CHAPTER SEVEN

THE URGE TO MERGE

TransCanada Corporation

IN 1994, I WAS AT MY OWN AWARD ceremony when I shot my mouth off, as usual, about the downside of mergers. In Edmonton to receive the Canadian Business Leader Award from my alma mater, the University of Alberta, I was speaking to seven hundred people, including my executive colleagues and Premier Ralph Klein. Unable to resist pontificating on a pet topic, I pointed out that in my experience, most mergers fail because of issues such as corporate egos, the desire to grow for the sake of "bigness" alone, and the taking on of too much debt. Only three years later, I was wondering whether I'd have to eat my words with a side dish of humble pie, when the merging of NOVA with a major Canadian company suddenly loomed as a practical—and desirable—possibility. Would it be the one in five such alliances that beat the odds?

In the intervening years, NOVA had expanded on the chemicals side as we acquired a quarter stake in the multinational Methanex Corp., the world's largest methane producer; more than a third of Natural Gas Clearinghouse, a gas marketer and vendor based in Texas; and even a polyethylene plant in Sarnia owned by Ted's old employer, DuPont Canada. Yet though the 1996 earnings were the third-highest in corporate history, a year later our shares were treading water as investors couldn't come to grips with a company operating both a pipeline and the more volatile business of petrochemicals. Reluctant as Ted was to split NOVA into two distinct ventures, we were all concluding this was the only answer to making forward progress.

American corporations were expressing interest in taking over NOVA. "A large pipeline company and a large chemical company had studied NOVA nine ways to Sunday," Ted remembers. "They knew everything there was to know about us. So my CFO and I had a meeting with the number-two guy from the pipeline company and the number-one guy from the chemical company. We met at the airport in Tucson, where Margaret and I have a little home. They gave us this big pitch on how wonderfully the chemical and pipeline shareholders would do and that, of course, they would keep me on as the CEO and I'd become very wealthy—and all this bullshit. And finally after we went through this for two or three hours, I said, 'Well, the truth of the matter is I didn't come out here to sell NOVA to the Americans. So long as I am the CEO, that is not an acceptable outcome.'

"One of the things that triggered our announcing the split was the fact that these two guys were sitting like vultures on the doorstep. Because the government of Alberta had a vote that wouldn't let anybody take over NOVA without its approval, the Americans knew they couldn't do a hostile on us. It had to be a friendly takeover, and they couldn't figure out quite how to do it. But we knew that sooner or later this was going to happen if we didn't get the split done."

It was at that point my former colleague and long-time friend Gerry Maier showed up on our radar. Gerry had been CEO and was now non-executive chair of TransCanada Pipelines. A proud Canadian, he was the right man at the right time in the history of a company that was born in political turbulence.

Four and a half decades earlier, a cross-Canada pipeline had been the brainchild of a Texan named Clinton Murchison, who owned the major American gas producer Delhi Oil. Finding good supplies of gas in Alberta, he conceived a transmission system to bring it to North American markets in the east. But the federal Liberal government of Louis St. Laurent—and especially his formidable trade and commerce minister, C.D. Howe—insisted on having substantial Canadian content in the project. With Ottawa providing sizable loans, Murchison became equal partners with a consortium of domestic investors called Western Pipe Lines. Passing the legislation to approve the enterprise led to the Great Pipeline Debate of 1956. Howe, using closure tactics to stifle debate and compromising the neutrality of the Speaker of the House, fast-tracked a bill to authorize the construction and bulldozed it through Parliament. The fallout from the government's arrogant attitude led to the defeat of both the Liberals and Howe and the victory of John Diefenbaker's Conservatives in the next election.

