

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-Q

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

For the quarterly period ended September 30, 2006

or

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

For the Transition period from to

Commission File Number: 000-26091

### TC PipeLines, LP

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation  
or organization)

52-2135448

(I.R.S. Employer Identification Number)

110 Turnpike Road, Suite 203

Westborough, Massachusetts

(Address of principal executive offices)

01581

(Zip code)

508-871-7046

(Registrant's telephone number, including area code)

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

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Yes  No

As of November 3, 2006, there were 17,500,000 of the registrant's common units outstanding.

TC PIPELINES, LP

#### TABLE OF CONTENTS

#### [PART I](#) [FINANCIAL INFORMATION](#)

##### [Item 1.](#) [Financial Statements](#)

[Statement of Income – Three and nine months ended September 30, 2006 and 2005](#)

[Statement of Comprehensive Income – Three and nine months ended September 30, 2006 and 2005](#)

[Balance Sheet – September 30, 2006 and December 31, 2005](#)

[Statement of Cash Flows – Nine months ended September 30, 2006 and 2005](#)

[Statement of Changes in Partners' Equity – Nine months ended September 30, 2006](#)

[Notes to Financial Statements](#)

##### [Item 2.](#) [Management's Discussion and Analysis of Financial Condition and Results of Operations](#)

[Results of Operations of TC PipeLines, LP](#)

[Liquidity and Capital Resources of TC PipeLines, LP](#)

[Results of Operations of Northern Border Pipeline Company](#)

[Liquidity and Capital Resources of Northern Border Pipeline Company](#)

[Item 3.](#) [Quantitative and Qualitative Disclosures About Market Risk](#)

[Item 4.](#) [Controls and Procedures](#)

**[PART II](#) [OTHER INFORMATION](#)**

[Item 1A.](#) [Risk Factors](#)

[Item 5.](#) [Other Information](#)

[Item 6.](#) [Exhibits](#)

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

**PART I. FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**

**TC PipeLines, LP**

**Statement of Income**

(unaudited) (millions of dollars except per unit amounts)	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Equity income from investment in Northern Border Pipeline	16.6	13.9	40.1	34.7
Equity income from investment in Tuscarora	1.3	1.7	4.9	5.5
General and administrative expenses	(0.5)	(0.5)	(1.8)	(1.5)
Financial charges and other	(5.4)	(0.3)	(9.8)	(0.8)
<b>Net income</b>	<b>12.0</b>	<b>14.8</b>	<b>33.4</b>	<b>37.9</b>
<b>Net income allocation</b>				
Common units	11.3	14.1	31.3	35.8
General partner	0.7	0.7	2.1	2.1
	12.0	14.8	33.4	37.9
<b>Net income per common unit</b>	<b>\$ 0.65</b>	<b>\$ 0.81</b>	<b>\$ 1.79</b>	<b>\$ 2.05</b>
<b>Units outstanding (millions)</b>	<b>17.5</b>	<b>17.5</b>	<b>17.5</b>	<b>17.5</b>

**Statement of Comprehensive Income**

(unaudited) (millions of dollars)	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Net income	12.0	14.8	33.4	37.9
Other comprehensive income				
Change associated with current period hedging transactions of investees	(0.2)	(0.1)	(0.5)	(0.3)
<b>Total comprehensive income</b>	<b>11.8</b>	<b>14.7</b>	<b>32.9</b>	<b>37.6</b>

See accompanying notes to the financial statements.

**Balance Sheet**

(millions of dollars)	September 30, 2006 (unaudited)	December 31, 2005
<b>Assets</b>		
Current assets		
Cash and short-term investments	7.0	2.3
Investment in Northern Border Pipeline	569.1	274.5
Investment in Tuscarora	37.6	38.9
Other assets	0.7	—
	<b>614.4</b>	<b>315.7</b>
<b>Liabilities and Partners' Equity</b>		
Current liabilities		
Accrued liabilities	5.1	0.6
Current portion of long-term debt	—	13.5

	5.1	14.1
Long-term debt	307.0	—
Partners' equity		
Common units	295.6	294.4
General partner	6.5	6.5
Accumulated other comprehensive income	0.2	0.7
	<u>302.3</u>	<u>301.6</u>
	<u>614.4</u>	<u>315.7</u>

Subsequent events (Note 8)

See accompanying notes to the financial statements.

4

### Statement of Cash Flows

(unaudited) (millions of dollars)	Nine months ended September 30	
	2006	2005
<b>Cash Generated From Operations</b>		
Net income	33.4	37.9
Add:		
Equity income greater than distributions received	—	(2.0)
Decrease in operating working capital	4.5	0.1
Amortization of other assets	0.2	—
	<u>38.1</u>	<u>36.0</u>
<b>Investing Activities</b>		
Return of capital from Northern Border Pipeline	16.0	11.1
Return of capital from Tuscarora	1.3	0.8
Investment in Northern Border Pipeline	(311.1)	—
Investment in Tuscarora	—	(0.3)
Other assets	(0.9)	—
	<u>(294.7)</u>	<u>11.6</u>
<b>Financing Activities</b>		
Distributions paid	(32.2)	(32.2)
Long-term debt issued	310.0	—
Long-term debt repaid	(16.5)	(16.5)
	<u>261.3</u>	<u>(48.7)</u>
<b>Increase/(decrease) in cash and short-term investments</b>	<u>4.7</u>	<u>(1.1)</u>
<b>Cash and short-term investments, beginning of period</b>	<u>2.3</u>	<u>2.5</u>
<b>Cash and short-term investments, end of period</b>	<u>7.0</u>	<u>1.4</u>
Interest payments made	5.3	0.9

### Statement of Changes in Partners' Equity

(unaudited)	Common Units		General Partner (millions of dollars)	Accumulated Other Comprehensive Income (millions of dollars)	Partners' Equity	
	(millions of units)	(millions of dollars)			(millions of units)	(millions of dollars)
Partners' equity at December 31, 2005	17.5	294.4	6.5	0.7	17.5	301.6
Net income	—	31.3	2.1	—	—	33.4
Distributions paid	—	(30.2)	(2.0)	—	—	(32.2)
Other comprehensive income	—	—	—	(0.5)	—	(0.5)
<b>Partners' equity at September 30, 2006</b>	<u>17.5</u>	<u>295.5</u>	<u>6.6</u>	<u>0.2</u>	<u>17.5</u>	<u>302.3</u>

See accompanying notes to the financial statements.

5

## 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. TC PipeLines was formed by TransCanada PipeLines Limited, a subsidiary of TransCanada Corporation (collectively referred to herein as TransCanada), to acquire, own and participate in the management of United States (U.S.) - based pipeline assets. The Partnership commenced operations on May 28, 1999.

The financial statements have been prepared by management in accordance with U.S. generally accepted accounting principles (U.S. GAAP). Amounts are stated in U.S. 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 of normal recurring accruals) necessary to present fairly the results of operations for the three and nine months ended September 30, 2006 and 2005, the financial position as at September 30, 2006 and December 31, 2005, cash flows for the nine months ended September 30, 2006 and 2005, and statement of partners' equity at September 30, 2006.

The results of operations for the three and nine months ended September 30, 2006 and 2005 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, 2005.

## Note 2 Investment in Northern Border Pipeline Company

The Partnership owns a 50 per cent general partner interest in Northern Border Pipeline Company (Northern Border Pipeline), a Texas general partnership which owns a 1,249-mile U.S. interstate pipeline system that transports natural gas from the U.S. - Canadian border near Port of Morgan, Montana to a terminus near North Hayden, Indiana. Northern Border Pipeline's system connects with multiple pipelines providing shippers access to the various natural gas markets served by those pipelines. The other 50 per cent partnership interest in Northern Border Pipeline is held by ONEOK Partners, LP (ONEOK), a publicly traded limited partnership. The Northern Border Pipeline system is operated by ONEOK Partners GP, LLC (ONEOK Partners GP), a wholly owned subsidiary of ONEOK. Northern Border Pipeline is regulated by the Federal Energy Regulatory Commission (FERC).

On April 6, 2006, the Partnership acquired an additional 20 per cent general partnership interest in Northern Border Pipeline. The Partnership uses the equity method of accounting for its investment in Northern Border Pipeline. TC PipeLines' equity income for the three and nine months ended September 30, 2006 includes 30 per cent of the net income of Northern Border Pipeline up to April 6, 2006 and 50 per cent thereafter.

The following tables set out summarized financial information of Northern Border Pipeline:

### Northern Border Pipeline Income Statement

(unaudited) (millions of dollars)	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Revenues	80.3	89.0	231.5	241.6
Costs and expenses	(22.0)	(18.7)	(60.1)	(52.8)
Depreciation	(14.6)	(14.5)	(44.0)	(43.2)
Financial charges	(10.8)	(10.7)	(32.5)	(31.9)
Other income	0.8	1.1	1.5	1.9
Net income	33.7	46.2	96.4	115.6

### Northern Border Pipeline Balance Sheet

(millions of dollars)	September 30, 2006 (unaudited)	December 31, 2005
<b>Assets</b>		
Cash and cash equivalents	20.0	22.0
Other current assets	37.8	45.7
Plant, property and equipment, net	1,489.0	1,516.1
Other assets	22.6	20.9
	<u>1,569.4</u>	<u>1,604.7</u>
<b>Liabilities and Partners' Equity</b>		
Current liabilities	223.0	56.0
Reserves and deferred credits	5.4	4.8
Long-term debt	450.5	628.9
Partners' equity		
Partners' capital	889.4	912.7
Accumulated other comprehensive income	1.1	2.3
	<u>1,569.4</u>	<u>1,604.7</u>

The accumulated other comprehensive income amount relates to terminated interest rate swap agreements for cash flow hedges.

