Texas Eastern Transmission, LP

Consolidated Financial Statements

December 31, 2019 and 2018

Report of Independent Auditors

To the Management Committee and Management of Texas Eastern Transmission, LP:

We have audited the accompanying consolidated financial statements of Texas Eastern Transmission, LP and its subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of earnings, partners' capital and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Partnership's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Texas Eastern Transmission, LP and its subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 24, 2020

TEXAS EASTERN TRANSMISSION, LP
CONSOLIDATED STATEMENTS OF EARNINGS
(In millions of US dollars)

	Year Ended December 31,	
	2019	2018
Operating Revenues		
Transportation of natural gas	$ 1,527	$ 1,443
Storage of natural gas and other services	122	122
Total operating revenues	1,649	1,565
Operating Expenses		
Operating, maintenance and other	671	529
Depreciation and amortization	154	147
Property and other taxes	110	105
Total operating expenses	935	781
Operating Income	714	784
Other Income		
Allowance for funds used during construction - equity	14	24
Other income	13	131
Total other income	27	155
Interest Expense	87	87
Earnings Before Income Taxes	654	852
Income Tax Expense	1	1
Earnings	$ 653	$ 851

See Notes to Consolidated Financial Statements.

TEXAS EASTERN TRANSMISSION, LP
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(In millions of US dollars)

	December 31, 2019	December 31, 2018
ASSETS		
Current Assets		
Receivables (net of allowance for doubtful accounts of $3 and $1 at December 31, 2019 and 2018, respectively)	$ 179	$ 148
Gas imbalance receivable	48	94
Inventory	35	33
Cash collateral held by affiliate	40	40
Fuel tracker	39	65
Other	12	9
Total current assets	353	389
Other Assets		
Advances receivable, net - affiliates	165	48
Goodwill	136	136
Lease asset *(Note 5)*	413	—
Other	23	2
Total other assets	737	186
Property, Plant and Equipment, net *(Note 6)*	8,326	7,926
Regulatory Assets *(Note 2)*	153	122
Total Assets	$ 9,569	$ 8,623
LIABILITIES AND PARTNERS' CAPITAL		
Current Liabilities		
Accounts payable	$ 131	$ 111
Property and other taxes accrued	72	65
Interest accrued	32	33
Collateral liabilities	28	28
Gas imbalance payable	48	94
Rate refund payable *(Note 2)*	175	—
Lease liability *(Note 5)*	14	—
Current portion of long-term debt	300	—
Other	30	36
Total current liabilities	830	367
Long-term debt *(Note 7)*	1,734	2,032
Deferred state income tax	7	7
Long-term lease liability *(Note 5)*	398	—
Regulatory and other liabilities	654	641
Total liabilities	3,623	3,047
Partners' Capital	5,946	5,576
Total Liabilities and Partners' Capital	$ 9,569	$ 8,623

See Notes to Consolidated Financial Statements.

TEXAS EASTERN TRANSMISSION, LP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions of US dollars)

	Year ended December 31, 2019	Year ended December 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Earnings	$ 653	$ 851
Adjustments to reconcile earnings to net cash provided by operating activities:		
Depreciation and amortization	154	149
Allowance for funds used during construction - equity	(14)	(24)
Rate refund payable	175	—
Income tax expense	1	1
Regulatory liability - deferred income taxes	—	(134)
Other changes in operating assets and liabilities	(6)	(37)
Net cash provided by operating activities	963	806
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(560)	(503)
Net change in advances receivable, net — affiliates	(403)	(689)
Net cash used in investing activities	(963)	(1,192)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of long-term debt, net of issue costs	—	786
Payments for the redemption of long-term debt	—	(400)
Net cash provided by (used in) financing activities	—	386
Net change in cash and cash equivalents	—	—
Cash and cash equivalents at beginning of period	—	—
Cash and cash equivalents at end of period	$ —	$ —
Supplemental Disclosure		
Cash interest paid, net of capitalized interest	$ 86	$ 79
Property, plant and equipment non-cash accruals	$ 84	$ 78

See Notes to Consolidated Financial Statements.

