

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, 2001

Commission File Number: 000-26091

TC PIPELINES, LP

(Exact name of registrant as specified in its charter)

Delaware

52-2135448

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification Number)

110 Turnpike Road, Suite 203
Westborough, Massachusetts

01581

(Address of principal executive offices)

(Zip code)

508-871-7046

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 report(s), and (2) has been subject to such
filing requirements for the past 90 days. Yes [X] No []

As of August 3, 2001 there were 14,690,694 of the registrant's common units
outstanding.

TC PIPELINES, LP

TABLE OF CONTENTS

PAGE NO. --
----- PART
I.
FINANCIAL
INFORMATION
ITEM 1.
Financial
Statements
Statement
of Income -
Three and
six months
ended June
30, 2001
and 2000 3
Balance
Sheet -
June 30,
2001 and
December
31, 2000 3
Statement
of Cash
Flows - Six
months
ended June
30, 2001
and 2000 4
Notes to
Condensed
Financial
Statements
5
ITEM 2.
Management's
Discussion
and
Analysis of
Financial
Condition
and Results
of
Operations
Results of
Operations
of TC
PipeLines,
LP 8
Liquidity
and Capital
Resources
of TC
PipeLines,
LP 9
Results of
Operations
of Northern
Border
Pipeline
Company 11
Liquidity
and Capital
Resources
of Northern
Border
Pipeline
Company 14
Results of
Operations
of
Tuscarora
Gas
Transmission
Company 15
Liquidity

and Capital
Resources
of
Tuscarora
Gas
Transmission
Company 16
ITEM 3.
Quantitative
and
Qualitative
Disclosures
about
Market Risk
17 PART II.
OTHER
INFORMATION
ITEM 1.
Legal
Proceedings
18 ITEM 6.
Exhibits
and Reports
on Form 8-K
19 EXHIBIT
INDEX 20

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TC PIPELINES, LP

STATEMENT OF INCOME

THREE MONTHS ENDED	SIX MONTHS ENDED	JUNE 30	JUNE 30	(unaudited)
(thousands of dollars, except per unit amounts)				
2001	2000	2001	2000	
EQUITY INCOME FROM				
INVESTMENT IN NORTHERN BORDER PIPELINE COMPANY	9,489	8,824	20,256	17,447
INCOME FROM INVESTMENT IN TUSCARORA GAS TRANSMISSION COMPANY	868	-	1,779	-
GENERAL AND ADMINISTRATIVE EXPENSES	(299)	(291)	(656)	(570)
FINANCIAL CHARGES	(265)	(623)	-	-
NET INCOME	9,793	8,533	20,756	16,877
NET INCOME ALLOCATION				
Common units	7,935	7,020	16,882	13,884
Subordinated units	1,517	1,342	3,228	2,655
General partner	341	171	646	338
NET INCOME PER UNIT	\$0.48	\$1.15	\$0.95	\$0.54
UNITS OUTSTANDING (THOUSANDS)				
17,500	17,500	17,500	17,500	17,500

BALANCE SHEET

JUNE 30,
December 31,
2001 2000
(thousands
of dollars)
(UNAUDITED)

- ASSETS
Current
Assets Cash
4,657 1,566
Investment
in Northern
Border
Pipeline
Company
252,779
248,098
Investment
in Tuscarora
Gas
Transmission
Company
28,836
27,881
Deferred
Amounts 45 -

286,317
277,545

LIABILITIES
AND
PARTNERS'
CAPITAL
Current

Liabilities	
Accounts payable	276
499 Accrued interest	94
141	-----

370 640	----

Long-Term Debt	21,500
21,500	
Partners' Capital	
Common units	215,179
212,253	
Subordinated units	38,512
37,951	
General partner	5,370
5,201	
Accumulated other comprehensive income	5,386
-	-----

264,447	
255,405	----

-- 286,317	
277,545	----

See accompanying Notes to Condensed Financial Statements. 3

PART I. FINANCIAL INFORMATION (CONTINUED) ITEM 1. FINANCIAL STATEMENTS
 (CONTINUED) TC PIPELINES, LP STATEMENT OF CASH FLOWS

SIX MONTHS ENDED JUNE 30	
(unaudited)	

(thousands of dollars)	
2001 2000	-

CASH GENERATED FROM OPERATIONS	
Net income	20,756
16,877	
Add/(Deduct):	
Equity income (in excess of) /less than	

PART I. FINANCIAL INFORMATION (CONTINUED) ITEM 1. FINANCIAL STATEMENTS

(CONTINUED) TC PIPELINES, LP NOTES TO CONDENSED FINANCIAL STATEMENTS

(unaudited) NOTE 1 BASIS OF PRESENTATION TC PipeLines, LP, and its subsidiary limited partnerships, TC PipeLines Intermediate Limited Partnership, and TC Tuscarora Intermediate Limited Partnership, all Delaware limited partnerships, are collectively referred to herein as TC PipeLines or the Partnership. The Partnership commenced operations on May 28, 1999. The financial statements have been prepared by management in accordance with United States generally accepted accounting principles. Amounts are stated in United States dollars. Since a determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these financial statements requires the use of estimates and assumptions which have been made using careful judgment.

In the opinion of management, these financial statements have been properly prepared within reasonable limits of materiality and include all adjustments (consisting primarily of normal recurring accruals) necessary to present fairly the results of operations for the three and six months ended June 30, 2001 and 2000, the financial position as at June 30, 2001 and December 31, 2000, and the cash flows for the six months ended June 30, 2001 and 2000. The results of operations for the three and six months ended June 30, 2001 and 2000 are not necessarily indicative of the results that may be expected for a full fiscal year. The interim financial statements should be read in conjunction with the Partnership's financial statements and notes included in TC PipeLines' Annual Report on Form 10-K for the year ended December 31, 2000.

NOTE 2 INVESTMENT IN NORTHERN BORDER PIPELINE COMPANY The Partnership owns a 30% general partner interest in Northern Border Pipeline Company (Northern Border Pipeline), a partnership which owns a 1,214-mile interstate natural gas pipeline system extending from the Montana-Saskatchewan border near Port of Morgan, Montana, to a terminus near Manhattan, Illinois. Northern Border Pipeline is regulated by the Federal Energy Regulatory Commission (FERC). TC PipeLines uses the equity method of accounting for its investment in Northern Border Pipeline. TC PipeLines' equity income for each of the three and six months ended June 30, 2001 and 2000 represents 30% of the net income of Northern Border Pipeline for the same periods. The following sets out summarized financial information representing 100% of the operations of Northern Border Pipeline for the three and six months ended June 30, 2001 and 2000 and as at June 30, 2001 and December 31, 2000.

	Three months	
	ended Six	
	months ended	
	(unaudited)	
	June 30	June 30
	(millions of	
	dollars) 2001	
	2000	2001 2000

NORTHERN BORDER
 PIPELINE INCOME
 STATEMENT

Revenues	77.0	
	77.3	154.0
153.6 Costs and		
expenses (16.0)	(18.5)	(28.3)
	(35.3)	
Depreciation	(14.3)	(14.5)
	(28.7)	(29.4)
Financial		
charges (13.7)	(16.4)	(28.8)
(32.7) Other		
income/(expense)	(1.4)	1.5 (0.7)
1.9	-----	-----

----- Net
 income 31.6

29.4 67.5 58.1

5 PART I. FINANCIAL INFORMATION (CONTINUED) ITEM 1. FINANCIAL STATEMENTS
(CONTINUED) TC PIPELINES, LP Northern Border Pipeline has recorded other
comprehensive income of \$5.2 million and \$18.0 million for the three and six
months ended June 30, 2001.

JUNE 30,
2001
(millions of
dollars)
(unaudited)
December 31,
2000 - -----

NORTHERN
BORDER
PIPELINE
BALANCE

SHEET ASSETS

Cash and
cash

equivalents
16.0 29.0

Other
current
assets 31.8

38.1 Plant,
property and
equipment,
net 1,674.7

1,687.0

Other assets
21.7 14.4 --

-- 1,744.2

1,768.5 -----

LIABILITIES

AND

PARTNERS'

EQUITY

Current

liabilities

554.4 114.3

Reserves and

deferred

credits 5.0

4.9 Long-

term debt

342.2 822.3

Partners'

Equity

Partners'

capital

824.6 827.0

Accumulated

other

comprehensive

income 18.0

1,744.2
1,768.5 ----

NOTE 3 INVESTMENT IN TUSCARORA GAS TRANSMISSION COMPANY On September 1, 2000, TC PipeLines acquired a 49% general partner interest in Tuscarora Gas Transmission Company (Tuscarora). Tuscarora owns a 229-mile interstate natural gas pipeline system extending from Oregon, where it interconnects with facilities of PG&E National Energy Group, Gas Transmission Northwest, to northern Nevada. Tuscarora is regulated by the FERC. The Partnership uses the equity method of accounting for its investment in Tuscarora. TC PipeLines' equity income for the three and six months ended June 30, 2001 represents 49% of the net income of Tuscarora for the same periods. The following sets out summarized financial information representing 100% of the operations of Tuscarora for the three and six months ended June 30, 2001 and as at June 30, 2001 and December 31, 2000.

