Enable Midstream Partners, LP
Form 10-Q
November 07, 2018
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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 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 No. 1-36413

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

Delaware	72-1252419
(State or other 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)

(405) 525-7788
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. þ Yes ¨ 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). 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	¨	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 12, 2018, there were 433,219,959 common units outstanding.

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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.

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GLOSSARY OF TERMS

2015 Term Loan Agreement.	$450 million unsecured term loan agreement.
2019 Notes.	$500 million aggregate principal amount of the Partnership's 2.400% senior notes due 2019.
2024 Notes.	$600 million aggregate principal amount of the Partnership's 3.900% senior notes due 2024.
2027 Notes.	$700 million aggregate principal amount of the Partnership's 4.400% senior notes due 2027.
2028 Notes.	$800 million aggregate principal amount of the Partnership's 4.950% senior notes due 2028.
2044 Notes.	$550 million aggregate principal amount of the Partnership's 5.000% senior notes due 2044.
Adjusted EBITDA.	A non-GAAP measure calculated as net income attributable to limited partners plus depreciation and amortization expense, interest expense, net of interest income, income tax expense, distributions received from equity method affiliate in excess of equity earnings, non-cash equity-based compensation, changes in fair value of derivatives, certain other non-cash gains and losses (including gains and losses on sales of assets and write-downs of materials and supplies) and impairments, less the noncontrolling interest allocable to Adjusted EBITDA.
Adjusted interest expense.	A non-GAAP measure calculated as interest expense plus amortization of premium on long-term debt and capitalized interest on expansion capital, less amortization of debt costs and discount on long-term debt.
Annual Report.	Annual Report on Form 10-K for the year ended December 31, 2017.
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.
ASC.	Accounting Standards Codification.
ASU.	Accounting Standards Update.
ATM Program.	The offer and sale, from time to time, of common units representing limited partner interest 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, pursuant to that certain ATM Equity Offering Sales Agreement, entered into on May 12, 2017.
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.
Condensate.	A natural gas liquid with a low vapor pressure, mainly composed of propane, butane, pentane and heavier hydrocarbon fractions.
DCF.	Distributable Cash Flow, a non-GAAP measure calculated as Adjusted EBITDA, as further adjusted for Series A Preferred Unit distributions, distributions for phantom and performance units, Adjusted interest expense, maintenance capital expenditures and current income taxes.
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 units the ability to purchase additional common units by reinvesting all or a portion of the cash distributions paid to them on their common 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.

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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.
Gross margin.	A non-GAAP measure calculated as Total revenues minus Cost of natural gas and natural gas liquids, excluding depreciation and amortization.
ICE.	Intercontinental Exchange.
LDC.	Local distribution company involved in the delivery of natural gas to consumers within a specific geographic area.
LIBOR.	London Interbank Offered Rate.
March 31 Quarterly Report	Quarterly Report on Form 10-Q for the period ended March 31, 2018.
MBbl.	Thousand barrels.
MBbl/d.	Thousand barrels per day.
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.	Fifth Amended and Restated Agreement of Limited Partnership of Enable Midstream Partners, LP dated as of November 14, 2017.
Revolving Credit Facility.	$1.75 billion senior unsecured revolving credit facility.
SEC.	Securities and Exchange Commission.
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.

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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-loo 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 our Annual Report and in our March 31 Quarterly Report. Those risk factors and other factors noted throughout this report and in our Annual Report and in our March 31 Quarterly 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 Enable GP;
- 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;
- the timing and extent of changes in labor and material prices;
- 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 and in our March 31 Quarterly 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.

