Texas Eastern Transmission, LP

Consolidated Financial Statements

December 31, 2017 and 2016

pwc

Report of Independent Auditors

To the Management of Texas Eastern Transmission, LP:

We have audited the accompanying consolidated financial statements of Texas Eastern Transmission, LP and its subsidiaries (together, the "Partnership"), which comprise the consolidated balance sheet as of December 31, 2017, and the related consolidated statements of operations, partners' capital and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Texas Eastern Transmission, LP as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The consolidated financial statements of the Partnership as of December 31, 2016 and for the year then ended were audited by other auditors whose report, dated March 27, 2017, expressed an unmodified opinion on those statements.

PricewaterhouseCoopers LLP

March 26, 2018

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

	Years Ended December 31,	
	2017	**2016**
Operating Revenues		
Transportation of natural gas (a)	$ 578	$ 1,239
Storage of natural gas and other services	118	111
Total operating revenues	696	1,350
Operating Expenses		
Operating, maintenance and other	436	485
Depreciation and amortization	140	139
Property and other taxes	93	81
Total operating expenses	669	705
Operating Income	27	645
Other Income		
Allowance for funds used during construction - equity	26	13
Other income	1	2
Total other income	27	15
Interest Expense	79	80
Earnings (Loss) Before Income Taxes	(25)	580
Income Tax Expense	1	1
Net Income (Loss)	$ (26)	$ 579

(a) Transportation and natural gas revenues are presented inclusive of the establishment of an $693 million estimated regulatory liability for the cost of service assets as a result of the 2017 US tax reform. See Note 1 for further discussion.

See Notes to Consolidated Financial Statements.

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

	December 31, 2017	December 31, 2016
ASSETS		
Current Assets		
Receivables (net of allowance for doubtful accounts of $1 at December 31, 2017 and 2016, respectively)	$ 131	$ 129
Gas imbalances receivable	139	83
Inventory	33	33
Cash collateral held by affiliate	40	40
Fuel tracker	13	—
Other	10	11
Total current assets	366	296
Other Assets		
Advances receivable, net - affiliates	72	53
Goodwill	136	136
Other	2	3
Total other assets	210	192
Property, Plant and Equipment		
Cost	9,672	9,156
Less accumulated depreciation and amortization	2,161	2,073
Net property, plant and equipment	7,511	7,083
Regulatory Assets and Deferred Debits	115	173
Total Assets	$ 8,202	$ 7,744
LIABILITIES AND PARTNERS' CAPITAL		
Current Liabilities		
Accounts payable	$ 68	$ 69
Taxes accrued	56	53
Interest accrued	26	26
Collateral liabilities	34	25
Gas imbalances payable	139	83
Fuel tracker liabilities	—	23
Current maturities of long term debt	—	400
Deposits	18	12
Other	12	13
Total current liabilities	353	704
Long-term debt	1,644	1,243
Deferred state income tax	6	6
Regulatory and other liabilities	768	84
Total liabilities	774	90
Commitments and Contingencies		
Partners' Capital	5,431	5,707
Total Liabilities and Partners' Capital	$ 8,202	$ 7,744

See Notes to Consolidated Financial Statements.

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

	Years Ended December 31, 2017	Years Ended December 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (26)	$ 579
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	141	141
Allowance for funds used during construction — equity	(26)	(13)
Deferred income tax expense	1	1
Decrease (increase) in:		
Receivables	—	(17)
Inventory	—	(1)
Fuel tracker assets	(28)	—
Other current assets	1	3
Increase (decrease) in:		
Accounts payable	(13)	—
Taxes accrued	3	19
Collateral liabilities	9	(5)
Deposits	6	1
Fuel tracker liabilities	(8)	—
Other current liabilities	(7)	50
Regulatory liability - deferred income taxes	693	—
Other, assets	21	(3)
Other, liabilities	(10)	(3)
Net cash provided by operating activities	757	752
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(558)	(472)
Change in advances receivable, net — affiliates	(217)	(217)
Other	18	17
Net cash used in investing activities	(757)	(672)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in advances payable, net — affiliates	—	(80)
Proceeds from the issuance of long-term debt	400	—
Payments for the redemption of long-term debt	(400)	—
Net cash provided by (used in) financing activities	—	(80)
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	$ 77	$ 79
Property, plant and equipment non-cash accruals	35	23

See Notes to Consolidated Financial Statements.

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

December 31, 2015	$ 5,286
Net income	579
Attributed deferred income tax benefit	6
Distributions to partners	(164)
December 31, 2016	5,707
Net income (loss)	(26)
Attributed deferred income tax benefit	(52)
Distributions to partners	(198)
December 31, 2017	$ 5,431

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 74% 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. There were no customers accounting for 10% or more of consolidated revenues during 2017 and 2016.

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 $31 million in 2017 (an equity component of $26 million and an interest expense component of $5 million) and $16 million in 2016 (an equity component of $13 million and an interest expense component of $3 million).

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 AFUDC 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.