(unaudited)
Three
months
ended Six
months
ended
(millions
of dollars)
June 30,
2001 June
30, 2001 -

TUSCARORA
INCOME
STATEMENT
Revenues
5.3 10.5
Costs and
expenses
(0.6) (1.2)
Depreciation
(1.2) (2.3)
Financial
charges
(1.6) (3.1)
Other
income 0.1
0.2 -----

Net income
2.0 4.1 ---

PART I. FINANCIAL INFORMATION (CONTINUED) ITEM 1. FINANCIAL STATEMENTS
(CONCLUDED) TC PIPELINES, LP

JUNE 30,
2001
(millions
of
dollars)
(unaudited)
December
31, 2000 -

TUSCARORA
BALANCE
SHEET
ASSETS
Cash and
cash
equivalents
4.5 7.1

Other
current
assets 2.7
3.2 Plant,
property
and
equipment,
net 116.5
115.7
Other
assets 2.2
2.5 -----

----- 125.9
128.5 -----

LIABILITIES
AND
PARTNERS'
CAPITAL
Current
liabilities
5.4 8.9

Reserves
and
deferred
credits
14.1 12.0
Long-term
debt 82.1
84.2
Partners'
capital
24.3 23.4

125.9
128.5 -----

NOTE 4 CREDIT FACILITIES AND LONG-TERM DEBT On August 22, 2000, the Partnership entered into an unsecured three-year credit facility (Revolving Credit Facility) with Bank One, NA, as agent, under which the Partnership may borrow up to an aggregate principal amount of \$30 million. Loans under the Revolving Credit Facility bear interest at a floating rate. The Revolving Credit Facility matures on August 31, 2003. Amounts borrowed may be repaid in part or in full prior to that time without penalty. The Revolving Credit Facility may be used to finance capital expenditures and for other general purposes. On September 1, 2000, the Partnership borrowed \$24.5 million under the Revolving Credit Facility to fund a portion of the purchase price of the 49% general partner interest in Tuscarora. At June 30, 2001, the Partnership had borrowings of \$21.5 million outstanding under the Revolving Credit Facility at an interest rate of 4.935%. The fair value of the Revolving Credit Facility approximates its carrying value. On May 28, 2001, the Partnership renewed its \$40 million unsecured two-year revolving credit facility (TransCanada Credit Facility) with TransCanada PipeLine USA Ltd., an affiliate of the general partner. The TransCanada Credit Facility bears interest at London Interbank Offered Rate plus 1.25%. The purpose of the TransCanada Credit Facility is to provide borrowings to fund capital expenditures, to fund capital contributions to Northern Border Pipeline, Tuscarora, and any other entity in which it directly or indirectly acquires an interest, to fund working capital and for other general business purposes, including temporary funding of cash distributions to partners, if necessary. At June 30, 2001, the Partnership had no amount outstanding under the TransCanada Credit Facility. NOTE 5 NET INCOME PER UNIT Net income per unit is computed by dividing net income, after deduction of the general partner's allocation, by the weighted average number of common and subordinated units outstanding. The general partner's allocation is equal to an amount based upon the general partner's 2% interest, adjusted to reflect an amount equal to incentive distributions. Net income per unit was determined as

follows:
Three
months
ended June
30 Six
months
ended June
30
(thousands
of dollars,
except per
unit
amounts)
2001 2000
2001 2000 -

Net income
9,793 8,533
20,756
16,877 ----

Net income
allocated
to general
partner
(197) (171)
(416) (338)
Adjustment
to reflect
incentive
distribution
income
(144) -

Tuscarora pipeline system from approximately 124 million cubic feet per day to approximately 220 million cubic feet per day and is supported by long-term firm transportation contracts ranging from ten to fifteen years. Sierra Pacific Power Company, a subsidiary of Sierra Pacific Resources Company, which holds a 50% general partner interest in Tuscarora, has contracted for approximately 11 million cubic feet per day of the increased capacity. SECOND QUARTER 2001 COMPARED WITH SECOND QUARTER 2000 Equity income from the Partnership's investment in Northern Border Pipeline increased \$0.7 million or 8%, to \$9.5 million for the second quarter of 2001, compared to equity income of \$8.8 million for the same period in 2000. This increase is primarily attributable to Northern Border Pipeline incurring lower operations and maintenance expense and lower interest expense due to lower interest rates and lower average debt balances. These increases are partially offset by Northern Border Pipeline's write-off of accounts receivable outstanding from a telecommunications company that has declared bankruptcy. The telecommunications company had been purchasing excess capacity on the microwave communications system of Northern Border Pipeline. For the second quarter of 2001, the Partnership recorded equity income of \$0.9 million from its investment in Tuscarora. The Partnership acquired its 49% interest in Tuscarora on September 1, 2000. The Partnership incurred general and administrative expenses of \$0.3 million for each of the second quarter of 2001 and the second quarter of 2000. The Partnership incurred financial charges of \$0.3 million for the second quarter of 2001, which are comprised primarily of interest expense under the Partnership's Revolving Credit Facility (see Liquidity and Capital Resources of TC Pipelines, LP - General). The Partnership entered into the Revolving Credit Facility on August 22, 2000 and borrowed \$24.5 million thereunder on September 1, 2000 to fund a portion of the purchase price of its 49% general partner interest in Tuscarora. SIX MONTHS ENDED JUNE 30, 2001 COMPARED WITH SIX MONTHS ENDED JUNE 30, 2000 Equity income from the Partnership's investment in Northern Border Pipeline increased \$2.8 million or 16%, to \$20.3 million for the first six months of 2001, compared to equity income of \$17.5 million for the same period in 2000. This increase is primarily attributable to Northern Border Pipeline incurring lower operations and maintenance expense and 8 PART I. FINANCIAL INFORMATION (CONTINUED) ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED) TC PIPELINES, LP lower interest expense due to lower interest rates and lower average debt balances, in addition to adjustments made by Northern Border Pipeline to previous estimates of ad valorem taxes. These increases are partially offset by Northern Border Pipeline's write-off of accounts receivable outstanding from a telecommunications company that has declared bankruptcy. For the first half of 2001, the Partnership recorded equity income of \$1.8 million from its investment in Tuscarora. The Partnership acquired its 49% interest in Tuscarora on September 1, 2000. The Partnership incurred general and administrative expenses of \$0.7 million for the six months ended June 30, 2001 compared to \$0.6 million for the same period in 2000. The Partnership incurred financial charges of \$0.6 million for the first six months of 2001, which are comprised primarily of interest expense under the Partnership's Revolving Credit Facility (see Liquidity and Capital Resources of TC Pipelines, LP - General). The Partnership entered into the Revolving Credit Facility on August 22, 2000 and borrowed \$24.5 million thereunder on September 1, 2000 to fund a portion of the purchase price of its 49% general partner interest in Tuscarora. LIQUIDITY AND CAPITAL RESOURCES OF TC PIPELINES, LP CASH DISTRIBUTION POLICY OF TC PIPELINES, LP During the subordination period, which generally cannot end before June 30, 2004, the Partnership will make distributions of available cash as defined in the partnership agreement in the following manner: o First, 98% to the common units, pro rata, and 2% to the general partner, until there has been distributed for each outstanding common unit an amount equal to the minimum quarterly distribution for that quarter; o Second, 98% to the common units, pro rata, and 2% to the general partner, until there has been distributed for each outstanding common unit an amount equal to any arrearages in payment of the minimum quarterly distribution on the common units for that quarter and for any prior quarters during the subordination period; o Third, 98% to the subordinated units, pro rata, and 2% to the general partner, until there has been distributed for each outstanding subordinated unit an amount equal to the minimum quarterly distribution for that quarter; and o Thereafter, in a manner whereby the general partner has rights (referred to as incentive distribution rights) to receive increasing percentages of excess quarterly distributions over specified distribution thresholds. GENERAL On July 18, 2001, the board of directors of the general partner declared the Partnership's 2001 second quarter cash distribution in the amount of \$0.50 per unit, representing a \$0.025 per unit increase from the previous quarterly distribution level of \$0.475 per unit. This distribution will be paid on August 14, 2001 to unitholders of record as of July 31, 2001. The second quarter cash distribution totaling 9 PART I. FINANCIAL INFORMATION (CONTINUED) ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED) TC PIPELINES, LP \$9.1 million will be paid in the following manner: \$7.4 million to common unitholders, \$1.4 million to the general partner as holder of the subordinated units, and \$0.3 million to the general partner, as holder of incentive distribution rights and in respect of its 2% general partner interest. On August 22, 2000, the Partnership entered into an unsecured three-year credit facility (Revolving Credit Facility) with Bank One, NA, as agent,

under which the Partnership may borrow up to an aggregate principal amount of \$30 million. Loans under the Revolving Credit Facility may bear interest, at the option of the Partnership, at a one-, two-, three-, or six-month London Interbank Offered Rate (LIBOR) plus 0.875%, or at a floating rate based on the higher of the federal funds effective rate plus 0.50% or the prime rate. The Revolving Credit Facility matures on August 31, 2003. Amounts borrowed may be repaid in part or in full prior to that time without penalty. The Revolving Credit Facility may be used to finance capital expenditures and for other general purposes. On September 1, 2000, the Partnership borrowed \$24.5 million under the Revolving Credit Facility to fund a portion of the purchase price of the 49% general partner interest in Tuscarora. At June 30, 2001, the Partnership had borrowings of \$21.5 million outstanding under the Revolving Credit Facility at an interest rate of 4.935%. On May 28, 2001, the Partnership renewed its \$40 million unsecured two-year revolving credit facility (TransCanada Credit Facility) with TransCanada PipeLine USA Ltd., an affiliate of the general partner. The TransCanada Credit Facility bears interest at LIBOR plus 1.25%. The purpose of the TransCanada Credit Facility is to provide borrowings to fund capital expenditures, to fund capital contributions to Northern Border Pipeline, Tuscarora, and any other entity in which it directly or indirectly acquires an interest, to fund working capital and for other general business purposes, including temporary funding of cash distributions to partners, if necessary. At June 30, 2001, the Partnership had no amount outstanding under the TransCanada Credit Facility.

CASH FLOWS FROM OPERATING ACTIVITIES Cash flows provided by operating activities increased by 9% to \$20.2 million for the six months ended June 30, 2001 from \$18.6 million for the same period last year. For the six months ended June 30, 2001, the Partnership received cash distributions in aggregate of \$21.8 million from its equity investments in Northern Border Pipeline and Tuscarora, compared to \$19.3 million from its equity investment in Northern Border Pipeline during the same period of 2000, representing an increase of 13%.

CASH FLOWS FROM FINANCING ACTIVITIES For the six months ended June 30, 2001, the Partnership paid \$17.1 million in distributions: \$14.0 million to common unitholders, \$2.7 million to the general partner as holder of the subordinated units, and \$0.4 million to the general partner, as holder of incentive distribution rights and in respect of its 2% general partner interest. This compares to cash distributions of \$16.1 million which were paid by the Partnership in the six months ended June 30, 2000.

CAPITAL REQUIREMENTS To the extent TC PipeLines has any capital requirements with respect to its investments in Northern Border Pipeline and Tuscarora or makes acquisitions 10 PART I. FINANCIAL INFORMATION (CONTINUED)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED) TC PIPELINES, LP in 2001, TC PipeLines expects to finance these requirements with debt and/or equity. Since the interests in Northern Border Pipeline and Tuscarora are currently the Partnership's only significant sources of income, the Partnership's results of operations are influenced by and reflect the same factors that influence the financial results of Northern Border Pipeline and Tuscarora.