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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,	
	2018	2017	2018	2017
	(In millions, except per unit data)			
Revenues (including revenues from affiliates (Note 12)):				
Product sales	$553	$396	$1,497	$1,136
Service revenues	375	309	984	861
Total Revenues	928	705	2,481	1,997
Cost and Expenses (including expenses from affiliates (Note 12)):				
Cost of natural gas and natural gas liquids (excluding depreciation and amortization shown separately)	516	349	1,335	936
Operation and maintenance	98	91	289	277
General and administrative	28	23	81	71
Depreciation and amortization	100	90	292	267
Taxes other than income tax	15	15	48	47
Total Cost and Expenses	757	568	2,045	1,598
Operating Income	171	137	436	399
Other Income (Expense):				
Interest expense	(40)	(31)	(109)	(89)
Equity in earnings of equity method affiliate	7	7	20	21
Other, net	1	—	1	—
Total Other Expense	(32)	(24)	(88)	(68)
Income Before Income Tax	139	113	348	331
Income tax expense	—	—	—	2
Net Income	$139	$113	$348	$329
Less: Net income attributable to noncontrolling interest	1	—	1	1
Net Income Attributable to Limited Partners	$138	$113	$347	$328
Less: Series A Preferred Unit distributions (Note 6)	9	9	27	27
Net Income Attributable to Common and Subordinated Units (Note 5)	$129	$104	$320	$301
Basic earnings per unit (Note 5)				
Common units	$0.30	$0.24	$0.74	$0.70
Subordinated units	$—	$0.24	$—	$0.69
Diluted earnings per unit (Note 5)				
Common units	$0.30	$0.24	$0.73	$0.69
Subordinated units	$—	$0.24	$—	$0.69

See Notes to the Unaudited Condensed Consolidated Financial Statements

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

	September 30, 2018	December 31, 2017
	(In millions)	
Current Assets:		
Cash and cash equivalents	$8	$ 5
Restricted cash (Note 1)	14	14
Accounts receivable, net of allowance for doubtful accounts (Note 1)	333	277
Accounts receivable—affiliated companies	20	18
Inventory	45	40
Gas imbalances	25	37
Other current assets	36	25
Total current assets	481	416
Property, Plant and Equipment:		
Property, plant and equipment	12,633	12,079
Less accumulated depreciation and amortization	1,963	1,724
Property, plant and equipment, net	10,670	10,355
Other Assets:		
Intangible assets, net	418	451
Goodwill	12	12
Investment in equity method affiliate	313	324
Other	41	35
Total other assets	784	822
Total Assets	$11,935	$ 11,593
Current Liabilities:		
Accounts payable	$259	$ 263
Accounts payable—affiliated companies	3	3
Current portion of long-term debt	500	450
Short-term debt	413	405
Taxes accrued	51	32
Gas imbalances	20	12
Other	157	114
Total current liabilities	1,403	1,279
Other Liabilities:		
Accumulated deferred income taxes, net	6	6
Regulatory liabilities	22	21
Other	56	38
Total other liabilities	84	65
Long-Term Debt	2,880	2,595
Commitments and Contingencies (Note 13)		
Partners' Equity:		
Series A Preferred Units (14,520,000 issued and outstanding at September 30, 2018 and December 31, 2017)	362	362
Common units (433,216,156 issued and outstanding at September 30, 2018 and 432,584,080 issued and outstanding at December 31, 2017, respectively)	7,195	7,280
Noncontrolling interest	11	12
Total Partners' Equity	7,568	7,654

Total Liabilities and Partners' Equity	$11,935	$ 11,593

See Notes to the Unaudited Condensed Consolidated Financial Statements

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

	Nine Months Ended September 30,	
	2018	2017
	(In millions)	
Cash Flows from Operating Activities:		
Net income	$348	$329
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	292	267
Deferred income taxes	—	2
Loss on sale/retirement of assets	1	7
Equity in earnings of equity method affiliate	(20)	(21)
Return on investment in equity method affiliate	20	21
Equity-based compensation	12	12
Amortization of debt costs and discount (premium)	(1)	(1)
Changes in other assets and liabilities:		
Accounts receivable, net	(56)	(72)
Accounts receivable—affiliated companies	(2)	—
Inventory	(5)	1
Gas imbalance assets	12	25
Other current assets	(19)	(5)
Other assets	(6)	2
Accounts payable	(19)	(16)
Gas imbalance liabilities	8	(17)
Other current liabilities	55	17
Other liabilities	18	5
Net cash provided by operating activities	638	556
Cash Flows from Investing Activities:		
Capital expenditures	(551)	(250)
Proceeds from sale of assets	8	1
Proceeds from insurance	1	—
Return of investment in equity method affiliate	11	9
Net cash used in investing activities	(531)	(240)
Cash Flows from Financing Activities:		
Repayment of long-term debt	(450)	—
Increase in short-term debt	8	—
Proceeds from long-term debt, net of issuance costs	787	691
Proceeds from Revolving Credit Facility	—	591
Repayment of Revolving Credit Facility	—	(1,154)
Proceeds from issuance of common units, net of issuance costs	2	—
Distributions	(442)	(443)
Cash paid for employee equity-based compensation	(9)	(2)
Net cash used in financing activities	(104)	(317)
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	3	(1)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	19	23

