Spectra Energy Partners, LP
Form 10-Q
November 02, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-33556

SPECTRA ENERGY PARTNERS, LP
(Exact Name of Registrant as Specified in its Charter)

Delaware	41-2232463
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)

5400 Westheimer Court
Houston, Texas 77056
(Address of principal executive offices, including zip code)
713-627-5400
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨
Smaller reporting company ¨ Emerging growth company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No ý
At October 30, 2018, there were 484,896,871 common units outstanding.

SPECTRA ENERGY PARTNERS, LP
FORM 10-Q FOR THE QUARTER ENDED
September 30, 2018
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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This document includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including with respect to the transactions contemplated by the Agreement and Plan of Merger, dated August 24, 2018, among Spectra Energy Partners, LP, Spectra Energy Partners (DE) GP, LP (SEP GP), Enbridge Inc. (Enbridge), Enbridge (U.S.) Inc. (EUS), Autumn Acquisition Sub, LLC, and, solely for the purposes of Articles I, II and XI, Enbridge US Holdings Inc., Spectra Energy Corp, Spectra Energy Capital, LLC and Spectra Energy Transmission, LLC (the Proposed Merger). Forward-looking statements represent management’s intentions, plans, expectations, assumptions and beliefs about future events. These forward-looking statements are identified by terms and phrases such as: anticipate, believe, intend, estimate, expect, continue, should, could, may, plan, project, predict, will, potential, forecast, and similar expressions. Forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside our control and could cause actual results to differ materially from the results expressed or implied by those forward-looking statements. Factors used to develop these forward-looking statements and that could cause actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to:

- state, provincial, federal and foreign legislative and regulatory initiatives that affect cost and investment recovery, have an effect on rate structure, and affect the speed at and degree to which competition enters the natural gas and oil industries;
- outcomes of litigation and regulatory investigations, proceedings or inquiries;
- weather and other natural phenomena, including the economic, operational and other effects of hurricanes and storms;
- the timing and extent of changes in interest rates and foreign currency exchange rates;
- general economic conditions, including the risk of a prolonged economic slowdown or decline, or the risk of delay in a recovery, which can affect the long-term demand for natural gas and oil and related services;
- potential effects arising from terrorist attacks and any consequential or other hostilities;
- interruption of our operations due to social, civil or political events or unrest;
- changes in environmental, safety and other laws and regulations;
- the development of alternative energy resources;
- results and costs of financing efforts, including the ability to obtain financing on favorable terms, which can be affected by various factors, including credit ratings and general market and economic conditions;
- increases in the cost of goods and services required to complete capital projects;
- growth in opportunities, including the timing and success of efforts to develop U.S. and Canadian pipeline, storage, gathering and other related infrastructure projects and the effects of competition;
- the performance of natural gas transmission, storage and gathering facilities, and crude oil transportation and storage;
- the extent of success in connecting natural gas and oil supplies to transmission and gathering systems and in connecting to expanding gas and oil markets;
- the effects of accounting pronouncements issued periodically by accounting standard-setting bodies;
- conditions of the capital markets during the periods covered by forward-looking statements;
- the ability to successfully complete merger, acquisition or divestiture plans; regulatory or other limitations imposed as a result of a merger, acquisition or divestiture; and the success of the business following a merger, acquisition or divestiture, including the Proposed Merger;
- the risk that Enbridge may be unable to obtain governmental and regulatory approvals required for the Proposed Merger or required governmental and regulatory approvals may delay the Proposed Merger or result in the imposition of conditions that could cause the parties to abandon the Proposed Merger;
- the risk that a condition to closing of the Proposed Merger may not be satisfied;
- the timing to complete the Proposed Merger;

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- the ability to realize expected cost savings, benefits and any other synergies from the Proposed Merger and the proposed simplification of Enbridge's overall corporate structure may not be fully realized or may take longer to realize than expected;
- disruption from the Proposed Merger may make it more difficult to maintain relationships with customers, employees or suppliers; and
- the impact and outcome of pending and future litigation, including litigation, if any, relating to the Proposed Merger.