RESULTS OF OPERATIONS OF NORTHERN BORDER PIPELINE COMPANY The following sets out summarized financial information for Northern Border Pipeline for the three months ended June 30, 2001 and 2000, for the six months ended June, 2001 and 2000 and as at June 30, 2001 and December 31, 2000. Amounts discussed represent 100% of the operations of Northern Border Pipeline, in which the Partnership has held a 30% interest since May 28, 1999.

(unaudited)			
Three months			
ended June 30			
Six months			
ended June 30			
(millions of			
dollars) 2001			
2000 2001 2000			
-			

NORTHERN BORDER			
PIPELINE INCOME			
STATEMENT			
Revenues 77.0			
77.3 154.0			
153.6 Costs and			
expenses (16.0)			
(18.5) (28.3)			
(35.3)			
Depreciation			
(14.3) (14.5)			
(28.7) (29.4)			
Financial			

charges (13.7)
(16.4) (28.8)
(32.7) Other
income/(expense)
(1.4) 1.5 (0.7)
1.9 -----

----- Net
income 31.6
29.4 67.5 58.1

PART I. FINANCIAL INFORMATION (CONTINUED) ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED) TC

PIPELINES, LP

JUNE 30,

2001

(millions of dollars)

(unaudited)

December 31,

2000 - -----

NORTHERN

BORDER

PIPELINE

BALANCE

SHEET ASSETS

Cash and

cash

equivalents

16.0 29.0

Other

current

assets 31.8

38.1 Plant,

property and

equipment,

net 1,674.7

1,687.0

Other assets

21.7 14.4 --

1,744.2

1,768.5 ----

-

Northern Border Pipeline's revenue is derived from agreements with its shippers for the transportation of natural gas. It transports gas under a FERC regulated tariff. Northern Border Pipeline had used a cost of service form of tariff since its inception but agreed to convert to a stated rate form of tariff as part of the settlement of its rate case discussed below. Under the cost of service tariff, Northern Border Pipeline was provided an opportunity to recover all of the operations and maintenance costs of the pipeline, taxes other than income taxes, interest, depreciation and amortization, an allowance for income taxes and a regulated return on equity. Northern Border Pipeline was generally allowed to collect from its shippers a return on regulated rate base as well as recover that rate base through depreciation and amortization. Billings for the firm transportation agreements were based on contracted volumes to determine the allocable share of the cost of service and were not dependent upon the percentage of available capacity actually used. Northern Border Pipeline filed a rate proceeding with the FERC in May 1999 for, among other things, a redetermination of its allowed equity rate of return. In September 2000, Northern Border Pipeline filed a stipulation and agreement with the FERC that documented the proposed settlement of its pending rate case. The settlement was approved by the FERC in December 2000. Under the approved settlement, effective December 1, 1999, shippers began paying stated transportation rates based on a straight fixed variable rate design. Under the straight fixed variable rate design, approximately 98% of the agreed upon revenue level is attributed to demand charges, based upon contracted firm capacity, and the remaining 2% is attributed to commodity charges, based on the volumes of gas actually transported on the system.

12 PART I. FINANCIAL INFORMATION (CONTINUED) ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED) TC PIPELINES, LP As of December 31, 2000, the termination dates of the shippers' contracts ranged from October 31, 2001 to December 21, 2013 and the weighted average contract life was approximately six years with just under 99% of capacity contracted through mid-September 2003. Contracts for approximately 44% of the capacity will expire between mid-September 2003 and the end of October 2005.

SECOND QUARTER 2001 COMPARED WITH SECOND QUARTER 2000 Revenues decreased \$0.3 million for the second quarter of 2001, as compared to the same period in 2000. Northern Border Pipeline's revenues for 2001 reflect the rate case settlement discussed above. Revenues for 2000 were determined under Northern Border Pipeline's cost of service tariff. Costs and expenses consist of operations and maintenance expense and taxes other than income. Operations and maintenance expense decreased \$1.9 million (17%) for the second quarter of 2001, as compared to the same period in 2000. Operations and maintenance expense in 2000 included expenses incurred in connection with Northern Border Pipeline's rate case discussed above. Financial charges decreased \$2.7 million (16%) for the second quarter of 2001, as compared to the same period in 2000, due primarily to a decrease in Northern Border Pipelines average interest rates between 2000 and 2001 as well as a decrease in average debt outstanding. Other income/(expense) decreased \$2.8 million for the second quarter of 2001, as compared to the same period in 2000. Other income/(expense) for the second quarter of 2001 includes a charge of approximately \$1.7 million for an uncollectible receivable from a telecommunications company that had purchased excess capacity on Northern Border Pipeline's communication system. In the second quarter of 2000, Northern Border Pipeline had recorded approximately \$1.2 million of income from purchase of excess capacity by the telecommunications company.

SIX MONTHS ENDED JUNE 30, 2001 COMPARED WITH SIX MONTHS ENDED JUNE 30, 2000 Revenues increased \$0.4 million for the first half of 2001, as compared to the same period in 2000. Northern Border Pipeline's revenues reflect the rate case settlement discussed above. Costs and expenses consist of operations and maintenance expense and taxes other than income. Operations and maintenance expense decreased \$2.4 million (12%) for the first half of 2001, as compared to the same period in 2000. Operations and maintenance expense in 2000 included expenses incurred in connection with Northern Border Pipeline's rate case discussed above. Taxes other than income decreased \$4.6 million (30%) for the first half of 2001, as compared to the same period in 2000, due primarily to adjustments to previous estimates of ad valorem taxes.

13 PART I. FINANCIAL INFORMATION (CONTINUED) ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED) TC PIPELINES, LP Financial charges decreased \$3.9 million (12%) for the first half of 2001, as compared to the same period in 2000, due primarily to a decrease in Northern Border Pipelines interest rates between 2000 and 2001 as well as a decrease in average debt outstanding. Other income/(expense) decreased \$2.6 million for the first half of 2001, as compared to the same period in 2000. Other income/(expense) for the first half of 2001 includes a charge of approximately \$1.7 million for an uncollectible receivable from a telecommunications company that had purchased excess capacity on Northern Border Pipeline's communication system. In the first half of 2000, Northern Border Pipeline had recorded approximately \$1.2 million of income from the purchase of excess capacity by the telecommunications company.

LIQUIDITY AND CAPITAL RESOURCES OF NORTHERN BORDER PIPELINE COMPANY GENERAL Northern Border Pipeline had previously entered into a 1997 credit agreement (Pipeline Credit Agreement) with certain financial institutions, which is comprised of a

\$200 million five-year revolving credit facility and a \$389 million term loan, both maturing in June 2002. At June 30, 2001, \$85 million was outstanding under the five-year revolving credit facility. Northern Border Pipeline intends to refinance a portion of the Pipeline Credit Agreement in the third quarter of 2001 and refinance any remaining amounts outstanding by the first quarter of 2002. At June 30, 2001, Northern Border Pipeline also had outstanding \$184 million of senior notes issued in a \$250 million private placement under a July 1992 note purchase agreement. The note purchase agreement provides for four series of notes, Series A through D, maturing between August 2000 and August 2003. The Series A Notes with a principal amount of \$66 million were repaid in August 2000. The Series B Notes with a principal amount of \$41 million mature in August 2001. Northern Border Pipeline anticipates borrowing on the Pipeline Credit Agreement to repay the Series B Notes. In March 2001, Northern Border Pipeline entered into forward starting interest rate swaps with notional amounts totaling \$200 million related to a planned issuance of 10-year and 30-year fixed rate debt. The swap instruments may be settled any time prior to their expiration date on October 1, 2001. The proceeds from the issuance of the fixed rate debt will be used to repay outstanding indebtedness. Short-term liquidity needs will be met by internal sources and through the revolving credit facility discussed above. Long-term capital needs may be met through the ability to issue long-term indebtedness. CASH FLOWS FROM OPERATING ACTIVITIES Cash flows provided by operating activities decreased \$7.4 million to \$89.9 million for the first half of 2001, as compared to the same period in 2000.

During 2001, Northern Border Pipeline realized net cash outflows of approximately \$4.7 million related to its rate case. During the first quarter of 2001, Northern Border Pipeline made refunds to its shippers totaling \$6.8 million, which included \$2.1 million collected in the first quarter of 2001 with the remainder collected previously. CASH FLOWS FROM INVESTING ACTIVITIES Capital expenditures of \$15.6 million for the first half of 2001 included \$12.4 million for Project 2000, Northern Border Pipeline's 34-mile extension and expansion into Indiana. For the comparable period in 2000, capital expenditures were \$3.8 million and included \$2.3 million for Project 2000. The remaining capital expenditures for 2001 and 2000 were primarily related to renewals and replacements of existing facilities. Total capital expenditures for 2001 are estimated to be \$76 million, including \$61 million for Project 2000. The remaining capital expenditures planned for 2001 are for renewals and replacements of existing facilities. Northern Border Pipeline currently anticipates funding its 2001 capital expenditures primarily by debt borrowings and using internal sources. CASH FLOWS FROM FINANCING ACTIVITIES Cash flows used in financing activities increased \$12.7 million to \$87.3 million for the first half of 2001 as compared to same period in 2000. For the first half of 2001, Northern Border Pipeline recognized a decrease in bank overdraft of \$22.4 million. At December 31, 2000, Northern Border Pipeline reflected the bank overdraft primarily due to rate case refund checks outstanding. Distributions to partners increased \$5.5 million to \$69.9 million for the first half of 2001, as compared to the same period in 2000, primarily due to an increase in net income. During the first half of 2001, Northern Border Pipeline had net borrowings under the Pipeline Credit Agreement of \$5.0 million as compared to net repayments in 2000 of \$10.0 million.

14 PART I. FINANCIAL INFORMATION
(CONTINUED) ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED) TC PIPELINES, LP RESULTS OF OPERATIONS OF TUSCARORA GAS TRANSMISSION COMPANY

The following sets out summarized financial information for Tuscarora for the three and six months ended June 30, 2001 and as at June 30, 2001 and December 31, 2000. Amounts discussed represent 100% of the operations of Tuscarora, in which the Partnership has held a 49% interest since September 1, 2000.

