Enable Midstream Partners, LP
Form 10-Q
November 01, 2017
Table of Contents

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

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES AND EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
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 No. 1-36413

ENABLE MIDSTREAM PARTNERS, LP
(Exact name of registrant as specified in its charter)

Delaware	72-1252419
(State or jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Leadership Square
211 North Robinson Avenue
Suite 150
Oklahoma City, Oklahoma 73102
(Address of principal executive offices)
(Zip Code)

Registrant’s telephone number, including area code: (405) 525-7788

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. þ Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). þ Yes ¨ 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	þ	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	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 þ No

As of October 13, 2017, there were 432,566,554 common units outstanding.

Table of Contents

ENABLE MIDSTREAM PARTNERS, LP
FORM 10-Q
TABLE OF CONTENTS

	Page
GLOSSARY OF TERMS	1
FORWARD-LOOKING STATEMENTS	3
Part I - FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	
Condensed Consolidated Statements of Income	4
Condensed Consolidated Balance Sheets	5
Condensed Consolidated Statements of Cash Flows	6
Condensed Consolidated Statements of Partners' Equity	7
Notes to Condensed Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3. Quantitative and Qualitative Disclosures About Market Risk	42
Item 4. Controls and Procedures	42
Part II - OTHER INFORMATION	
Item 1. Legal Proceedings	43
Item 1A. Risk Factors	43
Item 6. Exhibits	43
Signature	45

AVAILABLE INFORMATION

Our website is www.enablemidstream.com. On the investor relations tab of our website, http://investors.enablemidstream.com, we make available free of charge a variety of information to investors. Our goal is to maintain the investor relations tab of our website as a portal through which investors can easily find or navigate to pertinent information about us, including but not limited to:

- our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports as soon as reasonably practicable after we electronically file that material with or furnish it to the SEC;
- press releases on quarterly distributions, quarterly earnings, and other developments;
- governance information, including our governance guidelines, committee charters, and code of ethics and business conduct;
- information on events and presentations, including an archive of available calls, webcasts, and presentations;
- news and other announcements that we may post from time to time that investors may find useful or interesting; and
- opportunities to sign up for email alerts and RSS feeds to have information pushed in real time.

Information contained on our website or any other website is not incorporated by reference into this report and does not constitute a part of this report.

i

Table of Contents

GLOSSARY OF TERMS

Adjusted EBITDA.	A non-GAAP measure calculated as net income attributable to limited partners plus depreciation and amortization expense, interest expense, income tax expense, distributions received from equity method affiliate in excess of equity earnings, non-cash equity-based compensation, impairments, changes in fair value of derivatives, noncontrolling interest share of Adjusted EBITDA and certain other non-cash gains and losses (including gains and losses on sales of assets and write-downs of materials and supplies).
Adjusted interest expense.	A non-GAAP measure calculated as interest expense plus amortization of premium on long-term debt and capitalized interest, less amortization of debt expense and discount.
Annual Report.	Annual Report on Form 10-K for the year ended December 31, 2016.
ArcLight.	ArcLight Capital Partners, LLC, a Delaware limited liability company, its affiliated entities ArcLight Energy Partners Fund V, L.P., ArcLight Energy Partners Fund IV, L.P., Bronco Midstream Partners, L.P., Bronco Midstream Infrastructure LLC and Enogex Holdings LLC, and their respective general partners and subsidiaries.
ASU.	Accounting Standards Update.
ATM Program.	ATM Equity Offering Sales Agreement entered into on May 12, 2017 in connection with an at-the-market program, under which the Partnership may issue and sell common units having an aggregate offering price of up to $200 million in quantities, by sales methods and at prices determined by market conditions and other factors at the time of such sales.
Barrel.	42 U.S. gallons of petroleum products.
Bbl.	Barrel.
Bbl/d.	Barrels per day.
Bcf/d.	Billion cubic feet per day.
Btu.	British thermal unit. When used in terms of volume, Btu refers to the amount of natural gas required to raise the temperature of one pound of water by one degree Fahrenheit at one atmospheric pressure.
CenterPoint Energy.	CenterPoint Energy, Inc., a Texas corporation, and its subsidiaries.
CERC.	CenterPoint Energy Resources Corp., a Delaware corporation.
Condensate.	A natural gas liquid with a low vapor pressure, mainly composed of propane, butane, pentane and heavier hydrocarbon fractions.
DCF.	A non-GAAP measure calculated as Adjusted EBITDA, as further adjusted for Series A Preferred Unit distributions, Adjusted interest expense, maintenance capital expenditures, current income taxes and distributions for phantom and performance units.
Distribution coverage ratio.	A non-GAAP measure calculated as DCF divided by distributions related to common and subordinated unitholders.
DRIP.	Distribution Reinvestment Plan entered into on June 23, 2016, which offers owners of our common and subordinated units the ability to purchase additional common units by reinvesting all or a portion of the cash distributions paid to them on their common or subordinated units.
EGT.	Enable Gas Transmission, LLC, a wholly owned subsidiary of the Partnership that operates an approximately 5,900-mile interstate pipeline that provides natural gas transportation and storage services to customers principally in the Anadarko, Arkoma and Ark-La-Tex Basins in Oklahoma, Texas, Arkansas, Louisiana and Kansas.
Enable GP.	Enable GP, LLC, a Delaware limited liability company and the general partner of Enable Midstream Partners, LP.
EOIT.	Enable Oklahoma Intrastate Transmission, LLC, formerly Enogex LLC, a wholly owned subsidiary of the Partnership that operates an approximately 2,200-mile intrastate pipeline that provides natural gas transportation and storage services to customers in Oklahoma.

EOIT Senior Notes.	$250 million 6.25% senior notes due 2020.
Exchange Act.	Securities Exchange Act of 1934, as amended.
FASB.	Financial Accounting Standards Board.
FERC.	Federal Energy Regulatory Commission.
Fractionation.	The separation of the heterogeneous mixture of extracted NGLs into individual components for end-use sale.
GAAP.	Generally accepted accounting principles in the United States.

