ENTERPRISE PRODUCTS PARTNERS L P
Form 10-Q
November 08, 2018

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___ to ___.

Commission file number: 1-14323

ENTERPRISE PRODUCTS PARTNERS L.P.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	76-0568219
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1100 Louisiana Street, 10th Floor
Houston, Texas 77002
(Address of Principal Executive Offices, including Zip Code)

(713) 381-6500
(Registrant's Telephone Number, including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 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		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 No

There were 2,182,661,550 common units of Enterprise Products Partners L.P. outstanding at the close of business on October 31, 2018. Our common units trade on the New York Stock Exchange under the ticker symbol "EPD."

ENTERPRISE PRODUCTS PARTNERS L.P.
TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION.

Item 1. Financial Statements.

ENTERPRISE PRODUCTS PARTNERS L.P.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$30.2	$5.1
Restricted cash	248.9	65.2
Accounts receivable – trade, net of allowance for doubtful accounts of $12.2 at September 30, 2018 and $12.1 at December 31, 2017	4,222.9	4,358.4
Accounts receivable – related parties	1.6	1.8
Inventories	2,335.8	1,609.8
Derivative assets	236.6	153.4
Prepaid and other current assets	609.9	312.7
Total current assets	7,685.9	6,506.4
Property, plant and equipment, net	37,802.9	35,620.4
Investments in unconsolidated affiliates	2,603.4	2,659.4
Intangible assets, net of accumulated amortization of $1,693.4 at September 30, 2018 and $1,564.8 at December 31, 2017 (see Note 6)	3,654.2	3,690.3
Goodwill (see Note 6)	5,745.2	5,745.2
Other assets	260.6	196.4
Total assets	$57,752.2	$54,418.1
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of debt (see Note 7)	$3,405.5	$2,855.0
Accounts payable – trade	1,153.2	801.7
Accounts payable – related parties	136.2	127.3
Accrued product payables	5,149.8	4,566.3
Accrued interest	190.5	358.0
Derivative liabilities	487.1	168.2
Other current liabilities	400.0	418.6
Total current liabilities	10,922.3	9,295.1
Long-term debt (see Note 7)	22,508.5	21,713.7
Deferred tax liabilities	68.4	58.5
Other long-term liabilities	747.2	578.4
Commitments and contingencies (see Note 16)		
Equity: (see Note 8)		
Partners' equity:		
Limited partners:		
Common units (2,182,661,550 units outstanding at September 30, 2018 and 2,161,089,479 units outstanding at December 31, 2017)	23,380.4	22,718.9
Accumulated other comprehensive loss	(307.3)	(171.7)

Total partners' equity	23,073.1	22,547.2
Noncontrolling interests	432.7	225.2
Total equity	23,505.8	22,772.4
Total liabilities and equity	$57,752.2	$54,418.1

See Notes to Unaudited Condensed Consolidated Financial Statements.

2

Table of Contents

ENTERPRISE PRODUCTS PARTNERS L.P.
UNAUDITED CONDENSED STATEMENTS OF CONSOLIDATED OPERATIONS
(Dollars in millions, except per unit amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Third parties	$9,571.7	$6,874.4	$27,257.4	$20,781.7
Related parties	14.2	12.5	94.5	33.2
Total revenues (see Note 9)	9,585.9	6,886.9	27,351.9	20,814.9
Costs and expenses:				
Operating costs and expenses:				
Third parties	7,643.4	5,773.8	22,722.0	17,313.0
Related parties	358.5	306.0	1,054.6	830.2
Total operating costs and expenses	8,001.9	6,079.8	23,776.6	18,143.2
General and administrative costs:				
Third parties	15.3	11.0	57.5	47.7
Related parties	37.4	30.3	99.6	89.7
Total general and administrative costs	52.7	41.3	157.1	137.4
Total costs and expenses (see Note 10)	8,054.6	6,121.1	23,933.7	18,280.6
Equity in income of unconsolidated affiliates	112.0	113.4	350.0	315.2
Operating income	1,643.3	879.2	3,768.2	2,849.5
Other income (expense):				
Interest expense	(279.5)	(243.9)	(806.2)	(739.0)
Change in fair market value of Liquidity Option Agreement (see Note 16)	(18.5)	(8.9)	(34.9)	(33.0)
Gain on step acquisition of unconsolidated affiliate (see Note 11)	--	--	39.4	--
Other, net	0.3	0.3	1.3	0.9
Total other expense, net	(297.7)	(252.5)	(800.4)	(771.1)
Income before income taxes	1,345.6	626.7	2,967.8	2,078.4
Provision for income taxes	(11.0)	(5.4)	(34.5)	(20.1)
Net income	1,334.6	621.3	2,933.3	2,058.3
Net income attributable to noncontrolling interests	(21.4)	(10.4)	(45.6)	(33.0)
Net income attributable to limited partners	$1,313.2	$610.9	$2,887.7	$2,025.3
Earnings per unit: (see Note 12)				
Basic earnings per unit	$0.60	$0.28	$1.32	$0.94
Diluted earnings per unit	$0.60	$0.28	$1.32	$0.94

