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LAKEHEAD PIPE LINE PARTNERS L P
Form 424B5
May 17, 2001

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FILED PURSUANT TO RULE 424(b)(5)
REGISTRATION NO. 333-67005
REGISTRATION NO. 333-61086

Prospectus Supplement to Prospectus dated November 25, 1998.

1,748,635 Units

Lakehead Pipe Line Partners, L.P.

Class A Common Units
Representing Limited Partner Interests

The Class A Common Units represent limited partner interests in Lakehead Pipe Line Partners, L.P. The Class A Common Units are listed on the New York Stock Exchange under the symbol "LHP." The last reported sale price of the Class A Common Units on May 16, 2001 was \$45.75 per unit.

See "Risk Factors" beginning on page 5 of the accompanying prospectus and on page S-12 of this prospectus supplement to read about certain factors you should consider before buying Class A Common Units.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER REGULATORY BODY HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Per Unit	Total
	-----	-----
Initial price to public.....	\$45.750	\$80,000,051
Underwriting discount.....	\$ 1.944	\$ 3,399,346
Proceeds, before expenses, to Lakehead.....	\$43.806	\$76,600,705

To the extent that the underwriter sells more than 1,748,635 Class A Common Units, the underwriter has the option to purchase up to an additional 229,507 Class A Common Units from Lakehead at the initial price to public less the underwriting discount.

The underwriter expects to deliver the Class A Common Units to purchasers on May 22, 2001.

GOLDMAN, SACHS & CO.

Prospectus Supplement dated May 16, 2001.

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SYSTEM MAP

[SYSTEM MAP]

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information from this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all of the information that you should consider before investing in the Class A Common Units. This prospectus supplement and the accompanying prospectus include specific terms of the offering of the Class A Common Units, information about our business and our financial data. You should read the entire prospectus supplement, the accompanying prospectus and the documents we have incorporated by reference carefully, including the "Risk Factors" sections and our financial statements and the notes to those statements, before making an investment decision.

As used in this prospectus supplement and the accompanying prospectus, "we," "us," "our" and "Lakehead" mean Lakehead Pipe Line Partners, L.P. and include our subsidiary operating partnership, Lakehead Pipe Line Company, Limited Partnership. Our Class A Common Units represent limited partner interests in Lakehead Pipe Line Partners, L.P. We also have limited partner interests that are represented by Class B Common Units. All of our Class B Units are owned by our general partner. The Class A Common Units and the Class B Common Units are referred to in this prospectus supplement as "units."

LAKEHEAD

WHO WE ARE

We are a publicly traded Delaware limited partnership that owns and operates a regulated crude oil and natural gas liquids pipeline business in the United States. Lakehead Pipe Line Company, Inc., an indirect wholly owned subsidiary of Enbridge Inc., of Canada, serves as our general partner. We and Enbridge transport crude oil and other liquid hydrocarbons through the world's longest liquid petroleum pipeline system, which we refer to as the "System." We own the U.S. portion of the System, which we refer to as the "Lakehead System" and a subsidiary of Enbridge Inc., Enbridge Pipelines Inc. owns the Canadian portion of the System, which we refer to as the "Enbridge System." The System is the primary transporter of crude oil from western Canada to the United States and is the only pipeline system that transports crude oil from western Canada to eastern Canada. The System serves all the major refining centers in the Great Lakes region of the United States, as well as the Province of Ontario, Canada.

Our principal executive offices are located at Lake Superior Place, 21 West Superior Street, Duluth, Minnesota 55802-2067, and the telephone number at these offices is (218) 725-0100. You may contact us through Mr. Tracy Barker of our Investor Relations Department by phone at (403) 231-5949, toll-free at (877) 575-3282 or by facsimile at (403) 231-5989.

COMPETITIVE ADVANTAGES

We believe that the Lakehead System has several advantages over other transporters of crude oil with which we compete.

- The Lakehead System is among the lowest cost transporters of crude oil and natural gas liquids in North America based on costs per barrel mile transported.
- The Lakehead System's extensive length, large diameter pipe and the use of a number of parallel lines rather than a single line enables us to

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transport multiple types of crude oil more efficiently.

- The Lakehead System supplies western Canadian crude oil to the Midwest region of the United States, an area that is experiencing rising crude oil demand and declining crude oil production. This area has historically provided producers of western Canadian crude oil with the highest return, or sales price less transportation costs, relative to other available United States markets.

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OUR BUSINESS STRATEGY

Our primary strategy is to grow cash distributions through profitable expansion of the Lakehead System and through development and acquisition of complementary businesses with a risk profile similar to that of our current crude oil and natural gas liquids transportation business. Please read "-- Growth Beyond the Lakehead System."

EXPANSION OF THE LAKEHEAD SYSTEM

The System serves as a strategic link between the western Canadian oil fields and the markets of the Midwest United States and eastern Canada. In response to market conditions, we plan to maintain the service capability of the Lakehead System and to expand its capacity and efficiency where appropriate. To the extent allowed under orders of the United States Federal Energy Regulatory Commission, referred to as the "FERC," or by agreement with customers, we expect to file additional tariff increases and surcharges from time to time to reflect these ongoing expansions.

Major capacity expansion projects completed in the last five years include:

- 1996 System Expansion Program -- This expansion program provided an additional 120,000 barrels per day of capacity on the Lakehead System from Superior to Chicago area markets (40,000 barrels of which were required to offset the impact on deliverability of increased heavy crude oil volumes). This expansion program, which increased delivery capability to Chicago area markets by approximately 80,000 barrels per day, was completed in December 1996 at a cost of approximately \$65 million.
- System Expansion Project II, or SEP II -- This expansion was completed in early 1999. SEP II involved the construction of a new pipeline from our pipeline terminal at Superior, Wisconsin, to the Chicago area markets at a cost of approximately \$480 million. The pipeline provides an additional 170,000 barrels per day of delivery capacity on the Lakehead System from Superior to Chicago. Under a tariff agreement with our customers, we implemented a tariff surcharge that recovers the costs of, and provides an equity return on, the SEP II facilities. The tariff agreement allows us to earn a return on our SEP II equity investment that varies depending on the level of SEP II capacity utilization on the Canadian portion of the System.
- Terrace Expansion Program (Phase I) -- We and Enbridge are undertaking a major expansion of the System that we refer to as the Terrace expansion program. This expansion program consists of a multi-stage expansion of both the U.S. and Canadian portions of the System. We expect the Terrace program ultimately to provide an additional net 350,000 barrels per day of capacity to the System. Phase I of the Terrace program was completed in 1999 and included construction of new 36-inch diameter pipeline facilities from Kerrobert, Saskatchewan to Clearbrook, Minnesota that added 170,000 barrels per day of capacity. Our portion of the cost of

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Phase I was approximately \$140 million.

SYSTEM EXPANSION PROJECTS UNDER DEVELOPMENT

- Enbridge has announced that Phase II of the Terrace program will proceed in 2001 with construction of facilities to increase capacity on the Canadian portion of the System. While Phase II does not involve construction on the Lakehead System, we expect to benefit directly from the approximately 40,000 barrels per day increase in capacity of the Enbridge System as additional deliveries begin from the oil sands deposits in the Province of Alberta, referred to as the "Alberta Oil Sands." Subject to timely approval by the National Energy Board in Canada, we expect that Phase II will be placed into service in 2002.

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- Phase III of the Terrace expansion program is primarily designed to increase heavy oil transportation capacity on the Lakehead System between Clearbrook, Minnesota and Superior, Wisconsin by approximately 140,000 barrels per day. We expect this phase of the program will be required in late 2003. This phase and other future expansion projects on the System are subject to ongoing discussions with producers.
- The Canadian Association of Petroleum Producers, who we refer to as "CAPP," has provided notification requesting that we add facilities to enhance PADD 2 market access. The project was part of the future phases portion of the Terrace program. The cost of this project is approximately \$35 million and is expected to be placed into service in 2003.

Under a tariff agreement with our customers approved by FERC, we implemented in 1999 a tariff surcharge for Terrace of approximately \$0.013 per barrel (for light crude oil from the Canadian border to Chicago). On April 1, 2001, the surcharge was increased to \$0.026 per barrel. The tariff surcharge assumes that all three phases of the Terrace project will be completed. If CAPP does not provide notice on or before July 1, 2001 to proceed with Phase III, the tariff agreement approved by the FERC provides that we will determine the tariff surcharge on a cost of service basis to allow recovery of, and a return on, our Terrace investment, including any revenue variances between the application of the toll increment and the actual annual Terrace cost of service. We expect that CAPP will likely provide notice for Phase III on or before the notice date, or alternatively, will seek an extension of the deadline.

ENBRIDGE PROJECTS

Enbridge has also recently completed North American crude oil pipeline projects that are connected to the System. We believe that, although these projects are not owned by us, they are complementary to and will result in increased deliveries on the Lakehead System. These projects include:

- Enbridge Toledo -- Enbridge completed construction of a new pipeline that connects our facilities at Stockbridge, Michigan to two refineries in the Toledo, Ohio area. This pipeline has a capacity of 80,000 barrels per day of heavy crude oil and commenced service in February 1999.
- Enbridge Pipelines (Athabasca) -- In March 1999, Enbridge completed construction of a new 30-inch diameter pipeline for the delivery of heavy crude oil from the Athabasca oil sands region near Fort McMurray, Alberta to Hardisty, Alberta. At Hardisty, the Athabasca pipeline accesses other pipeline systems including Enbridge's portion of the System in western Canada. This project provides new pipeline capacity to accommodate anticipated growth in production from the Alberta Oil Sands. When fully

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powered, the Athabasca pipeline is anticipated to have an ultimate capacity of approximately 570,000 barrels per day. Enbridge has entered into a 30-year transportation arrangement with Suncor Energy Inc., the initial shipper on the Athabasca pipeline.

PROSPECTS FOR GROWTH IN THE SUPPLY OF WESTERN CANADIAN CRUDE OIL

We believe both the near- and long-term outlook for supplies of western Canadian crude oil and increasing deliveries on the Lakehead System are positive. Although crude oil prices have been strong for the past year, exploration and production activity initially lagged behind this price recovery, as producers of western Canadian crude oil were cautious to invest in new production. During 2000, production increased modestly and we believe that production will continue to grow. We base our belief largely upon a significant increase in oil well completions in western Canada in recent periods and the expectation of completion of projects for production of synthetic crude oil from the Alberta Oil Sands in 2001. As a leading indicator for conventional crude oil production, oil well completions in 2000 more than doubled from the prior year, as approximately

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5,500 wells were completed in 2000 compared with approximately 2,700 wells in 1999. We expect 2001 to be a strong drilling year, with the number of oil well completions surpassing 2000 levels. Although there has been a bias toward natural gas drilling, crude oil exploration is now on the rise and we expect this trend to continue through 2001. We believe this resurgence is also supported by external forecasts for oil prices over the next several years. Forecasts for the price of West Texas Intermediate crude oil are in the low-to-mid-twenty dollars per barrel range for the next several years. We believe that this price level is sufficient to sustain continued growth in crude oil production from the Western Canadian Sedimentary Basin, particularly from the Alberta Oil Sands.

We believe that our intermediate-term outlook of increasing demand for transportation services on the System has been confirmed by CAPP with its recent notification to us that we proceed with our addition of facilities to enhance PADD 2 market access and Enbridge Pipelines Terrace Expansion Program Phase II in Canada. The PADD 2 market access project will allow us better access to the Chicago market and provide further operational flexibility. The Terrace Phase II project is designed to add 40,000 barrels per day of additional heavy crude oil capacity to the Enbridge System in western Canada by the first half of 2002. Forecast production, for which Terrace Phase II is designed, is expected to access U.S. midwest refineries via the Lakehead System.

In the long-term, we believe we are well positioned to benefit from the expected increases in western Canadian crude oil supply through a combination of existing capacity and planned future expansion. Canada has substantial reserves of non-conventional hydrocarbon resources consisting predominantly of the Alberta Oil Sands. Firms involved in the production of heavy and synthetic crude oil from the oil sands region of western Canada have announced expansion projects over the next ten years with value in excess of Cdn. \$30 billion and representing more than two million barrels per day of potential incremental production. Those projects that are completed are expected to provide substantial increases in the production of heavy and synthetic crude oil in western Canada well into the future.

GROWTH BEYOND THE LAKEHEAD SYSTEM

Diversification of our energy transportation business is a key objective of our strategic plan. Business development efforts to grow through the development

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and acquisition of complementary businesses are a focus of the strategic plan. The initial emphasis will be on crude oil, refined products and natural gas pipelines and terminals that fit our investment profile of accretive cash flows and low investment risk. We expect such assets will become available with the continuing rationalization of the energy infrastructure in the United States, as existing owners focus on other core aspects of their businesses. We believe that we are well positioned to participate in these opportunities, as we are an established operator with a strong track record of reliability and access to low-cost sources of capital.

We intend to expand beyond the market we currently serve in PADD 2 by seeking out new opportunities throughout the United States. We are particularly interested in the U.S. Gulf Coast area. External forecasts indicate that crude oil production in the Gulf of Mexico will increase by about one million barrels per day over the next five years and will require additional infrastructure to transport the crude oil to shore. We will actively pursue these opportunities to provide terminal and logistics solutions to the major crude oil producers in this region.

We regularly analyze and discuss with others potential acquisitions, some of which may be significant relative to our current size. We intend to finance our acquisition activities through a combination of new debt and equity financing, but our growth may be restrained if debt and equity capital are not available to us on acceptable terms or if we cannot obtain necessary approvals, including any required special committee approvals.

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As discussed below, we expect to complete a \$33.0 million acquisition of pipeline assets from our affiliate, Enbridge or our general partner. We may in the future acquire other mature energy transportation assets from our general partner. Those acquisitions may include a portion of the assets recently acquired by our general partner in connection with its acquisition of Midcoast Energy Resources Inc. in a transaction valued at approximately \$600 million. Midcoast transports, gathers, processes and markets natural gas and other hydrocarbon products through over 80 company-owned pipelines covering approximately 4,100 miles in ten states, the Gulf of Mexico and Canada.

Neither we nor Enbridge have identified any particular assets owned by Enbridge or our general partner for transfer to us, and no proposal for an acquisition of any of these assets is currently pending. We cannot predict which, if any, energy transportation assets owned by Enbridge or our general partner we may ultimately acquire or the terms of any such acquisitions. Any acquisitions from Enbridge or our general partner will depend on a number of factors, including the availability of acceptable alternative acquisition opportunities from third parties and our financing capability at the time acquisition opportunities may arise.

RECENT DEVELOPMENTS

MANAGEMENT TRANSITION

On May 11, 2001, we announced the intention of our general partner to appoint Dan C. Tutcher as President of our general partner effective June 1, 2001, succeeding J. Richard Bird. Mr. Bird will remain a member of our general partner's board of directors and will continue to have operational and development responsibility for our existing assets.

Mr. Tutcher was Chairman of the Board, President and Chief Executive Officer of Midcoast Energy Resources Inc. from its formation in 1992. Mr. Tutcher also serves on the board of the Interstate Natural Gas Association of

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America and the Gas Processors Association.

NORTH DAKOTA ACQUISITION

On March 8, 2001, we announced a definitive agreement to acquire the assets of Enbridge Pipelines (North Dakota) Inc. from Enbridge. The assets consist of a 950-mile crude oil pipeline system with capacity of 84,000 barrels per day, which transports crude oil from Montana, North Dakota and western Canadian oil fields to the Lakehead System and a connecting carrier at Clearbrook, Minnesota. The purchase price for this transaction is approximately \$33.0 million, and the closing is expected to occur in late May, 2001. The terms of this acquisition were negotiated and approved by a special committee of independent directors of our general partner.

SAFETY REGULATIONS

During 2001, various previously enacted legislative and regulatory changes to the Pipeline Safety Act come into effect, including those that affect pipeline operator qualifications and integrity plans for pipelines in high consequence areas. We do not expect the changes to have a material adverse impact on our operations, as we believe our established safety and integrity programs already meet or exceed the new standards. Please read "Items 1 & 2 Business and Properties -- Environmental and Safety Regulation -- Safety Regulation" in our Annual Report on Form 10-K for the year ended December 31, 2000 (our "Form 10-K").

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THE OFFERING

The following information assumes, unless otherwise noted, that the underwriter does not exercise the option we granted to it to buy additional Class A Common Units in the offering.

SECURITIES OFFERED..... 1,748,635 Class A Common Units. (1,978,142 Class A Common Units if the underwriter's over-allotment option is exercised in full.)

UNITS TO BE OUTSTANDING

AFTER THE OFFERING..... 26,738,635 Class A Common Units (representing a 85.5% limited partner interest)

3,912,750 Class B Common Units (representing a 12.5% limited partner interest)

USE OF PROCEEDS..... We estimate that we will receive net proceeds from this offering of approximately \$76.2 million. We will use these proceeds to repay outstanding indebtedness under our credit facility. Pending repayment of this indebtedness, we may invest a portion of the proceeds in short-term investment grade securities. We may reborrow funds under the revolving credit facility to expand the Lakehead System and to acquire companies, businesses or assets complementary to our business and to fund capital expenditures for working capital. Please read "Use of Proceeds."

RISK FACTORS..... An investment in the Class A Common Units involves

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some risk. Please read "Risk Factors" in this prospectus supplement and in the accompanying prospectus.

NEW YORK STOCK EXCHANGE
SYMBOL..... LHP

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SUMMARY HISTORICAL FINANCIAL AND OPERATING DATA

We have derived the summary historical financial and operating data as of and for each of the years ended December 31, 1998, 1999 and 2000 from our audited financial statements and related notes. We have derived the summary historical financial and operating data as of March 31, 2000 and 2001 and for the three-month periods then ended from our unaudited financial statements which, in the opinion of management, include all adjustments necessary for a fair presentation of the data. The results for the three-month period ended March 31, 2001 are not necessarily indicative of the results that may be expected for the full fiscal year. You should read the information below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical financial statements and related notes appearing in our Annual Report on Form 10-K for the year ended December 31, 2000, and our Quarterly Report on Form 10-Q for the three months ended March 31, 2001, both of which are incorporated by reference in this prospectus supplement and the accompanying prospectus.

	YEAR ENDED DECEMBER 31,			THREE MONTH ENDED MARCH 31,	
	1998	1999	2000	2000	
(DOLLARS IN MILLIONS)					
INCOME STATEMENT DATA:					
Operating revenue.....	\$ 287.7	\$ 312.6	\$ 305.6	\$ 78.8	\$
Power, operating and administrative expenses...	140.9	124.5	128.0	30.2	
Depreciation.....	41.4	57.8	61.1	15.3	
Total operating expenses.....	182.3	182.3	189.1	45.5	
Operating income.....	105.4	130.3	116.5	33.3	
Interest and other income.....	6.0	3.4	4.8	1.6	
Interest expense.....	(21.9)	(54.1)	(60.4)	(14.6)	
Minority interest.....	(1.0)	(0.9)	(0.7)	(0.2)	
Net income.....	\$ 88.5	\$ 78.7	\$ 60.2	\$ 20.1	\$
Net income per unit.....	\$ 3.07	\$ 2.48	\$ 1.78	\$ 0.62	\$
Cash distribution per unit.....	\$ 3.36	\$ 3.49	\$ 3.50	\$ 0.875	\$
Weighted average units outstanding (millions)....	26.2	28.0	28.9	28.9	
FINANCIAL POSITION DATA (AT PERIOD END):					
Cash and cash equivalents.....	\$ 47.0	\$ 40.0	\$ 37.2		\$
Property, plant and equipment, net.....	1,296.2	1,321.3	1,281.9		1
Total assets.....	1,414.4	1,413.7	1,376.7		1

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Long-term debt.....	814.5	784.5	799.3		
Partners' capital					
Class A common unitholders.....	\$ 453.4	\$ 533.1	\$ 488.6		\$
Class B common unitholders.....	37.3	47.4	42.1		
General partner.....	4.3	5.6	5.2		
	-----	-----	-----		-----
Total partners' capital(1).....	\$ 495.0	\$ 586.1	\$ 535.9		\$
	=====	=====	=====		=====
OTHER FINANCIAL DATA:					
EBITDA(2).....	\$ 146.8	\$ 188.1	\$ 177.6	\$ 48.6	\$
Cash flow from operating activities.....	103.6	101.6	117.3	49.5	
Cash flow from (used in) investing activities....	(427.9)	(91.1)	(20.7)	0.5	
Cash flow from (used in) financing activities....	252.7	(17.5)	(99.4)	(37.9)	
Capital expenditures.....	487.3	82.9	21.7	0.2	
OPERATING DATA:					
Barrel miles (billions)(3).....	391	350	341	85	
Deliveries (thousands of barrels per day)(4):					
United States.....	992	898	976	948	
Eastern Canada.....	570	471	362	414	
	-----	-----	-----	-----	-----
Total.....	1,562	1,369	1,338	1,362	=====
	=====	=====	=====	=====	=====

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- (1) At March 31, 2001, includes \$1.0 million of accumulated other comprehensive loss relating to floating-to-fixed interest rate swaps.
 - (2) EBITDA is defined for this purpose as operating income before depreciation. EBITDA is used as a supplemental financial measurement in the evaluation of our business and should not be considered as an alternative to net income as an indicator of our performance or as an alternative to cash flow as a measure of liquidity. EBITDA is presented here to provide additional information.
 - (3) "Barrel miles" is a measurement of how fully a pipeline is used over its length and is calculated by multiplying the amount of each individual delivery (measured in barrels) by the distance it is shipped (measured in miles) and then adding the results so obtained for all deliveries.
 - (4) "Deliveries" means the amount of liquid hydrocarbons delivered by a pipeline to certain points along the system and is quantified using a barrel as a unit of measure. "Barrels per day" delivery data is a measurement of average deliveries for the indicated period and is computed by dividing the number of barrels delivered for the period by the number of days in the period.