In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than Spectra Energy Partners, LP has described. Spectra Energy Partners, LP undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements (Unaudited).
SPECTRA ENERGY PARTNERS, LP
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited; in millions, except per-unit amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Operating revenues				
Transportation of natural gas	$581	$541	$1,770	$1,617
Transportation of crude oil	102	94	297	295
Storage of natural gas and other	54	58	175	176
Total operating revenues	737	693	2,242	2,088
Operating expenses				
Operating, maintenance and other	227	197	606	633
Depreciation and amortization	89	86	268	258
Property and other taxes	54	36	173	148
Total operating expenses	370	319	1,047	1,039
Operating income	367	374	1,195	1,049
Other income and expenses				
Earnings from equity investments	81	161	210	239
Other income and expenses, net	17	15	51	109
Total other income and expenses	98	176	261	348
Interest expense	85	75	255	191
Earnings before income taxes	380	475	1,201	1,206
Income tax expense	3	4	15	14
Net income	377	471	1,186	1,192
Net income attributable to noncontrolling interests	11	11	32	87
Net income attributable to controlling interests	$366	$460	$1,154	$1,105
Net income attributable to controlling interests	$366	$460	$1,154	$1,105
Net income attributable to general partner	—	101	—	284
Net income attributable to limited partners	$366	$359	$1,154	$821
Weighted average limited partner units outstanding—basic and diluted	485	311	472	310
Net income per limited partner unit—basic and diluted	$0.75	$1.15	$2.44	$2.65
Distributions paid per limited partner unit	$0.76375	$0.71375	$2.25375	$2.10375

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SPECTRA ENERGY PARTNERS, LP
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited; in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$377	$471	$1,186	$1,192
Other comprehensive income:				
Foreign currency translation adjustments	6	8	(8)	15
General partner units restructuring	—	—	(3)	—
Change in unrealized gain (loss) on cash flow hedges	12	(3)	47	(3)
Other comprehensive income	18	5	36	12
Comprehensive income	395	476	1,222	1,204
Comprehensive income attributable to noncontrolling interests	11	11	32	87
Comprehensive income attributable to controlling interests	$384	$465	$1,190	$1,117

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SPECTRA ENERGY PARTNERS, LP
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited; in millions)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 156	$ 107
Receivables (net of allowance for doubtful accounts of $16 and $10 at September 30, 2018 and December 31, 2017, respectively)	322	372
Inventory	55	40
Fuel Tracker	114	19
Other assets, net	48	23
Total current assets	695	561
Investments in and loans to unconsolidated affiliates	3,101	3,302
Goodwill	2,954	2,957
Property, plant and equipment, net	15,322	14,899
Regulatory and other assets	339	337
Total assets	$ 22,411	$ 22,056
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	$ 249	$ 259
Taxes payable	101	84
Interest payable	45	68
Current portion of long-term debt	—	500
Natural gas imbalance payables	49	80
Collateral liabilities	41	39
Other	72	75
Total current liabilities	557	1,105
Loan from affiliate	638	—
Long-term debt	8,157	7,963
Deferred income taxes	47	46
Regulatory and other liabilities	1,010	1,041
Total liabilities	10,409	10,155
Commitments and contingencies		
Partners' capital		
Common units (484.9 and 312.4 units issued and outstanding at September 30, 2018 and December 31, 2017, respectively)	11,641	11,183
General partner units (no units and 6.4 units issued and outstanding at September 30, 2018 and December 31, 2017, respectively)	—	386
Accumulated other comprehensive income (loss)	3	(33)
Total partners' capital	11,644	11,536
Noncontrolling interests	358	365
Total equity	12,002	11,901
Total liabilities and equity	$ 22,411	$ 22,056

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SPECTRA ENERGY PARTNERS, LP
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; in millions)

	Nine Months Ended September 30, 2018	2017
OPERATING ACTIVITIES		
Net income	$ 1,186	$ 1,192
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	278	255
Deferred income tax expense	1	2
Earnings from equity investments	(210)	(239)
Distributions from equity investments	153	105
Regulatory liability - deferred income taxes	(25)	—
Change in operating assets and liabilities	(126)	(174)
Net cash provided by operating activities	1,257	1,141
INVESTING ACTIVITIES		
Capital expenditures	(680)	(1,592)
Investments in and loans to unconsolidated affiliates	(520)	(218)
Purchase of intangible, net	—	(40)
Distributions from equity investments	39	27
Distribution from Sabal Trail debt proceeds	744	—
Net cash outflow from deconsolidation of Sabal Trail	—	(67)
Other	3	1
Net cash used in investing activities	(414)	(1,889)
FINANCING ACTIVITIES		

Proceeds from the issuance of long-term debt	794	400
Payments for the redemption of long-term debt	(500)	(816)
Borrowings from affiliate	638	—
Net change in credit facility draws and commercial paper borrowings	(589)	1,459
Distributions to noncontrolling interests	(40)	(37)
Contributions from noncontrolling interests	1	416
Proceeds from the issuances of units	—	115
Distributions to partners	(1,092)	(907)
Other	(11)	(1)
Net cash provided by (used in) financing activities	(799)	629
Net increase (decrease) in Cash, cash equivalents and restricted cash	44	(119)
Cash, cash equivalents and restricted cash at beginning of period	114	233
Cash, cash equivalents and restricted cash at end of period	$ 158	$ 114