TransCanada's first president and the engineer who supervised the building of the pipeline were Americans, but most of the buyers of its first mortgage bonds and original shares were Canadians (thirty-five thousand of them became stockholders, compared to six thousand from the U.S.). By 1962, 90 percent of the company was in domestic hands. One of the major investors was Home Oil's Bobby Brown, Jr., who became a disruptive director until his death in '72, when the CPR acquired his shares as the single biggest shareholder. Only six years later, the railway sold its 49 percent to my nemesis-to-be, Jack Gallagher. But Dome Petroleum was soon hemorrhaging so badly that he had to sell out to an unlikely eastern saviour, Jean de Grandpre's Bell Canada Enterprises Inc. The telecommunications colossus was seeking, among other things, access to the pipeline's right-of-way across central Canada to lay fibre optic cable for long-distance telephone lines. By 1993, Bell had sold off all of its stock, and TransCanada was its own master five years later when Gerry and his chief executive, George Watson, came calling on us at NOVA.

While the pipeline division of NOVA—originally a creation of Ernest Manning's Alberta government—held a near-monopoly on gas collection and distribution in the province, it had to link with the TransCanada line to get its natural gas to eastern Canada and the U.S. As veteran oil commentator Frank Dabbs described the two companies,

> TransCanada and NOVA are corporate Siamese twins joined at the hip in Alberta's postwar energy boom.… While not direct competitors, and in fact both enduring the undying hostility of gas producers and consumers, the companies have been locked in four decades of often-bitter sibling rivalry, trying to outgrow and outdo one another.

Former Premier Peter Lougheed had labelled TransCanada as one of Alberta's two public enemies (along with the CPR) because it seemed to be a lot friendlier to consumers than it was to producers.

TransCanada was no longer merely a Canadian utility but a great North American network with stock prices soaring to the highest peak in a decade. As I'd done with Interprovincial Pipe Line, Gerry had moved the head office from Toronto to Calgary, an action that helped to begin healing the wounds between TransCanada and the Alberta gas producers. For about a year now, he and George Watson had been contemplating the common sense of melding their company with NOVA. As Gerry recalls, "It seemed unnecessary to have an entity in Alberta gathering gas and another company [transmitting it to the east]. And I saw the dealings between TransCanada and NOVA were often lengthy and complex-producers and shippers had to deal with two entities. There seemed to be some potential synergies and cost-savings here that were very important in the short to medium term. But in the longer term, I perceived that a much stronger entity in North America was going to be required because of the potential competition from other companies in the United States. To me, it just made great business sense."

A complicating factor in all this was the threat of a pipeline planning to compete with TransCanada's monopoly situation. Alliance Pipeline Ltd. was proposing to the National Energy Board a $3.7-billion gas line between western Canada and the U.S. Alliance was a consortium of industry goliaths, including Gulf Canada, North Carolina's Duke Energy Corp., Alberta Energy Company, and Crestar Energy. Interestingly enough, I was now on the board of AEC and Crestar as well as NOVA's and had to excuse myself from any discussion involving those two producing companies and TransCanada.

AEC was another creature of the Alberta government, designed to participate in oil and gas projects. It later invested in forest products, petrochemicals, coal, and steel. In 1975, the government had sold half its interest as a public share offering and, in ‘93, tendered its remaining shares. Within two years, AEC was focusing entirely on petroleum investments. Its president was a young man destined for loftier perches, Gwyn Morgan. I’d met him when I was running Interprovincial and he was on the board of the Independent Petroleum Association—the producers who were beating the hell out of us to get more price breaks. Gwyn was prominent among those attacking me, and I wondered, *Who is that smart-alec but smart young bastard?* And all these years later, Gwyn had made sure that AEC was one of the original investors in, and champions of, Alliance. I now felt like a mentor to him, and we had many discussions about the idea of including NOVA in the proposed pipeline. Playing the diplomat, I even had him and Ted meet in my office for what turned out to be a frustrating attempt to make a deal.

Gwyn had also met with George Watson, TransCanada’s president and CEO, the former chief financial officer whose career had blended the investment banking and energy resources industries. At one point, George seemed inclined to partner with Alliance until lawyers warned that such an arrangement might contravene agreements with his company’s American distributors.

That left Gerry even keener on completing a possible TransCanada-NOVA union. He’d already talked with me about the concept and then later with Ted. (The two of them had become friends when Gerry was on the DuPont board, and Ted even consulted him before taking the NOVA job.) At the time, though, we were still trying to figure out what to do with NOVA’S two divisions. Because TransCanada had no wish to ever get into the petrochemicals industry, the idea of a merger just perched on an unlit back burner for a year. Then in November 1997, Ted announced that NOVA Corp. would, after all, be sundered into two public companies operating in separate spheres: petrochemicals and natural-gas pipelines and marketing.

