Texas Eastern Transmission, LP

Consolidated Financial Statements

(Unaudited)

September 30, 2019

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Operating Revenues				
Transportation of natural gas	$ 375	$ 356	$ 1,120	$ 1,080
Storage of natural gas and other services	33	31	88	91
Total operating revenues	408	387	1,208	1,171
Operating Expenses				
Operating, maintenance and other	158	132	467	364
Depreciation and amortization	39	37	115	110
Property and other taxes	26	23	82	81
Total operating expenses	223	192	664	555
Operating Income	185	195	544	616
Other Income				
Allowance for funds used during construction - equity	4	8	11	16
Other income	4	4	10	14
Total other income	8	12	21	30
Interest Expense	22	22	66	66
Earnings Before Income Taxes	171	185	499	580
Income Tax Expense	1	—	1	1
Net Income	$ 170	$ 185	$ 498	$ 579

See Notes to Consolidated Financial Statements.

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

	September 30, 2019	December 31, 2018
ASSETS		
Current Assets		
Receivables (net of allowance for doubtful accounts of $2 and $1 at September 30, 2019 and December 31, 2018, respectively)	$ 164	$ 148
Gas imbalances receivable	34	94
Inventory	34	33
Cash collateral held by affiliate	40	40
Fuel tracker	46	65
Other	13	9
Total current assets	331	389
Other Assets		
Advances receivable, net - affiliates	37	48
Goodwill	136	136
Lease asset	415	—
Other	2	2
Total other assets	590	186
Property, Plant and Equipment		
Cost	10,524	10,187
Less accumulated depreciation and amortization	2,329	2,261
Net property, plant and equipment	8,195	7,926
Regulatory Assets and Deferred Debits	148	122
Total Assets	$ 9,264	$ 8,623
LIABILITIES AND PARTNERS' CAPITAL		
Current Liabilities		
Accounts payable	$ 93	$ 111
Taxes payable	63	65
Interest accrued	24	33
Collateral liabilities	25	28
Gas imbalances payable	34	94
Lease liability	14	—
Deposits	13	19
Other	13	17
Total current liabilities	279	367
Long-term debt	2,034	2,032
Deferred state income tax	7	7
Long-term lease liability	401	—
Regulatory and other liabilities	753	641
Total liabilities	3,474	3,047
Commitments and Contingencies		
Partners' Capital	5,790	5,576
Total Liabilities and Partners' Capital	$ 9,264	$ 8,623

See Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2019	**2018**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 498	$ 579
Depreciation and amortization	115	110
Allowance for funds used during construction - equity	(11)	(16)
Other changes in operating assets and liabilities	69	(52)
Net cash provided by operating activities	671	621
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(396)	(371)
Changes in advances receivable, net - affiliates	(275)	(649)
Other	—	11
Net cash used in investing activities	(671)	(1,009)
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	—	388
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 Consolidated Financial Statements.

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

December 31, 2018	$ 5,576
Net income	498
Attributed deferred income tax benefit	2
Distributions to partners	(286)
September 30, 2019	$ 5,790
December 31, 2017	$ 5,431
Net income	579
Attributed deferred income tax benefit	2
Distribution to partners	(713)
September 30, 2018	$ 5,299

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.

On June 1, 2019, Texas Eastern put into effect its updated motion rates. These recourse rates are subject to refund and interest. There is a pending rate case proceeding before the FERC. Our shippers, the FERC and Texas Eastern are currently in settlement discussions with the expectation of achieving a negotiated settlement or commencing a rate case hearing before the end of the year. As we currently cannot reasonably estimate the amount to be refunded once the final rates are in effect, we recognized the revenue for the period from June 1, 2019 to June 30, 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, which is supported or not opposed by the majority of participants in Docket No. RP19-343, has not yet received a final ruling.

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 imbalances 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 1 years to 30 years, some of which include options to extend leases for up to 15 years.

For the three and nine months ended September 30, 2019, we incurred operating lease expenses of $8 million and $24 million, respectively. Operating lease expenses are reported under Operating, maintenance and other expenses on the Consolidated Statements of Income.

For the three and nine months ended September 30, 2019, operating lease payments to settle lease liabilities were $8 million and $25 million, respectively. Operating lease payments are reported under operating activities in the Consolidated Statements of Cash Flows.

	September 30, 2019	January 1, 2019
(in millions, except lease term and discount rate)		
Operating leases		
Lease asset, net	**415**	420
Lease liability	**14**	13
Long-term lease liability	**401**	407
Total lease liabilities	**415**	420
Weighted average remaining lease term		
Operating leases	**28 years**	28 years
Weighted average discount rate		
Operating leases	**4.83%**	4.81%

As at September 30, 2019, we have operating lease commitments as detailed below:

	Operating leases
(in millions)	
2019[1]	8
2020	33
2021	31
2022	30
2023	29
Thereafter	608
Total undiscounted lease payments	739
Less imputed interest	(324)
Total operating lease commitments	415

1 *For the three months remaining in the 2019 fiscal year.*

3. Revenue

Contract Balances	Receivables	Liabilities
(millions of dollars)		
Balance as at January 1, 2019	143	19
Balance as at September 30, 2019	163	20

There were no contract assets as at January 1, 2019 or September 30, 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. 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 period ended September 30, 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 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 interim consolidated financial position or results of operations.

5. 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. While the two adjacent pipelines have been returned to service, Line 15 remains shut down in the affected area and the timeline for its return to service has not yet been determined. There was one fatality. We are continuing to support the National Transportation Safety Board in its investigation, the community and the community members who were impacted by the rupture.

Due to the incident, before expected recoveries, we experienced lower revenues and higher operating costs of $14 million in the third quarter of 2019. We are included in a comprehensive insurance program that is maintained by Enbridge for its subsidiaries and affiliates, which includes liability, property and business interruption insurance.