Texas Eastern Transmission, LP

Consolidated Financial Statements

December 31, 2018 and 2017

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 balance sheets as of December 31, 2018 and December 31, 2017, and the related consolidated statements of operations, 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 Company'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 Company'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, 2018 and December 31, 2017, 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 27, 2019

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TEXAS EASTERN TRANSMISSION, LP
CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions)

	Years Ended December 31,	
	2018	2017
Operating Revenues		
Transportation of natural gas (a)	$ 1,443	$ 578
Storage of natural gas and other services	122	118
Total operating revenues	1,565	696
Operating Expenses		
Operating, maintenance and other	529	436
Depreciation and amortization	147	140
Property and other taxes	105	93
Total operating expenses	781	669
Operating Income	784	27
Other Income		
Allowance for funds used during construction - equity	24	26
Other income (a)	131	1
Total other income	155	27
Interest Expense	87	79
Earnings (Loss) Before Income Taxes	852	(25)
Income Tax Expense	1	1
Net Income/(Loss)	$ 851	$ (26)

(a) In 2017, Transportation and natural gas revenues are presented inclusive of the establishment of a $693 million estimated regulatory liability for the cost of service assets as a result of the 2017 US tax reform. In 2018, the estimated regulatory liability decreased by $21 million and it was reflected in transportation and natural gas revenues. Additionally, part of the regulatory liability was also eliminated as a result of Texas Eastern section 4 Natural Gas Act rate case that was filed and we have recorded the impact in Other Income. See Note 1 for further discussion.

See Notes to Consolidated Financial Statements.

TEXAS EASTERN TRANSMISSION, LP
CONSOLIDATED BALANCE SHEETS
(In millions)

	December 31, 2018	December 31, 2017
ASSETS		
Current Assets		
Receivables (net of allowance for doubtful accounts of $1 at December 31, 2018 and 2017, respectively)	$ 148	$ 131
Gas imbalances receivable	94	139
Inventory	33	33
Cash collateral held by affiliate	40	40
Fuel tracker	65	13
Other	9	10
Total current assets	389	366
Other Assets		
Advances receivable, net - affiliates	48	72
Goodwill	136	136
Other	2	2
Total other assets	186	210
Property, Plant and Equipment		
Cost	10,187	9,672
Less accumulated depreciation and amortization	2,261	2,161
Net property, plant and equipment	7,926	7,511
Regulatory Assets and Deferred Debits	122	115
Total Assets	$ 8,623	$ 8,202
LIABILITIES AND PARTNERS' CAPITAL		
Current Liabilities		
Accounts payable	$ 111	$ 68
Taxes accrued	65	56
Interest accrued	33	26
Collateral liabilities	28	34
Gas imbalances payable	94	139
Fuel tracker liabilities	1	—
Deposits	19	18
Other	16	12
Total current liabilities	367	353
Long-term debt	2,032	1,644
Deferred state income tax	7	6
Regulatory and other liabilities	641	768
Total liabilities	3,047	2,771
Partners' Capital	5,576	5,431
Total Liabilities and Partners' Capital	$ 8,623	$ 8,202

See Notes to Consolidated Financial Statements.

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

	Years Ended December 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income/(loss)	$ 851	$ (26)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	149	141
Allowance for funds used during construction — equity	(24)	(26)
Deferred income tax expense	1	1
Regulatory liability - deferred income taxes	(134)	693
Changes in operating assets and liabilities	(37)	(26)
Net cash provided by operating activities	806	757
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(503)	(540)
Change in advances receivable, net — affiliates	(689)	(217)
Net cash used in investing activities	(1,192)	(757)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of long-term debt, net of issue costs	786	400
Payments for the redemption of long-term debt	(400)	(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 Disclosures		
Cash paid for interest, net of amount capitalized	$ 79	$ 77
Property, plant and equipment non-cash accruals	78	35

See Notes to Consolidated Financial Statements.

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

December 31, 2016	$ 5,707
Net loss	(26)
Attributed deferred income tax benefit	(52)
Distributions to partners	(198)
December 31, 2017	5,431
Net income	851
Attributed deferred income tax benefit	7
Distributions to partners	(713)
December 31, 2018	$ 5,576

See Notes to Consolidated Financial Statements.

Texas Eastern Transmission, LP
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.