TEXAS EASTERN TRANSMISSION, LP
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL
(In millions of US dollars)

December 31, 2017	$ 5,431
Earnings	851
Attributed deferred income tax benefit	7
Distributions to partners	(713)
December 31, 2018	5,576
Earnings	653
Attributed deferred income tax benefit	3
Distributions to partners	(286)
December 31, 2019	$ 5,946

See Notes to Consolidated Financial Statements.

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 (GAAP) in the United States and reflect our consolidated results of operations, financial position and cash flows. Amounts are presented in United States dollars unless otherwise stated.

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

Use of Estimates. To conform with GAAP in the United States, 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.

Cost-Based Regulation. The economic effects of regulation can result in a regulated company recording assets for costs that have been or are expected to be approved for recovery from customers or recording liabilities for amounts that are expected to be returned to customers or for instances where the regulator provides current rates that are intended to recover costs that are expected to be incurred in the future. Accordingly, we record assets and liabilities that result from the regulated ratemaking process that may not be recorded under GAAP for non-regulated entities. We continually assess whether regulatory assets are probable of future recovery by considering factors such as applicable regulatory changes and recent rate orders to other regulated entities. Based on this assessment, we believe our existing regulatory assets are probable of recovery. These regulatory assets and liabilities are mostly classified in the Consolidated Statements of Financial Position as Regulatory Assets, and Regulatory and other liabilities. We evaluate our regulated assets, and consider factors such as regulatory changes and the effect of competition. If cost-based regulation ends or competition increases, we may have to reduce our asset balances to reflect a market basis less than cost and write-off the associated regulatory assets and liabilities. See Note 2 for further discussion.

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 Statements of Financial Position.

Allowance for Funds Used During Construction (AFUDC). AFUDC, which represents the estimated debt and equity costs of capital funds necessary to finance the construction and expansion of certain new regulated facilities, consists of two components, an equity component and an interest expense component. The equity component is a non-cash item. After construction is completed, we are permitted to recover these costs through inclusion in the rate base and in the depreciation provision. AFUDC is capitalized as a component of 'Property, Plant and Equipment, net' in the Consolidated Statements of Financial Position, with offsetting credits to the Consolidated Statements of Earnings through Other Income for the equity component and Interest Expense for the interest expense component. The total amount of AFUDC included in the Consolidated Statements of Earnings was $17 million in 2019 (an equity component of $14 million and an interest expense component of $3 million) and $27 million in 2018 (an equity component of $24 million and an interest expense component of $3 million).

Income Taxes. Texas Eastern is a disregarded entity for federal income tax purposes; therefore, it is not subject to federal income taxes, but rather our taxable income or loss is reported on the income tax returns of our partner. We remain subject to Tennessee income tax. Furthermore, there is no formal or informal tax sharing arrangements or commitments to fund any tax liabilities of the single member. Based on these facts, Texas Eastern has decided not to record an income tax provision.

Cash and Cash Equivalents. Highly liquid investments with original maturities of three months or less at the date of acquisition are considered cash equivalents.

We had no cash or cash equivalents as of December 31, 2019 or 2018 because all cash is managed collectively by SEP on a centralized basis and is advanced between its affiliates as needed.

Receivables and Allowance for Doubtful Accounts. Accounts receivable are measured at cost. Allowance for doubtful accounts is determined based on collection history. When we have determined that further collection efforts are unlikely to be successful, amounts charged to the allowance for doubtful accounts are applied against the impaired accounts receivable.

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 Statements of Financial Position 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 Earnings 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 Consolidated Statements of Financial Position dates.

Goodwill. Goodwill represents the excess of the purchase price over the fair value of net identifiable assets on acquisition of a business. The carrying value of goodwill, which is not amortized, is assessed for impairment annually, or more frequently if events or changes in circumstances arise that suggest the carrying value of goodwill may be impaired. We perform our annual review of the goodwill balance on April 1.

