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FIRST QUARTER 2004

# Quarterly Report

## Results-at-a-Glance

(unaudited)

(millions of dollars except per unit amounts)

Three months ended March 31

	2004	2003
<b>Income Statement</b>		
Net income	13.7	11.9
Net income per unit	\$0.75	\$0.66
<b>Cash Flow</b>		
Cash generated from operations	13.4	13.5
Cash distributions paid	10.1	9.6
Cash distributions declared per unit <sup>(1)</sup>	\$0.550	\$0.525

<sup>(1)</sup> Cash Distributions are paid within 45 days after the end of each quarter.

We refer you to the Partnership's quarterly report on Form 10-Q, as filed with the Securities and Exchange Commission on May 7, 2004, which contains management's discussion and analysis of the Partnership's financial condition and results of operations as at and for the three months ended March 31, 2004. The Form 10-Q can be accessed electronically on the Partnership's website at [www.tcpipelineslp.com/investor/reports.html](http://www.tcpipelineslp.com/investor/reports.html)

Copies of the Form 10-Q may be obtained from the Partnership free of charge.

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### Statement of Income

(unaudited) (millions of dollars except per unit amounts)	Three months ended March 31	
	2004	2003
Equity income from Investment in Northern Border Pipeline	12.5	11.0
Equity income from Investment in Tuscarora	1.8	1.3
General and Administrative Expenses	(0.5)	(0.4)
Financial Charges	(0.1)	-
<b>Net Income</b>	<b>13.7</b>	<b>11.9</b>
<b>Net Income Allocation</b>		
Common units	12.4	10.3
Subordinated units	0.7	1.2
General partner	0.6	0.4
	<b>13.7</b>	<b>11.9</b>
<b>Net Income per Unit</b>	<b>\$0.75</b>	<b>\$0.66</b>
<b>Units Outstanding (millions)</b>	<b>17.5</b>	<b>17.5</b>

### Statement of Comprehensive Income

(unaudited) (millions of dollars)	Three months ended March 31	
	2004	2003
Net Income	13.7	11.9
Other Comprehensive Income		
Change associated with current period hedging transactions	(0.1)	(0.1)
<b>Total Comprehensive Income</b>	<b>13.6</b>	<b>11.8</b>

See accompanying Notes to the Condensed Financial Statements.

### Statement of Cash Flows

(unaudited) (millions of dollars)	Three months ended March 31	
	2004	2003
<b>Cash Generated From Operations</b>		
Net income	13.7	11.9
Add/(Deduct):		
Distributions received (less than) / in excess of equity income	(0.4)	1.7
Decrease / (Increase) in operating working capital	0.1	(0.1)
	13.4	13.5
<b>Investing Activities</b>		
Return of capital from Northern Border Pipeline	2.0	-
Investment in Northern Border Pipeline	(19.5)	-
Investment in Tuscarora	-	(3.3)
	(17.5)	(3.3)
<b>Financing Activities</b>		
Distributions paid	(10.1)	(9.6)
Long-term debt issued / (repaid)	9.0	(3.0)
	(1.1)	(12.6)
<b>Decrease in Cash and Short-Term Investments</b>	(5.2)	(2.4)
<b>Cash and Short-Term Investments</b>		
Beginning of period	7.5	6.4
<b>Cash and Short-Term Investments</b>	2.3	4.0
End of period	2.3	4.0

See accompanying Notes to the Condensed Financial Statements.

### Balance Sheet

(millions of dollars)	March 31, 2004 (unaudited)	December 31, 2003 (audited)
<b>ASSETS</b>		
Current Assets		
Cash	2.3	7.5
Investment in Northern Border Pipeline	258.2	240.7
Investment in Tuscarora	40.2	39.9
	<u>300.7</u>	<u>288.1</u>
<b>LIABILITIES AND PARTNERS' EQUITY</b>		
Current Liabilities		
Accounts payable	0.7	0.6
Current portion of long-term debt	-	5.5
	<u>0.7</u>	<u>6.1</u>
Long-Term Debt	14.5	-
Partners' Equity		
Common units	263.8	260.4
Subordinated units	14.2	13.9
General partner	6.0	6.1
Other comprehensive income	1.5	1.6
	<u>285.5</u>	<u>282.0</u>
	<u>300.7</u>	<u>288.1</u>

See accompanying Notes to the Condensed Financial Statements.

## **Notes to Condensed Financial Statements (Unaudited)**

### **Note 1 Basis of Presentation**

TC PipeLines, LP, and its subsidiary limited partnerships, TC PipeLines Intermediate Limited Partnership and TC Tuscarora Intermediate Limited Partnership, all Delaware limited partnerships, are collectively referred to herein as TC PipeLines or the Partnership. The Partnership commenced operations on May 28, 1999.

The financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States of America. Other comprehensive income recorded by TC PipeLines arises through its equity investments in Northern Border Pipeline Company (Northern Border Pipeline) and Tuscarora Gas Transmission Company (Tuscarora) and relates to cash flow hedges transacted by Northern Border Pipeline and Tuscarora. Amounts are stated in United States dollars.