The next day, George Watson got Ted on the phone: "I just think you've solved both our problems."

Ted warmed to the suggestion of a deal: "It made so much sense. Putting two pipeline companies together was going to create a much stronger pipeline company, which would get higher valuations from investors. And it would particularly create a helluva lot of value on the chemical company side."

I was holidaying in Hawaii then, and came back to chair a meeting that would consider the approach from TransCanada. NOVA's stock had sunk to the level of two years earlier—about $11 per share—as we diversified into the midstream business of processing gas as well as trading it on the open market. Of course, TransCanada was into the iffy trading game too, following in the footsteps of an American company called Enron Corp. that was making a splash in this business—and that would one day create even bigger, bumpier waves.

George and Ted, meeting under assumed names at a local hotel, first discussed the general mechanics of the deal. Then both parties put three representatives apiece on a committee to oversee the nitty-gritty negotiations being worked out by the companies' financial and legal people. NOVA's trio was me, the Bank of Nova Scotia's ex-chair Ced Ritchie, and Harley Hotchkiss, who had been on our board since 1979.

On the TransCanada side, the committee members were Gerry, ex-Royal Bank chair Allan Taylor, and Harry Schaefer. Harry, an engineer's son and graduate in commerce from the University of Alberta a year behind me, was a chartered accountant who'd articled in Calgary at the same time as I did. He'd served as a long-running CFO of TransAlta, and at this point, had been a TransCanada director for a decade. While managing people wasn't his strong suit, he was a whiz with balance sheets, regulatory hearings, and corporate governance. Smart as hell, hard-working, and dedicated, he became one of the deans of Canadian audit committees.

Despite my general bias against mergers, this appeared to be the one in five that could work. It would be billed as a marriage of equals even while Gerry and his colleagues believed TransCanada held the higher cards in the game. The plan was to create "a pooling of interests," which, under securities regulations, means a merger of companies of similar size and with no control ling shareholder. The new board of directors would have equal representation from the two previous boards. Rather than any cash being exchanged, shareholders were to receive equity in the combined company—in this case, 520 common TransCanada shares for one thousand of NOVA's. Meanwhile, the deal would also create an independent company, NOVA Chemicals, which would take an appropriate amount of debt with it. A NOVA stockholder would get 520 shares in NOVA Chemicals for every one thousand of NOVA's.

The talks went on through the Christmas season, and on January 24, 1998, the boards of both companies approved the general terms of agreement. What we came to realize was that this merger would create the fourth-largest energy-services company on the continent, operating in six provinces and seventeen states with 6,300 employees and boasting annual revenues of $16 billion and assets of $21 billion. The $14-billion deal itself broke the record as the biggest in the history of the Canadian energy sector to that point. Analysts welcomed it, as did virtually all the share holders. The only critics were Gwyn Morgan and his colleagues who were promoting the three-thousand-kilometre Alliance pipeline from Alberta to Illinois—which was soon approved by the National Energy Board and began operating at the end of 2000.

Ted became non-executive chairman of the new NOVA Chemicals (leasing an office next door to mine, downtown). Gerry Maier stayed on both boards until his mandated retirement. The head office and the senior executive team—headed by president Jeffrey Lipton, an American—moved to Pittsburgh in 1999, supposedly to be closer to its markets. Ced Ritchie, among others, is still upset by the transplanting of an Alberta-built enterprise down south. But the company went on to become North America's largest producer of polystyrene and to run the world's largest ethylene complex, in Red Deer, Alberta.

I replaced Gerry as the non-exec chair of what came to be called TransCanada Corporation. Our directors ranged in background from Wendy Dobson, a professor at the Rotman School of Management and director of the Institute for International Business at the University of Toronto, to Paule Gauthier, a senior partner in a prestigious Quebec law firm and a long-time chair of the Security Intelligence Review Committee, the agency that oversees the Canadian Security Intelligence Service. Joining them in the next year or so would be two of my compatriots, David O'Brien, former head of Canadian Pacific Ltd., and Barry Jackson, a past president and CEO of Calgary's Crestar Energy.