In performing the goodwill impairment test, we have the option to first assess qualitative factors to determine whether it is necessary to perform the quantitative goodwill impairment test. When performing a qualitative assessment, we determine the drivers of fair value for each reporting unit and evaluate whether those drivers have been positively or negatively affected by relevant events and circumstances since the last fair value assessment. Our evaluation includes, but is not limited to, assessment of macroeconomic trends, regulatory environments, capital accessibility, operating income trends, and industry conditions. Based on our assessment of the qualitative factors, if we determine it is more likely than not that the fair value of the reporting unit is less than it's carrying amount, a quantitative goodwill impairment test is performed. For 2019, we performed the optional qualitative assessment and determined it was not likely that the fair value of the reporting unit is less than it's carrying amount and thus did not perform a quantitative impairment test.

The quantitative goodwill impairment test involves determining the fair value of our reporting unit and comparing it to the carrying value. If the carrying value of our reporting unit, including allocated goodwill, exceeds its fair value, goodwill impairment is measured at the amount by which our reporting unit's carrying value exceeds its fair value. This amount should not exceed the carrying amount of goodwill. Fair value of our reporting units is estimated using a combination of discounted cash flow model and earnings multiples techniques. The determination of fair value using the discounted cash flow model technique requires the use of estimates and assumptions related to discount rates, projected operating income, terminal value growth rates, capital expenditures and working capital levels. The cash flow projections include significant judgments and assumptions relating to revenue growth rates and expected future capital expenditure. The determination of fair value using the earnings multiples technique requires assumptions to be made in relation to maintainable earnings and earnings multipliers for reporting units.

Property, Plant and Equipment. Property, plant and equipment is stated at historical cost less accumulated depreciation. We capitalize all construction-related direct labor and material costs, as well as indirect construction costs. Indirect costs include general engineering, taxes, administrative and general costs, and the cost of funds used during construction. The costs of renewals and betterments that extend the useful life or increase the expected output of property, plant and equipment are also capitalized. The costs of repairs, replacements and major maintenance projects that do not extend the useful life or increase the expected output of property, plant and equipment are expensed as incurred. Depreciation is generally computed over the asset's estimated useful life using the straight-line method.

When we retire property, plant and equipment, we charge the original cost plus the cost of retirement, less salvage value, to accumulated depreciation and amortization. When we sell entire regulated operating units, or retire or sell certain non-regulated properties, the cost is removed from the property account and the related accumulated depreciation and amortization accounts are reduced. Any gain or loss is recorded in earnings, unless otherwise required by FERC.

Preliminary Project Costs. Project development costs, including expenditures for preliminary surveys, plans, investigations, environmental studies, regulatory applications and other costs incurred for the purpose of determining the feasibility of capital expansion projects, are capitalized when it is determined that recovery of such costs through regulated revenues of the completed project is probable. Any inception-to-date costs of the projects that were initially expensed are reversed and capitalized as Property, Plant and Equipment.

Long-Lived Asset Impairments. We evaluate whether long-lived assets, excluding goodwill, have been impaired when circumstances indicate the carrying value of those assets may not be recoverable. For such long-lived assets, an impairment exists when its carrying value exceeds the sum of estimates of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. When alternative courses of action to recover the carrying amount of a long-lived asset are under consideration, a probability-weighted approach is used in developing estimates of future undiscounted cash flows. If the carrying value of the long-lived asset is not recoverable based on these estimated future undiscounted cash flows, an impairment loss is measured as the excess of the asset's carrying value over its fair value, such that the asset's carrying value is adjusted to its estimated fair value.

