# Sabal Trail Transmission, LLC

Financial Statements

December 31, 2018 and 2017

## Report of Independent Auditors

To the Management Committee and Management of Sabal Trail Transmission, LLC:

We have audited the accompanying financial statements of Sabal Trail Transmission, LLC (the "Company"), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations, members' equity, and cash flows for the years then ended.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sabal Trail Transmission, LLC as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

As discussed in Notes 1 and 3 to the financial statements, the Company has significant transactions with its affiliates. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

March 29, 2019

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**SABAL TRAIL TRANSMISSION, LLC**
**STATEMENTS OF OPERATIONS**
**(In millions)**

| | Year Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| **Operating Revenues** | $ 338.6 | $ 133.7 |
| | | |
| **Operating Expenses** | | |
| Operating, maintenance and other | 58.9 | 28.1 |
| Depreciation and amortization | 47.1 | 24.1 |
| Property and other taxes | 22.8 | 4.4 |
| Total operating expenses | 128.8 | 56.6 |
| | | |
| **Operating Income** | 209.8 | 77.1 |
| | | |
| **Other Income (Expenses)** | | |
| Allowance for funds used during construction - equity | 3.7 | 74.1 |
| Allowance for funds used during construction - debt | 1.6 | 32.8 |
| Interest income | 0.6 | 1.2 |
| Interest expense | (46.0) | — |
| Amortization of debt costs | (0.6) | — |
| Total other income | (40.7) | 108.1 |
| | | |
| **Net Income** | $ 169.1 | $ 185.2 |

See Notes to Financial Statements.

**SABAL TRAIL TRANSMISSION, LLC**
**STATEMENTS OF CASH FLOWS**
**(In millions)**

| | Year Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income | $ 169.1 | $ 185.2 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 47.7 | 24.1 |
| Allowance for funds used during construction - equity | (3.7) | (74.1) |
| Allowance for funds used during construction - debt | — | (32.8) |
| Decrease (increase) in | | |
| Receivables - trade | (14.0) | (17.6) |
| Other current assets | — | (1.8) |
| Increase (decrease) in | | |
| Accounts payable | 0.2 | 3.7 |
| Accounts payable - affiliates | 1.0 | 0.6 |
| Interest payable | 11.4 | — |
| Taxes accrued and others | 1.2 | — |
| Other current liabilities | (1.5) | 3.2 |
| Net cash provided by operating activities | 211.4 | 90.5 |
| | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Capital expenditures | (110.6) | (1,070.1) |
| Net cash used in investing activities | (110.6) | (1,070.1) |
| | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Contributions from members | 92.2 | 946.5 |
| Distributions to members | (1,698.2) | (87.0) |
| Proceeds from the issuance of long-tem debt | 1,488.8 | — |
| Payments for debt issuance costs | (2.4) | — |
| Net cash (used in)/provided by financing activities | (119.6) | 859.5 |
| | | |
| **Net decrease in cash and cash equivalents** | (18.8) | (120.1) |
| | | |
| **Cash and cash equivalents at beginning of period** | 28.5 | 148.6 |
| | | |
| **Cash and cash equivalents at end of period** | $ 9.7 | $ 28.5 |
| | | |
| **Supplemental Disclosure** | | |
| Property, plant and equipment non-cash accruals | $ 10.6 | $ 51.1 |
| Cash interest paid, net of capitalized interest | $ 32.9 | $ — |

See Notes to Financial Statements.

**SABAL TRAIL TRANSMISSION, LLC**
**BALANCE SHEETS**
**(In millions)**

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| **ASSETS** | | |
| | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 9.7 | $ 28.5 |
| Receivables - trade | 31.6 | 17.6 |
| Receivables - other | — | 12.6 |
| Other | 3.3 | 3.6 |
| Total current assets | 44.6 | 62.3 |
| | | |
| **Other Assets** | | |
| Other - restricted funds | 3.8 | 4.7 |
| Total other assets | 3.8 | 4.7 |
| | | |
| **Property, Plant and Equipment** *(Note 4)* | | |
| Cost | 3,019.8 | 2,937.7 |
| Accumulated depreciation | (71.2) | (24.1) |
| Net property, plant and equipment | 2,948.6 | 2,913.6 |
| | | |
| **Regulatory Assets** *(Note 2)* | 63.5 | 63.5 |
| | | |
| **Total Assets** | $ 3,060.5 | $ 3,044.1 |
| | | |
| **LIABILITIES AND MEMBERS' EQUITY** | | |
| | | |
| **Current Liabilities** | | |
| Accounts payable | $ 8.0 | $ 54.2 |
| Accounts payable - affiliates | 3.7 | 2.5 |
| Interest Payable | 11.4 | — |
| Taxes accrued and others | 3.5 | 3.2 |
| Total current liabilities | 26.6 | 59.9 |
| | | |
| **Long Term Liabilities** | | |
| Notes payable (*Note 5*) | 1,486.6 | — |
| Total long term debt | 1,486.6 | — |
| | | |
| **Members' Equity** | 1,547.3 | 2,984.2 |
| | | |
| **Total Liabilities and Members' Equity** | $ 3,060.5 | $ 3,044.1 |

See Notes to Financial Statements.