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

ENTERPRISE PRODUCTS PARTNERS L.P.
UNAUDITED CONDENSED STATEMENTS OF CONSOLIDATED
COMPREHENSIVE INCOME
(Dollars in millions)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$1,334.6	$621.3	$2,933.3	$2,058.3
Other comprehensive income (loss):				
Cash flow hedges:				
Commodity derivative instruments:				
Changes in fair value of cash flow hedges	(145.8)	(177.8)	(156.0)	(2.6)
Reclassification of gains to net income	(53.5)	(10.1)	(28.8)	(49.0)
Interest rate derivative instruments:				
Changes in fair value of cash flow hedges	6.1	(0.3)	20.7	(4.8)
Reclassification of losses to net income	9.1	10.3	29.0	29.9
Total cash flow hedges	(184.1)	(177.9)	(135.1)	(26.5)
Other	--	--	(0.5)	(0.1)
Total other comprehensive loss	(184.1)	(177.9)	(135.6)	(26.6)
Comprehensive income	1,150.5	443.4	2,797.7	2,031.7
Comprehensive income attributable to noncontrolling interests	(21.4)	(10.4)	(45.6)	(33.0)
Comprehensive income attributable to limited partners	$1,129.1	$433.0	$2,752.1	$1,998.7

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

ENTERPRISE PRODUCTS PARTNERS L.P.
UNAUDITED CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
(Dollars in millions)

	For the Nine Months Ended September 30,	
	2018	2017
Operating activities:		
Net income	$2,933.3	$2,058.3
Reconciliation of net income to net cash flows provided by operating activities:		
Depreciation, amortization and accretion	1,360.5	1,221.4
Asset impairment and related charges (see Note 14)	21.4	35.2
Equity in income of unconsolidated affiliates	(350.0)	(315.2)
Distributions received on earnings from unconsolidated affiliates	345.7	316.2
Net gains attributable to asset sales	(8.1)	(1.1)
Deferred income tax expense	9.3	1.1
Change in fair market value of derivative instruments	254.9	(14.2)
Change in fair market value of Liquidity Option Agreement	34.9	33.0
Gain on step acquisition of unconsolidated affiliate (see Note 11)	(39.4)	--
Net effect of changes in operating accounts (see Note 17)	(261.9)	(512.1)
Other operating activities	(25.3)	(2.7)
Net cash flows provided by operating activities	4,275.3	2,819.9
Investing activities:		
Capital expenditures	(3,004.2)	(2,118.2)
Cash used for business combinations, net of cash received (see Note 11)	(150.6)	(198.7)
Investments in unconsolidated affiliates	(95.1)	(32.8)
Distributions received for return of capital from unconsolidated affiliates	47.0	36.8
Proceeds from asset sales	24.1	6.2
Other investing activities	(4.0)	2.8
Cash used in investing activities	(3,182.8)	(2,303.9)
Financing activities:		
Borrowings under debt agreements	67,086.3	53,150.4
Repayments of debt	(65,742.1)	(52,133.2)
Debt issuance costs	(25.2)	(24.0)
Cash distributions paid to limited partners (see Note 8)	(2,782.9)	(2,660.4)
Cash payments made in connection with distribution equivalent rights	(13.2)	(11.2)
Cash distributions paid to noncontrolling interests	(50.9)	(35.4)
Cash contributions from noncontrolling interests (see Note 8)	222.0	0.4
Net cash proceeds from the issuance of common units (see Note 8)	449.4	877.2
Other financing activities	(27.1)	2.3
Cash used in financing activities	(883.7)	(833.9)
Net change in cash and cash equivalents, including restricted cash	208.8	(317.9)
Cash and cash equivalents, including restricted cash, at beginning of period	70.3	417.6
Cash and cash equivalents, including restricted cash, at end of period	$279.1	$99.7

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

ENTERPRISE PRODUCTS PARTNERS L.P.
UNAUDITED CONDENSED STATEMENTS OF CONSOLIDATED EQUITY
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018
(Dollars in millions)