Gas imbalance.	The difference between the actual amounts of natural gas delivered from or received by a pipeline, as compared to the amounts scheduled to be delivered or received.
General Partner.	Enable GP, LLC, a Delaware limited liability company, the general partner of Enable Midstream Partners, LP.
Gross margin.	A non-GAAP measure calculated as Total revenues minus cost of natural gas and natural gas liquids, excluding depreciation and amortization.
IPO.	Initial public offering of Enable Midstream Partners, LP.
LDC.	Local distribution company involved in the delivery of natural gas to consumers within a specific geographic area.
LIBOR.	London Interbank Offered Rate.
MBbl.	Thousand barrels.
MBbl/d.	Thousand barrels per day.
MFA.	Master Formation Agreement dated as of March 14, 2013.
MMcf.	Million cubic feet of natural gas.
MMcf/d.	Million cubic feet per day.
MRT.	Enable Mississippi River Transmission, LLC, a wholly owned subsidiary of the Partnership that operates a 1,600-mile interstate pipeline that provides natural gas transportation and storage services principally in Texas, Arkansas, Louisiana, Missouri and Illinois.
NGLs.	Natural gas liquids, which are the hydrocarbon liquids contained within natural gas including condensate.
NYMEX.	New York Mercantile Exchange.
OGE Energy.	OGE Energy Corp., an Oklahoma corporation, and its subsidiaries.
Partnership.	Enable Midstream Partners, LP, and its subsidiaries.
Partnership Agreement.	Fourth Amended and Restated Agreement of Limited Partnership of Enable Midstream Partners, LP dated as of June 22, 2016.
Revolving Credit Facility.	$1.75 billion senior unsecured revolving credit facility.
SEC.	Securities and Exchange Commission.
Securities Act.	Securities Act of 1933, as amended.
Series A Preferred Units.	10% Series A Fixed-to-Floating Non-Cumulative Redeemable Perpetual Preferred Units representing limited partner interests in the Partnership.
SESH.	Southeast Supply Header, LLC, in which the Partnership owns a 50% interest, that operates an approximately 290-mile interstate natural gas pipeline from Perryville, Louisiana to southwestern Alabama near the Gulf Coast.
TBtu.	Trillion British thermal units.
TBtu/d.	Trillion British thermal units per day.
WTI.	West Texas Intermediate.
2015 Term Loan Agreement.	$450 million unsecured term loan agreement.
2019 Notes.	$500 million 2.400% senior notes due 2019.
2024 Notes.	$600 million 3.900% senior notes due 2024.
2027 Notes.	$700 million 4.400% senior notes due 2027.
2044 Notes.	$550 million 5.000% senior notes due 2044.

2

Table of Contents

FORWARD-LOOKING STATEMENTS

Some of the information in this report may contain forward-looking statements. Forward-looking statements give our current expectations, contain projections of results of operations or of financial condition, or forecasts of future events. Words such as “could,” “will,” “should,” “may,” “assume,” “forecast,” “position,” “predict,” “strategy,” “expect,” “intend,” “p “anticipate,” “believe,” “project,” “budget,” “potential,” or “continue,” and similar expressions are used to identify forward-loc statements. Without limiting the generality of the foregoing, forward-looking statements contained in this report include our expectations of plans, strategies, objectives, growth and anticipated financial and operational performance, including revenue projections, capital expenditures and tax position. Forward-looking statements can be affected by assumptions used or by known or unknown risks or uncertainties. Consequently, no forward-looking statements can be guaranteed.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We believe that we have chosen these assumptions or bases in good faith and that they are reasonable. However, when considering these forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this report and in our Annual Report on Form 10-K for the year ended December 31, 2016. Those risk factors and other factors noted throughout this report and in our Annual Report could cause our actual results to differ materially from those disclosed in any forward-looking statement. You are cautioned not to place undue reliance on any forward-looking statements. You should also understand that it is not possible to predict or identify all such factors and should not consider the following list to be a complete statement of all potential risks and uncertainties. Factors that could cause our actual results to differ materially from the results contemplated by such forward-looking statements include:

- changes in general economic conditions;
- competitive conditions in our industry;
- actions taken by our customers and competitors;
- the supply and demand for natural gas, NGLs, crude oil and midstream services;
- our ability to successfully implement our business plan;
- our ability to complete internal growth projects on time and on budget;
- the price and availability of debt and equity financing;
- strategic decisions by CenterPoint Energy and OGE Energy regarding their ownership of us and our General Partner;
- operating hazards and other risks incidental to transporting, storing, gathering and processing natural gas, NGLs, crude oil and midstream products;
- natural disasters, weather-related delays, casualty losses and other matters beyond our control;
- interest rates;
- labor relations;
- large customer defaults;
- changes in the availability and cost of capital;
- changes in tax status;
- the effects of existing and future laws and governmental regulations;
- changes in insurance markets impacting costs and the level and types of coverage available;
- the timing and extent of changes in commodity prices;
- the suspension, reduction or termination of our customers’ obligations under our commercial agreements;
- disruptions due to equipment interruption or failure at our facilities, or third-party facilities on which our business is dependent;
- the effects of future litigation; and
- other factors set forth in this report and our other filings with the SEC, including our Annual Report.

Forward-looking statements speak only as of the date on which they are made. We expressly disclaim any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ENABLE MIDSTREAM PARTNERS, LP
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In millions, except per unit data)			
Revenues (including revenues from affiliates (Note 11)):				
Product sales	$396	$326	$1,136	$837
Service revenue	309	294	861	821
Total Revenues	705	620	1,997	1,658
Cost and Expenses (including expenses from affiliates (Note 11)):				
Cost of natural gas and natural gas liquids (excluding depreciation and amortization shown separately)	349	268	936	717
Operation and maintenance	91	87	277	275
General and administrative	23	21	71	68
Depreciation and amortization	90	84	267	248
Impairments (Note 5)	—	8	—	8
Taxes other than income tax	15	13	47	43
Total Cost and Expenses	568	481	1,598	1,359
Operating Income	137	139	399	299
Other Income (Expense):				
Interest expense (including expenses from affiliates (Note 11))	(31)	(26)	(89)	(74)
Equity in earnings of equity method affiliate	7	8	21	22
Total Other Expense	(24)	(18)	(68)	(52)
Income Before Income Tax	113	121	331	247
Income tax expense	—	2	2	3
Net Income	$113	$119	$329	$244
Less: Net income attributable to noncontrolling interest	—	—	1	—
Net Income Attributable to Limited Partners	$113	$119	$328	$244
Less: Series A Preferred Unit distributions (Note 4)	9	9	27	13
Net Income Attributable to Common and Subordinated Units (Note 3)	$104	$110	$301	$231
Basic earnings per unit (Note 3)				
Common units	$0.24	$0.26	$0.70	$0.55
Subordinated units	$0.24	$0.26	$0.69	$0.55
Diluted earnings per unit (Note 3)				
Common units	$0.24	$0.26	$0.69	$0.55
Subordinated units	$0.24	$0.26	$0.69	$0.55

