



## TransCanada Corporation Has a Big Decision to Make

### Description

**TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)) recently wrapped up its acquisition of Columbia Pipeline Group. In doing so, the company also picked up a meaningful stake in MLP **Columbia Pipeline Partners LP** (NYSE:CPPL), which gives the company stakes in two affiliated MLPs. That duplication might not be optimal, which leaves the company with the looming decision of what to do with its MLPs.

### Under review

In conjunction with closing its acquisition of Columbia Pipeline Group, TransCanada announced that it had retained a financial advisor to assist in evaluating strategic alternatives for its MLPs. What TransCanada wants to do is identify the best strategy for **TC Pipelines, LP** (NYSE:TCP) and Columbia Pipeline Partners going forward. It expects to determine its next course of action later this year, but in the meantime, it will not complete any additional drop-down transactions to its MLPs until it decides on a future path.

Currently, TC Pipelines own interests in 5,900 miles of interstate natural gas pipelines, which supply 15% of the average daily North American natural gas demand. Underpinning this growth are drop-down transactions with TransCanada, which had previously committed to dropping down all of its U.S. natural gas pipeline assets to TC Pipelines.

Columbia Pipeline Partners, on the other hand, owns an interest in Columbia OpCo, which owns and operates all of the natural gas transmission, storage, and midstream assets of Columbia Pipeline Group. Driving its growth is increasing its ownership interest in that entity, which is now part of TransCanada.

### Evaluating its options

TransCanada has several options for these entities. It could continue to operate both companies separately with their current go-forward strategies. TC Pipelines, for example, could acquire the U.S. natural gas pipeline assets of its parent outside those that were formerly part of Columbia, which would be dropped down to Columbia Pipeline Partners.

However, given that these assets are all U.S.-based natural gas pipelines, it would make more sense to consolidate the MLPs. Doing so would create one larger-scale MLP that TransCanada could use for drop-down transactions.

Another option would be to acquire all the outstanding units of both entities and fold them back into the company. This option has become increasingly popular in the U.S. energy midstream sector over the past couple of years.

**Kinder Morgan Inc.**, for example, consolidated all four of its entities under one corporate banner, while **Targa Resources Corp.** and **Crestwood Equity Partners LP** both acquired their MLPs. Further, a growing number of other energy infrastructure companies are considering similar consolidation moves because it would simplify their organizational structure and lower their cost of capital.

### Investor takeaway

TransCanada is facing a big decision with its MLPs. The entities are similar enough that it does not appear to make much sense to operate them separately. That said, the company still needs to decide whether to merge them together or just consolidate its energy infrastructure empire into one entity. While either option makes sense, having one MLP does give the company more flexibility because it can continue to drop down assets to bring in cash to fund growth projects.

### CATEGORY

1. Energy Stocks
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