## Note 3 Investment in Tuscarora Gas Transmission Company

The Partnership owns a 49 per cent general partner interest in Tuscarora Gas Transmission Company (Tuscarora), a Nevada general partnership, which owns a 240-mile U.S. interstate pipeline system that originates at an interconnection point with facilities of Gas Transmission Northwest Corporation, a wholly-owned subsidiary of TransCanada, near Malin, Oregon and runs southeast through northeastern California and northwestern Nevada. The remaining general partner interests in Tuscarora are held 50 per cent by Sierra Pacific Resources and 1 per cent by TransCanada. The Tuscarora pipeline system is operated by a wholly owned subsidiary of Sierra Pacific Resources. Tuscarora's largest shipper, accounting for approximately 69 per cent of total available capacity through 2017, is also a wholly-owned subsidiary of Sierra Pacific Resources.

As a result of the purchase price allocation performed when the interest in Tuscarora was acquired, an annual amortization of \$0.4 million has been included in the Partnership's equity income from Tuscarora. 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 nine months ended September 30, 2006 and 2005 includes 49 per cent of the net income of Tuscarora for the same periods.

The following tables set out summarized financial information of Tuscarora:

#### Tuscarora Income Statement

(unaudited) (millions of dollars)	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Revenues	6.7	7.8	22.6	24.1
Costs and expenses	(1.0)	(1.0)	(3.4)	(3.2)
Depreciation	(1.6)	(1.5)	(4.7)	(4.6)
Financial charges	(1.3)	(1.5)	(4.1)	(4.4)
Other income	0.1	—	0.2	0.1
Net income	<u>2.9</u>	<u>3.8</u>	<u>10.6</u>	<u>12.0</u>

7

#### Tuscarora Balance Sheet

(millions of dollars)	September 30, 2006 (unaudited)	December 31, 2005
<b>Assets</b>		
Cash and cash equivalents	5.5	3.8
Other current assets	2.4	3.0
Plant, property and equipment, net	127.2	131.6
Other assets	1.4	1.4
	<u>136.5</u>	<u>139.8</u>
<b>Liabilities and Partners' Equity</b>		
Current liabilities	8.0	6.8
Long-term debt	68.7	71.1
Partners' equity		
Partners' capital	59.7	61.8
Accumulated other comprehensive income	0.1	0.1
	<u>136.5</u>	<u>139.8</u>

#### Note 4 Credit Facilities and Long-Term Debt

On February 28, 2006, the Partnership renewed a \$20 million unsecured credit facility (Revolving Credit Facility). Loans under the Revolving Credit Facility may bear interest, at the option of the Partnership, at a one-, two-, three-, or six-month LIBOR plus 0.75 per cent or 1.00 per cent if total debt is greater than or equal to 15 per cent of capitalization, or at a floating rate based on the higher of the federal funds effective rate plus 0.5 per cent and the prime rate. The Revolving Credit Facility matures in February 2007. Borrowings on the facility are limited to maximum leverage rates specified in the agreement. The Partnership had nil and \$13.5 million outstanding under the Revolving Credit Facility at September 30, 2006 and December 31, 2005, respectively. The interest rate on the Revolving Credit Facility averaged 5.60 per cent and 4.22 per cent for the nine months ended September 30, 2006 and 2005, respectively.

On March 31, 2006, the Partnership entered into an unsecured credit agreement for a \$310 million credit facility (Bridge Loan Credit Facility) with a banking syndicate. Borrowings under the Bridge Loan Credit Facility bear interest, at the option of the Partnership, at the LIBOR or the base rate plus an applicable margin. The Bridge Loan Credit Facility matures on March 31, 2008, at which time all amounts outstanding will be due and payable. Borrowings under the facility are limited to maximum leverage rates specified in the agreement. On April 5, 2006, the Partnership borrowed \$307 million under the Bridge Loan Credit Facility to finance the purchase price and a \$10 million transaction fee payable in connection with the acquisition of an additional 20 per cent general partnership interest in Northern Border Pipeline. The remaining \$3 million commitment under the Bridge Loan Credit Facility was terminated. The interest rate on the Bridge Loan Credit Facility averaged 6.26 per cent to September 30, 2006 and the interest rate was 6.45 per cent as at September 30, 2006.

8

#### Note 5 Net Income per Common Unit

Net income per common unit is computed by dividing net income, after deduction of the general partner's allocation, by the weighted average number of common units outstanding. The general partner's allocation is equal to an amount based upon the general partner's two per cent interest, adjusted to reflect an amount equal to incentive distributions. Net income per unit was determined as follows:

(unaudited) (millions of dollars except per unit amounts)	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Net income	12.0	14.8	33.4	37.9
Net income allocated to general partner				
General partner interest	(0.3)	(0.3)	(0.7)	(0.7)
Incentive distribution income allocation	(0.4)	(0.4)	(1.4)	(1.4)
	(0.7)	(0.7)	(2.1)	(2.1)
Net income allocable to common units	11.3	14.1	31.3	35.8
Weighted average units outstanding (millions)	17.5	17.5	17.5	17.5
Net income per common unit	\$ 0.65	\$ 0.81	\$ 1.79	\$ 2.05

## Note 6 Capital Requirements

The Partnership contributed \$3.1 million in the first quarter of 2006, representing its then 30 per cent share of a \$10.3 million cash call issued by Northern Border Pipeline. The funds were used by Northern Border Pipeline to fund an expansion project. The payment to Northern Border Pipeline was funded through cash from operations.

## Note 7 Acquisition

On April 6, 2006, the Partnership acquired an additional 20 per cent general partnership interest in Northern Border Pipeline for approximately \$297 million plus a \$10 million transaction fee payable to a subsidiary of TransCanada, bringing the partnership's total interest to 50 per cent. Through the acquisition TC PipeLines indirectly assumed approximately \$120 million of debt of Northern Border Pipeline. The Partnership funded the transaction through the Bridge Loan Credit Facility and intends to refinance the loan with a combination of equity and debt. In connection with this transaction, a subsidiary of TransCanada will become the operator of Northern Border Pipeline in April 2007.

The acquisition was accounted for using the purchase method of accounting. The purchase price was allocated using an estimate of fair value of the net assets at the date of acquisition. The difference between the purchase price and the fair value was recorded as part of the Partnership's investment in Northern Border Pipeline. The \$10 million transaction fee payable to a subsidiary of TransCanada, who will become the operator of Northern Border Pipeline in April 2007, has been recorded as part of the Partnership's investment in Northern Border Pipeline and is being amortized over the term of the related operating agreement.

The following pro forma statements of income for the three months and nine months ended September 30, 2006 and 2005 have been prepared as if the acquisition occurred at the beginning of the respective periods:

(unaudited) (millions of dollars except per unit amounts)	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Equity income from investment in Northern Border Pipeline	16.6	23.1	47.6	57.8
Equity income from investment in Tuscarora	1.3	1.7	4.9	5.5
General and administrative expenses	(0.5)	(0.5)	(1.8)	(1.5)
Financial charges and other	(5.0)	(5.0)	(14.9)	(15.3)
<b>Net income</b>	<b>12.4</b>	<b>19.3</b>	<b>35.8</b>	<b>46.5</b>
<b>Net income allocation</b>				
Common units	11.7	18.5	33.7	44.2
General partner	0.7	0.8	2.1	2.3
	12.4	19.3	35.8	46.5
<b>Net income per common unit</b>	<b>\$ 0.67</b>	<b>\$ 1.06</b>	<b>\$ 1.93</b>	<b>\$ 2.53</b>
<b>Units outstanding (millions)</b>	<b>17.5</b>	<b>17.5</b>	<b>17.5</b>	<b>17.5</b>

## Note 8 Subsequent Events

On November 2, 2006, TC PipeLines announced it has signed agreements to purchase an additional 50 per cent general partnership interest in Tuscarora for \$100 million. The Partnership will also indirectly assume approximately \$37 million of Tuscarora debt. Upon completion of the transaction, TC PipeLines will own or control 99 per cent of Tuscarora. The Partnership will account for its interest in Tuscarora using the consolidation method. In connection with this transaction, TransCanada will become the operator of Tuscarora, which is currently operated by an affiliate of Sierra Pacific Resources. The Partnership intends to fund the transaction with a combination of bank debt and equity. The transaction is expected to close by the end of 2006, subject to regulatory approvals.

Northern Border Pipeline declared and paid a distribution of approximately \$48.8 million on November 1, 2006. The Partnership received its 50 per cent share (\$24.4 million) on November 1, 2006.

Tuscarora declared a distribution of approximately \$3.1 million on October 12, 2006. The Partnership received its 49 per cent share (\$1.5 million) on October 31, 2006.

On October 20, 2006, the Partnership announced its third quarter cash distribution in the amount of \$0.60 per unit, payable on November 14, 2006, to unitholders of record on October 31, 2006. The cash distribution represents a quarterly increase of \$0.025 per unit, or an annual cash distribution increase of \$0.10 per unit, to an indicated annual cash distribution of \$2.40 per unit.

