

TC PIPELINES LP  
Form 10-Q  
November 09, 2018  
[Table of Contents](#)

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-Q

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

For the quarterly period ended September 30, 2018

or

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

For the transition period from            to

Commission File Number: 001-35358

### TC PipeLines, LP

(Exact name of registrant as specified in its charter)

Edgar Filing: TC PIPELINES LP - Form 10-Q

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**52-2135448**  
(I.R.S. Employer  
Identification Number)

**700 Louisiana Street, Suite 700**  
**Houston, Texas**  
(Address of principle executive offices)

**77002-2761**  
(Zip code)

**877-290-2772**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer   
Non-accelerated filer   
Emerging growth company

Accelerated filer   
Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of November 9, 2018, there were 71,306,396 of the registrant's common units outstanding.



Table of Contents

TC PIPELINES, LP

TABLE OF CONTENTS

	<b>Page No.</b>	
<b><u>PART I</u></b>	<b><u>FINANCIAL INFORMATION</u></b>	
<u>Item 1.</u>	<u>Financial Statements (Unaudited)</u>	7
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	43
<u>Item 4.</u>	<u>Controls and Procedures</u>	45
<b><u>PART II</u></b>	<b><u>OTHER INFORMATION</u></b>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	46
<u>Item 1A.</u>	<u>Risk Factors</u>	46
<u>Item 6.</u>	<u>Exhibits</u>	49
	<u>Signatures</u>	50

All amounts are stated in United States dollars unless otherwise indicated.

Table of Contents**DEFINITIONS**

The abbreviations, acronyms, and industry terminology used in this quarterly report are defined as follows:

2013 Term Loan Facility	TC PipeLines, LP's term loan credit facility under a term loan agreement as amended, dated September 29, 2017
2015 GTN Acquisition	Partnership's acquisition of the remaining 30 percent interest in GTN on April 1, 2015
2015 Term Loan Facility	TC PipeLines, LP's term loan credit facility under a term loan agreement as amended, dated September 29, 2017
2017 Acquisition	Partnership's acquisition of an additional 11.81 percent interest in PNGTS and 49.34 percent in Iroquois on June 1, 2017
2017 Great Lakes Settlement	Stipulation and Agreement of Settlement for Great Lakes regarding its rates and terms and conditions of service approved by FERC on February 22, 2018
2017 Northern Border Settlement	Stipulation and Agreement of Settlement for Northern Border regarding its rates and terms and conditions of service approved by FERC on February 23, 2018
2017 Tax Act	H.R.1, originally known as the Tax Cuts and Jobs Act, enacted on December 22, 2017
2018 FERC Actions	FERC's March 15, 2018 issuance of (1) a revised Policy Statement to address the treatment of income taxes for ratemaking purposes for master limited partnerships (MLPs), (2) a Notice of Proposed Rulemaking (NOPR) proposing interstate pipelines file a one-time report to quantify the impact of the federal income tax rate reduction and the revised Policy Statement could have on pipelines' revenue requirements, and (3) a Notice of Inquiry (NOI) seeking comment on how FERC should address changes related to accumulated deferred income taxes and bonus depreciation; and FERC's July 18, 2018 issuance of (1) an Order on Rehearing of the Revised Policy Statement dismissing rehearing related to the revised Policy Statement and (2) a Final Rule adopting procedures from, and clarifying aspects of, the NOPR
2018 GTN Settlement	Stipulation and Agreement of Settlement for GTN regarding its rates and terms and conditions of service filed for approval with FERC on October 16, 2018
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
ATM program	At-the-market equity issuance program
Bison	Bison Pipeline LLC
Class B Distribution	Annual distribution to TransCanada based on 30 percent of GTN's annual distributions as follows: (i) 100 percent of distributions above \$20 million through March 31, 2020; and (ii) 25 percent of distributions above \$20 million thereafter
Class B Reduction	35 percent reduction applied to the estimated annual Class B Distribution beginning in 2018, which is equivalent to the percentage by which distributions payable to the common units were reduced in 2018. The Class B Reduction will continue to apply for any particular calendar year until distributions payable in respect of common units for such calendar year equal or exceed \$3.94 per common unit
Consolidated Subsidiaries	GTN, Bison, North Baja, Tuscarora and PNGTS
C2C Contracts	PNGTS' Continent-to-Coast Contracts with several shippers for a term of 15 years for approximately 82,000 Dth/day
DOT	U.S. Department of Transportation
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization
EPA	U.S. Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
GAAP	U.S. generally accepted accounting principles
General Partner	TC PipeLines GP, Inc.
Great Lakes	Great Lakes Gas Transmission Limited Partnership
GTN	Gas Transmission Northwest LLC
IDRs	Incentive Distribution Rights
ILPs	Intermediate Limited Partnerships