	Partners' Equity			
For the Three Months Ended September 30, 2018:	Limited Partners	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
Balance, June 30, 2018	$22,794.8	$ (123.2)	$ 418.9	$23,090.5
Net income	1,313.2	--	21.4	1,334.6
Cash distributions paid to limited partners	(935.6)	--	--	(935.6)
Cash payments made in connection with distribution equivalent rights	(4.6)	--	--	(4.6)
Cash distributions paid to noncontrolling interests	--	--	(22.6)	(22.6)
Cash contributions from noncontrolling interests	--	--	15.1	15.1
Net cash proceeds from the issuance of common units	188.4	--	--	188.4
Common units issued in connection with employee compensation	--	--	--	--
Common units issued in connection with land acquisition	--	--	--	--
Amortization of fair value of equity-based awards	24.9	--	--	24.9
Cash flow hedges	--	(184.1)	--	(184.1)
Other	(0.7)	--	(0.1)	(0.8)
Balance, September 30, 2018	$23,380.4	$ (307.3)	$ 432.7	$23,505.8

	Partners' Equity			
For the Nine Months Ended September 30, 2018:	Limited Partners	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
Balance, December 31, 2017	$22,718.9	$ (171.7)	$ 225.2	$22,772.4
Net income	2,887.7	--	45.6	2,933.3
Cash distributions paid to limited partners	(2,782.9)	--	--	(2,782.9)
Cash payments made in connection with distribution equivalent rights	(13.2)	--	--	(13.2)
Cash distributions paid to noncontrolling interests	--	--	(50.9)	(50.9)
Cash contributions from noncontrolling interests	--	--	222.0	222.0
Net cash proceeds from the issuance of common units	449.4	--	--	449.4
Common units issued in connection with employee compensation	39.1	--	--	39.1
Common units issued in connection with land acquisition	30.0	--	--	30.0
Amortization of fair value of equity-based awards	77.5	--	--	77.5
Cash flow hedges	--	(135.1)	--	(135.1)
Other	(26.1)	(0.5)	(9.2)	(35.8)
Balance, September 30, 2018	$23,380.4	$ (307.3)	$ 432.7	$23,505.8

See Notes to Unaudited Condensed Consolidated Financial Statements. For information regarding Unit History, Accumulated Other Comprehensive Income (Loss) and Noncontrolling Interests, see Note 8.

Table of Contents

ENTERPRISE PRODUCTS PARTNERS L.P.
UNAUDITED CONDENSED STATEMENTS OF CONSOLIDATED EQUITY
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017
(Dollars in millions)

	Partners' Equity			
For the Three Months Ended September 30, 2017:	Limited Partners	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
Balance, June 30, 2017	$22,788.8	$ (128.7)	$ 220.1	$22,880.2
Net income	610.9	--	10.4	621.3
Cash distributions paid to limited partners	(902.6)	--	--	(902.6)
Cash payments made in connection with distribution equivalent rights	(4.0)	--	--	(4.0)
Cash distributions paid to noncontrolling interests	--	--	(12.3)	(12.3)
Cash contributions from noncontrolling interests	--	--	0.1	0.1
Net cash proceeds from the issuance of common units	120.0	--	--	120.0
Common units issued in connection with employee compensation	--	--	--	--
Amortization of fair value of equity-based awards	24.3	--	--	24.3
Cash flow hedges	--	(177.9)	--	(177.9)
Other	(0.2)	--	--	(0.2)
Balance, September 30, 2017	$22,637.2	$ (306.6)	$ 218.3	$22,548.9

	Partners' Equity			
For the Nine Months Ended September 30, 2017:	Limited Partners	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
Balance, December 31, 2016	$22,327.0	$ (280.0)	$ 219.0	$22,266.0
Net income	2,025.3	--	33.0	2,058.3
Cash distributions paid to limited partners	(2,660.4)	--	--	(2,660.4)
Cash payments made in connection with distribution equivalent rights	(11.2)	--	--	(11.2)
Cash distributions paid to noncontrolling interests	--	--	(35.4)	(35.4)
Cash contributions from noncontrolling interests	--	--	0.4	0.4
Net cash proceeds from the issuance of common units	877.2	--	--	877.2
Common units issued in connection with employee compensation	33.7	--	--	33.7
Amortization of fair value of equity-based awards	74.1	--	--	74.1
Cash flow hedges	--	(26.5)	--	(26.5)
Other	(28.5)	(0.1)	1.3	(27.3)
Balance, September 30, 2017	$22,637.2	$ (306.6)	$ 218.3	$22,548.9

See Notes to Unaudited Condensed Consolidated Financial Statements. For information regarding Unit History, Accumulated Other Comprehensive Income (Loss) and Noncontrolling Interests, see Note 8.