---

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### TC PipeLines, LP

#### Cautionary Statement Regarding Forward-Looking Information

A number of statements made by TC PipeLines in this quarterly report are forward-looking and relate to, among other things, anticipated financial performance, business prospects, strategies, market forces and commitments of TC PipeLines. All forward-looking statements are based on the Partnership's beliefs as well as assumptions made by and information currently available to the Partnership. The Partnership assumes no obligation to update any such forward-looking statements to reflect events or circumstances as occurring after the date hereof. Words such as "anticipate", "believe", "estimate", "expect", "plan", "intend", "forecast", and similar expressions, identify forward-looking statements. Readers are cautioned not to place undue reliance on this forward-looking information, which is as of the date of this Form 10-Q. These statements reflect the Partnership's current views with respect to future events and are subject to various risks, uncertainties and assumptions including:

- the Partnership's 50 per cent general partner interest in Northern Border Pipeline and 49 per cent general partner interest in Tuscarora represent its only material assets. As a result, the Partnership is dependent upon Northern Border Pipeline and Tuscarora for all of its available cash;
- operation of Northern Border Pipeline by affiliates of ONEOK and any further developments in Enron's filing of bankruptcy protection;
- regulatory decisions, particularly those of the FERC;
- orders by the FERC in Northern Border Pipeline's November 2005 rate case which are significantly different than its filed stipulation and agreement;
- the ability of Northern Border Pipeline to recontract its capacity and the transportation rates at which that capacity is contracted;
- developments in pending FERC proceedings that impact the ability of Northern Border Pipeline and Tuscarora to recover income taxes in their rates;
- the failure of a shipper on either one of the pipelines in which the Partnership has an interest to perform its contractual obligations;
- the ability of affiliates of Sierra Pacific Resources to continue to meet their contractual obligations to Tuscarora;
- the availability of and demand for Western Canadian natural gas for import into the U.S.;
- the amount of storage capacity in Western Canada and overall strong demand for storage injection; and
- prevailing economic conditions, particularly conditions of the capital and equity markets;

and other risks are discussed in the Partnership's filings with the Securities and Exchange Commission (SEC), including under Item 1A, "Risk Factors," in the Partnership's annual report on Form 10-K for the year ended December 31, 2005 and the quarterly reports on Form 10-Q for the quarters ended March 31 and June 30, 2006. By its nature, such forward-looking information is subject to various risks and uncertainties, which could cause TC PipeLines' actual results and experience to differ materially from the anticipated results or other expectations expressed in this quarterly report.

---

#### Results of Operations of TC PipeLines, LP

*As a result of the Partnership's ownership interests in both Northern Border Pipeline and Tuscarora, the following discusses the results of operations and liquidity and capital resources of TC PipeLines, then those of each of Northern Border Pipeline and Tuscarora.*

The following discussions of the financial condition and results of operations of the Partnership, Northern Border Pipeline and Tuscarora should be read in conjunction with the financial statements and notes thereto of the Partnership included elsewhere in this report (see Item 1. Financial Statements).

#### Overview

TC PipeLines, LP was formed in 1998 as a Delaware limited partnership to acquire, own and participate in the management of U.S.-based pipeline assets. TC PipeLines, LP and its subsidiary limited partnerships, TC PipeLines Intermediate Limited Partnership and TC Tuscarora Intermediate Limited Partnership, are

collectively referred to herein as “TC PipeLines” or “the Partnership.” TC PipeLines GP, Inc., an indirect wholly owned subsidiary of TransCanada, is the general partner of the Partnership. At September 30, 2006, the Partnership owned a 50 per cent general partner interest in Northern Border Pipeline and a 49 per cent general partner interest in Tuscarora.

### ***Significant Developments in 2006***

On April 6, 2006, TC PipeLines acquired an additional 20 per cent general partnership interest in Northern Border Pipeline for approximately \$297 million, plus a \$10 million transaction fee payable to a subsidiary of TransCanada. Through the acquisition, TC PipeLines has also indirectly assumed approximately \$120 million of debt of Northern Border Pipeline. TC PipeLines now owns a 50 per cent interest in Northern Border Pipeline. TC PipeLines continues to account for its interest in Northern Border Pipeline using the equity method of accounting. The Partnership funded the acquisition with a \$307 million bridge loan credit facility. The Partnership intends to refinance this loan with a combination of equity and debt.

In connection with this transaction, in April 2007 a subsidiary of TransCanada will become operator of Northern Border Pipeline, which is currently operated by ONEOK Partners GP.

In September 2006, Northern Border Pipeline filed a stipulation and agreement which documents the settlement in its pending rate case. The settlement was reached between Northern Border Pipeline and its participant customers and is supported by the FERC trial staff. The uncontested settlement was certified on October 20, 2006 by the administrative law judge and provided to the FERC for approval. The approval process is expected to be completed by late 2006.

Northern Border Pipeline’s new rates based on its November 1, 2005 rate case filing were effective May 1, 2006, and were collected subject to refund through September 30, 2006. Based on the settlement of the rate case, rates in effect prior to the rate case filing will be collected for the months of October to December 2006, and will not result in collecting additional amounts subject to refund. Northern Border Pipeline expects to refund the \$10.6 million estimated liability included on its balance sheet at September 30, 2006, plus interest accrued through the date the refunds are paid.

On November 2, 2006, TC PipeLines announced it has signed agreements to purchase an additional 50 per cent general partnership interest in Tuscarora for \$100 million. The Partnership will also indirectly assume approximately \$37 million of Tuscarora debt. Upon completion of the transaction, TC PipeLines will own or control 99 per cent of Tuscarora. The Partnership will account for its interest in Tuscarora using the consolidation method. In connection with this transaction, TransCanada will become the operator of Tuscarora, which is currently operated by an affiliate of Sierra Pacific Resources. The Partnership intends to fund the transaction with a combination of bank debt and equity. The transaction is expected to close by the end of 2006, subject to regulatory approvals.

### ***Investment in Northern Border Pipeline Company***

Northern Border Pipeline owns a 1,249-mile U.S. interstate pipeline system that transports natural gas from the U.S. – Canadian border near Port of Morgan, Montana to a terminus near North Hayden, Indiana for its customers. Northern Border Pipeline’s system connects with multiple pipelines providing shippers access to the various natural gas markets served by those pipelines. The Partnership owns a 50 per cent general partner interest in Northern Border Pipeline.

---

The remaining 50 per cent general partner interest in Northern Border Pipeline is held by ONEOK Partners, LP, a publicly traded limited partnership. The management committee of Northern Border Pipeline consists of four members. TC PipeLines and ONEOK Partners, LP each designate two members of the management committee and each have 50 per cent of the voting power of the management committee.

### ***Investment in Tuscarora Gas Transmission Company***

Tuscarora owns a 240-mile U.S. interstate pipeline system that originates at an interconnection point with facilities of GTN, a wholly-owned subsidiary of TransCanada, near Malin, Oregon and runs southeast through northeastern California and northwestern Nevada.

The Partnership owns a 49 per cent general partner interest in Tuscarora. The remaining general partner interest in Tuscarora is held 50 per cent by Tuscarora Gas Pipeline Co., a wholly-owned subsidiary of Sierra Pacific Resources and one per cent by TCPL Tuscarora Ltd., an indirect wholly-owned subsidiary of TransCanada.

### ***Critical Accounting Policy***

TC PipeLines accounts for its interests in both Northern Border Pipeline and Tuscarora using the equity method of accounting as detailed in notes 2 and 3 to the financial statements. The equity method of accounting is appropriate where the investor does not control an investee, but rather is able to exercise significant influence over the operating and financial policies of an investee. TC PipeLines is able to exercise significant influence over its investments in Northern Border Pipeline and Tuscarora because of its representation on their management committees.

The 50 per cent general partner interest in Northern Border Pipeline and 49 per cent general partner interest in Tuscarora are currently the Partnership’s only material sources of income. The Partnership’s results of operations are affected by and reflect the same factors that affect the operating results of Northern Border Pipeline and Tuscarora.

There has been no change to the Partnership’s critical accounting policies during the nine months ended September 30, 2006.

### ***Recent Accounting Pronouncements***

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (SFAS No. 157), which establishes a framework for measuring fair value and requires additional disclosures about fair value measurements. SFAS No. 157 is effective for TC PipeLines’ fiscal year beginning January 1, 2008. The Partnership is currently reviewing the applicability of SFAS No. 157 to its results of operations and financial position.



In September 2006, the SEC staff issued SAB Topic 1N, “Financial Statements – Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements” (SAB No. 108), which addresses how to quantify the effect of an error on the financial statements. SAB No. 108 is effective for TC PipeLines’ fiscal year ending December 31, 2006. The Partnership is currently reviewing the applicability of SAB No. 108 to its results of operations and financial position.

### **Third Quarter 2006 Compared with Third Quarter 2005**

Net income decreased \$2.8 million, or 19 per cent, to \$12.0 million in the third quarter of 2006, compared to \$14.8 million for the same period in 2005. The decrease was primarily due to lower earnings from Northern Border Pipeline and Tuscarora by \$4.3 million, offset by \$6.5 million in additional earnings from Northern Border Pipeline resulting from the acquisition of an additional 20 per cent general partner interest. Interest expense increased \$5.1 million compared to the same period last year due primarily to the financing of the additional 20 per cent general partner interest in Northern Border Pipelines.

Equity income from the Partnership’s investment in Northern Border Pipeline increased \$2.7 million, or 19 per cent, to \$16.6 million for the three months ended September 30, 2006, compared to \$13.9 million for the same period in 2005. The increase in equity income from Northern Border Pipeline was largely due to the Partnership’s additional 20 per cent general partner interest which contributed \$6.5 million in equity income, partially offset by a reduction in Northern Border Pipeline’s net income primarily due to lower revenues and higher operations and maintenance expenses. The decrease in net operating revenues of Northern Border Pipeline is mainly due to a one-time increase in revenues in the third quarter of 2005 of \$9.4 million due to the recognition of the sale of its bankruptcy claims against Enron and Enron North America. The increased operations and maintenance expenses of Northern Border Pipeline as compared to the same period last year is due to increased general and administrative expenses and electric compression charges associated with the Chicago III Expansion Project.

