed LNG project at Gros Cacouna Harbour on the St. Lawrence River in Québec, Cacouna would be capable of receiving, storing and regasifying imported LNG with an average send-out capacity of approximately 500 mmcf/d of natural gas. TransCanada has a 50 per cent ownership interest in Cacouna.

BROADWATER A proposed offshore LNG project located in the New York waters of Long Island Sound, Broadwater would be capable of receiving, storing and regasifying imported LNG with an average send-out capacity of approximately 1 Bcf/d of natural gas. TransCanada has a 50 per cent ownership interest in Broadwater.

ENERGY HIGHLIGHTS

Net Earnings

Energy's net earnings were $514 million in 2007, an increase of $62 million from $452 million in 2006.

Energy's comparable earnings were $466 million in 2007, up $37 million from $429 million in 2006. Comparable earnings excluded positive income tax adjustments in 2007 and 2006 and a gain on sale of land in 2007, and increased primarily due to higher operating income from Eastern Power and Natural Gas Storage.

Results in 2007 included the first full year of earnings from the Bécancour cogeneration plant, the Baie-des-Sables Cartier Wind project, and the Edson natural gas storage facility.

Expanding Asset Base

Approximately 2,000 MW of additional generation capacity was under construction at December 31, 2007, with an anticipated capital cost of more than $4.2 billion.

Since 1999, TransCanada's Energy business has grown its nominal generating capacity by approximately 5,300 MW, excluding 2,000 MW currently under construction, representing an investment of more than $5 billion to the end of 2007.

The Anse-á-Valleau Cartier Wind project was completed and placed into service in November 2007.

Construction continued in 2007 on the Bruce A refurbishment and restart project, which includes restart of the currently idle power generating Units 1 and 2, and replacement of the steam generators and installation of new fuel channels on Units 3 and 4.

Plant Availability

Weighted average power plant availability was 91 per cent in 2007, which was consistent with 2006.

Weighted average power plant availability, excluding Bruce, was 93 per cent in 2007, which was consistent with 2006.

ENERGY RESULTS-AT-A-GLANCE
Year ended December 31 *(millions of dollars)*

	2007	2006	2005
Western Power	**308**	297	123
Eastern Power	**255**	187	137
Bruce Power	**167**	235	195
Natural Gas Storage	**146**	93	32
Power LP Investment			29
General, administrative, support costs and other	**(158)**	(144)	(129)
Operating income	**718**	668	387

Financial charges	**(22)**	(23)	(11)
Interest income and other	**10**	5	5
Income taxes	**(240)**	(221)	(123)
Comparable earnings[1]	**466**	429	258
Income tax adjustments	**34**	23	
Gain on sale of land	**14**		
Gain on sale of Paiton Energy			193
Gain on sale of Power LP units			115
Net earnings	**514**	452	566

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

Energy's net earnings in 2007 were $514 million compared to $452 million in 2006. Comparable earnings were $466 million in 2007, an increase of $37 million from 2006. Comparable earnings exclude the $14-million gain on sale of land and the $34-million favourable income tax adjustments in 2007 as well as the $23-million favourable impact in 2006 from future income taxes as a result of reductions in Canadian federal and provincial corporate income tax rates. The increase was due primarily to higher operating income in Eastern Power, Natural Gas Storage and Western Power, partially offset by a reduced contribution from Bruce Power.

Energy's net earnings in 2006 were $452 million compared to $566 million in 2005. The decrease was due primarily to the inclusion in 2005 net earnings of gains related to the disposal of TransCanada's investments in Paiton Energy and Power LP. In 2005, TransCanada sold its interest of approximately 11 per cent in Paiton Energy resulting in an after-tax gain of $115 million and sold its ownership interest in Power LP resulting in an after-tax gain of $193 million.