Since a determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these financial statements requires the use of estimates and assumptions which have been made using careful judgment. In the opinion of management, these financial statements have been properly prepared within reasonable limits of materiality and include all adjustments (consisting primarily of normal recurring accruals) necessary to present fairly the results of operations for the three months ended March 31, 2004 and 2003, the financial position as at March 31, 2004 and December 31, 2003 and cash flows for the three months ended March 31, 2004 and 2003.

The results of operations for the three months ended March 31, 2004 and 2003 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, 2003.

### **Note 2 Investment in Northern Border Pipeline Company**

The Partnership owns a 30% general partner interest in Northern Border Pipeline, a partnership which owns a 1,249-mile United States interstate pipeline system that transports natural gas from the Montana-Saskatchewan border to markets in the midwestern United States. The remaining 70% partnership interest in Northern Border Pipeline is held by Northern Border Partners, L.P., a publicly traded limited partnership. The 2% general partnership interest in Northern Border Partners, L.P. is controlled by affiliates of Enron Corp. (Enron), which hold a 1.65% general partner interest, and TransCanada Corporation (TransCanada), parent of TC PipeLines' general partner, which holds the remaining 0.35% general partner interest. The Northern Border pipeline system is operated by Northern Plains Natural Gas Company, a wholly owned subsidiary of Enron. Northern Border Pipeline is regulated by the Federal Energy Regulatory Commission (FERC).

TC PipeLines uses the equity method of accounting for its investment in Northern Border Pipeline. TC PipeLines' equity income for the three months ended March 31, 2004 and 2003 represents 30% of the net income of Northern Border Pipeline for the same periods. There were no undistributed earnings from Northern Border Pipeline as at March 31, 2004 and December 31, 2003. The following sets out summarized financial information representing 100% of the operations of Northern Border Pipeline for the three months ended March 31, 2004 and 2003 and as at March 31, 2004 and December 31, 2003.

(unaudited) (millions of dollars)	Three months ended March 31	
	2004	2003
<b>Northern Border Pipeline Income Statement</b>		
Revenues	83.3	79.9
Costs and expenses	(17.0)	(16.8)
Depreciation	(14.5)	(14.5)
Financial charges	(10.2)	(11.8)
Other income / (expense)	0.1	(0.1)
Net Income	41.7	36.7

Northern Border Pipeline has recorded other comprehensive income of \$(0.4) million for each of the three month periods ended March 31, 2004 and 2003.

(millions of dollars)	March 31, 2004 (unaudited)	December 31, 2003 (audited)
<b>Northern Border Pipeline Balance Sheet</b>		
<b>Assets</b>		
Cash and cash equivalents	46.0	28.7
Other current assets	41.5	40.8
Plant, property and equipment, net	1,577.7	1,591.8
Other assets	30.6	30.0
	1,695.8	1,691.3
<b>Liabilities and Partners' Equity</b>		
Current liabilities	64.7	62.3
Reserves and deferred credits	5.0	5.1
Long-term debt, (including current maturities)	765.5	821.5
Partners' Equity		
Partners' capital	855.8	797.2
Accumulated other comprehensive income	4.8	5.2
	1,695.8	1,691.3

### Note 3 Investment in Tuscarora Gas Transmission Company

The Partnership owns a 49% general partner interest in Tuscarora, a partnership that owns a 240-mile United States interstate pipeline system that transports natural gas from Oregon, where it interconnects with facilities of Gas Transmission Northwest Corporation, to northern Nevada. The remaining general partner interests in Tuscarora are held 50% by Sierra Pacific Resources and 1% by TransCanada. The Tuscarora pipeline system is operated by Tuscarora Gas Operating Company, a wholly owned subsidiary of Sierra Pacific Resources. Sierra Pacific Power Company, a subsidiary of Sierra Pacific Resources, is Tuscarora's largest shipper, accounting for approximately 68% of Tuscarora's available capacity. 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 months ended March 31, 2004 and 2003 represents 49% of the net income of Tuscarora for the same periods. Retained earnings of TC PipeLines as at March 31, 2004 and December 31, 2003 include undistributed earnings from Tuscarora of \$0.3 million and zero, respectively. The following sets out summarized financial information representing 100% of the

operations of Tuscarora for the three months ended March 31, 2004 and 2003 and as at March 31, 2004 and December 31, 2003.

(unaudited) (millions of dollars)	Three months ended March 31	
	2004	2003
<b>Tuscarora Income Statement</b>		
Revenues	8.3	7.4
Costs and expenses	(1.2)	(1.2)
Depreciation	(1.6)	(1.6)
Financial charges	(1.5)	(1.6)
Net Income	4.0	3.0

Tuscarora has recorded other comprehensive income of less than \$0.1 million and \$(0.1) million for the three months ended March 31, 2004 and 2003, respectively.