	(unaudited)		
	Three		
	months		
	ended Six		
	months		
	ended		
	(millions		
	of dollars)		
	June 30,		
	2001 June		
	30, 2001 -		

	TUSCARORA		
	INCOME		
	STATEMENT		
	Revenues		
	5.3		10.5

Costs and
expenses
(0.6) (1.2)
Depreciation
(1.2) (2.3)
Financial
charges
(1.6) (3.1)
Other
income 0.1
0.2 -----

--- Net
income 2.0
4.1 -----

June 30,
2001
(millions
of
dollars)
(unaudited)
December
31, 2000 -

TUSCARORA
BALANCE
SHEET
ASSETS
Cash and
cash
equivalents
4.5 7.1
Other
current
assets 2.7
3.2 Plant,
property
and
equipment,
net 116.5
115.7
Other
assets 2.2
2.5 -----

125.9
128.5 -----

LIABILITIES
AND
PARTNERS'
CAPITAL
Current
liabilities
5.4 8.9
Reserves
and
deferred
credits
14.1 12.0
Long-term
debt 82.1
84.2
Partners'
capital
24.3 23.4

--- 125.9
128.5 ----

SECOND QUARTER 2001 COMPARED WITH SECOND QUARTER 2000 Revenues generated by Tuscarora were \$5.3 million for the second quarter of 2001 compared to \$4.8 million for the second quarter of 2000. The \$0.5 million (10%) increase is due to additional contracted capacity on the Hungry Valley lateral, a 14-mile, 16-inch pipeline extension that is Tuscarora's second connection into Reno, Nevada. The Hungry Valley lateral was completed in January 2001. Costs and expenses, depreciation and financial charges incurred and other income earned by Tuscarora in the second quarter of 2001 were consistent with the same period last year. SIX MONTHS ENDED JUNE 30, 2001 COMPARED WITH SIX MONTHS ENDED JUNE 30, 2000 Revenues generated by Tuscarora were \$10.5 million for the second quarter of 2001 compared to \$9.6 million for the same period last year. The \$0.9 million (9%) increase is due to additional contracted capacity on the Hungry Valley lateral. Costs and expenses, depreciation and financial charges incurred and other income earned by Tuscarora in the first half of 2001 were consistent with the same period last year. 15

PART I. FINANCIAL INFORMATION (CONTINUED) ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONCLUDED) TC PIPELINES, LP LIQUIDITY AND CAPITAL RESOURCES OF TUSCARORA GAS TRANSMISSION COMPANY GENERAL In September 2000, Tuscarora adopted a cash distribution policy that became effective January 1, 2001. Under the terms of the cash distribution policy, Tuscarora makes quarterly cash distributions to its general partners in accordance with their respective general partner interests. Cash distributions are generally computed as the sum of Tuscarora's net income before income taxes and depreciation and amortization, less amounts required for debt repayments, net of refinancings, maintenance capital expenditures, certain non-cash items, and any cash reserves deemed necessary by the management committee of Tuscarora. Cash distributions will be computed at the end of each calendar quarter and the distribution will be made on or before the last day of the month following the quarter end.

CASH FLOWS FROM OPERATING ACTIVITIES Cash flows provided by operating activities decreased to \$3.9 million for the first six months of 2001 compared to \$5.6 million for the same period in 2000 due to changes in working capital. **CASH FLOWS FROM INVESTING ACTIVITIES** Net cash used in investing activities increased to \$3.1 million for the six month period ended June 30, 2001 compared to \$0.7 million for the same period last year. This increase is due to construction of the Hungry Valley lateral that went into service in January 2001. **CASH FLOWS FROM FINANCING ACTIVITIES** During the first six months of 2001, Tuscarora recorded cash flow used in financing activities of \$3.5 million compared to \$4.0 million for the same period in 2000. Tuscarora paid a cash distribution of \$1.7 million during the first six months of 2001 compared to \$2.2 million for the same period in 2000.

NEW ACCOUNTING PRONOUNCEMENT TC PipeLines has implemented Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities" on January 1, 2001. TC PipeLines does not hold any derivative instruments and does not participate in hedging activities. Northern Border Pipeline's adoption of SFAS No. 133 on January 1, 2001 has not had a material impact on TC PipeLines' investment in or equity income from Northern Border Pipeline. As a result, SFAS No. 133 does not have a material impact on TC PipeLines' financial position or results of operations. In July 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The standard is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. TC PipeLines does not currently have long-lived assets recorded on its balance sheet. TC PipeLines is in the process of evaluating the application of this pronouncement on its investments in Northern Border Pipeline and Tuscarora.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS This quarterly report includes forward-looking statements regarding future events and the future financial performance of TC PipeLines, LP. All forward-looking statements are based on the Partnership's beliefs as well as assumptions made by and information currently available to the Partnership. When used herein, words such as "believes," "expects," "intends," "forecasts," "projects," and similar expressions, identify forward-looking statements within the meaning of the Securities Litigation Reform Act. These statements reflect the Partnership's current views with respect to future events and are subject to various risks, uncertainties and assumptions including regulatory decisions, particularly those of the Federal Energy Regulatory Commission, cost of acquisitions, future demand for natural gas, overcapacity in the industry, and prevailing economic conditions, particularly conditions of the capital and equity markets, and other risks discussed in detail in the Partnership's filings with the Securities and Exchange Commission, including the Partnership's Annual Report on Form 10-K for the year ended December 31, 2000. If one or more of these risks or uncertainties materialize, or if the underlying assumptions prove incorrect, actual results may vary materially from those described in the forward-looking statement. Except as required by applicable securities laws, TC PipeLines, LP does not intend to update these forward-looking statements. 16

PART I. FINANCIAL INFORMATION (CONCLUDED) ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK TC PIPELINES, LP TC PipeLines, LP's interest rate exposure results from its Revolving Credit Facility which is subject to variability in LIBOR interest rates. Since December 31, 2000, there has not been any material change to TC PipeLines' interest rate exposure. The Partnership's market risk sensitivity is also influenced by and reflects the same factors that influence Northern Border Pipeline. Northern Border Pipeline's interest rate exposure results from variable rate borrowings from commercial banks. To mitigate potential fluctuations in interest rates, Northern Border Pipeline attempts to maintain a significant portion of its debt portfolio in fixed rate debt. Northern Border Pipeline also uses interest rate swap agreements to increase the portion of its fixed rate debt. Since December 31, 2000, there has not been any material change to Northern Border Pipeline's interest rate exposure. 17

PART II. OTHER INFORMATION ITEM 1. LEGAL PROCEEDINGS TC PIPELINES, LP On July 31, 2001, the Assiniboine and Sioux Tribes of the Fort Peck Indian Reservation filed a lawsuit in the Tribal Court against Northern Border Pipeline Company to collect more than \$3 million in back taxes, together with interest and penalties. The lawsuit relates to a utilities tax on certain of Northern Border Pipeline's properties within the Fort Peck Reservation. Based on recent decisions by the Federal courts and other defenses, Northern Border Pipeline believes that the Tribes do not have the authority to impose the tax. In any event, TC PipeLines believes that the lawsuit will not have a material adverse impact on the Partnership. 18

PART II. OTHER INFORMATION (CONCLUDED) ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K
TC PIPELINES, LP (a) Exhibits. 1. Renewal of U.S. \$40,000,000 Two Year
Revolving Credit Facility between TC PipeLines, LP, as borrower, and
TransCanada PipeLine USA Ltd., as lender dated May 28, 2001. (b) Reports on
Form 8-K None 19

SIGNATURES Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. TC PIPELINES, LP (a Delaware Limited Partnership) By: TC PipeLines GP, Inc., its general partner By: /s/ Russell K. Girling ----- Date: August 13, 2001
Russell K. Girling Chief Financial Officer (duly authorized officer) By: /s/ Theresa Jang ----- Date: August 13, 2001
Theresa Jang Controller (duly authorized officer) 20

EXHIBIT INDEX EXHIBIT NO. DESCRIPTION 99.1 Renewal of U.S. \$40,000,000 Two Year
Revolving Credit Facility between TC PipeLines, LP, as borrower, and
TransCanada PipeLine USA Ltd., as lender dated May 28, 2001. 21

TRANSCANADA PIPELINE USA LTD.

May 28, 2001

TC PipeLines, LP
110 Turnpike Road, Suite 203
Westborough, Massachusetts 01581

Dear Sirs:

RE: RENEWAL OF U.S. \$40,000,000 TWO YEAR REVOLVING
CREDIT FACILITY IN FAVOR OF TC PIPELINES, L.P.

In consideration of the covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are conclusively acknowledged by each of the parties, TransCanada Pipeline USA Ltd., a Nevada corporation (together with its successors and permitted assigns, the "LENDER") hereby covenants and agrees with TC PipeLines, LP, a Delaware limited partnership (together with its successors and permitted assigns, the "BORROWER") to make available to the Borrower the credit facility (the "CREDIT FACILITY") as more particularly described below and upon the terms and conditions outlined in this letter agreement (as may be amended, modified, supplemented or restated from time to time, the "AGREEMENT").

DEFINITIONS

Unless something in the subject matter or context is inconsistent therewith, the following capitalized terms used in the Agreement (including Schedule A to the Agreement) shall have meanings indicated below:

"BANKING DAY" means a day which is both a Business Day and a day on which dealings in United States Dollars by and between the banks in the London, England interbank market may be conducted.

"BUSINESS DAY" means a day on which banks are open for business in New York, New York but does not in any event include a Saturday or a Sunday.

"COMPLIANCE CERTIFICATE" means a certificate of the Borrower signed on its behalf by the General Partner, substantially in the form attached hereto as Schedule A.

"CONTRIBUTION, CONVEYANCE AND ASSUMPTION AGREEMENT" means the Contribution, Conveyance and Assumption Agreement dated May 28, 1999 between TransCanada

Border PipeLine Ltd., TransCan Northern Ltd., TransCanada PipeLines Limited, the Borrower, the General Partner and the Intermediate Partnership.

"DEBT" means, without duplication, with respect to any person, all obligations, liabilities and indebtedness of such person with respect to:

- i) indebtedness for borrowed money;
- ii) obligations arising pursuant to commercial paper programs or letters of credit or indemnities issued in connection therewith;
- iii) obligations under guarantees, indemnities, assurances, legally binding comfort letters or other contingent obligations relating to the indebtedness for borrowed money of any other person and all other obligations incurred for the purpose of or having the effect of providing financial assistance to another person, including, without limitation, endorsements of bills of exchange (other than for collection or deposit in the ordinary course of business); and
- iv) all other financing indebtedness, including monetary obligations of such person created or arising under any capital lease or other lease financing.