See Notes to the Unaudited Condensed Consolidated Financial Statements

Table of Contents

ENABLE MIDSTREAM PARTNERS, LP
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2017	December 31, 2016
	(In millions)	
Current Assets:		
Cash and cash equivalents	$8	$ 6
Restricted cash	14	17
Accounts receivable, net of allowance for doubtful accounts	321	249
Accounts receivable—affiliated companies	13	13
Inventory	40	41
Gas imbalances	16	41
Other current assets	34	29
Total current assets	446	396
Property, Plant and Equipment:		
Property, plant and equipment	11,824	11,567
Less accumulated depreciation and amortization	1,650	1,424
Property, plant and equipment, net	10,174	10,143
Other Assets:		
Intangible assets, net	286	306
Investment in equity method affiliate	320	329
Other	36	38
Total other assets	642	673
Total Assets	$11,262	$ 11,212
Current Liabilities:		
Accounts payable	$198	$ 181
Accounts payable—affiliated companies	3	3
Current portion of long-term debt	450	—
Taxes accrued	54	30
Gas imbalances	18	35
Other	108	113
Total current liabilities	831	362
Other Liabilities:		
Accumulated deferred income taxes, net	12	10
Regulatory liabilities	21	19
Other	38	34
Total other liabilities	71	63
Long-Term Debt	2,669	2,993
Commitments and Contingencies (Note 12)		
Partners' Equity:		
Series A Preferred Units (14,520,000 issued and outstanding at September 30, 2017 and December 31, 2016)	362	362
Common units (432,563,899 issued and outstanding at September 30, 2017 and 224,535,454 issued and outstanding at December 31, 2016, respectively)	7,317	3,737
Subordinated units (0 issued and outstanding at September 30, 2017 and 207,855,430 issued and outstanding at December 31, 2016, respectively)	—	3,683
Noncontrolling interest	12	12
Total Partners' Equity	7,691	7,794

Total Liabilities and Partners’ Equity	$11,262	$ 11,212

See Notes to the Unaudited Condensed Consolidated Financial Statements

5

Table of Contents

ENABLE MIDSTREAM PARTNERS, LP
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
	(In millions)	
Cash Flows from Operating Activities:		
Net income	$329	$244
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	267	248
Deferred income taxes	2	4
Impairments	—	8
Loss on sale/retirement of assets	7	9
Equity in earnings of equity method affiliate	(21)	(22)
Return on investment in equity method affiliate	21	22
Equity-based compensation	12	9
Amortization of debt costs and discount (premium)	(1)	(2)
Changes in other assets and liabilities:		
Accounts receivable, net	(72)	(33)
Accounts receivable—affiliated companies	—	8
Inventory	1	11
Gas imbalance assets	25	3
Other current assets	(5)	3
Other assets	2	(1)
Accounts payable	(16)	(84)
Accounts payable—affiliated companies	—	(4)
Gas imbalance liabilities	(17)	(3)
Other current liabilities	17	68
Other liabilities	5	10
Net cash provided by operating activities	556	498
Cash Flows from Investing Activities:		
Capital expenditures	(250)	(289)
Proceeds from sale of assets	1	1
Return of investment in equity method affiliate	9	18
Net cash used in investing activities	(240)	(270)
Cash Flows from Financing Activities:		
Proceeds from long term debt, net of issuance costs	691	—
Proceeds from revolving credit facility	591	838
Repayment of revolving credit facility	(1,154)	(393)
Decrease in short-term debt	—	(236)
Repayment of notes payable—affiliated companies	—	(363)
Proceeds from issuance of Series A Preferred Units, net of issuance costs	—	362
Distributions	(443)	(417)
Cash taxes paid for employee equity-based compensation	(2)	—
Net cash used in financing activities	(317)	(209)

Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	(1)	19
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	23	4
Cash, Cash Equivalents and Restricted Cash at End of Period	$22	$23

See Notes to the Unaudited Condensed Consolidated Financial Statements

6

Table of Contents

ENABLE MIDSTREAM PARTNERS, LP
CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS' EQUITY
(Unaudited)

	Series A Preferred Units		Common Units		Subordinated Units		Noncontrolling Interest	Total Partners' Equity
	Units	Value	Units	Value	Units	Value	Value	Value
	(In millions)							
Balance as of December 31, 2015	—	$—	214	$3,714	208	$3,805	$ 12	$7,531
Net income	—	13	—	117	—	114	—	244
Issuance of Series A Preferred Units	15	362	—	—	—	—	—	362
Distributions	—	(13)	—	(205)	—	(198)	(1)	(417)
Equity-based compensation, net of units for employee taxes	—	—	—	9	—	—	—	9
Balance as of September 30, 2016	15	$362	214	$3,635	208	$3,721	$ 11	$7,729
Balance as of December 31, 2016	15	$362	224	$3,737	208	$3,683	$ 12	$7,794
Net income	—	27	—	167	—	134	1	329
Conversion of subordinated units	—	—	208	3,619	(208)	(3,619)	—	—
Distributions	—	(27)	—	(216)	—	(198)	(1)	(442)
Equity-based compensation, net of units for employee taxes	—	—	1	10	—	—	—	10
Balance as of September 30, 2017	15	$362	433	$7,317	—	$—	$ 12	$7,691

See Notes to the Unaudited Condensed Consolidated Financial Statements

Table of Contents

ENABLE MIDSTREAM PARTNERS, LP
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Organization