Equity income from the Partnership’s investment in Tuscarora decreased \$0.4 million, or 24 per cent, to \$1.3 million for the three months ended September 30, 2006, compared with the same quarter in 2005. The decrease in equity income from Tuscarora was predominantly due to lower revenues. Revenues decreased due to new transportation rates put into effect on June 1, 2006 as a result of Tuscarora’s rate settlement with its customers. The Partnership’s general and administrative expenses were \$0.5 million for the three months ended September 30, 2006, consistent with the same period in 2005.

The Partnership’s financial charges and other were \$5.4 million for the three months ended September 30, 2006, an increase of \$5.1 million compared to the same quarter in 2005, due to increased debt issued to finance the acquisition of the additional 20 per cent interest in Northern Border Pipeline.

### **Nine Months Ended September 30, 2006 Compared with Nine Months Ended September 30, 2005**

Net income decreased \$4.5 million, or 12 per cent, to \$33.4 million in the first nine months of 2006, compared to \$37.9 million for the same period in 2005. The decrease was largely due to increased interest expense related to the \$307 million bridge loan credit facility partially offset by an increase in equity income from Northern Border Pipeline resulting from the Partnership’s additional 20 per cent general partner interest.

Equity income from the Partnership’s investment in Northern Border Pipeline increased \$5.4 million, or 16 per cent, to \$40.1 million for the nine months ended September 30, 2006, compared to \$34.7 million for the same period in 2005. The increase in equity income from Northern Border Pipeline was due to the Partnership’s additional 20 per cent general partner interest which contributed \$11.2 million in equity income, partially offset by a reduction in Northern Border Pipeline’s net income primarily due to decreased net operating revenues and increased operations and maintenance expenses. The decrease in net operating revenues of Northern Border Pipeline is mainly due to a one-time increase in revenues in the third quarter of 2005 of \$9.4 million due to the recognition of the sale of its bankruptcy claims against Enron and Enron North America. The increased operations and maintenance expenses of Northern Border Pipeline as compared to the same period last year is due to increased general and administrative expenses, electric compression charges associated with the Chicago III Expansion Project, and the reduction of its allowance for doubtful accounts related to bankruptcy claims against Enron in the second quarter of 2005.

Equity income from the Partnership’s investment in Tuscarora decreased \$0.6 million, or 11 per cent, to \$4.9 million in the first nine months of 2006, compared to \$5.5 million for the same period in 2005. The decrease in equity income from Tuscarora was predominantly due to lower revenues. Revenues decreased due to new transportation rates which were put into effect on June 1, 2006 as a result of the settlement reached with customers.

The Partnership recorded general and administrative expenses of \$1.8 million for the nine months ended September 30, 2006, which increased by \$0.3 million when compared to the same period in 2005. General and administrative expenses increased mainly due to higher salaries and benefits.

The Partnership’s financial charges and other were \$9.8 million for the first nine months of 2006, an increase of \$9.0 million compared to the same period in 2005, due to increased debt.

## **Liquidity and Capital Resources of TC PipeLines, LP**

### **Debt and Credit Facilities**

The following table summarizes TC PipeLines’ debt and credit facilities outstanding as of September 30, 2006:

(millions of dollars)	Payments Due by Period		
	Total	Less than 1 year	Long-term portion
Revolving Credit Facility	—	—	—
Bridge Loan Credit Facility	307.0	—	307.0
<b>Total</b>	<b>\$ 307.0</b>	<b>\$ —</b>	<b>\$ 307.0</b>

On March 31, 2006, the Partnership entered into an unsecured credit agreement for a \$310 million credit facility (Bridge Loan Credit Facility) with a banking syndicate. Borrowings under the Bridge Loan Credit Facility bear interest, at the option of the Partnership, at the LIBOR or the base rate plus an applicable margin. The Bridge Loan Credit Facility matures on March 31, 2008, at which time all amounts outstanding will be due and payable. Borrowings under the facility are limited to maximum leverage rates specified in the agreement. On April 5, 2006, the Partnership borrowed \$307 million under the Bridge Loan Credit Facility to finance the purchase price and \$10 million in a transaction fee payable in connection with the acquisition of an additional 20 per cent general partnership interest in Northern Border Pipeline. The remaining \$3 million commitment under the Bridge Loan Credit Facility was terminated. The interest rate on the Bridge Loan Credit Facility averaged 6.26 per cent to September 30, 2006 and the interest rate was 6.45 per cent as at September 30, 2006. The Partnership was in compliance with all financial covenants as of September 30, 2006.

#### ***Cash Distribution Policy of TC PipeLines, LP***

The Partnership has made distributions of Available Cash (as defined in the Partnership Agreement) in the following manner:

- First, 98 per cent to the common units, pro rata, and 2 per cent to the general partner, until there is distributed for each outstanding unit an amount equal to the minimum quarterly distribution for that quarter; and
- Thereafter, in a manner whereby the general partner has rights (referred to as incentive distribution rights) to receive increasing percentages of excess quarterly cash distributions over specified cash distribution thresholds.

After the distributions described above are met, additional Available Cash from Operating Surplus (as defined in the Partnership Agreement) for that quarter will be distributed among the unitholders and the general partner in the following manner:

- First, 85 per cent to all units, pro rata, and 15 per cent to the general partner, until each unitholder has received a total of \$0.5275 for that quarter;
- Second, 75 per cent to all units, pro rata, and 25 per cent to the general partner, until each unitholder has received a total of \$0.6900 for that quarter; and
- Thereafter, 50 per cent to all units, pro rata, and 50 per cent to the general partner.

The distribution to the general partner described above, other than in its capacity as a holder of 2,035,106 units that are in excess of its aggregate 2 per cent general partner interest, represents the incentive distribution rights.

#### ***2006 Third Quarter Cash Distribution***

On October 20, 2006, the Board of Directors of the general partner declared the Partnership's 2006 third quarter cash distribution. The third quarter cash distribution is payable on November 14, 2006 to unitholders of record as of October 31, 2006. The total cash distribution of \$11.3 million will be paid in the following manner: \$10.5 million to common unitholders (including \$1.2 million to the general partner as holder of 2,035,106 common units), \$0.6 million to the general partner as holder of the incentive distribution rights, and \$0.2 million to the general partner in respect of its 2 per cent general partner interest.

#### ***Cash Flows from Operating Activities***

Cash flows provided by operating activities increased \$2.1 million, or six per cent, to \$38.1 million for the nine months ended September 30, 2006, compared to \$36.0 million for the same period in 2005. The increase was primarily due to \$6.7 million of higher cash distributions received partially offset by \$4.4 million of higher interest payments related to higher debt. For the nine months ended September 30, 2006 and 2005, the Partnership received cash distributions of \$56.1 million and \$43.7 million, respectively, from its equity investment in Northern Border Pipeline. The increase in cash distributions from Northern Border Pipeline was largely due to the Partnership's acquisition of an additional 20 per cent general partner interest. The cash distributions received include \$16.0 million and \$11.1 million classified as return of capital in the nine months ended September 30, 2006 and 2005, respectively. For the nine months ended September 30, 2006 and 2005, the Partnership also received cash distributions of \$6.2 million and \$6.3 million, respectively, from its equity investment in Tuscarora. The cash distributions received from Tuscarora include \$1.3 million and \$0.8 million classified as return of capital in the nine months ended September 30, 2006 and 2005, respectively. Distributions received in the first nine months of 2006 are based on the respective equity investments' financial results for the nine months ended June 30, 2006.

#### ***Cash Flows from Investing Activities***

Cash used in investing activities was \$294.7 million for the nine months ended September 30, 2006. The Partnership incurred costs of approximately \$297 million plus \$10 million in a transaction fee payable to a subsidiary of TransCanada for the acquisition of an additional 20 per cent general partnership interest in Northern Border Pipeline. The Partnership made an equity contribution of \$3.1 million, representing its then 30 per cent share of a cash call issued by Northern Border Pipeline to its partners on March 20, 2006.

Cash distributions received from Northern Border Pipeline which were classified as return of capital were \$16.0 million and \$11.1 million for the nine months ended September 30, 2006 and 2005, respectively. Cash distributions received from Tuscarora which were classified as return of capital were \$1.3 million and \$0.8 million for the nine months ended September 30, 2006 and 2005, respectively.

#### ***Cash Flows from Financing Activities***

Cash flows from financing activities were \$261.3 million for the nine months ended September 30, 2006. In the first nine months of 2006, TC PipeLines issued \$310 million of long-term debt, of which \$307 million was issued under the Bridge Loan Credit Facility to finance the Partnership's acquisition of an

additional 20 per cent general partner interest in Northern Border Pipeline. The Partnership also repaid \$16.5 million of its outstanding debt balance.

For the nine months ended September 30, 2006, the Partnership paid \$32.2 million in cash distributions in the following manner: \$30.1 million to common unitholders (including \$4.0 million to the general partner as holder of 2,305,106 common units), \$1.5 million to the general partner as holder of the incentive distribution rights, and \$0.6 million to the general partner in respect of its 2 per cent general partner interest.

### **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 during the remainder of 2006, TC PipeLines expects to fund these requirements with operating cash flows, debt and/or equity.

### **Results of Operations of Northern Border Pipeline Company**

*In the following discussion of the results of Northern Border Pipeline, all amounts represent 100 per cent of the operations of Northern Border Pipeline, in which the Partnership has held a 50 per cent interest since April 6, 2006.*

The discussion and analysis of Northern Border Pipeline's financial condition and operations are based on Northern Border Pipeline's financial statements, which were prepared in accordance with U.S. GAAP.