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SPECTRA ENERGY PARTNERS, LP
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited; in millions)

	Partners' Capital				
	Common	General Partner	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
December 31, 2017	$11,183	$ 386	$ (33)	$ 365	$11,901
Net income	1,154	—	—	32	1,186
General partner units restructuring	389	(386)	(3)	—	—
Other comprehensive income	—	—	39	—	39
Attributed deferred tax benefit	11	—	—	—	11
Incentive distribution rights restructuring legal fees	(4)	—	—	—	(4)
Distributions to partners	(1,092)	—	—	—	(1,092)
Contributions from noncontrolling interests	—	—	—	1	1
Distributions to noncontrolling interests	—	—	—	(40)	(40)
September 30, 2018	$11,641	$ —	$ 3	$ 358	$12,002
December 31, 2016	$11,650	$ 452	$ (45)	$ 1,347	$13,404
Net income	821	284	—	87	1,192
Other comprehensive income	—	—	12	—	12
Attributed deferred tax benefit	—	55	—	—	55
Issuances of units	113	2	—	—	115
Distributions to partners	(651)	(256)	—	—	(907)
Contributions from noncontrolling interests	—	—	—	416	416
Distributions to noncontrolling interests	—	—	—	(37)	(37)
Sabal Trail deconsolidation	—	—	—	(1,440)	(1,440)
September 30, 2017	$11,933	$ 537	$ (33)	$ 373	$12,810

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SPECTRA ENERGY PARTNERS, LP
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General

The terms “we,” “our” and “us” as used in this report refer collectively to Spectra Energy Partners, LP (SEP) 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 SEP.

Nature of Operations. SEP, through its subsidiaries and equity investments, is engaged in the transmission, storage and gathering of natural gas and the transportation and storage of crude oil through interstate pipeline systems. We are a Delaware master limited partnership (MLP). As of September 30, 2018, Enbridge and its subsidiaries collectively owned 83% of us and the remaining 17% was publicly owned. Enbridge owns and controls our general partner, SEP GP, which owns a non-economic general partner interest in us. See Note 13 for additional information on our general partner interest.

We manage our business in two reportable segments: U.S. Transmission and Liquids. The U.S. Transmission segment provides interstate transmission, storage and gathering of natural gas. The Liquids segment provides transportation of crude oil and storage of natural gas.

Basis of Presentation. The accompanying Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) for interim consolidated financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. 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 annual consolidated financial statements and notes presented in our Annual Report on Form 10-K for the year ended December 31, 2017. In the opinion of management, the Condensed Consolidated Financial Statements contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our financial position, results of operations and cash flows for the interim periods reported. These Condensed Consolidated Financial Statements follow the same significant accounting policies as those included in our annual consolidated financial statements for the year ended December 31, 2017, except for the adoption of new standards. See Note 2 for additional information on the adoption of new standards.

2. New Accounting Pronouncements

Adoption of New Standards

Clarifying Guidance on Derecognition and Partial Sales of Nonfinancial Assets

Effective January 1, 2018, we adopted Accounting Standards Update (ASU) 2017-05 on a modified retrospective basis. The new standard 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 adoption of this accounting update did not have a material impact on our Condensed Consolidated Financial Statements.

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Clarifying the Presentation of Restricted Cash in the Statement of Cash Flows

Effective January 1, 2018, we adopted ASU 2016-18 on a retrospective basis. The new standard clarifies guidance on the classification and presentation of changes in restricted cash and restricted cash equivalents within the Condensed Consolidated Statements of Cash Flows. The amendments require that changes in restricted cash and restricted cash equivalents be included within Cash and cash equivalents when reconciling the opening and closing period amounts shown on the Condensed Consolidated Statements of Cash Flows. For current and comparative periods, we amended the presentation in the Condensed Consolidated Statements of Cash Flows to include restricted cash and restricted cash equivalents with Cash and cash equivalents. The following table shows the changes in beginning and ending Cash, cash equivalents and restricted cash as a result of adopting ASU 2016-18:

	September 30, 2018	December 31, 2017	September 30, 2017	December 31, 2016
	(in millions)			
Cash and cash equivalents	$ 156	$ 107	$ 107	$ 216
Restricted cash in Other assets, net	1	3	5	3
Restricted cash in Regulatory and other assets	1	4	2	14
Cash, cash equivalents and restricted cash	$ 158	$ 114	$ 114	$ 233

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 Condensed 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 Condensed Consolidated 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 Condensed Consolidated Financial Statements.