We assess the fair value of long-lived assets using commonly accepted techniques, and may use more than one source. Sources to determine fair value include, but are not limited to, recent third-party comparable sales, internally developed discounted cash flow analyses and analyses from outside advisors. Significant changes in market conditions resulting from events such as changes in natural gas available to our systems, the condition of an asset, a change in our intent to utilize the asset or a significant change in contracted revenues or regulatory recoveries would generally require us to reassess the cash flows related to the long-lived assets.

Asset Retirement Obligations (AROs). We recognize AROs for legal commitments associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the asset and conditional AROs in which the timing or method of settlement are conditional on a future event that may or may not be within our control. The fair value of a liability for an ARO is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made and is added to the carrying amount of the associated asset. This additional carrying amount is depreciated over the estimated useful life of the asset.

Our AROs relate mostly to the retirement of offshore pipelines and certain onshore assets. These assets include onshore pipeline, and storage facilities, whose retirement dates will depend mostly on the various natural gas supply sources that connect to our system and the ongoing demand for natural gas usage in the markets we serve. We expect these supply sources and market demands to continue for the foreseeable future. Refer to Note 8 for the estimated ARO.

Unamortized Debt Premium, Discount and Expense. Premiums, discounts and expenses incurred with the issuance of outstanding long-term debt are amortized over the terms of the debt issued. Any call premiums or unamortized expenses associated with refinancing higher-cost debt obligations to finance regulated assets and operations are amortized consistent with regulatory treatment of those items, where appropriate.

Environmental Expenditures. We expense environmental expenditures related to conditions caused by past operations that do not generate current or future revenues. Environmental expenditures related to operations that generate current or future revenues are expensed or capitalized, as appropriate. Undiscounted liabilities are recorded when the necessity for environmental remediation becomes probable and the costs can be reasonably estimated, or when other potential environmental liabilities are reasonably estimable and probable.

New Accounting Pronouncements. The following new Accounting Standards Updates (ASUs) were adopted during 2019 and the effects of such adoptions, if any, are presented in the accompanying Consolidated Financial Statements:

Revenues 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.

The adoption of the new revenue standard did not have a material impact on the Company's financial statements.

Recognition of Leases. Effective January 1, 2019, we adopted ASU 2016-02 (Topic 842) using the modified retrospective approach.

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 Consolidated Statements of Financial Position 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 Long-Lived Asset Impairments section above.

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 Statements of Earnings, Consolidated Statements of Partners' Capital or Consolidated Statements of Cash Flows.

Pending. The following ASUs were issued but not adopted as of December 31, 2019:

Clarifying Interaction between Collaborative Arrangements and Revenue from Contracts with Customers
In November 2018, ASU 2018-18 was issued to provide clarity on when transactions between entities in a collaborative arrangement should be accounted for under the new revenue standard, ASC 606. In determining whether transactions in collaborative arrangements should be accounted under the revenue standard, the update specifies that entities shall apply unit of account guidance to identify distinct goods or services and whether such goods and services are separately identifiable from other promises in the contract. ASU 2018-18 also precludes entities from presenting transactions with a collaborative partner which are not in scope of the new revenue standard together with revenue from contracts with customers. The accounting update is effective January 1, 2020 and early adoption is permitted. The adoption of ASU 2018-18 is not expected to have a material impact on our financial statements.

Disclosure Effectiveness
In August 2018, the Financial Accounting Standards Board ("FASB") issued amendments as a part of its disclosure framework project aimed to improve the effectiveness of disclosures in the notes to financial statements. ASU 2018-13 was issued to modify the disclosure requirements in *ASC 820, Fair Value Measurement*. The amendments in ASU 2018-13 eliminate and modify some disclosures, while also adding new disclosures for fair value measurements. This update is effective January 1, 2020, however entities are permitted to early adopt the eliminated or modified current disclosures. The adoption of ASU 2018-13 is not expected to have a material impact on our financial statements.

Accounting for Credit Losses.
ASU 2016-13 was issued in June 2016 with the intent of providing financial statement users with more useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. Current treatment uses the incurred loss methodology for recognizing credit losses that delays the recognition until it is probable a loss has been incurred. The accounting update adds a new impairment model, known as the current expected credit loss model, which is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses, which the Financial Accounting Standards Board believes will result in more timely recognition of such losses.