### **Overview**

Northern Border Pipeline is a Texas general partnership that was formed in 1978. Northern Border Pipeline provides natural gas transportation services and is a leading transporter of natural gas imported from Canada into the U.S. Northern Border Pipeline transports natural gas along 1,249 miles of pipeline with a design capacity of approximately 2.4 Bcf/d that extends from the Montana-Saskatchewan border to a terminus near North Hayden, Indiana. Northern Border Pipeline's customers with firm service transportation agreements pay a fee known as a demand charge to reserve pipeline capacity, regardless of use, for the term of their contracts. Firm service transportation customers also pay a fee known as a commodity charge that is based on the volume of natural gas they transport. Customers with interruptible service transportation agreements may utilize available capacity on Northern Border Pipeline's system after firm service transportation requests are satisfied. Interruptible service customers are assessed a commodity charge only.

Construction of Northern Border Pipeline's system was initially completed in 1982 followed by expansions or extensions in 1991, 1992, 1998, 2001 and 2005. In April 2006, the Chicago III Expansion Project went into service as planned, adding 130 MMcf/d of transportation capacity on the eastern portion of the pipeline into the Chicago area.

---

### **Significant Developments in 2006**

*Purchase and Sale of Partnership Interest* – In April 2006, ONEOK sold a 20 per cent partnership interest in Northern Border Pipeline to TC PipeLines. ONEOK and TC PipeLines each now own a 50 per cent interest in Northern Border Pipeline.

In April 2006, Northern Border Pipeline's general partnership agreement was amended and restated as a result of the ownership interest change. The major provisions adopted or changed included the following:

- The Management Committee consists of four members. Each partner designates two members and TC PipeLines designates one of its members as chairman.
- The Management Committee designates the members of the Audit Committee, which consists of three members. One member is selected by the members of the Management Committee designated by the partner whose affiliate is the operator and two members are selected by the members of the Management Committee designated by the other partner.
- ONEOK Partners GP is Northern Border Pipeline's operator until April 1, 2007. Effective April 1, 2007, TransCan Northwest Border Ltd. (TransCan), an affiliate of TransCanada, will become Northern Border Pipeline's operator under a new operating agreement, described briefly below.

*Operating Agreement* – In April 2006, Northern Border Pipeline entered into an operating agreement with TransCan. Under the new operating agreement, TransCan will become Northern Border Pipeline's operator effective April 1, 2007.

*Chicago III Expansion Project* – In April 2006, the Chicago III Expansion Project went into service as planned, adding approximately 130 MMcf/d of transportation capacity on the eastern portion of Northern Border Pipeline's system into the Chicago area.

*Settlement of Rate Case* - In September 2006, Northern Border Pipeline filed a stipulation and agreement which documents the settlement in its pending rate case. The settlement was reached between Northern Border Pipeline and its participant customers and is supported by the FERC trial staff. The uncontested settlement was certified on October 20, 2006 by the administrative law judge and provided to the FERC for approval. The approval process is expected to be completed by late 2006. Additional information about Northern Border Pipeline's regulatory proceedings is included under "Regulatory Developments" in this section of the report.

### **Critical Accounting Estimate**

*Provision for Rate Refunds* – Northern Border Pipeline is subject to regulation by the FERC. Northern Border Pipeline transports gas for shippers under a tariff regulated by the FERC that specifies the calculation of amounts to be paid by shippers and the general terms and conditions of transportation service on its pipeline system. From time to time, certain revenue collected may be subject to possible refunds upon final FERC orders. Accordingly, estimates of rate refund reserves are recorded considering regulatory proceedings and advice of counsel. As required by the provisions of the settlement of Northern Border Pipeline's last rate case, on November 1, 2005, Northern Border Pipeline filed a rate case with the FERC. The new rates were effective May 1, 2006, and were collected subject to refund through September 30, 2006. Based on the settlement of the rate case, rates in effect prior to the rate case filing will be

collected for the months of October to December 2006, and will not result in collecting additional amounts subject to refund. Northern Border Pipeline expects to refund \$10.6 million recorded as a liability on its balance sheet at September 30, 2006, plus interest accrued through the date the refunds are paid. Additional information about Northern Border Pipeline's regulatory proceedings is included in this section of the report under "Regulatory Developments".

### ***Known Trends and Uncertainties***

*Supply* - Northern Border Pipeline continues to expect that Canadian natural gas export volumes in 2006 will remain near 2005 levels. In 2007, Canadian gas supplies available for export could be adversely impacted by the development of oil sand reserves due to natural gas utilized in its production. As a result, increased production of crude oil reserves in Canada could reduce natural gas available for export to the U.S. if oil sands production and the related demand for natural gas are significantly greater than natural gas supply growth.

---

*Demand* - The Energy Information Administration projects U.S. demand for natural gas in 2006 to be slightly less than 2005 levels primarily as a result of warmer-than-average temperatures in the first quarter of 2006. U.S. gas consumption could increase in 2007 from 2006 levels assuming the return of colder temperatures during the 2006-2007 winter heating season (November to March).

Natural gas storage injections and withdrawals in Western Canada affect natural gas available for transportation on Northern Border Pipeline's system. As a result, demand for transportation services is reduced during periods of Canadian storage injection and may increase during periods of storage withdrawal. At September 30, 2006, Western Canada storage injection and inventories were slightly above September 30, 2005 figures. A developing storage field in Western Canada is believed to have recently reached full injection capabilities, adding capacity to total Western Canadian storage capabilities. Northern Border Pipeline anticipates that increased storage may reduce demand for its transportation capacity if unseasonably warm weather is experienced in the Midwest throughout the 2006-2007 winter heating season.

For the nine months ended September 30, 2006 and 2005, Northern Border Pipeline's contracted capacity, including contracts of various lengths with some short-term in nature, averaged approximately 97 per cent. At September 30, 2006, approximately 52 per cent of Northern Border Pipeline's capacity was contracted on a firm basis for the 2006-2007 heating season. At September 30, 2005, approximately 70 per cent of Northern Border Pipeline's capacity was contracted on a firm basis for the 2005-2006 heating season. As a result of short-term contracting activity, Northern Border Pipeline's actual firm contracted capacity averaged 102 per cent during the 2005-2006 heating season. Weather conditions will be a primary driver of demand for the 2006-2007 heating season. Assuming the return of colder weather for the 2006-2007 heating season, Northern Border Pipeline expects the available capacity to be sold on a short-term basis at levels comparable to the 2005-2006 heating season.

Revenues for the 2006-2007 heating season may be lower due to reduction of long-term rates starting January 1, 2007, resulting from the rate case settlement discussed under "Regulatory Developments" in this section. In addition, revenue may vary on a quarterly basis in 2007 due to the implementation of seasonal rates included in the rate case settlement. Discounting transportation rates on a short-term basis may be necessary to optimize revenue depending upon current market conditions.

### ***Regulatory Developments***

As required by the provisions of the settlement of Northern Border Pipeline's last rate case, on November 1, 2005, Northern Border Pipeline filed a rate case with the FERC. In December 2005, the FERC issued an order that identified issues that were raised in the proceeding and accepted the proposed rates, but suspended their effectiveness until May 1, 2006. Since that date, the new rates were collected subject to refund through September 30, 2006. Based on the settlement discussed below, the rates in effect prior to the rate case filing will be collected for the months of October to December 2006, and will not result in collecting additional amounts subject to refund.

On September 18, 2006, Northern Border Pipeline filed a stipulation and agreement which documents the settlement in its pending rate case. The settlement was reached between Northern Border Pipeline and its participant customers and is supported by the FERC trial staff. The uncontested settlement was certified on October 20, 2006 by the administrative law judge and provided to the FERC for approval. The approval process is expected to be completed by late 2006. Based on the settlement of the rate case Northern Border Pipeline expects to refund \$10.6 million recorded as a liability on its balance sheet at September 30, 2006, plus interest accrued through the date the refunds are paid. Northern Border Pipeline anticipates refunds will be paid during the first quarter of 2007.

The settlement establishes maximum long-term mileage-based rates and charges for transportation on Northern Border Pipeline's system. Beginning in 2007, overall rates will be reduced, compared with rates prior to the filing, by approximately five per cent. For the full transportation route from Port of Morgan, Montana to the Chicago area, the previous charge of approximately \$0.46 per Dth will now be approximately \$0.44 per Dth, which is comprised of a reservation rate, commodity rate and a compressor usage surcharge. The factors used in calculating depreciation expense for transmission plant are being increased from the current 2.25 per cent to 2.40 per cent. The settlement also provides for seasonal rates for short-term transportation services. Seasonal maximum rates vary on a monthly basis from approximately \$0.54 per Dth to approximately \$0.29 per Dth for the full transportation route from Port of Morgan, Montana to the Chicago area. The settlement includes a three-year moratorium on filing rate cases and participants challenging these rates, and requires that Northern Border Pipeline files a rate case within six years.

---

### ***Results of Operations***

The following tables set out summarized financial information for Northern Border Pipeline for the three and nine months ended September 30, 2006 and 2005 and as at September 30, 2006 and December 31, 2005. Amounts discussed represent 100 per cent of the operations of Northern Border Pipeline, in which the Partnership holds a 50 per cent interest as at September 30, 2006.