**SABAL TRAIL TRANSMISSION, LLC**
**STATEMENTS OF MEMBERS' EQUITY**
**(In millions)**

| | Spectra Energy Partners Sabal Trail Transmission, LLC | US Southern Gas Infrastructure, LLC | Duke Energy Sabal Trail, LLC | Total |
|---|---|---|---|---|
| **January 1, 2017** | 973.3 | 827.3 | 146.0 | 1,946.6 |
| Net income | 92.6 | 78.7 | 13.9 | 185.2 |
| Attributed deferred tax expense | (3.6) | (3.0) | (0.5) | (7.1) |
| Contributions from members | 473.2 | 402.3 | 71.0 | 946.5 |
| Distributions to members | (43.5) | (37.0) | (6.5) | (87.0) |
| **December 31, 2017** | $ 1,492.0 | $ 1,268.3 | $ 223.9 | $ 2,984.2 |
| Net income | 84.5 | 71.9 | 12.7 | 169.1 |
| Contributions from members | 46.1 | 39.2 | 6.9 | 92.2 |
| Distributions to members | (849.1) | (721.7) | (127.4) | (1,698.2) |
| **December 31, 2018** | $ 773.5 | $ 657.7 | $ 116.1 | $ 1,547.3 |

See Notes to Financial Statements.

**SABAL TAIL TRANSMISSION, LLC**

**NOTES TO FINANCIAL STATEMENTS**

## 1. Summary of Operations and Significant Accounting Policies

**Nature of Operations.** Sabal Trail Transmission, LLC (collectively, "we", "our", "us" and "company") owns an interstate natural gas pipeline system and is owned 50% by Spectra Energy Partners, LP ("SEP"), 42.5% by US Southeastern Gas Infrastructure, LLC ("NextEra"), and 7.5% by Duke Energy Corporation ("Duke"). We are engaged in the interstate transmission of natural gas. Our interstate natural gas transmission operations are subject to the rules and regulations of the Federal Energy Regulatory Commission ("FERC").

**Basis of Presentation.** The Financial Statements herein are prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and reflect the results of operations, financial position and cash flows of our company. The financial statements do not include any of the assets, liabilities, revenues or expenses of the members.

**Use of Estimates.** To conform with GAAP, we make estimates and assumptions that affect the amounts reported in the Financial Statements and Notes to Financial Statements. Although these estimates are based on our best available knowledge at the time, actual results could differ.

**Fair Value Measurements.** We measure the fair value of financial assets and liabilities by maximizing the use of observable inputs and minimizing the use of unobservable inputs. Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

**Cost-Based Regulation.** The economic effects of regulation can result in a regulated company recording assets for costs that have been or are expected to be approved for recovery from customers or recording liabilities for amounts that are expected to be returned to customers or for instances where the regulator provides current rates that are intended to recover costs that are expected to be incurred in the future. Accordingly, we record assets and liabilities that result from the regulated ratemaking process that may not be recorded under GAAP for non-regulated entities. We continually assess whether regulatory assets are probable of future recovery by considering factors such as applicable regulatory changes and recent rate orders to other regulated entities. Based on this assessment, we believe our existing regulatory assets are probable of recovery. These regulatory assets are classified in the Balance Sheet as Regulatory Assets. We evaluate our regulated assets, and consider factors such as regulatory changes and the effect of competition. If cost-based regulation ends or competition increases, we may have to reduce our asset balances to reflect a market basis less than cost and write-off the associated regulatory assets and liabilities. See Note 2 for further discussion.

**Revenue Recognition.** Revenues from the transportation of natural gas are recognized when the service is provided. Revenues related to these services provided but not yet billed are estimated each month. These estimates are generally based on contract data, regulatory information, and preliminary throughput and allocation measurements. Final bills for the current month are billed and collected in the following month. Differences between actual and estimated revenues are immaterial.