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 Balance Sheets as Regulatory Assets and Deferred Debits, and Deferred Credits and Other Liabilities - Other. 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 Balance Sheets.

Significant Customers. One customer, EQT Corporation, accounted for 11.36% of consolidated revenues during 2018. No customers accounting for 10% or more of consolidated revenues during 2017.

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 - Cost in the Consolidated Balance Sheets, with offsetting credits to the Consolidated Statements of Operations 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 Operations was $27 million in 2018 (an equity component of $24 million and an interest expense component of $3 million) and $31 million in 2017 (an equity component of $26 million and an interest expense component of $5 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 member. 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, 2018 or 2017 because all cash is managed collectively by SEP on a centralized basis and is advanced between its affiliates as needed.

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.

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 performed our annual review of the goodwill balance as of April 1, 2018 and no impairment was identified.

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. We did not perform the optional qualitative assessment, but instead proceeded directly to the 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.

The fair value of our reporting unit was 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 included 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.

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.

Reconciliation of Changes in Asset Retirement Obligation Liabilities

	2018	2017
	(in millions)	
Balance at beginning of year	$ 36	$ 43
Accretion expense	2	2
Liabilities settled	(5)	—
Revisions in estimated cash flows	10	(9)
Balance at the end of the year (a)	$ 43	$ 36

(a) Amounts included in Regulatory and other liabilities on the Consolidated Balance Sheets.

Our AROs relate mostly to the retirement of offshore pipelines and certain onshore assets. We have determined that substantially all of our assets have an indeterminate life, and as such, the fair values of those associated retirement obligations are not reasonably estimable. 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, therefore we are unable to estimate retirement dates that would result in AROs.

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 2018 and the effects of such adoptions, if any, are presented in the accompanying Consolidated Financial Statements:

Simplifying Cash Flow Classification. Effective January 1, 2018, we adopted ASU 2016-15 on a retrospective basis. The new standard reduces diversity in practice of how certain cash receipts and cash payments are classified in the Consolidated Statements of Cash Flows. The new guidance addresses eight specific presentation issues. We assessed each of the eight specific presentation issues and determined that the adoption of this ASU did not have a material impact on our financial statements.

Recognition and Measurement of Financial Assets and Liabilities. Effective January 1, 2018, we adopted ASU 2016-01 on a prospective basis. The new standard addresses certain aspects of recognition, measurement, presentation and disclosure of financial assets and liabilities. Investments in equity securities, excluding equity method and consolidated investments, are no longer classified as trading or available-for-sale (AFS) securities. All investments in equity securities with readily determinable fair values are classified as investments at fair value through net income. Investments in equity securities without readily determinable fair values are measured using the fair value measurement alternative and are recorded at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. Investments in equity securities measured using the fair value measurement alternative are reviewed for indicators of impairment each reporting period. Fair value of financial assets and liabilities is measured using the exit price notion. The adoption of this accounting update did not have a material impact on our financial statements.

Pending. The following new ASUs were issued but not yet adopted as of December 31, 2018:

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. We are currently assessing the impact of the new standard 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. We are currently assessing the impact of the new standard on our financial statements.

Clarifying Guidance on Derecognition and Partial Sales of Nonfinancial Assets. ASU 2017-05 was issued in February 2017 with the intent of clarifying the scope of asset derecognition guidance and accounting for partial sales of nonfinancial assets. The ASU clarifies the scope provisions of nonfinancial assets and how to allocate consideration to each distinct asset, and amends the guidance for derecognition of a distinct nonfinancial asset in partial sale transactions. The accounting update is effective January 1, 2019 and will be applied on a modified retrospective basis. We do not expect the adoption of this accounting update to have a material impact on our consolidated 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 Instrument - Credit Losses. Both accounting updates are effective January 1, 2020. We are currently assessing the impact of the new standard on our financial statements.