Enable Midstream Partners, LP (Partnership) is a Delaware limited partnership formed on May 1, 2013 by CenterPoint Energy, OGE Energy and ArcLight. The Partnership's assets and operations are organized into two reportable segments: (i) gathering and processing and (ii) transportation and storage. The gathering and processing segment primarily provides natural gas and crude oil gathering and natural gas processing services to our producer customers. The transportation and storage segment provides interstate and intrastate natural gas pipeline transportation and storage services primarily to our producer, power plant, LDC and industrial end-user customers. The Partnership's natural gas gathering and processing assets are primarily located in Oklahoma, Texas, Arkansas and Louisiana and serve natural gas production in the Anadarko, Arkoma and Ark-La-Tex Basins. Crude oil gathering assets are located in North Dakota and serve crude oil production in the Bakken Shale formation of the Williston Basin. The Partnership's natural gas transportation and storage assets consist primarily of an interstate pipeline system extending from western Oklahoma and the Texas Panhandle to Louisiana, an interstate pipeline system extending from Louisiana to Illinois, an intrastate pipeline system in Oklahoma, and our investment in SESH, an interstate pipeline extending from Louisiana to Alabama.

CenterPoint Energy and OGE Energy each have 50% of the management interests in Enable GP. Enable GP is the general partner of the Partnership and has no other operating activities. Enable GP is governed by a board made up of two representatives designated by each of CenterPoint Energy and OGE Energy, along with the Partnership's Chief Executive Officer and three independent board members CenterPoint Energy and OGE Energy mutually agreed to appoint. CenterPoint Energy and OGE Energy also own a 40% and 60% interest, respectively, in the incentive distribution rights held by Enable GP.

As of September 30, 2017, CenterPoint Energy held approximately 54.1% or 233,856,623 of the Partnership's common units, and OGE Energy held approximately 25.7% or 110,982,805 of the Partnership's common units. Additionally, CenterPoint Energy holds 14,520,000 Series A Preferred Units. See Note 4 for further information related to the Series A Preferred Units. The limited partner interests of the Partnership have limited voting rights on matters affecting the business. As such, limited partners do not have rights to elect the Partnership's General Partner (Enable GP) on an annual or continuing basis and may not remove Enable GP without at least a 75% vote by all unitholders, including all units held by the Partnership's limited partners, and Enable GP and its affiliates, voting together as a single class.

As of September 30, 2017, the Partnership owned a 50% interest in SESH. See Note 6 for further discussion of SESH.

Basis of Presentation

The accompanying condensed consolidated financial statements and related notes of the Partnership have been prepared pursuant to the rules and regulations of the SEC and GAAP. Pursuant to such rules and regulations, certain disclosures normally included in financial statements prepared in accordance with GAAP have been omitted. The accompanying condensed consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report.

These condensed consolidated financial statements and the related financial statement disclosures reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the respective periods. Amounts reported in the Partnership's Condensed Consolidated Statements of Income are not necessarily indicative of amounts expected for a full-year period due to the effects of, among other things, (a) seasonal fluctuations in demand for energy and energy services, (b) changes in energy commodity prices, (c) timing of maintenance and other expenditures and (d) acquisitions and dispositions of businesses, assets and other interests.

For a description of the Partnership's reportable segments, see Note 14.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Table of Contents

Restricted Cash

Restricted cash consists of cash which is restricted by agreements with third parties. The Condensed Consolidated Balance Sheets have $14 million and $17 million of restricted cash as of September 30, 2017 and December 31, 2016, respectively.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount and do not typically bear interest. The determination of the allowance for doubtful accounts requires management to make estimates and judgments regarding our customers' ability to pay. The allowance for doubtful accounts is determined based upon specific identification and estimates of future uncollectable amounts. On an ongoing basis, management evaluates our customers' financial strength based on aging of accounts receivable, payment history, and review of other relevant information, including ratings agency credit ratings and alerts, publicly available reports and news releases, and bank and trade references. It is the policy of management to review the outstanding accounts receivable at least quarterly, giving consideration to historical bad debt write-offs, the aging of receivables and specific customer circumstances that may impact their ability to pay the amounts due. Based on this review, management determined that a $3 million allowance for doubtful accounts was required at each of September 30, 2017 and December 31, 2016.

(2) New Accounting Pronouncements

Accounting Standards to be Adopted in Future Periods

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," which supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)." Topic 606 is based on the core principle that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Topic 606 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract.

Topic 606 is effective for fiscal years beginning after December 15, 2017. We continue to evaluate the impact this standard will have on the Partnership, which includes our review of contracts and transaction types across all our business segments. We continue to review the potential impact on certain commodity-based gathering and processing contract types. Due to this ongoing analysis, we cannot yet determine the quantitative impact on revenues or cost of natural gas and natural gas liquids from the adoption of Topic 606, however, we currently believe the adoption will not have a material impact on operating income or net income. Based on our analysis to date, we do not expect material changes in the timing of revenue recognition or our accounting policies. We continue to develop and evaluate our Topic 606 disclosures, as well as changes to internal controls necessary for adoption. The Partnership will adopt the revenue recognition standard in the first quarter of 2018 and expects to adopt Topic 606 using the modified retrospective method.

Leases

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842).” This standard requires, among other things, that lessees recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Lessees and lessors must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Partnership expects to adopt this standard in the first quarter of 2019 and is currently evaluating the impact of this standard on our Condensed Consolidated Financial Statements and related disclosures. In connection with our assessment work, we formed an implementation work team and are continuing our review of our contracts relative to the provisions of the lease standard.

Financial Instruments—Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” This standard requires entities to measure all expected credit losses of financial assets held at a reporting date based on historical experience, current conditions, and reasonable and supportable forecasts in order to

Table of Contents

record credit losses in a more timely matter. ASU 2016-13 also amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The standard is effective for interim and annual reporting periods beginning after December 15, 2019, although early adoption is permitted for interim and annual periods beginning after December 15, 2018. The Partnership does not expect the adoption of this standard to have a material impact on our Condensed Consolidated Financial Statements and related disclosures.

Income Taxes

In October 2016, the FASB issued ASU No. 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory.” This standard requires entities to recognize the tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The standard is effective for interim and annual reporting periods beginning after December 15, 2017, although early adoption is permitted as of the beginning of an annual period (i.e., only in the first interim period). The guidance requires application using a modified retrospective approach. The Partnership does not expect the adoption of this standard to have a material impact on our Condensed Consolidated Financial Statements and related disclosures.