Further, ASU 2018-19 was issued in November 2018 to clarify that operating lease receivables should be accounted for under the new leases standard, ASC 842, and are not within the scope of ASC 326, Financial Instruments - Credit Losses. Both accounting updates are effective January 1, 2020.

The Company has performed a detailed evaluation as of December 31, 2019 and does not anticipate the adoption of ASU 2016-13 to have a material impact on our financial statements.

2. Regulatory Matters

Regulatory Assets and Liabilities. We record assets and liabilities that result from the regulated ratemaking process that may not be recorded under GAAP for non-regulated entities.

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

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.

On June 1, 2019, Texas Eastern put into effect its updated motion rates. These recourse rates are subject to refund and interest. We recognized the revenue for the period from June 1, 2019 to December 31, 2019 based on the rates that were in effect prior to the June 1, 2019 motion rates.

On October 28, 2019, Texas Eastern filed a Stipulation and Agreement and related materials intended to resolve the issues set for evidentiary hearing by FERC. The Stipulation and Agreement was supported or not opposed by the majority of participants in Docket No. RP19-343.

On March 2, 2020, Texas Eastern received approval from the FERC of its uncontested rate case settlement with customers. We are working on getting the new rates implemented by April 1, 2020 and expect that refunds will be issued within 60 days of April 1, 2020.

The following items are reflected in the Consolidated Statements of Financial Position. All regulatory assets and liabilities are excluded from rate base unless otherwise noted below.

	Recover/Refund Period Ends	December 31, 2019	December 31, 2018
		(in millions)	
Regulatory Assets (a)			
Regulatory asset related to income taxes (b)	Life of associated asset	$ 86	$ 82
Vacation accrual	Various	16	16
Asset retirement obligations	Various	34	20
Under-recovery of fuel costs (c,d)	—	39	65
FERC annual charge adjustment	—	4	—
Total Regulatory Assets		$ 179	$ 183
Regulatory Liabilities			
Over-recovery of fuel costs (c,e)	—	$ 6	$ 1
Environmental clean-up costs	2027	2	—
Deferred income taxes (f,g)	—	559	559
Pipeline rate credit (g)	Life of associated liability	19	20
Total Regulatory Liabilities		$ 586	$ 580

(a) Included in Regulatory Assets unless otherwise noted.
(b) Relates to tax gross-up of the AFUDC equity portion. All amounts are expected to be included in future rate filings.
(c) Includes amounts settled in cash annually through transportation rates in accordance with FERC gas tariffs.
(d) Included in Fuel Tracker assets.
(e) Included in Other current liabilities.
(f) Relates to the establishment of a regulatory liability as a result of the U.S. tax reform legislation dated December 22, 2017.
(g) Included in Regulatory and Other Liabilities.

Rate Related Information. We continue to operate under rates approved by the FERC in 1998, in an uncontested settlement with our customers. We filed with the Federal Energy Regulatory Commission (Commission) on November 30, 2018, for changes to its transportation and storage service rates pursuant to Section 4 of the Natural Gas Act reflecting an overall increase in the cost of service underlying jurisdictional recourse rates. Our filing was assigned Docket No. RP19-343. The Commission issued an order on December 31, 2018, accepting and suspending our filing, to be effective June 1, 2019, subject to refund and the outcome of a hearing to be established in this proceeding. Following extensive negotiations, we reached a settlement with our shippers and filed a Stipulation and Agreement with the Commission on October 28, 2019. On January 13, 2020, the Presiding Administrative Law Judge certified the settlement as uncontested, and on February 25, 2020 the Commission issued an order approving the uncontested settlement. On the settlement effective date, the settlement rates, which reflect an overall increase in the recourse rates in effect prior to the rate case, will become effective without further refund exposure, and revenues prospectively will reflect these higher recourse rates. Recorded as a $175 million rate refund payable on the Consolidated Statements of Financial Position, rate refund amounts reflecting the difference between the filed rates moved into effect on June 1, 2019, and the settlement rates, will be paid following the settlement effective date in accordance with the terms of the settlement.