Energy's comparable earnings, which exclude the $23-million favourable impact on future income taxes in 2006 and the Power LP and Paiton Energy gains in 2005, were $429 million in 2006, an increase of $171 million from $258 million in 2005. The increase was due primarily to higher contributions from each of Energy's existing businesses, including a full year of earnings from TC Hydro, partially offset by the loss of operating income associated with the sale of the Power LP interest in 2005.

POWER PLANTS NOMINAL GENERATING CAPACITY AND FUEL TYPE

	MW	Fuel Type
Western Power		
Sheerness(1)	756	Coal
Sundance A(2)	560	Coal
Sundance B(2)	353	Coal
MacKay River	165	Natural gas
Carseland	80	Natural gas
Bear Creek	80	Natural gas
Redwater	40	Natural gas
Cancarb	27	Natural gas
	2,061	
Eastern Power		
Halton Hills(3)	683	Natural gas
TC Hydro(4)	583	Hydro
OSP	560	Natural gas
Bécancour(5)	550	Natural gas
Cartier Wind(6)	458	Wind
Portlands Energy(7)	275	Natural gas
Grandview(8)	90	Natural gas
	3,199	
Bruce Power(9)	2,474	Nuclear
Total nominal generating capacity	7,734	

(1) TransCanada has sole access to 756 MW from Sheerness through a long-term PPA lease.

(2) TransCanada directly or indirectly has the rights to 560 MW from Sundance A and 353 MW from Sundance B through long-term PPAs, which represents 100 per cent of the Sundance A and 50 per cent of the Sundance B power plant output.

(3) Currently under construction.

(4) Acquired in second-quarter 2005.

(5) Placed in service in third-quarter 2006.

(6) Represents TransCanada's 62 per cent share of the total 740-MW project. Two of six wind farms were placed in service, one in November 2006 and the other in November 2007, with a combined generating capacity of 211 MW.

(7) Represents TransCanada's 50 per cent share of this 550-MW facility, which is currently under construction.

(8) Placed in service in first-quarter 2005.

(9) Represents TransCanada's 48.7 per cent proportionate interest in Bruce A and 31.6 per cent proportionate interest in Bruce B. Bruce A consists of four 750-MW reactors, two of which are currently being refurbished and are expected to restart in 2010. Bruce B consists of four reactors, which are currently in operation and have a combined capacity of approximately 3,200 MW.

ENERGY FINANCIAL ANALYSIS

Western Power

As at December 31, 2007, Western Power owns or has the rights to approximately 2,100 MW of power supply in Alberta from its three long-term PPAs and five natural gas-fired cogeneration facilities. The power supply portfolio of Western Power comprises approximately 1,700 MW of low-cost, base-load coal-fired generation supply through the three long-term PPAs and approximately 400 MW of natural gas-fired cogeneration assets. This supply portfolio is among the lowest-cost, most competitive generation in the Alberta market area. On December 31, 2005, $585 million was paid to the Alberta Balancing Pool for the remaining rights of the Sheerness PPA, which has a remaining term of approximately 13 years. The Sundance A and B PPAs have remaining terms of 10 years and 13 years, respectively.

Western Power relies on its two integrated functions, marketing and plant operations, to generate earnings. The marketing function, based in Calgary, Alberta, purchases and resells electricity sourced from the PPAs, markets uncommitted volumes from the cogeneration facilities, and purchases and resells power and gas to maximize the value of the cogeneration facilities. The marketing function is integral to optimizing Energy's return from its portfolio of power supply and to managing risks associated with uncontracted volumes. A portion of its power is sold into the spot market for operational reasons and the amount of supply volumes eventually sold into the spot market is dependent upon the ability to transact in forward sales markets at acceptable contract terms. This approach to portfolio management helps to minimize costs in situations where TransCanada would otherwise have to purchase electricity in the open market to fulfil its contractual sales obligations. To reduce its exposure to spot market prices on uncontracted volumes, Western Power had, as at December 31, 2007, fixed-price power sales contracts to sell approximately 9,200 gigawatt hours (GWh) in 2008 and 6,800 GWh in 2009.