Table of Contents

ENTERPRISE PRODUCTS PARTNERS L.P.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

With the exception of per unit amounts, or as noted within the context of each disclosure, the dollar amounts presented in the tabular data within these disclosures are stated in millions of dollars.

KEY REFERENCES USED IN THESE
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unless the context requires otherwise, references to “we,” “us,” “our,” “Enterprise” or “Enterprise Products Partners” are intended to mean the business and operations of Enterprise Products Partners L.P. and its consolidated subsidiaries. References to “EPO” mean Enterprise Products Operating LLC, which is a wholly owned subsidiary of Enterprise, and its consolidated subsidiaries, through which Enterprise Products Partners L.P. conducts its business. Enterprise is managed by its general partner, Enterprise Products Holdings LLC (“Enterprise GP”), which is a wholly owned subsidiary of Dan Duncan LLC, a privately held Texas limited liability company.

The membership interests of Dan Duncan LLC are owned by a voting trust, the current trustees (“DD LLC Trustees”) of which are: (i) Randa Duncan Williams, who is also a director and Chairman of the Board of Directors (the “Board”) of Enterprise GP; (ii) Richard H. Bachmann, who is also a director and Vice Chairman of the Board of Enterprise GP; and (iii) Dr. Ralph S. Cunningham. Ms. Duncan Williams and Mr. Bachmann also currently serve as managers of Dan Duncan LLC along with W. Randall Fowler, who is also a director and the President and Chief Financial Officer of Enterprise GP.

References to “EPCO” mean Enterprise Products Company, a privately held Texas corporation, and its privately held affiliates. A majority of the outstanding voting capital stock of EPCO is owned by a voting trust, the current trustees (“EPCO Trustees”) of which are: (i) Ms. Duncan Williams, who serves as Chairman of EPCO; (ii) Dr. Cunningham, who serves as Vice Chairman of EPCO; and (iii) Mr. Bachmann, who serves as the President and Chief Executive Officer of EPCO. Ms. Duncan Williams and Mr. Bachmann also currently serve as directors of EPCO along with Mr. Fowler, who is also the Executive Vice President and Chief Administrative Officer of EPCO. EPCO, together with its privately held affiliates, owned approximately 32% of our limited partner interests at September 30, 2018.

References to “TEPPCO” mean TEPPCO Partners, L.P. prior to its merger with one of our wholly owned subsidiaries in October 2009.

Note 1. Partnership Organization and Basis of Presentation

We are a publicly traded Delaware limited partnership, the common units of which are listed on the New York Stock Exchange (“NYSE”) under the ticker symbol “EPD.” We were formed in April 1998 to own and operate certain natural gas liquids (“NGLs”) related businesses of EPCO and are a leading North American provider of midstream energy services to producers and consumers of natural gas, NGLs, crude oil, petrochemicals and refined products.

We conduct substantially all of our business through EPO and are owned 100% by our limited partners from an economic perspective. Enterprise GP manages our partnership and owns a non-economic general partner interest in us. We, Enterprise GP, EPCO and Dan Duncan LLC are affiliates under the collective common control of the DD LLC Trustees and the EPCO Trustees. Like many publicly traded partnerships, we have no employees. All of our management, administrative and operating functions are performed by employees of EPCO pursuant to an administrative services agreement (the “ASA”) or by other service providers. See Note 15 for information regarding related party matters.

Our results of operations for the nine months ended September 30, 2018 are not necessarily indicative of results expected for the full year of 2018. In our opinion, the accompanying Unaudited Condensed Consolidated Financial Statements include all adjustments consisting of normal recurring accruals necessary for fair presentation. Although we believe the disclosures in these financial statements are adequate and make the information presented not misleading, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC").

These Unaudited Condensed Consolidated Financial Statements and Notes thereto should be read in conjunction with the Audited Consolidated Financial Statements and Notes thereto included in our annual report on Form 10-K for the year ended December 31, 2017 (the "2017 Form 10-K") filed with the SEC on February 28, 2018.

Note 2. Summary of Significant Accounting Policies

Apart from those matters noted below, there have been no changes in our significant accounting policies since those reported under Note 2 of the 2017 Form 10-K.