I asked the board to give me a year without pressure to sort out what we should do with the company. As it happened, I needed that time. In April 1999, I really hadn't been taking particularly good care of myself. I weighed about two hundred pounds, about fifteen too many. For weeks I'd been constantly out of breath, and an aching feeling gnawed at my chest. One day while in California just before Easter, I was having a bad bout of pain and called Shauna to make an appointment with my internist in Calgary, Dr. Derrick Thomson. Cardiologists Dr. Eldon Smith and Dr. Henrik ter Keurs soon had me on the table for an angiogram to check for blockages in my arteries. I had six of them, and one was in the main artery—the widow-maker. Two days later, I was in hospital having a quintuple bypass as a very fine medical team headed by the surgeon Dr. Andrew Maitland used parts of my healthy blood vessels to detour around the plugged sections of the coronary arteries.

Interestingly enough, I wasn't scared at the time. A Canadian professor named Roby Kidd, an international expert in adult education, once wrote, "It isn't so much that dying is tragic, for death comes to us all, but dying without meaning." Like this lifelong-learning guy, I guess I'm a fatalist about death: It comes when it comes, and if you've done as much as you've wanted in life and enjoyed the doing—which I have—you can accept the end graciously. Not that I wanted to take leave then, nor do I now. But if I had to choose any way to go, it would be exactly how my mother went: a heart attack that took her instantly. In my case, I didn't even have an attack—just a warning that led to the life-saving bypass surgery.

While I was away, some board members were already questioning George Watson's capabilities, even though he was an accomplished dealmaker. Our share price had dropped to $20 per share from $31 at the time of the merger, and when George was asked at a board meeting when the price would recover, he replied, "I don't know—five or ten years."

A new director we'd recruited, Doug Baldwin, witnessed this exchange and wondered if he'd made the right move in joining the board. Doug had been the highly ethical president of Esso Resources and a senior VP of Imperial Oil. A high school principal's son and chemical engineer from Saskatchewan, he'd worked for the largest oil company in Canada and its parent, Exxon, for forty-one years. Within a year of the merger, George Watson was gone, and the next day, Doug was our interim CEO, aged sixty-three.

Earlier, Doug had suggested we could act something like a tag team in the post: "Look, if you become the interim CEO, I'll be there for you. I'll back you."

I checked with my old buddy Ken McNeill, who said, "Haskayne, you can't do the job jointly with somebody else. Somebody has got to be boss." And then I called Bob Peterson, who'd been his colleague at Imperial, and asked him for a confidential, frank opinion of Doug as a potential leader of TransCanada.

"There is absolutely no technical or other reason he could not do the job," Bob said. "The only problem is I'm not sure he is tough enough—he's too accommodating to people."

Well, I preferred Doug's softer side to the typical Exxon approach, so I convinced him to take the temporary position. Before accepting, he told the directors, "I'll take the job on the basis that I'm not working for the board. I'm not your guy. I *will* talk to Dick and ask for advice because I don't have the background he does." In fact, we did get together every week, and I attended some management meetings for a while until Doug said this wasn't helpful to him anymore because my presence suggested I was running the joint.

At the board level, I was among those overseeing the reorganization of the company while it slashed costs and divested unprofitable assets. When the board cut the dividend to share holders, there were dire warnings from stock analysts, but we had a massive mess to clean up. Like NOVA, TransCanada had leapt into the energy-trading area as well as the midstream business—he processing, storage, and transportation sector of the industry—and was losing potfuls of cash. Harry Schaefer, chairing the audit committee, and I started tearing the balance sheet apart and discovered the midstream assets were being financed with 87 percent debt, which would have infuriated the gas producers if we'd had to reveal that at a National Energy Board hearing (which we eventually did—after making things right again).