Revenue from Contracts with Customers

Effective January 1, 2018, we adopted ASU 2014-09 on a modified retrospective basis to contracts that were not yet completed at the date of initial application. The new standard was issued with the intent of significantly enhancing consistency and comparability of revenue recognition practices across entities and industries. The new standard establishes a single, principles-based, five-step model to be applied to all contracts with customers and introduces new and enhanced disclosure requirements. It also requires the use of more estimates and judgments than the previous standards. The adoption of this new standard did not have a material impact on our Condensed Consolidated Financial Statements. See Note 4 for additional information.

Future Accounting Policy Changes

Amended Guidance on Cloud Computing Arrangements

In August 2018, ASU 2018-15 was issued to provide guidance on the accounting for implementation costs incurred in a cloud computing arrangement (CCA) that is a service contract. The amendment aligns the accounting for costs incurred to implement a CCA that is a service arrangement with the guidance on capitalizing costs associated with developing or obtaining internal-use software. Additionally, ASU 2018-15 specifies that an entity

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would apply ASC 350-40 to determine which implementation costs related to a hosting arrangement that is a service contract should be capitalized and which should be expensed. Furthermore, the amendments in the update require that capitalized costs be amortized on a straight-line basis generally over the term of the arrangement and presented in the same income statement line as fees paid for the hosting service. The new standard also requires that the balance sheet presentation of capitalized implementation costs be the same as that of the prepayment of fees related to the hosting arrangement, as well as similar consistency in classifications from a cash flow statement perspective. ASU 2018-15 is effective January 1, 2020 and early adoption is permitted. We are currently assessing the impact of the new standard on our consolidated 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 consolidated financial statements.

Improvements to Accounting for Hedging Activities

ASU 2017-12 was issued in August 2017 with the objective of better aligning a company’s risk management activities and the resulting hedge accounting reflected in the financial statements. The amendments allow cash flow hedging of contractually specified components in financial and non-financial items. Under the new guidance, hedge ineffectiveness is no longer required to be measured and hedging instruments’ fair value changes will be recorded in the same income statement line as the hedged item. The ASU also allows the initial quantitative hedge effectiveness assessment to be performed at any time before the end of the quarter in which the hedge is designated. After initial quantitative testing is performed, an ongoing qualitative effectiveness assessment is permitted. The accounting update is effective January 1, 2019, with early adoption permitted, and is to be applied on a modified retrospective basis. We are currently assessing the impact of the new standard on our Condensed 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 will recognize as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. The accounting update is effective January 1, 2020. We are currently assessing the impact of the new standard on our Condensed Consolidated 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. We will adopt the new standard on January 1, 2019 and we intend to apply the transition practical expedients offered in connection with this update. The election to apply the package of practical expedients allows an entity to not apply the new lease standard to the prior year comparative periods in the year of adoption. Application of the package of practical expedients also 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 ASC 840 continue to meet the definition of initial direct costs under the new guidance.

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Further, 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 intend to elect 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 provides a practical expedient which allows lessors to combine associated lease and nonlease components within a contract when certain conditions are met. We intend to adopt the new transition option in connection with the adoption of the new lease requirements; however we continue to evaluate the lessor practical expedient to combine lease and nonlease components.

We have developed a preliminary inventory of existing lease agreements and are currently performing detailed evaluations of our leases under the new accounting requirements. We believe the most significant change to our financial statements will be the recognition of lease liabilities and right-of-use assets in our statement of financial position for operating leases. We continue to assess the necessary changes to accounting and business processes in order to implement the recognition and disclosure requirements of the new lease standard.

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3. Segment Information

We manage our business in two reportable segments: U.S. Transmission and Liquids. The remainder of our business operations is presented as "Other", and consists of certain corporate costs. Segment results are presented as earnings before interest, taxes, depreciation and amortization (EBITDA).

Condensed Consolidated Statements of Income	Total Operating Revenues	Depreciation and Amortization	Segment EBITDA/ Consolidated Earnings Before Income Taxes
	(in millions)		
Three Months Ended September 30, 2018			
U.S. Transmission	$633	$ 81	$ 503
Liquids	104	8	59
Total reportable segments	737	89	562
Other	—	—	(6)
Depreciation and amortization	—	—	89
Interest expense	—	—	85
Interest income and other	—	—	(2)
Total consolidated	$737	$ 89	$ 380
Three Months Ended September 30, 2017			
U.S. Transmission	$595	$ 78	$ 589
Liquids	98	8	67
Total reportable segments	693	86	656
Other	—	—	(21)
Depreciation and amortization	—	—	86
Interest expense	—	—	75
Interest income and other	—	—	1
Total consolidated	$693	$ 86	$ 475
Nine Months Ended September 30, 2018			
U.S. Transmission	$1,928	$ 244	$ 1,530
Liquids	314	24	201
Total reportable segments	2,242	268	1,731
Other	—	—	(9)
Depreciation and amortization	—	—	268
Interest expense	—	—	255
Interest income and other	—	—	2
Total consolidated	$2,242	$ 268	$ 1,201
Nine Months Ended September 30, 2017			
U.S. Transmission	$1,783	$ 234	$ 1,548
Liquids	305	24	197
Total reportable segments	2,088	258	1,745
Other	—	—	(92)
Depreciation and amortization	—	—	258