Adoption of New Revenue Recognition Policies on January 1, 2018
For periods through December 31, 2017, we accounted for our revenue streams using Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 605, Revenue Recognition. Under ASC 605, we recognized revenue when all of the following criteria were met: (i) persuasive evidence of an exchange arrangement existed between us and the counterparty (e.g., published tariffs), (ii) delivery of products or the rendering of services had occurred, (iii) the price of the products or the fee for services was fixed or determinable and (iv) collectibility of the amount owed by the counterparty was reasonably assured.

Effective January 1, 2018, we adopted FASB ASC 606, Revenue from Contracts with Customers, using a modified retrospective approach that applied the new revenue recognition standard to existing contracts at the implementation date and any future revenue contracts. As such, our consolidated revenues and related financial information for periods prior to January 1, 2018 were not adjusted and continue to be reported in accordance with ASC 605. We did not record a cumulative effect adjustment upon initially applying ASC 606 since there was no impact on partners' equity upon adoption; however, the extent of our revenue-related disclosures has increased under the new standard.

Due to the large number of individual contracts that were in effect at the implementation date of ASC 606, we evaluated our contracts using a portfolio approach based on the types of products sold or services rendered within our business segments. There are no material differences in the amount or timing of revenues recognized under ASC 606 when compared to ASC 605.

The core principle of ASC 606 is that a company should recognize revenue in a manner that fairly depicts the transfer of goods or services to customers in amounts that reflect the consideration the company expects to receive for those goods or services. We apply this core principle by following five key steps outlined in ASC 606: (i) identify the contract; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the performance obligation is satisfied. Each of these steps involves management judgment and an analysis of the contract's material terms and conditions.

Substantially all of our revenues are accounted for under ASC 606; however, to a limited extent, some revenues are accounted for under other guidance such as ASC 840, Leases, ASC 845, Nonmonetary Transactions or ASC 815, Derivatives and Hedging Activities.

Under ASC 606, we recognize revenue when or as we satisfy our performance obligation to the customer. In situations where we have recognized revenue, but have a conditional right to consideration (based on something other than the passage of time) from the customer, we recognize unbilled revenue (a contract asset) on our consolidated balance sheet. Unbilled revenue is reclassified to accounts receivable when we have an unconditional right of payment from the customer. Payments received from customers in advance of the period in which we satisfy a performance obligation are recorded as deferred revenue (a contract liability) on our consolidated balance sheet.

Table of Contents

Our revenue streams are derived from the sale of products and providing midstream services. Revenues from the sale of products are recognized at a point in time, which represents the transfer of control (and the satisfaction of our performance obligation under the contract) to the customer. From that point forward, the customer is able to direct the use of, and obtain substantially all the benefits from, its use of the products. With respect to midstream services (e.g., interruptible transportation), we satisfy our performance obligations over time and recognize revenues when the services are provided and the customer receives the benefits based on an output measure of volumes redelivered. We believe this measure is a faithful depiction of the transfer of control for midstream services since there is (i) an insignificant period of time between the receipt of customers' volumes and their subsequent redelivery, and (ii) it is not possible to individually track and differentiate customers' inventories as they traverse our facilities. For stand-ready performance obligations (e.g., a storage capacity reservation contract), we recognize revenues over time on a straight-line basis as time elapses over the term of the contract. We believe that these approaches accurately depict the transfer of benefits to the customer.

Customers are invoiced for product purchases or services rendered when we have an unconditional right to consideration under the associated contract. The consideration we are entitled to invoice may be either fixed, variable or a combination of both. Examples of fixed consideration would be fixed payments from customers under take-or-pay arrangements, storage capacity reservation agreements and firm transportation contracts. Variable consideration represents payments from customers that are based on factors that fluctuate (or vary) based on volumes, prices or both. Examples of variable consideration include interruptible transportation agreements, market-indexed product sales contracts and the value of NGLs we retain under natural gas processing agreements. The terms of our billings are typical of the industry for the products we sell.

Under certain midstream service agreements, customers are required to provide a minimum volume over an agreed-upon period with a provision that allows the customer to make-up any volume shortfalls over an agreed-upon period (referred to as "make-up rights"). Revenue pursuant to such agreements is initially deferred and subsequently recognized when either the make-up rights are exercised, the likelihood of the customer exercising the rights becomes remote, or we are otherwise released from the performance obligation.

Customers may contribute funds to us to help offset the construction costs related to pipeline construction activities and production well tie-ins. Under ASC 605, these amounts were accounted for as contributions in aid of construction costs ("CIACs") and netted against property, plant and equipment. Under ASC 606, these receipts are recognized as additional service revenues over the term of the associated midstream services provided to the customer.

As a practical expedient, for those contracts under which we have the ability to invoice the customer in an amount that corresponds directly with the value of the performance obligation completed to date, we recognize revenue as we have the right to invoice.

