

TC PIPELINES LP
Form 10-Q
August 07, 2015
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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 **June 30, 2015**

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)

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)

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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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒

No ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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 August 3, 2015, there were 63,957,751 of the registrant's common units outstanding.

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

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DEFINITIONS

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

2013 Acquisition	Acquisition of an additional 45 percent membership interest in each of GTN and Bison by the Partnership to increase ownership to 70 percent on July 1, 2013
2014 Bison Acquisition	Partnership's acquisition of the remaining 30 percent interest in Bison on October 1, 2014
2015 GTN Acquisition	Partnership's acquisition of the remaining 30 percent interest in GTN on April 1, 2015
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
ATM program	At-the-market equity issuance program
Bison	Bison Pipeline LLC
Carty Lateral	The proposed GTN lateral pipeline
Consolidated Subsidiaries	GTN, Bison, North Baja and Tuscarora
DOT	U.S. Department of Transportation
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
LIBOR	London Interbank Offered Rate
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 and Tuscarora
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
SEC	Securities and Exchange Commission
Senior Credit Facility	TC PipeLines, LP's senior facility under revolving credit agreement as amended and restated, dated November 20, 2012
Short-Term Loan Facility	TC PipeLines, LP's short-term loan facility under loan agreement dated October 1, 2014
Term Loan Facility	TC PipeLines, LP's term loan credit facility under a term loan agreement dated July 1, 2013
TransCanada	TransCanada Corporation and its subsidiaries
Tuscarora	Tuscarora Gas Transmission Company
U.S.	United States of America

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) and Tuscarora Gas Transmission Company (Tuscarora).

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PART I

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

This report includes certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are identified by words and phrases such as: anticipate, estimate, expect, project, intend, plan, believe, forecast, should, predict, could, will, may, and other terms 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, 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:
 - o demand for natural gas;
 - o changes in relative cost structures and production levels of natural gas producing basins;
 - o natural gas prices and regional differences;
 - o weather conditions;
 - o availability and location of natural gas supplies in Canada and the United States (U.S.) in relation to our pipeline systems;
 - o competition from other pipeline systems;
 - o natural gas storage levels; and
 - o rates and terms of service;
- the performance by the shippers of their contractual obligations on our pipeline systems;
- the outcome and frequency of rate proceedings or settlement negotiations on our pipeline systems;

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- changes in the taxation of master limited partnerships by state or federal governments such as final adoption of proposed regulations narrowing the sources of income qualifying for partnership tax treatment or the elimination of pass-through taxation or tax deferred distributions;
- 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 recent significant declines 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, structure and closure of further potential acquisitions;
- potential conflicts of interest between TC PipeLines GP, Inc., our general partner (General Partner), TransCanada and us;
- the ability to maintain secure operation of our information technology;
- the impact of any impairment charges;
- cybersecurity threats, acts of terrorism and related disruptions;
- operating hazards, casualty losses and other matters beyond our control; and
- the level of our indebtedness, including the indebtedness of our pipeline systems, and the availability of capital.

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 I, Item 1A. Risk Factors in our Form 10-K for the year ended December 31, 2014. All

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forward-looking 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**

<i>(unaudited)</i> <i>(millions of dollars, except per common unit amounts)</i>	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Transmission revenues	85	82	172	169
Equity earnings from unconsolidated affiliates <i>(Note 4)</i>	15	18	46	51
Operation and maintenance expenses	(13)	(12)	(24)	(24)
Property taxes	(5)	(6)	(11)	(12)
General and administrative	(1)	(1)	(4)	(3)
Depreciation	(21)	(22)	(42)	(43)
Financial charges and other	(16)	(14)	(29)	(26)
Net income	44	45	108	112
Net income attributable to non-controlling interests	-	8	7	18
Net income attributable to controlling interests	44	37	101	94
<u>Calculation of net income allocated to common units</u>				
Net income attributable to controlling interests	44	37	101	94
<i>Less:</i>				
Net income allocated to the General Partner, including incentive distributions	2	1	3	2
Net Income allocated to common units <i>(Note 8)</i>	42	36	98	92
Weighted average common units outstanding basic and diluted <i>(millions)</i>	63.8	62.3	63.7	62.3
Net Income per common unit <i>(Note 8)</i> basic and diluted	\$0.66	\$0.58	\$1.53	\$1.48
Common units outstanding, end of period <i>(millions)</i>	64.0	62.3	64.0	62.3

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

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

	Three months ended			Six months ended		
	June 30,			June 30,		
<i>(unaudited)</i>	2015		2014	2015		2014
<i>(millions of dollars)</i>						
Net income	44		45	108		112
Other comprehensive income						
Change in fair value of cash flow hedges <i>(Note 12)</i>	-		(1)	(1)		(1)
Reclassification to net income of gains and losses on cash flow hedges <i>(Note 12)</i>	-		-	-		-
Comprehensive income	44		44	107		111
Comprehensive income attributable to non-controlling interests	-		8	7		18
Comprehensive income attributable to controlling interests	44		36	100		93

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)*

	June 30, 2015	December 31, 2014
ASSETS		
Current Assets		
Cash and cash equivalents	44	26
Accounts receivable and other <i>(Note 13)</i>	33	35
Inventories	7	7
	84	68
Investments in unconsolidated affiliates <i>(Note 4)</i>	1,158	1,177
Plant, property and equipment (Net of \$774 accumulated depreciation; 2014 - \$737)	1,946	1,968
Goodwill	130	130
Other assets	9	6
	3,327	3,349
LIABILITIES AND PARTNERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	30	23
Accounts payable to affiliates <i>(Note 11)</i>	10	15
Accrued interest	8	4
Short-term loan <i>(Note 5)</i>	170	170
Current portion of long-term debt <i>(Note 5)</i>	14	79
	232	291
Long-term debt <i>(Note 5)</i>	1,730	1,446
Other liabilities	27	26
	1,989	1,763
Partners' Equity		
Common units	1,217	1,325
Class B units <i>(Notes 6 and 7)</i>	95	-
General partner	29	29
Accumulated other comprehensive loss	(3)	(2)
Controlling interests	1,338	1,352
Non-controlling interests	-	234
	1,338	1,586
	3,327	3,349

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

Table of Contents**TC PIPELINES, LP****CONSOLIDATED STATEMENT OF CASH FLOWS**

<i>(unaudited)</i> <i>(millions of dollars)</i>	Six months ended June 30,	
	2015	2014
Cash Generated From Operations		
Net income	108	112
Depreciation	42	43
Amortization of debt issue costs	1	1
Change in other liabilities	-	1
Equity allowance for funds used during construction	(1)	-
Change in operating working capital <i>(Note 10)</i>	1	28
	151	185
Investing Activities		
Cumulative distributions in excess of equity earnings:		
Northern Border	13	8
Great Lakes	10	7
Investment in Great Lakes	(4)	(4)
Adjustment to 2013 Acquisition <i>(Note 11)</i>	-	(25)
Acquisition of the remaining 30 percent interest in GTN <i>(Note 6)</i>	(264)	-
Capital expenditures	(12)	(5)
Other	(1)	1
	(258)	(18)
Financing Activities		
Distributions paid <i>(Note 9)</i>	(110)	