Interest expense	—	—	191
Interest income and other	—	—	2
Total consolidated	$2,088	$ 258	$ 1,206

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4. Revenue from Contracts with Customers

Major Products and Services

	U.S. Transmission	Liquids	Consolidated
	(in millions)		
Three Months Ended September 30, 2018			
Transportation of natural gas	$581	$ —	$ 581
Transportation of crude oil	—	102	102
Storage of natural gas	49	2	51
Total revenue from contracts with customers	630	104	734
Other revenue	3	—	3
Total revenue	$633	$ 104	$ 737
Nine Months Ended September 30, 2018			
Transportation of natural gas	$1,770	$ —	$ 1,770
Transportation of crude oil	—	297	297
Storage of natural gas	151	17	168
Total revenue from contracts with customers	1,921	314	2,235
Other revenue	7	—	7
Total revenue	$1,928	$ 314	$ 2,242

We disaggregate revenue into categories which represent our principal performance obligations within each business segment because these revenue categories represent the most significant revenue streams in each segment and consequently are considered to be the most relevant revenue information for management to consider in evaluating performance.

Contract Balances

	Accounts Receivable	Contract Assets	Contract Liabilities
	(in millions)		
Balance at adoption date	$265	$ —	$ 65
Balance at reporting date	266	—	66

Contract liabilities primarily relate to deferred revenue. There were no material changes in contract liabilities during the three and nine months ended September 30, 2018.

Recognition and Measurement of Revenue

	U.S. Transmission	Liquids	Consolidated
	(in millions)		
Three Months Ended September 30, 2018			
Revenue from products and services transferred over time - crude oil and natural gas transportation and storage	$630	$ 104	$ 734
Nine Months Ended September 30, 2018			
Revenue from products and services transferred over time - crude oil and natural gas transportation and storage	$1,921	$ 314	$ 2,235

Revenue to be Recognized from Unfulfilled Performance Obligations

Total revenue from performance obligations expected to be fulfilled in future periods is $21.5 billion, of which $0.6 billion and $2.5 billion is expected to be recognized during the remaining three months ending December 31, 2018 and year ending December 31, 2019, respectively. Revenues from contracts with customers which have an original expected duration of one year or less are excluded from these amounts.

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5. Net Income Per Limited Partner Unit and Cash Distributions

We determined basic and diluted net income per limited partner unit as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions, except per unit amounts)			
Net income attributable to controlling interests	$366	$460	$1,154	$1,105
Less: Net income attributable to:				
General partner's interest in general partner units—2% (a)	—	10	—	23
General partner's interest in incentive distribution rights (a)	—	91	—	261
Limited partners' interest in net income attributable to common units	$366	$359	$1,154	$821
Weighted average limited partner units outstanding—basic and diluted	485	311	472	310
Net income per limited partner unit—basic and diluted	$0.75	$1.15	$2.44	$2.65

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(a) General partner units and incentive distribution rights (IDRs) were converted to common units of SEP as a result of the Equity Restructuring Agreement dated January 21, 2018 (Equity Restructuring Agreement). See Note 13 for additional information.

Our partnership agreement requires that, within 60 days after the end of each quarter, we distribute all of our Available Cash, as defined below, to unitholders of record on the applicable record date.

Available Cash. Available Cash, for any quarter, consists of all cash and cash equivalents on hand at the end of that quarter:

- less the amount of cash reserves established by the general partner to:
- provide for the proper conduct of business,
- comply with applicable law, any debt instrument or other agreement, or
- provide funds for distributions for any one or more of the next four quarters,
- plus, if the general partner so determines, all or a portion of cash and cash equivalents on hand on the date of determination of Available Cash for the quarter;
- provided, however, that disbursements made by us or any of our subsidiaries or cash reserves established, increased or reduced after the end of that quarter but on or before the date of determination of Available Cash for that quarter shall be deemed to have been made, established, increased or reduced, for purposes of determining Available Cash, within that quarter if our general partner so determines.

6. Variable Interest Entities

Sabal Trail. We own a 50% interest in Sabal Trail Transmission, LLC (Sabal Trail), a joint venture that operates a pipeline originating in Alabama that transports natural gas to Florida.