Table of Contents

(3) Earnings Per Limited Partner Unit

The following table illustrates the Partnership's calculation of earnings per unit for common and subordinated units:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In millions, except per unit data)			
Net income	$113	$119	$329	$244
Net income attributable to noncontrolling interest	—	—	1	—
Series A Preferred Unit distribution	9	9	27	13
General partner interest in net income	—	—	—	—
Net income available to common and subordinated unitholders	$104	$110	$301	$231
Net income allocable to common units	$71	$56	$174	$117
Net income allocable to subordinated units	33	54	127	114
Net income available to common and subordinated unitholders	$104	$110	$301	$231
Net income allocable to common units	$71	$56	$174	$117
Dilutive effect of Series A Preferred Unit distributions	—	—	—	—
Diluted net income allocable to common units	71	56	174	117
Diluted net income allocable to subordinated units	33	54	127	114
Total	$104	$110	$301	$231
Basic weighted average number of outstanding				
Common units[(1)]	298	214	250	214
Subordinated units	136	208	183	208
Total	434	422	433	422
Basic earnings per unit				
Common units	$0.24	$0.26	$0.70	$0.55
Subordinated units	$0.24	$0.26	$0.69	$0.55
Basic weighted average number of outstanding common units	298	214	250	214
Dilutive effect of Series A Preferred Units	—	—	—	—
Dilutive effect of performance units	1	—	1	—
Diluted weighted average number of outstanding common units	299	214	251	214
Diluted weighted average number of outstanding subordinated units	136	208	183	208
Total	435	422	434	422
Diluted earnings per unit				
Common units	$0.24	$0.26	$0.69	$0.55
Subordinated units	$0.24	$0.26	$0.69	$0.55

---

(1) Basic weighted average number of outstanding common units for the three and nine months ended September 30, 2017 includes approximately one million time-based phantom units.

See Note 4 for discussion of the expiration of the subordination period.

Table of Contents

The dilutive effect of the unit-based awards discussed in Note 13 was less than $0.01 per unit during each of the three months ended September 30, 2017 and 2016 and for the nine months ended September 30, 2016.

(4) Partners' Equity

The Partnership Agreement requires that, within 60 days after the end of each quarter, the Partnership distribute all of its available cash (as defined in the Partnership Agreement) to unitholders of record on the applicable record date.

The Partnership paid or has authorized payment of the following cash distributions to common and subordinated unitholders, as applicable, during 2016 and 2017 (in millions, except for per unit amounts):

Quarter Ended	Record Date	Payment Date	Per Unit Distribution	Total Cash Distribution
September 30, 2017[(1)]	November 14, 2017	November 21, 2017	$ 0.318	$ 138
June 30, 2017	August 22, 2017	August 29, 2017	$ 0.318	$ 138
March 31, 2017	May 23, 2017	May 30, 2017	$ 0.318	$ 137
December 31, 2016	February 21, 2017	February 28, 2017	$ 0.318	$ 137
September 30, 2016	November 14, 2016	November 22, 2016	$ 0.318	$ 134
June 30, 2016	August 16, 2016	August 23, 2016	$ 0.318	$ 134
March 31, 2016	May 6, 2016	May 13, 2016	$ 0.318	$ 134
December 31, 2015	February 2, 2016	February 12, 2016	$ 0.318	$ 134

(1) The board of directors of Enable GP declared this $0.318 per common unit cash distribution on October 31, 2017, to be paid on November 21, 2017, to common unitholders of record at the close of business on November 14, 2017.

The Partnership paid or has authorized payment of the following cash distributions to holders of the Series A Preferred Units during 2016 and 2017 (in millions, except for per unit amounts):

Quarter Ended	Record Date	Payment Date	Per Unit Distribution	Total Cash Distribution
September 30, 2017[(1)]	October 31, 2017	November 14, 2017	$ 0.625	$ 9
June 30, 2017	July 31, 2017	August 14, 2017	$ 0.625	$ 9
March 31, 2017	May 2, 2017	May 12, 2017	$ 0.625	$ 9
December 31, 2016	February 10, 2017	February 15, 2017	$ 0.625	$ 9
September 30, 2016	November 1, 2016	November 14, 2016	$ 0.625	$ 9
June 30, 2016	August 2, 2016	August 12, 2016	$ 0.625	$ 9
March 31, 2016 [(2)]	May 6, 2016	May 13, 2016	$ 0.2917	$ 4

(1) The board of directors of Enable GP declared a $0.625 per Series A Preferred Unit cash distribution on October 31, 2017, to be paid on November 14, 2017, to Series A Preferred unitholders of record at the close of business on October 31, 2017.

(2) The prorated quarterly distribution for the Series A Preferred Units is for a partial period beginning on February 18, 2016, and ending on March 31, 2016, which equates to $0.625 per unit on a full-quarter basis or $2.50 per unit on an annualized basis.

General Partner Interest and Incentive Distribution Rights

Enable GP owns a non-economic general partner interest in the Partnership and thus will not be entitled to distributions that the Partnership makes prior to the liquidation of the Partnership in respect of such general partner

interest. Enable GP currently holds incentive distribution rights that entitle it to receive increasing percentages, up to a maximum of 50.0%, of the cash the Partnership distributes from operating surplus (as defined in the Partnership Agreement) in excess of $0.330625 per unit per

Table of Contents

quarter. The maximum distribution of 50.0% does not include any distributions that Enable GP or its affiliates may receive on common units that they own.

Expiration of Subordination Period

The financial tests required for conversion of all subordinated units were met and the 207,855,430 outstanding subordinated units converted into common units on a one-for-one basis on August 30, 2017. The conversion of the subordinated units did not change the aggregate amount of outstanding units, and the conversion of the subordinated units did not impact the amount of cash available for distribution by the Partnership.

