Texas Eastern Transmission, LP

Consolidated Financial Statements

(Unaudited)

September 30, 2020

TEXAS EASTERN TRANSMISSION, LP
CONSOLIDATED STATEMENTS OF EARNINGS

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
(Unaudited; in millions of US dollars)				
Operating revenues				
Transportation of natural gas	**387**	375	**1,231**	1,120
Storage of natural gas and other services	**30**	33	**103**	88
Total operating revenues	**417**	408	**1,334**	1,208
Operating expenses				
Operating, maintenance and other	**129**	158	**430**	467
Depreciation and amortization	**71**	39	**179**	115
Property and other taxes	**32**	26	**91**	82
Total operating expenses	**232**	223	**700**	664
Operating income	**185**	185	**634**	544
Other income/(expenses)				
Excess Accumulated Deferred Income Tax *(Note 5)*	**—**	—	**(113)**	—
Allowance for funds used during construction - equity	**6**	4	**13**	11
Other income	**6**	4	**19**	10
Total other income/(expenses)	**12**	8	**(81)**	21
Interest expense	**22**	22	**66**	66
Earnings before income taxes	**175**	171	**487**	499
Income tax expense	**—**	1	**1**	1
Earnings	**175**	170	**486**	498

See accompanying notes to the interim consolidated financial statements.

TEXAS EASTERN TRANSMISSION, LP
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September 30, 2020	December 31, 2019
(Unaudited; in millions of US dollars)		
Assets		
Current assets		
Accounts receivables	**133**	179
Gas imbalance receivable	**19**	48
Inventory	**37**	35
Cash collateral held by affiliates	**40**	40
Fuel tracker	**47**	39
Other	**25**	12
	301	353
Advances receivable, net - affiliates	**—**	165
Goodwill	**136**	136
Right-of-use assets *(Note 4)*	**411**	413
Property, plant and equipment, net	**8,475**	8,326
Regulatory assets	**281**	153
Other	**31**	23
Total assets	**9,635**	9,569
Liabilities and partners' capital		
Current liabilities		
Accounts payable	**120**	131
Property and other taxes accrued	**72**	72
Interest accrued	**24**	32
Collateral liabilities	**26**	28
Gas imbalance payable	**19**	48
Rate refund payable	**—**	175
Lease liabilities *(Note 4)*	**14**	14
Current portion of long-term debt	**300**	300
Other	**23**	30
	598	830
Long-term debt	**1,736**	1,734
Advances payable, net - affiliates	**25**	—
Deferred state income tax	**8**	7
Lease liabilities *(Note 4)*	**395**	398
Regulatory and other liabilities	**716**	654
	3,478	3,623
Partners’ capital	**6,157**	5,946
Total liabilities and partners' capital	**9,635**	9,569

See accompanying notes to the interim consolidated financial statements.

TEXAS EASTERN TRANSMISSION, LP
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,	
	2020	2019
(Unaudited; in millions of US dollars)		
Operating activities		
Earnings	**486**	498
Adjustments to reconcile earnings to net cash provided by operating activities:		
Depreciation and amortization	**179**	115
Allowance for funds used during construction - equity	**(13)**	(11)
Reversal of rate case deferral	**(26)**	—
Excess Accumulated Deferred Income Tax *(Note 5)*	**113**	—
Income tax expense	**1**	—
Other changes in operating assets and liabilities	**(137)**	69
Net cash provided by operating activities	**603**	671
Investing activities		
Capital expenditures	**(480)**	(396)
Net change in advances receivable, net — affiliates	**(148)**	(275)
Net cash used in investing activities	**(628)**	(671)
Financing activities		
Net change in advances payable, net — affiliates	**25**	—
Net cash provided by financing activities	**25**	—
Net change in cash and cash equivalents	**—**	—
Cash and cash equivalents at beginning of period	**—**	—
Cash and cash equivalents at end of period	**—**	—

See accompanying notes to the interim consolidated financial statements.

TEXAS EASTERN TRANSMISSION, LP
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL

	Nine months ended September 30,	
	2020	2019
(Unaudited; in millions of US dollars)		
Balance at beginning of period	**5,946**	5,576
Earnings	**486**	498
Attributed deferred income tax benefit	**4**	2
Distributions to partners	**(313)**	(286)
Rate case settlement	**34**	—
Balance at end of period	**6,157**	5,790

See accompanying notes to the interim consolidated financial statements.