On April 30, 2018, Sabal Trail issued $500 million in aggregate principal amount of 4.246% senior notes due in 2028, $600 million in aggregate principal amount of 4.682% senior notes due in 2038 and $400 million in aggregate principal amount of 4.832% senior notes due in 2048. Sabal Trail distributed net proceeds from the offering to its partners as a partial reimbursement of construction and development costs incurred by the partners. The net distribution made to us was $744 million and was used to pay down short-term borrowings.

As of June 30, 2018, Sabal Trail issued debt and made distributions to its members. These events triggered reconsideration and it was concluded that Sabal Trail is no longer a variable interest entity (VIE) due to Sabal Trail having sufficient equity at risk to finance its activities.

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NEXUS. We own a 50% interest in NEXUS Gas Transmission, LLC (NEXUS), a joint venture that is constructing a greenfield natural gas pipeline from Ohio to Michigan and leasing capacity on third party pipelines in order to provide transportation of Appalachian Basin natural gas to markets in Ohio, Michigan, and the Dawn Hub in Ontario, Canada through the Vector Pipeline. NEXUS is a VIE due to insufficient equity at risk to finance its activities. We determined that we are not the primary beneficiary because the power to direct the activities of NEXUS that most significantly impact its economic performance is shared. We account for NEXUS under the equity method. Our maximum exposure to loss is $1.3 billion. We have an investment in NEXUS of $1.2 billion and $640 million as of September 30, 2018 and December 31, 2017, respectively, classified as Investments in and loans to unconsolidated affiliates on our Condensed Consolidated Balance Sheets.

In 2016, we issued performance guarantees to a third party and an affiliate on behalf of NEXUS. See Note 12 for further discussion of the guarantee arrangement.

PennEast. In 2017, we purchased an additional 10% interest in PennEast Pipeline Company, LLC (PennEast) from PSEG Power Gas Holdings, LLC, increasing our ownership interest in PennEast to 20%. PennEast is a joint venture that is proposing to construct a natural gas pipeline originating in northeastern Pennsylvania, and ending near Pennington, Mercer County, New Jersey. PennEast is a VIE due to insufficient equity at risk to finance its activities. We determined that we are not the primary beneficiary because the power to direct the activities of PennEast that most significantly impact its economic performance is shared. We account for PennEast under the equity method. Our maximum exposure to loss is $280 million. We have an investment in PennEast of $69 million and $55 million as of September 30, 2018 and December 31, 2017, respectively, classified as Investments in and loans to unconsolidated affiliates on our Condensed Consolidated Balance Sheets.

The maximum exposure to loss for these entities is limited to our current equity investment and the remaining expected contributions for each joint venture.

7. Marketable Securities and Restricted Funds

We routinely invest excess cash and various restricted balances in securities such as commercial paper, corporate debt securities, and other money market securities in the United States, as well as equity securities in Canada. We do not purchase marketable securities for speculative purposes, therefore we do not have any securities classified as trading securities. While we do not routinely sell marketable securities prior to their scheduled maturity dates, some of our investments may be held and restricted for the purposes of funding future capital expenditures and National Energy Board (NEB) regulatory requirements, so these investments are classified as AFS marketable securities as they may occasionally be sold prior to their scheduled maturity dates due to the unexpected timing of cash needs. Initial investments in securities are classified as purchases of the respective type of securities (AFS marketable securities or held-to-maturity (HTM) marketable securities). Maturities of AFS securities are presented within Net cash used in investing activities within the Condensed Consolidated Statements of Cash Flows.

AFS Securities. We had $4 million and $3 million of AFS securities classified as Regulatory and other assets on the Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017, respectively. At September 30, 2018 and December 31, 2017, these investments include $4 million and $3 million, respectively, of restricted funds held and collected from customers for Canadian pipeline abandonment in accordance with the NEB's regulatory requirements, as well as less than $1 million of restricted funds related to certain construction projects as of December 31, 2017.

At September 30, 2018, the weighted-average contractual maturity of outstanding AFS securities was less than one year.

There were no material gross unrecognized holding gains or losses associated with investments in AFS securities at September 30, 2018 or December 31, 2017.

HTM Securities. All of our HTM securities are restricted funds. We had $1 million and $3 million of money market securities classified as Other assets, net on the Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017, respectively. These securities are restricted pursuant to certain Express-Platte pipeline system debt agreements.

At September 30, 2018, the weighted-average contractual maturity of outstanding HTM securities was less than one year.

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There were no material gross unrecognized holding gains or losses associated with investments in HTM securities at September 30, 2018 or December 31, 2017.

Other Restricted Funds. In addition to the AFS and HTM securities that were restricted funds as described above, we had other restricted funds totaling $1 million and $4 million classified as Regulatory and other assets on the Condensed Consolidated Balance Sheets at September 30, 2018 and December 31, 2017, respectively. These restricted funds are related to certain construction projects.

Effective January 1, 2018, we adopted ASU 2016-18 on a retrospective basis. As a result, changes in restricted cash and restricted cash equivalents, which include HTM securities and other restricted funds discussed above, have been included within Cash and cash equivalents when reconciling the opening and closing period amounts shown on our Condensed Consolidated Statements of Cash Flows. Changes in restricted funds that are not restricted cash or restricted cash equivalents are presented within Net cash used in investing activities on our Condensed Consolidated Statements of Cash Flows. See Note 2 for additional information.

8. Debt

Credit Facility

	Maturity Date (a)	Total Facility	Draws (b)	Available
		(in millions)		
Spectra Energy Partners, LP	2022	$2,500	$1,665	$ 835

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(a) Includes $336 million of commitments that expire in 2021.

(b) Includes credit facility draws, letters of credit and commercial paper issuances that are back-stopped by the credit facility and excludes
our unsecured revolving 364-day credit agreement with EUS.

The issuances of commercial paper, letters of credit and revolving borrowings reduce the amount available under the credit facility. As of September 30, 2018, there were no letters of credit issued or revolving borrowings outstanding under the credit facility.

Our commercial paper program provides for the issuance of up to an aggregate principal amount $2.5 billion of commercial paper and is supported by the availability of a long-term committed credit facility and therefore has been classified as long-term debt as of September 30, 2018 and December 31, 2017, respectively.

Our credit facility agreements and term debt indentures include common events of default and covenant provisions, including a financial covenant, whereby accelerated repayment and/or termination of the agreement may result if we were to default on payment or violate certain covenants. As of September 30, 2018, we were in compliance with those covenants.

The EUS 364-day Credit Facility. On September 5, 2018, we entered into an unsecured revolving 364-day credit agreement (the EUS 364-day Credit Facility) with EUS, as lender. The EUS 364-day Credit Facility is a committed senior unsecured revolving credit facility with revolving commitments of $750 million. As of September 30, 2018, we had $638 million outstanding under this facility, excluding any accrued interest to date. This facility is classified as a long-term obligation since we have the ability and the intent to refinance the amounts outstanding on a long-term basis.

See Part II Item 5 Other Information for a further description of the EUS 364-day Credit Facility.

Debt Issuances. On January 9, 2018, Texas Eastern Transmission, LP (Texas Eastern), an indirect subsidiary of SEP, 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. Texas Eastern used a portion of the net proceeds from the offering to fund expansion projects and capital expenditures on the Texas Eastern pipeline system. In addition, Texas Eastern used a portion of the net proceeds from the offering to repay funds we advanced to Texas Eastern in September 2017, which Texas Eastern used to repay a $400 million debt maturity. We used the proceeds received to repay commercial paper and credit facility borrowings, which were incurred primarily to fund Texas Eastern’s capital expenditures, as well as those of our other subsidiaries.

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9. Fair Value Measurements

The following presents, for each of the fair value hierarchy levels, assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017:

Description	Condensed Consolidated Balance Sheet Caption	September 30, 2018			
		Total	Level 1	Level 2	Level 3
		(in millions)			
Interest rate swaps	Other assets, net	$30	$ —	$ 30	$ —
Commodity swaps	Other assets, net	1	—	—	1
Canadian equity securities	Regulatory and other assets	4	4	—	—
Interest rate swaps	Regulatory and other assets	10	—	10	—
Total Assets		$45	$ 4	$ 40	$ 1
Interest rate swaps	Current liabilities — other	$7	$ —	$ 7	$ —
Interest rate swaps	Regulatory and other liabilities	3	—	3	—
Total Liabilities		$10	$ —	$ 10	$ —

Description	Condensed Consolidated Balance Sheet Caption	December 31, 2017			
		Total	Level 1	Level 2	Level 3
		(in millions)			
Canadian equity securities	Regulatory and other assets	$3	$ 3	$ —	$ —
Interest rate swaps	Other assets, net	4	—	4	—
Commodity swaps	Other assets, net	2	—	—	2
Total Assets		$9	$ 3	$ 4	$ 2
Interest rate swaps	Current liabilities — other	$3	$ —	$ 3	$ —
Interest rate swaps	Regulatory and other liabilities	5	—	5	—
Total Liabilities		$8	$ —	$ 8	$ —

Level 1

Level 1 valuations represent quoted unadjusted prices for identical instruments in active markets.

Level 2

Fair values of our financial instruments that are actively traded in the secondary market, including our long-term debt, are determined based on market-based prices. These Level 2 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.