Series A Preferred Units

On February 18, 2016, the Partnership completed the private placement of 14,520,000 Series A Preferred Units representing limited partner interests in the Partnership for a cash purchase price of $25.00 per Series A Preferred Unit, resulting in proceeds of $362 million, net of issuance costs. The Partnership incurred approximately $1 million of expenses related to the offering, which is shown as an offset to the proceeds. In connection with the closing of the private placement, the Partnership redeemed approximately $363 million of notes scheduled to mature in 2017 payable to a wholly-owned subsidiary of CenterPoint Energy.

Pursuant to the Partnership Agreement, the Series A Preferred Units:

- rank senior to the Partnership’s common units with respect to the payment of distributions and distribution of assets upon liquidation, dissolution and winding up;
- have no stated maturity;
- are not subject to any sinking fund; and
- will remain outstanding indefinitely unless repurchased or redeemed by the Partnership or converted into its common units in connection with a change of control.

Holders of the Series A Preferred Units receive a quarterly cash distribution on a non-cumulative basis if and when declared by the General Partner, and subject to certain adjustments, equal to an annual rate of: 10% on the stated liquidation preference of $25.00 from the date of original issue to, but not including, the five year anniversary of the original issue date; and thereafter a percentage of the stated liquidation preference equal to the sum of the three-month LIBOR plus 8.5%.

At any time on or after five years after the original issue date, the Partnership may redeem the Series A Preferred Units, in whole or in part, from any source of funds legally available for such purpose, by paying $25.50 per unit plus an amount equal to all accumulated and unpaid distributions thereon to the date of redemption, whether or not declared. In addition, the Partnership (or a third-party with its prior written consent) may redeem the Series A Preferred Units following certain changes in the methodology employed by ratings agencies, changes of control or fundamental transactions as set forth in the Partnership Agreement. If, upon a change of control or certain fundamental transactions, the Partnership (or a third-party with its prior written consent) does not exercise this option, then the holders of the Series A Preferred Units have the option to convert the Series A Preferred Units into a number of common units per Series A Preferred Unit as set forth in the Partnership Agreement. The Series A Preferred Units are also required to be redeemed in certain circumstances if they are not eligible for trading on the New York Stock Exchange.

Holders of Series A Preferred Units have no voting rights except for limited voting rights with respect to potential amendments to the Partnership Agreement that have a material adverse effect on the existing terms of the Series A Preferred Units, the issuance by the Partnership of certain securities, approval of certain fundamental transactions and as required by law.

Upon the transfer of any Series A Preferred Unit to a non-affiliate of CenterPoint Energy, the Series A Preferred Units will automatically convert into a new series of preferred units (the Series B Preferred Units) on the later of the date of transfer and the second anniversary of the date of issue. The Series B Preferred Units will have the same terms as the Series A Preferred Units except that unpaid distributions on the Series B Preferred Units will accrue on a cumulative basis until paid.

On February 18, 2016, the Partnership entered into a registration rights agreement with CenterPoint Energy, pursuant to which, among other things, the Partnership gave CenterPoint Energy certain rights to require the Partnership to file and maintain a registration statement with respect to the resale of the Series A Preferred Units and any other series of preferred units or common units representing limited partner interests in the Partnership that are issuable upon conversion of the Series A Preferred Units.

Table of Contents

ATM Program

On May 12, 2017, the Partnership entered into an ATM Equity Offering Sales Agreement in connection with an at-the-market program (the “ATM Program”). Pursuant to the ATM Program, the Partnership may issue and sell common units having an aggregate offering price of up to $200 million, by sales methods and at prices determined by market conditions and other factors at the time of our offerings. The Partnership has no obligation to sell any common units under the ATM Program and the Partnership may suspend sales under the ATM Program at any time. For the nine months ended September 30, 2017, the Partnership sold an aggregate of 18,500 common units under the ATM Program, which generated proceeds of approximately $303,000 (net of approximately $3,000 of commissions). The Partnership incurred approximately $345,000 of expenses associated with the filing of the registration statements for the ATM Program. The proceeds were used for general partnership purposes.

2016 Equity Issuance

On November 29, 2016, the Partnership closed a public offering of 10,000,000 common units at a price to the public of $14.00 per common unit. In connection with the offering, the Partnership, the underwriters and an affiliate of ArcLight entered into an underwriting agreement that provided an option for the underwriters to purchase up to an additional 1,500,000 common units, with 75,719 common units to be sold by the Partnership and 1,424,281 to be sold by the affiliate of ArcLight. The underwriters exercised the option to purchase all of the additional common units, and the Partnership received proceeds (net of underwriting discounts, structuring fees and offering expenses) of $137 million from the offering.

(5) Assessing Impairment of Long-lived Assets (including Intangible Assets)

The Partnership periodically evaluates long-lived assets, including property, plant and equipment, and specifically identifiable intangibles other than goodwill, when events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. The determination of whether an impairment has occurred is based on an estimate of undiscounted cash flows attributable to the assets, as compared to the carrying value of the assets. During each of the three and nine months ended September 30, 2016, the Partnership recorded an $8 million impairment to the Service Star business line, which is included in Impairments on the Condensed Consolidated Statements of Income and impaired substantially all of the remaining net book value of the Service Star business line. The Service Star business line was a component of the gathering and processing segment that provided measurement and communication services to third parties and the impairment was primarily driven by the impact of planned technology changes affecting Service Star. The Partnership recorded no impairments to long-lived assets in the three and nine months ended September 30, 2017. Based upon review of forecasted undiscounted cash flows, none of the asset groups were at risk of failing step one of the impairment test. Commodity price declines, throughput declines, cost increases, regulatory or political environment changes, and other changes in market conditions could reduce forecast undiscounted cash flows.

(6) Investment in Equity Method Affiliate

The Partnership uses the equity method of accounting for investments in entities in which it has an ownership interest between 20% and 50% and exercises significant influence.

SESH is owned 50% by Spectra Energy Partners, LP and 50% by the Partnership. Pursuant to the terms of the SESH LLC Agreement, if, at any time, CenterPoint Energy has a right to receive less than 50% of our distributions through its interest in the Partnership and its economic interest in Enable GP, or does not have the ability to exercise certain

control rights, Spectra Energy Partners, LP may, under certain circumstances, have the right to purchase the Partnership’s interest in SESH at fair market value, subject to certain exceptions.