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

1. General

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 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 unaudited interim 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. They do not include all of the information and notes required by U.S. GAAP for annual consolidated financial statements and should therefore be read in conjunction with our audited consolidated financial statements and notes for the year ended December 31, 2019. In the opinion of management, the interim consolidated financial statements contain all normal recurring adjustments necessary to present fairly our financial position, results of operations and cash flows for the interim periods reported. These interim consolidated financial statements follow the same significant accounting policies as those included in our audited consolidated financial statements for the year ended December 31, 2019, except for the adoption of new standards as discussed below. Amounts are presented in United States dollars unless otherwise stated.

2. Adoption of New Accounting Standards

Reference Rate Reform

Effective July 1, 2020, we adopted Accounting Standards Update (ASU) 2020-04 on a prospective basis. The new standard was issued in March 2020 to provide temporary optional guidance in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying generally accepted accounting principles when accounting for contract modifications, hedging relationships and other transactions impacted by rate reform, subject to meeting certain criteria. ASU 2020-04 is effective until December 31, 2022. The adoption of this ASU did not have a material impact on our consolidated financial statements.

Clarifying Interaction between Collaborative Arrangements and Revenue from Contracts with Customers

Effective January 1, 2020, we adopted ASU 2018-18 on a retrospective basis. The new standard was issued in November 2018 to provide clarity on when transactions between entities in a collaborative arrangement should be accounted for under the new revenue standard, Accounting Standards Codification (ASC) 606. In determining whether transactions in collaborative arrangements should be accounted for 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 adoption of this ASU did not have a material impact on our consolidated financial statements.

Accounting for Credit Losses.

Effective January 1, 2020, we adopted ASU 2016-13 on a modified retrospective basis.

The new standard 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. The previous accounting treatment used the incurred loss methodology for recognizing credit losses that delayed the recognition until it was probable a loss had 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 results 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.

The adoption of this ASU did not have a material impact on the Consolidated Statements of Earnings or Cash Flows during the period.

3. Revenues from Contracts with Customers

Contract Balances

	Receivables	Contract assets	Contract liabilities
(millions of US dollars)			
Balance as at December 31, 2019	176	20	20
Balance as at September 30, 2020	**137**	**38**	**21**

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 $12.8 billion, of which $411 million is expected to be recognized during the remaining three months ending 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 period ended September 30, 2020 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. Leases

We incur operating lease expenses related primarily to pipeline capacity and real estate rentals. Our operating leases have remaining lease terms of 3 months to 30 years, some of which include options to extend leases for up to 15 years.

For the three months ended September 30, 2020 and 2019, we incurred operating lease expenses of $9 million and $8 million, respectively. For the nine months ended September 30, 2020 and 2019 we incurred operating lease expenses of $25 million and $24 million, respectively. Operating lease expenses are reported under Operating, maintenance and other expenses on the Consolidated Statements of Earnings.

	September 30, 2020	December 31, 2019
Weighted average remaining lease term		
Operating leases	**27 years**	27 years
Weighted average discount rate		
Operating leases	**4.78 %**	4.83 %

As at September 30, 2020, we have operating lease commitments as detailed below:

	Operating leases
(millions of US dollars)	
2020	8
2021	33
2022	32
2023	31
2024	29
Thereafter	582
Total undiscounted lease payments	715
Less imputed interest	(306)
Total operating lease commitments	409

5. Regulatory Matters

On February 25, 2020, we received approval from the FERC of our uncontested rate case settlement with customers. We recognized revenues from the settled rates retroactive to June 1, 2019, and put the settled rates into effect on April 1, 2020. Refunds of $173 million reflecting the difference between the filed rates moved into effect on June 1, 2019, and the settlement rates, were paid in accordance with the terms of the settlement. In addition, other expense of $113 million was recognized resulting from the settlement that reestablished the Excess Accumulated Deferred Income Tax (EDIT) regulated liability that was previously eliminated in December 2018.

6. 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.

Legal costs related to the defense of loss contingencies are expensed as incurred. We had no material reserves for legal matters recorded as of September 30, 2020 and December 31, 2019.

7. Subsequent Events

We have evaluated significant events and transactions that occurred through November 15, 2020, the date the interim consolidated financial statements were issued.

On October 1, 2020, we issued $300 million of 3.10% 20-year senior notes payable semi-annually in arrears and redeemed $300 million of 4.13% senior notes due December 1, 2020. The newly issued notes mature on October 1, 2040.