Plant operations consist of five natural gas-fired cogeneration power plants located in Alberta with an approximate combined output capacity of 400 MW ranging from 27 MW to 165 MW per facility. A portion of the expected output is sold under long-term contracts and the remaining output is subject to fluctuations in the price of power and gas. Market heat rate is an economic measure for natural gas-fired power plants and is determined by dividing the average price of power per megawatt hour (MWh) by the average price of natural gas per gigajoule (GJ) for a given period. To the extent power is not sold under long-term contracts and plant fuel gas has not been purchased under long-term contracts, the profitability of a natural gas-fired generating facility rises in proportion to increases in the market heat rate, and, conversely, declines in proportion to decreases in the market heat rate. Market heat rates in Alberta decreased in 2007 by approximately 16 per cent as a result of a decrease in average power prices, while spot market natural gas prices remained relatively unchanged. Market heat rates averaged approximately 11.4 GJ/MWh in 2007 compared to approximately 13.5 GJ/MWh in 2006.

All plants in Western Power operated with an average plant availability of approximately 90 per cent in 2007 compared to 88 per cent in 2006.

Western Power Results-at-a-Glance
Year ended December 31 *(millions of dollars)*

	2007	2006	2005
Revenues			
Power	**1,045**	1,185	715
Other[1]	**89**	169	158
	1,134	1,354	873
Commodity purchases resold			
Power	**(608)**	(767)	(476)
Other[2]	**(65)**	(135)	(104)
	(673)	(902)	(580)
Plant operating costs and other	**(135)**	(135)	(149)
Depreciation	**(18)**	(20)	(21)
Operating income	**308**	297	123

(1) Includes natural gas sold and Cancarb Thermax, the thermal carbon black facility adjacent to Cancarb.

(2) Includes the cost of natural gas sold.

Western Power Sales Volumes
Year ended December 31 *(GWh)*

	2007	2006	2005
Supply			
Generation	**2,154**	2,259	2,245
Purchased			
Sundance A & B and Sheerness PPAs	**12,199**	12,712	6,974
Other purchases	**1,433**	1,905	2,687
	15,786	16,876	11,906
Contracted vs. Spot			
Contracted	**11,998**	12,750	10,374
Spot	**3,788**	4,126	1,532
	15,786	16,876	11,906

Operating income was $308 million in 2007, an increase of $11 million from $297 million in 2006. The increase was due primarily to lower PPA costs, partially offset by slightly lower overall realized power prices. Revenues decreased in 2007 compared to 2006 due mainly to the lower overall power sales prices realized in 2007 as well as lower volumes purchased and generated. Commodity purchases resold decreased in 2007 compared to 2006 due primarily to lower PPA costs, a decrease in volumes purchased and the expiry of certain retail contracts. Purchased power volumes in 2007 decreased compared to 2006 mainly as a result of an increase in outage hours at the Sundance A facility and the expiry

of certain retail contracts. Approximately 24 per cent of power sales volumes were sold in to the spot market in 2007, which was consistent with 2006.

Operating income was $297 million in 2006, an increase of $174 million from $123 million in 2005. The increase was due primarily to incremental earnings from the acquisition of the Sheerness PPA on December 31, 2005, and increased margins from a combination of higher overall realized power prices and higher market heat rates on uncontracted volumes of power sold. Revenues and commodity purchases resold increased in 2006 compared to 2005 due mainly to the acquisition of the Sheerness PPA as well as higher realized power prices. Plant operating costs and other, which includes fuel gas consumed in power generation, decreased due to lower natural gas prices. Purchased power volumes in 2006 increased compared to 2005 due primarily to the acquisition of the Sheerness PPA. Approximately 24 per cent of power sales volumes were sold into the spot market in 2006 compared to 13 per cent in 2005.