The Partnership shares operations of SESH with Spectra Energy Partners, LP under service agreements. The Partnership is responsible for the field operations of SESH. SESH reimburses each party for actual costs incurred, which are billed based upon a combination of direct charges and allocations. The Partnership billed SESH $3 million for each of the three months ended September 30, 2017 and 2016, and $14 million and $12 million during the nine months ended September 30, 2017 and 2016, respectively, associated with these service agreements.

Table of Contents

Equity in Earnings of Equity Method Affiliate:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In millions)			
SESH	$7	$ 8	$ 21	$ 22

Distributions from Equity Method Affiliate:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In millions)			
SESH [(1)]	$11	$ 13	$ 30	$ 40

____

(1) Distributions from equity method affiliate includes a $7 million and $8 million return on investment and a $4 million and $5 million return of investment for the three months ended September 30, 2017 and 2016, respectively. Distributions from equity method affiliate includes a $21 million and $22 million return on investment and a $9 million and $18 million return of investment for the nine months ended September 30, 2017 and 2016, respectively.

Summarized financial information of SESH:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In millions)			
Income Statements:				
Revenues	$29	$ 29	$ 85	$ 86
Operating income	$18	$ 19	$ 53	$ 56
Net income	$14	$ 15	$ 40	$ 43

(7) Debt

The following table presents the Partnership’s outstanding debt as of September 30, 2017 and December 31, 2016.

	September 30, 2017			December 31, 2016		
	Outstanding Principal	Premium (Discount)	Total Debt	Outstanding Principal	Premium (Discount)	Total Debt
	(In millions)					
Revolving Credit Facility	$73	$ —	$73	$636	$ —	$636
2015 Term Loan Agreement	450	—	450	450	—	450

2019 Notes	500	—	500	500	—	500
2024 Notes	600	—	600	600	(1)	599
2027 Notes	700	(3)	697	—	—	—
2044 Notes	550	—	550	550	—	550
EOIT Senior Notes	250	14	264	250	18	268
Total debt	$3,123	$ 11	$3,134	$2,986	$ 17	$3,003
Less: Current portion of long-term debt			450			—
Less: Unamortized debt expense [1]			15			10
Total long-term debt			$2,669			$2,993

____

(1) As of September 30, 2017 and December 31, 2016, there was an additional $3 million and $5 million, respectively, of unamortized debt expense related to the Revolving Credit Facility included in Other long-term assets, not included above.

15

Table of Contents

Revolving Credit Facility

On June 18, 2015, the Partnership entered into the $1.75 billion Revolving Credit Facility, which matures on June 18, 2020, subject to an extension option, which may be exercised two times to extend the term of the Revolving Credit facility, in each case, for an additional one-year term. As of September 30, 2017, there were $73 million principal advances and $3 million in letters of credit outstanding under the Revolving Credit Facility. The weighted average interest rate of the Revolving Credit Facility was 2.74% as of September 30, 2017.

The Revolving Credit Facility provides that outstanding borrowings bear interest at LIBOR and/or an alternate base rate, at the Partnership's election, plus an applicable margin. The applicable margin is based on the Partnership's applicable credit ratings. As of September 30, 2017, the applicable margin for LIBOR-based borrowings under the Revolving Credit Facility was 1.50% based on the Partnership's credit ratings. In addition, the Revolving Credit Facility requires the Partnership to pay a fee on unused commitments. The commitment fee is based on the Partnership's applicable credit rating from the rating agencies. As of September 30, 2017, the commitment fee under the Revolving Credit Facility was 0.20% per annum based on the Partnership's credit ratings. The commitment fee is recorded as interest expense in the Partnership's Condensed Consolidated Statements of Income.

Commercial Paper

The Partnership has a commercial paper program, pursuant to which the Partnership is authorized to issue up to $1.4 billion of commercial paper. The commercial paper program is supported by our Revolving Credit Facility, and outstanding commercial paper effectively reduces our borrowing capacity thereunder. There was no amount outstanding under our commercial paper program at each of September 30, 2017 and December 31, 2016. On February 2, 2016, Standard & Poor's Ratings Services lowered its credit rating on the Partnership from an investment grade rating to a non-investment grade rating. The short-term rating on the Partnership was also reduced from an investment grade rating to a non-investment grade rating. As a result of the downgrade, the Partnership repaid its outstanding borrowings under the commercial paper program upon maturity and did not issue any additional commercial paper.

Term Loan Agreement

On July 31, 2015, the Partnership entered into a Term Loan Agreement, providing for an unsecured three-year $450 million term loan agreement (2015 Term Loan Agreement). The entire $450 million principal amount of the 2015 Term Loan Agreement was borrowed by the Partnership on July 31, 2015. The 2015 Term Loan Agreement contains an option, which may be exercised up to two times, to extend the term of the 2015 Term Loan Agreement, in each case, for an additional one-year term. The 2015 Term Loan Agreement provides an option to prepay, without penalty or premium, the amount outstanding, or any portion thereof, in a minimum amount of $1 million, or any multiple of $0.5 million in excess thereof. As of September 30, 2017, there was $450 million outstanding under the 2015 Term Loan Agreement, which is included as Current portion of long-term debt in the Partnership's Condensed Consolidated Balance Sheets.

The 2015 Term Loan Agreement provides that outstanding borrowings bear interest at LIBOR and/or an alternate base rate, at the Partnership's election, plus an applicable margin. The applicable margin is based on our applicable credit ratings. As of September 30, 2017, the applicable margin for LIBOR-based borrowings under the 2015 Term Loan Agreement was 1.375% based on the Partnership's credit ratings. For the nine months ended September 30, 2017, the weighted average interest rate of the 2015 Term Loan Agreement was 2.38%.

Senior Notes

On March 9, 2017, the Partnership completed the public offering of $700 million 4.400% Senior Notes due 2027 (2027 Notes). The Partnership received net proceeds of approximately $691 million. The proceeds were used for general partnership purposes, including to repay amounts outstanding under the Revolving Credit Facility. The 2027 Notes had an unamortized discount of $3 million and unamortized debt expense of $6 million at September 30, 2017, resulting in an effective interest rate of 4.58% during the nine months ended September 30, 2017.