(millions of dollars)	March 31, 2004 (unaudited)	December 31, 2003 (audited)
<b>Tuscarora Balance Sheet</b>		
<b>Assets</b>		
Cash and cash equivalents	7.1	1.8
Other current assets	3.0	4.3
Plant, property and equipment, net	140.5	141.9
Other assets	1.5	1.6
	152.1	149.6
<b>Liabilities and Partners' Equity</b>		
Current liabilities	8.3	6.7
Long-term debt	80.8	80.8
Partners' Equity		
Partners' capital	62.9	62.0
Accumulated other comprehensive income	0.1	0.1
	152.1	149.6

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

On March 8, 2004 the Partnership renewed its unsecured credit facility (Revolving Credit Facility) with Bank One, NA, as administrative agent. Under the renewed Revolving Credit Facility, the Partnership may borrow up to an aggregate principal amount of \$30.0 million. Loans under the Revolving Credit Facility bear interest, at the option of the Partnership, at a one-, two-, three-, or six-month London Interbank Offered Rate (LIBOR) plus 1.25% or at a floating rate based on the higher of the federal funds effective rate plus 0.5% and the prime rate. The Revolving Credit Facility matures on February 28, 2006. Amounts borrowed may be repaid in part or in full prior to that time without penalty. The Revolving Credit Facility may be used to provide borrowings to fund capital expenditures, to fund capital contributions to Northern Border Pipeline, Tuscarora, and any other entity in which the Partnership directly or indirectly acquires an interest, to fund working capital and for other general business purposes, including temporary funding of cash distributions to unitholders and the general

partner, if necessary. In the first quarter of 2004, the Partnership had drawings on the Revolving Credit Facility of \$9.0 million. The Partnership had \$14.5 million and \$5.5 million outstanding under the Revolving Credit Facility at March 31, 2004 and December 31, 2003, respectively. The interest rate on the Revolving Credit Facility averaged 2.39% and 2.70% for the three months ended March 31, 2004 and 2003, respectively and, at March 31, 2004 and December 31, 2003, the interest rate was 2.36% and 2.42%, respectively.

On May 28, 2003, the Partnership renewed its \$40.0 million unsecured two-year revolving credit facility (TransCanada Credit Facility) with TransCanada PipeLine USA Ltd., an affiliate of the general partner. The TransCanada Credit Facility bears interest at LIBOR plus 1.25%. The purpose of the TransCanada Credit Facility is to provide borrowings to fund capital expenditures, to fund capital contributions to Northern Border Pipeline, Tuscarora, and any other entity in which the Partnership directly or indirectly acquires an interest, to fund working capital and for other general business purposes, including temporary funding of cash distributions to unitholders and the general partner, if necessary. The Partnership had no borrowings outstanding under the TransCanada Credit Facility as at March 31, 2004 and December 31, 2003, respectively.

### Note 5 Net Income per Unit

Net income per unit is computed by dividing net income, after deduction of the general partner's allocation, by the weighted average number of common and subordinated units outstanding. The general partner's allocation is equal to an amount based upon the general partner's 2% interest, adjusted to reflect an amount equal to incentive distributions. Net income per unit was determined as follows:

(unaudited) (millions of dollars except per unit amounts)	Three months ended March 31	
	2004	2003
Net income	13.7	11.9
Net income allocated to General Partner		
General Partner interest	(0.3)	(0.2)
Incentive distribution income allocation	(0.3)	(0.2)
	(0.6)	(0.4)
Net income allocable to units	13.1	11.5
Weighted average units outstanding ( <i>millions</i> )	17.5	17.5
Net Income per unit	\$0.75	\$0.66

### Note 6 Subordinated Unit Conversion

The remaining one third of 936,436 subordinated units, held by the general partner, upon satisfaction of the tests set forth in the partnership agreement, will convert into an equal number of common units on the first day after the record date for distributions for the quarter ending June 30, 2004. Such units will thereafter participate, pro rata, with the other common units in distributions of available cash.

### Note 7 Distributions

On April 20, 2004, the board of directors of the general partner declared a cash distribution of \$0.55 per unit for the three months ended March 31, 2004. The distribution totaling approximately \$10.1 million is payable on May 14, 2004 in the following manner: \$9.1 million to the holders of common units as of the close of business on April 30, 2004 (including \$1.5 million to an affiliate of



TransCanada as holder of 2,800,000 common units and \$1.0 million to the general partner as holder of 1,872,870 common units), \$0.5 million to the general partner as holder of the subordinated units, \$0.3 million to the general partner as holder of incentive distribution rights and \$0.2 million to the general partner in respect of its 2% general partner interest.

**Note 8 Capital Requirements**

On January 30, 2004, the Partnership contributed \$19.5 million representing its 30% share of a \$65.0 million cash call issued by Northern Border Pipeline to its partners on January 27, 2004. The funds have been used by Northern Border Pipeline to repay a portion of its existing indebtedness. The payment to Northern Border Pipeline was funded through the use of cash from operations and existing credit facilities. This was offset by a \$2.0 million return of capital from Northern Border Pipeline in the first quarter of 2004.

**Note 9 Subsequent Events**

On April 27, 2004, Northern Border Pipeline issued a \$65.0 million cash call to its partners. The Partnership will contribute \$19.5 million representing its 30% share to be paid on May 14, 2004. This payment is expected to be funded through the use of cash from operations and existing credit facilities. The funds will be used by Northern Border Pipeline to repay a portion of its existing indebtedness.