"DRAWDOWN" means, individually or collectively, as the context may require, an advance of funds made by the Lender to the Borrower pursuant to this Agreement.

"DRAWDOWN DATE" means the date on which an advance of funds is made by the Lender to a Borrower pursuant to the provisions hereof.

"DRAWDOWN NOTICE" means a written notice given by the Borrower to the Lender of a Drawdown.

"EVENT OF DEFAULT" has the meaning ascribed thereto in Section 7.01;

"GENERAL PARTNER" means TC PipeLines GP, Inc., a Delaware corporation, and any successor thereto.

"GOVERNMENTAL AUTHORITY" means any federal, state, provincial, regional, municipal or local government or any department, agency, board, tribunal or authority thereof or other political subdivision thereof and any entity or person exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, government or the operation thereof.

"INTEREST PAYMENT DATE" means, with respect to each Loan, the last Business Day of each applicable Interest Period; provided that, any earlier date on which the Credit Facility is fully cancelled or permanently reduced in full, shall be an Interest Payment Date with respect to all Loans then outstanding.

"INTEREST PERIOD" means, with respect to each Loan, the initial period of one month, two months, three months or six months (as selected by the Borrower and notified to the Lender) commencing on the applicable Drawdown Date or Rollover Date and ending on and including the last day of such period

provided that the last day of each Interest Period whether with respect to the same or another Loan and the last day of each Interest period shall be a Banking Day and if the last day of an Interest Period selected by the Borrower is not a Banking Day the next Banking Day.

"INTERMEDIATE PARTNERSHIP" means TC PipeLines Intermediate Limited Partnership, a Delaware limited partnership, and any successor thereto.

"LIBOR" means the London Interbank Offered Rate of Interest and means, with respect to any Interest Period applicable to a Loan, the per annum rate of interest determined by the Lender, based on a three hundred sixty (360) day year, rounded upwards, if necessary, to the nearest whole multiple of one-sixteenth of one percent (1/16th%), as the average of the offered quotations appearing on the display referred to as the "LIBO Page" (or any display substituted therefor) of Reuter Monitor Money Rates Service (or if such LIBO Page shall not be available, any successor or similar services as may be selected by the Lender) for deposits in United States Dollars for a period equal to the number of days in the applicable Interest Period, at or about 11:00 a.m. (London, England time) on the second Banking Day prior to a Drawdown Date, for the applicable Interest Period. Each determination of LIBOR may be computed using any reasonable averaging and attribution method.

"LIMITED PARTNER" means any person who is or shall become a limited partner of the Borrower.

"LIMITED PARTNERSHIP AGREEMENT" means the Amended and Restated Agreement of Limited Partnership of TC PipeLines, LP dated as of the 28th day of May, 1999 and made among the General Partner, TransCan Northern Ltd. as the organizational Limited Partner and those parties referred to as Partners therein, as from time to time amended, supplemented or restated.

"LOAN DOCUMENTS" means this Agreement and all certificates, agreements, instruments and other documents delivered or to be delivered to the Lender in relation to the Credit Facility pursuant hereto, and, when used in relation to any person, the term "Loan Documents" shall mean and refer to the Loan Documents executed and delivered by such person.

"LOAN" means an advance of funds in United States dollars made by the Lender to the Borrower pursuant to this Agreement.

"MATERIAL ADVERSE EFFECT" means a material adverse effect (i) on the business, operations, property and assets or financial condition of the Borrower, or (ii) on the ability of the Borrower to repay or pay, as the case may be, any Obligations.

"NORTHERN BORDER" means Northern Border Pipeline Company, a general partnership organized under the laws of Texas.

"OBLIGATIONS" means, at any time and from time to time, all of the obligations, indebtedness and liabilities (present or future, absolute or contingent, matured or not) of the Borrower to the Lender under, pursuant to or relating to this Agreement or the Credit Facility and whether the same are from time to time reduced and thereafter increased or entirely extinguished

and thereafter incurred again and including all interest, commissions, legal and other costs, charges and expenses under this Agreement.

"OUTSTANDING PRINCIPAL" means, at any time, the aggregate of the principal amount of all outstanding Loans.

"PARTNERS" means the General Partner and the Limited Partners.

"PERMITTED ENCUMBRANCES" means:

- i) liens for taxes, assessments or governmental charges which are not due and delinquent, or the validity of which the Borrower shall be contesting in good faith, provided the Borrower shall have made adequate provision (in accordance with generally accepted accounting principles) therefor;
- ii) the lien of any judgment rendered, or claim filed, against the Borrower which the Borrower shall be contesting in good faith, provided the Borrower shall have made adequate provision (in accordance with generally accepted accounting principles) therefor;
- iii) liens, privileges or other charges imposed or permitted by law such as statutory liens and deemed trusts, carriers' liens, builders' liens, materialmen's liens, operator's liens and other liens, privileges or other charges of a similar nature which relate to obligations which are not due and delinquent;
- iv) undetermined or inchoate liens arising in the ordinary course of and incidental to operations of the Borrower which relate to obligations which are not due and delinquent, or the validity of which the Borrower shall be contesting in good faith, provided the Borrower shall have made adequate provision (in accordance with generally accepted accounting principles) therefor;
- v) security given to a public utility or any municipality or governmental or other public authority when required by such utility, municipality or authority in connection with the operations of the Borrower, to the extent such security does not materially detract from the value of any material part of the property of the Borrower;
- vi) cash or marketable securities deposited in connection with bids or tenders, or deposited with a court as security for costs in any litigation, or to secure workmen's compensation or unemployment insurance liabilities;
- vii) the lien or any right of distress reserved in or exercisable under any real property lease for rent or otherwise to effect compliance with the terms of such lease in respect of which the rent or any other obligation is not at the time overdue or if overdue the validity of which is being contested at the time in good faith, if the Borrower shall have made on its books a provision therefor reasonably deemed by the Lender to be adequate therefor;

- viii) Security Interests on property of the Borrower which are not otherwise Permitted Encumbrances if the aggregate amount of the Debt or other obligations secured by all such Security Interests is not at any time in excess of U.S.\$1,000,000;
- ix) Security Interests arising under or in connection with the Partnership Agreement, the agreement of limited partnership of the Intermediate Partnership, the agreement of limited partnership of the TC Tuscarora Partnership, the partnership agreements of Northern Border or Tuscarora and the partnership agreements of any other entities acquired directly or indirectly by the Borrower in the future; and
- x) any extension, renewal or replacement (or successive extensions, renewals or replacements), as a whole or in part, of any Security Interest referred to in the preceding paragraphs (i) to (ix) inclusive of this definition, so long as any such extension, renewal or replacement of such Security Interest is limited to all or any part of the same property that secured the Security Interest extended, renewed or replaced (plus improvements on such property) and the indebtedness or obligation secured thereby is not increased;

provided that nothing in this definition shall in and of itself cause the Loans and other amounts owing by the Borrower to the Lender hereunder to be subordinated in priority to any such Permitted Encumbrance.

"ROLLOVER" means the continuation of all or a portion of such Loan (subject to the provisions hereof) for an additional Interest Period subsequent to the initial or any subsequent Interest Period applicable thereto.

"ROLLOVER DATE" means the commencement of a new Interest Period applicable to a Loan.

"SECURITY INTEREST" means mortgages, charges, pledges, hypothecs, assignments by way of security, conditional sales or other title retentions (including, without limitation, capital leases or any other lease financing), liens, security interests or other encumbrances, howsoever created or arising, whether fixed or floating, perfected or not.

"TC TUSCARORA PARTNERSHIP" means TC Tuscarora Intermediate Limited Partnership, a Delaware limited partnership and any successor thereto.

"TUSCARORA" means Tuscarora Gas Transmission Company, a general partnership organized under the laws of Nevada.

"TUSCARORA PURCHASE AGREEMENT" means the purchase and sale agreement dated July 19, 2000 through which TC Tuscarora Partnership purchased a 49% interest in Tuscarora from TCPL Tuscarora Ltd.

"UNITED STATES DOLLARS" and "U.S. \$" mean the lawful money of the United States.

ARTICLE ONE - THE REVOLVING CREDIT FACILITY

1.01 AMOUNT. Revolving loans are available to the Borrower under the Credit Facility to a maximum outstanding principal amount of U.S.\$40,000,000. Notwithstanding the foregoing, the maximum outstanding principal amount of U.S.\$40,000,000 may be increased or decreased (but not to be less than U.S.\$2,500,000) upon mutual written agreement of the Lender and the Borrower.

1.02 CURRENCY AND MINIMUM AMOUNTS. Drawdowns may only be made in United States Dollars and in a minimum amount of U.S.\$500,000.

1.03 DRAWDOWN NOTICES. The Borrower shall deliver to the Lender a Drawdown Notice at least two Business Days prior to a Drawdown Date. Such notice shall specify: i) the date of the Drawdown, such date being a Business Day; ii) the principal amount of the Drawdown; and iii) particulars of the account into which funds representing the Drawdown are to be transferred on the Drawdown Date.

1.04 PURPOSE. The Credit Facility shall be used for working capital and other general business purposes, to fund capital expenditures, to fund capital contributions to Northern Border, Tuscarora and any other entity in which the Borrower may directly or indirectly acquire an interest, and to enable the Borrower to make cash distributions to Partners if there has been a temporary interruption or delay in the receipt of cash distributions from Northern Border, Tuscarora or such other entity in which the Borrower has acquired a direct or indirect interest.

1.05 REVOLVING NATURE AND AVAILABILITY. Subject to the terms and conditions hereof, the Borrower may increase or decrease Loans under the Credit Facility by making Drawdowns, repayments and further Drawdowns.

1.06 REPAYMENTS. The Borrower may at the end of any Interest Period repay, without payment of penalty, the whole or any part of any Loan together with all accrued and unpaid interest thereon to the date of such repayment. The Borrower shall give the Lender advance notice of any such repayment at least two Business Days prior to the date of repayment.