Recognition of Leases. ASU 2016-02 was issued in February 2016 with the intent to increase transparency and comparability among organizations. It requires lessees of operating lease arrangements to recognize lease assets and lease liabilities on the statement of financial position and disclose additional key information about lease agreements. The accounting update also replaces the current definition of a lease and requires that an arrangement be recognized 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. The new standard became effective January 1, 2019 and we have applied the package of practical expedients offered in connection with this update. Application of the package of practical expedients permits entities not to reassess a) whether any expired or existing contracts contain leases in accordance with the new guidance, b) lease classifications, and c) whether initial direct costs capitalized under current guidance continue to meet the definition of initial direct costs under the new guidance. Under the new lease guidance, we have also decided to elect, by class of underlying asset, to not separate non-lease components from the associated lease components of our lessee contract and account for both components as a single lease component.

ASU 2018-01 was issued in January 2018 to address stakeholder concerns about the costs and complexity of complying with the transition provisions of the new lease requirements as they relate to land easements. The amendments provide an optional transition practical expedient to not evaluate existing or expired land easements that were not previously accounted for as leases under existing guidance. We have elected this practical expedient in connection with the adoption of the new lease requirements.

In July 2018, ASU 2018-11 was issued to address additional stakeholder concerns regarding the unanticipated costs and complexities associated with the modified retrospective transition method as well as the requirement for lessors to separate components of a contract. Under the new guidance, entities are provided with an additional transition method which allows entities to apply the new standard at the date of adoption and to elect not to recast comparative periods presented. This amendment also permits lessors to combine associated lease and non-lease components within a contract for operating leases when certain conditions are met. We have elected both of these practical expedients in the adoption of the new lease standard.

We have identified all lease contracts existing as at November 30, 2018 and have performed detailed evaluations of those lease contracts under the requirements of the transitional guidance. We expect that the recognition of the right-of-use lease assets and related lease liabilities for existing operating leases will be material to our Statement of Financial Position, with no impact to our Statements of Earnings or Consolidated Statements of Cash Flows. This estimate represents the net present value of future lease payments payable under operating lease contracts we had entered into as at November 30, 2018, and that have commenced or are scheduled to commence by January 1, 2019.

Revenue from Contracts with Customers. ASU 2014-09 was issued in 2014 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 enhanced disclosures. The new standard is effective January 1, 2019 and permits either a full retrospective method of adoption with restatement of all prior periods presented, or a modified retrospective method with the cumulative effect of applying the new standard recognized as an adjustment to opening retained earnings in the period of adoption. We have decided to adopt the new standard using the modified retrospective method.

Based on our assessment, we do not anticipate that the adoption of the new revenue standard will have a material impact on our financial statements. The most significant effect of adopting the new standard will be the additional disclosures which will be required commencing in 2019.

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.

The following items are reflected in the consolidated balance sheets. All regulatory assets and liabilities are excluded from rate base unless otherwise noted below.

	Recovery/Refund Period Ends	December 31, 2018	December 31, 2017
		(in millions)	
Regulatory Assets (a)			
Regulatory asset related to income taxes (b)	Life of associated asset	$ 82	$ 75
Vacation accrual	Various	16	14
Asset retirement obligations	Various	20	21
Under-recovery of fuel costs (c,d)	—	65	13
Environmental clean-up costs	2027	—	1
Total Regulatory Assets		$ 183	$ 124
Regulatory Liabilities			
Over-recovery of fuel costs (c,e)	—	$ 1	$ —
Deferred income taxes (f,g)	—	559	693
Pipeline rate credit (g)	Life of associated liability	20	22
Total Regulatory Liabilities		$ 580	$ 715

(a) Included in Regulatory Assets and Deferred Debits 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 Fuel Tracker liabilities.
(f) Relates to the establishment of a regulatory liability as a result of the U.S. tax reform legislation dated December 22, 2017. In 2018, the estimated liability was adjusted for $21 million and was further adjusted for $113 million as a result of Texas Eastern section 4 Natural Gas Act rate case that was filed.
(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 our 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 has been 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. The Chief Administrative Law Judge (ALJ) for the Commission issued two orders on January 2, 2019, one designating a Presiding ALJ and establishing Track III procedural time standards for the hearing, and another designating a settlement judge. A prehearing conference was held by the Presiding ALJ on January 17, 2019, and the Presiding ALJ has established a procedural schedule governing the hearing process.