In addition to the 2027 Notes, as of September 30, 2017, the Partnership's debt included the 2019 Notes, 2024 Notes and 2044 Notes, which had $9 million of unamortized debt expense at September 30, 2017, resulting in effective interest rates of 2.58%, 4.02% and 5.08%, respectively, during the nine months ended September 30, 2017.

Table of Contents

As of September 30, 2017, the Partnership's debt included EOIT's $250 million 6.25% senior notes due March 2020 (the EOIT Senior Notes). The EOIT Senior Notes had $14 million of unamortized premium at September 30, 2017, resulting in an effective interest rate of 3.82%, during the nine months ended September 30, 2017.

As of September 30, 2017, the Partnership and EOIT were in compliance with all of their debt agreements, including financial covenants.

(8) Derivative Instruments and Hedging Activities

The Partnership is exposed to certain risks relating to its ongoing business operations. The primary risk managed using derivative instruments is commodity price risk. The Partnership is also exposed to credit risk in its business operations.

Commodity Price Risk

The Partnership has used forward physical contracts, commodity price swap contracts and commodity price option features to manage the Partnership's commodity price risk exposures in the past. Commodity derivative instruments used by the Partnership are as follows:

- NGL put options, NGL futures and swaps, and WTI crude oil futures and swaps for condensate sales are used to manage the Partnership's NGL and condensate exposure associated with its processing agreements;
- natural gas futures and swaps are used to manage the Partnership's natural gas exposure associated with its gathering, processing and transportation and storage assets; and
- natural gas futures and swaps, natural gas options and natural gas commodity purchases and sales are used to manage the Partnership's natural gas exposure associated with its storage and transportation contracts and asset management activities.

Normal purchases and normal sales contracts are not recorded in Other Assets or Liabilities in the Condensed Consolidated Balance Sheets and earnings are recognized and recorded in the period in which physical delivery of the commodity occurs. Management applies normal purchases and normal sales treatment to: (i) commodity contracts for the purchase and sale of natural gas used in or produced by the Partnership's operations and (ii) commodity contracts for the purchase and sale of NGLs produced by the Partnership's gathering and processing business.

The Partnership recognizes its non-exchange traded derivative instruments as Other Assets or Liabilities in the Condensed Consolidated Balance Sheets at fair value with such amounts classified as current or long-term based on their anticipated settlement. Exchange traded transactions are settled on a net basis daily through margin accounts with a clearing broker and, therefore, are recorded at fair value on a net basis in Other Current Assets in the Condensed Consolidated Balance Sheets.

As of September 30, 2017 and December 31, 2016, the Partnership had no derivative instruments that were designated as cash flow or fair value hedges for accounting purposes.

Credit Risk

The Partnership is exposed to certain credit risks relating to its ongoing business operations. Credit risk includes the risk that counterparties that owe the Partnership money or energy will breach their obligations. If the counterparties to these arrangements fail to perform, the Partnership may seek or be forced to enter into alternative arrangements. In that event, the Partnership's financial results could be adversely affected, and the Partnership could incur losses.

Derivatives Not Designated As Hedging Instruments

Derivative instruments not designated as hedging instruments for accounting purposes are utilized in the Partnership's asset management activities. For derivative instruments not designated as hedging instruments, the gain or loss on the derivative is recognized currently in earnings.

Table of Contents

Quantitative Disclosures Related to Derivative Instruments

The majority of natural gas physical purchases and sales not designated as hedges for accounting purposes are priced based on a monthly or daily index, and the fair value is subject to little or no market price risk. Natural gas physical sales volumes exceed natural gas physical purchase volumes due to the marketing of natural gas volumes purchased via the Partnership's processing contracts, which are not derivative instruments.

As of September 30, 2017 and December 31, 2016, the Partnership had the following derivative instruments that were not designated as hedging instruments for accounting purposes:

	September 30, 2017		December 31, 2016	
	Gross Notional Volume			
	Purchases	Sales	Purchases	Sales
Natural gas — TBtu[1]				
Financial fixed futures/swaps	17	19	2	29
Financial basis futures/swaps	19	24	2	30
Physical purchases/sales	1	46	1	25
Crude oil (for condensate) — MBbl[2]				
Financial Futures/swaps	—	490	—	540
Natural gas liquids — MBbl[3]				
Financial Futures/swaps	15	1,701	60	1,133

(1) As of September 30, 2017, 70.8% of the natural gas contracts had durations of one year or less, 13.0% had durations of more than one year and less than two years and 16.2% had durations of more than two years. As of December 31, 2016, 100.0% of the natural gas contracts had durations of one year or less.

(2) As of September 30, 2017, 87.8% of the crude oil (for condensate) contracts had durations of one year or less and 12.2% had durations of more than one year and less than two years. As of December 31, 2016, 100% of the crude oil (for condensate) contracts had durations of one year or less.

(3) As of September 30, 2017, 79.9% of the natural gas liquids contracts had durations of one year or less and 20.1% had durations of more than one year and less than two years. As of December 31, 2016, 100% of the natural gas liquid contracts had durations of one year or less.

Balance Sheet Presentation Related to Derivative Instruments

The fair value of the derivative instruments that are presented in the Partnership's Condensed Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016 that were not designated as hedging instruments for accounting purposes are as follows:

		September 30, 2017		December 31, 2016	
		Fair Value			
Instrument	Balance Sheet Location	Assets	Liabilities	Assets	Liabilities
		(In millions)			
Natural gas					
Financial futures/swaps	Other Current/Other	$4	$ 3	$ 2	$ 22
Physical purchases/sales	Other Current/Other	3	—	—	1
Crude oil (for condensate)					

Financial futures/swaps	Other Current/Other	—	1	—	3
Natural gas liquids					
Financial Futures/swaps	Other Current/Other	—	6	—	8
Total gross derivatives [1]		$7	$ 10	$ 2	$ 34

____

(1) See Note 9 for a reconciliation of the Partnership's total derivatives fair value to the Partnership's Condensed Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016.

Table of Contents

Income Statement Presentation Related to Derivative Instruments

The following table presents the effect of derivative instruments on the Partnership's Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2017 and 2016:

Amounts Recognized in Income		
Three Months Ended September 30,		Nine Months Ended September 30,
2017	2016	2017