## Northern Border Pipeline Income Statement

(unaudited) (millions of dollars)	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Revenues	80.3	89.0	231.5	241.6
Costs and expenses	(22.0)	(18.7)	(60.1)	(52.8)
Depreciation	(14.6)	(14.5)	(44.0)	(43.2)
Financial charges	(10.8)	(10.7)	(32.5)	(31.9)
Other income	0.8	1.1	1.5	1.9
Net income	33.7	46.2	96.4	115.6

## Northern Border Pipeline Balance Sheet

(millions of dollars)	September 30, 2006 (unaudited)	December 31, 2005
<b>Assets</b>		
Cash and cash equivalents	20.0	22.0
Other current assets	37.8	45.7
Plant, property and equipment, net	1,489.0	1,516.1
Other assets	22.6	20.9
	<u>1,569.4</u>	<u>1,604.7</u>
<b>Liabilities and Partners' Equity</b>		
Current liabilities	223.0	56.0
Reserves and deferred credits	5.4	4.8
Long-term debt	450.5	628.9
Partners' equity		
Partners' capital	889.4	912.7
Accumulated other comprehensive income	1.1	2.3
	<u>1,569.4</u>	<u>1,604.7</u>

### Third Quarter 2006 Compared with Third Quarter 2005

Net income was \$33.7 million for the three months ended September 30, 2006, a decrease of \$12.5 million, or 27 per cent, compared with \$46.2 million for the same period last year, primarily due to decreased net operating revenues and increased operations and maintenance expense.

Net revenues decreased \$8.7 million, or 10 per cent, for the three months ended September 30, 2006, compared with the same period last year due to the following:

- a one-time increase in revenue in the third quarter of 2005 of \$9.4 million due to the recognition of the sale of Northern Border Pipeline's bankruptcy claims for transportation contracts and associated guarantees held against Enron and Enron North America;
- decreased net revenue of \$1.5 million due to an increase in Northern Border Pipeline's provision for billings subject to refund to reflect the filed settlement of its current rate case; partially offset by
- additional revenue of \$1.5 million due to contracts related to the Chicago III Expansion Project; and
- increased revenue of \$0.7 million related to increased demand for other transportation services.

Northern Border Pipeline reserved \$8.2 million of transportation revenue during the third quarter of 2006, as the proposed rates in its current rate case are subject to refund upon final FERC orders. Additional information about Northern Border Pipeline's current rate case is included in this section under "Regulatory Developments."

Costs and expenses increased \$3.3 million, or 18 per cent, for the three months ended September 30, 2006, compared with the same period last year as a result of increased general and administrative expenses and increased operating costs related to electric compression charges associated with the Chicago III Expansion Project.

The remaining decrease in net income of \$0.5 million for the three months ended September 30, 2006, compared with the same period last year were due to increased depreciation and financial charges and decreased other income.

### Nine Months Ended September 30, 2006 Compared with Nine Months Ended September 30, 2005

Net income was \$96.4 million for the nine months ended September 30, 2006, a decrease of \$19.2 million, or 17 per cent, compared with \$115.6 million for the same period last year, primarily due to decreased net operating revenues and increased operations and maintenance expenses.

Net revenues decreased \$10.1 million, or 4 per cent, for the nine months ended September 30, 2006, compared with the same period last year due to the following:

- a one-time increase in revenue in the third quarter of 2005 of \$9.4 million due to the recognition of the sale of Northern Border Pipeline's bankruptcy claims for transportation contracts and associated guarantees held against Enron and Enron North America;

- decreased firm demand revenue and commodity charges of \$2.6 million as a result of discounted transportation rates, transportation capacity that was sold for shorter transportation paths and some unsold capacity in March 2006; and
- decreased revenue of \$0.6 million related to decreased demand for other transportation services; partially offset by
- additional revenue of \$2.5 million due to contracts related to the Chicago III Expansion Project.

Northern Border Pipeline reserved \$10.5 million of transportation revenue during the nine months ended September 30, 2006, as the proposed rates in its current rate case are subject to possible refund upon final FERC orders.

Costs and expenses increased \$7.3 million, or 14 per cent, for the nine months ended September 30, 2006, compared with the same period last year as a result of increased general and administrative expenses, electric compression charges associated with the Chicago III Expansion Project and the reduction of Northern Border Pipeline's allowance for doubtful accounts related to bankruptcy claims against Enron Corp. and Enron North America Corp. in the second quarter of 2005.

The remaining decrease in net income of \$1.8 million for the nine months ended September 30, 2006, compared with the same period last year were due to increased depreciation and financial charges and decreased other income.

### Liquidity and Capital Resources of Northern Border Pipeline Company

Northern Border Pipeline's principal sources of liquidity include cash generated from operating activities and bank credit facilities. Northern Border Pipeline funds its operating expenses, debt service and cash distributions to its partners primarily with operating cash flow. Capital resources for maintenance and growth expenditures are funded by a variety of sources, including cash generated from operating activities, borrowings under Northern Border Pipeline's credit agreement, issuance of senior unsecured notes and/or equity contributions from its partners. Northern Border Pipeline's ability to access the capital markets to issue debt securities under reasonable terms depends on its financial condition, credit ratings and market conditions. Northern Border Pipeline believes that its ability to obtain financing and its history of consistent cash flow from operating activities provide a solid foundation to meet its short-term and long-term liquidity and capital resource requirements.

### Debt and Credit Facilities

The following table summarizes Northern Border Pipeline's debt and credit facilities outstanding as of September 30, 2006:

(millions of dollars)	Payments Due by Period		
	Total	Less than 1 year	Long-term portion
\$175 million Pipeline Credit Agreement due 2010 (a)	\$ 8.0	\$ 8.0	\$ —
6.25% senior notes due 2007 (b)	\$ 150.0	\$ 150.0	\$ —
7.75% senior notes due 2009	\$ 200.0	\$ —	\$ 200.0
7.50% senior notes due 2021	\$ 250.0	\$ —	\$ 250.0
Total	\$ 608.0	\$ 158.0	\$ 450.0

(a) Northern Border Pipeline is required to pay a facility fee of 0.075% on the principal commitment amount of its credit agreement.

(b) Northern Border Pipeline intends to refinance these notes on or before the May 1, 2007, maturity date.

### Revolving Credit Agreement

As of September 30, 2006, Northern Border Pipeline had outstanding borrowings of \$8.0 million under its \$175 million revolving credit agreement and was in compliance with the covenants of its agreement. The covenants are described in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources," in Northern Border Pipeline's annual report on Form 10-K for the year ended December 31, 2005. The weighted average interest rate related to the borrowings on our credit agreement was 7.30 per cent at September 30, 2006.

### Cash Flows

Northern Border Pipeline's cash flows from operating activities for the nine months ended September 30, 2006 decreased \$10.1 million from the same period last year due to the following:

- cash received in 2005 of \$11.1 million related to Northern Border Pipeline's Enron Corp. and Enron North America Corp. bankruptcy claims;
- increased expenditures related to its current rate case of \$1.3 million;
- increased cash paid for interest of \$0.7 million; partially offset by
- increased cash received from customers of \$0.8 million as a result of higher gross operating revenues.

Cash used in investing activities was \$17.0 million for each of the nine months ended September 30, 2006 and 2005. Maintenance capital expenditures were \$6.7 million and \$12.0 million during the nine months ended September 30, 2006 and 2005, respectively. During the nine months ended September 30, 2006 and 2005, growth capital expenditures related to the Chicago III Expansion Project were \$10.2 million and \$4.3 million, respectively. Cash used in financing activities was \$138.8 million for the nine months ended September 30, 2006, compared with \$146.2 million for the same period last year.

Northern Border Pipeline received equity contributions from its partners of \$10.3 million during the first quarter of 2006 to fund approximately 50 per cent of the Chicago III Expansion Project capital costs. Distributions to partners, which are calculated using operating results from the preceding quarter, decreased \$15.8 million during the nine months ended September 30, 2006, compared with the same period last year primarily due to lower net income.

### **Recent Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157), which establishes a framework for measuring fair value and requires additional disclosures about fair value measurements. SFAS No. 157 is effective for Northern Border Pipeline's fiscal year beginning January 1, 2008. Northern Border Pipeline is currently reviewing the applicability of SFAS No. 157 to its results of operations and financial position.

---

In September 2006, the SEC staff issued SAB Topic 1N, "Financial Statements – Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements" (SAB No. 108), which addresses how to quantify the effect of an error on the financial statements. SAB No. 108 is effective for Northern Border Pipeline's fiscal year ending December 31, 2006. Northern Border Pipeline is currently reviewing the applicability of SAB No. 108 to its results of operations and financial position.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" (SFAS No. 123R), which requires companies to expense the fair value of share-based payments and includes changes related to the expense calculation for share-based payments. ONEOK Partners GP adopted SFAS No. 123R as of January 1, 2006, and charges Northern Border Pipeline for its proportionate share of the expense recorded by ONEOK Partners GP. The adoption of SFAS No. 123R by ONEOK Partners GP did not have a material impact on Northern Border Pipeline's results of operations or financial position.

### **Results of Operations of Tuscarora Gas Transmission Company**

*In the following discussion of the results of Tuscarora, all amounts represent 100 per cent of the operations of Tuscarora, in which the Partnership has held a 49 per cent interest since September 1, 2000.*

#### **Overview**

Tuscarora is a Nevada general partnership formed in 1993. Tuscarora owns a 240-mile, 20-inch diameter, U.S. interstate pipeline system that originates at an interconnection point with facilities of GTN, a wholly-owned subsidiary of TransCanada, near Malin, Oregon and runs southeast through northeastern California and northwestern Nevada. The Tuscarora pipeline system terminates near Wadsworth, Nevada. Along its route, deliveries are made in Oregon, northern California and northwestern Nevada. Deliveries are also made directly to the local gas distribution system of Sierra Pacific Power, a subsidiary of Sierra Pacific Resources.

Tuscarora has firm transportation contracts for over 95 per cent of its available capacity, including contracts held by Sierra Pacific Power for 69 per cent of the total available capacity, the majority of which expires on October 31, 2017. As of September 30, 2006, the weighted-average contract life on the Tuscarora pipeline system was approximately 11.7 years.