3. Revenues from Contracts with Customers

Significant Customers. One customer accounted for 10.81% and 11.36% of consolidated revenues during 2019 and 2018, respectively.

Disaggregation of Revenue. All operating revenues for the year ended December 31, 2019 were earned from contracts with customers for the transportation of natural gas.

Contract Balances	Receivables	Contract assets	Contract liabilities
		(in millions)	
Balance as at January 1, 2019	$ 143	$ —	$ 19
Balance as at December 31, 2019	176	20	20

Contract receivables represent the amount of receivables derived from contracts with customers.

Contract assets represent the amount of revenue which has been recognized in advance of payments received for performance obligations we have fulfilled (or partially fulfilled) and prior to the point in time at which our right to the payment is unconditional. Amounts included in contract assets are transferred to accounts receivable when our right to the consideration becomes unconditional.

Contract liabilities represent payments received for performance obligations which have not been fulfilled.

Revenue to be Recognized from Unfulfilled Performance Obligations. Total revenue from performance obligations expected to be fulfilled in future periods is $14.2 billion, of which $1.9 billion is expected to be recognized during the year ended December 31, 2020.

Excluded from these amounts are variable considerations, effects of escalation on certain contracts that have a duration of one year or less pursuant to the practical expedient provision of the standard, and interruptible contracts not enforceable until volumes are nominated by customers for transportation.

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. 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 Texas Eastern for the year ended December 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 contracts.

4. Transactions with Affiliates

Statements of Earnings	December 31, 2019	December 31, 2018
	(in millions)	
Transportation of natural gas	$ 49	$ 9
Storage of natural gas and other services		
DCP Midstream, LLC	26	40
Other	2	2
Operating, maintenance and other expenses (a)	262	278
Other income	12	16
Intercompany interest expense	—	1

(a) Includes operating services provided by SEP and its affiliates pursuant to an agreement entered into between us and an affiliate of SEP.

We are party to an agreement with DCP Midstream, an equity investment of Enbridge, in which DCP Midstream processes certain of our customers' gas to meet gas quality specifications in order to be transported on our system. DCP Midstream processes the gas and sells the natural gas liquids (NGLs) that are extracted from the gas. A portion of the proceeds from those sales are retained by DCP Midstream and the balance is remitted to us. We recognized revenues of $26 million and $40 million in 2019 and 2018, respectively, related to those services, classified as Storage of natural gas and other services on our Consolidated Statements of Earnings.

Statements of Financial Position	December 31, 2019	December 31, 2018
	(in millions)	
Receivables — trade	$ 7	$ 16
Gas imbalances receivable	23	57
Cash collateral held by affiliate	40	40
Current assets — other	3	—
Advances receivable, net — affiliates	165	48
Accounts payable	3	3
Gas imbalances payable	42	62
Collateral liabilities	10	10

Transactions billed from affiliates, included within Property, Plant and Equipment in the Consolidated Statements of Financial Position, were $16 million for the year ended December 31, 2019 and $9 million for the year ended December 31, 2018.

In 2019 and 2018, we made $286 million and $713 million, respectively, of non-cash distributions to our partners consisting of outstanding advances receivable due to us for non-cash financing activities.

5. Leases

We incur operating lease expenses related primarily to pipeline capacity and real estate rentals. Our operating leases have remaining lease terms of 1 year to 29 years, some of which include options to extend leases for up to 15 years.

We incurred operating lease expenses of $32 million in 2019. Operating lease expenses are reported under Operating, maintenance and other expenses on the Consolidated Statements of Earnings.

We incurred operating lease payments to settle lease liabilities of $33 million in 2019. Operating lease payments are reported under operating activities in the Consolidated Statements of Cash Flows.

