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Q3 2011 TransCanada Corp Earnings Conference Call - Final

Presentation

OPERATOR: Good day, ladies and gentlemen, and welcome to theTransCanada Corporation 2011 third quarter results conference call. Iwould now like to turn the meeting over to Mr. David Moneta, VicePresident of Investor Relations. Please go ahead, Mr. Moneta

DAVID MONETA, DIRECTOR OF IR, CORP. COMMUNICATIONS, TRANSCANADA CORP:Thanks very much and good morning, everyone. I would like to welcomeyou to TransCanada's 2011 third quarter conference call. With metoday are Russ Girling, President and Chief Executive Officer; DonMarchand, Executive Vice President and Chief Financial Officer; AlexPourbaix, President of Energy and Oil Pipelines; Greg Lohnes,President Natural Gas Pipelines; and Glenn Menuz, our Vice Presidentand Controller. Russ and Don will begin today with some openingcomments on our financial results and other general issues pertainingto TransCanada. Please net that a slide presentation will accompanytheir remarks and a copy of that presentation is available on ourwebsite at www.TransCanada.com. It can be found in the investorsection under the heading events and presentations. Following theirprepared remarks we will turn the call over to the conferencecoordinator for your questions.

During the question-and-answer period, we will take questions fromthe investment community first, followed by the media. In order toprovide everyone with an equal opportunity to participate, we askthat you limit yourself to two questions. If you have additionalquestions, please reenter the queue. Also, we ask that you focus yourquestions on our industry, our corporate strategy, recentdevelopments and key elements of our financial performance. If youhave detailed questions relating to some of our smaller operations oryour detailed financial models, Terry, Lee and I would be pleased todiscuss them with you following the call. Before Russ begins I wouldlike to remind you our remarks will include forward-lookingstatements that are subject to important risks and uncertainties. Formore information on these risks and uncertainties please see thereports filed by TransCanada with Canadian Securities regulators andwith the US Securities and Exchange Commission.

Finally, I would also like to point out that, during thispresentation we'll refer to measures such as comparable earnings;comparable earnings per share; earnings before interest, taxes,depreciation and amortization or EBITDA; comparable EBITDA and fundsgenerated from operations. These and certain other comparablemeasures do not have any standardized meaning under GAAP and aretherefore considered to be non-GAAP measures. As a result they maynot be comparable to similar measures presented by other entities.These measures are used to provide you with additional information onour operating performance, liquidity, and our ability to generatefunds to finance our operations. With that I will now turn the callover to Russ.

RUSS GIRLING, PRES., CEO, TRANSCANADA CORP: Thank you, David. Goodmorning, everyone and thank you very much for joining us thismorning. Building on the solid results we experienced in the firsttwo quarters of 2011, I'm very pleased to tell you that TransCanadahas had another strong quarter. Our Q3 results show comparableearnings for the first 9 months of 2011 at CAD1.71 per share, whichis a 20% increase over the same period last year. As I highlightedlast quarter, the Company continues to benefit from earnings of newassets recently brought on-line and continued solid performance fromTransCanada's diverse energy infrastructure portfolio. Since thespring of 2010, we have brought into service CAD10 billion of longlived energy infrastructure assets which include the first and secondphases of the Keystone Pipeline system, the Bison and Guadalajaranatural gas pipelines, extensions and expansions of the Alberta gaspipeline system, phase 2 of the Kibby wind farm in Maine, the HaltonHills generating station in Ontario, and the Coolidge generatingstation in Arizona.

TransCanada is well positioned to complete another CAD11 billion ofnew projects that will become operational by 2013. That list includesthe Keystone US Gulf Coast expansion, or what we call Keystone XL.Additional expansions of the Alberta system, the Bruce Power units 1and 2 restart program in Ontario, and the final two phases of theCartier Wind Power project in Quebec. The vast majority of thoseprojects are regulated or they are backed by long-term contracts sowe expect them to generate sustainable earnings and cash flow formany years to come as they begin operations over the coming months.As I mentioned earlier this was a very strong quarter for ourCompany. Comparable earnings for the third quarter were CAD417million or CAD0.59 per share, an increase of 9% on a per share basisover the same period last year. Comparable EBITDA was CAD1.3 billion,an increase of 25% over the same period last year. And fundsgenerated from operations were CAD971 million, an increase of 13%over the same period in 2010. Today our Board of Directors declared aquarterly dividend of CAD0.42 per common share for the quarter endingDecember 31, 2011.

Now I would like to share with you some of the details of theprogress we have made on several initiatives we are currently workingon. Given the media attention and considerable misinformationregarding the Keystone Pipeline expansion, I would like to startthere and take a few minutes to provide you with the factual updateon both the regulatory and commercial process that is in place forthis project. Since I spoke with you last quarter, the majordevelopment concerning our Keystone XL project was the release of thefinal environmental impact statement on August 26. It reaffirmed thefindings of two previous environmental impact statements concludingthat Keystone XL would have no significant impact on the environment.The review of Keystone XL was by far the most exhaustive and detailedanalysis ever conducted of a crude oil pipeline in the United States.Since 2008 more than 100 open houses and public meetings in sixstates have taken place. Thousands of pages of supplementalinformation and responses to questions were submitted to state andfederal agencies, and the Department of State received over 300,000public comments on this project.