Cash, Cash Equivalents and Restricted Cash at End of Period	$22	$22

See Notes to the Unaudited Condensed Consolidated Financial Statements

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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, 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
Balance as of December 31, 2017	15	$362	433	$7,280	—	$—	$ 12	$7,654
Net income	—	27	—	320	—	—	1	348
Issuance of common units	—	—	—	2	—	—	—	2
Distributions	—	(27)	—	(413)	—	—	(2)	(442)
Equity-based compensation, net of units for employee taxes	—	—	—	6	—	—	—	6
Balance as of September 30, 2018	15	$362	433	$7,195	—	$—	$ 11	$7,568

See Notes to the Unaudited Condensed Consolidated Financial Statements

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

(1) Summary of Significant Accounting Policies

Organization

Enable Midstream Partners, LP 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, 2018, CenterPoint Energy held approximately 54.0% or 233,856,623 of the Partnership's common units, and OGE Energy held approximately 25.6% or 110,982,805 of the Partnership's common units. Additionally, CenterPoint Energy holds 14,520,000 Series A Preferred Units. See Note 6 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 on an annual or continuing basis and may not remove Enable GP, its current general partner, 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, 2018, the Partnership owned a 50% interest in SESH. See Note 7 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.

The condensed consolidated financial statements and the related notes 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 15.

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.

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Restricted Cash

Restricted cash primarily consists of cash collateral which is provided as credit assurance by third parties. The Condensed Consolidated Balance Sheets have $14 million of restricted cash at each of September 30, 2018 and December 31, 2017.

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 $1 million allowance for doubtful accounts was required at September 30, 2018 and a $3 million allowance at December 31, 2017.

Inventory

Natural gas inventory is held, through the transportation and storage segment, to provide operational support for the intrastate pipeline deliveries and to manage leased intrastate storage capacity. Natural gas liquids inventory is held, through the gathering and processing segment, due to timing differences between the production of certain natural gas liquids and ultimate sale to third parties. Natural gas and natural gas liquids inventory is valued using moving average cost and is subsequently recorded at the lower of cost or net realizable value. The Partnership's Inventory balance is net of $1 million and zero lower of cost or net realizable value adjustments as of September 30, 2018 and December 31, 2017, respectively.

Income Taxes

The Partnership's earnings are not subject to income tax (other than Texas state margin taxes and taxes associated with the Partnership's corporate subsidiary, Enable Midstream Services) and are taxable at the individual partner level. We account for deferred income taxes related to the federal and state jurisdictions using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future taxes attributable to the difference between financial statement carrying amounts of assets and liabilities and their respective tax basis. Deferred tax assets are also recognized for the future tax benefits attributable to the expected utilization of tax net operating loss carryforwards. In the event future utilization is determined to be unlikely, a valuation allowance is provided to reduce the tax benefits from such assets. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the period in which the temporary differences and carryforwards are expected to be recovered or settled. The effect of a change in tax rates is recognized in the period which includes the enactment date. The Partnership recognizes interest and penalties as a component of income tax expense.

(2) New Accounting Pronouncements

Accounting Standards to be Adopted in Future Periods

Leases

In February 2016, the FASB issued ASU 2016-02, “Leases (ASC 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.