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TAX CONSIDERATIONS

THE TAX CONSEQUENCES TO YOU OF AN INVESTMENT IN CLASS A COMMON UNITS WILL DEPEND IN PART ON YOUR OWN TAX CIRCUMSTANCES. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR ABOUT THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES TO YOU OF AN INVESTMENT IN CLASS A COMMON UNITS.

For a discussion of the principal U.S. federal income tax considerations associated with our operations and the purchase, ownership and disposition of

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Class A Common Units, see "Tax Considerations" elsewhere in this prospectus supplement.

RATIO OF TAXABLE INCOME TO DISTRIBUTIONS

We estimate that if you purchase a Class A Common Unit in this offering and hold the unit through the record date for the distribution with respect to the final calendar quarter of 2001 (assuming quarterly distributions on the Class A Common Units with respect to that period are equal to the current quarterly distribution rate of \$0.875 per unit), you will be allocated an amount of U.S. federal taxable income for the tax year ended December 31, 2001, that is less than 10% of the amount of cash distributed to you with respect to the tax year ended December 31, 2001. We further estimate that if you purchase a Class A Common Unit in this offering and hold the unit through the record date for the distribution with respect to the final calendar quarter of 2004, you will be allocated an amount of U.S. federal taxable income for 2002 and 2004 that is less than 10% and, for 2003, 20% to 30%, of the amount of cash distributed to you with respect to each such period (assuming quarterly distributions on the Class A Common Units with respect to each such period are equal to \$0.875 per unit).

These estimates are based on numerous assumptions regarding our business and operations, including assumptions as to tariffs, capital expenditures, growth, financings, cash flows and anticipated cash distributions. In particular, these estimates assume completion of the North Dakota acquisition described above, but do not assume any other acquisitions. These estimates and assumptions are subject to, among other things, numerous business, economic, regulatory and competitive uncertainties beyond our control and to tax reporting positions (including estimates of the relative fair market values of our assets and the validity of curative allocations) that we have adopted or intend to adopt and with which the Internal Revenue Service could disagree. Accordingly, the estimates may not turn out to be correct. The actual percentage of distributions that will constitute taxable income could be higher or lower, and any differences could be material.

OWNERSHIP OF CLASS A COMMON UNITS BY TAX-EXEMPT ENTITIES, REGULATED INVESTMENT COMPANIES AND FOREIGN INVESTORS

Ownership of Class A Common Units by tax-exempt entities, regulated investment companies and foreign investors raises issues unique to such persons. Please read "Tax Considerations" in this prospectus supplement and "Investment in Lakehead by Employee Benefit Plans" in the accompanying prospectus.

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RISK FACTORS

Before you invest in our Class A Common Units, you should be aware that such an investment involves various risks, including those described below and those described in the accompanying prospectus. If any of the following risks actually occurs, then our business, financial condition or results of operations could be materially adversely affected. In such case, the trading price of the Class A Common Units could decline, and you could lose part of your investment. You should consider carefully these risk factors together with all of the other information included in this prospectus supplement, the accompanying prospectus and the documents we have incorporated by reference before buying Class A Common Units.

RISKS OF OUR BUSINESS

WE DEPEND ON THE SUPPLY OF WESTERN CANADIAN CRUDE OIL.

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The Lakehead System and our financial performance depend on adequate supplies of western Canadian crude oil. In 1999 and 2000, our crude oil deliveries declined compared with 1998. This decline resulted primarily from decreased crude oil production in western Canada, which in turn resulted primarily from reduced spending levels for exploration and development activities in western Canada. These reduced spending levels resulted from low oil prices in 1998 and the first part of 1999. Our ability to increase deliveries and to expand the Lakehead System in the future also depends on increased supplies of western Canadian crude oil. For a discussion of the forecast for future supply of crude oil produced in western Canada, please read "Business -- Supply and Demand for Western Canadian Crude Oil."

We depend on producers of western Canadian crude oil who use the Enbridge System to reach markets in the United States and eastern Canada. If producers elect to ship on other pipeline systems or sell their crude oil to western Canadian refiners, we may transport lower volumes of crude oil through our pipeline system. In addition, if the Enbridge System transports less crude oil because of testing, line repair, reduced operating pressures or other reasons, we might transport less crude oil on our pipeline system. Subject to our potential ability to increase tariff rates to offset lower volumes as discussed below, if our pipeline system transports lower volumes of crude oil, our revenues could decrease, and we could have less cash to distribute to our unitholders.

OUR PIPELINE SYSTEM MIGHT BE USED LESS IF DEMAND FOR CRUDE OIL AND NATURAL GAS LIQUIDS DECREASES.

Demand for western Canadian crude oil and natural gas liquids in the geographic areas served by the System is affected by the delivery of other crude oil and refined products into the same areas. Existing pipeline capacity for the delivery of crude oil to the Midwest region of the United States, the primary destination market served by the Lakehead System, exceeds current refining capacity. We believe that the System has several advantages over other transporters of crude oil with which it competes and the System is among the lowest cost transporters of crude oil and natural gas liquids in North America based on costs per barrel mile transported.

The Enbridge System includes a section that extends from Sarnia, Ontario to Montreal, Quebec ("Line 9") which, at one time, flowed in a west-to-east direction. During 1999, after negotiations with a group of refiners, Enbridge Pipelines reversed the flow of Line 9. Consequently, crude oil is now imported into the Province of Ontario, Canada from foreign sources through the facilities of Portland Pipe Line Corporation, Montreal Pipe Line Limited and Enbridge Pipelines. This offshore crude oil supply has resulted in a decrease in the level of our deliveries of crude oil into the Ontario market. However, we expect that this decrease will be offset by an increase in deliveries to the Chicago area and other markets we serve.

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A variety of factors could cause the demand for crude oil and natural gas liquids to fall in the markets that we serve. These factors include:

- economic conditions;
- fuel conservation measures;
- alternative fuel requirements;
- government regulation; and

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- technological advances in fuel economy and energy generation devices.

We cannot predict whether or how these or other factors will affect demand for the use of our pipeline system. If our pipeline system transports lower volumes of crude oil and natural gas liquids, our revenues could decrease and we could have less cash to distribute to our unitholders.

WE CANNOT ALWAYS CONTROL THE RATES THAT WE CHARGE.

Since the Lakehead System is an interstate common carrier, our pipeline operations are regulated by the FERC under the Interstate Commerce Act. Uncertainty surrounds the applicable regulatory standards for establishing tariff rates for liquids pipelines. In October 1996, the FERC approved a Settlement Agreement between us, CAPP and the Alberta Department of Energy on all then outstanding contested tariff rates. The Settlement Agreement provided that the agreed underlying tariff rates will be subject to indexing as prescribed by FERC regulation and that CAPP and Alberta Department of Energy will not challenge any rates within the indexed ceiling for a period of five years expiring October 2001. In addition to this base indexing methodology, our tariff rates include a cost-of-service surcharge to recover the cost of, and to provide a return on, our investment in SEP II and a fixed amount surcharge relating to the Terrace project. If our tariff rates were successfully challenged in the future, we could be adversely affected.

As a general rule, pipelines must use the indexing methodology to change rates. However, the FERC has retained cost-based ratemaking as one of several alternatives to the indexing approach. We believe that regulations of the FERC would allow us to raise our rates if our pipeline system transported significantly less crude oil and if there was a large difference between our rates and our costs, although we cannot assure you that we will be allowed to do so. Even if we were able eventually to raise our rates in such a case, we might still have lower revenues during the time before our rate increases became effective.

Please read "Items 1. and 2. Business and Properties -- Regulation and Tariffs" in our Form 10-K.

FUTURE ACQUISITIONS MAY PRESENT DIFFICULTIES AND CHALLENGES FOR US.

The acquisition of complementary businesses with risk profiles similar to that of our current crude oil and natural gas liquids transportation business is a focus of our strategic plan. Although we currently have pending, and expect to close soon, the acquisition of crude oil pipeline assets located in North Dakota, we do not have significant experience in acquiring other businesses. In connection with evaluating and making any acquisitions in the future, we will be required to make various assumptions regarding the future combined results of the then-existing and to be acquired operations. We cannot assure you that our assumptions will in fact be correct or that any acquisition will achieve the desired financial objectives. In addition, any acquisition may present various risks and challenges, including:

- risk of failing to integrate the operations or management of an acquired business or a significant delay in such integration; and

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- diversion of management's attention.

In addition, we may not be able to consummate any acquisitions in the future or be able to raise on terms acceptable to us any debt or equity

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financing that may be required for any such acquisition.

THE NEED FOR SPECIAL COMMITTEE OR UNITHOLDER APPROVALS MAY LIMIT OUR ABILITY TO GROW BY ACQUIRING ASSETS FROM ENBRIDGE.

We anticipate that the terms of any acquisition from Enbridge or our general partner would be either submitted for the approval of our unitholders or negotiated on our behalf by a special committee of the board of directors of our general partner comprised of members who are not otherwise affiliated with Enbridge or our general partner. The special committee would be authorized in its discretion to accept or reject any proposed acquisition from Enbridge or our general partner and to engage independent counsel and financial advisors to assist it. Accordingly, we may not be able to acquire assets from Enbridge or our general partner as part of our strategy to diversify our energy transportation business.

RISKS RELATED TO OUR DEBT AND OUR ABILITY TO DISTRIBUTE CASH

Agreements relating to our debt restrict our ability to make cash distributions, incur additional debt and take other specified actions.

We had long-term debt of approximately \$800 million in face value as of March 31, 2001. Substantially all of our assets secured \$500 million of this debt. In addition, we will probably incur additional indebtedness to fund a portion of our expansion programs and capital expenditures. Our long-term debt as of March 31, 2001 consisted of:

- \$310 million of first mortgage notes (the "First Mortgage Notes"), which have no principal payments due until 2002;
- \$190 million outstanding under a \$350 million revolving bank credit facility (the "Revolving Credit Facility");
- \$100 million of 7.9% senior notes due 2012 (the "7.9% Notes");
- \$100 million of 7% senior notes due 2018 (the "7% Notes"); and
- \$100 million of 7 1/8% senior notes due 2028 (the "7 1/8% Notes" and, together with the 7.9% and the 7% Notes, the "Senior Notes").

The Revolving Credit Facility currently matures in September 2005. The maturity date will be automatically extended each year by an additional year unless the banks give us notice that they will not extend the maturity date. Please read "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources" in our Form 10-K.

Our debt agreements relating to the First Mortgage Notes, the Revolving Credit Facility and the Senior Notes contain various restrictions. Most importantly, the First Mortgage Notes restrict the amount of new debt that our operating partnership can issue and may restrict the operations of our operating partnership; and the Revolving Credit Facility restricts the amount of new debt that we and our operating partnership can issue and may restrict our operations and those of our operating partnership. In addition, the First Mortgage Notes and the Revolving Credit Facility restrict cash distributions that the operating partnership can make to us. This is important because the operating partnership is our primary source of cash. Therefore, restrictions on the operating partnership's ability to make distributions to us may reduce our ability to make distributions to our unitholders. In addition, the operating partnership will be prevented from making distributions to us if there is a continuing default on any of its debt.

The general partner has broad discretion in establishing cash reserves for the proper conduct of our business. These cash reserves include reserves for future capital expenditures. If we increase cash reserves, the amount of cash that we can distribute to our unitholders may decrease.

RISKS RELATED TO TAXES

WE MAY BE TAXED AS A CORPORATION RATHER THAN AS A PARTNERSHIP.

Fulbright & Jaworski L.L.P., our legal counsel, has rendered its opinion that, under current law, Lakehead will be classified as a partnership for U.S. federal income tax purposes. Counsel's opinion is based on certain factual representations made by the general partner. If any of such facts are incorrect, particularly facts relating to the nature of our gross income, Lakehead could be classified as an association taxable as a corporation for U.S. federal income tax purposes. Please read "Tax Considerations -- Partnership Status" elsewhere in this prospectus supplement.

If Lakehead is classified as an association taxable as a corporation, items of our income, gain, loss, deduction and credit would not flow through to our unitholders. In addition, we would have to pay U.S. federal income tax on our net income at corporate rates. Distributions that we make to you would be treated as dividend income (to the extent of current or accumulated earnings and profits, as calculated for U.S. federal income tax purposes) and, in the absence of earnings and profits, as a nontaxable return of capital (to the extent of your adjusted tax basis in your units) or as capital gain (after your tax basis in your units is reduced to zero).

ALLOCATION OF TAXABLE INCOME AND LOSS.

Our partnership agreement allows curative allocations of income, deduction, gain and loss by us to account for differences between the tax basis and fair market value of property at the time the property is contributed or deemed contributed to Lakehead and to account for differences between the fair market value and book basis of our assets existing at the time of issuance of any Class A Common Units issued in this offering. For example, a pre-contribution gain exists for assets that have been contributed to Lakehead by the general partner. Our counsel believes that the curative allocations will prevent a shift of the income tax liability with respect to this gain from the general partner to the holders of Class A Common Units and that these allocations are therefore consistent with the principles of Section 704(c) of the Internal Revenue Code, and with the principles of the applicable regulations of the United States Department of Treasury.

However, the Internal Revenue Service could challenge these allocations. A successful IRS challenge to the curative allocations would shift the tax consequences associated with the differences between the fair market value and tax basis of Lakehead's assets in a manner that, in the view of our counsel, would be contrary to the policy of Section 704(c). Because these curative allocations are consistent with our counsel's view of the purposes of Section 704(c) and the associated Treasury Regulations, our counsel believes that it is unlikely the IRS will challenge the curative allocations. However, the application of the Treasury Regulations under Section 704(c) to a publicly traded partnership existing prior to the promulgation of the regulations is unclear. If the IRS were to litigate the matter, a court may not respect the curative allocations. Our counsel believes that there is substantial authority (within the meaning of Section 6662 of the Code) for our tax reporting position, and that no penalties would be applicable if the IRS were to litigate successfully against the curative allocations. A failure by the IRS to respect the curative allocations would result in ratios of taxable income to cash

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distributions received by the holders of Class A Common Units that are materially higher than the estimates in this prospectus supplement.

YOUR TAX LIABILITY COULD EXCEED YOUR CASH DISTRIBUTIONS OR PROCEEDS FROM SALES OF CLASS A COMMON UNITS.

You will be required to pay U.S. federal income tax and, in some cases, state and local income taxes on your allocable share of our income, even if you do not receive cash distributions

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from us. You will not necessarily receive cash distributions equal to the tax on your allocable share of our taxable income. Further, if we have a large amount of nonrecourse liabilities, you may incur a tax liability that is greater than the money you receive when you sell your Class A Common Units.

UNIFORMITY OF CLASS A COMMON UNITS MAY NOT BE MAINTAINED.

Because we cannot match transferors and transferees of Class A Common Units, we must attempt to maintain uniformity of the economic and tax characteristics of the Class A Common Units. In order to do this, we have adopted and will continue to adopt certain depreciation and amortization conventions that do not conform with all aspects of the applicable Treasury Regulations. If the IRS were successful in challenging our conventions, uniformity would be affected and gain from the sale of Class A Common Units might be increased.

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USE OF PROCEEDS

We estimate that we will receive net proceeds from this offering of approximately \$76.2 million. We will use these proceeds to repay outstanding indebtedness under our credit facility. Pending repayment of this indebtedness, we may invest a portion of the proceeds in short-term investment grade securities. We may reborrow funds under the revolving credit facility to expand the Lakehead System and to acquire companies, businesses or assets complementary to our business and to fund capital expenditures for working capital. As of the date of this prospectus supplement, we have not definitively identified any acquisition for which we may use the net proceeds of this offering.

As of March 31, 2001, \$190 million of indebtedness was outstanding under the revolving credit facility at a weighted average interest rate of 5.8% per annum, and \$160 million was available for future borrowing. We incurred substantially all of the indebtedness outstanding under the revolving credit facility to fund capital expenditures and working capital requirements. The revolving credit facility has a five-year term with an "evergreen" provision that automatically extends the maturity date each year by an additional year unless the banks give notice of their intent not to extend. The revolving credit facility matures in September 2005.

CAPITALIZATION

The following table shows our capitalization at March 31, 2001, and as adjusted to give effect to this offering and the application of the estimated net offering proceeds to repay indebtedness under the revolving credit facility. Please read "Use of Proceeds." You should read this table in conjunction with our financial statements and the notes to the financial statements incorporated by reference in this prospectus supplement and the accompanying prospectus.

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	AS OF MARCH 31, 2001	
	ACTUAL	AS ADJUSTED
	(DOLLARS IN MILLIONS)	
Long-term Debt:		
First Mortgage Notes.....	\$ 310.0	\$ 310.0
Revolving Credit Facility.....	190.0	113.0
7.9% Senior Notes due 2012.....	99.8	99.8
7% Senior Notes due 2018.....	99.8	99.8
7 1/8% Senior Notes due 2028.....	99.7	99.7
	-----	-----
Total Long-term Debt.....	799.3	722.3
Partners' Capital.....	517.4	594.4
	-----	-----
Total Capitalization.....	\$1,316.7	\$1,316.7
	=====	=====

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BUSINESS

OVERVIEW

We are a publicly traded Delaware limited partnership that owns and operates a regulated crude oil and natural gas liquids pipeline business in the United States through our subsidiary operating partnership, Lakehead Pipe Line Company, Limited Partnership, also a Delaware limited partnership. Lakehead Pipe Line Company, Inc., an indirect wholly owned subsidiary of Enbridge Inc. of Canada, serves as our general partner.

We and Enbridge transport crude oil and other liquid hydrocarbons for our customers through the world's longest liquid petroleum pipeline system. We own the U.S. portion of the System, and Enbridge owns the Canadian portion of the System through a subsidiary, Enbridge Pipelines Inc. The System is the primary transporter of crude oil from western Canada to the United States and is the only pipeline system that transports crude oil from western Canada to the Province of Ontario. The System serves all the major refining centers in the Great Lakes region of the United States, as well as the Province of Ontario, Canada.

The System extends from Edmonton, Alberta, across the Canadian prairies to the U.S. border near Neche, North Dakota. From Neche the System continues on to Superior, Wisconsin, where it splits into two branches with one branch traveling through the upper Great Lakes region and the other through the lower Great Lakes region of the United States. Both branches reenter Canada near Marysville, Michigan. From Marysville the System continues on to Toronto, Ontario, with lateral lines to Nanticoke, Ontario and the Buffalo, New York area. The System is approximately 3,100 miles long, including the Lakehead System in the United States which is approximately 1,880 miles long.

Crude oil shipments tendered to the System originate primarily in oil fields in the western Canadian provinces of Alberta, Saskatchewan, Manitoba, British Columbia and in the Northwest Territories of Canada. Shipments reach the System through facilities owned and operated by third parties or affiliates of Enbridge Pipelines. Deliveries from the System are currently made in the prairie

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provinces of Canada and, through the Lakehead System, to the Great Lakes and Midwest regions of the United States and to Ontario, Canada. These deliveries are made principally to refineries either directly or through connecting pipelines of other companies.

All scheduling of shipments (including routes and storage) is handled by Enbridge Pipelines in coordination with us. The Lakehead System includes 15 connections to pipelines and refineries at various locations in the United States, including the refining areas in and around Chicago, Illinois, Minneapolis-St. Paul, Minnesota, Detroit, Michigan, Toledo, Ohio, Buffalo, New York, and Patoka/Wood River, Illinois. The Lakehead System has three main terminals at Clearbrook, Minnesota, Superior, Wisconsin and Griffith, Indiana. The terminals are used to gather crude oil prior to injection into the Lakehead System and to provide tankage in order to allow for more flexible scheduling of oil movements.

PROPERTIES

The Lakehead System consists of approximately 3,300 miles of pipe with diameters ranging from 12 inches to 48 inches, 63 main line pump station locations with a total of approximately 667,000 installed horsepower and 58 crude oil storage tanks with an aggregate working capacity of approximately 10 million barrels. The Lakehead System requires at all times for operation approximately 14 million barrels of oil in the pipeline, all of which is owned by the shippers. The Lakehead System regularly transports up to 45 different types of liquid hydrocarbons including light, medium and heavy crude oil (including bitumen), condensate, synthetic crudes and natural gas liquids.

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The Lakehead System is comprised of a number of separate segments as follows:

- Canadian border to Clearbrook segment including portions of four pipelines consisting of 18-, 20-, 26-, and 34-inch diameter pipe, respectively, and a fifth line consisting of 36- and 48-inch diameter pipe, with a total annual capacity of 1,727,000 barrels per day.
- Clearbrook to Superior segment including portions of three pipelines consisting of 18-, 26-, and 34-inch diameter pipe, respectively, with a total annual capacity of 1,464,000 barrels per day. This segment also includes approximately 80 miles of 48-inch pipeline looping that increases the capacity of this segment.
- Superior to Marysville segment consisting of 30-inch diameter pipe with an annual capacity of 509,000 barrels per day.
- Superior to Chicago area segment including two pipelines of 24- and 34-inch diameter pipe with a total annual capacity of 889,000 barrels per day.
- Chicago area to Marysville segment consisting of a 30-inch diameter pipe with an annual capacity of 333,000 barrels per day.
- Canadian border to Buffalo segment consisting of 12- and 20-inch diameter pipe with a total annual capacity of 74,000 barrels per day.

The estimated annual capacities noted above take into account receipt and delivery patterns and ongoing pipeline maintenance, and reflect achievable pipeline capacity over long periods of time.

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SUPPLY AND DEMAND FOR WESTERN CANADIAN CRUDE OIL

SUPPLY

Substantially all of the shipments delivered through the Lakehead System originate in oilfields in western Canada. The Lakehead System also receives:

- U.S. and Canadian production at Clearbrook through a connection with a pipeline owned by a subsidiary of Enbridge;
- U.S. production at Lewiston, Michigan; and
- both U.S. and offshore production in the Chicago area.

Changes in supply from western Canada directly affect movements through the Enbridge System and, therefore, the supply available for transportation through the Lakehead System. Due to the integration of the Enbridge and Lakehead Systems, Enbridge Pipelines regularly prepares forecasts of western Canadian crude oil, which take into account deliveries on the Lakehead System.

The low crude oil prices experienced during 1998 and early 1999 caused a decline in western Canadian producers' expenditures for oil exploration and development, which in turn adversely affected the crude oil supply available in western Canada. As a result, Enbridge Pipelines has updated its forecast of western Canadian crude oil supply. This is a long-term outlook that involves updated supply projections from the oil sands projects currently operating, being expanded or that have been proposed in western Canada. We believe that production from these projects is less sensitive to the short-term fluctuations in the price of crude oil due to the magnitude of committed capital expenditures involved.

The updated Enbridge Pipelines forecast projects that the supply of western Canadian crude oil will be approximately 2,145,000 barrels per day in 2001 and approximately 2,300,000 barrels per day in 2002. This updated forecast projects the supply of crude oil to rise to approximately

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2,600,000 barrels per day in 2004 and to approximately 2,974,000 barrels per day by 2010. The forecast quantity of crude oil was made subject to numerous uncertainties and assumptions, including a crude oil price of \$26.35 per barrel in 2000 rising to \$29.00 in 2010. On March 28, 2001, the benchmark West Texas Intermediate crude oil price closed at \$26.31 per barrel.

While the projected supply of crude oil for 2001 and 2002 is lower than the forecast that supported the Terrace Expansion Project, the updated Enbridge Pipelines forecast supports the need for additional pipeline facilities beyond the Terrace Phase I facilities. Phase II includes construction of facilities to increase capacity on the Canadian portion of the System. While Phase II does not involve construction on the Lakehead System, we expect to benefit directly from the approximately 40,000 barrels per day increase in capacity as additional volumes from the Alberta Oil Sands come on stream. Subject to final approval of the NEB, Phase II is expected to be placed in service during 2002.

The NEB had previously released a report titled "Canada's Oil Sands: A Supply and Market Outlook to 2015" in October 2000. The base case scenario resulted in total western Canadian production that in 2005 was approximately 100,000 barrels per day higher than the most recent Enbridge Pipelines forecast.

We believe that the outlook for increased crude oil production in western Canada continues to be positive, as evidenced by the Enbridge Pipelines

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forecast, the NEB study and CAPP's recent request to proceed with Terrace Phase II. The timing of growth in the supply of western Canadian crude oil, however, will depend on the level of crude oil prices and drilling activity and the timing of completion of projects to produce heavy and synthetic oil from the Alberta Oil Sands. We anticipate that deliveries on the Lakehead System in 2001 will be approximately 1,400,000 to 1,450,000 barrels per day based on a recent survey of shippers. Based on this forecast, we estimate our net income will be between \$75 million and \$80 million in 2001 before taking into account any costs related to our relocation to Houston, Texas.

DEMAND

For strategic planning purposes, the U.S. government segregates the United States into five Petroleum Administration for Defense Districts, referred to as PADDs. The oil industry utilizes these districts in reporting statistics regarding oil supply and demand. The Lakehead System services the northern tier of PADD 2. We believe that modestly increasing crude oil demand and declining inland U.S. domestic production are contributing to an increasing need for importing crude oil into the PADD 2 market. We also believe that PADD 2 will continue to provide an excellent market for western Canadian shippers as returns to crude oil producers are expected to remain attractive. Moreover, we believe that PADD 2 will remain the most attractive market for western Canadian supply since it is currently the largest North American processor of western Canadian heavy crude oil and has the greatest potential for converting refining capacity from light to heavy crude.

Although western Canadian producers experience competition from Venezuelan and Mexican heavy crude oil in PADD 2, western Canadian heavy crude oil is expected to remain the dominant supply source for the region. We believe that Latin American heavy crude oil will continue to provide the balancing supply to the PADD 2 region. In the short-term, Latin American deliveries to PADD 2 are expected to decrease as the supply of western Canadian crude oil continues to recover from the negative impact of the 1998 and 1999 price decline. Over the long-term, we expect that producers of Latin American heavy crude oil will concentrate on PADD 3 and PADD 5 markets, where they receive a higher return compared to PADD 2.

Based on the most recent forecast completed by Enbridge Pipelines, exports from western Canada to the United States are projected to increase to approximately 1,805,000 barrels per day in 2005 and remain at that level or above through 2010. This is approximately 600,000 barrels per day higher than 1999 exports. Of the exports to the United States, PADD 2 would receive

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approximately 1,448,000 barrels per day in 2005, approximately 500,000 barrels per day higher than 1999.

Deliveries to Ontario averaged approximately 362,000 barrels per day in 2000. Demand in Ontario is expected to grow to approximately 640,000 barrels per day over the next several years. Since 1999, our deliveries to Ontario have been impacted by the reversal of Enbridge Line 9 from Montreal to Sarnia. Based on our forecast, and assuming no expansion of Line 9, our deliveries to Ontario are expected to approximate 2000 levels in 2001 and grow, on average, nearly 4% per year through 2002-2005.

Crude oil refineries in Ontario generally process light sweet and light sour crude oil, and the supply of conventional light sweet and light sour crude oil in western Canada is expected to decline. Ontario refiners cannot process significantly greater amounts of western Canadian heavy crude oil without substantial reconfiguration of their refineries. To the extent Ontario refiners have found it difficult to obtain light crude oil supply from western Canada at

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an economic price, refiners recently have accessed foreign light crude volumes through the reversed facilities of Line 9. Light crude oil movements originating in the Chicago area for delivery to Ontario via the Lakehead System declined following the reversal of Line 9 in 1999, averaging approximately 63,500 barrels per day for 1999, and approximately 15,000 barrels per day in 2000. Line 9 has an annual capacity of approximately 240,000 barrels per day and, in 2000, operated at approximately 210,000 barrels per day. The ongoing utilization level of Line 9 will be dependent upon global crude oil market dynamics.

TAX CONSIDERATIONS

This section was prepared by Fulbright & Jaworski L.L.P., our tax counsel ("Counsel"), and addresses all material U.S. federal income tax consequences to individuals who are citizens or residents of the United States. Unless otherwise noted, this section is Counsel's opinion with respect to the matters set forth except for statements of fact and the representations and estimates of the results of future operations of the general partner included in such discussion as to which no opinion is expressed. Counsel bases its opinions on its interpretation of the Internal Revenue Code of 1986, as amended (the "Code") and Treasury Regulations issued thereunder, judicial decisions, the facts set forth in this prospectus and factual representations made by the general partner. Counsel's opinions are subject to both the accuracy of such facts and the continued applicability of such legislative, administrative and judicial authorities, all of which authorities are subject to changes and interpretations that may or may not be retroactively applied.

We have not requested a ruling from the Internal Revenue Service ("IRS") with respect to our classification as a partnership for U.S. federal income tax purposes or any other matter affecting us. Accordingly, the IRS may adopt positions that differ from Counsel's conclusions expressed herein. We may need to resort to administrative or court proceedings to sustain some or all of Counsel's conclusions, and some or all of these conclusions ultimately may not be sustained. The costs of any contest with the IRS will be borne directly or indirectly by some or all of the unitholders and the general partner. Furthermore, neither we nor Counsel can assure you that the tax consequences of investing in Class A Common Units will not be significantly modified by future legislation or administrative changes or court decisions. Any such modifications may or may not be retroactively applied.

It is impractical to comment on all aspects of federal, state, local and foreign laws that may affect the tax consequences of the transactions contemplated by the sale of Class A Common Units made by this prospectus and of an investment in Class A Common Units. Moreover, taxpayers such as tax-exempt entities, regulated investment companies and insurance companies may be subject to rules and regulations unique to their status or form of organization in addition to those rules and regulations described herein. A prospective unitholder should consult

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his own tax advisor about the tax consequences peculiar to his circumstances. Unless the context otherwise requires, references in this section to "Lakehead," "we" or "us" are references to both Lakehead and Lakehead Pipe Line Company, Limited Partnership (the "Operating Partnership").

PARTNERSHIP STATUS

An organization that is classified for U.S. federal income tax purposes as a partnership is not a taxable entity and incurs no U.S. federal income tax liability. Instead, each partner of a partnership is required to take into account in computing his U.S. federal income tax liability his allocable share of income, gains, losses, deductions and credits of the partnership, regardless

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of whether cash distributions are made. Distributions by a partnership to a partner are generally not taxable unless the amount of cash distributed is in excess of the partner's adjusted tax basis in his partnership interest.

Counsel is of the opinion that, under current law, Lakehead and the Operating Partnership will each be classified as a partnership for U.S. federal income tax purposes. Counsel has rendered its opinion in reliance upon the accuracy of the following representations made by the general partner:

1. Neither Lakehead nor the Operating Partnership has elected or will elect to be classified as an association taxable as a corporation.
2. Lakehead and the Operating Partnership have been operated and will be operated in accordance with applicable state partnership statutes and their respective partnership agreements.
3. For each taxable year, more than 90% of the gross income of Lakehead has been and will be income that is "qualifying income" within the meaning of Section 7704(d) of the Code.

Counsel's opinion as to the classification of Lakehead is based on the assumption that if the general partner ceases to be a general partner, any successor general partner (or general partners) will make and satisfy such representations. In this regard, if the general partner were to withdraw as a general partner at a time when there is no successor general partner, or if the successor general partner could not satisfy the above representations, then the IRS might attempt to classify Lakehead as an association taxable as a corporation.

Counsel's opinion as to the partnership status of Lakehead is based principally upon its interpretation of Treasury Regulations under Sections 7701 and 7704 of the Code, and upon the continuing accuracy of the representations made by the general partner described above.

Section 7704 of the Code provides that publicly traded partnerships will, generally, be taxed as corporations. Section 7704 of the Code provides an exception to its general rule (the "Natural Resource Exception") in the case of a publicly traded partnership if 90% or more of its gross income for every taxable year consists of "qualifying income." Whether Lakehead will continue to meet the Natural Resource Exception is a matter to be determined by Lakehead's operations and the facts existing at the time of determination. However, the general partner will use its best efforts to cause Lakehead to operate in such fashion as is necessary for Lakehead to continue to meet the Natural Resource Exception.

If Lakehead fails to meet the Natural Resource Exception (other than a failure determined by the IRS to be inadvertent and which is cured within a reasonable time after discovery), Lakehead will be treated as if it had transferred all of its assets (subject to liabilities) to a newly formed corporation (on the first day in which it fails to meet the Natural Resource Exception) in return for stock in such corporation, and then distributed such stock to the unitholders in liquidation of their units. This contribution and liquidation should be tax-free to unitholders and Lakehead, so

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long as Lakehead, at such time, does not have liabilities in excess of the adjusted tax basis of its assets. Thereafter, Lakehead will be treated as an association taxable as a corporation for U.S. federal income tax purposes.

If Lakehead is classified as a corporation for U.S. federal income tax purposes, Lakehead will be a separate taxpayer, and its income, gains, losses,

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deductions and credits will be reported on its own U.S. federal income tax return instead of being passed through to unitholders. Lakehead's net income will be subject to U.S. federal income tax at the applicable corporate rate. Distributions made to unitholders generally will be treated as either a taxable dividend to the extent of its current and accumulated earnings and profits, as determined for U.S. federal income tax purposes, or, in the absence of earnings and profits, as a nontaxable return of capital to the extent of the unitholder's adjusted tax basis in his units and thereafter as taxable capital gain, provided the units are held as "capital assets" within the meaning of Section 1221 of the Code. Accordingly, the classification of Lakehead as an association taxable as corporation would result in a material reduction in a unitholder's cash flow and after-tax return.

The discussion below is based on the assumption that Lakehead and the Operating Partnership will each be classified as a partnership for U.S. federal income tax purposes. If that assumption proves to be erroneous, most, if not all, of the tax consequences described below would not be applicable to unitholders, and distributions to unitholders would be materially reduced.

LIMITED PARTNER STATUS

Unitholders who become limited partners pursuant to the provisions of our partnership agreement will be treated as partners of Lakehead for U.S. federal income tax purposes.

Counsel is also of the opinion that (i) assignees who have executed and delivered transfer applications and are awaiting admission as limited partners and (ii) unitholders whose Class A Common Units are held in street name or by another nominee will be treated as partners for U.S. federal income tax purposes. As there is no direct authority addressing assignees of Class A Common Units who are entitled to execute and deliver transfer applications and thereby become entitled to direct the exercise of attendant rights, but who fail to execute and deliver such transfer applications, Counsel's opinion does not extend to such persons. Furthermore, a purchaser or other transferee of Class A Common Units who does not execute and deliver a transfer application may not receive certain tax information or reports furnished to unitholders unless the Class A Common Units are held in a nominee or street name account and the nominee or broker has executed and delivered a transfer application with respect to such Class A Common Units.

A unitholder who loans all or part of his Class A Common Units to a "short seller" to complete a short sale would appear to lose his status as a partner with respect to such loaned Class A Common Units for U.S. federal income tax purposes. See "-- Tax Treatment of Operations -- Treatment of Class A Common Units Loaned to Cover Short Sales." Income, gain, losses, deductions and credits would not appear to be reportable by a unitholder who is not a partner for U.S. federal income tax purposes, and any cash distributions received by such a unitholder would be fully taxable as ordinary income. These unitholders should consult their own tax advisors with respect to their status as partners in Lakehead for U.S. federal income tax purposes.

TAX CONSEQUENCES OF CLASS A COMMON UNIT OWNERSHIP

FLOW-THROUGH OF TAXABLE INCOME

No U.S. federal income tax will be paid by Lakehead. Instead, each unitholder will be required to report on his income tax return his allocable share of income, gains, losses,

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deductions and credits without regard to whether he receives cash distributions. Consequently, a unitholder may be allocated income from Lakehead even if he has not received a cash distribution. Each unitholder will be required to report on his U.S. federal income tax return his allocable share of our income, gains, losses, deductions and credits for Lakehead's taxable year ending with or within the taxable year of the unitholder.

TREATMENT OF LAKEHEAD'S CASH DISTRIBUTIONS

Cash distributions by Lakehead generally will not be taxable to a unitholder for U.S. federal income tax purposes to the extent of his adjusted tax basis in his Class A Common Units immediately before the distribution. Cash distributions in excess of a unitholder's adjusted tax basis generally will be treated as a gain from the sale or exchange of the Class A Common Units, taxable in accordance with the rules described under "Disposition of Class A Common Units" below. Additionally, to the extent that cash distributions by Lakehead cause a unitholder's "at risk" amount, as determined under Section 465 of the Code, to be less than zero at the end of any taxable year, he must recapture as income in the year of such distributions any losses deducted in previous years. See "-- Limitations on Deductibility of Lakehead Losses."

Any reduction in a unitholder's share of Lakehead's liabilities for which no partner, including the general partner, bears the economic risk of loss ("nonrecourse liabilities") will be treated as a distribution of cash to such unitholder. A decrease in a unitholder's percentage interest in Lakehead because of its issuance of additional units will decrease his share of Lakehead's nonrecourse liabilities, thus resulting in a corresponding deemed distribution of cash. A non-pro rata distribution of cash or property may result in ordinary income to a unitholder, regardless of his basis in his Class A Common Units, if such distribution reduces the unitholder's share of Lakehead's "unrealized receivables" (including depreciation recapture) and/or "substantially appreciated inventory items," as such terms are defined in Section 751 of the Code (collectively, "Section 751 Assets"). Lakehead's partnership agreement provides that recapture income will be allocated, to the extent possible, to the unitholders who were allocated the deductions giving rise to the treatment of gain as recapture income. Such allocations, along with allocations in accordance with principles under Section 704(c) of the Code, should minimize the risk to a holder of Class A Common Units of recognition of ordinary income under Section 751(b) of the Code upon a non-pro rata distribution of cash or property. The IRS may contend, however, that such a deemed exchange of Section 751 Assets has occurred and therefore, ordinary income must be recognized under Section 751(b) of the Code by unitholders, on such a non-pro rata distribution of cash or other property. It is not expected that Lakehead will incur any material amounts of liabilities that will be treated as nonrecourse liabilities for U.S. federal income tax purposes.

SPECIAL ALLOCATION OF GROSS INCOME

As provided in our partnership agreement, the holders of Class A Common Units may be allocated amounts of gross income that would otherwise be allocated to the holders of Class B Common Units (the "Special Allocation"). With respect to taxable years 1999 and 2000, the amounts of the Special Allocations were \$11 million and \$13 million, respectively. Thereafter, the Special Allocation to be made each year will increase by \$2 million every two years until the taxable year beginning with 2012, for which the Special Allocation will be \$25 million for that year and for each taxable year thereafter. Notwithstanding the above, the Special Allocation will not be made (or will be reduced) in any taxable year to the extent that a purchaser of a Class A Common Unit in Lakehead's initial public offering would be allocated taxable income with respect to such taxable year that would exceed 65% of the amount of cash distributed to such a unitholder with respect to that taxable year. However, there can be no assurance that the ratio of taxable income to cash distributed with respect to any taxable

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year will not exceed 65%. Based on the current level of cash distributions, the general partner anticipates that the Special

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Allocation will be used in its entirety for the taxable year 2001. To the extent that the Special Allocation is not made in any year, it cannot be carried forward.

TAX BASIS OF CLASS A COMMON UNITS

A unitholder's initial tax basis in his Class A Common Units will be the amount paid for the Class A Common Units plus his share of Lakehead's nonrecourse liabilities. The initial tax basis will be increased by the unitholder's share of Lakehead's income and by increases in his share of Lakehead's nonrecourse liabilities. That basis will be decreased (but not below zero) by distributions from Lakehead, by the unitholder's share of Lakehead's losses and by the unitholder's share of expenditures of Lakehead that are not deductible in computing its taxable income and are not required to be capitalized. A limited partner will have no share of Lakehead's debt which is recourse to the general partner, but will have a share, generally based on his share of profits, of Lakehead's nonrecourse liabilities. See "-- Disposition of Class A Common Units-Recognition of Gain or Loss."

LIMITATIONS ON DEDUCTIBILITY OF LAKEHEAD'S LOSSES

The deduction by a unitholder of his share of Lakehead's losses will be limited to the adjusted tax basis in his Class A Common Units (the "basis limitation") and, in the case of an individual unitholder or a corporate unitholder, if more than 50% of the value of its stock is owned directly or indirectly by five or fewer individuals or some tax-exempt organizations, to the amount for which the unitholder is considered to be "at risk" under Section 465 of the Code (the "at risk limitation") with respect to Lakehead's activities, if that amount is less than his adjusted tax basis. A unitholder must recapture losses deducted in previous years to the extent that distributions cause his "at risk" amount to be less than zero at the end of any taxable year. Losses disallowed to a unitholder or recaptured as a result of these limitations will carry forward and will be allowable to the extent that his adjusted tax basis or "at risk" amount, whichever is the limiting factor, is subsequently increased. Upon the taxable disposition of a Class A Common Unit, any gain recognized by a unitholder can be offset by losses that were previously suspended by the "at risk" limitation but may not be offset by losses suspended by the basis limitation. Any excess loss above that gain previously suspended by the "at risk" limitation or basis limitation is no longer utilizable.

Under Section 465 of the Code, a unitholder will generally be "at risk" to the extent of his adjusted tax basis in his Class A Common Units, excluding any portion of the basis attributable to his share of Lakehead's nonrecourse liabilities, reduced by any amount of money the unitholder borrowed to purchase his Class A Common Units if the lender of such borrowed funds owns an interest in Lakehead, is related to such unitholder or can look only to the purchased Class A Common Units for repayment. A unitholder's "at risk" amount will increase or decrease as the adjusted tax basis of the unitholder's Class A Common Units increases or decreases (other than tax basis increases or decreases attributable to increases or decreases in his share of Lakehead's nonrecourse liabilities).

The passive loss limitation under Section 469 of the Code generally provides that individuals, estates, trusts and certain closely held corporations and personal service corporations can only deduct losses from passive activities (generally activities in which the taxpayer does not materially participate)

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only to the extent of the taxpayer's income from such passive activities. The passive loss limitation is to be applied separately with respect to each publicly traded partnership. Consequently, a unitholder's allocable share of any passive losses generated by Lakehead, if any, will only be available to offset future passive income generated by Lakehead and will not be available to offset income from other passive activities or investments (including other publicly traded partnerships) or salary or active business income. Passive losses that are not deductible because they exceed the unitholder's allocable share of the income generated by Lakehead may be deducted in full when the unitholder disposes of his entire investment in

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Lakehead in a fully taxable transaction to an unrelated party. The passive activity loss rules are applied after other applicable limitations on deductions, such as the "at risk" limitation and the basis limitation.

LIMITATIONS ON INTEREST DEDUCTIONS

The deductibility of a non-corporate taxpayer's "investment interest expense" is generally limited to the amount of such taxpayer's "net investment income." The IRS has announced that Treasury Regulations will be issued that characterize "net passive income" from a publicly traded partnership as "investment income" for purposes of the limitations on the deductibility of investment interest, and until such Treasury Regulations are issued, "net passive income" from a publicly traded partnership shall be treated as "investment income." Therefore, a unitholder's "net passive income" from Lakehead will be treated as "investment income" for this limitation on interest deductions. In addition, the unitholder's share of Lakehead's portfolio income will be treated as investment income. Investment interest expense includes (i) interest on indebtedness properly allocable to property held for investment, (ii) a partnership's interest expense attributed to portfolio income and (iii) the portion of interest expense incurred to purchase or carry an interest in a passive activity to the extent attributable to portfolio income. The computation of a unitholder's investment interest expense will take into account interest on any margin account borrowing or other loan incurred to purchase or carry a Class A Common Unit. Net investment income includes gross income from property held for investment and amounts treated as portfolio income pursuant to the passive loss rules less deductible expenses (other than interest) directly connected with the production of investment income, but generally does not include gains attributable to the disposition of property held for investment.

ALLOCATION OF LAKEHEAD'S INCOME, GAIN, LOSSES, DEDUCTIONS AND CREDITS

In general, if Lakehead has a net profit, items of income, gain, loss, deduction and credit will be allocated among the general partner and the unitholders in accordance with their respective percentage interests in Lakehead. If Lakehead has a net loss, items of income, gain, losses, deductions and credits generally for both book and tax purposes will be allocated, first, to the general partner and the unitholders in accordance with their respective percentage interests to the extent of their positive capital accounts (as maintained under our partnership agreement), and second, to the general partner. In addition, by reason of the Special Allocation discussed in "-- Tax Consequences of Class A Common Unit Ownership--Special Allocation of Gross Income," there is a high probability that the holders of Class A Common Units will continue to be allocated amounts of gross income with respect to taxable years of Lakehead that would otherwise be allocated to the holders of Class B Common Units. Although Lakehead does not expect that its operations will result in the creation of negative capital accounts, if negative capital accounts nevertheless result, items of Lakehead income and gain will be allocated in an amount and manner sufficient to eliminate the negative balance as quickly as possible. On a liquidating sale of assets, our partnership agreement provides

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separate gain and loss allocations designed, to the extent possible, (i) to eliminate a deficit in any unitholder's capital account and (ii) to produce capital accounts that, when followed on liquidation, result in each unitholder recovering the Unrecovered Capital and his distributive share of any additional value.

Notwithstanding the above, as required by Section 704(c) of the Code, certain items of Lakehead's income, deduction, gain and loss will be specially allocated for U.S. federal income tax purposes to account for the difference between the adjusted tax basis and fair market value of property contributed to Lakehead by the general partner ("Contributed Property"), and to account for the difference between the fair market value of Lakehead's assets and their carrying value on Lakehead's books at the time of any offering made pursuant to this prospectus. In addition, certain items of recapture income will be allocated to the extent possible to the unitholder allocated the deduction or curative allocation (discussed below) giving rise to the

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treatment of such gain as recapture income in order to minimize the recognition of ordinary income by some unitholders, but these allocations may not be respected by the IRS. If these allocations of recapture are not respected, the amount of the income or gain allocated to a unitholder will not change but instead a change in the character of the income allocated to the unitholder would result.

Treasury Regulations permit curative allocations similar to those provided for by our partnership agreement. However, the application of those Treasury Regulations in the context of a publicly traded partnership existing at the time of promulgation is unclear. Because such curative allocations are consistent with Counsel's view of the purposes of Section 704(c) and with the principles of the Treasury Regulations, Counsel believes that it is unlikely that the IRS will challenge the curative allocations. However, if the IRS were to litigate the matter, it is uncertain whether the curative allocations would be respected by a court. Counsel believes that there is substantial authority (within the meaning of Section 6662 of the Code) for Lakehead's tax reporting position, and that no penalties would be applicable if the IRS were to litigate successfully against the curative allocations. Because Lakehead has a relatively low tax basis in its assets, a successful challenge by the IRS of the curative allocation would result in ratios of taxable income to cash distributions received by holders of Class A Common Units that are materially higher than the estimates that may be set forth in any accompanying Prospectus Supplement.

Counsel is of the opinion that, with the exception of the curative allocations, the Special Allocation and the allocation of recapture income discussed above, will be respected for U.S. federal income tax purposes in determining each unitholder's allocable share of Lakehead's income, gain, loss and deduction. There are, however, uncertainties in the Treasury Regulations relating to allocations of partnership taxable items, and investors should be aware that some of the allocations in our partnership agreement may be successfully challenged by the IRS.

If an allocation contained in our partnership agreement is not respected for U.S. federal income tax purposes, notwithstanding the opinion of Counsel, items of income, gain, loss, deduction and credit will be reallocated to the unitholders and the general partner in accordance with their respective interests in such items. Such reallocation among the unitholders and the general partner of such items of income, gain, loss, deduction and credit allocated under our partnership agreement could result in additional taxable income to the unitholders. If the Special Allocation is not given effect, the gross income subject to these allocations will be allocated to the holders of Class B Common

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Units.

TAX TREATMENT OF OPERATIONS

INCOME AND DEDUCTIONS IN GENERAL

Each unitholder will be required to report on his U.S. federal income tax return his allocable share of Lakehead's income, gain, loss, deduction and credit for the taxable year of Lakehead ending within or with the taxable year of the unitholder. Such items must be included on the unitholder's U.S. federal income tax return without regard to whether Lakehead makes a distribution of cash to the unitholder.

A unitholder who owns Class A Common Units at any time during a quarter and who disposes of such Class A Common Units prior to the record date set for a distribution with respect to such quarter will be allocated items of Lakehead's income and gain attributable to the months in such quarter during which such units were owned but will not be entitled to receive such cash distribution.

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ACCOUNTING METHOD AND TAXABLE YEAR

Lakehead uses the calendar year as its taxable year and the accrual method of accounting for U.S. federal income tax purposes.

INITIAL TAX BASIS, DEPRECIATION AND AMORTIZATION

The tax basis established for the various assets of Lakehead will be used for purposes of computing depreciation and cost recovery deductions and, ultimately, gain or loss on the disposition of such assets. The aggregate tax basis established for the assets contributed to Lakehead by the general partner was initially equal to the adjusted tax basis of the general partner in such assets immediately before their contribution to Lakehead. See "-- Allocation of Lakehead's Income, Gain, Losses, Deductions and Credits."

Lakehead has both tangible assets of substantial value (including the pipeline and related equipment) and rights of way of substantial value. Amortization deductions in respect of such assets are based on determinations as to their relative fair market values and useful lives by Lakehead. The IRS may (i) challenge either the fair market values or the useful lives assigned to such assets or (ii) seek to characterize intangible assets as nonamortizable goodwill. If any such challenge or characterization were successful, the deductions allocated to a unitholder in respect of such assets would be reduced or eliminated and a unitholder's share of taxable income from Lakehead would be increased accordingly. Any such increase could be material.

SECTION 754 ELECTION

Lakehead has made the election permitted by Section 754 of the Code. Such an election is irrevocable without the consent of the IRS. The election generally permits a purchaser of Class A Common Units to adjust his share of the adjusted tax basis in Lakehead's properties ("inside basis") pursuant to Section 743(b) of the Code to fair market value (as reflected by his purchase price). The 743(b) adjustment is attributed solely to a purchaser of Class A Common Units and is not added to the basis of Lakehead's assets. (For purposes of this discussion, a unitholder's inside basis in Lakehead's assets will be considered to have two components: (i) his share of Lakehead's actual basis in such assets ("Common Basis") and (ii) his Section 743(b) adjustment allocated to each such asset.)

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Treasury Regulations under Section 743 of the Code require, if the remedial allocation method is adopted, a portion of the Section 743(b) adjustment attributable to recovery property to be depreciated over the remaining cost recovery period for the Section 704(c) built-in gain. Under Treasury Regulations Section 1.167(c)-1(a)(6), a Section 743(b) adjustment attributable to property subject to depreciation under Section 167 of the Code rather than cost recovery deductions under Section 168 is generally required to be depreciated using either the straight-line method or the 150% declining balance method. Our partnership agreement authorizes the general partner to adopt a convention to preserve the uniformity of Class A Common Units even if that convention is not consistent with certain Treasury Regulations. See "-- Tax Treatment of Operations-Uniformity of Class A Common Units" below.

Although Counsel is unable to opine as to the validity of such an approach, Lakehead intends to depreciate or amortize the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property, to the extent of any unamortized Section 704(c) built-in gain using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the Common Basis of such property, or treat that portion as non-amortizable to the extent attributable to property the Common Basis of which is not depreciable or amortizable. This method is consistent with the Treasury Regulations under Section 743 but is arguably inconsistent with Treasury Regulations Section 1.167(c)(1)(a)(6). To the extent such Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Section 704(c) built in gain, Lakehead will

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apply the rules described in the Treasury Regulations and legislative history. If Lakehead determines that such position cannot reasonably be taken, Lakehead may adopt a depreciation or amortization convention under which all purchasers acquiring Class A Common Units in the same month would receive depreciation or amortization, whether attributable to Common Basis or Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in Lakehead's assets. Such an aggregate approach may result in lower annual depreciation or amortization deductions than would otherwise be allowable to certain unitholders. See "-- Tax Treatment of Operations-Uniformity of Class A Common Units" below.

The allocation of the Section 743(b) adjustment must be made in accordance with the principles of Section 1060 of the Code. Based on these principles, the IRS may seek to reallocate some or all of any Section 743(b) adjustment not allocated by Lakehead to goodwill. As an intangible asset, goodwill would be amortizable over a longer period of time than Lakehead's tangible assets.

A Section 754 election is advantageous if the transferee's basis in his Class A Common Units is higher than such Class A Common Units' share of Lakehead's aggregate adjusted tax basis in its assets immediately prior to the transfer. In such case, pursuant to the election, the transferee would take a new and higher basis in his share of Lakehead's assets for purposes of calculating, among other items, his depreciation deductions and his share of any gain or loss on a sale of Lakehead's assets. Conversely, a Section 754 election is disadvantageous if the transferee's basis in such Class A Common Units is lower than such Class A Common Units' share of Lakehead's aggregate adjusted tax basis in its assets immediately prior to the transfer. Thus, the price that a unitholder will be able to obtain upon the sale of his units may be affected either favorably or adversely by the Section 754 election.

The calculations involved in the Section 754 election are complex and will be made by Lakehead on the basis of certain assumptions as to the value of Lakehead's assets and other matters. There is no assurance that the determinations made by Lakehead will not be successfully challenged by the IRS

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and that the deductions attributable to them will not be disallowed or reduced. If the IRS requires a different basis adjustment to be made, and if, in the general partner's opinion, the expense of compliance exceeds the benefit of the election, the general partner may seek permission from the IRS to revoke the Section 754 election. If such permission is granted, a purchaser of Class A Common Units subsequent to such revocation may incur an increased tax liability.

ALTERNATIVE MINIMUM TAX

Each unitholder will be required to take into account his distributive share of items of Lakehead's income, gain, loss, deduction and credit for purposes of the alternative minimum tax. A portion of Lakehead's depreciation deductions may be treated as an item of tax preference for this purpose.

A unitholder's alternative minimum taxable income derived from Lakehead may be higher than his share of Lakehead's net income because Lakehead may use accelerated methods of depreciation for purposes of computing U.S. federal taxable income or loss. Prospective unitholders should consult with their tax advisors as to the impact of an investment in Class A Common Units on their liability for the alternative minimum tax.

VALUATION AND TAX BASIS OF LAKEHEAD PROPERTY

The U.S. federal income tax consequences of the ownership and disposition of Class A Common Units will depend in part on estimates by the general partner of the relative fair market values, and determinations of the initial tax bases of the assets of Lakehead. Although the general partner may from time to time consult with professional appraisers with respect to valuation matters, many of the relative fair market value estimates will be made solely by the

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general partner. These estimates and determinations of basis are subject to challenge and will not be binding on the IRS or the courts. If the estimates of fair market value or determinations of basis are subsequently found to be incorrect, the character and amount of items of income, gain, loss, deduction and credit previously reported by unitholders might change, and unitholders might be required to adjust their tax liability for prior years.

TREATMENT OF CLASS A COMMON UNITS LOANED TO COVER SHORT SALES

A unitholder whose Class A Common Units are loaned to a "short seller" to cover a short sale of Class A Common Units may be considered as having disposed of ownership of such loaned Class A Common Units. If so, he would no longer be a partner with respect to those Class A Common Units during the period of such loan. As a result, during such period, items of Lakehead's income, gain, deduction, loss and credit allocable to those Class A Common Units would appear not to be reportable by such unitholder, any cash distributions received by the unitholder with respect to those Class A Common Units would be fully taxable and all of such distributions would appear to be treated as ordinary income. Counsel has not rendered an opinion regarding the treatment of a unitholder whose Class A Common Units are loaned to a short seller to cover a short sale of Class A Common Units; therefore, unitholders desiring to assure their status as partners should modify their brokerage account agreements, if any, to prohibit their brokers from borrowing their Class A Common Units. The IRS has announced that it is actively studying issues relating to the tax treatment of short sales of partnership interests.

Other provisions of the Code affect the taxation of certain financial products and securities, including partnership interests, by treating a taxpayer as having sold an "appreciated" partnership interest (in other words, one in which gain would be recognized if it were sold, assigned or otherwise terminated

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at its fair market value) if the taxpayer or related persons enter into a short sale, an offsetting notional principal contract, or a futures or forward contract with respect to the partnership interest or substantially identical property. Moreover, if a taxpayer has previously entered into a short sale, an offsetting notional principal contract or a futures or forward contract with respect to a partnership interest, the taxpayer will be treated as having sold such position if the taxpayer or a related party then acquires the partnership interest or substantially identical property. The Secretary of Treasury is also authorized to issue Treasury Regulations that treat a taxpayer that enters into transactions or positions that have substantially the same effect as the preceding transactions as having constructively sold the financial position.

DISPOSITION OF CLASS A COMMON UNITS

RECOGNITION OF GAIN OR LOSS

Gain or loss will be recognized on a sale of Class A Common Units equal to the difference between the amount realized and the unitholder's adjusted tax basis in the Class A Common Units sold. A unitholder's amount realized will be measured by the sum of the cash and the fair market value of other property received plus his share of Lakehead's nonrecourse liabilities. Since the amount realized includes a unitholder's share of Lakehead's nonrecourse liabilities, the gain recognized on the sale of Class A Common Units may result in a tax liability in excess of any cash received from such sale.

Prior distributions by Lakehead in excess of cumulative net taxable income in respect of a Class A Common Unit that decreased a unitholder's adjusted tax basis in such Class A Common Unit will, in effect, become taxable income if the Class A Common Unit is sold at a price greater than the unitholder's adjusted tax basis in such Class A Common Unit, even if the price is less than his original cost.

Except as noted below and provided the Class A Common Unit is held as a "capital asset" within the meaning of Section 1221 of the Code, gain or loss recognized by a unitholder (other than a "dealer") on the sale or exchange of a Class A Common Unit will generally be taxable as

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capital gain or loss, and the gain or loss will generally be a long term capital gain or loss if the Class A Common Unit is held for more than one year. A substantial portion of this gain or loss, however, will be separately computed and taxed as ordinary income or loss under Section 751 of the Code to the extent attributable to assets giving rise to depreciation recapture or other "unrealized receivables" or to "inventory items" owned by Lakehead. The term "unrealized receivables" includes potential recapture items, including depreciation recapture. Ordinary income attributable to "unrealized receivables," "inventory items" and depreciation recapture may exceed net taxable gain realized upon the sale of the Class A Common Unit and may be recognized even if there is a net taxable capital loss realized on the sale of the Class A Common Unit. Thus, a unitholder may recognize both ordinary income and a capital loss upon disposition of Class A Common Units. Net capital loss may offset no more than \$3,000 of ordinary income in the case of individuals and may only be used to offset capital gain in the case of a corporation.

The IRS has ruled that a partner acquiring interests in a partnership in separate transactions at different prices must combine those interests and maintain a single adjusted tax basis. Upon a sale or other disposition of some of the interests, a portion of that tax basis must be allocated to the interests sold using an equitable apportionment method. Although the ruling is unclear as to how the holding period of these interests is determined once they are

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combined, recently finalized Treasury Regulations allow a selling partner who can identify the partnership interest transferred with an ascertainable holding period to elect to use the actual holding period of the transferred interest. Thus, according to the ruling, a unitholder will be unable to select high or low basis Class A Common Units to sell as would be the case with corporate stock, but, according to the Treasury Regulations, may designate the specific Class A Common Units sold for purposes of determining the holding period of the Class A Common Units transferred. A unitholder electing to use the actual holding period of Class A Common Units transferred must consistently use that identification method for all subsequent sales or exchanges of Class A Common Units. A unitholder considering the purchase of additional Class A Common Units or a sale of Class A Common Units purchased in separate transactions should consult his tax advisor as to the possible consequences of the ruling and application of the final Treasury Regulations.

ALLOCATIONS BETWEEN TRANSFERORS AND TRANSFEREES

In general, items of Lakehead's income, gain, loss, deduction and credit will be determined annually and will be prorated on a monthly basis and subsequently apportioned among the unitholders in proportion to the number of Class A Common Units owned by them as of the opening of the first business day of the month to which they relate. However, gain or loss realized on a sale or other disposition of Lakehead's assets other than in the ordinary course of business will be allocated among the unitholders as of the opening of the NYSE on the first business day of the month in which such gain or loss is recognized. As a result of this monthly allocation, a unitholder transferring Class A Common Units in the open market may be allocated items of Lakehead's income, gain, loss, deduction and credit accrued after the transfer.

The use of the monthly conventions discussed above may not be permitted by existing Treasury Regulations and accordingly, Counsel does not opine on the validity of the method of allocating items of Lakehead's income, gain, loss, deduction and credit between the transferors and the transferees of Class A Common Units. If a monthly convention is not allowed by the Treasury Regulations (or only applies to transfers of less than all of the unitholder's Class A Common Units), items of Lakehead's income, gain, loss, deduction and credit might be reallocated among the unitholders. The general partner is authorized to revise Lakehead's method of allocation between the transferors and transferees (as well as among partners whose interests otherwise vary during a taxable period) to conform to a method permitted by Treasury Regulations.

A unitholder who owns Class A Common Units at any time during a quarter and who disposes of such Class A Common Units prior to the record date set for a cash distribution with

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respect to such quarter will be allocated items of Lakehead's income, gain, loss, deduction and credit attributable to such quarter during which such Class A Common Units were owned, but will not be entitled to receive such cash distribution.

NOTIFICATION REQUIREMENTS

A unitholder who sells or exchanges Class A Common Units is required to notify Lakehead in writing of such sale or exchange within 30 days of the sale or exchange and in any event no later than January 15 of the year following the calendar year in which the sale or exchange occurred. Lakehead is required to notify the IRS of such transaction and to furnish certain information to the transferor and transferee. However, these reporting requirements do not apply with respect to a sale by an individual who is a citizen of the United States and who effects such sale through a broker. Additionally, a transferor and a

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transferee of a Class A Common Unit will be required to furnish statements to the IRS, filed with their U.S. federal income tax returns for the taxable year in which the sale or exchange occurred, which set forth the amount of the consideration received for such Class A Common Unit that is allocated to goodwill or going concern value of Lakehead. Failure to satisfy such reporting obligations may lead to the imposition of substantial penalties.

CONSTRUCTIVE TERMINATION

Lakehead and the Operating Partnership will be considered to have been terminated if there is a sale or exchange of 50% or more of the total interests in Lakehead capital and profits within a 12-month period. A termination of Lakehead will cause a termination of the Operating Partnership. A termination of Lakehead will result in the closing of Lakehead's taxable year for all unitholders. In the case of a unitholder reporting on a taxable year other than a fiscal year ending December 31, the closing of Lakehead's taxable year may result in more than 12 months' taxable income or loss of Lakehead being includable in his taxable income for the year of termination. New tax elections required to be made by Lakehead, including a new election under Section 754 of the Code, must be made subsequent to a termination, and a termination could result in a deferral of Lakehead deductions for depreciation. A termination could also result in penalties if Lakehead were unable to determine that the termination had occurred. Moreover, a termination might either accelerate the application of, or subject Lakehead to, any tax legislation enacted prior to the termination.

ENTITY-LEVEL COLLECTIONS

If Lakehead is required or elects under applicable law to pay any federal, state or local tax on behalf of any unitholder or former unitholder, the general partner is authorized to pay such taxes from Lakehead's funds. Such payments, if made, will be deemed current distributions of cash to the unitholders and the general partner. The general partner is authorized to amend our partnership agreement in the manner necessary to maintain uniformity of intrinsic tax characteristics of Class A Common Units and to adjust subsequent distributions so that after giving effect to such deemed distributions, the priority and characterization of distributions otherwise applicable under our partnership agreement is maintained as nearly as is practicable. Payments by Lakehead as described above could give rise to an overpayment of tax on behalf of an individual unitholder, in which event the unitholder could file a claim for credit or refund.

UNIFORMITY OF CLASS A COMMON UNITS

Since Lakehead cannot match transferors and transferees of Class A Common Units, uniformity of the economic and tax characteristics of the Class A Common Units to a purchaser of such Class A Common Units must be maintained. In the absence of uniformity, compliance with a number of U.S. federal income tax requirements could be substantially diminished. A lack of uniformity can result from a literal application of Treasury Regulations Section 1.167(c)-

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1(a)(6). Any such non-uniformity could have a negative impact on the value of a unitholder's interest in Lakehead.

Consistent with the recently finalized Treasury Regulations under Section 743, Lakehead intends to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property or Adjusted Property, as defined in our partnership agreement, (to the extent of any unamortized Section 704(c) built-in gain) using a rate of depreciation or amortization derived from the depreciation method and useful life applied to the

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Common Basis of such property, or treat that portion as non-amortizable to the extent attributable to property the Common Basis of which is not amortizable, consistent with the Treasury Regulations under Section 743, but despite its inconsistency with Treasury Regulations Section 1.167(c)-1(a)(6). See "-- Disposition of Class A Common Units--Section 754 Election" above. To the extent that the Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Section 704(c) built-in gain, Lakehead will apply the rules described in the Treasury Regulations and legislative history. If Lakehead determines that such position cannot reasonably be taken, Lakehead may adopt a depreciation convention under which all purchasers acquiring Class A Common Units in the same month would receive depreciation and amortization deductions, whether attributable to Common Basis or Section 743(b) basis, based upon the same applicable rate as if they had purchased a direct interest in Lakehead's property. If such an aggregate approach is adopted, annual depreciation and amortization deductions might be lower than would otherwise be allowable to certain unitholders and risk the loss of depreciation and amortization deductions not taken in the year that such deductions are otherwise allowable. Such convention will not be adopted if Lakehead determines that the loss of such depreciation and amortization deductions will have a material adverse effect on the unitholders. If Lakehead chooses not to utilize this aggregate method, Lakehead may use any other reasonable depreciation and amortization convention to preserve the uniformity of the intrinsic tax characteristics of any Class A Common Units that would not have a material adverse effect on the unitholders. The IRS may challenge any method of depreciating the Section 743(b) adjustment described in this paragraph. If such a challenge were to be sustained, the uniformity of Class A Common Units may be affected, and gain from the sale of units might be increased without the benefit of additional deductions. See "-- Disposition of Class A Common Units -- Recognition of Gain or Loss."

Because of the Special Allocation of gross income to the Class A Common Units, the capital accounts underlying the Class A Common Units will likely differ, perhaps materially, from the capital accounts underlying the Class B Common Units. Our partnership agreement contains a method by which the general partner may cause the capital accounts underlying the Class A Common Units to equal the capital accounts underlying the Class B Common Units. The general partner must be reasonably assured, based on advice of counsel, that the Class B Common Units and the Class A Common Units share the same intrinsic economic and U.S. federal income tax characteristics, in all material respects, before the Class A Common Units and the Class B Common Units will be treated as one class of units.

TAX-EXEMPT ORGANIZATIONS AND CERTAIN OTHER INVESTORS

Ownership of Class A Common Units by employee benefit plans, other tax-exempt organizations, nonresident aliens, foreign corporations, other foreign persons and regulated investment companies raises issues unique to such persons and, as described below, may have substantially adverse tax consequences.

Employee benefit plans and most other organizations exempt from U.S. federal income tax (including individual retirement accounts and other retirement plans) are subject to U.S. federal income tax on unrelated business taxable income.

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Virtually all of the taxable income derived by such an organization from the ownership of a Class A Common Unit will be unrelated business taxable income and thus will be taxable to such a unitholder.

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A regulated investment company or mutual fund is required to derive 90% or more of its gross income from interest, dividends, gains from the sale of stocks or securities or foreign currency or certain related sources. It is not anticipated that any significant amount of Lakehead's gross income will qualify as such income.

Non-resident aliens and foreign corporations, trusts or estates that own Class A Common Units will be considered to be engaged in business in the United States on account of ownership of Class A Common Units. As a consequence, they will be required to file U.S. federal income tax returns for their allocable shares of Lakehead's income, gain, loss, deduction and credit and pay U.S. federal income tax at regular rates on such income.

Generally, a partnership is required to pay a withholding tax on the portion of the partnership's income that is effectively connected with the conduct of a U.S. trade or business and which is allocable to the foreign partners, regardless of whether any actual distributions have been made to these partners. However, under rules applicable to publicly traded partnerships, Lakehead will withhold (currently at the rate of 39.6%) on actual cash distributions made quarterly to foreign unitholders. Each foreign unitholder must obtain a taxpayer identification number from the IRS and submit that number to Lakehead's Transfer Agent on a Form W-8 BEN or applicable substitute form in order to obtain credit for the taxes withheld. A change in applicable law may require Lakehead to change these procedures.

Because a foreign corporation that owns Class A Common Units will be treated as engaged in a U.S. trade or business, that corporation may be subject to U.S. branch profits tax at a rate of 30%, in addition to regular U.S. federal income tax, on its share of Lakehead's income and gain (as adjusted for changes in the foreign corporation's "U.S. net equity") which are effectively connected with the conduct of a U.S. trade or business. That tax may be reduced or eliminated by an income tax treaty between the U.S. and the country with respect to which the foreign corporate unitholder is a "qualified resident." In addition, this type of unitholder is subject to special information reporting requirements under Section 6038C of the Code.

Under a ruling of the IRS, a foreign unitholder who sells or otherwise disposes of a Class A Common Unit will be subject to U.S. federal income tax on gain realized on the disposition of such Class A Common Unit to the extent that such gain is effectively connected with a U.S. trade or business of the foreign unitholder. Apart from the ruling, a foreign unitholder will not be taxed or subject to withholding upon the disposition of a Class A Common Unit if that foreign unitholder has owned less than 5% in value of the Class A Common Units during the five-year period ending on the date of the disposition and if the Class A Common Units are regularly traded on an established securities market at the time of the disposition.

ADMINISTRATIVE MATTERS

LAKEHEAD INFORMATION RETURNS AND AUDIT PROCEDURES

Lakehead intends to furnish each unitholder, within 90 days after the close of each calendar year, certain tax information, including a Schedule K-1, that sets forth each unitholder's allocable share of Lakehead's income, gain, loss, deduction and credit for the preceding taxable year of Lakehead. If Lakehead elects large partnership treatment under the Code, this tax information will be provided to unitholders by March 15th for the preceding taxable year of Lakehead as required. In preparing this information, which will generally not be reviewed by Counsel, the general partner will use various accounting and reporting conventions, some of which have been mentioned in the previous discussion, to determine the respective unitholder's allocable share of income, gain, loss, deduction and credit. See "Allocation of Lakehead's Income, Gain, Losses,

Deductions and Credits," "Tax Treatment of Operations -- Initial Tax Basis, Depreciation and Amortization" and "Section 754 Election" and "Disposition of Class A Common Units -- Allocations Between Transferors and Transferees." There is no assurance that any such conventions will yield a result that conforms to the requirements of the Code, Treasury Regulations or administrative interpretations of the IRS. The general partner cannot assure prospective unitholders that the IRS will not successfully contend in court that such accounting and reporting conventions are impermissible. Any such challenge by the IRS could negatively affect the value of the Class A Common Units.

The U.S. federal income tax information returns filed by Lakehead may be audited by the IRS. Adjustments resulting from such audit may require each unitholder to file an amended tax return, and possibly may result in an audit of the unitholder's return. If Lakehead elects large partnership treatment, partnership adjustments would not result in unitholders having to file amended returns. Instead, these adjustments generally would flow through to the unitholders for the year in which the adjustment takes effect. Thus, the current year unitholders' share of current year partnership items of income, gains, losses, deductions and credits would be adjusted to reflect partnership audit adjustments that take effect in that year. In addition, in lieu of flowing adjustments through to its unitholders, Lakehead may elect to pay an imputed underpayment. In either case, unitholders could bear significant economic burdens associated with tax adjustments relating to periods predating their acquisition of units. Any audit of a unitholder's return could result in adjustments of not only Lakehead but also non-partnership items.

Partnerships generally are treated as separate entities for purposes of U.S. federal income tax audits, judicial review of administrative adjustments by the IRS and tax settlement proceedings. The tax treatment of partnership items of income, gain, loss, deduction and credit is determined at the partnership level in a unified partnership proceeding rather than in separate proceedings with the partners. The Code provides for one partner to be designated as the "Tax Matters Partner" for these purposes. Lakehead's partnership agreement appoints the general partner as the Tax Matters Partner.

The Tax Matters Partner will make certain elections on behalf of Lakehead and unitholders and can extend the statute of limitations for assessment of tax deficiencies against unitholders with respect to Lakehead's taxable items. The Tax Matters Partner may bind any unitholder with less than a 1% profits interest in Lakehead to a settlement with the IRS unless the unitholder elects, by filing a statement with the IRS, not to give such authority to the Tax Matters Partner. The Tax Matters Partner may seek judicial review (to which all the unitholders are bound) of a final partnership administrative adjustment and, if the Tax Matters Partner fails to seek judicial review, such review may be sought by any unitholder having at least a 1% profits interest in Lakehead and by unitholders having, in the aggregate, at least a 5% profits interest. However, only one action for judicial review will go forward, and each unitholder with an interest in the outcome may participate.

A unitholder must file a statement with the IRS identifying the treatment of any item on his U.S. federal income tax return that is not consistent with the treatment of the item on Lakehead's return to avoid the requirement that all items be treated consistently on both returns. Intentional or negligent disregard of the consistency requirement may subject a unitholder to substantial penalties. Under the Code, partners in a partnership electing to be treated as a large partnership are required to treat all partnership items in a manner consistent with the partnership return.

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If Lakehead elects to be treated as a large partnership, each partner would take into account separately his share of the following items, determined at the partnership level: (i) taxable income or loss from passive loss limitation activities; (ii) taxable income or loss from other activities (such as portfolio income or loss); (iii) net capital gains (or net capital loss) to the extent allocable to passive loss limitation activities and other activities; (iv) a net alternative minimum tax adjustment separately computed for passive loss limitation activities and other

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activities; (v) general credits; (vi) low-income housing credit; (vii) rehabilitation credit; (viii) tax-exempt interest; (ix) for certain partnerships, foreign taxes paid and foreign source partnership items; and (x) any other items designated by the IRS to be separately treated.

A number of other changes to the tax compliance and administrative rules relating to partnerships that elect large partnership treatment have been made. As stated above, one provision requires that each partner in an electing large partnership take into account his share of any adjustments to partnership items in the year such adjustments are made. Under current law, adjustments relating to partnership items for a previous taxable year are taken into account by those persons who were partners in the previous taxable year. Alternatively, a partnership could elect to or, in some circumstances, could be required to, pay directly the tax resulting from any such adjustments. In either case, therefore, unitholders could bear significant economic burdens associated with tax adjustments relating to periods predating their acquisition of Class A Common Units. It is unlikely that Lakehead will elect to have these provisions apply because of the cost of their application.

NOMINEE REPORTING

Persons who hold Class A Common Units in Lakehead as a nominee for another person are required to furnish to Lakehead: (i) the name, address and taxpayer identification number of the beneficial owners and the nominee; (ii) whether the beneficial owner is (a) a person that is not a "United States person" (as defined in Section 7701 of the Code), (b) a foreign government, an international organization or any wholly owned agency or instrumentality of either of the foregoing, or (c) a tax-exempt entity; (iii) the amount and description of the units held, acquired or transferred for the beneficial owners; and (iv) certain information including the dates of acquisitions and transfers, means of acquisitions and transfers and acquisition cost for purchases, as well as the amount of the net proceeds from sales. Brokers and financial institutions are required to furnish additional information, including whether they are a "United States person" and certain information on Class A Common Units they acquire, hold or transfer for their own account. A penalty of \$50 per failure (up to a maximum of \$100,000 per calendar year) is imposed by the Code for failure to report such information to Lakehead. The nominee is required to supply the beneficial owner of the Class A Common Units with the information furnished to Lakehead.

REGISTRATION AS A TAX SHELTER

The Code requires that "tax shelters" be registered with the Secretary of the Treasury. The temporary Treasury Regulations interpreting the tax shelter registration provisions of the Code are extremely broad. It is arguable that Lakehead will not be subject to the registration requirement on the basis that it will not constitute a tax shelter. However, the general partner, as principal organizer of Lakehead, has registered Lakehead as a tax shelter in the absence of assurance that Lakehead will not be subject to tax shelter registration and in light of the substantial penalties that might be imposed if registration is

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required and not undertaken. Lakehead has been issued the following tax shelter registration number: 92008000124. ISSUANCE OF THE TAX SHELTER REGISTRATION NUMBER DOES NOT INDICATE THAT AN INVESTMENT IN LAKEHEAD OR THE CLAIMED TAX BENEFITS HAVE BEEN REVIEWED, EXAMINED OR APPROVED BY THE IRS. Lakehead must furnish its tax shelter registration number to the unitholders, and a unitholder who sells or otherwise transfers a Class A Common Unit in a subsequent transaction must furnish Lakehead's tax shelter registration number to the transferee. The penalty for failure of the transferor of a Class A Common Unit to furnish such tax shelter registration number to the transferee is \$100 for each such failure. The unitholders must disclose the tax shelter registration number of Lakehead on Form 8271 to be attached to the U.S. federal income tax return on which any deduction, loss, credit or other benefit generated by Lakehead is claimed or income of Lakehead is included. A unitholder who fails to disclose the tax

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shelter registration number on his U. S. federal income tax return, without reasonable cause for such failure, will be subject to a \$250 penalty for each such failure. Any penalties discussed herein are not deductible for U.S. federal income tax purposes.

ACCURACY -- RELATED PENALTIES

An additional tax equal to 20% of the amount of any portion of an underpayment of tax that is attributable to one or more of certain listed causes, including negligence or disregard of rules or regulations, substantial understatements of income tax and substantial valuation misstatements, is imposed by the Code. No penalty will be imposed, however, with respect to any portion of an underpayment if it is shown that there was a reasonable cause for such portion and that the taxpayer acted in good faith with respect to such portion.

A substantial understatement of U.S. federal income tax in any taxable year exists if the amount of the understatement exceeds the greater of 10% of the tax required to be shown on the return for the taxable year or \$5,000 (\$10,000 for most corporations). The amount of any understatement subject to penalty generally is reduced if any portion is attributable to a position adopted on the return with respect to which there is, or was, "substantial authority" or as to which there is reasonable basis and the pertinent facts are disclosed on the return. Certain more stringent rules apply to "tax shelters," a term that does not appear to include Lakehead. If any Lakehead item of income, gain, loss, deduction or credit included in the distributive shares of the unitholders might result in such an "understatement" of income for which no "substantial authority" exists, Lakehead must disclose the pertinent facts on its U.S. federal tax information. In addition, Lakehead will make a reasonable effort to furnish sufficient information for unitholders to make adequate disclosure on their U.S. federal income tax returns to avoid liability for this penalty.

A substantial valuation misstatement exists if the value of any property (or the adjusted basis of any property) claimed on a tax return is 200% or more of the amount determined to be the correct amount of such valuation or adjusted basis. No penalty is imposed unless the portion of the underpayment attributable to a substantial valuation misstatement exceeds \$5,000 (\$10,000 for most corporations). If the valuation claimed on a return is 400% or more than the correct valuation, the penalty imposed increases to 40%.

OTHER TAX CONSIDERATIONS

Prospective investors should consider state and local tax consequences of an investment in Class A Common Units. Lakehead owns property and does business

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in Illinois, Indiana, Michigan, Minnesota, New York, North Dakota and Wisconsin. The unitholder will likely be required to file state income tax returns and/or to pay such taxes in such states and may be subject to penalties for failure to comply with such requirements. Some of the states may require that a partnership withhold a percentage of income from amounts that are to be distributed to a partner that is not a resident of the state. The amounts withheld, which may be greater or less than a particular partner's income tax liability to the state, generally do not relieve the non-resident partner from the obligation to file a state income tax return. In addition, an obligation to file tax returns or to pay taxes may arise in other states.

IT IS THE RESPONSIBILITY OF EACH UNITHOLDER TO INVESTIGATE THE LEGAL AND TAX CONSEQUENCES, UNDER THE LAWS OF PERTINENT STATES AND LOCALITIES, OF HIS INVESTMENT IN CLASS A COMMON UNITS. ACCORDINGLY, EACH PROSPECTIVE UNITHOLDER SHOULD CONSULT, AND MUST DEPEND UPON, HIS OWN TAX COUNSEL OR OTHER ADVISOR WITH REGARD TO THOSE MATTERS. FURTHER, IT IS THE RESPONSIBILITY OF EACH UNITHOLDER TO FILE ALL STATE AND LOCAL, AS WELL AS UNITED STATES FEDERAL, INCOME TAX RETURNS THAT MAY BE REQUIRED. COUNSEL HAS NOT RENDERED AN OPINION ON THE STATE OR LOCAL TAX CONSEQUENCES OF AN INVESTMENT IN CLASS A COMMON UNITS.

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UNDERWRITING

We and Goldman, Sachs & Co. have entered into an underwriting agreement with respect to the 1,748,635 Class A Common Units being offered. Subject to certain conditions, Goldman Sachs has agreed to purchase these units.

If Goldman Sachs sells more Class A Common Units than the total 1,748,635 Class A Common Units being offered, Goldman Sachs has an option to buy up to an additional 229,507 Class A Common Units from us to cover such sales. Goldman Sachs may exercise that option for 30 days following the close of the offering.

The following table shows the per unit and total underwriting discounts and commissions to be paid to the underwriter by us. Such amounts are shown assuming both no exercise and full exercise of Goldman Sachs' option to purchase 229,507 additional Class A Common Units.

Paid by Lakehead Pipe Line Partners, L.P. -----	No Exercise -----	Full Exercise -----
Per unit.....	\$ 1.944	\$ 1.944
Total.....	\$3,399,346	\$3,845,508

Class A Common Units sold by Goldman Sachs to the public initially will be offered at the initial price to public set forth on the cover of this prospectus supplement. Any Class A Common Units sold by Goldman Sachs to securities dealers may be sold at a discount of up to \$1.16 per unit from the initial price to public. Any such securities dealers may resell any units purchased from Goldman Sachs to certain other brokers or dealers at a discount of up to \$0.10 per unit from the initial price to public. If all of the Class A Common Units are not sold at the initial price to public, Goldman Sachs may change the offering price and the other selling terms.

We and our general partner have agreed with Goldman Sachs not to dispose of or hedge any Class A or Class B Common Units or securities convertible into or exchangeable for Class A or Class B Common Units during the period from the date of this prospectus supplement continuing through the date 90 days after the date

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of this prospectus supplement, except with the prior written consent of Goldman Sachs. This agreement does not apply to any existing employee benefit plans.

In connection with the offering, Goldman Sachs may purchase and sell Class A Common Units in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by Goldman Sachs of a greater number of Class A Common Units than they are required to purchase in the offering. "Covered" short sales are sales made in an amount not greater than Goldman Sachs' option to purchase additional Class A Common Units from us in the offering. Goldman Sachs may close out any covered short position by either exercising its option to purchase additional Class A Common Units or purchasing Class A Common Units in the open market. In determining the source of Class A Common Units to close out the covered short position, Goldman Sachs will consider, among other things, the price of Class A Common Units available for purchase in the open market as compared to the price at which it may purchase Class A Common Units through the overallotment option. "Naked" short sales are any sales in excess of such option. Goldman Sachs must close out any naked short position by purchasing Class A Common Units in the open market. A naked short position is more likely to be created if Goldman Sachs is concerned that there may be downward pressure on the price of the Class A Common Units in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of Class A Common Units made by Goldman Sachs in the open market prior to the completion of the offering.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or retarding a decline in the market price of the Class A Common Units and may

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stabilize, maintain or otherwise affect the market price of the Class A Common Units. As a result, the price of the Class A Common Units may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on the New York Stock Exchange, in the over-the-counter market or otherwise.

We estimate that our share of the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately \$400,000.

In the ordinary course of their respective businesses, Goldman Sachs and certain of its affiliates have engaged, and may in the future engage, in investment banking or commercial banking transactions with us and our affiliates.

Because the National Association of Securities Dealers, Inc. views the Class A Common Units offered hereby as interests in a direct participation program, the offering is being made in compliance with Rule 2810 of the NASD's Conduct Rules.

We, together with our subsidiary operating partnership and our general partner, have agreed to indemnify Goldman Sachs against certain liabilities, including liabilities under the Securities Act of 1933.

LEGAL MATTERS

Fulbright & Jaworski L.L.P., Houston, Texas, will issue opinions about the validity of the Class A Common Units offered hereby and various other legal matters in connection with the offering on our behalf. Baker Botts L.L.P., the

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underwriter's counsel, will also issue opinions about various legal matters in connection with the offering on behalf of the underwriter.

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PROSPECTUS

\$200,000,000
LAKEHEAD PIPE LINE PARTNERS, L.P.
Class A Common Units

We may offer and sell up to \$200,000,000 of our Class A Common Units in one or more separate offerings with this prospectus. We will determine the prices and terms of the sales at the time of each offering and will describe them in a supplement to this prospectus.

This prospectus can only be used to offer or sell units if it is accompanied by a prospectus supplement. The prospectus supplement will contain important information about us and the units which is not included in this prospectus. You should read this prospectus and the prospectus supplement carefully.

We may sell these units to underwriters or dealers, or we may sell them directly to other purchasers. See "Plan of Distribution." The prospectus supplement will list any underwriters and the compensation that they will receive. The prospectus supplement will also show you the total amount of money that we will receive from selling these units, after we pay certain expenses of the offering.

The Class A Common Units are listed on the New York Stock Exchange under the symbol "LHP".

Our executive offices are located at Lake Superior Place, 21 West Superior Street, Duluth, Minnesota 55802, and our telephone number is (218) 725-0100.

YOU SHOULD CAREFULLY READ AND CONSIDER THE RISK FACTORS BEGINNING ON PAGE 5 OF THIS PROSPECTUS BEFORE BUYING UNITS.

THESE RISKS INCLUDE THE FOLLOWING:

- OUR PIPELINE SYSTEM DEPENDS ON ADEQUATE SUPPLIES OF AND DEMAND FOR WESTERN CANADIAN CRUDE OIL.
- THE FEDERAL ENERGY REGULATORY COMMISSION REGULATES THE TARIFFS WE CHARGE OUR CUSTOMERS. WE PLAN TO FILE TARIFF SURCHARGES IN LATE 1998 OR EARLY 1999 TO REFLECT CHANGES IN OUR COSTS AND THROUGHPUT FROM OUR CURRENT SYSTEM EXPANSION PROGRAM. ANY SUCCESSFUL CHALLENGES TO OUR TARIFF RATES COULD ADVERSELY AFFECT US AND REDUCE CASH DISTRIBUTIONS TO OUR UNITHOLDERS.
- IN MAY 1997, THE ILLINOIS COMMERCE COMMISSION DENIED OUR APPLICATION FOR A CERTIFICATE THAT WE NEED IN ORDER TO EXERCISE CONDEMNATION AUTHORITY IN ILLINOIS FOR OUR CURRENT SYSTEM EXPANSION PROGRAM. ILLINOIS APPELLATE COURTS HAVE REFUSED TO OVERTURN THE DENIAL. AS A RESULT, OBTAINING RIGHTS OF WAY HAS BECOME MORE EXPENSIVE AND HAS TAKEN LONGER THAN IF WE HAD CONDEMNATION AUTHORITY.
- OUR PARTNERSHIP AGREEMENT LIMITS THE LIABILITY AND MODIFIES THE FIDUCIARY DUTIES OF OUR GENERAL PARTNER TO US AND OUR UNITHOLDERS. UNITHOLDERS HAVE EFFECTIVELY CONSENTED TO CERTAIN ACTIONS AND CONFLICTS OF INTEREST THAT MIGHT OTHERWISE BE DEEMED A BREACH OF FIDUCIARY OR OTHER DUTIES UNDER

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STATE LAW. CONFLICTS OF INTEREST BETWEEN US AND AFFILIATES OF OUR GENERAL PARTNER COULD ARISE DUE TO OUR GENERAL PARTNER'S RELATIONSHIP WITH US AND ITS AFFILIATES.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

November 25, 1998
(superseded sections omitted)

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You should rely only on the information contained in this prospectus, any prospectus supplement and the documents we have incorporated by reference. We have not authorized anyone else to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of those documents.

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WHO WE ARE

We are a publicly traded Delaware limited partnership that owns and operates a regulated crude oil and natural gas liquids pipeline business in the United States. Lakehead Pipe Line Company, Inc., a wholly owned subsidiary of Enbridge Inc. ("Enbridge") of Canada, serves as our general partner. Enbridge is a publicly traded company that is a North American leader in energy services and delivery. We and Enbridge are engaged in the transportation of crude oil and other liquid hydrocarbons through the world's longest liquid petroleum pipeline system (the "System"). We own the United States portion of the System and a subsidiary of Enbridge, Enbridge Pipelines, Inc., owns the Canadian portion of the System (the "Enbridge Pipeline System"). The System is the primary transporter of crude oil from Western Canada to the United States.

As used in this prospectus, "we," "us," "our," the "Partnership" and "Lakehead" mean Lakehead Pipe Line Partners, L.P. and include our subsidiary operating partnership, Lakehead Pipe Line Company, Limited Partnership. Our Class A Common Units ("Class A Units") represent limited partner interests in Lakehead Pipe Line Partners, L.P. We also have limited partner interests that are represented by Class B Common Units ("Class B Units"). All of our Class B Units are owned by our general partner. The Class A and Class B Units are referred to in this prospectus as "units."

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission ("SEC") using a "shelf" registration process. Under this shelf registration process, we may sell the Class A Units described in this prospectus in one or more offerings up to a total dollar amount of \$200,000,000. This prospectus provides you with a general description of us and the Class A Units. Each time we sell Class A Units with this prospectus, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add to, update or change information in this prospectus. The information in this prospectus is accurate as of November 25, 1998. You should carefully read both this prospectus and any prospectus supplement, together with additional information described under the heading "Where You Can Find More Information."

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and other reports and other information with the SEC. You may read and copy any document we file at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the SEC's regional offices located at Seven World Trade Center, New York, New York 10048, and at 500 West Madison Street, Chicago, Illinois 60661. Please call the SEC at 1-800-733-0330 for further information on their public reference room. Our SEC filings are also available at our website at <http://www.lakehead.com> or at the SEC's web site at <http://www.sec.gov>. You can also obtain information about us at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

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The SEC allows us to "incorporate by reference" the information we have filed with the SEC, which means that we can disclose important information to you without actually

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including the specific information in this prospectus by referring you to those documents. The information incorporated by reference is an important part of this prospectus. Information that we file later with the SEC will automatically update and may replace information in this prospectus and information previously filed with the SEC. The documents listed below and any future filings made with the SEC under Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934 are incorporated by reference in this prospectus until we sell all of the Class A Units offered by this prospectus.

- Annual Report on Form 10-K for the fiscal year ended December 31, 1997, as amended (the "Form 10-K");
- Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1998;
- Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998, as amended;
- Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998;
- Current Report on Form 8-K dated July 21, 1998, as amended; and
- Current Report on Form 8-K dated October 20, 1998.

You may request a copy of these filings, at no cost, by writing or calling us at the following address:

Investor Relations
Lakehead Pipe Line Partners, L.P.
Lake Superior Place
21 West Superior Street
Duluth, Minnesota 55802
(800) 525-3999
(218) 725-0100

FORWARD-LOOKING STATEMENTS

Some of the information included in this prospectus, any prospectus supplement and the documents we have incorporated by reference contain forward-looking statements. Such statements use forward-looking words such as "may," "will," "anticipate," "believe," "expect," "project" or other similar words. These statements discuss goals, intentions and expectations as to future trends, plans, events, results of operations or financial condition or state other "forward-looking" information. These statements are based on current and anticipated economic conditions, globally and in our markets, governmental regulatory policies, competitive factors and other conditions. These factors and conditions are subject to risks and uncertainties that may cause our actual results to differ substantially from those expressed or implied by these statements. When considering such forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this prospectus, any prospectus supplement and the documents we have incorporated by reference. We will not update these statements unless the securities laws require us to do so.

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RISK FACTORS

Before you invest in our Class A Units, you should be aware that there are various risks, including those described below. You should consider carefully these risk factors together with all of the other information included in the prospectus, any prospectus supplement and the documents we have incorporated by reference before buying Class A Units.

If any of the following risks actually occurs, then our business, financial condition or results of operations could be materially adversely affected. In such case, the trading price of the Class A Units could decline, and you may lose part of your investment.

RISKS OF OUR BUSINESS

WE CANNOT ALWAYS CONTROL THE RATES THAT WE CHARGE

Since we are an interstate common carrier, our pipeline operations are regulated by the FERC under the Interstate Commerce Act. This Act allows the FERC and certain other interested parties to challenge proposed or changed rates and our current rates that are already effective. The FERC may suspend our proposed or changed rates for up to seven months and may allow such rates to become effective subject to investigation and potential refund. The FERC may also reduce our current rates in the future and, upon an appropriate showing, order that we pay reparations for damages caused by such rates during the two years prior to the beginning of the FERC's investigation.

The FERC has used its current ratemaking methodology for liquids pipelines since January 1, 1995. This methodology allows changes in the maximum rate we can charge based on changes in a producer price index. The maximum rate is adjusted up or down each year by the change in this price index minus 1%. The current ratemaking methodology also allows pipelines or shippers to use cost-based or market-based rates, instead of the index-based rates, in certain circumstances. This method of determining rates may limit our ability to set rates based on our true costs or may delay the implementation of rates that reflect increased costs. If this occurs, it could adversely affect us. In addition, if the FERC sets rates using the cost index, changes in this index might not be large enough to fully reflect actual increases in our costs. It is also possible that the index will rise by less than 1% or fall, causing the maximum rates to fall. This happened in July 1998. See "Items 1 and 2. Business and Properties -- Regulation" in the Form 10-K.

Many of the ratemaking issues contested in prior rate cases before the FERC, in particular the FERC's oil pipeline ratemaking methodology, have not been reviewed by a federal appeals court. An appeals court review of a FERC rate case could result in a different ratemaking methodology. If this happens, it could adversely affect us and reduce cash distributions to our unitholders.

The FERC is currently involved in a proceeding with another publicly traded partnership that transports petroleum products. In this proceeding, the FERC might further limit the tax allowance that is permitted in rates charged by publicly traded partnerships. The FERC might also change its application of its oil pipeline ratemaking methodology. The administrative law judge in this proceeding issued an initial decision on September 25, 1997. This decision considered the tax allowance issue as it affects publicly traded partnerships and the FERC oil pipeline ratemaking methodology. The FERC is now

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reviewing this decision. In this review, the FERC could change its current rulings on the tax allowance issue or the application of the FERC oil pipeline ratemaking methodology in a way that might ultimately adversely affect us and reduce cash distributions to our unitholders.

The level of tariffs established under the FERC's rules and regulations affects our operating income and cash flow. We plan to file tariff surcharges in late 1998 or early 1999 to reflect changes in our costs and throughput from our System Expansion Program II ("SEP II") and Terrace Expansion Program ("Terrace"). In 1996, we entered into a settlement agreement with the representative of most of our customers on all then outstanding contested tariffs. That agreement sets forth guidelines for the tariff surcharge for SEP II. However, some implementation details of the surcharge are still subject to interpretation and possible negotiations. We have also entered into an agreement with the same customer representative on the tariff surcharge for Terrace. On October 27, 1998, we filed the agreements with the FERC as a settlement, seeking advance approval for the tariff surcharges for SEP II and Terrace. See "Items 1 and 2. Business and Properties -- SEP II Expansion Program," "-- Terrace Expansion Program" and "-- Tariffs" in the Form 10-K. However, the customers who did not enter into these agreements may still challenge our tariff rate filings. Any successful challenges to our tariff rates could adversely affect us and reduce cash distributions to our unitholders.

POSSIBLE SEP II RIGHT OF WAY ACQUISITION AND PERMITTING PROBLEMS

In May 1997, the Illinois Commerce Commission denied our application for a certificate that we need in order to exercise condemnation authority in Illinois for our SEP II project. Illinois appellate courts have refused to overturn the denial. As a result, obtaining rights of way has become more expensive and has taken longer than if we had condemnation authority.

We are currently obtaining the environmental and construction permits that we need to construct the new pipeline for SEP II. If it takes us longer than anticipated to get these permits, it might take us longer to construct and begin using this new pipeline.

WE COMPETE WITH OTHER PIPELINES AND REFINERIES

Pipelines have historically been the least expensive way to transport crude oil over land for intermediate and long distances. As a result, our most significant competitors for transporting western Canadian crude oil are other pipelines. We also face competition, however, when producers choose to sell their crude oil for use in western Canada. Enbridge has advised us that in 1997, the Enbridge Pipeline System transported approximately 65% of total western Canadian crude oil production of which approximately 90% was transported by our pipeline system. The 35% of western Canadian crude oil not transported by the Enbridge Pipeline System was refined in Alberta or Saskatchewan or transported through other pipelines to British Columbia, Washington, Montana and other states in the Northwest U.S. In the United States, our pipeline system competes with other crude oil and refined product pipelines and other methods of delivering crude oil and refined products to the refining centers of Minneapolis-St. Paul, Minnesota; Chicago, Illinois; Detroit, Michigan; Toledo, Ohio; and Buffalo, New York, and, through a connecting pipeline, the refinery market and pipeline hub located in the Patoka/Wood

River area of southern Illinois. See "Items 1 and 2. Business and Properties -- Competition" in the Form 10-K.

WE MAY HAVE SIGNIFICANT ENVIRONMENTAL AND SAFETY COSTS AND LIABILITIES

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Our operations are subject to federal and state laws and regulations relating to environmental protection and operational safety. We believe that we are currently in substantial compliance with these regulations. However, pipeline operations always involve the risk of costs or liabilities related to environmental protection and operational safety matters. As a result, we may incur costs or liabilities of this type in the future. It is also possible that we will have to pay amounts in the future because of changes in environmental and safety laws or enforcement policies or claims for environmental-related damage to persons or property. If we cannot recover these costs from insurance or through higher tariffs, we could be adversely affected and cash distributions to our unitholders could be reduced.

Federal, state and local laws and regulations impose strict controls on the discharge of oil and certain other materials into navigable waters. These laws and regulations can require us to pay civil and criminal penalties for discharges. If there is a discharge, we also may have to pay for cleanup costs, damage to natural resources and third party lawsuits. These laws require us to use spill prevention control procedures, which include diking and similar structures, to help prevent oil and other materials from getting into navigable waters if there is a leak from our pipeline.

Contamination resulting from spills of crude oil and petroleum products is not unusual within the petroleum pipeline industry. Spills of crude oil from our pipelines have occurred in the past, and may occur in the future. In addition, directional drilling of pipeline conduits when a pipeline is being constructed can result in discharges of drilling related materials to the soil, groundwater, surface waters or wetlands.

We have hydrostatically tested parts of our pipeline system in the past, which means that we have tested the structural integrity of our pipelines by filling them with water at high pressures. We may decide that we need to do additional hydrostatic testing in the future, or a regulatory authority may require such testing. If this testing occurs, it could result in significant expense arising out of treatment and disposal of the test water and lost transportation revenues while the pipelines are being tested. We believe that there are suitable alternatives to hydrostatic testing, but such testing may nevertheless be necessary or required in the future. In addition, if Enbridge performs hydrostatic testing on its pipelines in Canada, this could reduce deliveries into our pipeline system because lower volumes would be received from western Canada.

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RISKS ARISING FROM OUR PARTNERSHIP STRUCTURE AND RELATIONSHIPS WITH OUR GENERAL PARTNER

OUR GENERAL PARTNER MAY HAVE CONFLICTS OF INTEREST

Since our general partner is related to both Enbridge and to us, conflicts of interest between us and Enbridge may arise from time to time. The following situations could give rise to conflicts of interest:

- The general partner determines the amount and timing of any capital expenditures, borrowings and reserves, which can impact the amount of cash that is distributed by us to our unitholders and to the general partner.
- The general partner determines which expenditures are capital expenditures that are necessary to maintain our pipeline system. (Those expenditures reduce the cash from operations that is used to make distributions to our unitholders.)

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- The general partner determines whether to issue additional units or other equity securities or whether to purchase outstanding units.
- The general partner controls payments to Enbridge for any services rendered for our benefit, subject to the limitations described in "Conflicts of Interest and Fiduciary Responsibilities."
- The general partner determines which costs are reimbursable by us.
- The general partner controls the enforcement of obligations owed to us by the general partner.
- The general partner decides whether to retain separate counsel, accountants or others to perform services for us.

There also may be conflicts of interest if Enbridge conducts businesses that compete with our pipeline system. We have an agreement with Enbridge that generally does not prevent Enbridge from pursuing its business interests, even if these interests involve pipelines in the U.S. This agreement and our partnership agreement do not restrict Enbridge from engaging in businesses that it was engaged in at the time of our initial public offering in December 1991, even if such business competes with ours. In addition, the current direction of oil flow through part of the Enbridge Pipeline System from Sarnia to Montreal may be reversed, as discussed in "-- Risks of Our Business -- Our Pipeline System Might be Used Less if Demand for Crude Oil and Natural Gas Liquids Falls." If the reversal of Enbridge's Montreal line occurs, Enbridge will compete with us to supply crude oil to the Ontario market. Our agreement with Enbridge expressly permits this reversal. See "Conflicts of Interest and Fiduciary Responsibilities."

Our partnership agreement allows the general partner to resolve conflicts of interest by considering the interests of all the parties to the conflict. Therefore, the general partner can consider the interests of Enbridge if a conflict of interest arises. This is very different from the more familiar legal duty of a trustee, who must act solely in the best interests of the trust's beneficiary. See "Conflicts of Interest and Fiduciary Responsibilities."

We are very dependent on Enbridge and the Enbridge Pipeline System. Nearly all of the crude oil and natural gas liquids we ship comes from the Enbridge Pipeline System in Canada, and shipments on our pipeline system are scheduled by Enbridge in coordination with our general partner. In addition, neither we nor the general partner has any

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employees. In operating our pipeline system, we and the general partner rely solely on employees of Enbridge and its affiliates. Because Enbridge and its affiliates are engaged in many other businesses and activities that require the services of their employees, those employees may not be available when we need them.

OUR PARTNERSHIP AGREEMENT RESTRICTS THE GENERAL PARTNER'S FIDUCIARY DUTIES

The general partner generally has a fiduciary duty to us and to our unitholders. As a result, the general partner must exercise good faith and integrity in handling our assets and affairs. However, Delaware law allows Delaware limited partnerships to modify the fiduciary duties of their general partners. Our partnership agreement does this and limits the fiduciary duties of the general partner to us and to our unitholders. In addition, our unitholders have effectively consented to certain actions and conflicts of interest that

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might otherwise be deemed a breach of fiduciary or other duties under state law. These modifications of the standards of fiduciary duty may make it much more difficult for a unitholder to successfully challenge the actions of or failure to act by the general partner as being in breach of a fiduciary duty. See "Conflicts of Interest and Fiduciary Responsibilities."

WE MAY SELL ADDITIONAL UNITS

We can issue an unlimited number of additional units or other equity securities, including equity securities with rights to distributions and allocations or in liquidation superior to the Class A Units offered by this prospectus. If we issue more units or other equity securities, your proportionate ownership interest in Lakehead will be reduced. This could cause the market price of your units to fall, reduce the cash distributions paid to you as a unitholder, or both.

Our partnership agreement allows the general partner to cause us to register for sale any units held by the general partner or its affiliates. The general partner currently owns 3,912,750 Class B Units. These registration rights allow the general partner and its affiliates holding any units to request registration of such units and to include any such units in a registration of other units by us. In addition, the general partner and its affiliates may sell their units in private transactions at any time.

YOUR VOTING RIGHTS ARE LIMITED

You have limited voting rights as a unitholder. The general partner generally manages the activities of Lakehead. Unitholders do not have the right to elect the general partner on an annual basis. As a result, the unitholders have only limited control over our management. However, if the general partner withdraws or is removed, the unitholders can elect the new general partner by a majority vote of the outstanding units.

IT IS DIFFICULT TO REMOVE THE GENERAL PARTNER

A vote of at least 66 2/3% of the outstanding units is required to remove the general partner. Units held by the general partner and its affiliates are excluded from this vote.

Our partnership agreement does not allow the general partner to withdraw voluntarily as general partner before January 1, 2000 (subject to a few exceptions). However, the

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general partner can withdraw before this date if such withdrawal is approved by the holders of at least 66 2/3% of the outstanding units (excluding units held by the general partner or its affiliates). If the general partner withdraws or is removed as our general partner, it will automatically be withdrawn as general partner of our subsidiary operating partnership.

There is no agreement, however, that prevents Enbridge from selling all or part of its ownership in the general partner.

THE GENERAL PARTNER HAS A LIMITED CALL RIGHT ON THE CLASS A UNITS

If at any time less than 15% of the outstanding units are held by persons other than the general partner and its affiliates, the general partner has the right to purchase all of the outstanding units.

IT IS DIFFICULT TO ENFORCE CIVIL LIABILITIES AGAINST OUR OFFICERS, DIRECTORS

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AND CONTROLLING PERSONS

Some of the officers and directors of our general partner and some of our controlling persons (as defined under U.S. federal securities laws) are not U.S. residents and have most of their assets outside of the United States. As a result, it might be difficult for you to serve process on these persons. You might want to serve process on them if you are suing them for civil liabilities under U.S. federal securities law. Our Canadian lawyers have told us that it may not be possible to enforce U.S. judgments against these persons if the judgment is based solely on the federal securities laws of the United States.

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LAKEHEAD

We are a publicly traded Delaware limited partnership that owns and operates a regulated crude oil and natural gas liquids pipeline business in the United States. The following chart shows our organization and ownership structure as of the date of this prospectus before giving effect to this offering. Except in the following chart, the ownership percentages referred to in this prospectus reflect the approximate effective ownership interest in us and our subsidiary operating partnership on a combined basis.

[CHART]

We and Enbridge are engaged in the transportation of crude oil and other liquid hydrocarbons through the world's longest liquid petroleum pipeline system. We own the United States portion of the System and Enbridge owns the Canadian portion of the System. The System is the primary transporter of crude oil from western Canada to the United States. It is the only pipeline system that transports crude oil from western Canada to eastern Canada. The System serves all the major refining centers in the Great Lakes region of the United States, as well as the Province of Ontario, Canada and, through a connecting pipeline, the Patoka/Wood River refinery market and pipeline hub in southern Illinois.

Crude oil delivered to the Enbridge Pipeline System originates in oil fields in the western Canadian provinces of Alberta, Saskatchewan, Manitoba and British Columbia and in the Northwest Territories of Canada and is delivered to the Enbridge Pipeline System through facilities owned and operated by third parties or affiliates of Enbridge. Deliveries from the Enbridge Pipeline System are currently made in the prairie provinces of Canada and, through our pipeline system, in the Great Lakes and Midwest regions of the United

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States and the Province of Ontario. These deliveries are made principally to refineries either directly or through connecting pipelines of other companies.

Our pipeline system extends approximately 1,750 miles from the Canadian border near Neche, North Dakota, to the Canadian border near Marysville, Michigan. Four separate pipelines run from the Canadian border near Neche to Clearbrook, Minnesota and three of these pipelines continue on from Clearbrook to Superior, Wisconsin. At Superior, our pipeline system continues as two separate and diverging pipelines. One pipeline runs through the upper Great Lakes region, and the other runs through the lower Great Lakes region of the United States. Both pipelines re-enter Canada at a point near Marysville. Our pipeline system also includes a lateral pipeline from the Canadian border near Niagara Falls to the Buffalo, New York area. Crude oil and natural gas liquids enter our pipeline system at the Canadian border from the Enbridge Pipeline

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System and, to a lesser extent, at a number of other points. Deliveries of these volumes are then scheduled into our pipeline system in accordance with customer orders.

Enbridge handles all scheduling of shipments (including routes, storage, etc.) in coordination with our general partner. Our pipeline system includes 16 connections to other pipelines and refineries at various locations in the United States, including the refining centers of Minneapolis-St. Paul, Chicago, Detroit, Toledo, and Buffalo, and, through a connecting pipeline, the Patoka/Wood River refinery market and pipeline hub in southern Illinois. As of September 30, 1998, our pipeline system had approximately nine million barrels of tankage capacity at its three terminals at Clearbrook, Superior and Griffith, Indiana. The tankage capacity is used both to gather crude oil prior to injection into our pipeline system and to facilitate shipping different types of petroleum. At Superior, we remove all petroleum from our pipeline system and direct it into tankage. Then, when appropriate to meet the requirements of batch movements, we reinject the petroleum into our pipeline system for delivery through either the upper Great Lakes region or the lower Great Lakes region of the United States.

USE OF PROCEEDS

Unless otherwise specified in a related prospectus supplement, the net proceeds received by us from the sale of the Class A Units will be used for general partnership purposes, including the expansion of our pipeline system.

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CASH DISTRIBUTIONS

GENERAL

One of our principal objectives is to generate cash from our operations and to distribute Available Cash to our unitholders and our general partner. "Available Cash" means generally, with respect to any calendar quarter, the sum of all of our cash receipts plus net reductions to cash reserves less the sum of all of our cash disbursements and net additions to cash reserves. The full definition of Available Cash is set forth in "-- Certain Defined Terms." The definition of Available Cash permits our general partner to establish cash reserves that it determines are necessary or appropriate to provide for the proper conduct of our business (including cash reserves for future capital expenditures), to stabilize distributions of cash to our unitholders and the general partner or as necessary to comply with the terms of any of our agreements or obligations. The general partner has broad discretion in establishing reserves, and its decisions regarding reserves could have a significant impact on the amount of Available Cash that is available for distribution to our unitholders and the general partner. The timing of additions and reductions to reserves may impact the amount of incentive distributions payable to the general partner and may result in the realization of taxable income by unitholders in a year prior to that in which funds related thereto are distributed.

We will distribute 100% of our Available Cash as of the end of each calendar quarter on or about 45 days after the end of such calendar quarter to unitholders of record on the record date and to the general partner. The record date will generally be the last day of the month immediately following the close of a calendar quarter.

Cash distributions will be characterized as either distributions of Cash from Operations or Cash from Interim Capital Transactions. The distinction is important because it affects the amount of cash that is distributed to the

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unitholders relative to the general partner. See "-- Quarterly Distributions of Available Cash -- Distributions of Cash from Operations" and "-- Quarterly Distributions of Available Cash -- Distributions of Cash from Interim Capital Transactions" below. Cash from Operations, which is determined on a cumulative basis, generally means the \$54 million cash balance we had on the date of our initial public offering in 1991, plus all cash generated by our operations, after deducting related cash expenditures, reserves and certain other items. Cash from Interim Capital Transactions is generated by (i) borrowings and sales of debt securities (other than for working capital purposes and other than for items purchased on open account in the ordinary course of business), (ii) sales of units or other equity interests for cash and (iii) sales or other dispositions of any assets for cash (other than inventory, accounts receivable and other current assets and assets disposed of in the ordinary course of business). The full definitions of Cash from Operations, Interim Capital Transactions and Cash from Interim Capital Transactions are set forth in "-- Certain Defined Terms."

Cash distributions will be treated as distributions of Cash from Operations, until the sum of all amounts distributed to the unitholders and to the general partner (including any incentive distributions) equals the aggregate amount of all Cash from Operations from December 27, 1991 (the date Lakehead commenced operations) through the end of the calendar quarter prior to such distribution. Any amount of cash distributed on such date in excess of the aggregate amount of Cash from Operations will be deemed to constitute Cash from Interim Capital Transactions and distributed accordingly. See "-- Quarterly

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Distributions of Available Cash -- Distributions of Cash from Interim Capital Transactions" and "-- Adjustment of the Target Distributions."

If cash that is deemed to constitute Cash from Interim Capital Transactions is distributed in an aggregate amount per unit equal to \$21.50 (the offering price of the Class A Units in our initial public offering in December 1991), the distinction between Cash from Operations and Cash from Interim Capital Transactions will cease, and all cash will, in general, be distributed as Cash from Operations. See "-- Quarterly Distributions of Available Cash -- Distributions of Cash from Interim Transactions." To date, we have not distributed any cash that was deemed to constitute Cash from Interim Capital Transactions. We do not anticipate that there will be significant amounts of cash that are deemed to constitute Cash from Interim Capital Transactions distributed to our unitholders in the future.

Capital expenditures that are necessary to maintain our pipeline system will reduce the amount of Cash from Operations. Therefore, if the general partner were to decide that a substantial portion of our capital expenditures was necessary to maintain our pipeline system, the amount of cash distributions that are deemed to constitute Cash from Operations might decrease and the amount of cash distributions that are deemed to constitute Cash from Interim Capital Transactions might increase.

QUARTERLY DISTRIBUTIONS OF AVAILABLE CASH

We will make quarterly cash distributions to our unitholders and our general partner with respect to each calendar quarter prior to liquidation in an amount equal to 100% of our Available Cash for each quarter. The amount of cash distributed will depend on our future performance.

DISTRIBUTIONS OF CASH FROM OPERATIONS

Quarterly distributions of Available Cash constituting Cash from Operations

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will be made in the following manner:

FIRST, 98% to all unitholders, pro rata, and 2% to the general partner, until all unitholders have received distributions of \$0.59 per unit for such quarter (the "First Target Distribution");

SECOND, 85% to all unitholders, pro rata, and 15% to the general partner, until all unitholders have received distributions of \$0.70 per unit for such quarter (the "Second Target Distribution");

THIRD, 75% to all unitholders, pro rata, and 25% to the general partner, until all unitholders have received distributions of \$0.99 per unit for such quarter (the "Third Target Distribution"); and

THEREAFTER, 50% to all unitholders, pro rata, and 50% to the general partner.

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The following table illustrates the percentage allocation of Available Cash among the unitholders and the general partner up to the various target distribution levels.

	QUARTERLY DISTRIBUTION AMOUNT UP TO	MARGINAL PERCENTAGE INTEREST IN DISTRIBUTION	
		UNITHOLDERS	GENERAL PARTNER
FIRST TARGET DISTRIBUTION.....	\$0.59	98%	2%
SECOND TARGET DISTRIBUTION.....	\$0.70	85%	15%
THIRD TARGET DISTRIBUTION.....	\$0.99	75%	25%
THEREAFTER.....	--	50%	50%

The Target Distributions are each subject to adjustment as described below under "-- Distributions of Cash from Interim Capital Transactions" and "-- Adjustment of the Target Distributions." Notwithstanding the foregoing, if the Target Distributions have been reduced to zero as a result of distributions of Available Cash constituting Cash from Interim Capital Transactions and the holders of the Class A Units have ever failed to receive the First Target Distribution, distributions will first be made 98% to all holders of Class A Units, pro rata, and 2% to the general partner until there has been distributed in respect of each Class A Unit then outstanding (taking into account all prior distributions of Available Cash constituting Cash from Operations) Available Cash constituting Cash from Operations since inception, in an amount equal to the First Target Distribution for all periods since inception. To date, the holders of the Class A Units have always received at least the First Target Distribution.

DISTRIBUTIONS OF CASH FROM INTERIM CAPITAL TRANSACTIONS

Distributions of Available Cash constituting Cash from Interim Capital Transactions will be made 98% to all unitholders, pro rata, and 2% to the general partner until a hypothetical holder of a Class A Unit acquired in our initial public offering has received with respect to such Class A Unit distributions of Available Cash constituting Cash from Interim Capital Transactions in an amount per Class A Common Unit equal to \$21.50. Thereafter,

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all distributions of Available Cash constituting Cash from Interim Capital Transactions will be distributed as if they were Cash from Operations, and because the Target Distributions will have been reduced to zero, as described under "-- Adjustment of the Target Distributions," the general partner's share of distributions of Available Cash will increase, in general, to 50% of all distributions of Available Cash. Notwithstanding the foregoing, if the Target Distributions have been reduced to zero as a result of distributions of Available Cash constituting Cash from Interim Capital Transactions and the holders of the Class A Units have ever failed to receive the First Target Distribution, distributions will first be made 98% to all holders of Class A Units and 2% to the general partner until there has been distributed in respect of each Class A Unit then outstanding (taking into account all prior distributions of Available Cash constituting Cash from Operations) Available Cash constituting Cash from Operations since inception in an amount equal to the First Target Distribution for all periods since inception. To date, the holders of the Class A Units have always received at least the First Target Distribution.

Distributions of Cash from Interim Capital Transactions will not reduce Target Distributions in the quarter in which they are distributed.

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ADJUSTMENT OF THE TARGET DISTRIBUTIONS

The Target Distributions will be proportionately adjusted if any combination or subdivision of units occurs (whether effected by a distribution payable in units or otherwise) other than by reason of the issuance of additional units for cash. In addition, if a distribution is made of Available Cash constituting Cash from Interim Capital Transactions, the Target Distributions will be adjusted downward by multiplying each amount, as the same may have been previously adjusted, by a fraction, the numerator of which is the Unrecovered Initial Unit Price (as defined below) immediately after giving effect to such repayment and the denominator of which is the Unrecovered Initial Unit Price immediately prior to such repayment. The "Unrecovered Initial Unit Price" is the amount by which \$21.50 exceeds the aggregate per unit distributions of Cash from Interim Capital Transactions on the Class A Units. If and when the Unrecovered Initial Unit Price is zero, the Target Distributions each will have been reduced to zero.

The Target Distributions may also be adjusted if legislation is enacted that causes us to become taxable as a corporation or otherwise subjects us to taxation as an entity for federal income tax purposes. In such event, the Target Distributions for each quarter thereafter would be reduced to an amount equal to the product of (i) each of the Target Distributions multiplied by (ii) one minus the sum of (x) the effective federal income tax rate to which we are subject as an entity (expressed as a fraction) plus (y) the effective overall state and local income tax rate to which we are subject as an entity (expressed as a fraction) for the taxable year in which such quarter occurs.

DISTRIBUTION OF CASH UPON LIQUIDATION

Following the commencement of dissolution and liquidation proceedings, our assets will be sold or otherwise disposed of, and the capital account balances of the unitholders and the general partner will be adjusted to reflect any resulting gain or loss. The proceeds of such liquidation will first be applied to the payment of our creditors in the order of priority provided in our partnership agreement and by law and thereafter will be distributed to the unitholders and the general partner in accordance with their respective capital account balances, as so adjusted.

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Generally, the holders of Class A Units will have no preference over the general partner or holders of Class B Units upon our dissolution and liquidation and will instead be entitled to share with the general partner and the holders of Class B Units in the remainder of our assets in proportion to their respective capital account balances as so adjusted. The manner of such adjustment is as provided in our partnership agreement. Any gain (or unrealized gain attributable to assets distributed in kind) will be allocated among the unitholders and the general partner as follows:

FIRST, to each unitholder and the general partner having a deficit balance in its capital account to the extent of and in proportion to such deficit balance;

SECOND, any remaining gain would be allocated 98% to all unitholders, pro rata, and 2% to the general partner, until the capital account for each Class A Unit is equal to the Unrecovered Capital (as defined below) in respect of such Class A Unit;

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THIRD, any then remaining gain would be allocated 98% to the holders of Class B Units, pro rata, and 2% to the general partner until the capital account for each Class B Unit is equal to the Unrecovered Capital in respect of such Class B Unit;

FOURTH, any then remaining gain would be allocated 98% to all unitholders, pro rata, and 2% to the general partner until the capital account for each unit is equal to the sum of the Unrecovered Capital in respect of such unit plus any cumulative arrearages then existing in the First Target Distribution in respect of such unit for each quarter since inception;

FIFTH, any then remaining gain would be allocated 85% to all unitholders, pro rata, and 15% to the general partner until the capital account for each unit is equal to the sum of (a) the Unrecovered Capital in respect of such unit, plus (b) any cumulative arrearages then existing in the First Target Distribution in respect of such unit, plus (c) the excess of the Second Target Distribution over the First Target Distribution for each quarter since inception, less (d) the amount of any distributions of Available Cash constituting Cash from Operations in respect of such unit in excess of the First Target Distribution that were distributed 85% to the unitholders pro rata and 15% to the general partner for each quarter since inception ((b) plus (c) less (d) being the "Target Amount");

SIXTH, any then remaining gain would be allocated 75% to all unitholders, pro rata, and 25% to the general partner, until the capital account for each unit is equal to the sum of (a) the Unrecovered Capital in respect of each unit, plus (b) the Target Amount, plus (c) the excess of the Third Target Distribution over the Second Target Distribution for each quarter since inception, less (d) the amount of any distributions of Available Cash constituting Cash from Operations in respect of such unit in excess of the Second Target Distribution that were distributed 75% to the unitholders pro rata and 25% to the general partner for each quarter since inception; and

THEREAFTER, any then remaining gain would be allocated 50% to all unitholders, pro rata, and 50% to the general partner.

Unrecovered Capital with respect to a unit means, in general, the amount equal to the excess of (i) \$21.50 over (ii) the aggregate per unit distributions of Cash from Interim Capital Transactions in respect of such unit. Any loss or

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unrealized loss will be allocated to the unitholders and the general partner first in proportion to the positive balances in the unitholders' and general partner's capital accounts until all such balances are reduced to zero, and, thereafter, to the general partner.

CERTAIN DEFINED TERMS

The following terms have the respective meanings set forth below:

"Available Cash" means, with respect to any calendar quarter, (i) the sum of (a) all cash receipts of Lakehead during such quarter from all sources (including distributions of cash received from the Operating Partnership) and (b) any reduction in cash reserves established in prior quarters (either by reversal or utilization), less (ii) the sum of (aa) all cash disbursements of Lakehead during such quarter (excluding cash distributions to unitholders and to the general partner) and (bb) any cash reserves established in such quarter in such amounts as the general partner shall determine to be necessary or appropriate in its reasonable discretion (x) to provide for the proper conduct of the business of Lakehead (including cash reserves for possible rate refunds or future capital

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expenditures) or (y) to provide funds for distributions with respect to any of the next four quarters and (cc) any other cash reserves established in such quarter in such amounts as the general partner determines in its reasonable discretion to be necessary because the distribution of such amounts would be prohibited by applicable law or by any loan agreement, security agreement, mortgage, debt instrument or other agreement or obligation to which Lakehead is a party or by which it is bound or its assets are subject. Taxes paid by Lakehead on behalf of, or amounts withheld with respect to, all or less than all of the unitholders shall not be considered cash disbursements of Lakehead that reduce "Available Cash," but the payment or withholding thereof shall be deemed to be a distribution of Available Cash to such unitholders. Alternatively, in the discretion of the general partner, such taxes (if pertaining to all unitholders) may be considered to be cash disbursements of Lakehead that reduce "Available Cash," but the payment or withholding thereof shall not be deemed to be a distribution of Available Cash to unitholders. Notwithstanding the foregoing, "Available Cash" shall not include any cash receipts or reductions in reserves or take into account any disbursements made or reserves established after commencement of the dissolution and liquidation of Lakehead.

"Cash from Interim Capital Transactions" means cash distributed by Lakehead in excess of the cumulative amount that is Cash from Operations.

"Cash from Operations" means, at any date but prior to the commencement of the dissolution and liquidation of Lakehead, on a cumulative basis, the cash balance of Lakehead at December 27, 1991 (excluding any cash on hand from the exercise of the Underwriters' over-allotment option), plus all cash receipts of Lakehead from its operations (excluding any cash proceeds from Interim Capital Transactions) during the period since December 27, 1991 through such date less the sum of (a) all cash operating expenditures of Lakehead, including, without limitation, taxes paid by Lakehead as an entity after December 27, 1991, (b) all cash debt service payments of Lakehead during such period (other than payments or prepayments of principal and premium required by reason of loan agreements (including covenants and default provisions therein) or by lenders, in each case in connection with sales or other dispositions of assets or made in connection with refinancing or refunding of indebtedness, provided that any payment or prepayment of principal, whether or not then due, shall be determined at the election and in the discretion of the general partner to be refunded or refinanced by any indebtedness incurred or to be incurred by Lakehead

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simultaneously with or within 180 days prior to or after such payment or prepayment to the extent of the principal amount of such indebtedness so incurred), (c) all cash capital expenditures of Lakehead during such period necessary to maintain the service capability of our pipeline system, (d) an amount equal to the incremental revenues collected pursuant to a rate increase that are, at such date, subject to possible refund and for which the general partner has established a cash reserve, (e) any cash reserves outstanding as of such date that the general partner determines in its reasonable discretion to be necessary or appropriate to provide for the future cash payment of items of the type referred to in (a) through (c) above, and (f) any cash reserves outstanding as of such date that the general partner determines to be necessary or appropriate in its reasonable discretion to provide funds for distributions with respect to any one or more of the next four quarters, all as determined on a consolidated basis after elimination of intercompany items and the general partner interest of the general partner in the Operating Partnership. Taxes paid by Lakehead on behalf of, or amounts withheld with respect to, all or less than all of the unitholders shall not be

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considered cash operating expenditures of Lakehead that reduce "Cash from Operations," but the payment or withholding thereof shall be deemed to be a distribution of Available Cash to such unitholders. Alternatively, in the discretion of the general partner, such taxes (if pertaining to all unitholders) may be considered to be cash disbursements of Lakehead that reduces "Cash from Operations," but the payment or withholding thereof shall not be deemed to be a distribution to unitholders.

"Interim Capital Transactions" means in general, extraordinary transactions that have an impact on the capital of Lakehead, which are defined in the Partnership Agreement to be (a) borrowings and sales of debt securities (other than for working capital purposes and other than for items purchased on open account in the ordinary course of business) by Lakehead, (b) sales of equity interests by Lakehead and (c) sales or other voluntary or involuntary dispositions of any assets of Lakehead (other than (x) sales or other dispositions of inventory in the ordinary course of business, (y) sales or other dispositions of other current assets including accounts receivable or (z) sales or other dispositions of assets as part of normal retirements or replacements), in each case prior to the commencement of the dissolution and liquidation of Lakehead.

CONFLICTS OF INTEREST AND FIDUCIARY RESPONSIBILITIES

Certain conflicts of interest could arise as a result of the relationships among Enbridge and its affiliates, the general partner and Lakehead. The general partner makes all decisions relating to Lakehead. Some of the officers of the general partner who make such decisions may also be officers of Enbridge and its affiliates. In addition, Enbridge indirectly owns all of the capital stock of the general partner. The directors and officers of Enbridge have fiduciary duties to manage Enbridge, including its investments in its affiliates (including the general partner), in a manner beneficial to the shareholders of Enbridge. In general, the general partner has a fiduciary duty to manage Lakehead in a manner beneficial to the unitholders. However, the partnership agreement of Lakehead (the "Partnership Agreement") contains provisions that allow the general partner to take into account the interests of parties in addition to Lakehead and the unitholders in resolving conflicts of interest. The Partnership Agreement also contains provisions that may restrict the remedies available to unitholders for actions taken that might otherwise constitute breaches of fiduciary duty. The duty of the directors and officers of the general partner and Enbridge to their shareholders and affiliates may, therefore, conflict with the duties of the general partner to the unitholders.

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Potential conflicts of interest could arise in the situations described below, among others:

(a) The amount of cash expenditures, borrowings and reserves in any quarter may affect whether or the extent to which there is sufficient Available Cash constituting Cash from Operations to make distributions to the unitholders. In addition, the general partner's determination to make a capital expenditure for the purpose of maintaining our pipeline system or its determination as to what portion of a capital expenditure was made for the purpose of maintaining our pipeline system may have the same effect. Borrowings and issuances of additional units also increase the amount of Available Cash and, in the case of working capital borrowings, the amount of Cash from Operations. The Partnership Agreement provides that any

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borrowings by Lakehead, or the approval thereof by the general partner, will not constitute a breach of any duty by the general partner to Lakehead or the unitholders, including borrowings that have the purpose or effect of enabling the general partner to receive incentive distributions. Further, any actions taken by the general partner consistent with the standards of reasonable discretion set forth in the definitions of Available Cash, Cash from Operations and Interim Capital Transactions will not breach any duty of the general partner to Lakehead or the unitholders. See "Cash Distributions."

(b) Under the terms of the Partnership Agreement and the partnership agreement of the Operating Partnership (the "Operating Partnership Agreement" and, together with the Partnership Agreement, the "Partnership Agreements"), the general partner will exercise its discretion in managing the business of Lakehead. As a result, the general partner is not restricted from paying Enbridge or its affiliates for any services rendered on terms that are fair and reasonable to Lakehead. The general partner will determine which of its direct or indirect costs (including costs allocated to the general partner by Enbridge and its affiliates) are reimbursable by Lakehead. Employees of Enbridge and its affiliates currently provide services to the general partner for the benefit of Lakehead pursuant to a Services Agreement among Enbridge, an affiliate of Enbridge and the general partner. Substantially all of the shipments of crude oil and natural gas liquids delivered by our pipeline system originate from the Enbridge Pipeline System, and Enbridge handles all scheduling of shipments (including routes and storage) in coordination with the general partner.

(c) The general partner has certain varying percentage interests and priorities with respect to Available Cash. See "Cash Distributions." The timing and amount of cash receipts may be affected by various determinations made by the general partner under the Partnership Agreements (including, for example, those relating to the timing of any capital transaction, the establishment and maintenance of reserves, the timing of expenditures, the incurrence of debt and other matters).

(d) Neither of the Partnership Agreements nor any of the other agreements, contracts and arrangements between Lakehead, on the one hand, and the general partner, Enbridge and its affiliates, on the other hand, were or will be the result of arm's-length negotiations. The interests of the unitholders have not been represented by separate legal counsel in connection with the preparation of such agreements, contracts or arrangements.

(e) The decision whether Lakehead or the general partner should

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purchase outstanding units at any time may involve the general partner or Enbridge in a conflict of interest.

(f) Enbridge and its affiliates (other than the general partner) are expressly permitted by the terms of the Partnership Agreement to engage in any businesses and activities, including in certain instances, those in direct competition with Lakehead, except as described below under "-- Restrictions on General Partner Activity." For example, Enbridge and a group of refiners have developed a project to reverse the flow of a portion of the Enbridge Pipeline System from Sarnia to Montreal, to transport crude oil from Montreal to Sarnia. The reversal of this line would result in Enbridge becoming a competitor of Lakehead for supplying crude oil to the Ontario market.

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(g) Lakehead and the general partner do not have any employees and rely solely on employees of Enbridge and its affiliates. Although the general partner conducts no business other than acting as general partner of Lakehead and the Operating Partnership and managing certain subsidiaries and ancillary activities, Enbridge and its affiliates conduct business and activities of their own in which Lakehead has no economic interest. As a result, employees who provide services to the general partner may not be available when needed.

(h) As a matter of practice and whenever possible, the general partner limits the liability under contractual arrangements of Lakehead to all or particular assets of Lakehead, with the other party to have no recourse against the general partner or its assets other than its interest in Lakehead. In some circumstances, such action of the general partner may result in the terms of the transaction being less favorable to Lakehead than would otherwise be the case. The Partnership Agreement provides that such action does not constitute a breach of the general partner's fiduciary obligations.

(i) Lakehead is, and may in the future be, a party to various agreements to which the general partner and its affiliates, including Enbridge, are also parties and that provide certain benefits to Lakehead. However, unitholders do not have the right under these agreements to enforce directly the obligations of the general partner or of such affiliates in favor of Lakehead. Therefore, the unitholders must depend upon the general partner to enforce such obligations, including obligations that it or such affiliates may owe to Lakehead.

RESTRICTIONS ON GENERAL PARTNER ACTIVITY

The general partner is subject to certain restrictions on its activities. The sole business of the general partner is to act as general partner of Lakehead and the Operating Partnership, to manage certain subsidiaries and to undertake ancillary activities. Further, the Partnership Agreement provides that no subsidiary of the general partner will engage in or acquire any business that is in direct material competition with the business of Lakehead as conducted at the time of its formation in 1991, subject to the exceptions set forth below. None of the instruments to which Lakehead or the Operating Partnership is a party imposes any restriction on the ability of Enbridge and its affiliates, other than the general partner, to engage in any business. Enbridge agreed, however, in a separate agreement (the "Distribution Support Agreement"), that for so long as an affiliate of Enbridge is the general partner of Lakehead and the Operating Partnership, Enbridge and its other subsidiaries will not engage in or acquire any business that is in direct material competition with the business of Lakehead as conducted at the time of its formation in 1991, subject

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to the following important exceptions:

FIRST, there is no restriction on the ability of Enbridge and its other subsidiaries to continue to engage in businesses, including the normal development of those businesses in the future, in which they were engaged as of December 1991 and that are or may be in the future in competition with Lakehead, including the potential reversal of the Montreal extension to transport crude oil from Montreal to Sarnia;

SECOND, the scope of the competition restriction is limited geographically to those routes and products in respect of which Lakehead provided transportation as of December 1991. For example, Enbridge and its other subsidiaries would be permitted

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to acquire a pipeline business in which transportation is made over routes not served by Lakehead or involving products not transported by Lakehead as of December 1991;

THIRD, Enbridge and its other subsidiaries may acquire any competitive business as part of a larger acquisition so long as the majority of the value of the business or assets acquired, in Enbridge's judgement, is not attributable to such competitive business; and

FOURTH, Enbridge and its other subsidiaries may acquire any competitive business if it is first offered for acquisition to Lakehead and Lakehead fails to approve, after submission to a unitholder vote, the making of such acquisition. The approval of the holders of a majority of the outstanding units (excluding any units held by the general partner and its affiliates) is required for Lakehead to exercise its right to accept such an offer.

Except as specified above, Enbridge and its affiliates are not restricted by the terms of the Distribution Support Agreement or the Partnership Agreements from engaging in businesses that may be in competition with Lakehead. In addition, the Partnership Agreement specifically states that it will not constitute a breach of the general partner's fiduciary duty for Enbridge or its other subsidiaries to take advantage of any business opportunity in preference to or to the exclusion of Lakehead, except as specifically limited by the restrictions described above.

FIDUCIARY RESPONSIBILITIES OF THE GENERAL PARTNER

The general partner is generally accountable to Lakehead and the unitholders as a fiduciary. Consequently, the general partner must exercise good faith and integrity in handling the assets and affairs of Lakehead. In contrast to the relatively well-developed state of the law concerning fiduciary duties owed by officers and directors to the shareholders of a corporation, the law concerning the duties owed by general partners to the other partners and to their partnerships is relatively undeveloped. The Delaware Revised Uniform Limited Partnership Act (the "Delaware Act") provides that Delaware limited partnerships may, in their partnership agreements, restrict or expand the fiduciary duties that might otherwise be applied by a court in analyzing the standard of duty owed by general partners to limited partners. The Partnership Agreement, as permitted by the Delaware Act, contains various provisions that have the effect of restricting the fiduciary duties that might otherwise be owed by the general partner to Lakehead and its partners. In addition, holders of Class A Units are deemed to have consented to certain actions and conflicts of interest that might otherwise be deemed a breach of fiduciary or other duties under state law.

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The Partnership Agreement provides that whenever a conflict of interest arises between the general partner or its affiliates, on the one hand, and Lakehead or any unitholder, on the other hand, the general partner will be authorized, in resolving such conflict or determining such action, to consider the relative interests of the parties involved in such conflict or affected by such action, any customary or accepted industry practices, if applicable, generally accepted accounting or engineering practices or principles and such additional factors as the general partner determines in its sole discretion to be relevant, reasonable or appropriate under the circumstances. The same considerations will apply whenever the Partnership Agreement requires the general partner to act in a manner that

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is fair and reasonable to Lakehead or the unitholders. Thus, unlike the strict duty of a trustee who must act solely in the best interests of his beneficiary, the Partnership Agreement permits the general partner to consider the interests of all parties to a conflict of interest, including the interests of the general partner and its affiliates, including Enbridge. The Partnership Agreement also provides that in certain circumstances the general partner will act in its sole discretion, in good faith or pursuant to other appropriate standards.

The Partnership Agreement also provides that any standard of care and duty imposed on the general partner will be modified, waived or limited as required to permit the general partner to act under the Partnership Agreement and to make any decision pursuant to the authority prescribed in the Partnership Agreement so long as such action is reasonably believed by the general partner to be in the best interests of Lakehead. Further, the Partnership Agreement provides that the general partner will not be liable for monetary damages to Lakehead or the unitholders for errors of judgement or for any other acts or omissions if the general partner acted in good faith. Lakehead is required, under the terms of the Partnership Agreement, to indemnify the general partner and its officers, directors, employees and agents against liabilities, costs and expenses, if the general partner or such persons acted in good faith and in a manner they reasonably believed to be in, or not opposed to, the best interests of Lakehead and, with respect to any criminal proceeding, had no reasonable cause to believe their conduct was unlawful. This indemnification provision could include indemnification of the general partner for its negligent acts.

The Delaware Act provides that a limited partner may institute legal action on behalf of the partnership (a partnership derivative action) to recover damages from a third party where the general partner has refused to institute the action or where an effort to cause the general partner to do so is not likely to succeed. In addition, the statutory or case law of certain jurisdictions may permit a limited partner to institute legal action on behalf of himself or all other similarly situated limited partners (a class action) to recover damages from a general partner for violations of its fiduciary duties to the limited partners.

The fiduciary obligations of general partners is a developing area of the law. The general partner has not obtained an opinion of counsel covering the provisions set forth in the Partnership Agreement that purport to waive or restrict fiduciary duties of the general partner. Unitholders should consult their own legal counsel concerning the fiduciary responsibilities of the general partner and its officers and directors and the remedies available to unitholders.

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INVESTMENT IN LAKEHEAD BY EMPLOYEE BENEFIT PLANS

An investment in Lakehead by an employee benefit plan is subject to certain additional considerations because persons with discretionary control of assets of such plans (a "fiduciary") are subject to the fiduciary responsibility provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and transactions are subject to restrictions imposed by Section 4975 of the Code. As used herein, the term "employee benefit plan" includes, but is not limited to, qualified pension, profit-sharing and stock bonus plans, Keogh plans, Simplified Employee Pension Plans, and tax deferred annuities or Individual Retirement Accounts ("IRAs") established or maintained by an employer or employee organization. Among other things, consideration should be given to (i) whether such investment is prudent under Section 404(a)(1)(B) of ERISA, (ii) whether in making such investment such plan will satisfy the diversification requirement of Section 404(a)(1)(C) of ERISA, and (iii) whether such investment will result in recognition of unrelated business taxable income by such plan. See "Tax Considerations -- Tax-Exempt Organizations and Certain Other Investors." Fiduciaries should determine whether an investment in Lakehead is authorized by the appropriate governing instrument and is an appropriate investment for such plan.

In addition, a fiduciary of an employee benefit plan should consider whether such plan will, by investing in Lakehead, be deemed to own an undivided interest in the assets of Lakehead, with the result that the general partner would also be a fiduciary of such plan and Lakehead would be subject to the regulatory restrictions of ERISA, including its prohibited transaction rules, as well as the prohibited transaction rules of the Code.

Section 406 of ERISA and Section 4975 of the Code (which also applies to IRAs that are not considered part of an employee benefit plan; i.e., IRAs established or maintained by individuals rather than an employer or employee organization) prohibit an employee benefit plan from engaging in certain transactions involving "plan assets" with parties who are "parties in interest" under ERISA or "disqualified persons" under the Code with respect to the plan. Under Department of Labor regulations the assets of an entity in which employee benefit plans acquire equity interests would not be deemed "plan assets" if, among other things, (i) the equity interests acquired by employee benefit plans are publicly offered securities -- i.e., the equity interests are widely held by 100 or more investors independent of the issuer and each other, freely transferable and registered pursuant to certain provisions of the federal securities law, (ii) the entity is an "operating company" -- i.e., it is primarily engaged in the production or sale of a product or service other than the investment of capital, or (iii) there is no significant investment by benefit plan investors, which is defined to mean that less than 25% of the value of each class of equity interest is held by the employee benefit plans referred to above, IRAs and other employee benefit plans not subject to ERISA (such as government plans). Lakehead's assets are not expected to be considered "plan assets" under these regulations because it is expected that the investment will satisfy the requirements in (i) above, and may also satisfy the requirements in (ii) and (iii).

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PLAN OF DISTRIBUTION

We may sell the Class A Units to one or more underwriters for public offering and sale, or we may sell the Class A Units to investors directly or through agents. Any underwriter or agent involved in the offer and sale of the Class A Units will be named in the applicable prospectus supplement.

Underwriters may offer and sell the Class A Units at fixed prices, which

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may be changed, at prices related to the prevailing market prices at the time of sale or at negotiated prices. We also may authorize underwriters acting as our agents to offer and sell the Class A Units upon the terms and conditions as are set forth in the applicable prospectus supplement. In connection with the sale of Class A Units, underwriters may be deemed to have received compensation from us in the form of underwriting discounts or commissions and may also receive commissions from purchasers of the Class A Units for whom they may act as agent. Underwriters may sell the Class A Units to or through dealers. Dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agent.

Any underwriting compensation paid by us to underwriters or agents in connection with the offering of the Class A Units, and any discounts, concessions or commissions allowed by underwriters to participating dealers, will be set forth in the applicable prospectus supplement. Underwriters, dealers and agents participating in the distribution of the Class A Units may be deemed to be underwriters, and any discounts and commissions received by them and any profit realized by them on resale of the Class A Units may be deemed to be underwriting discounts and commissions under the Securities Act. Underwriters, dealers and agents may be entitled, under agreements entered into with us, to indemnification against the contribution toward certain civil liabilities, including liabilities under the Securities Act.

If a prospectus supplement so indicates, we will authorize agents, underwriters or dealers to solicit offers by certain institutional investors to purchase the Class A Units to which such prospectus supplement relates, providing for payment and delivery on a future date specified in such prospectus supplement. There may be limitations on the minimum amount that may be purchased by any such institutional investor or on the number of the Class A Units that may be sold pursuant to such arrangements. Institutional investors include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and such other institutions as we may approve. The obligations of the purchasers pursuant to such delayed delivery and payment arrangements will not be subject to any conditions except that (i) the purchase by an institution of the Class A Units shall not be prohibited under the applicable laws of any jurisdiction in the United States and (ii) if the Class A Units are being sold to underwriters, we shall have sold to such underwriters the total number of such Class A Units less the number thereof covered by such arrangements. Underwriters will not have any responsibility in respect of the validity of such arrangements or our performance or such institutional investors thereunder.

If a prospectus supplement so indicates, the underwriters engaged in an offering of Class A Units may engage in transactions that stabilize, maintain or otherwise affect the market price of the Class A Units at levels above those that might otherwise prevail in the

open market. Specifically, the underwriters may over-allot in connection with the offering creating a short position in the Class A Units for their own account. For the purposes of covering a syndicate short position or pegging, fixing or maintaining the price of the Class A Units, the underwriters may place bids for the Class A Units or effect purchases of the Class A Units in the open market. A syndicate short position may also be covered by exercise of an over-allotment option, if one is granted to the underwriters. Finally, the underwriters may impose a penalty bid on certain underwriters and dealers. This means that the underwriting syndicate may reclaim selling concessions allowed to an underwriter or a dealer for distributing Class A Units in transactions to cover syndicate short positions, in stabilization transactions or otherwise. The

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underwriters will not be required to engage in any of these activities and any such activities, if commenced, may be discontinued at any time.

Certain of the underwriters and their affiliates may be customers of, engage in transactions with and perform services for us in the ordinary course of business.

EXPERTS

The consolidated financial statements incorporated in this prospectus by reference to the Annual Report on Form 10-K of Lakehead Pipe Line Partners, L.P. for the year ended December 31, 1997, as amended, and the audited balance sheet of Lakehead Pipe Line Company, Inc. as of December 31, 1997 and 1996, incorporated in this prospectus by reference to the Current Report on Form 8-K of Lakehead Pipe Line Partners, L.P. dated July 21, 1998, as amended, have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

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No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus supplement or accompanying prospectus. You must not rely on any unauthorized information or representations. This prospectus supplement and accompanying prospectus is an offer to sell only the units offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus supplement and accompanying prospectus is current only as of its date.

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1,748,635 Units

LAKEHEAD PIPE LINE PARTNERS, L.P.

Class A Common Units

Representing Limited Partner Interests

PROSPECTUS SUPPLEMENT

GOLDMAN, SACHS & CO.