## Edgar Filing: TC PIPELINES LP - Form 10-Q

### Table of Contents

LIBOR	London Interbank Offered Rate
MLPs	Master limited partnerships
NGA	Natural Gas Act of 1938
North Baja	North Baja Pipeline, LLC
Northern Border	Northern Border Pipeline Company
Our pipeline systems	Our ownership interests in GTN, Northern Border, Bison, Great Lakes, North Baja, Tuscarora, PNGTS and Iroquois
Partnership	TC PipeLines, LP including its subsidiaries, as applicable
Partnership Agreement	Third Amended and Restated Agreement of Limited Partnership of the Partnership
PHMSA	U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration
PNGTS	Portland Natural Gas Transmission System
PXP	Portland XPress Project
Term Loan Facilities	The 2013 Term Loan Facility and the 2015 Term Loan Facility, collectively
SEC	Securities and Exchange Commission
Senior Credit Facility	TC PipeLines, LP's senior facility under revolving credit agreement as amended and restated, dated September 29, 2017
TransCanada	TransCanada Corporation and its subsidiaries
Tuscarora	Tuscarora Gas Transmission Company
U.S.	United States of America
VIEs	Variable Interest Entities

Unless the context clearly indicates otherwise, TC PipeLines, LP and its subsidiaries are collectively referred to in this quarterly report as we, us, our and the Partnership. We use our pipeline systems and our pipelines when referring to the Partnership's ownership interests in Gas Transmission Northwest LLC (GTN), Northern Border Pipeline Company (Northern Border), Bison Pipeline LLC (Bison), Great Lakes Gas Transmission Limited Partnership (Great Lakes), North Baja Pipeline, LLC (North Baja), Tuscarora Gas Transmission Company (Tuscarora), Portland Natural Gas Transmission System (PNGTS) and Iroquois Gas Transmission System, LP (Iroquois).

Table of Contents

**PART I**

**FORWARD-LOOKING STATEMENTS AND CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

This report includes certain forward-looking statements. Forward-looking statements are identified by words and phrases such as: anticipate, assume, estimate, expect, project, intend, plan, believe, forecast, should, predict, could, will, may, and other terms and phrases having similar meaning. The absence of these words, however, does not mean that the statements are not forward-looking. These statements are based on management's beliefs and assumptions and on currently available information and include, but are not limited to, statements regarding anticipated financial performance, future capital expenditures, liquidity, dropdown opportunities, market or competitive conditions, regulations, organic or strategic growth opportunities, contract renewals and ability to market open capacity, business prospects, outcome of regulatory proceedings and cash distributions to unitholders.

Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from the results predicted. Factors that could cause actual results and our financial condition to differ materially from those contemplated in forward-looking statements include, but are not limited to:

- the ability of our pipeline systems to sell available capacity on favorable terms and renew expiring contracts which are affected by, among other factors:
  - demand for natural gas;
  - changes in relative cost structures and production levels of natural gas producing basins;
  - natural gas prices and regional differences;
  - weather conditions;
  - availability and location of natural gas supplies in Canada and the United States (U.S.) in relation to our pipeline systems;
  - competition from other pipeline systems;
  - natural gas storage levels; and
  - rates and terms of service;
- the performance by the shippers of their contractual obligations on our pipeline systems;

## Edgar Filing: TC PIPELINES LP - Form 10-Q

- the outcome and frequency of rate proceedings or settlement negotiations on our pipeline systems;
- the impact of the 2017 Tax Act and the 2018 FERC Actions on our future operating performance;
- other potential changes in taxation of master limited partnerships (MLPs) by state or federal governments;
- increases in operational or compliance costs resulting from changes in laws and governmental regulations affecting our pipeline systems, particularly regulations issued by the Federal Energy Regulatory Commission (FERC), the U.S. Environmental Protection Agency (EPA) and U.S. Department of Transportation (DOT);
- the impact of downward changes in oil and natural gas prices, including the effects on the creditworthiness of our shippers;
- our ongoing ability to grow distributions through acquisitions, accretive expansions or other growth opportunities, including the timing, terms and closure of future potential acquisitions;
- potential conflicts of interest between TC PipeLines GP, Inc., our general partner (General Partner), TransCanada Corporation (TransCanada) and us;
- the impact of any impairment charges;
- the ability to maintain secure operation of our information technology including management of cybersecurity threats, acts of terrorism and related distractions;
- the expected impact of future accounting changes, commitments and contingent liabilities (if any);
- operating hazards, casualty losses and other matters beyond our control;
- the level of our indebtedness, including the indebtedness of our pipeline systems, and the availability of capital;
- unfavorable conditions in capital and credit markets, inflation and fluctuations in interest rates; and
- the overall increase in the allocated management and operational expenses on our pipeline systems for functions performed by TransCanada.