Eastern Power

Eastern Power owns approximately 3,200 MW of power generation capacity, including facilities under construction or in the development phase. Eastern Power's current operating power generation assets are TC Hydro, Ocean State Power (OSP), Bécancour and Grandview, and the Baie-des-Sables and Anse-á-Valleau wind farms. The TC Hydro assets include 13 hydroelectric stations housing 39 hydroelectric generating units in New Hampshire, Vermont and Massachusetts.

Eastern Power conducts its business primarily in the deregulated New England power market and in Eastern Canada. In the New England market, TransCanada has established a successful marketing operation through its wholly owned subsidiary, TransCanada Power Marketing Ltd. (TCPM), located in Westborough, Massachusetts. To reduce exposure to spot market prices on uncontracted volumes, Eastern Power had, as at December 31, 2007, fixed price sales contracts to sell forward approximately 8,200 GWh in 2008 and 9,900 GWh in 2009. Fixed price sales contracts in 2008 exclude approximately 4,200 GWh of generation from the Bécancour power plant as a result of the request from Hydro-Québec to suspend electricity generation, beginning January 1, 2008.

TCPM focuses on selling power under short- and long-term contracts to wholesale, commercial and industrial customers while managing a portfolio of power supplies sourced from both its own generation and wholesale power purchases. In 2007, TCPM continued to expand its marketing presence and customer base.

In June 2006, the FERC approved a settlement agreement to implement a newly-designed Forward Capacity Market (FCM) for power generation in the New England power markets. The FCM design is intended to promote investment in new and existing power resources needed to meet growing consumer demand and maintain a reliable power system. The settlement agreement provides for a multi-year transition period beginning in December 2006 and ending in May 2010, whereby fixed payments ranging from US$3.05 to US$4.10 per kilowatt- month, will be made to owners of existing installed capacity. Eastern Power's OSP plant and TC Hydro generation facilities are eligible to receive payments during the transition period. Under the new FCM design, Independent System Operator New England will project the needs of the power system three years in advance, following which it will hold an annual auction to purchase power resources to satisfy a region's future needs. Suppliers will receive payments pursuant to the FCM auction mechanism commencing June 1, 2010.

Eastern Power Results-at-a-Glance[1]
Year ended December 31 *(millions of dollars)*

	2007	2006	2005
Revenues			
Power	**1,481**	789	505
Other[2]	**239**	292	412
	1,720	1,081	917
Commodity purchases resold			
Power	**(755)**	(379)	(215)
Other[2]	**(208)**	(257)	(373)
	(963)	(636)	(588)
Plant operating costs and other	**(454)**	(226)	(167)
Depreciation	**(48)**	(32)	(25)
Operating income	**255**	187	137

(1) Includes Bécancour, Baie-des-Sables and Anse-à-Valleau, effective September 17, 2006, November 21, 2006 and November 10, 2007, respectively.

(2) Other includes natural gas sales and purchases.

Eastern Power Sales Volumes[1]
Year ended December 31 *(GWh)*

	2007	2006	2005
Supply			
Generation	**8,095**	4,700	2,879
Purchased	**6,986**	3,091	2,627
	15,081	7,791	5,506
Contracted vs. Spot			
Contracted	**14,505**	7,374	4,919
Spot	**576**	417	587
	15,081	7,791	5,506

(1) Includes Bécancour, Baie-des-Sables and Anse-à-Valleau, effective September 17, 2006, November 21, 2006 and November 10, 2007, respectively.

Operating income was $255 million in 2007, $68 million higher than the $187 million earned in 2006. The increase was due primarily to incremental income from the first full year of operation of the Bécancour facility and the Baie-des-Sables wind farm, and from the start-up of the Anse-à-Valleau wind farm in November 2007. Also contributing to the increase were payments received under the start-up of the FCM in

New England and higher sales volumes to commercial and industrial customers in 2007. Partially offsetting these increases was the impact of reduced water flows from the TC Hydro generation assets in 2007, compared to the above-average water flows experienced in 2006 following higher precipitation in the surrounding area.