**Significant Customers.** Customers accounting for 10% or more of firm revenues, excluding the impact of capacity releases to other customers, during the year ended December 31, 2018 are as follows:

| | % of Revenue | |
|---|---|---|
| Customer | 2018 | 2017 |
| **NextEra Energy, Inc.** | 61% | 86% |
| **Duke Energy Corporation** | 38% | 14% |

**Allowance for Funds Used During Construction ("AFUDC").** AFUDC, which represents the estimated debt and equity costs of capital funds necessary to finance the construction of certain new regulated facilities, consists of two components, an equity component and an interest expense component. The equity component is a non-cash item. After construction is completed, we are permitted to recover these costs through inclusion in the rate base and in the depreciation provision. AFUDC is capitalized as a component of Property, Plant and Equipment in the Balance Sheet, with offsetting credits to the Statement of Operations through Other Income for the equity component and the interest expense component. The total amount of AFUDC included in the Statements of Income was $5.3 million in 2018 (an equity component of $3.7 million and an interest expense component of $1.6 million) and $106.9 million in 2017 (an equity component of $74.1 million and an interest expense component of $32.8 million).

**Income Taxes.** We are not subject to federal income taxes, but rather our taxable income or loss is reported on the income tax returns of our partners.

We are subject to cost-based regulation and consequently record a regulatory tax asset in connection with the tax gross up of allowance for funds used during construction equity. The corresponding deferred tax liability is recognized as an Attributed Deferred Income Tax Benefit in the Statement of Members' Equity since we are a pass-through entity.

**Cash and Cash Equivalents.** Highly liquid investments with original maturities of three months or less at the date of acquisition are considered cash equivalents.

**Other-restricted funds.** Funds are used strictly for settlements of right of way obligations.

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

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

**Preliminary Project Costs.** Project development costs, including expenditures for preliminary surveys, plans, investigations, environmental studies, regulatory applications and other costs incurred for the purpose of determining the feasibility of capital expansion projects, are capitalized when it is determined that recovery of such costs through regulated revenues of the completed project is probable.

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

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

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

**Unamortized Debt Premium, Discount and Expense.** Premiums, discounts and expenses incurred with the issuance of outstanding long-term debt are amortized over the terms of the debt issued. Any call premiums or unamortized expenses associated with refinancing higher-cost debt obligations to finance regulated assets and operations are amortized consistent with regulatory treatment of those items, where appropriate.

**Environmental Expenditures.** We expense environmental expenditures related to conditions caused by past operations that do not generate current or future revenues. Environmental expenditures related to operations that generate current or future revenues

are expensed or capitalized, as appropriate. Undiscounted liabilities are recorded when the necessity for environmental remediation becomes probable and the costs can be reasonably estimated, or when other potential environmental liabilities are reasonably estimable and probable.

**New Accounting Pronouncements.** The following new Accounting Standards Updates ("ASUs") were adopted during 2018 and the effect of such adoptions, if any, have been presented in the accompanying Financial Statements:

*Simplifying Cash Flow Classification*
Effective January 1, 2018, we adopted ASU 2016-15 on a retrospective basis. The new standard reduces diversity in practice of how certain cash receipts and cash payments are classified in the Statements of Cash Flows. The new guidance addresses eight specific presentation issues. We assessed each of the eight specific presentation issues and determined that the adoption of this ASU did not have a material impact on our financial statements.

**Pending.** The following ASUs were issued but not adopted as of December 31, 2018:

*Clarifying Interaction between Collaborative Arrangements and Revenue from Contracts with Customers*
In November 2018, ASU 2018-18 was issued to provide clarity on when transactions between entities in a collaborative arrangement should be accounted for under the new revenue standard, ASC 606. In determining whether transactions in collaborative arrangements should be accounted under the revenue standard, the update specifies that entities shall apply unit of account guidance to identify distinct goods or services and whether such goods and services are separately identifiable from other promises in the contract. ASU 2018-18 also precludes entities from presenting transactions with a collaborative partner which are not in scope of the new revenue standard together with revenue from contracts with customers. The accounting update is effective January 1, 2020 and early adoption is permitted. We are currently assessing the impact of the new standard on our financial statements.

*Disclosure Effectiveness*
In August 2018, the Financial Accounting Standards Board ("FASB") issued amendments as a part of its disclosure framework project aimed to improve the effectiveness of disclosures in the notes to financial statements. ASU 2018-13 was issued to modify the disclosure requirements in *ASC 820, Fair Value Measurement*. The amendments in ASU 2018-13 eliminate and modify some disclosures, while also adding new disclosures for fair value measurements. This update is effective January 1, 2020, however entities are permitted to early adopt the eliminated or modified current disclosures. We are currently assessing the impact of the new standard on our financial statements.