1.07 LIBOR LOAN ROLLOVERS. At or before 10:00 a.m. (Calgary time) two Banking Days prior to the expiration of each Interest Period of each Loan, the Borrower shall, unless it has delivered a repayment notice pursuant to Section 1.06 of this Agreement (together with a Rollover Notice if a portion only is to be repaid; provided that a portion of a Loan may be continued only if the portion to remain outstanding is equal to or exceeds the minimum amount required hereunder for Drawdowns of Loans) with respect to the aggregate amount of such Loan, deliver a Rollover Notice to the Lender selecting the next Interest Period applicable to the Loan, which new Interest Period shall commence on and include the last day of such prior Interest Period. If the Borrower fails to deliver a Rollover Notice to the Lender as provided in this Section, the Borrower shall be deemed to have elected to Rollover the outstanding amount of the Loan for an Interest Period equal to the Interest Period of the maturing loan.

1.08 NO SECURITY. The Credit facility shall be unsecured.

1.09 SET-OFF; NO WITHHOLDING. Any and all payments by the Borrower to or for the benefit of the Lender shall be free and clear of and without set-off, counterclaim, reduction or deduction whatsoever, including, without limiting the generality of the foregoing, for any claims that the Borrower have or may have against the Lender or for any present or future taxes, levies, imposts, deductions, charges or withholdings, whether imposed by or on behalf of the United States or Canada or any political subdivision thereof or any other taxing authority. If the Borrower shall be required by law to deduct or withhold any taxes from or in respect of any sum payable hereunder to the Lender, (i) the sum payable shall be increased as may be necessary so that, after making all required deductions and withholdings the Lender receives an amount equal to the amount it would have received had no such deductions or withholdings been made, (ii) the Borrower shall make such deductions and withholdings, and (iii) the Borrower shall pay the full amount deducted or withheld to the relevant taxing authority or other authority in accordance with applicable law.

1.10 MATURITY. The Credit Facility shall mature on the earlier of: (i) the date two years from the date of this Agreement (the "FIXED MATURITY DATE"), or (ii) the date upon which the Borrower provides written notice to the Lender that it has obtained from another lender or lenders an economically comparable replacement Credit Facility. Upon such date of maturity, all Outstanding Principal, accrued and unpaid interest and all other amounts under or in respect of this Agreement and the Credit Facility shall be paid to the Lender (x) on the Fixed Maturity Date (in the case of maturity under clauses (i)) or (y) on or prior to the 30th day after such written notice is provided to the Lender (in the case of maturity under clause (ii)).

1.11 TERMINATION. The Borrower may terminate this Agreement upon 90 days written notice to the Lender, provided, however, that in order for such termination by the Borrower to be effective, all Outstanding Principal, accrued and unpaid interest and all other amounts under or in respect of this Agreement and the Credit Facility shall be paid to the Lender on or prior to the 30th day after the termination date specified in such written notice provided to the Lender.

1.12 RENEWAL. This Agreement may be renewed upon the mutual written agreement of the Borrower and the Lender.

ARTICLE TWO - INTEREST

2.01 RATE APPLICABLE TO LOANS. The Borrower shall pay interest to the Lender in United States Dollars on Loans outstanding under the Credit Facility at a rate per annum equal to LIBOR plus 1.25 per cent.

2.02 CALCULATION AND PAYMENT OF INTEREST. Interest on Loans, as specified above, shall accrue daily and be calculated on the principal amount of each such loan and on the basis of the actual number of days each such loan is outstanding in a year of 360 days. Interest shall be calculated and payable in arrears on the Interest Payment Date for each such loan for the actual number of days such loan is outstanding in the period from and including the date such loan was made or the preceding Interest Payment Date to which all

accrued interest has been duly paid, as the case may be, to and including the day immediately preceding the following Interest Payment Date.

2.03 DEFAULT RATE. In the event that any amount due hereunder on any Loan (including, without limitation, any interest payment) is not paid when due, the Borrower shall pay interest on such unpaid amount (including, without limitation, interest on interest) from the date when such amount was due until the date that such amount is paid in full (but excluding the date of such payment if the payment is made for value on such date at the required place of payment specified by the Lender from time to time), and such interest shall accrue daily, be calculated and compounded monthly and be payable on demand, after as well as before demand, maturity, default and judgment, at a rate per annum that is equal to LIBOR plus 3.25 per cent.

2.04 MAXIMUM RATE PERMITTED BY LAW. No interest to be paid hereunder shall be paid at a rate exceeding the maximum non-usurious rate permitted by applicable law. In the event that any interest exceeds such maximum rate, such interest shall be reduced or refunded, as the case may be, so that interest payable hereunder shall be payable at the highest rate recoverable under applicable law.

ARTICLE THREE - ACCOUNTS OF RECORD; PAYMENTS

3.01 CURRENCY AND PLACE OF PAYMENT. All payments of principal, interest and other amounts to be made by the Borrower to the Lender pursuant to this Agreement shall be made in United States Dollars for value on the Interest Payment Date, or at such other date under this Agreement when such amounts are due and payable and if such day is not a Business Day on the Business Day next following, by deposit or transfer thereof to the account or accounts of the Lender designated by the Lender to the Borrower for such purpose from time to time.

3.02 LENDER RECORDS EVIDENCE. The Lender shall open and maintain books of account evidencing the Loans and all other amounts owing by the Borrower to the Lender hereunder. The Lender shall enter in the foregoing accounts details of all amounts from time to time owing, paid or repaid by the Borrower hereunder. The information entered in the foregoing accounts shall constitute prima facie evidence of the obligations of the Borrower to the Lender hereunder with respect to all Loans and all other amounts owing by the Borrower to the Lender hereunder.

ARTICLE FOUR - CONDITIONS PRECEDENT

4.01 CONDITIONS FOR ALL DRAWDOWNS. On or before each Drawdown under the Credit Facility the following conditions shall be satisfied to the satisfaction of the Lender:

- a) after giving effect to the proposed Drawdown, the Outstanding Principal shall not exceed the maximum amount of the Credit Facility as set forth in Section 1.01;

- b) the Borrower shall, if so requested by the Lender, have executed and delivered to the Lender a promissory note in favour of the Lender evidencing the obligation of the Borrower to pay the Lender the principal amount of such Drawdown and interest thereon in accordance with this Agreement; and
- c) the Lender shall have received all such other agreements, certificates, declarations, opinions and documents, and all steps, actions and proceedings shall have been taken or performed, as the Lender may reasonably require, all in form and substance satisfactory to the Lender and its counsel.

4.02 WAIVERS. The above conditions are inserted for the sole benefit of the Lender and may be waived by the Lender, in whole or in part (with or without terms or conditions) without prejudicing the right of the Lender at any time to assert such conditions in respect of any subsequent Drawdown.

ARTICLE FIVE - REPRESENTATIONS AND WARRANTIES

5.01 REPRESENTATIONS AND WARRANTIES. The Borrower and the General Partner hereby represent and warrant to the Lender as follows and acknowledge and confirm that the Lender is relying upon such representations and warranties:

- a) CORPORATE STATUS. The Borrower is a limited partnership duly formed and validly existing under the laws of Delaware and the General Partner is duly incorporated and validly existing under the laws of Delaware.
- b) AUTHORITY. Each of the Borrower and the General Partner has the requisite power and authority to own or hold its respective properties and assets, to carry on its business as presently conducted and to execute, deliver and perform its obligations under this Agreement and the other Loan Documents to which it is a party.
- c) DUE AUTHORIZATION. Each of the Borrower and the General Partner has duly authorized, by all necessary action, the execution, delivery and performance of this Agreement and the other Loan Documents to which it is a party.
- d) ENFORCEABILITY. This Agreement and each of the Loan Documents has been duly executed and delivered by each of the Borrower and the General Partner and constitute legal, valid and binding obligations of each of the Borrower and the General Partner enforceable against each of the Borrower and the General Partner in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium and other applicable laws relating to creditor's rights generally and to general principles of equity and public policy.
- e) NO RESULTING VIOLATION. Neither the execution and delivery of this Agreement or any other Loan Document, nor compliance with the terms and conditions of this Agreement or any other Loan Document, has resulted or will (x) result in a violation of any applicable law or the Limited Partnership Agreement or the articles or by-laws of the General Partner

or any resolutions passed by the Limited Partners of the Borrower or the shareholders or directors of the General Partner, or (y) result in a default under any agreement to which the Borrower or the General Partner is a party or by which the Borrower or the General Partner is bound, or (z) result in the creation of any Security Interest on any property of the Borrower or the General Partner under any agreement or instrument to which the Borrower or the General Partner is a party or by which the Borrower or the General Partner is bound, which in the case of (y) or (z) has a Material Adverse Effect.

- f) NON-DEFAULT. No event has occurred which would constitute an Event of Default or a breach of or default under the covenants herein or in any of the other Loan Documents or which would constitute such a breach or default with the giving of notice or lapse of time or both.
- g) FINANCIAL CONDITION. Except as has been disclosed to the Lender by written notice in accordance with the provisions of this Agreement, no change in the Borrower's financial condition (as disclosed or reflected in the financial statements delivered under Section 6.01(e) of this Agreement) has occurred which would reasonably be expected to have a Material Adverse Effect.
- h) ABSENCE OF LITIGATION. There are no actions, suits or proceedings pending or, to the knowledge of the Borrower, threatened in writing against or affecting the Borrower or any of its undertakings, property or assets, at law or in equity, in or before any court or before any arbitrator or before or by any Governmental Authority having jurisdiction in the premises in respect of which there is a reasonable possibility of a determination adverse to the Borrower and which, if determined adversely, would have a Material Adverse Effect.
- i) COMPLIANCE WITH APPLICABLE LAWS, COURT ORDERS AND MATERIAL AGREEMENTS. The Borrower has obtained all licences, permits, approvals and authorizations required in connection with its respective businesses and operations, all of which are in good standing, except where the failure to obtain such or be in good standing would not reasonably be expected to have a Material Adverse Effect. The Borrower and its respective businesses and operations are in compliance with all applicable laws, all applicable directives, judgments, decrees, injunctions and orders rendered by any Governmental Authority or court of competent jurisdiction, the Limited Partnership Agreement and all agreements or instruments to which it is a party or by which its property or assets are bound, except where the failure to comply would not reasonably be expected to have a Material Adverse Effect.
- j) NO ENCUMBRANCES. Except for Permitted Encumbrances, there are no Security Interests against, on or affecting any or all of the properties or assets, of whatsoever nature or kind, of the Borrower, and the Borrower has not given any undertaking to grant or create any such Security Interest or otherwise entered into any agreement pursuant to which any person may have or be entitled to any such Security Interest.

k) AGREEMENTS. Each of the Limited Partnership Agreement, the Contribution, Conveyance and Assumption Agreement and the Tuscarora Purchase Agreement has been duly executed and delivered by the parties thereto and constitutes legal, valid and binding obligations of the parties thereto, enforceable against such parties in accordance with its respective terms and no such agreement has been amended in any manner which would reasonably be expected to have a Material Adverse Effect.

l) RANKING WITH OTHER DEBT. All Obligations of the Borrower hereunder rank at least PARI PASSU in right of payment with the other unsecured and unsubordinated Debt of the Borrower.