	December 31, 2019	January 1, 2019
	(in millions)	
Operating leases		
Lease asset, net	$ 413	$ 420
Lease liability	14	13
Long-term lease liability	398	407
Total lease liabilities	$ 412	$ 420
Weighted average remaining lease term		
Operating leases	27 years	28 years
Weighted average discount rate		
Operating leases	4.83 %	4.81 %

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

	Operating leases
	(in millions)
2020	$ 33
2021	32
2022	31
2023	29
2024	28
Thereafter	580
Total undiscounted lease payments	733
Less imputed interest	(321)
Total operating lease commitments	$ 412

6. Property, Plant and Equipment

	Weighted Average Depreciation	December 31, 2019	December 31, 2018
		(in millions)	
Plant			
Natural gas transmission	1.53%	$ 9,724	$ 9,031
Rights of way	1.24%	329	329
Natural gas storage	1.53%	299	289
Land		35	33
Construction in progress		158	370
Other	1.95%	139	135
Total property, plant and equipment		10,684	10,187
Total accumulated depreciation and amortization		(2,358)	(2,261)
Total net property, plant and equipment		$ 8,326	$ 7,926

Composite weighted-average depreciation rate was 1.50% for the years ended December 31, 2019 and December 31, 2018.

7. Debt

Summary of Debt and Related Terms

	Year Due	December 31, 2019	December 31, 2018
		(in millions)	
4.125% senior unsecured notes	2020	$ 300	$ 300
2.80% senior unsecured notes	2022	500	500
3.50% senior unsecured notes	2028	400	400
7.00% senior unsecured notes	2032	450	450
4.15% senior unsecured bonds	2048	400	400
Unamortized debt discount		(6)	(6)
Unamortized debt expenses		(10)	(12)
Total debt		2,034	2,032
Current maturities of long-term debt		300	—
Total long-term debt		$ 1,734	$ 2,032

8. Asset Retirement Obligation

	2019	2018
	(in millions)	
Balance at beginning of year	$ 43	$ 36
Accretion expense	2	2
Liabilities settled	(7)	(5)
Revisions in estimated cash flows	—	10
Balance at the end of the year (a)	$ 38	$ 43

(a) Amounts included in Regulatory and other liabilities on the Consolidated Statements of Financial Position.

9. Risk Management and Financial Instruments

Commodity Price Risk. We are exposed to the impact of market fluctuations in the prices of NGLs and natural gas related to certain of our operations. NGL and natural gas price fluctuations will continue to affect processing revenues that are associated with transportation services. There were no commodity derivatives outstanding in 2019 or 2018.

Credit Risk. Our principal customers for natural gas transmission and storage services are local distribution companies, industrial end-users, natural gas producers, marketers, and utilities located throughout the Gulf Coast, Mid-Atlantic and northeastern United States. We have concentrations of receivables from these sectors throughout these regions. These concentrations of customers may affect our overall credit risk in that risk factors can negatively affect the credit quality of the entire sector. Where exposed to credit risk, we analyze the customers' financial condition prior to entering into an agreement, establish credit limits and monitor the appropriateness of those limits on an ongoing basis. We also obtain parental guarantees, cash deposits, or letters of credit from customers to provide credit support, where appropriate, based on our financial analysis of the customer and the regulatory or contractual terms and conditions applicable to each contract.

10. Commitments and Contingencies

General Insurance. We are included in the comprehensive insurance program maintained by Enbridge for its subsidiaries. This program includes insurance coverage in types and amounts and is subject to certain deductibles, terms, exclusions and conditions that are generally consistent with coverage considered customary for our industry, however insurance does not cover all events in all circumstances. In the unlikely event multiple insurable incidents occur which exceed coverage limits within the same insurance period, the total insurance coverage will be allocated among the Enbridge entities on an equitable basis based on an insurance allocation agreement we have entered into with Enbridge and other Enbridge subsidiaries.

