Texas Eastern Transmission, LP

Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2018

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Operating Revenues				
Transportation of natural gas	$ 356	$ 316	$ 1,080	$ 933
Storage of natural gas and other services	31	32	91	$ 89
Total operating revenues	387	348	1,171	1,022
Operating Expenses				
Operating, maintenance and other	132	111	364	331
Depreciation and amortization	37	35	110	104
Property and other taxes	23	21	81	71
Total operating expenses	192	167	555	506
Operating Income	195	181	616	516
Other Income				
Allowance for funds used during construction - equity	8	9	16	22
Other income	4	—	14	—
Total other income	12	9	30	22
Interest Expense	22	19	66	58
Earnings Before Income Taxes	185	171	580	480
Income Tax	—	1	1	1
Net Income	$ 185	$ 170	$ 579	$ 479

See Notes to Condensed Consolidated Financial Statements.

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

	September 30, 2018	December 31, 2017
ASSETS		
Current Assets		
Receivables (net of allowance for doubtful accounts of $1 at September 30, 2018 and December 31, 2017, respectively)	$ 130	$ 131
Gas imbalances receivable	51	139
Inventory	33	33
Cash collateral held by affiliate	40	40
Fuel tracker	51	13
Other	11	10
Total current assets	316	366
Other Assets		
Advances receivable, net - affiliates	8	72
Goodwill	136	136
Other	2	2
Total other assets	146	210
Property, Plant and Equipment		
Cost	10,045	9,672
Less accumulated depreciation and amortization	2,239	2,161
Net property, plant and equipment	7,806	7,511
Regulatory Assets and Deferred Debits	119	115
Total Assets	$ 8,387	$ 8,202
LIABILITIES AND PARTNERS' CAPITAL		
Current Liabilities		
Accounts payable	$ 104	$ 68
Taxes payable	56	56
Interest accrued	24	26
Collateral liabilities	32	34
Gas imbalances payable	51	139
Deposits	18	18
Other	14	12
Total current liabilities	299	353
Long-term debt	2,032	1,644
Deferred state income tax	7	6
Regulatory and other liabilities	750	768
Total liabilities	3,088	2,771
Commitments and Contingencies		
Partners' Capital	5,299	5,431
Total Liabilities and Partners' Capital	$ 8,387	$ 8,202

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2018	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 579	$ 479
Depreciation and amortization	110	105
Allowance for funds used during construction - equity	(16)	(22)
Other changes in operating assets and liabilities	(52)	(28)
Net cash provided by operating activities	621	534
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(371)	(412)
Changes in advances receivable, net - affiliates	(649)	(145)
Other	11	15
Net cash used in investing activities	(1,009)	(542)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of long-term debt	788	400
Payments for the redemption of long-term debt	(400)	(400)
Changes in advances payable, net - affiliates	—	8
Net cash provided by financing activities	388	8
Net change in cash and cash equivalents	—	—
Cash and cash equivalents at beginning of period	$ —	—
Cash and cash equivalents at end of period	$ —	$ —

See Notes to Condensed Consolidated Financial Statements.

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

December 31, 2017	$	5,431
Net income		579
Attributed deferred income tax benefit		2
Distributions to partners		(713)
September 30, 2018	$	5,299
December 31, 2016	$	5,707
Net income		479
Attributed deferred income tax benefit		12
Distribution to partners		(198)
September 30, 2017	$	6,000

See Notes to Condensed Consolidated Financial Statements.

Texas Eastern Transmission, LP
Notes to Condensed 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 83% 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 Condensed 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 Condensed Consolidated Statements of Operations are not necessarily indicative of amounts expected for the respective annual periods.

Consolidation. The Condensed 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 Condensed Consolidated Financial Statements and Notes to Condensed 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 Condensed Consolidated Balance Sheets.

Effective January 1, 2018, we adopted ASU 2014-09 on a modified retrospective basis to contracts that were not yet completed 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 present standards in addition to additional disclosures. The adoption of this new standard did not have a material impact on our Condensed Consolidated Financial Statements.

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 Condensed Consolidated Statements of Partners' Capital since we are a pass-through entity.

United States tax reform update. On December 22, 2017, the United States enacted the Tax Cuts and Jobs Act (TCJA). The most significant change included in the TCJA is the reduction in the corporate federal income tax rate from 35% to 21% (U.S. Tax Reform). As disclosed in SEP's Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the U.S. Securities and Exchange Commission (SEC) on February 16, 2018, we made certain estimates for the measurement and accounting of certain effects of the U.S. Tax Reform for the year ended and as at December 31, 2017. As we continue to gather, prepare and analyze the necessary information in reasonable detail to complete the accounting for the impact of the U.S Tax Reform, we continue to refine our estimates. During the first quarter of 2018 we refined our calculation of the regulatory liability associated with the U.S. Tax Reform. This resulted in a reduction of the $693 million overall regulatory liability by $21 million.

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 MLP. In its order, the FERC revised a policy in place since 2005 to no longer permit entities organized as MLPs to recover an income tax allowance in their cost of service rates. The announcement of the Revised Policy Statement was accompanied by: (i) a Notice of Proposed Rulemaking (NOPR) proposing interstate natural gas pipelines file a one-time report to quantify the impact of the federal income tax rate reduction and the impact of the Revised Policy Statement on each pipeline; and (ii) a Notice of Inquiry seeking comment on how the FERC should address changes related to accumulated deferred income taxes (ADIT) and bonus depreciation. These FERC announcements have negatively affected MLPs generally.

SEP filed comments to request clarification, reconsideration and rehearing of this policy change at the FERC. SEP also responded to the NOPR in April and filed comments in response to the Notice of Inquiry. On April 27, 2018, the FERC issued a tolling order for the purpose of affording it additional time for consideration of matters raised on rehearing.

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.

While many uncertainties remain with respect to the implementation of the FERC actions, if implemented as announced, and combined with the impact of the U.S. Tax Reform, we estimate the impact to revenue and cash flow to be immaterial. The benefit from the changes related to ADIT are expected to approximately offset the discontinuance of recovering an income tax allowance in cost of service rates. Any future direct impacts would only take effect upon the execution and settlement of a rate case where the outcome could be different.

In a companion rulemaking proceeding, the FERC also codified the final rules for certain natural gas pipeline compliance filings known as Form 501-G. This new filing is expected, in most circumstances, to be a one-time filing. In this filing a FERC regulated natural gas pipeline specifies how it intends to adjust (or not) its rates due to the collective impacts of reductions in the U.S. income tax rates and, in the case of MLP's and certain other pass through entities, the impacts of FERC's revised tax allowance policy. Under the new rulemaking, a number of our natural gas pipelines will need to file under this new rule by the end of 2018. Pending greater clarification from the FERC on the application of its new policy, assessing the near-term and long-term implications of the policy is challenging.

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 Condensed 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 Condensed Consolidated Statements of Operations or Condensed 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. 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.

3. Subsequent Events

We have evaluated significant events and transactions that occurred from October 1, 2018 through November 29, 2018, the date the Condensed Consolidated Financial Statements were issued.