See Note 9 regarding our new revenue disclosures.

Impact of ASU 2016-18 on Restricted Cash Disclosures
We adopted Accounting Standard Update ("ASU") No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, in the fourth quarter of 2017 and applied this ASU retrospectively to the periods presented in our Unaudited Condensed Statements of Consolidated Cash Flows. As a result, the decrease in restricted cash of $287.7 million was excluded from net cash used in investing activities for the nine months ended September 30, 2017.

The following table provides a reconciliation of cash and cash equivalents, and restricted cash reported within the Unaudited Condensed Consolidated Balance Sheets that sum to the total of the amounts shown in the Unaudited

Condensed Statements of Consolidated Cash Flows.

	September 30, 2018	December 31, 2017
Cash and cash equivalents	$ 30.2	$ 5.1
Restricted cash	248.9	65.2
Total cash, cash equivalents and restricted cash shown in the Unaudited Condensed Statements of Consolidated Cash Flows	$ 279.1	$ 70.3

Table of Contents
ENTERPRISE PRODUCTS PARTNERS L.P.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Restricted cash represents amounts held in segregated bank accounts by our clearing brokers as margin in support of our commodity derivative instruments portfolio and related physical purchases and sales of natural gas, NGLs, crude oil and refined products. Additional cash may be restricted to maintain our commodity derivative instruments portfolio as prices fluctuate or margin requirements change. The balance of restricted cash at September 30, 2018 consisted of initial margin requirements of $58.9 million and variation margin requirements of $190.0 million. The initial margin requirements will be returned to us as the related derivative instruments are settled. See Note 14 for information regarding our derivative instruments and hedging activities.

Other Recent Accounting Developments
Lease accounting standard. In February 2016, the FASB issued ASC 842, Leases ("ASC 842"), which requires substantially all leases to be recorded on the balance sheet. We will adopt the new standard on January 1, 2019 and apply it to (i) all new leases entered into after January 1, 2019 and (ii) all existing lease contracts as of January 1, 2019. ASC 842 will supersede existing lease accounting guidance found under ASC 840, Leases ("ASC 840").

The new standard introduces two lease accounting models, which result in a lease being classified as either a "finance" or "operating" lease on the basis of whether the lessee effectively obtains control of the underlying asset during the lease term. A lease would be classified as a finance lease if it meets one of five classification criteria, four of which are generally consistent with current lease accounting guidance. By default, a lease that does not meet the criteria to be classified as a finance lease will be deemed an operating lease. Regardless of classification, the initial measurement of both lease types will result in the balance sheet recognition of a right-of-use ("ROU") asset (representing a company's right to use the underlying asset for a specified period of time) and a corresponding lease liability. The lease liability will be recognized at the present value of the future lease payments, and the ROU asset will equal the lease liability adjusted for any prepaid rent, lease incentives provided by the lessor, and any indirect costs.

The subsequent measurement of each type of lease varies. Finance leases will be accounted for using the effective interest method. Under this approach, a lessee will amortize the ROU asset (generally on a straight-line basis in a manner similar to depreciation) and the discount on the lease liability (as a component of interest expense). Operating leases will result in the recognition of a single lease expense amount that is recorded on a straight-line basis (or another systematic basis, as appropriate).

ASC 842 will result in changes to the way our operating leases are recorded, presented and disclosed in our consolidated financial statements. Upon adoption of ASC 842 on January 1, 2019, we expect to recognize a ROU asset and a corresponding lease liability based on the present value of then existing operating lease obligations. In addition, there are several key accounting policy elections that we will make upon adoption of ASC 842 including:

We will not recognize ROU assets and lease liabilities for short-term leases and instead record them in a manner similar to operating leases under legacy lease accounting guidelines. A short term lease is one with a maximum lease term of 12 months or less and does not include a purchase option the lessee is reasonably certain to exercise.

We will not assess whether any expired or existing contracts are or contain leases or the lease classification for any existing or expired leases.

The impact of adopting ASC 842 will be prospective beginning January 1, 2019. We will not recast prior periods presented in our consolidated financial statements to reflect the new lease accounting guidance.

Based on current information, we forecast that our total remaining payment obligations under then existing operating leases will approximate $310 million (undiscounted) at January 1, 2019. As a result, we expect to recognize an estimated $250 million ROU asset and a $250 million lease liability on our consolidated balance sheet based on discounted amounts. These amounts would represent less than 1% of our total consolidated assets and liabilities, respectively.