Eastern Power's revenues from power were $1,481 million in 2007, an increase of $692 million from $789 million in 2006. The substantial growth was driven primarily by the first full year of revenue from the Bécancour facility and the

Baie-des-Sables wind farm, which went into service in September and November 2006, respectively, as well as by increased sales volumes to commercial and industrial customers, and higher realized prices. Other revenue and other commodity purchases resold decreased year-over-year as a result of a reduction in the quantity of natural gas purchased and resold under OSP's natural gas supply contracts. Power commodity purchases resold and purchased power volumes were higher in 2007 due to the impact of increased purchases to supply higher sales volumes to wholesale, commercial and industrial customers. The increase in purchased power volumes was partially offset by additional power generation from the OSP plant, which reduced the requirement to purchase power to fulfill contractual sales obligations. Plant operating costs and other, which includes fuel gas consumed in generation, were higher in 2007 due primarily to the full year of operations of the Bécancour facility and increased power generation from the OSP plant.

Operating income was $187 million in 2006, an increase of $50 million from $137 million earned in 2005. The increase was due mainly to incremental income from the full year of ownership of the TC Hydro assets, the start-up of the Bécancour facility, a $10-million after-tax one-time restructuring payment in first-quarter 2005 from OSP to its natural gas fuel suppliers, and higher overall margins on power sales volumes in 2006.

Bruce Power

In 2005, Bruce Power and the Ontario Power Authority (OPA) completed a long-term agreement whereby Bruce A committed to refurbish and restart the currently idle Units 1 and 2, extend the operating life of Unit 3 by replacing its steam generators and fuel channels when required, and replace the steam generators on Unit 4. An amendment to this agreement in 2007 is described further in the "Energy Opportunities and Developments" section of this MD&A. As a result of an agreement between Bruce Power and the OPA, and Cameco Corporation's (Cameco) decision not to participate in the refurbishment and restart program, the Bruce A partnership was formed by TransCanada and BPC Generation Infrastructure Trust (BPC), with each owning a 48.7 per cent interest in Bruce A at December 31, 2007 (2006 48.7 per cent; 2005 47.9 per cent). TransCanada and BPC each incurred a net cash outlay of approximately $100 million in 2005 to acquire Cameco's interest. The remaining 2.6 per cent interest in Bruce A is owned by BPC, a trust established by the Ontario Municipal Employees Retirement System, the Power Worker's Union and The Society of Energy Professionals. The Bruce A partnership subleases Bruce A Units 1 to 4 from Bruce B. TransCanada continues to own 31.6 per cent of Bruce B, which consists of Units 5 to 8.

Upon reorganization, both Bruce A and Bruce B became jointly controlled entities and TransCanada proportionately consolidated these investments on a prospective basis from October 31, 2005. The following Bruce Power financial results reflect the operations of six of the eight Bruce Power units in all periods.