Further, ASU 2018-19 was issued in November 2018 to clarify that operating lease receivables should be accounted for under the new leases standard, ASC 842, and are not within the scope of *ASC 326, Financial Instrument - Credit Losses*. Both accounting updates are effective January 1, 2020. We are currently assessing the impact of the new standard on our financial statements.

*Recognition of Leases*
ASU 2016-02 was issued in February 2016 with the intent to increase transparency and comparability among organizations. It requires lessees of operating lease arrangements to recognize lease assets and lease liabilities on the statement of financial position and disclose additional key information about lease agreements. The accounting update also replaces the current definition of a lease and requires that an arrangement be recognized as a lease when a customer has the right to obtain substantially all of the economic benefits from the use of an asset, as well as the right to direct the use of the asset. We will adopt the new standard on January 1, 2020 and we intend to apply the transition practical expedients offered in connection with this update. The election to apply the package of practical expedients allows an entity to not apply the new lease standard to the prior year comparative periods in the year of adoption. Application of the package of practical expedients also permits entities not to reassess a) whether any expired or existing contracts contain leases in accordance with the new guidance, b) lease classifications, and c) whether initial direct costs capitalized under current guidance continue to meet the definition of initial direct costs under the new guidance.

Further, ASU 2018-01 was issued in January 2018 to address stakeholder concerns about the costs and complexity of complying with the transition provisions of the new lease requirements as they relate to land easements. The amendments provide an optional transition practical expedient to not evaluate existing or expired land easements that were not previously accounted for as leases under existing guidance. We intend to elect this practical expedient in connection with the adoption of the new lease requirements.

We are currently assessing the impact of the new standard on our financial statements, along with the other practical expedients offered in connection with this update.

*Revenue from Contracts with Customers*
ASU 2014-09 was issued in 2014 with the intent of significantly enhancing consistency and comparability of revenue recognition practices across entities and industries. The new standard establishes a single, principles-based five-step model to be applied to all contracts with customers and introduces new and enhanced disclosure requirements. It also requires the use of more estimates and judgments than the present standards in addition to enhanced disclosures. The new standard is effective January 1, 2019 and permits either a full retrospective method of adoption with restatement of all prior periods presented, or a modified retrospective method with the cumulative effect of applying the new standard recognized as an adjustment to opening retained earnings in the period of adoption. We have decided to adopt the new standard using the modified retrospective method.

Based on our assessment, we do not anticipate that the adoption of the new revenue standard will have a material impact on our financial statements. The most significant effect of adopting the new standard will be the additional disclosures which will be required commencing in 2019.

## 2. Regulatory Matters

**Regulatory Assets.** We record assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP for non-regulated entities. See Note 1 for further discussion.

We have regulatory assets related to the income tax gross up of AFUDC equity. The total amount of regulatory asset included in the Balance Sheet was $63.5 million as of December 31, 2018 and December 31, 2017. All amounts are expected to be included in future rate filings and will be recovered over the life of the associated asset. We have no regulatory liabilities of as of December 31, 2018 and December 31, 2017.

## 3. Transactions with Affiliates

| **Statements of Operations** | **December 31, 2018** | **December 31, 2017** |
|---|---|---|
| | **(in millions)** | |
| Operating revenues (a) | $ 335.5 | $ 133.7 |
| Operating, maintenance and other (b) | 13.6 | 4.0 |

(a) In the normal course of business, we provide natural gas transmission services to NextEra and Duke.
(b) Includes management and operating services provided by Spectra Energy Partners and its affiliates pursuant to an agreement entered into between us and an affiliate of Spectra Energy Partners.

| **Balance Sheets** | **December 31, 2018** | **December 31, 2017** |
|---|---|---|
| | **(in millions)** | |
| Receivables - trade | $ 31.2 | $ 17.6 |
| Current assets - other | 2.5 | 2.5 |
| Accounts payable - affiliates | 3.7 | 2.5 |

Transactions billed from affiliates, included within Property, Plant and Equipment in the Balance Sheet, were $5.9 million for the year ended December 31, 2018 and $36.1 million for the year ended December 31, 2017.

### 4. Property, Plant and Equipment

| | Weighted Average Depreciation | December 31, 2018 | December 31, 2017 |
|---|---|---|---|
| | | (in millions) | |
| Plant | | | |
| Natural gas transmission | 1.65% | $ 2,671.4 | $ 2,350.6 |
| Rights of way | 1.81% | 270.8 | 321.1 |
| Land | | 8.1 | 8.3 |
| Construction in progress | | 59.9 | 246.1 |
| Other | 2.5% | 9.6 | 11.6 |
| Total property, plant and equipment | | 3,019.8 | 2,937.7 |
| Total accumulated depreciation | | (71.2) | (24.1) |
| Total net property, plant and equipment | | $ 2,948.6 | $ 2,913.6 |

We had no capital leases at December 31, 2018 and December 31, 2017.