Fair value measurements. In August 2018, the FASB issued ASU 2018-13, Fair Value Measurements (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement, which amends certain disclosure requirements related to fair value measurements. The amendments will require incremental disclosures regarding uncertainties surrounding fair value measurements, including discussions of any interrelationships between significant unobservable inputs used to estimate Level 3 fair value measurements, and changes in unrealized gains and losses. The amendments in this ASU are effective January 1, 2020, which is when we expect to apply the new requirements. We are currently reviewing the effect of this ASU on our consolidated financial statements.

Credit losses. In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This ASU modifies the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology. These changes are expected to result in the more timely recognition of losses. The amendments in this ASU are effective January 1, 2020, which is when we expect to apply the new requirements to how the allowance for doubtful accounts is determined. We are currently reviewing the effect of this ASU on our consolidated financial statements.

Note 3. Inventories

Our inventory amounts by product type were as follows at the dates indicated:

	September 30, 2018	December 31, 2017
NGLs	$ 1,658.6	$ 917.4
Petrochemicals and refined products	198.6	161.5
Crude oil	467.0	516.3
Natural gas	11.6	14.6
Total	$ 2,335.8	$ 1,609.8

Due to fluctuating commodity prices, we recognize lower of cost or net realizable value adjustments when the carrying value of our available-for-sale inventories exceeds their net realizable value. The following table presents our total cost of sales amounts and lower of cost or net realizable value adjustments for the periods indicated:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Cost of sales (1)	$6,838.9	$5,049.6	$20,371.2	$15,116.4
Lower of cost or net realizable value adjustments recognized within cost of sales	1.7	1.7	4.3	7.7

(1) Cost of sales is a component of "Operating costs and expenses" as presented on our Unaudited Condensed Statements of Consolidated Operations. Fluctuations in these amounts are primarily due to changes in energy commodity prices and sales volumes associated with our marketing activities.

Table of Contents
ENTERPRISE PRODUCTS PARTNERS L.P.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Property, Plant and Equipment

The historical costs of our property, plant and equipment and related accumulated depreciation balances were as follows at the dates indicated:

	Estimated Useful Life in Years	September 30, 2018	December 31, 2017
Plants, pipelines and facilities (1)	3-45 (5)	$41,939.8	$37,132.2
Underground and other storage facilities (2)	5-40 (6)	3,527.8	3,460.9
Transportation equipment (3)	3-10	181.1	177.1
Marine vessels (4)	15-30	814.1	803.8
Land		360.0	273.1
Construction in progress		2,769.9	4,698.1
Total		49,592.7	46,545.2
Less accumulated depreciation		11,789.8	10,924.8
Property, plant and equipment, net		$37,802.9	$35,620.4

(1) Plants, pipelines and facilities include processing plants; NGL, natural gas, crude oil and petrochemical and refined products pipelines; terminal loading and unloading facilities; buildings; office furniture and equipment; laboratory and shop equipment and related assets. We placed a number of growth projects into service since December 31, 2017 including our propane dehydrogenation facility, the first processing train at our Orla natural gas processing facility, and our ninth NGL fractionator at Mont Belvieu.
(2) Underground and other storage facilities include underground product storage caverns; above ground storage tanks; water wells and related assets.
(3) Transportation equipment includes tractor-trailer tank trucks and other vehicles and similar assets used in our operations.
(4) Marine vessels include tow boats, barges and related equipment used in our marine transportation business.
(5) In general, the estimated useful lives of major assets within this category are: processing plants, 20-35 years; pipelines and related equipment, 5-45 years; terminal facilities, 10-35 years; buildings, 20-40 years; office furniture and equipment, 3-20 years; and laboratory and shop equipment, 5-35 years.
(6) In general, the estimated useful lives of assets within this category are: underground storage facilities, 5-35 years; storage tanks, 10-40 years; and water wells, 5-35 years.

In March 2018, we acquired the remaining 50% member interest of our Delaware Processing joint venture, which resulted in the consolidation of $200 million of property, plant and equipment. See Note 11 for information regarding this recent acquisition.

In April 2018, we acquired 65-acres of waterfront property on the Houston Ship Channel for approximately $85.2 million, all of which was recorded as land. The purchase price consisted of $55.2 million in cash with the balance funded through 1,223,242 newly-issued Enterprise common units. The land is located immediately to the east of our

Enterprise Hydrocarbons Terminal ("EHT") and is expected to facilitate future expansion projects at EHT.

See Note 19 regarding the sale of our Red River System in October 2018.