Bruce Power Results-at-a-Glance

Year ended December 31 *(millions of dollars)*

	2007	2006	2005
Bruce Power (100 per cent basis)			
Revenues			
Power	**1,920**	1,861	1,907
Other[1]	**113**	71	35
	2,033	1,932	1,942
Operating expenses			
Operations and maintenance[2]	**(1,051)**	(912)	(871)
Fuel	**(104)**	(96)	(77)
Supplemental rent[2]	**(170)**	(170)	(164)
Depreciation and amortization	**(151)**	(134)	(198)
	(1,476)	(1,312)	(1,310)
Revenues, net of operating expenses	**557**	620	632
Financial charges under equity accounting[3]			(58)
	557	620	574
TransCanada's proportionate share Bruce A	**24**	91	22
TransCanada's proportionate share Bruce B	**161**	137	166
TransCanada's proportionate share	**185**	228	188
Adjustments	**(18)**	7	7
TransCanada's operating income from Bruce Power[3]	**167**	235	195
Bruce Power Other Information			
Plant availability			
Bruce A	**78%**	81%	94%
Bruce B	**89%**	91%	79%
Combined Bruce Power	**86%**	88%	80%
Planned outage days			
Bruce A	**121**	81	106
Bruce B	**93**	65	153
Unplanned outage days			
Bruce A	**17**	37	30
Bruce B	**32**	31	104
Sales volumes (GWh)			
Bruce A 100 per cent	**10,180**	10,650	2,100
Bruce A TransCanada's proportionate share	**4,959**	5,158	999
Bruce B 100 per cent	**25,290**	25,820	30,800
Bruce B TransCanada's proportionate share	**7,992**	8,159	9,733
Combined Bruce Power 100 per cent	**35,470**	36,470	32,900
TransCanada's proportionate share	**12,951**	13,317	10,732
Results per MWh			
Bruce A power revenues	**$59**	$58	$57
Bruce B power revenues	**$52**	$48	$58
Combined Bruce Power revenues	**$55**	$51	$58
Combined Bruce Power fuel	**$3**	$3	$2

Combined Bruce Power total operating expenses[4]	**$41**	$35	$40
Percentage of output sold to spot market	**45%**	35%	49%

(1) Includes fuel cost recoveries of $35 million for Bruce A in 2007 (2006 $30 million; November 1 to December 31, 2005 $4 million). Includes changes in fair value of held-for-trading derivatives of $47 million in 2007 (2006 nil; 2005 nil).

(2) Includes adjustments to eliminate the effects of inter-partnership transactions between Bruce A and Bruce B.

(3) TransCanada's consolidated equity income in 2005 includes $168 million which represents TransCanada's 31.6 per cent share of Bruce Power earnings for the ten months ended October 31, 2005.

(4) Net of fuel cost recoveries.

TransCanada's operating income from its investment in Bruce Power was $167 million in 2007 compared to $235 million in 2006. TransCanada's proportionate share of operating income in Bruce B increased $24 million to $161 million in 2007 compared with 2006 due primarily to higher realized power prices, partially offset by higher operating costs associated with an increase in planned outage days in 2007. TransCanada's proportionate share of operating income in Bruce A decreased $67 million to $24 million in 2007 compared with 2006 due primarily to lower output and higher operating costs associated with an increase in planned outage days in 2007. Higher post-employment benefit costs and lower positive purchase price amortizations related to the expiry of power sales agreements also contributed to the decrease in TransCanada's operating income from its combined investment in Bruce power in 2007 compared to 2006.

Combined Bruce Power prices (excluding other revenues) were $55 per MWh in 2007 compared to $51 per MWh in 2006, reflecting higher prices on both contracted volumes and uncontracted volumes sold into the spot market. Bruce Power's combined operating expenses (net of fuel cost recoveries) increased to $41 per MWh in 2007 from $35 per MWh in 2006 due primarily to higher operating costs and decreased output in 2007.

The Bruce units ran at a combined average availability of 86 per cent in 2007, compared to an 88 per cent average availability in 2006. The lower availability in 2007 was the result of more planned maintenance outage days, partially offset by fewer unplanned outage days in 2007.

TransCanada's operating income from its combined investment in Bruce Power was $235 million in 2006 compared to $195 million in 2005. The increase of $40 million was due primarily to an increased ownership interest in the Bruce A facilities and higher sales volumes resulting from increased plant availability, partially offset by lower overall realized prices.

Adjustments to TransCanada's combined interest in Bruce Power's income before income taxes were lower in 2007 than in 2006 and 2005 due primarily to lower positive purchase price amortizations related to the expiry of power sales agreements.