Composite weighted-average depreciation rate was 1.67% and 1.66% for the years ended December 31, 2018 and December 31, 2017 respectively.

Property, Plant and Equipment accruals were $3.0 million as of December 31, 2018 and $46.6 million as of December 31, 2017.

Amortization expense of intangible assets was $0.3 million for the year ended December 31, 2018 and $0.1 million for the year ended December 31, 2017 . Estimated amortization expense for 2019 through 2023 is $0.2 million per year.

### 5. Debt

**Summary of Debt and Related Terms**

| | Year Due | December 31, 2018 | December 31, 2017 |
|---|---|---|---|
| 4.246% senior unsecured bonds | 2028 | 500.0 | — |
| 4.682% senior unsecured bonds | 2038 | 600.0 | — |
| 4.832% senior unsecured bonds | 2048 | 400.0 | — |
| Unamortized debt expenses | | (13.4) | — |
| **Total long-term debt** | | $ 1,486.6 | $ — |

### 6. Credit Risk

Our principal customers for natural gas transportation services are utilities located throughout the state of Florida. We have concentrations of receivables from the utility sector in the state of Florida. These concentrations of customers may affect our overall credit risk in that risk factors can negatively affect the credit quality of the entire sector. Where exposed to credit risk, we analyze the customers' financial condition prior to entering into an agreement, establish credit limits and monitor the appropriateness of those limits on an ongoing basis. We also obtain parental guarantees, cash deposits or letters of credit from customers to provide credit support, where appropriate, based on our financial analysis of the customer and the regulatory or contractual terms and conditions applicable to each contract.

### 7. Commitments and Contingencies

**General Insurance.** We are included in the corporate insurance programs maintained by our respective owners in proportion to their respective interest in our company. Those programs include insurance coverage in types and amounts and with terms and conditions that are generally consistent with coverage considered customary for our industry.

**Environmental.** We are subject to various U.S. federal, state and local laws and regulations relating to the protection of the environment. These laws and regulations can change from time to time, imposing new obligations on us.

Environmental risk is inherent to liquid hydrocarbon and natural gas pipeline operations, and we and our affiliates are, at times, subject to environmental remediation at various contaminated sites. We manage this environmental risk through appropriate environmental policies and practices to minimize any impact our operations may have on the environment. We expense or capitalize, as appropriate, expenditures for ongoing compliance with environmental regulations that relate to past or current operations. We expense amounts we incur for remediation of existing environmental contamination caused by past operations that do not benefit future periods by preventing or eliminating future contamination. We record liabilities for environmental matters when assessments indicate that remediation efforts are probable, and the costs can be reasonably estimated. Estimates of environmental liabilities are based on currently available facts, existing technology and presently enacted laws and regulations taking into consideration the likely effects of inflation and other factors. These amounts also consider prior experience in remediating contaminated sites, other companies' clean-up experience and data released by government organizations. Our estimates are subject to revision in future periods based on actual costs or new information and are included in Regulatory and other liabilities in our balance sheets at their undiscounted amounts. We always have the potential of incurring additional costs in connection with environmental liabilities due to variations in any or all of the categories described above, including modified or revised requirements from regulatory agencies, in addition to fines and penalties, as well as expenditures associated with litigation and settlement of claims. We evaluate recoveries from insurance coverage separately from the liability and, when recovery is probable, we record and report an asset separately from the associated liability in our financial statements.

We recognize liabilities for other commitments and contingencies when, after fully analyzing the available information, we determine it is either probable that an asset has been impaired, or that a liability has been incurred and the amount of impairment or loss can be reasonably estimated. When a range of probable loss can be estimated, we accrue the most likely amount, or if no amount is more likely than another, we accrue the minimum of the range of probable loss. We expense legal costs associated with loss contingencies as such costs are incurred.

**Litigation.** We are subject to various legal and regulatory actions and proceedings which arise in the normal course of business, including interventions in regulatory proceedings and challenges to regulatory approvals and permits by special interest groups. While the final outcome of such actions and proceedings cannot be predicted with certainty, management believes that the resolution of such actions and proceedings will not have a material impact on our financial position or results of operations.

Legal costs related to the defense of loss contingencies are expensed as incurred. We had no material reserves for legal matters recorded as of December 31, 2018 and December 31, 2017 related to litigation.

**8. Subsequent Events**

We have evaluated significant events and transactions that occurred from January 1, 2019 through March 29, 2019, the date the financial statements were issued.