#### **Recent Developments**

*Cost and Revenue Study* – In accordance with a letter agreement executed on September 25, 2001 with the Public Utilities Commission of Nevada (PUCN), Tuscarora had an obligation to file a cost and revenue study with the FERC, within a reasonable timeframe following the third anniversary of the in-service date of its 2002 expansion project. The project was placed into service on December 1, 2002. As a result of that requirement, Tuscarora and the PUCN entered into settlement discussions with respect to a potential rate adjustment. On April 26, 2006 the PUCN approved a settlement with Tuscarora. The settlement results in a firm transportation rate of \$0.40/decatherm per day (dth-day) beginning June 1, 2006. This is a 17 per cent reduction to the current rate of \$0.4811/dth-day, or approximately \$5 million reduction in Tuscarora's annual revenues. In addition, the settlement results in a moratorium on all rate actions before the FERC by any party to the settlement for a period of 48 months to May 31, 2010, including rate actions related to expansion projects where Tuscarora proposes to price the expansion at the settlement rate. There is no requirement to file a cost and revenue study or rate case at the end of the moratorium period. The settlement also terminates the September 2001 requirement for Tuscarora to file a cost and revenue study. All firm shippers have signed on with the agreement settlement. The settlement was approved by the FERC on July 3, 2006. A compliance filing was made July 7, 2006 for the new tariffs, which are to be effective as of June 1, 2006. Approval for this filing was received on August 7, 2006.

*Change in Ownership* - On November 2, 2006, TC PipeLines announced it has signed agreements to purchase an additional 50 per cent general partnership interest in Tuscarora for \$100 million. The Partnership will also indirectly assume approximately \$37 million of Tuscarora debt. Upon completion of the transaction, TC PipeLines will own or control 99 per cent of Tuscarora. The Partnership will account for its interest in Tuscarora using the consolidation method. In connection with this transaction, TransCanada will become the operator of Tuscarora, which is currently operated by an affiliate of Sierra Pacific Resources. The Partnership intends to fund the transaction with a combination of bank debt and equity. The transaction is expected to close by the end of 2006, subject to regulatory approvals.

---

### **Results of Operations**

The following tables set out summarized financial information for Tuscarora for the three and nine months ended September 30, 2006 and 2005 and as at September 30, 2006 and December 31, 2005. Amounts discussed represent 100 per cent of the operations of Tuscarora, in which the Partnership has held a 49 per cent interest since September 1, 2000.

#### **Tuscarora Income Statement**

(unaudited) (millions of dollars)	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Revenues	6.7	7.8	22.6	24.1
Costs and expenses	(1.0)	(1.0)	(3.4)	(3.2)
Depreciation	(1.6)	(1.5)	(4.7)	(4.6)
Financial charges	(1.3)	(1.5)	(4.1)	(4.4)
Other income	0.1	—	0.2	0.1
Net income	2.9	3.8	10.6	12.0

### Tuscarora Balance Sheet

(millions of dollars)	September 30, 2006 (unaudited)	December 31, 2005
<b>Assets</b>		
Cash and cash equivalents	5.5	3.8
Other current assets	2.4	3.0
Plant, property and equipment, net	127.2	131.6
Other assets	1.4	1.4
	<u>136.5</u>	<u>139.8</u>
<b>Liabilities and Partners' Equity</b>		
Current liabilities	8.0	6.8
Long-term debt	68.7	71.1
Partners' equity		
Partners' capital	59.7	61.8
Accumulated other comprehensive income	0.1	0.1
	<u>136.5</u>	<u>139.8</u>

### Third Quarter 2006 Compared with Third Quarter 2005

Net income decreased \$0.9 million, or 24 per cent, to \$2.9 million in the third quarter of 2006, compared to \$3.8 million for the same period in 2005. The decrease was primarily due to lower revenues.

Revenues earned by Tuscarora decreased \$1.1 million, or 14 per cent, to \$6.7 million in the three months ended September 30, 2006, compared to \$7.8 million for the same period in 2005. The decrease was mainly due to the lower rates charged.

Costs and expenses were \$1.0 million for the third quarter of 2006 and 2005. Depreciation of \$1.6 million for the three months ended September 30, 2006 remained relatively consistent with the same period in 2005, when the depreciation totaled \$1.5 million.

Financial charges decreased \$0.2 million, or 13 per cent, to \$1.3 million for the third quarter of 2006, compared to \$1.5 million for the same period in 2005. The decrease is due to lower outstanding debt. Other income of \$0.1 million for the three months ended September 30, 2006 remained relatively consistent with the same period in 2005, when there was negligible other income recorded.

### Nine Months Ended September 30, 2006 Compared with Nine Months Ended September 30, 2005

Net income decreased \$1.4 million, or 12 per cent, to \$10.6 million for the nine months ended September 30, 2006, compared to \$12.0 million for the same period in 2005. The decrease was primarily due to lower revenues.

Revenues earned by Tuscarora decreased \$1.5 million, or six per cent, to \$22.6 million in the nine months ended September 30, 2006, compared to \$24.1 million for the same period in 2005. The decrease is mainly due to lower rates charged since June 2006.

Costs and expenses increased \$0.2 million, or 6 per cent, to \$3.4 million for the nine months ended September 30, 2006, compared to \$3.2 million for the same period in 2005. The increase was primarily due to maintenance costs to repair the washout of Susanville Lateral. Depreciation remained relatively consistent at \$4.7 million in the nine months ended September 30, 2006 when compared to the same period in 2005, where \$4.6 million of depreciation was recorded.

Financial charges decreased \$0.3 million, or 7 per cent, to \$4.1 million for the nine months ended September 30, 2006, compared to \$4.4 million for the same period last year. The decrease is mainly due to less debt outstanding. Other income remained relatively consistent at \$0.2 million for the first nine months of 2006, compared to \$0.1 million in the same period of 2005.

### Liquidity and Capital Resources of Tuscarora Gas Transmission Company

#### Debt and Credit Facilities

The following table summarizes Tuscarora's debt and credit facilities outstanding as of September 30, 2006:

(millions of dollars)	Total	Payments Due by Period			
		Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years



Series A Senior Notes due 2010	59.8	3.5	6.5	49.8	—
Series B Senior Notes due 2010	6.2	0.5	1.0	4.7	—
Series C Senior Notes due 2012	7.5	0.8	1.6	1.6	3.5
Operating Leases	0.2	0.1	0.1	—	—
Commitments (1)	0.7	0.6	0.1	—	—
Total	<u>\$ 74.4</u>	<u>\$ 5.5</u>	<u>\$ 9.3</u>	<u>\$ 56.1</u>	<u>\$ 3.5</u>

(1) Tuscarora's commitments relate to a contract with a third party for maintenance services on certain components of its pipeline-related equipment. The contract expires in November 2007.

Short-term liquidity needs will be met by operating cash flows. Long-term capital needs may be met through the issuance of long-term indebtedness.

### Cash Flows

Tuscarora's cash provided by operating activities decreased \$1.4 million to \$16.9 million for the nine months ended September 30, 2006, compared to the same period last year primarily due to lower revenues.

Cash used in investing activities was \$0.2 million and \$0.9 million for the nine months ended September 30, 2006 and 2005, respectively. Tuscarora used more funds for growth capital expenditures in 2005, which were related to the Barrick Lateral.

Cash used in financing activities increased by \$0.4 million to \$15.0 million for the nine months ended September 30, 2006, compared to the same period in 2005 due to lower contributions received from Tuscarora's partners in 2006, slightly offset by lower cash distributions paid to Tuscarora's partners in 2006.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### TC PipeLines, LP

TC PipeLines may be exposed to market risk through changes in interest rates. The Partnership does not have any material foreign exchange risks. TC PipeLines' interest rate exposure results from its Bridge Loan Credit Facility and Revolving Credit Facility, which are subject to variability in LIBOR interest rates. At September 30, 2006, TC PipeLines had \$307 million outstanding on its Bridge Loan Credit Facility and nil outstanding on its Revolving Credit Facility. If LIBOR interest rates changed by one per cent compared to the rates in effect at September 30, 2006, the Partnership's interest expense for the nine months ended September 30, 2006 would have changed by approximately \$1.5 million. This amount has been determined by considering the impact of the hypothetical interest rates on variable rate borrowings outstanding as of September 30, 2006.

The Partnership is also influenced by the same factors that influence Northern Border Pipeline and Tuscarora. Neither Northern Border Pipeline nor Tuscarora owns any of the natural gas it transports, therefore, neither assumes any of the related natural gas commodity price risk.

Northern Border Pipeline utilizes both fixed- and variable-rate debt and is exposed to market risk due to the floating interest rates on its credit agreement. Northern Border Pipeline regularly assesses the impact of interest rate fluctuations on future cash flows and evaluates hedging opportunities to mitigate its interest rate risk.

Northern Border Pipeline maintains a significant portion of its debt at fixed rates to reduce its sensitivity to interest rate fluctuations and utilizes interest rate swap agreements to convert fixed-rate debt to variable-rate debt to manage interest expense. As of September 30, 2006, 99 per cent of Northern Border Pipeline's outstanding debt was at fixed rates and there were no interest rate swap agreements outstanding.

If interest rates hypothetically increased one per cent on Northern Border Pipeline's variable-rate borrowings outstanding at September 30, 2006, its interest expense would increase and its 2006 projected net income would decrease by approximately \$0.1 million.

## PART I. FINANCIAL INFORMATION (Concluded)

### ITEM 4. CONTROLS AND PROCEDURES

### TC PipeLines, LP

#### Evaluation of disclosure controls and procedures.

Based on their evaluation of the Partnership's disclosure controls and procedures as of the end of the period covered by this quarterly report, the President and Chief Executive Officer and Chief Financial Officer of the general partner of the Partnership have concluded that the Partnership's disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the Partnership in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that information required to be disclosed by the Partnership in the reports that the Partnership files or submits under the Exchange Act is accumulated and communicated to the management of the general partner of the Partnership, including the President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in the Partnership's internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Partnership's internal control over financial reporting.