Income from Bruce B is directly affected by fluctuations in wholesale spot market prices for electricity. Income from both Bruce A and Bruce B is affected by overall plant availability, which in turn is affected by planned and unplanned maintenance. As a result of a contract with the OPA, all of the output from Bruce A is sold at a fixed price per MWh, adjusted for inflation annually on April 1, and before recovery of fuel costs from the OPA. Per the 2007 amendment of the contract with the OPA, discussed in the "Energy Opportunities and Developments" section, effective April 1, 2008, the fixed price for output from Bruce A will also increase by $2.11 per MWh, subject to inflation adjustments from October 31, 2005.

	per MWh
April 1, 2007 March 31, 2008	$59.69
April 1, 2006 March 31, 2007	$58.63
October 31, 2005 March 31, 2006	$57.37

Payments received pursuant to the fixed-price contract are capped at $575 million for the period ending on the commercial in-service date of the later of the restarted Unit 1 and Unit 2. Post-refurbishment prices will also be adjusted for capital cost variances associated with the refurbishment and restart projects.

As part of this contract, sales from the Bruce B Units 5 to 8 are subject to a floor price adjusted annually for inflation on April 1.

	per MWh
April 1, 2007 March 31, 2008	$46.82
April 1, 2006 March 31, 2007	$45.99
October 31, 2005 March 31, 2006	$45.00

Payments received pursuant to the Bruce B floor price mechanism may be subject to a recapture payment dependent on annual spot prices over the term of the contract. Bruce B net earnings to date do not include any amounts received pursuant to this floor mechanism. To further reduce its exposure to spot market prices, Bruce B entered into fixed price sales contracts as at December 31, 2007, to sell forward approximately 10,200 GWh in 2008 and 4,900 GWh in 2009.

The overall plant availability percentage in 2008 is expected to be in the low 90s for the four Bruce B units and the low 80s for the two operating Bruce A units. A planned maintenance outage of Bruce B Unit 7 began at the end of January 2008 and the unit is expected to be back in service in March 2008. A planned maintenance outage of Bruce B Unit 5 is scheduled to begin in early May 2008 and the unit is expected to return to service in late second-quarter 2008. A one-month maintenance outage of Bruce A Unit 4 is scheduled to start in late March 2008 and a two-month outage of Bruce A Unit 3 is expected to commence mid-September 2008.

The Bruce partners have agreed that all excess cash from both Bruce A and Bruce B will be distributed on a monthly basis and that separate cash calls will be made for major capital projects, including the Bruce A refurbishment and restart project.

Power LP Divestiture

TransCanada sold all of its interest in Power LP to EPCOR Utilities Inc. in August 2005 for net proceeds of $523 million, resulting in an after-tax gain of $193 million. TransCanada's investment in Power LP generated operating income of $29 million in 2005.

Plant Availability

Weighted average power plant availability for all plants, excluding Bruce Power, was 93 per cent in 2007 and 2006, compared to 87 per cent in 2005. Plant availability represents the percentage of time in a year that the plant is available to generate power whether actually running or not, reduced by planned and unplanned outages. Western Power's plant availability was affected negatively in 2006 and 2005 by an unplanned outage at Bear Creek, which returned to service in August 2006. A planned outage was taken in 2005 at the MacKay River facility, further decreasing Western Power's plant availability in 2005. Eastern Power achieved plant availability of 96 per cent in 2007, which was consistent with 2006. Availability was lower in 2005 as a result of OSP experiencing two significant outages.

Weighted Average Plant Availability(1)
Year ended December 31

	2007	2006	2005
Western Power(2)	**90%**	88%	85%
Eastern Power(3)	**96%**	95%	83%
Bruce Power	**86%**	88%	80%
Power LP investment(4)			94%
All plants, excluding Bruce Power investment	**93%**	93%	87%
All plants	**91%**	91%	84%

(1) Plant availability represents the percentage of time in a year that the plant is available to generate power, whether actually running or not, reduced by planned and unplanned outages.

(2) The Sheerness PPA is included in Western Power, effective December 31, 2005.

(3) TC Hydro, Bécancour, Baie-des-Sables and Anse-á-Valleau are included in Eastern Power effective April 1, 2005, September 17, 2006, November 21, 2006 and November 10, 2007, respectively.