In January 2018, the FASB issued ASU 2018-01, “Land Easement Practical Expedient for Transition to Topic 842.” This standard permits an entity to elect an optional transition practical expedient to not evaluate land easements that exist or expire before the Partnership's adoption of ASC 842 and that were not previously accounted for as leases under ASC 840. The Partnership intends to elect this transition provision.

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In July 2018, the FASB issued ASU No. 2018-10, “Codification Improvements to Topic 842, Leases” to address implementation issues that could arise as organizations comply with ASC 842.

In July 2018, the FASB issued ASU No. 2018-11, “Leases (Topic 842) - Targeted Improvements” to assist stakeholders with implementation questions and issues as organizations prepare to adopt ASC 842. These questions and issues relate primarily to (1) comparative reporting requirements for initial adoption; and (2) for lessors only, separating lease and non-lease components in a contract and allocating the consideration in the contract to the separate components.

The Partnership continues to review contracts and easements relative to the provisions of the ASU 2016-02 lease standard, the ASU 2018-01 easement standard, the ASU 2018-10 codification improvements standard and the ASU 2018-11 targeted improvements standard, as well as to monitor relevant emerging industry guidance regarding the implementation of the standards. As part of this analysis, we are evaluating the potential information technology and internal control changes that will be required for adoption based on the findings from our contract and easement review process. While we have not estimated the quantitative effect that ASC 842 will have on our consolidated financial statements, the adoption of ASC 842 will increase our asset and liability balances on the consolidated balance sheets due to the required recognition of right-of-use assets and corresponding lease liabilities for all lease obligations that are currently classified as operating leases. The Partnership will adopt these standards in the first quarter of 2019 and continues to evaluate the other impact of the standards on our Condensed Consolidated Financial Statements and related disclosures.

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 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.

Compensation—Stock Compensation

In June 2018, the FASB issued ASU No. 2018-07, “Compensation-Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting.” This standard requires entities to include share-based payment transactions for acquiring goods and services from non-employees. The standard is effective 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.

Fair Value Measurement—Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement

In August 2018, the FASB issued ASU No. 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement” which focuses on improving the effectiveness of disclosures in the notes to the financial statements by facilitating clear communication of the information required by U.S. GAAP that is most important to users of each entity’s financial statements. The standard is effective for interim and annual reporting periods beginning after December 15, 2019, although early adoption is permitted. The Partnership expects to adopt these standards in the first quarter of 2020 and continues to evaluate the other impacts of the new standards on our Condensed Consolidated Financial Statements and related disclosures.

Intangibles—Goodwill and Other—Internal-Use Software

In August 2018, the FASB issued ASU No. 2018-15, “Intangibles—Goodwill and Other—Internal-Use Software: Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract”, which aims to reduce complexity in the accounting for costs of implementing a cloud computing service arrangement. ASU No. 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The standard is effective for interim and annual periods beginning after December 15, 2019. The Partnership does not expect the adoption of this standard to have a material impact on our Condensed Consolidated Financial Statements and related disclosures.

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(3) Revenues

The Partnership adopted ASU No. 2014-09, “Revenue from Contracts with Customers” (ASC 606) on January 1, 2018 using the modified retrospective method. Upon adoption, the Partnership did not recognize a material cumulative adjustment to Partners’ Equity and there were no material changes in the timing of revenue recognition or our accounting policies. The Partnership has applied the standard to only contracts that were not expired as of January 1, 2018.

The following tables disaggregate total revenues by major source from contracts with customers and the gain (loss) on derivative activity for the three and nine months ended September 30, 2018.