5.02 INQUIRIES; DEEMED REPETITION. All representations and warranties made herein shall remain in full force and effect notwithstanding the execution of the Loan Documents and shall be deemed to be restated by the Borrower and the General Partner as if made effective on each Drawdown under this Agreement.

ARTICLE SIX - GENERAL COVENANTS

6.01 COVENANTS OF THE BORROWER. The Borrower hereby covenants and agrees with the Lender that, unless the Lender otherwise consents in writing:

a) PUNCTUAL PAYMENT. The Borrower shall duly and punctually pay all Outstanding Principal, interest and other amounts required to be paid by the Borrower hereunder in the manner specified hereunder.

b) MAINTAIN EXISTENCE; NO CHANGE OF BUSINESS. The Borrower shall maintain its existence in good standing and do or cause to be done all things necessary to keep in full force and effect all properties, rights, franchises, licenses, permits and qualifications to carry on business in any jurisdiction in which it carries on business, except where failure to comply with the foregoing would not reasonably be expected to have a Material Adverse Effect. The Borrower shall maintain all its respective properties and assets and conduct its business, activities and operations in a manner consistent with applicable industry standards and industry practice in each jurisdiction where its business is conducted or its property and interests are located, except where failure to comply with the foregoing would not reasonably be expected to have a Material Adverse Effect. The Borrower shall not carry on businesses or operations which are materially different from the businesses and operations carried on by the Borrower on the date of this Agreement.

c) MATERIAL LITIGATION. The Borrower shall promptly give written notice to the Lender of any litigation, proceeding, dispute or action if the same has or might reasonably have a Material Adverse Effect and from time to time shall furnish to the Lender all reasonable information requested by the Lender concerning the status of any of the foregoing.

d) NOTICE OF DEFAULT. The Borrower shall give prompt written notice to the Lender upon becoming aware of any default of the performance of any covenant, agreement or condition contained in this Agreement or any of

the other Loan Documents, which notice shall specify such default or defaults.

- e) FINANCIAL STATEMENTS. i) The Borrower shall deliver to the Lender, as soon as available, and in any event within 90 days after the end of each of its fiscal years, copies of the audited annual financial statements of the Borrower, together with the notes thereto, all prepared in accordance with generally accepted accounting principles, consistently applied, together with a report of the Borrower's auditors on such statements, together with a Compliance Certificate, and ii) the Borrower shall deliver to the Lender, as soon as available, and in any event within 45 days after the end of each of its first, second and third fiscal quarters, copies of its unaudited quarterly financial statements, prepared in accordance with generally accepted accounting principles.
- f) NOTICE OF AMENDMENT OF AND DEFAULT UNDER AGREEMENTS. The Borrower shall give prompt written notice to the Lender of any default under or pursuant to the Limited Partnership Agreement and the amendment, cancellation or termination of, or the giving of any notice or the taking of any other step or action to amend, cancel or terminate the Limited Partnership Agreement or any other agreement in which the amendment, cancellation or termination of which might reasonably be expected to have a Material Adverse Effect.
- g) BOOKS AND RECORDS. The Borrower shall have and maintain proper books of account, records and other documents (in accordance with sound accounting practice) relating to its business and financial affairs and shall permit the Lender or its authorized agents at any reasonable time, at the expense of the Borrower, to examine such books of account, records and other documents and to make copies thereof and take extracts therefrom.
- h) INSPECTIONS. The Lender shall be entitled from time to time at any reasonable time to inspect the assets and properties and the business and operations of the Borrower and, for such purpose, the Lender shall have access to all premises occupied by the Borrower where any of such assets or properties may be found.
- i) OTHER INFORMATION. At the request of the Lender, the Borrower shall provide such other information regarding the business, affairs, financial condition, property or assets of the Borrower as the Lender may reasonably request.
- j) INSURANCE. The Borrower shall maintain insurance of such types, in such amounts and with such deductibles as are customary in the case of businesses of established reputation engaged in the same or similar businesses.
- k) COMPLIANCE WITH APPLICABLE LAWS. The Borrower shall comply with all applicable laws if the consequences of a failure to comply might reasonably be expected, either alone or in conjunction with any other such non-compliances, to have a Material Adverse Effect.

- 1) PAYMENT OF TAXES. The Borrower shall from time to time pay or cause to be paid all material rents, taxes, rates, levies or assessments, ordinary or extraordinary, governmental royalties, fees or dues, and any other amount which may result in a Security Interest or similar encumbrance against the assets of the Borrower arising under statute or regulation, lawfully levied, assessed or imposed upon the Borrower as and when the same become due and payable, except when and so long as the validity of any such rents, taxes, rates, levies, assessments, royalties, fees, dues or other amounts is in good faith being contested by the Borrower in appropriate proceedings and provided that it shall have established adequate reserves therefor (in accordance with generally accepted accounting principles) and such contestation will not involve forfeiture of any part of its assets which are material to the Borrower.
- m) DEFEND TITLE. The Borrower shall defend its property, undertaking and assets and its right, title and interest thereto, against all adverse claims and demands respecting the same, other than Permitted Encumbrances.
- n) NO SALE OF ASSETS. The Borrower shall not sell, transfer, lease, convey, abandon or otherwise dispose of (including, without limitation, in connection with a sale and a lease-back transaction) any of its assets or property (each of the foregoing transactions, an "asset sale"), unless any such asset sale or the cumulative effect of a series of such asset sales would not result in a Material Adverse Effect.
- o) NEGATIVE PLEDGE. The Borrower shall not create, issue, incur, assume or permit to exist any Security Interests on any of its property, undertakings or assets other than Permitted Encumbrances.
- p) PARI PASSU RANKING. The Borrower shall not create, assume or otherwise incur any Debt ranking prior to the indebtedness and liabilities of the Borrower to the Lender hereunder other than Debt secured by Permitted Encumbrances. The Borrower shall ensure that at all times all of its Obligations hereunder and under any Loan Documents rank at least PARI PASSU in right of payment with the other unsecured and unsubordinated Debt of the Borrower.
- q) NO MERGER, ETC. The Borrower shall not enter into any transaction whereby all or substantially all of its undertaking, property or assets would become the property of another person, whether by way of reconstruction, reorganization, recapitalization, consolidation, amalgamation, merger, transfer, sale or otherwise if the effect of any such transaction would be a Material Adverse Effect.
- r) NO DISSOLUTION. The Borrower shall not liquidate, dissolve or wind-up or take any steps or proceedings in connection therewith.
- 6.02 COVENANTS OF THE GENERAL PARTNER. The General Partner hereby covenants and agrees with the Lender that:

- a) COMPLIANCE WITH AGREEMENT. The General Partner shall cause the Borrower to comply with this Agreement and each of the other Loan Documents to which the Borrower is a party.
- b) MAINTAIN EXISTENCE; NO DISSOLUTION. The General Partner shall maintain its existence in good standing. The General Partner shall not liquidate, dissolve or wind up or take any steps or proceedings in connection therewith.
- c) MAINTAIN STATUS AS GENERAL PARTNER. The General Partner shall not, without the consent of the Lender, resign as General Partner of the Borrower or otherwise limit its duties under the Limited Partnership Agreement.

ARTICLE SEVEN - EVENTS OF DEFAULT AND REMEDIES

7.01 EVENTS OF DEFAULT. "Event of Default", as used in this Agreement, means the occurrence of any one or more of the following events or circumstances:

- a) if the Borrower fails to pay the principal amount of any Loan when due and such default continues for five Business Days after notice from the Lender of such default;
 - b) if the Borrower fails to pay:
 - i) any interest (including, if applicable, default interest) hereunder when due; or
 - ii) any other Obligation not specifically referred to above payable by the Borrower hereunder when due,and such default continues for 30 days after notice from the Lender of such default;
- c) if the Borrower fails to observe or perform any covenant or obligation contained in this Agreement on its part to be observed or performed (other than a covenant or obligation whose breach or default in performance is specifically dealt with elsewhere in this section) and such failure continues for a period in excess of 45 days after notice from the Lender of such failure, unless the Lender (having regard to the subject matter of the default) shall have agreed to a longer period, and in such event, within the period agreed to by the Lender;
- d) the filing by or on behalf of the Borrower of a voluntary petition or an answer seeking or consenting to reorganization, liquidation, arrangement, readjustment of its debts or for any other relief under any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution, liquidation, or similar act or law, state or federal, now or hereafter existing ("BANKRUPTCY LAW"), or the making by the Borrower of any assignment for the benefit of creditors; or the admission by the Borrower in writing of its inability to pay its debts as they become due;

- e) the filing of any involuntary petition against the Borrower in bankruptcy or seeking reorganization, liquidation, arrangement, readjustment of its debts or for any other relief under any Bankruptcy Law and an order for relief by a court having jurisdiction in the premises shall have been issued or entered therein; or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver, liquidator, sequestrator, trustee or other officer having similar powers over the Borrower or all or a substantial part of its property shall have been entered;
- f) if a final judgment or order (subject to no further right of appeal) for the payment of money aggregating in excess of U.S.\$10,000,000 or the equivalent amount in any other currency shall be rendered against the Borrower in respect of which enforcement proceedings have been commenced and such proceedings have not been effectively stayed and the Borrower has not paid or settled such judgment or order within thirty days after enforcement proceedings have been commenced;
- g) if a default with respect to any issue of Debt (which shall include, for avoidance of doubt, Debt incurred, assumed or otherwise created by the Borrower), which default results in the acceleration of any Debt in an aggregate amount in excess of U.S.\$10,000,000 or the equivalent amount thereof in any other currency without such Debt having been discharged or such acceleration having been cured, waived, rescinded or annulled for a period of 30 days after written notice thereof has been given by the Lender to the Borrower; or
- h) if any representation or warranty made by the Borrower in this Agreement, in a Compliance Certificate or any of the Loan Documents to the Lender shall prove to have been incorrect or misleading in any material respect on and as of the date thereof.