We also realized that the company's involvement in energy trading and marketing was a disaster waiting to happen. Traders were peddling futures of natural gas, taking short positions that made them vulnerable, and there were rumours of the false reporting of trading data in an attempt to manipulate the gas market. TransCanada, as the largest mover of gas on the continent, felt it was important to be in that market, buying the resource from suppliers and reselling it—in transactions that were totalling $10 billion a year. But in the day that Harry and I spent among the few hundred folks on our trading floor, we couldn't figure the business out—all we old number-crunching CAs found was gobbledygook about the tight controls our traders were supposed to heed.

Fortunately, Doug, Russ Girling (the new CFO), and a young up-and-comer in the company, Hal Kvisle, shared our unease. I'd never met Hal while he ran the production-engineering department at Dome Petroleum as it took over Hudson's Bay Oil and Gas and I made my exit. He was well-known to George Watson, who wanted to hire him at TransCanada, but I insisted on interviewing this Harold K. Kvisle one whole afternoon at a head hunter's office.

He was forty-seven, wise beyond his years, and a pretty ingratiating guy. As Amoco was buying the remnants of Dome, he'd been the point man to negotiate the price. Turning down a good job with Amoco in Chicago, he went out on his own, finding partners to put together million-dollar deals to build gas plants for a couple of years. My friend Ron Southern was on the board of the Fletcher Challenge resource group in New Zealand, which was looking for oil and gas investments. Ron told his fellow directors they should consider western Canada. Hal, meanwhile, had fashioned a $120-million deal to acquire Amoco's assets in eastern Alberta—and as the twain met, he was persuaded to come on as president of the new Fletcher Challenge Energy Canada. He left a decade later when the company was sold for more than $1 billion. One thing that impressed me was that he'd convinced the Fletcher parent company not to get involved in several dubious deals.

Doug describes Hal well: "Quiet, witty, can be very intense, extremely intelligent, good strategic thinker, a tough dealmaker. He knows when to cut bait and knows when it's time to leave the water, too." That kind of informed naysaying was what we now needed at TransCanada. Interestingly enough, it was only after George Watson's sudden leave-taking that Hal had actually joined us. Admiring Doug, he'd decided to follow through and accept a senior position, which soon evolved into executive VP of trading and business development, focusing on North American power and pipeline ventures.

His eventual goal was to rebuild a reorganized company that had been downsizing rather than developing—in Doug's words, it had "too many moving parts." As Hal says, "The big decision was that all of our international business and all of our midstream business had to be sold, and there was quite a bit of pressure on to sell all of our power assets. The midstream assets were the large Alberta liquid-extraction plants and as many as twenty gathering and processing plants scattered all over western Canada that were performing poorly." The blue-chip extraction plants went for a great price to the Williams Companies Inc., the Oklahoma-based pipeline and exploration conglomerate. TransCanada also sold its gas pipelines and marketing businesses in Mexico to Gaz de France. In the first year alone, it sold non-core assets for more than $3.4 billion and then repaid $1.75 billion in term debt to strengthen the balance sheet. Many employees shifted to the new owners' payrolls, and over the next four years with the help of efficiency programs, our staff count dropped to an astonishing 2,600 from 6,300.

Hal didn't want to sell the power-generation assets, which were then worth only about $500 million but had real potential for growth. "Our power guys were saying they'd sure like to participate in the power purchase-agreement auction where the government was about to sell off these long-life, twenty-year interests in the output of different coal plants in Alberta. But they knew we didn't have the money, so I did everything I could to convince Russ Girling and Doug Baldwin that this would be a good idea. We got board approval to do one of those coal deals—and that really was the foundation of our whole power business here in Alberta, which has turned out well. In parallel with this, we did a number of co-generation projects [using natural gas to produce electricity] as that provincial market was unfolding." Power generation has climbed from about 5 percent to a quarter of TransCanada's business.

Observing all the sell-offs and not realizing the potential in the power field, wary investors had pushed our stock down to below $10 per share by early 2000. "I was worried whether the company was going to make it," Hal recalls, "because we had all kinds of hostile parties making noise about taking us over—there were rumours all the time."

That January, the toughest job awaited him: Trying to take control of the trading department. "I became very uncomfortable with the way they'd portrayed their business at the end of 1999," Hal says. "It's compensation and bonus time, and the guys that are running the marketing and trading group would have me believe that they'd just had an absolutely stellar year. I wouldn't say they were cooking the books, but they were only presenting half the story. So I terminated them and turned the business over to the only guy in the senior group there that I really trusted, who wasn't part of that culture. I said, 'Do you trust the people reporting to you?' and he said, 'Yeah, know them real well.' And I said, 'You know, we've really got to make sure that we understand what's going on here and that there aren't manipulative things being done by the marketers and traders to make their results appear better or to make the risk appear less than it was.'"

About a year later, we hired the executive search firm Spencer Stuart to begin an international hunt for a successor for the retiring Doug Baldwin as president and CEO. What's fascinating today is that while Hal was pinpointed as one candidate, two of his rivals for the job were executives from Enron, the electricity, natural-gas, and communications company that would soon become a global symbol for corporate greed. The search commit tee finally decided that Hal was clearly the best choice. As chairman, I had the happy task of telling him the swell news. When I said we had to discuss the terms of his employment, he replied, "Dick, I want to do the job. I'm not looking at it as an opportunity to negotiate or to hardball on a lot of little details. I'm sure whatever you figure out will be fair." And it was. He's since said he appreciates that during my tenure, the TransCanada board never suffered from the "sort of backroom diplomatic manouevering that characterizes a lot of boards."

But as the new CEO, he was about to walk on hot coals as the trading department's troubles flared up again. I'll let Hal tell the story: "In November of 2000, our corporate controller, a great guy, Lee Hobbs, came to me and Russ Girling, the CFO, and said something was quite wrong in marketing and trading. The risk management systems were saying we've got no exposures and we're not losing any money, but according to some brilliant accounting work, Lee had detected that there was something gone awry. The guy running marketing and trading said, 'No, nothing like that's going on, there's no problem.' I told him to dig into it because I smelled something really wrong. He came back two days later, ashen-faced, and said, 'You know, we've suffered a loss in the $70-million range.' And this is in the last month of the year. This is just like net income time, and you really don't want to get this kind of surprise. It was a situation bordering on fraud—we could have made the case that we had a certain group of traders that had put a fraudulent arrangement together.

"And our lawyers and I concluded there was a group of counterparties to these deals—big industrial gas users—and it was their risk: If there was a loss, they would absorb it; if there was a gain, we'd share the gain. But it was clear to me that we had been doing things we shouldn't and these people weren't going to take that loss; they were going to sue us.

"First of all, we just stopped all trading in about half of our business. The other half you couldn't stop because we had big open positions and if you walked away on them, you could be sued for billions of dollars—the magnitude of the disaster we were facing was unbelievable. So I took it to my first board meeting as CEO in April of 2001 and said, 'We've got to get out of marketing and trading. If we can't find a buyer, we've got to take eight months to do an orderly shutdown, and during that time, I'm going to have to pay an ungodly amount of money to certain key people—some of them quite bad actors who had made this mess—to keep them around here because if they walk out the door, we don't know how to manage this thing.' I asked Russ to take on the job of selling gas marketing and trading. We put together a deal to sell the business to Mirant—a U.S.-based marketing and trading company that wanted to become the big trader in Canada. They would pay us a fair bit of money to buy the business and would take on all the liabilities and all the people, and it would be their business going forward."

The deal, however, was being negotiated against a backdrop of emerging scandal in the U.S. as Enron Corp., the vaunted energy resources trader—once the model for other North American companies in this business—began ripping at the seams. In October 2001, Enron reported a $638-million third-quarter loss and a $1.2-billion reduction in shareholder equity, partly because of falling stock that was designed to hedge inflated asset values and keep hundreds of millions of dollars in debt off the books. The Securities and Exchange Commission launched an inquiry into the company's finances, which eventually revealed massive corporate fraud at the highest levels.