	Three Months Ended September 30, 2018			
	Gathering and Processing	Transportation and Storage	Eliminations	Total
	(In millions)			
Revenues:				
Product sales:				
Natural gas	$87	$ 146	$ (120)	$113
Natural gas liquids	439	7	(7)	439
Condensate	25	—	—	25
Total revenues from natural gas, natural gas liquids, and condensate	551	153	(127)	577
Gain (loss) on derivative activity	(23)	—	(1)	(24)
Total Product sales	$528	$ 153	$ (128)	$553
Service revenues:				
Demand revenues	$92	$ 114	$ —	$206
Volume-dependent revenues	158	14	(3)	169
Total Service revenues	$250	$ 128	$ (3)	$375
Total Revenues	$778	$ 281	$ (131)	$928

	Nine Months Ended September 30, 2018			
	Gathering and Processing	Transportation and Storage	Eliminations	Total
	(In millions)			
Revenues:				
Product sales:				
Natural gas	$299	$ 420	$ (336)	$383
Natural gas liquids	1,054	20	(20)	1,054
Condensate	98	—	—	98
Total revenues from natural gas, natural gas liquids, and condensate	1,451	440	(356)	1,535
Gain (loss) on derivative activity	(40)	2	—	(38)
Total Product sales	$1,411	$ 442	$ (356)	$1,497
Service revenues:				
Demand revenues	$194	$ 347	$ —	$541
Volume-dependent revenues	405	48	(10)	443
Total Service revenues	$599	$ 395	$ (10)	$984
Total Revenues	$2,010	$ 837	$ (366)	$2,481

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Product Sales

Natural Gas, NGLs or Condensate

We deliver natural gas, NGLs and condensate to purchasers at contractually agreed-upon delivery points at which the purchaser takes custody, title, and risk of loss of the commodity. We recognize revenue when control transfers to the purchaser at the delivery point based on the contractually agreed upon fixed or index based price received.

Gain (Loss) on Derivative Activity

Included in Product sales are gains and losses on natural gas, natural gas liquids, and crude oil (for condensate) derivatives that are accounted for under guidance in ASC 815. See Note 9 for further discussion of our derivative and hedging activity.

Service Revenues

Demand revenues

Our demand revenue arrangements are generally structured in one of the following ways:

- Under a firm fee arrangement, a customer agrees to pay a fixed fee for a contractually agreed upon pipeline or storage capacity. Once the services have been completed, or the customer no longer has access to the contracted capacity, revenue is recognized.
- Under a minimum volume commitment fee arrangement, a customer agrees to pay the contractually agreed upon gathering, compressing and treating fees for a minimum volume of natural gas or crude oil irrespective of whether or not the minimum volume of natural gas or crude oil is delivered. If the actual volumes exceed the minimum volume of natural gas or crude oil, the customer pays the contractually agreed upon gathering, compressing and treating fees for the excess volumes in addition to the fees paid for the minimum volume of natural gas or crude oil. Certain of our contracts provide our customers the option to elect to pay a higher gathering fee over the remaining term of the contract in lieu of making a contractually agreed upon shortfall payment. Once the services have been completed, or the customer no longer has the ability to utilize the services, revenue is recognized.

Volume-dependent revenues

Our volume-dependent revenues primarily consist of gathering, compressing, treating, processing, transportation or storage services fees on contracts that exceed their contractually committed volume or do not have firm fee arrangements or minimum volume commitments. These fees are dependent on throughput by third party customers, and revenue is recognized over time as the service is performed. Our other fee revenue arrangements have pricing terms that are generally structured in one of the following ways: (1) Contractually agreed upon monetary fee for service or (2) contractually agreed upon consideration received in the form of natural gas or natural gas liquids, which are valued at the current month index based price, which approximates fair value.

Accounts Receivable

Payments for all types of revenues are typically received within 30 days of invoice. Invoices for all revenue types are sent on at least a monthly basis, except for the shortfall provisions under certain minimum volume commitment contracts, which are typically invoiced annually. Accounts receivable includes accrued revenues associated with certain minimum volume commitments that will be invoiced at the conclusion of the measurement period specified under the respective contracts.

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	September 30, 2018	December 31, 2017
	(In millions)	
Accounts Receivable:		
Customers	$ 334	$ 265
Contract assets [(1)]	14	27
Non-customers	5	3
Total Accounts Receivable [(2)]	$ 353	$ 295

(1) Contract assets reflected in Total Accounts Receivable include accrued minimum volume commitments. Total Accounts Receivable does not include $2 million of contracts assets related to firm service transportation contracts with tiered rates, which are reflected in Other Assets.