For interest rate swaps, we utilize data obtained from a third-party source for the determination of fair value. Both the future cash flows for the fixed-leg and floating-leg of our swaps are discounted to present value.

Level 3

Level 3 valuation techniques include the use of pricing models, discounted cash flow methodologies or similar techniques where at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation.

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Financial Instruments

The fair values of financial instruments that are recorded and carried at book value are summarized in the following table. 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.

Condensed Consolidated Balance Sheets	September 30, 2018 Book Value	September 30, 2018 Approximate Fair Value	December 31, 2017 Book Value	December 31, 2017 Approximate Fair Value
	(in millions)			
Note receivable, noncurrent (a)	$71	$ 71	$71	$ 71
Long-term debt, including current maturities (b)	6,150	6,204	5,850	6,211

(a)Included within Investments in and loans to unconsolidated affiliates.

(b)Excludes variable rate debt, unamortized items and fair value hedge carrying value adjustments.

The fair value of our fixed-rate long-term debt is determined based on market-based prices as described in the Level 2 valuation technique described above and is classified as Level 2.

The fair values of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, note receivable-noncurrent, accounts payable, short-term money market securities, loan from affiliate, commercial paper, credit facility borrowings and long-term variable-rate debt are not materially different from their carrying amounts because of the short-term nature of these instruments or because the stated rates approximate market rates.

10. Risk Management and Hedging Activities

Our earnings, cash flows and other comprehensive income are subject to movements in foreign exchange rates, interest rates and commodity prices (collectively, market risk). Changes in interest rates expose us to risk as a result of our issuance of variable and fixed-rate debt and commercial paper. We are exposed to foreign currency risk from the Canadian portion of the Express-Platte pipeline. Formal risk management policies, processes and systems have been designed to mitigate these risks. We use a combination of qualifying and non-qualifying derivative instruments to manage the risks.

Total Interest Rate Derivative Instruments

We generally have a policy of entering into individual International Swaps and Derivatives Association, Inc. agreements, or other similar derivative agreements, with the majority of our financial derivative counterparties. These agreements provide for the net settlement of derivative instruments outstanding with specific counterparties in the event of bankruptcy or other significant credit events, and reduce our credit risk exposure on financial derivative asset positions outstanding with the counterparties in those circumstances. The following table summarizes the maximum potential settlement in the event of these specific circumstances. All amounts are presented gross on the Condensed Consolidated Balance Sheets:

Description	September 30, 2018 Gross Amounts Presented in the Condensed Consolidated Balance Sheet	September 30, 2018 Amounts Available for Offset	September 30, 2018 Net Amount	December 31, 2017 Gross Amounts Presented in the Consolidated Balance Sheet	December 31, 2017 Amounts Available for Offset	December 31, 2017 Net Amount
	(in millions)					
Assets	$40	$ —	$ 40	$4	$ (1)	$ 3
Liabilities	(10)	—	(10)	(8)	1	(7)

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Fair Value Hedges

At September 30, 2018, we had “pay floating - receive fixed” interest rate swaps outstanding with a total notional amount of $450 million to hedge against changes in the fair value of our fixed-rate financial instruments that arise as a result of changes in market interest rates. These swaps also allow us to transform a portion of the underlying interest payments related to our long-term debt securities from fixed-rate to variable-rate interest payments in order to achieve our desired mix of fixed and variable-rate debt. Our "pay floating - received fixed" interest rate derivative instruments are designated and qualify as fair value hedges. The gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk is recognized in the Condensed Consolidated Statements of Income. During the nine months ended September 30, 2018, the amounts recognized were an $8 million loss on the fair value hedges and an offsetting $8 million gain on long-term debt.

Cash Flow Hedges

Our earnings and cash flows are also exposed to variability in longer term interest rates ahead of anticipated fixed rate debt issuances. Forward starting interest rate swaps are used to hedge against the effect of future interest rate movements. Since the third quarter of 2017, we have entered into pre-issuance interest rate swaps which are designated and qualified as cash flow hedges with an average swap rate of 2.6%. The information of these cash flow swaps are presented as follows:

Date of Maturity & Contract Type	Notional Amount	Fair Value at September 30, 2018	Fair Value at December 31, 2017
	(in millions)		
Contracts maturing in 2018	$560	$ 30	$ 1
Contracts maturing in 2020	250	10	(3)

We estimate that $3 million of Accumulated Other Comprehensive Income will be reclassified into net income in the next 12 months related to these swaps.

The effects of derivative instruments on the Condensed Consolidated Statements of Income and the Condensed Consolidated Statements of Comprehensive Income are shown as follows:

Amount of unrealized gain (loss) recognized in Other Comprehensive I