The draft, the supplemental draft and the final environmental impactstatement that were issued for Keystone XL totaled over 10,000 pages.We are now in the midst of a 90-day period where the Department ofState will determine if the construction of the Keystone Pipeline isin the national interest of the United States. This part of theprocess ends on November 25. The State Department has said onnumerous occasions it expects to make a final decision on thepresidential permit for the project by the end of the year. As I havehighlighted for many of you on many occasions, the benefits of thisproject -- the benefits of this project are central to the nationalinterest determination currently underway. Keystone XL will play animportant role in enhancing the energy security of the United Statesby replacing heavy crude oil from Venezuela, Mexico, and the MiddleEast with a secure and stable supply of both US and Canadian crudeoil. The facts are that the contracts that US refiners have withVenezuelans and Mexicans for crude oil are set to expire. There willbe a gap in supply that has to be filled with crude from someplace.Keystone XL can fill that gap with Canadian and US oil.

It's important to remember that the US consumes some 15 millionbarrels a day of oil and imports 10 million to 11 million barrels aday of oil. And, by all forecasts, this requirement for imported oilwill continue for many decades to come. Denial of the KeystonePipeline will not change the demand for oil in the United States. Andone point that's sometimes overlooked is the fact that Americans wanttheir own oil developed, produced, and consumed as well. Keystone XLwill help meet that objective. We have set aside 25% of the KeystoneXL capacity to bring US oil to US refiners. We have been successfulin signing long-term contracts to bring oil from the Bakken field inMontana and the Dakotas and crude from Cushing, Oklahoma onto oursystem for delivery to US refineries. Another important criterion inthe national interest determination is jobs. Keystone will createjobs and it will create thousands of them. We're looking to build thelargest infrastructure project on the books right now in America, andwe can't do that with a few hundred people as some would suggest.

9,000 Americans benefited from the wages they earned building thefirst two phases of Keystone. We know how many skilled people thateffort took because we signed the checks. 13,000 more will constructthe Keystone XL project over the next two years. Pipe fitters,electricians, welders, heavy equipment operators, engineers and manyother trades. To manufacture the equipment for such a largemulti-billion-dollar project we expect to create another 7,000 directmanufacturing jobs from pipe manufactured in Arkansas, pipe motorsmade in Ohio and transformers built in Pennsylvania, workers inalmost every state of the United States benefit from the project andthe ongoing development of the Canadian oil sands. Those who are notscientists

If those options aren't available, refiners will look for otheroptions. So on both sides the US is going to continue to refine 15million barrels a day and 10 million barrels a day of that is goingto be imported. If it's not imported from Canada we'll see increasedtanker traffic into the Gulf Coast. That's the only possible thingthat could happen.

Similarly in Canada, if we can't market the oil into the UnitedStates, that oil will get developed. We'll see increased tankertraffic off the west coast of Canada moving to alternative markets.That alone, I think, is reason for common sense here.

Having increased tanker traffic moving off the west coast of Canadaand increased tanker traffic moving into the Gulf Coast of the UnitedStates, obviously increases the chance of environmental risk. At thesame time, given that those tankers are fueled by Bunker Sea fueloil, we'd see an increase in greenhouse gas emissions. So we'd see anet negative impact to the environment as a result of that kind ofdecision.

We'd see a reduction in energy security in the United States, andwe'd deny thousands of jobs and economic stimulus. That just doesn'tseem to make any common sense. So our shippers recognize that is avery, very strong value proposition for both Canada and the UnitedStates and are willing to hang with us because it's the right thingto do. How long they hang with us I think is dependent upon how longthey think that it will take to get to that right answer.

OPERATOR: L. C. Ross, Daily Oil Bulletin

L.C. ROSS, MEDIA, DAILY OIL BULLETIN: This refers to the Marcellusfacilities. How soon do you actually anticipate re-filing that? Couldyou be a bit more specific?

GREG LOHNES: We'll be filing before the end of the year.

L.C. ROSS: Would that delay have any effect on project coming in fromthe south, bringing down Marcellus out of the state?

GREG LOHNES: We think we can keep the project on schedule with thattime frame.

OPERATOR: Rebecca Penty, Calgary Herald.

REBECCA PENTY, MEDIA, THE CALGARY HERALD: I have a question about theAlaska pipeline and conversations with Governor Parnell. I apologizeif you addressed this earlier, but just looking for a little but moredetail on whether the market has changed in the United States. Wekeep hearing about this glut in gas supply due to shale. Has themarket changed since the project was proposed that it would makeTransCanada favor LNG off the west coast instead of shipping gas fromthe lower 48 states?

ALEX POURBAIX: There's no question that the market has changed overthe last 24 months. Shale gas has determined to be in very abundantsupply and economically accessed. That said, our view continues to bethat the lower 48 will continue to need gas moving forward. It'sabout an 80 billion cubic feet a day market. Supply declines at 20% ayear, so we have to replace around 15 billion cubic feet a day everyyear on a go-forward basis in the lower 48.

Shale gas will make up a large portion of that 15 billion cubic feeta day of additional gas that we need every year. But if you thinkabout that over a five-year time frame we have to replace 100% of thesupply in the lower 48 every 5 years. Over a 10-year time frame,which is more the kind of time frame we've been talking about fornorthern gas, you have to replace all the supply in the lower 48twice. So I think there's still a strong case to be made for thelower 48.

At the same time, we're seeing an increase in demand forinternational LNG, and those producers in Alaska obviously have aninterest in international trade in LNG. The largest producers beingConoco Phillips, BP, and Exxon Mobil. They have to make a decision asto which market they think is better for that gas over the long haul.The gas is currently being produced, and it's being re-injected.Eventually that gas will be turned to a market.

Under the AGIA legislation, under our proposal, we said we would movethe gas to whatever market those producers ultimately decide theywant to move it to. And certainly there's discussion amongst thoseproducers as to which market that they want to go to. We've beenworking with ExxonMobil over the last year or so in moving to alower-48 solution. We