The following table summarizes our depreciation expense and capitalized interest amounts for the periods indicated:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Depreciation expense (1)	$368.3	$327.5	$1,061.1	$966.1
Capitalized interest (2)	28.1	53.6	113.4	137.7

(1) Depreciation expense is a component of "Costs and expenses" as presented on our Unaudited Condensed Statements of Consolidated Operations.
(2) We capitalize interest costs incurred on funds used to construct property, plant and equipment while the asset is in its construction phase. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life as a component of depreciation expense. When capitalized interest is recorded, it reduces interest expense from what it would be otherwise.

Asset Retirement Obligations

Property, plant and equipment at September 30, 2018 and December 31, 2017 includes $49.6 million and $39.9 million, respectively, of asset retirement costs capitalized as an increase in the associated long-lived asset. The following table presents information regarding our asset retirement obligations, or AROs, since January 1, 2018:

ARO liability balance, December 31, 2017	$ 86.7
Liabilities incurred	0.5
Liabilities settled	(1.9)
Revisions in estimated cash flows	11.4
Accretion expense	4.5
ARO liability balance, September 30, 2018	$ 101.2

Note 5. Investments in Unconsolidated Affiliates

The following table presents our investments in unconsolidated affiliates by business segment at the dates indicated. We account for these investments using the equity method.

	Ownership Interest at September 30, 2018	September 30, 2018	December 31, 2017
NGL Pipelines & Services:			
Venice Energy Service Company, L.L.C.	13.1%	$ 24.7	$ 25.7
K/D/S Promix, L.L.C.	50%	31.2	30.9
Baton Rouge Fractionators LLC	32.2%	16.7	17.0
Skelly-Belvieu Pipeline Company, L.L.C.	50%	36.6	37.0
Texas Express Pipeline LLC	35%	328.6	314.4
Texas Express Gathering LLC	45%	44.7	35.9
Front Range Pipeline LLC	33.3%	175.7	165.7
Delaware Basin Gas Processing LLC (1)	100%	--	107.3
Crude Oil Pipelines & Services:			
Seaway Crude Pipeline Company LLC	50%	1,370.3	1,378.9
Eagle Ford Pipeline LLC	50%	385.1	385.2
Eagle Ford Terminals Corpus Christi LLC	50%	104.4	75.1
Natural Gas Pipelines & Services:			
White River Hub, LLC	50%	20.4	20.8
Old Ocean Pipeline, LLC	50%	1.6	--
Petrochemical & Refined Products Services:			
Centennial Pipeline LLC	50%	59.5	60.8
Other	Various	3.9	4.7
Total investments in unconsolidated affiliates		$ 2,603.4	$ 2,659.4

(1) In March 2018, we acquired the remaining 50% membership interest in our Delaware Processing joint venture. See Note 11 for information regarding this recent acquisition.

In May 2018, we and Energy Transfer Partners, L.P. (“ETP”) formed Old Ocean Pipeline, LLC to facilitate the resumption of full service on the Old Ocean natural gas pipeline owned by ETP. The 24-inch diameter Old Ocean Pipeline originates in Maypearl, Texas in Ellis County and extends south approximately 240 miles to Sweeny, Texas in Brazoria County. ETP serves as operator of the pipeline.

Table of Contents
ENTERPRISE PRODUCTS PARTNERS L.P.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table presents our equity in income (loss) of unconsolidated affiliates by business segment for the periods indicated:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
NGL Pipelines & Services	$28.3	$18.8	$87.1	$53.3
Crude Oil Pipelines & Services	83.7	95.9	265.1	266.3
Natural Gas Pipelines & Services	2.1	0.9	4.7	2.8
Petrochemical & Refined Products Services	(2.1)	(2.2)	(6.9)	(7.2)
Total	$112.0	$113.4	$350.0	$315.2

Summarized Combined Financial Information of Unconsolidated Affiliates
Combined results of operations data for the periods indicated for our unconsolidated affiliates are summarized in the following table (all data presented on a 100% basis):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Income Statement Data:				
Revenues	$439.1	$401.6	$1,296.4	$1,116.7
Operating income	258.0	249.3	789.8	682.8
Net income	256.9	247.5	785.6	688.0

ENTERPRISE PRODUCTS PARTNERS L.P.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Intangible Assets and Goodwill

Identifiable Intangible Assets
The following table summarizes our intangible assets by business segment at the dates indicated:

	September 30, 2018			December 31, 2017		
	Gross Value	Accumulated Amortization	Carrying Value	Gross Value	Accumulated Amortization	Carrying Value
NGL Pipelines & Services:						
Customer relationship intangibles	$457.3	$ (198.4)	$ 258.9			