"It was the end of October," Hal continues, "and to sell a marketing and trading business, you've got to cut off the books at the end of the month because that's the only clean break. And if we can't get it done by the end of October, we'll have to run it for another month. That's what happened." Meanwhile, Enron told the SEC it was revising financial statements for the previous five years to account for more than half a billion dollars in losses. On Friday, November 28, Enron's stock tanked to below $1 per share. "So it was the last trading day of November, a Friday. We all agreed we'd just work hammer and tongs, twenty-fours a day, over the weekend," Hal remembers. "And Russ let me know at six o'clock on Sunday night the deal was done, our money was in the bank. I went home and had a nice glass of wine and a big dinner and went to bed. And I got up at six o'clock on Monday morning because I wanted to read the press releases about our deal on the news wire. I turned on my computer at home, and there was nothing about TransCanada—because the news was full of the fact that Enron had gone bankrupt on Sunday. We sold that business twelve hours before Enron went bankrupt"—and before its collapse caused a meltdown in many other companies mired in the energy-trading market. Without any inside knowledge, TransCanada's people had been lucky enough to get out in time and emerge unscathed.

(Just how vulnerable the company could have been was underlined again recently when a former Calgary natural-gas trader, now working for Amaranth Advisors LLC, a hedge fund in Greenwich, Connecticut, was deemed largely responsible for $5 billion in losses incurred in that firm's gas trading—which led Amaranth to shut down in the fall of 2006. The trader himself, meanwhile, earned an estimated $75-$100 million [U.S.] the year before.)

Hal Kvisle is one of the best chief executives I've ever known, running one of the best and biggest gas-transmission companies in North America, as he was to prove over the next four years. It's now one of the largest private-sector power businesses in Canada, with a net income about equal to TransAlta's. A decade from now, TransCanada plans to have half its business in power generation—and anywhere from a third to half of that could be nuclear power. The company is one of four all-Canadian partners in the private-sector Bruce nuclear power facility northwest of Toronto, the largest such plant on the continent. The future is also in conventional power and pipeline projects: the proposed 3,000-kilometre Keystone heavy-oil line, from Alberta to Illinois, and the enormous potential of the Mackenzie Delta and Alaska North Slope pipelines from the far north.

When after seven years I handed off my chairmanship to Barry Jackson in 2005, TransCanada's share price was hovering around the $30 range—more than $20 higher than it had been five years earlier. Just as important in my eyes was the reputation we had for good corporate governance and ethical behaviour. The company's operating principles are often summed up by the acronym "SPIRIT": Social responsibility, Passion, Integrity, Results, Innovation, and Teamwork. "Integrity" is the cornerstone of these values. Each year, all employees are required to read the "Code of Business Ethics" and complete an online certification to confirm their knowledge and compliance with its contents. If staff—or contractors, consultants, vendors, customers, or other stakeholders—observe or suspect irregularities in the company's operations, they can also make anonymous calls to a toll-free Ethics Helpline.

The morality of doing business involves not only how a corporation treats people but also how it respects the environment. TransCanada has a strategy modelled on ISO 14001, an international standard for environmental management systems. Its systems cover everything from risk assessment and management through training and awareness of employees and contractor to rigorous performance audits and reviews. Acknowledging the reality of climate change, the company also has a strategy to reduce the emission of greenhouse gases and nitrogen oxides (Nox) produced by its pipeline and power facilities. And in 2005, Hydro-Quebec awarded twenty-year contracts to two companies—including Cartier Wind Energy, co-owned by TransCanada and Quebec-based Innergex II—to build wind farms in the Gaspe region during the next decade. They'll supply enough power for two hundred thousand homes. On its own, Cartier will be the largest wind-energy producer in the province.

In a recent KPMG/Ipsos Reid poll, leading CEOs had recognized TransCanada as being one of the twenty-five most respected Canadian corporations; Canadian Business magazine said it had one of the top-ten boards in the nation; and the Certified Management Accountants of Alberta gave us their province-wide Business Award of Distinction for business ethics. In mid-2006, *Corporate Knights* ("the Canadian magazine for responsible business") ranked the company highly among the fifty best corporate citizens, based on its actions and responses to an array of ethical issues.

After some bad bumps along the way, TransCanada Corporation had become a stalwart and esteemed Northern Tiger through a combination of clever strategy and superb execution by the management team.