U.S. tax reform legislation was passed on December 22, 2017, resulting in a $693 million decrease in operating revenues due to the establishment of a regulatory liability. This charge has no immediate net impact to our rate base. In the event of a future rate case, and subject to further regulatory guidance, we anticipate that the charge may be required to be amortized over the remaining useful life of the affected assets and would be one of many factors to be considered in establishing go-forward rates.

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. 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. SEP intends to ask for rehearing of this policy change at FERC.

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, 2017 or 2016 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. We perform our goodwill impairment test annually and evaluate goodwill when events or changes in circumstances indicate that its carrying value may not be recoverable. We completed our annual goodwill impairment test using a quantitative assessment as of April 1, 2017 and no impairments were identified. No triggering events occurred during the period from April 1, 2017 through December 31, 2017 that warranted re-testing for goodwill impairment.

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

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

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

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

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

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

Reconciliation of Changes in Asset Retirement Obligation Liabilities

	2017	2016
	(in millions)	
Balance at beginning of year	$ 43	$ 45
Accretion expense	2	2
Revisions in estimated cash flows	(9)	(4)
Balance at the end of the year (a)	$ 36	$ 43

(a) Amounts included in Deferred Credits and Other Liabilities — Other in 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 2017 and the effects of such adoptions, if any, are presented in the accompanying Consolidated Financial Statements:

In January 2017, the Financial Accounting Standards Board (FASB) issued ASU No. 2017-01, "*Clarifying the Definition of a Business in an Acquisition (Topic 805).*" Effective January 1, 2017, we early adopted ASU 2017-01 on a prospective basis. The new standard was issued with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (disposals) of assets or businesses. The adoption of the pronouncement did not have a material impact on our consolidated financial statements.

In January 2017, the Financial Accounting Standards Board (FASB) issued ASU No. 2017-04, "*Clarifying the Definition of a Business in an Acquisition (Topic 805).*" Effective January 1, 2017, we early adopted ASU 2017-04 and applied the standard on a prospective basis. Under the new guidance, goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value; this amount should not exceed the carrying amount of goodwill. The adoption of the pronouncement did not have a material impact on our consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *"Inventory (Topic 330): Simplifying the Measurement of Inventory,"* which simplifies the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value. Effective January 1, 2017, we adopted ASU 2015-11 on a prospective basis. The adoption of the pronouncement did not have a material impact on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-06, "*Simplifying the Embedded Derivatives Analysis for Debt instruments (Topic 815)."* Effective January 1, 2017, we adopted ASU 2016-06 on a modified retrospective basis. The new guidance simplifies the embedded derivative analysis for debt instruments containing contingent call or put options. The adoption of the pronouncement did not have a material impact on our consolidated financial statements.

Pending. The following new Accounting Standards Updates (ASUs) were issued but not yet adopted as of December 31, 2017:

In February 2017, the FASB issued ASU No. 2017-05, "*Clarifying Guidance on Derecognition and Partial Sales of Nonfinancial Assets (Topic 610),"* with the intent of clarifying the scope of asset derecognition guidance and accounting for partial sales of nonfinancial assets. ASU 2017-05 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 effect January 1, 2018 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.

In June 2016, the FASB issued ASU No. 2016-13 "*Accounting for Credit Losses (Topic 326),*" 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. We are currently assessing the impact of the new standard on our consolidated financial statements. The accounting update is effective January 1, 2020.

In February 2016, the FASB issued ASU No. 2016-02, "*Leases (Topic 842),*" 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. We are currently gathering a complete inventory of our lease contracts in order to assess the impact of the new standard on our consolidated financial statements. The accounting update is effective January 1, 2019 and will be applied using a modified retrospective approach.

In August 2016, the FASB issued ASU No. 2016-15,"*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,"* with the intent of reducing 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. The accounting update is effective January 1, 2018 and will be applied on a retrospective basis. We assessed each of the eight specific presentation issues and the adoption of this ASU does not have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "*Revenue from Contracts with Customers (Topic 606),*" 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 new standard is effective January 1, 2019 for nonpublic entities. The new standard 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. While we have not yet completed the assessment, our preliminary view is that we do not expect these changes to have a material impact on revenue or earnings.

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. See Note 1 for further discussion.

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

		December 31,	
	Recovery/Refund Period Ends	2017	2016
		(in millions)	
Regulatory Assets (a)			
Regulatory asset related to income taxes (b)	Life of associated asset	$ 75	$ 127
Vacation accrual	Various	14	15
Asset retirement obligations	Various	21	17
Under-recovery of fuel costs (c,d)	—	13	—
Environmental clean-up costs	2027	1	9
Total Regulatory Assets		$ 124	$ 168
Regulatory Liabilities			
Over-recovery of fuel costs (c,e)	—	$ —	$ 23
Deferred income taxes (f,g)	—	693	—
Pipeline rate credit (g)	Life of associated liability	22	23
Total Regulatory Liabilities		$ 715	$ 46

(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.
(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.