Environmental. We are subject to various U.S. federal, state and local laws and regulations relating to the protection of the environment. These laws and regulations can change from time to time, imposing new obligations on us.

Environmental risk is inherent to liquid hydrocarbon and natural gas pipeline operations, and we and our affiliates are, at times, subject to environmental remediation at various contaminated sites. We manage this environmental risk through appropriate environmental policies and practices to minimize any impact our operations may have on the environment. We expense or capitalize, as appropriate, expenditures for ongoing compliance with environmental regulations that relate to past or current operations. We expense amounts we incur for remediation of existing environmental contamination caused by past operations that do not benefit future periods by preventing or eliminating future contamination. We record liabilities for environmental matters when assessments indicate that remediation efforts are probable, and the costs can be reasonably estimated. Estimates of environmental liabilities are based on currently available facts, existing technology and presently enacted laws and regulations taking into consideration the likely effects of inflation and other factors. These amounts also consider prior experience in remediating contaminated sites, other companies' clean-up experience and data released by government organizations. Our estimates are subject to revision in future periods based on actual costs or new information and are included in Regulatory and other liabilities in our Consolidated Statements of Financial Position at their undiscounted amounts. We always have the potential of incurring additional costs in connection with environmental liabilities due to variations in any or all of the categories described above, including modified or revised requirements from regulatory agencies, in addition to fines and penalties, as well as expenditures associated with litigation and settlement of claims. We evaluate recoveries from insurance coverage separately from the liability and, when recovery is probable, we record and report an asset separately from the associated liability in our financial statements.

We recognize liabilities for other commitments and contingencies when, after fully analyzing the available information, we determine it is either probable that an asset has been impaired, or that a liability has been incurred and the amount of impairment or loss can be reasonably estimated. When a range of probable loss can be estimated, we accrue the most likely amount, or if no amount is more likely than another, we accrue the minimum of the range of probable loss. We expense legal costs associated with loss contingencies as such costs are incurred.

Litigation and Legal Proceedings. We are involved in various legal and regulatory actions and proceedings which arise in the normal course of business, including interventions in regulatory proceedings and challenges to regulatory approvals and permits. While the final outcome of such actions and proceedings cannot be predicted with certainty, management believes that the resolution of such actions and proceedings will not have a material impact on our Consolidated Statements of Financial Position or Statements of Earnings.

Legal costs related to the defense of loss contingencies are expensed as incurred. We had no material reserves for legal matters recorded as of December 31, 2019 and December 31, 2018 related to litigation.

Pipeline Rupture. On August 1, 2019 a rupture occurred on Line 15, a 30-inch natural gas pipeline that is a component of the Texas Eastern natural gas pipeline system in Lincoln County, Kentucky. The affected portion of the pipelines was shut down along with two other pipelines, Lines 10 and 25, that are adjacent to Line 15 in the same right of way. The two adjacent pipelines, Lines 10 and 25 have been returned to service. We are continuing to support the National Transportation Safety Board, the community and the community members who were impacted by the incident.

Several lawsuits have been filed in relation to personal injury and property damages arising from the incident. The litigation related to these cases are in very early stages and at this time management cannot reasonably estimate the ultimate outcomes of these cases, nor the financial impact on our financial position of results of operations.

Commitments. The following is a summary of future land and permit leases and capital commitments.

	Commitments (in millions)
2020	$ 142
2021	149
2022	78
2023	31
2024	3
Thereafter	39
Total commitments	$ 442

11. Subsequent Events

We have evaluated significant events and transactions that occurred from January 1, 2020 through March 24, 2020, the date the financial statements were issued.

The spread of COVID-19 around the world in the first quarter of 2020 has caused significant volatility in U.S./Canada and international markets. Because there is significant uncertainty around the breadth and duration of global economic and business disruptions and effects related to COVID-19, the Company is unable to determine if the pandemic could have a material impact to its financial position, operations and/or cash flows in the future.