These are not the only factors that could cause actual results to differ materially from those expressed or implied in any forward-looking statement. Other factors described elsewhere in this document, or factors that are unknown or unpredictable, could also have material adverse effects on future results. These and other risks are described in greater detail in Part II, Item 1A Risk Factors of this report and in Part I, Item 1A Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the SEC on February 26, 2018. All forward-looking

Table of Contents

statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these factors. All forward-looking statements are made only as of the date made and except as required by applicable law, we undertake no obligation to update any forward-looking statements to reflect new information, subsequent events or other changes.

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****TC PIPELINES, LP****CONSOLIDATED STATEMENTS OF INCOME**

(unaudited) (millions of dollars, except per common unit amounts)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Transmission revenues, net <i>(Notes 4 and 6)</i>	103	100	328	313
Equity earnings <i>(Note 5)</i>	34	27	129	87
Operation and maintenance expenses	(15)	(16)	(48)	(47)
Property taxes	(7)	(7)	(21)	(21)
General and administrative	(2)	(1)	(4)	(6)
Depreciation	(25)	(25)	(73)	(73)
Financial charges and other <i>(Note 15)</i>	(23)	(23)	(69)	(59)
<b>Net income before taxes</b>	<b>65</b>	<b>55</b>	<b>242</b>	<b>194</b>
Income taxes <i>(Note 18)</i>			(1)	(1)
<b>Net income</b>	<b>65</b>	<b>55</b>	<b>241</b>	<b>193</b>
Net income attributable to non-controlling interests	3	1	10	7
<b>Net income attributable to controlling interests</b>	<b>62</b>	<b>54</b>	<b>231</b>	<b>186</b>
<b>Net income attributable to controlling interest allocation <i>(Note 9)</i></b>				
Common units	57	42	222	164
General Partner	1	4	5	12
TransCanada and its subsidiaries	4	8	4	10
	<b>62</b>	<b>54</b>	<b>231</b>	<b>186</b>
<b>Net income per common unit <i>(Note 9)</i> basic and diluted</b>	<b>\$ 0.79</b>	<b>\$ 0.61</b>	<b>\$ 3.11</b>	<b>\$ 2.38</b>
<b>Weighted average common units outstanding basic and diluted <i>(millions)</i></b>	<b>71.3</b>	<b>69.4</b>	<b>71.3</b>	<b>68.9</b>
<b>Common units outstanding, end of period <i>(millions)</i></b>	<b>71.3</b>	<b>69.6</b>	<b>71.3</b>	<b>69.6</b>

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**TC PIPELINES, LP CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(unaudited) (millions of dollars)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net income	65	55	241	193
Other comprehensive income				
Change in fair value of cash flow hedges <i>(Note 13)</i>	2		8	1
Amortization of realized loss on derivative financial instruments <i>(Note 13)</i>			2	1
Reclassification to net income of gains and losses on cash flow hedges <i>(Note 13)</i>	1	1	4	
<b>Comprehensive income</b>	<b>68</b>	<b>56</b>	<b>255</b>	<b>195</b>
Comprehensive income attributable to non-controlling interests	2	1	11	7
<b>Comprehensive income attributable to controlling interests</b>	<b>66</b>	<b>55</b>	<b>244</b>	<b>188</b>

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

## TC PIPELINES, LP

## CONSOLIDATED BALANCE SHEETS

(unaudited) (millions of dollars)	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	48	33
Accounts receivable and other (Note 14)	39	42
Inventories	7	8
Other	8	7
	<b>102</b>	<b>90</b>
Equity investments (Note 5)	1,196	1,213
Property, plant and equipment (Net of \$1,252 accumulated depreciation; 2017 - \$1,181)	2,075	2,123
Goodwill	130	130
Other assets	13	3
	<b>3,516</b>	<b>3,559</b>
<b>LIABILITIES AND PARTNERS EQUITY</b>		
Current Liabilities		
Accounts payable and accrued liabilities	30	31
Provision for revenue sharing (Note 4)	9	
Accounts payable to affiliates (Note 12)	5	5
Distribution payable		1
Accrued interest	20	12
Current portion of long-term debt (Note 7)	36	51
	<b>100</b>	<b>100</b>
Long-term debt, net (Note 7)	2,211	2,352
Deferred state income taxes (Note 18)	10	10
Other liabilities	29	29
	<b>2,350</b>	<b>2,491</b>
Partners Equity		
Common units	921	824
Class B units (Note 8)	99	110
General partner	23	24
Accumulated other comprehensive income (AOCI)	18	5
Controlling interests	1,061	963
Non-controlling interests	105	105
	<b>1,166</b>	<b>1,068</b>
	<b>3,516</b>	<b>3,559</b>

Contingencies (Note 16)

Variable Interest Entities (Note 17)

Subsequent Events (Note 19)

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

**TC PIPELINES, LP**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

(unaudited) (millions of dollars)	2018	Nine months ended September 30,	2017
<b>Cash Generated from Operations</b>			
Net income	241		193
Depreciation	73		