3. Transactions with Affiliates

Consolidated Statements of Operations

	Years Ended December 31,	
	2017	2016
	(in millions)	
Transportation of natural gas (a)	$ 2	$ 1
Storage of natural gas and other services (a)		
DCP Midstream, LLC	36	31
Other	2	3
Operating, maintenance and other expenses (b)	209	201
Intercompany interest expense	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 $36 million and $31 million in 2017 and 2016, respectively, related to those services, classified as Storage of Natural Gas and Other Services in our Consolidated Statements of Operations.

Consolidated Balance Sheets

	December 31,	
	2017	2016
	(in millions)	
Receivables	$ 4	$ 2
Gas imbalances receivable	39	27
Cash collateral held by affiliate	40	40
Current assets — other	1	1
Advances receivable, net — affiliates	72	53
Accounts payable	1	1
Gas imbalances payable	61	41
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 $19 million in 2017 and $15 million in 2016.

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 2017 and 2016, we made $198 million and $164 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, 2017	2016
		(in millions)	
Plant			
Natural Gas Transmission	1.53%	$ 8,749	$ 8,168
Rights of Way	1.50%	323	320
Natural Gas Storage	1.58%	281	270
Land	—	32	32
Construction in process	—	153	239
Other	1.94%	134	127
Total property, plant and equipment		9,672	9,156
Total accumulated depreciation		(2,077)	(1,994)
Total accumulated amortization		(84)	(79)
Total net property, plant and equipment		$ 7,511	$ 7,083

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 2017 and 1.6% for 2016, respectively.

We had no capital leases at December 31, 2017 or 2016.

Amortization expense of intangible assets totaled $5.1 million in both 2017 and 2016. Estimated amortization expense for 2018 through 2022 is $5.1 million per year.

5. Debt

Summary of Debt and Related Terms

	Year Due	December 31, 2017	2016
		(in millions)	
6.00% senior unsecured notes	2017	$ —	$ 400
4.125% senior unsecured notes	2020	300	300
2.80% senior unsecured notes	2022	500	500
7.00% senior unsecured notes	2032	450	450
6.375% promissory note from SEP	2027	400	—
Unamortized debt discount		(1)	(2)
Unamortized debt expenses		(5)	(5)
Total debt		1,644	1,643
Current maturities of long-term debt		—	(400)
Total long-term debt		$ 1,644	$ 1,243

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 with terms and conditions that are generally consistent with coverage considered customary for our industry.

In the unlikely event multiple insurable incidents occur which exceed coverage limits within the same insurance period, the total insurance coverage will be allocated among the Enbridge entities on an equitable basis based on an insurance allocation agreement we have entered into with Enbridge and other Enbridge subsidiaries.

Environmental. We are subject to various 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.

Like others in the energy industry, we and our affiliates are responsible for environmental remediation at various contaminated sites. These include some properties that are part of our ongoing operations, sites formerly owned or used by us, and sites owned by third parties. Remediation typically involves management of contaminated soils and may involve groundwater remediation. Managed in conjunction with relevant federal, state/provincial and local agencies, activities vary with site conditions and locations, remedial requirements, complexity and sharing of responsibility. If remediation activities involve statutory joint and several liability provisions, strict liability, or cost recovery or contribution actions, we or our affiliates could potentially be held responsible for contamination caused by other parties. In some instances, we may share liability associated with contamination with other potentially responsible parties, and may also benefit from contractual indemnities that cover some or all cleanup costs. All of these sites generally are managed in the normal course of business or affiliated operations.

Litigation and Legal Proceedings. We are involved in legal, tax and regulatory proceedings in various forums arising in the ordinary course of business, including matters regarding contracts 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.

Legal costs related to the defense of loss contingencies are expensed as incurred. We had no material reserves recorded as of December 31, 2017 or 2016 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 $13 million and $7 million in 2017 and 2016, 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, 2017.

	Long-term Operating Leases
	(in millions)
2018	$ 9
2019	12
2020	12
2021	11
2022	12
Thereafter	44
Total future minimum lease payments	$ 100

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 2017 or 2016.

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. Our financial instruments included $1,650 million of long-term debt as of December 31, 2017 and 2016, with approximate fair values of $1,778 million and $1,764 million as of December 31, 2017 and 2016, respectively. Fair values of our long-term debt are determined based on market-based prices and are classified as Level 2. These valuations may include inputs such as quoted market prices of the exact or similar instruments, broker or dealer quotations, or alternative pricing sources that may include models or matrix pricing tools, with reasonable levels of price transparency. Judgment is required in interpreting market data to develop the estimates of fair value. These estimates are not necessarily indicative of the amounts we could have realized in current markets.

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, 2018 through March 26, 2018, the date the consolidated financial statements were issued.

On January 9, 2018, we issued $400 million in aggregate principal amount of 3.50% senior notes due in 2028 and $400 million in aggregate principal amount of 4.15% senior notes due in 2048. We used a portion of the net proceeds from the offering to fund expansion projects and capital expenditures on our pipeline system. In addition, we used a portion of the net proceeds from the offering to make a distribution to SEP to repay funds advanced to us in September 2017, which we used to repay a $400 million debt maturity.