7.02 REMEDIES. If an Event of Default has occurred, which has not been waived by the Lender or cured to the satisfaction of the Lender, Drawdowns under the Credit Facility shall not be available and the Lender shall be entitled to immediately demand and receive payment of all amounts owing by the Borrower to the Lender hereunder by providing written notice to the Borrower. If the Borrower fails to perform or make payment of any Obligations upon demand for payment in accordance herewith, the Lender may in its discretion, exercise any right or recourse and/or proceed by any action, suit, remedy or proceeding against the Borrower authorized or permitted by law for the recovery of all the Obligations and proceed to exercise any and all rights hereunder and the other Loan Documents and no such remedy for the enforcement of the rights of the Lender shall be exclusive of or dependent on any other remedy but any one or more of such remedies may from time to time be exercised independently or in combination.

7.03 REMEDIES CUMULATIVE. The rights and remedies of the Lender hereunder and under any other Loan Documents are cumulative and are in addition to and not in substitution of any rights or remedies provided by law or by equity. Any single or partial exercise by the Lender of any right or remedy for, or procurement of any judgment in respect of, default or breach of any term, covenant, condition or agreement contained in this Agreement or any other

Loan Document shall not be deemed to operate as a merger of or be a waiver of or to alter, affect or prejudice any other right or remedy or other rights or remedies to which the Lender may be lawfully entitled for such default or breach.

ARTICLE EIGHT - EXPENSES AND INDEMNITIES

8.01 COSTS AND EXPENSES. The Borrower shall promptly pay upon notice from the Lender all reasonable costs and expenses of the Lender in connection with the Credit Facility, this Agreement and the other Loan Documents, including, without limitation, in connection with the reasonable fees and out-of-pocket expenses of legal counsel to the Lender and all costs and expenses in connection with the establishment of the validity and enforceability of the Loan Documents and the preservation, perfection or enforcement of the rights of the Lender under the Loan Documents.

8.02 INDEMNITIES OF THE BORROWER. The Borrower hereby agrees to indemnify and save harmless the Lender against any reasonable cost, loss, liability or expense incurred by the Lender as a result of the failure of the Borrower to fulfil any of its covenants or obligations hereunder or under the other Loan Documents.

8.03 INDEMNITY OF THE GENERAL PARTNER. The General Partner hereby agrees to indemnify and save harmless the Lender against any reasonable cost, loss, liability or expense incurred by the Lender as a result of the failure of the General Partner to fulfil any of its covenants or obligations hereunder or under any of the other Loan Documents.

ARTICLE NINE - GENERAL

9.01 NOTICES. Any demand, notice or communication to be made or given hereunder (a "Communication") shall be in writing and shall be made or given by personal delivery, registered mail or by transmittal by telecopy or other electronic means of communication addressed to the respective parties as follows:

To the Borrower:

TC PipeLines, LP
c/o TC PipeLines GP, Inc.
450-First Street S.W.
Calgary, Alberta
Attention: President
Telecopy No.: (403) 920-2350

To the Lender:

TransCanada PipeLine USA Ltd.
450-First Street S.W.
Calgary, Alberta
Attention: Treasurer

or to such other address or telecopy number as either party may from time to time notify the other of in accordance with this provision. Any Communication made or given hereunder by personal delivery or electronic communication during normal business hours at the place of receipt on a Business Day shall be conclusively deemed to have been made or given at the time of actual delivery or receipt of Communication, as the case may be, on such Business Day. Any Communication made or given hereunder by personal delivery or electronic communication after normal business hours at the place of receipt or otherwise than on a Business Day shall be conclusively deemed to have been made or given at 9:00 a.m. (Eastern Standard time) on the first Business Day following actual delivery or receipt of Communication, as the case may be. Any Communication made or given hereunder by registered mail shall be conclusively deemed to have been made or given at 9:00 a.m. (Eastern Standard time) on the third Business Day after the mailing thereof.

9.02 WHOLE AGREEMENT. This Agreement together with any other Loan Documents constitute the whole and entire agreement between the Borrower and the Lender with respect to the subject matter hereof and cancel and supersede any prior agreements, undertakings, declarations, commitments, representations, warranties, written or oral, in respect thereof.

9.03 BENEFIT OF AGREEMENT. This Agreement shall enure to the benefit of and be binding upon the Borrower and the Lender and their respective successors and permitted assigns.

9.04 AMENDMENTS AND WAIVERS. Any provision of this Agreement may be amended only if the Borrower and the Lender so agree in writing. Any waiver or any consent by the Lender under any provision of this Agreement or any of the other Loan Documents must be in writing and may be given subject to any conditions thought fit by the Lender. Any waiver or consent shall be effective only in the instance and for the purpose for which it is given.

9.05 SEVERABILITY. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall not invalidate the remaining provisions of this Agreement and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

9.06 NUMBER AND PERSONS. Words used herein importing the singular number only shall include the plural and vice versa, words used herein importing the masculine gender shall include the feminine and neuter genders and vice versa and words used herein importing persons shall include individuals, partnerships, associations, trusts, unincorporated associations and corporations and vice versa.

9.07 HEADINGS; SECTIONS. The insertion of headings herein is for convenience of reference only and shall not affect the construction or interpretation of this Agreement. Unless something in the subject matter or context is inconsistent therewith, references herein to Articles and Sections are to Articles and Sections of this Agreement.

9.08 ACCOUNTING PRINCIPLES. Wherever in this Agreement reference is made to generally accepted accounting principles, such reference shall be deemed to be United States generally accepted accounting principles in use from time to time.

9.09 ASSIGNMENT. The Borrower shall not assign its rights or obligations under this Agreement or the other Loan Documents without the prior written consent of the Lender. The Lender may, without the consent of the Borrower, sell, assign, transfer or grant an interest in the outstanding Loans and this Agreement and the other Loan Documents to TransCanada PipeLines Limited, a Canadian corporation, or any subsidiary thereof so long as such transaction does not increase the Borrower's costs or risks under Section 1.09 hereof.

9.10 SCHEDULE. The Schedule to this Agreement is hereby incorporated herein and deemed to be part hereof.

9.11 THIS AGREEMENT GOVERNS. In the event of any conflict or inconsistency between the provisions of this Agreement and the provisions of any of the other Loan Documents, the provisions this Agreement, to the extent of the conflict or inconsistency, shall govern and prevail with respect to any Obligations.

9.12 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York (including Section 5-510.6(b) of the General Obligation Law of the State of New York) without regard to the choice or conflict of law rules or principles.

9.13 BORROWER'S STATUS. TC PipeLines, LP is a limited partnership formed under the laws of Delaware. A Limited Partner shall have no liability or obligation of any kind whatsoever for any Obligations.

Kindly signify your acceptance of the Agreement by signing and returning one copy of this Agreement to us.

Yours very truly,

TRANSCANADA PIPELINE USA LTD.

By: /s/ Russell K. Girling

Name: Russell K. Girling
Title: Senior Vice-President and
Chief Financial Officer

By: /s/ Robert J. Pitt

Name: Robert J. Pitt
Title: Vice-President, Finance Law

ACCEPTED AND AGREED
as of the date first written above.

TC PIPELINES, LP
by its General Partner
TC PipeLines GP, Inc.

By: /s/ Theresa Jang

Name: Theresa Jang
Title: Controller

By: /s/ Rhondda Grant

Name: Rhondda Grant
Title: Secretary

TC PIPELINES GP, INC.

By: /s/ Theresa Jang

Name: Theresa Jang
Title: Controller

By: /s/ Rhondda Grant

Name: Rhondda Grant
Title: Secretary

19

SCHEDULE A
TO THE LETTER AGREEMENT
DATED MAY 28, 2001 AMONG
TRANSCANADA PIPELINE USA LTD.,
TC PIPELINES, LP AND
TC PIPELINES GP INC.

COMPLIANCE CERTIFICATE

TO: TRANSCANADA PIPELINE USA LTD. (the "Lender")

Reference is made to the letter agreement dated May 28, 2001 among TransCanada Pipeline USA Ltd., TC PipeLines, LP and TC PipeLines GP, Inc. (as amended, modified, supplemented or restated, the "Credit Agreement"). Capitalized terms used herein, and not otherwise defined herein, shall have the meanings attributed to such terms in the Credit Agreement.

This Compliance Certificate is delivered to the Lender pursuant to Section 6.01(e) of the Credit Agreement.

The undersigned, [name], [title] of the General Partner of the Borrower, hereby certifies that, as of the date of this Compliance Certificate:

1. I have made or caused to be made such investigations as are necessary or appropriate for the purposes of this Compliance Certificate.

2. To the best of my knowledge after due enquiry:

- a) the consolidated financial statements for the fiscal year ending December 31, _____ provided to the Lender pursuant to the Credit Agreement were prepared in accordance with generally accepted accounting principles and present fairly, in all material respects, the financial position of the Borrower as at the date thereof;
- b) the representations and warranties made by the Borrower and the General Partner in Section 5.01 of the Credit Agreement are true and correct in all material respects, except as has heretofore been notified to the Lender by the Borrower in writing [or except as described in Schedule _____ hereto]; and
- c) the Borrower and the General Partner are in compliance in all respects with all covenants in the Credit Agreement except as has heretofore been notified to the Lender by the Borrower in writing [or except as described in Schedule _____ hereto].

3. Except as has heretofore been notified to the Lender by the Borrower in writing [or except as described in Schedule _____ hereto], to the best of my knowledge after due enquiry there are not pending or threatened, in writing, any

(a) claims, complaints, notices or requests for information received from a Governmental Authority by the Borrower or the General Partner, or which any of them is otherwise aware, with respect to any alleged violation of or alleged liability under any applicable laws, which, if prosecuted, would reasonably be expected to have a Material Adverse Effect or (b) actions, suits or proceedings which, if adversely determined, would reasonably be expected to have a Material Adverse Effect.

I give this Compliance Certificate on behalf of the General Partner of the Borrower and in my capacity as the [title] of the Borrower, and no personal liability is created against or assumed by me in the giving of this Certificate.

Dated at - , this - day of -, ____.

Name:
Title: