

Texas Eastern Transmission, LP

Consolidated Financial Statements

(Unaudited)

March 31, 2019

TEXAS EASTERN TRANSMISSION, LP
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited; in millions)

	Three Months Ended March 31,	
	2019	2018
Operating Revenues		
Transportation of natural gas	\$ 373	\$ 375
Storage of natural gas and other services	29	30
Total operating revenues	<u>402</u>	<u>405</u>
Operating Expenses		
Operating, maintenance and other	143	118
Depreciation and amortization	38	37
Property and other taxes	27	29
Total operating expenses	<u>208</u>	<u>184</u>
Operating Income	194	221
Other Income		
Allowance for funds used during construction - equity	4	3
Other income	4	1
Total other income	<u>8</u>	<u>4</u>
Interest Expense	<u>22</u>	<u>22</u>
Net Income	<u>\$ 180</u>	<u>\$ 203</u>

See Notes to Consolidated Financial Statements.

TEXAS EASTERN TRANSMISSION, LP
CONSOLIDATED BALANCE SHEETS
(Unaudited; in millions)

	March 31, 2019	December 31, 2018
ASSETS		
Current Assets		
Receivables (net of allowance for doubtful accounts of \$2 and \$1 at March 31, 2019 and December 31, 2018, respectively)	\$ 138	\$ 148
Gas imbalances receivable	64	94
Inventory	33	33
Cash collateral held by affiliate	40	40
Fuel tracker	58	65
Other	8	9
Total current assets	341	389
Other Assets		
Advances receivable, net - affiliates	135	48
Goodwill	136	136
Lease asset	417	—
Other	1	2
Total other assets	689	186
Property, Plant and Equipment		
Cost	10,266	10,187
Less accumulated depreciation and amortization	2,290	2,261
Net property, plant and equipment	7,976	7,926
Regulatory Assets and Deferred Debits		
Total Assets	\$ 9,135	\$ 8,623
LIABILITIES AND PARTNERS' CAPITAL		
Current Liabilities		
Accounts payable	\$ 82	\$ 111
Taxes payable	46	65
Interest accrued	24	33
Collateral liabilities	28	28
Gas imbalances payable	64	94
Lease liability	13	—
Deposits	21	19
Other	16	17
Total current liabilities	294	367
Long-term debt	2,033	2,032
Deferred state income tax	7	7
Long-term lease liability	404	—
Regulatory and other liabilities	641	641
Total liabilities	3,379	3,047
Commitments and Contingencies		
Partners' Capital		
Total Liabilities and Partners' Capital	\$ 9,135	\$ 8,623

See Notes to Consolidated Financial Statements.

TEXAS EASTERN TRANSMISSION, LP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; in millions)

**Three Months Ended
March 31,**

2019 2018

CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 180	\$ 203
Depreciation and amortization	38	37
Allowance for funds used during construction - equity	(4)	(3)
Regulatory liability - deferred income taxes	—	(21)
Other changes in operating assets and liabilities	(26)	(22)
Net cash provided by operating activities	<u>188</u>	<u>194</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(101)	(54)
Changes in advances receivable, net - affiliates	(87)	(519)
Other	—	(9)
Net cash used in investing activities	<u>(188)</u>	<u>(582)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of long-term debt	—	788
Payments for the redemption of long-term debt	—	(400)
Net cash provided by financing activities	<u>—</u>	<u>388</u>
Net change in cash and cash equivalents	—	—
Cash and cash equivalents at beginning of period	\$ —	—
Cash and cash equivalents at end of period	<u>\$ —</u>	<u>—</u>

See Notes to Consolidated Financial Statements.

TEXAS EASTERN TRANSMISSION, LP
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL
(Unaudited; in millions)

December 31, 2018	\$ 5,576
Net income	180
Attributed deferred income tax benefit	1
Distributions to partners	(1)
March 31, 2019	<u>\$ 5,756</u>
December 31, 2017	\$ 5,431
Net income	203
Attributed deferred income tax benefit	1
Distribution to partners	(573)
March 31, 2018	<u>\$ 5,062</u>

See Notes to Consolidated Financial Statements.

Texas Eastern Transmission, LP
Notes to Consolidated Financial Statements
(Unaudited)

1. Summary of Operations and Significant Accounting Policies

The terms "we," "our" and "us" as used in this report refer collectively to Texas Eastern Transmission, LP and its subsidiaries unless the context suggests otherwise. These terms are used for convenience only and are not intended as a precise description of any separate legal entity within Texas Eastern Transmission, LP.

Nature of Operations. Texas Eastern Transmission, LP, a Delaware limited partnership, is an indirect, 100%-owned subsidiary of Spectra Energy Partners, LP (SEP), which is owned 100% by Enbridge Inc. (Enbridge). We are mostly engaged in the interstate transmission and storage of natural gas. Our interstate natural gas transmission and storage operations are subject to the rules and regulations of the Federal Energy Regulatory Commission (FERC).

Basis of Presentation. The accompanying Consolidated Financial Statements are prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) and reflect our consolidated results of operations, financial position and cash flows. These interim financial statements should be read in conjunction with the most recent audited financial statements and reflect all normal recurring adjustments that are, in our opinion, necessary to fairly present our results of operations and financial position. Amounts reported in the Consolidated Statements of Operations are not necessarily indicative of amounts expected for the respective annual periods.

Consolidation. The Consolidated Financial Statements reflect the elimination of intercompany transactions and balances.

Use of Estimates. To conform with U.S. GAAP, we make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and Notes to Consolidated Financial Statements. Although these estimates are based on our best available knowledge at the time, actual results could differ.

Revenue Recognition. Revenues from the transmission and storage of natural gas are recognized when the service is provided. Revenues related to these services provided but not yet billed are estimated each month. These estimates are generally based on contract data, regulatory information and preliminary throughput and allocation measurements. Final bills for the current month are billed and collected in the following month. Differences between actual and estimated revenues are immaterial. We also have certain customer contracts with billed amounts that decline annually over the terms of the contracts. Differences between the amounts billed and recognized are deferred on the Consolidated Balance Sheets.

Revenue from Contracts with Customers. Effective January 1, 2019, we adopted ASU 2014-09 on a modified retrospective basis to contracts that were not complete at the date of initial application. The new standard was issued with the intent of significantly enhancing consistency and comparability of revenue recognition practices across entities and industries. The new standard establishes a single, principles-based five-step model to be applied to all contracts with customers and introduces new and enhanced disclosure requirements. It also requires the use of more estimates and judgments than the previous standards.

In adopting Accounting Standards Codification (ASC) 606, we applied the practical expedient for contract modifications whereby contracts that were modified before January 1, 2019 were not retrospectively restated. Instead, the aggregate effect of all contract modifications occurring before that time has been reflected when identifying satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to satisfied and unsatisfied obligations. After our assessment, the adoption of ASC 606 did not have a significant impact to any of our financial statement line items for the twelve months ended December 31, 2018.

Recognition of Leases. Effective January 1, 2019, we adopted ASU 2016-02 (Topic 842) on a modified retrospective basis. We recognize an arrangement as a lease when a customer has the right to obtain substantially all of the economic benefits from the use of an asset, as well as the right to direct the use of the asset. We recognize right-of-use (ROU) assets and the related lease liabilities on the balance sheet for operating lease arrangements with a term of 12 months or longer. We do not separate non-lease components from the associated lease components of our lessee contracts and account for both components as a single lease component. ROU assets are assessed for impairment using the same approach as is applied for other long-lived assets, as described under the Impairment section of the Significant Accounting Policies Note 1 in the annual consolidated financial statements.

Lease liabilities and ROU assets require the use of judgment and estimates, which are applied in determining the term of a lease, appropriate discount rates, whether an arrangement contains a lease, whether there are any indicators of impairment for ROU assets and whether any ROU assets should be grouped with other long-lived assets for impairment testing.

In adopting Topic 842, we elected the package of practical expedients permitted under the transition guidance. The election to apply the package of practical expedients allows an entity to not apply the new lease standard to the prior year comparative periods in the year of adoption. The application of the package of practical expedients also permits entities not to reassess whether any expired or existing contracts contain leases in accordance with the new guidance, lease classifications, and whether initial direct costs capitalized under current guidance continue to meet the definition of initial direct costs under the new guidance. We also elected the practical expedient related to land easements, allowing us to carry forward our accounting treatment for land easements on existing agreements that had commenced prior to January 1, 2019.

On January 1, 2019, ROU assets and corresponding lease liabilities of \$420 million were recorded in connection with the adoption of Topic 842. The adoption of this standard had no impact to the Consolidated Statement of Income, Consolidated Statement of Partners' Capital or Consolidated Statement of Cash Flows.

Income Taxes. We are not subject to federal income taxes, but rather our taxable income or loss is reported on the income tax returns of our partners. We remain subject to Tennessee income tax.

We are subject to cost-based regulation and consequently record a regulatory tax asset in connection with the tax gross up of allowance for funds used during construction equity. The corresponding deferred tax liability is recognized as an Attributed Deferred Income Tax Benefit in the Consolidated Statements of Partners' Capital since we are a pass-through entity.

Revised FERC policy on the treatment of income taxes. On March 15, 2018, the FERC changed its long-standing policy on the treatment of income tax amounts included in the rates of pipelines and other entities subject to cost of service rate regulation within an Master Limited Partnership (MLP). In its order, the FERC revised a policy in place since 2005 to no longer permit entities organized as master limited partnerships to recover an income tax allowance in their cost of service rates.

On July 18, 2018, the FERC issued an Order that: (1) dismissed all requests for rehearing of its March 15, 2018 revised policy statement and explained that its revised policy statement does not establish a binding rule, but is instead an expression of general policy that the Commission intends to follow in the future; and (2) provides guidance that if an MLP or other tax pass-through pipeline eliminates its income tax allowance from its cost of service pursuant to FERC's Revised Policy Statement, then Accumulated Deferred Income Taxes (ADIT) will similarly be removed from its cost of service and MLP pipelines may also eliminate previously-accumulated sums in ADIT. As a statement of general policy, the FERC will consider alternative application of its tax allowance and ADIT policy on a case-by-case basis.

On November 30, 2018, Texas Eastern filed revised tariff records pursuant a section 4 Natural Gas Act rate case (Docket No. RP19-343-000 and RP19-343-001) taking into consideration that Enbridge completed the buy-ins of its sponsored vehicles including SEP, through which Enbridge acquired all of the outstanding equity securities of SEP. For the purpose of this rate case filing only, Texas Eastern's regulatory liability balance was adjusted to 83.1% for the portion of the balance remaining with Texas Eastern and eliminated the 16.9% portion that was attributable to the public unitholders interest that triggered a taxable sale.

Inventory. Inventory consists of natural gas held in storage for operations and materials and supplies. Natural gas inventory is carried at historical cost and materials and supplies is recorded at the lower of cost and net realizable value.

Natural Gas Imbalances. The Consolidated Balance Sheets include in-kind balances as a result of differences in gas volumes received and delivered for customers. Since settlement of imbalances is in-kind, changes in balances do not have an effect on our Consolidated Statements of Operations or Consolidated Statements of Cash Flows. Natural gas volumes owed to or by us are valued at natural gas market index prices as of the balance sheet dates.

2. Leases

We incur operating lease expenses related primarily to pipeline capacity and real estate rentals. Our operating leases have remaining lease terms of 2 years to 30 years, some of which include options to extend leases for up to 15 years.

For the three months ended March 31, 2019, we incurred operating lease expenses of \$8 million. Operating lease expenses are reported under Operating, maintenance and other expenses on the Consolidated Statements of Income.

For the three months ended March 31, 2019, operating lease payments to settle lease liabilities were \$8 million. Operating lease payments are reported under operating activities in the Consolidated Statements of Cash Flows.

	March 31, 2019	January 1, 2019
<i>(in millions, except lease term and discount rate)</i>		
Operating leases		
Lease asset, net	417	420
Lease liability	13	13
Long-term lease liability	404	407
Total lease liabilities	417	420
Weighted average remaining lease term		
Operating leases	28 years	28 years
Weighted average discount rate		
Operating leases	4.83%	4.81%

As at March 31, 2019, we have operating lease commitments as detailed below:

	Operating leases
<i>(in millions)</i>	
2019 ¹	26
2020	33
2021	32
2022	31
2023	30
Thereafter	591
Total undiscounted lease payments	743
Less imputed interest	(326)
Total operating lease commitments	417

¹ For the nine months remaining in the 2019 fiscal year.

3. Revenue

Contract Balances	Receivables	Liabilities
<i>(millions of dollars)</i>		
Balance as at January 1, 2019	139	19
Balance as at March 31, 2019	138	20

There were no contract assets as at January 1, 2019 or March 31, 2019.

Significant Judgments Made in Recognizing Revenue

Long-Term Transportation Agreements

For long-term transportation agreements, significant judgments pertain to the period over which revenue is recognized and whether the agreement provides for make-up rights for the shippers. Transportation revenue earned from firm contracted capacity arrangements is recognized ratably over the contract period. Transportation revenue from interruptible or volumetric-based arrangements is recognized when services are performed.

Estimates of Variable Consideration

Revenue from arrangements subject to variable consideration is recognized only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Uncertainties associated with variable consideration relate principally to differences between estimated and actual volumes and prices. These uncertainties are resolved each month when actual volumes are sold or transported and actual tolls and prices are determined.

Performance Obligations Satisfied Over Time

All operating revenues from Southern Lights for the period ended, March 31, 2019 were from services transferred over time. For arrangements involving the transportation where the transportation services or commodities are simultaneously received and consumed by the shipper or customer, we recognize revenue over time using an output method based on volumes of commodities delivered or transported. The measurement of the volumes transported or delivered corresponds directly to the benefits received by the shippers or customers during that period.

Determination of Transaction Prices

Prices for gas processing and transportation services are determined based on the capital cost of the facilities, pipelines and associated infrastructure required to provide such services plus a rate of return on capital invested that is determined either through negotiations with customers or through regulatory processes for those operations that are subject to rate regulation.

Payment Terms

Payments are received monthly from customers under long-term transportation and commodity sales contracts.

4. Commitments and Contingencies

Environmental. We are subject to various federal, state and local laws and regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. These laws and regulations can change from time to time, imposing new obligations on us.

Litigation. We are involved in legal, tax and regulatory proceedings in various forums arising in the ordinary course of business, including matters regarding contract and payment claims, some of which may involve substantial monetary amounts. We have insurance coverage for certain of these losses should they be incurred. We believe that the final disposition of these proceedings will not have a material effect on our consolidated results of operations, financial position or cash flows.

5. Subsequent Events

We have evaluated significant events and transactions that occurred through May 30, 2019, the date the Condensed Consolidated Financial Statements were issued and did not identify any events that would require disclosure in the footnotes to our financial statements.