(4) Power LP is included to August 31, 2005.

Natural Gas Storage

TransCanada became one of the largest natural gas storage providers in Western Canada when the Edson storage facility was placed in service on December 31, 2006, with a final commissioning date of April 1, 2007. TransCanada owns or has rights to 120 Bcf of natural gas storage capacity in Alberta, including a 60 per cent ownership interest in CrossAlta Gas Storage & Services Ltd. (CrossAlta), an independently operated storage facility. TransCanada also has contracts for long-term, Alberta-based storage capacity from a third party, which expire in 2030 and include mutual early termination rights in 2015.

Natural Gas Storage Capacity

	Working Gas Storage Capacity (Bcf)	Maximum Injection/ Withdrawal Capacity (mmcf/d)
Edson	50	725
CrossAlta[1]	32	288
Third-party storage	38	630
	120	1,643

(1) Represents TransCanada's 60 per cent ownership interest in CrossAlta, a 54-Bcf, 480-mmcf/d facility.

TransCanada believes the market fundamentals for natural gas storage remain strong. The Company's additional gas storage capacity is expected to help balance seasonal and short-term supply and demand, and bring flexibility to the supply of natural gas to Alberta and the rest of North America. The increasing seasonal imbalance in North American natural gas supply and demand has increased natural gas price volatility and the demand for storage services. Alberta-based storage will continue to serve market needs and could play an important role should northern gas be connected to North American markets. Energy's natural gas storage business operates independently from TransCanada's regulated natural gas transmission business and ANR's regulated storage business, which is included in TransCanada's Pipelines segment.

TransCanada manages its non-regulated natural gas storage assets' exposure to seasonal natural gas price spreads by hedging storage capacity with a portfolio of third-party storage capacity leases and proprietary natural gas purchases and sales.

In Alberta, TransCanada offers a broad range of injection and withdrawal storage alternatives specific to customer needs in multi-year contracts. Market volatility frequently creates arbitrage opportunities and TransCanada's storage operations offer solutions to capture value from these short-term price movements. Products consist of short-term deliver-redeliver contracts, parking, peak-day supply and other related services. Earnings from third-party storage capacity leases are recognized over the term of the lease. At December 31, 2007, TransCanada had contracted approximately 74 per cent of the total 120 Bcf of working gas storage capacity in 2008 and 50 per cent of storage capacity in 2009.

TransCanada adopted an accounting policy to record proprietary natural gas inventory held in storage at its fair value using the one-month forward price for natural gas, effective April 1, 2007. Changes in the fair value of inventory are recorded in Net Income.

Proprietary natural gas storage transactions are comprised of a forward purchase of natural gas to be injected into storage and a simultaneous forward sale of natural gas for withdrawal at a later period, typically during the winter withdrawal season. By matching purchase and sales volumes on a back-to-back basis, TransCanada locks in a margin, thereby effectively eliminating its exposure to the price movements of natural gas. These forward natural gas contracts provide highly effective economic hedges but do not meet the specific criteria for hedge accounting and, therefore, are recorded at their fair values based on the forward market prices for the contracted month of delivery. Changes in the fair value of these contracts are recorded in Net Income. In 2007, operating income included a $10-million net unrealized gain for the changes in fair value of the proprietary natural gas inventory and forward purchase and sales contracts.

Natural Gas Storage operating income was $146 million in 2007, an increase of $53 million compared to 2006. The increase was due primarily to income earned from the first full year of operations of the Edson facility.

Natural Gas Storage operating income was $93 million in 2006, an increase of $61 million compared to 2005. The increase was due primarily to higher contributions from CrossAlta as a result of increased utilization and higher natural gas storage spreads as well as income from contracted third-party natural gas storage capacity. The Edson facility did not contribute to earnings in 2006 as it went into service on December 31, 2006.

ENERGY OPPORTUNITIES AND DEVELOPMENTS

Portlands Energy Construction continued in 2007 on the Portland