---

**PART II. OTHER INFORMATION**  
**ITEM 1A. RISK FACTORS**

**TC PipeLines, LP**

*The following modified risk factors should be read in conjunction with the risk factors disclosed in Part I, Item 1A, "Risk Factors," in our annual report on Form 10-K for the year ended December 31, 2005 and Part II, Item 1A, "Risk Factors" in our Quarterly reports on Form 10Q for the first and second quarters of 2006:*

***The outcome of Northern Border Pipeline's pending rate case could adversely impact the amount of cash distributed to us by Northern Border Pipeline.***

In November 2005, Northern Border Pipeline filed a rate case with the FERC requesting (1) a 7.8 per cent increase in Northern Border Pipeline's revenue requirement; (2) a change to its rate design establishing a new supply zone and market area utilizing a fixed rate per dekatherm and a dekatherm-mile rate, respectively; (3) an increase in the depreciation rate for transmission plant; (4) the implementation of a short-term rate structure on a prospective basis; (5) continued inclusion of an income tax allowance in the rate calculation; (6) a roll-in of certain acquisition and expansion costs; (7) a decrease in rate base; and (8) other changes to its rates. A number of Northern Border Pipeline's customers and other interested parties have protested the proposed changes and have claimed that Northern Border Pipeline's rates should be lower than its proposed rates or its rates in effect prior to the rate case. Northern Border Pipeline's proposed rates went into effect on May 1, 2006, subject to refund pending the outcome of the rate case. Any FERC determination that Northern Border Pipeline's rates should be less than its proposed rates may have an adverse impact on the cash distributed to us. If the FERC determines that Northern Border Pipeline's rates should be below its proposed rates or its rates in effect prior to the rate case, Northern Border would be required (1) to charge its customers those lower rates prospectively, following the FERC's final determination on the rates, and (2) to refund its customers the difference between the currently effective rates it began charging on May 1, 2006, and the rates that were in effect prior to the rate case for the period from May 1, 2006 until the FERC's final determination on the rates goes into effect. Northern Border Pipeline is accruing cash reserves in an amount equal to that difference. Any FERC determination adverse to Northern Border Pipeline in its rate case may have an adverse impact on the cash distributed to us.

On September 18, 2006, Northern Border Pipeline filed a stipulation and agreement which documents the settlement in Northern Border Pipeline's pending rate case. The settlement was reached between Northern Border Pipeline and its participant customers and is supported by the FERC trial staff. The uncontested settlement was certified on October 20, 2006 by the administrative law judge and provided to the FERC for approval. The approval process is expected to be completed by late 2006. Based on the settlement of the rate case, Northern Border Pipeline expects to refund \$10.6 million, recorded as a liability on its balance sheet at September 30, 2006, plus interest accrued through the date the refunds are paid. Northern Border Pipeline anticipates refunds will be paid during the first quarter of 2007.

The settlement establishes maximum long-term rates and charges for transportation on Northern Border Pipeline's system. Beginning in 2007, overall rates will be reduced, compared with rates prior to the filing, by approximately five per cent for the full transportation route from Port of Morgan, Montana to the Chicago area. The previous charge of approximately \$0.46 per Dth will now be approximately \$0.44 per Dth. The factors used in calculating depreciation expense for transmission plant are being increased from the current 2.25 per cent to 2.40 per cent. The settlement also provides for seasonal rates for short-term transportation services. The settlement includes a three-year moratorium on filing rate cases and participants challenging these rates, and requires that Northern Border Pipeline files a rate case within six years.

In May 2005, the FERC issued a policy statement permitting the inclusion of an income tax allowance in the rates for partnership interests held by partners with an actual or potential income tax liability. On December 16, 2005, the FERC issued its first significant case-specific pipeline review of the income tax allowance issue in another pipeline company's rate case. The FERC reaffirmed its new income tax allowance policy and directed the subject pipeline to provide certain evidence necessary for the pipeline to determine its income tax allowance. The new tax allowance policy and the December 16 order have been appealed to the D.C. Circuit. As a result, the ultimate outcome of these proceedings is not certain and could result in changes to the FERC's treatment of income tax allowances in cost of service. Depending upon how the policy statement on income tax allowances is applied in practice to pipelines owned by partnerships, and whether it is ultimately upheld or modified on judicial review, could affect the tariffs of FERC-regulated oil and natural gas pipelines like Northern Border Pipeline. We cannot predict the outcome of the case on appeal and its potential effect on Northern Border Pipeline's rate case, or what, if any, effect any such outcome may have on Northern Border Pipeline. Northern Border Pipeline's present rates and recent rate case filing reflects an allowance for income taxes of 35 per cent regardless of the partners' taxpaying status. Any FERC actions regarding this issue in Northern Border Pipeline's rate case that may adversely affect Northern Border Pipeline could have an adverse effect on the cash distributions we receive from it.

---

**ITEM 5. OTHER INFORMATION**

**TC PipeLines, LP**

On April 6, 2006, Northern Border Pipeline entered into an operating agreement with TransCan Northwest Border Ltd. (TransCan), who will be Northern Border Pipeline's operator effective April 1, 2007. TransCan is a wholly-owned subsidiary of TransCanada. TransCanada develops and operates energy infrastructure in North America. TransCanada has a significant network of pipelines that transport natural gas from Western Canada to Canadian and U.S. markets. TransCan is an affiliate of TC PipeLines, who owns a fifty percent interest in Northern Border Pipeline.

TransCanada has advised Northern Border Pipeline that it has retained, effective April 1, 2007, approximately 135 individuals, who currently operate Northern Border Pipeline's system and will continue to operate Northern Border Pipeline's system as employees of TransCanada beginning April 1, 2007.

These employees are currently employed by ONEOK Partners GP, Northern Border Pipeline's current operator.

Additionally, TransCan has advised Northern Border Pipeline, effective as of April 1, 2007, that it has retained Paul F. Miller to assume the responsibilities of vice-president and general manager of TransCan and it has retained Patricia M. Wiederholt as controller, Northern Border Pipeline of TransCan. Mr. Miller will have overall operational and financial performance responsibility for TransCan's operations of Northern Border Pipeline. Mr. Miller will be the equivalent of Northern Border Pipeline's principal executive officer, and he is currently Vice President – Commercial, Northern Border Pipeline for ONEOK Partners GP. Ms. Wiederholt is currently Partnership Controller for ONEOK Partners GP. As controller of TransCan, Ms. Wiederholt will be the equivalent of Northern Border Pipeline's principal financial officer.

Northern Border Pipeline's current operating agreement with ONEOK Partners GP will terminate on March 31, 2007. As a result William R. Cordes, President – Northern Border Pipeline for ONEOK Partners GP and Jerry L. Peters, Senior Vice President – Chief Accounting Officer and Treasurer for ONEOK Partners GP, will no longer serve as the equivalent of Northern Border Pipeline's principal executive officer and principal financial officer, respectively after March 31, 2007.

As previously disclosed, Mr. Cordes will retire from ONEOK Partners GP effective April 1, 2007. On October 24, 2006, Boardwalk Pipeline Partners, LP (Boardwalk) announced that Mr. Cordes was elected a director and member of the audit committee of Boardwalk's general partner. Boardwalk, through its subsidiaries, is engaged in interstate transportation and storage of natural gas.

28

---

**PART II. OTHER INFORMATION (Concluded)**  
**ITEM 6. EXHIBITS**

**TC PipeLines, LP**

<u>No.</u>	<u>Description</u>
31.1	Certification of President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of President and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

29

---

**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/ Gregory A. Lohnes  
Gregory A. Lohnes  
Chief Financial Officer (duly authorized officer)

Date: November 3, 2006

By: /s/ Amy Leong  
Amy Leong  
Controller (duly authorized officer)

Date: November 3, 2006

30

---

## CERTIFICATION

I, Russell K. Girling, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TC PipeLines, LP;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation, of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 3, 2006

/s/ Russell K. Girling  
Russell K. Girling  
President and Chief Executive Officer  
TC PipeLines GP, Inc., as general partner of  
TC PipeLines, LP

---

## CERTIFICATION

I, Gregory A. Lohnes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TC PipeLines, LP;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation, of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 3, 2006

/s/ Gregory A. Lohnes

Gregory A. Lohnes

Chief Financial Officer

TC PipeLines GP, Inc., as general partner of

TC PipeLines, LP

---

## CERTIFICATION

I, Russell K. Girling, President and Chief Executive Officer of TC PipeLines GP, Inc., the general partner of TC PipeLines, LP (the Partnership), in compliance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 hereby certify, to the best of my knowledge, in connection with the Partnership's Quarterly Report on Form 10-Q for the period ended September 30, 2006 as filed with the Securities and Exchange Commission (the Report) on the date hereof, that:

- the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Dated: November 3, 2006

/s/ Russell K. Girling

Russell K. Girling

President and Chief Executive Officer

TC PipeLines GP, Inc., as general partner of

TC PipeLines, LP

---

## CERTIFICATION

I, Gregory A. Lohnes, Chief Financial Officer of TC PipeLines GP, Inc., the general partner of TC PipeLines, LP (the Partnership), in compliance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 hereby certify, to the best of my knowledge, in connection with the Partnership's Quarterly Report on Form 10-Q for the period ended September 30, 2006 as filed with the Securities and Exchange Commission (the Report) on the date hereof, that:

- the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Dated: November 3, 2006

/s/ Gregory A. Lohnes

\_\_\_\_\_  
Gregory A. Lohnes

Chief Financial Officer

TC PipeLines GP, Inc., as general partner of

TC PipeLines, LP

---