(2) Total Accounts Receivable includes Accounts receivables, net of allowance for doubtful accounts and Accounts receivable—affiliated companies.

Contract Liabilities

Our contract liabilities primarily consist of the following prepayments received from customers:

- Under certain firm fee arrangements, customers pay their demand fee prior to the month of contracted capacity. These fees are applied to the subsequent month's activity and are included in other current liabilities on the Condensed Consolidated Balance Sheets.
- Under certain demand and volume dependent arrangements, customers make contributions of aid in construction payments. For payments that are related to contracts under ASC 606, the payment is deferred and amortized over the life of the associated contract and the unamortized balance is included in other current or long-term liabilities on the Condensed Consolidated Balance Sheets.

The table below summarizes the change in the contract liabilities for the nine months ended September 30, 2018:

	September 30, 2018	December 31, 2017	Amounts recognized in revenues
	(In millions)		
Deferred revenues	$ 44	$ 34	$ 18

The table below summarizes the timing of recognition of these contract liabilities as of September 30, 2018:

	2018	2019	2020	2021	2022 and After
	(In millions)				
Deferred revenues	$ 16	$ 5	$ 5	$ 5	$ 13

Remaining Performance Obligations

Our remaining performance obligations consist primarily of firm fee and minimum volume commitment fee arrangements. Upon completion of the performance obligations associated with these arrangements, customers are invoiced and revenue is recognized as Service revenues in the Condensed Consolidated Statements of Income.

The table below summarizes the timing of recognition of the remaining performance obligations as of September 30, 2018:

	2018	2019	2020	2021

					2022 and After
	(In millions)				
Transportation and Storage	$121	$388	$282	$156	$776
Gathering and Processing	72	281	160	136	599
Total remaining performance obligations	$193	$669	$442	$292	$1,375

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Impact of Adoption

Upon adoption of ASC 606, the recognition of revenues for certain contractual arrangements was impacted as follows:

- Natural gas and natural gas liquids purchase arrangements - For certain arrangements within our gathering and processing segment, the Partnership purchases and controls the entire hydrocarbon stream at the point of receipt. As of January 1, 2018, these arrangements are considered supplier contracts rather than contracts with customers. Therefore, beginning January 1, 2018, the gathering and processing fees for these arrangements that were previously recognized as Service revenues under ASC 605 are recognized as reductions to Cost of natural gas and natural gas liquids.
- Percent-of-proceeds and percent-of-liquids processing arrangements - Under percent-of-proceeds and percent-of-liquids arrangements within our gathering and processing segment, the Partnership has previously recognized the value of natural gas and natural gas liquids received in our purchase cost within Cost of natural gas and natural gas liquids. As of January 1, 2018, the Partnership recognizes the value of the natural gas and NGLs received as Service revenues and as an increase to Cost of natural gas and natural gas liquids when the natural gas or NGLs are sold and Product sales are recognized.
- Keep-whole arrangements - Under keep-whole arrangements within our gathering and processing segment, the Partnership has previously recognized the value of NGLs received in Product sales and the value of the thermally equivalent quantity of natural gas provided in our purchase cost within Cost of natural gas and natural gas liquids. As of January 1, 2018, the Partnership recognizes the value of the NGLs received less the value of the thermal equivalent volume of natural gas provided as Service revenues and as an increase to Cost of natural gas and natural gas liquids when the NGLs are sold and Product sales are recognized.
- Fixed fuel arrangements - Under certain gathering arrangements within our gathering and processing segment as well as under certain transportation arrangements within our transportation and storage segment we receive a fixed amount of fuel regardless of actual fuel usage. Previously, revenue for fuel in excess of actual usage was recognized when such fuel was received, and additional revenue was recognized when such fuel was sold. As of January 1, 2018, fuel in excess of actual usage is treated as a byproduct obtained through the fulfillment of a contract, and the Partnership will recognize revenue at the time the excess fuel is sold. This results in a reduction of Product sales and a corresponding reduction in Cost of natural gas and natural gas liquids.
- Natural gas and natural gas liquids sales arrangements - For certain arrangements within our gathering and processing segment, the Partnership sells the entire hydrocarbon stream at the point of delivery to a third-party processing facility. As of January 1, 2018, these arrangements are considered sales once control has transferred to the third-party processing facility. Therefore, beginning January 1, 2018, the transportation and fractionation fees for these arrangements that were previously recognized as a component of cost of gas and natural gas liquids, are recognized as reductions to the transaction price under ASC 606.