3. Transactions with Affiliates

Consolidated Statements of Operations

	Years Ended December 31,	
	2018	2017
	(in millions)	
Transportation of natural gas (a)	$ 9	$ 2
Storage of natural gas and other services (a)		
DCP Midstream, LLC	40	36
Other	2	2
Operating, maintenance and other expenses (b)	278	209
Other income	16	—
Intercompany interest expense	1	8

(a) In the normal course of business, we provide natural gas transmission, storage and other services to affiliates such as DCP Midstream, LLC (DCP Midstream) and its subsidiary DCP Midstream Partners, LP.
(b) Includes management and 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 $40 million and $36 million in 2018 and 2017, respectively, related to those services, classified as Storage of natural gas and other services on our Consolidated Statements of Operations.

Consolidated Balance Sheets

	December 31,	
	2018	2017
	(in millions)	
Receivables	$ 16	$ 4
Gas imbalances receivable	57	39
Cash collateral held by affiliate	40	40
Current assets — other	—	1
Advances receivable, net — affiliates	48	72
Accounts payable	3	1
Gas imbalances payable	62	61
Interest payable	—	8
Long-term debt	—	400
Collateral liabilities	10	10

Transactions billed from affiliates, included within Property, Plant and Equipment in the Balance Sheets, were $9 million in 2018 and $19 million in 2017.

Advances Receivable, Net—Affiliates and Advances Payable, Net—Affiliates do not bear interest. Advances are carried as unsecured, open accounts and are not segregated between current and non-current amounts.

In 2018 and 2017, we made $713 million and $198 million, respectively, of non-cash distributions to our partners consisting of outstanding advances receivable due to us.

4. Property, Plant and Equipment

	Weighted Avg Depreciation (%)	December 31, 2018	2017
		(in millions)	
Plant			
Natural Gas Transmission	1.53%	$ 9,031	$ 8,749
Rights of Way	1.22%	329	323
Natural Gas Storage	1.55%	289	281
Land		33	32
Construction in process		370	153
Other	1.95%	135	134
Total property, plant and equipment		10,187	9,672
Total accumulated depreciation		(2,172)	(2,077)
Total accumulated amortization		(89)	(84)
Total net property, plant and equipment		$ 7,926	$ 7,511

Our property, plant and equipment is regulated with estimated useful lives based on rates approved by the FERC. Composite weighted-average depreciation rates were 1.5% for 2018 and 1.5% for 2017, respectively.

We had no capital leases at December 31, 2018 or 2017.

Amortization expense of intangible assets totaled $5.2 million in 2018 and $5.1 million in 2017. Estimated amortization expense for 2019 through 2021 is $5.3 million per year and $5.0 million for 2022 and 2023.

5. Debt

Summary of Debt and Related Terms

	Year Due	December 31, 2018	2017
		(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	—
7.00% senior unsecured notes	2032	450	450
4.15% senior unsecured notes	2048	400	—
6.375% promissory note from SEP	2027	—	400
Unamortized debt discount		(6)	(1)
Unamortized debt expenses		(12)	(5)
Total debt		2,032	1,644
Current maturities of long-term debt		—	—
Total long-term debt		$ 2,032	$ 1,644

6. 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.

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 balance sheets 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 consolidated 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 subject to 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 by special interest groups. 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 financial position or results of operations.

Legal costs related to the defense of loss contingencies are expensed as incurred. We had no material reserves recorded as of December 31, 2018 or 2017 related to litigation.

Operating Lease Commitments. We lease assets in various areas of our operations. Consolidated rental expense for operating leases classified in Operating Income was $6 million and $13 million in 2018 and 2017, respectively, which is included in Operating, Maintenance and Other on the Consolidated Statements of Operations. The following is a summary of future minimum lease payments under operating leases which at inception had noncancellable terms of more than one year. We had no capital lease commitments at December 31, 2018.

	Long-term Operating Leases
	(in millions)
2019	$ 10
2020	13
2021	13
2022	13
2023	12
Thereafter	45
Total future minimum lease payments	$ 106

7. 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 2018 or 2017.

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.

Financial Instruments. The fair values of Receivables and Accounts Payable are not materially different from their carrying amounts because of the short-term nature of these accounts. The fair values of Advances Receivable, Net — Affiliates and Advances Payable, Net — Affiliates are not readily determinable since such amounts are carried as open accounts. See Note 3 for further discussion.

8. Subsequent Events

We have evaluated significant events and transactions that occurred from January 1, 2019 through March 27, 2019, the date the consolidated financial statements were issued.