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Below is a summary of the impact of the changes on revenues as it relates to the three and nine months ended September 30, 2018:

	Three Months Ended September 30, 2018		
	Under ASC 606	Under ASC 605	Increase/(Decrease)
	(In millions)		
Revenues:			
Product sales:			
Natural gas	$113	$143	$ (30)
Natural gas liquids	439	446	(7)
Condensate	25	25	—
Total revenues from natural gas, natural gas liquids, and condensate	577	614	(37)
Gain (loss) on derivative activity	(24)	(24)	—
Total Product sales	$553	$590	$ (37)
Service revenues:			
Demand revenues	$206	$197	9
Volume-dependent revenues	169	155	14
Total Service revenues	$375	$352	$ 23
Total Revenues	$928	$942	$ (14)

	Nine Months Ended September 30, 2018		
	Under ASC 606	Under ASC 605	Increase/(Decrease)
	(In millions)		
Revenues:			
Product sales:			
Natural gas	$383	$437	$ (54)
Natural gas liquids	1,054	1,073	(19)
Condensate	98	98	—
Total revenues from natural gas, natural gas liquids, and condensate	1,535	1,608	(73)
Gain (loss) on derivative activity	(38)	(38)	—
Total Product sales	$1,497	$1,570	$ (73)
Service revenues:			
Demand revenues	$541	$532	9
Volume-dependent revenues	443	428	15
Total Service revenues	$984	$960	$ 24
Total Revenues	$2,481	$2,530	$ (49)

As described above, each of the identified increases/(decreases) in revenue resulted in a corresponding change in the Cost of natural gas and natural gas liquids.

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(4) Acquisition

Align Acquisition

On October 4, 2017, the Partnership acquired all of the equity interests in Align Midstream, LLC, a midstream service provider with natural gas gathering and processing facilities in the Cotton Valley and Haynesville plays of the Ark-La-Tex Basin, for approximately $298 million in cash. The acquisition includes approximately 190 miles of natural gas gathering pipelines across Rusk, Panola and Shelby counties in Texas and DeSoto Parish in Louisiana and a cryogenic natural gas processing plant in Panola County, Texas, with a capacity of 100 MMcf/d. The acquisition was accounted for as a business combination and funded with borrowings under the Revolving Credit Facility. During the fourth quarter of 2017, the Partnership finalized the purchase price allocation as of October 4, 2017.

The following table presents the fair value of the identified assets acquired and liabilities assumed at the acquisition date:

Purchase price allocation (in millions):	
Assets acquired:	
Accounts receivable	$5
Property, plant and equipment	111
Intangibles	176
Goodwill	12
Liabilities assumed:	
Current liabilities	6
Total identifiable net assets	$298

In connection with the acquisition, the Partnership recognized intangible assets related to customer relationships. The acquired intangible assets will be amortized on a straight-line basis over the estimated customer contract life of approximately 10 years. Goodwill recognized from the acquisition primarily relates to greater operating leverage in the Ark-La-Tex Basin and is allocated to the gathering and processing segment. The Partnership incurred approximately $2 million of acquisition costs associated with this transaction, which were included in General and administrative expense in the Consolidated Statements of Income in the fourth quarter of 2017. The Partnership determined not to include pro forma consolidated financial statements for the periods presented as the impact would not be material.

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(5) 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,	
	2018	2017	2018	2017
	(In millions, except per unit data)			
Net income	$139	$113		