Energy Transfer Operating, L.P.
Form 10-Q
November 08, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2018
or

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

Commission file number 1-31219
ENERGY TRANSFER OPERATING, L.P.
(Exact name of registrant as specified in its charter)

Delaware	73-1493906
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8111 Westchester Drive, Suite 600, Dallas, Texas 75225
(Address of principal executive offices) (zip code)
(214) 981-0700
(Registrant's telephone number, including area code)
Energy Transfer Partners, L.P.
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

Table of Contents

FORM 10-Q
ENERGY TRANSFER OPERATING, L.P. AND SUBSIDIARIES
TABLE OF CONTENTS

Table of Contents

Forward-Looking Statements

Certain matters discussed in this report, excluding historical information, as well as some statements by Energy Transfer Operating, L.P. (the “Partnership” or “ETP”) in periodic press releases and some oral statements of the Partnership’s officials during presentations about the Partnership, include forward-looking statements. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. Statements using words such as “anticipate,” “believe,” “intend,” “project,” “plan,” “expect,” “continue,” “estimate,” “goal,” “ “may,” “will” or similar expressions help identify forward-looking statements. Although the Partnership and its General Partner believe such forward-looking statements are based on reasonable assumptions and current expectations and projections about future events, no assurance can be given that such assumptions, expectations, or projections will prove to be correct. Forward-looking statements are subject to a variety of risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, the Partnership’s actual results may vary materially from those anticipated, projected or expected, forecasted, estimated or expressed in forward-looking statements since many of the factors that determine these results are subject to uncertainties and risks that are difficult to predict and beyond management’s control. For additional discussion of risks, uncertainties and assumptions, see “Part I – Item 1A. Risk Factors” in the Partnership’s Annual Report on Form 10-K for the year ended December 31, 2017 filed with the Securities and Exchange Commission on February 23, 2018, “Part II – Item 1A. Risk Factors,” in the Partnership’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 filed on May 10, 2018 and “Part II – Item 1A. Risk Factors,” in the Partnership’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 filed on August 9, 2018.

Definitions

The following is a list of certain acronyms and terms generally used in the energy industry and throughout this document:

/d	per day
AOCI	accumulated other comprehensive income (loss)
BBtu	billion British thermal units
Btu	British thermal unit, an energy measurement used by gas companies to convert the volume of gas used to its heat equivalent, and thus calculate the actual energy used
Capacity	capacity of a pipeline, processing plant or storage facility refers to the maximum capacity under normal operating conditions and, with respect to pipeline transportation capacity, is subject to multiple factors (including natural gas injections and withdrawals at various delivery points along the pipeline and the utilization of compression) which may reduce the throughput capacity from specified capacity levels
CDM	CDM Resource Management LLC and CDM Environmental & Technical Services LLC, collectively
Citrus	Citrus, LLC
DOJ	United States Department of Justice
EPA	United States Environmental Protection Agency
ETC OLP	La Grange Acquisition, L.P., which conducts business under the assumed name of Energy Transfer Company
ETP GP	Energy Transfer Partners GP, L.P., the general partner of ETP

ETP Holdco	ETP Holdco Corporation
ETP LLC	Energy Transfer Partners, L.L.C., the general partner of ETP GP
Exchange Act	Securities Exchange Act of 1934
FEP	Fayetteville Express Pipeline LLC
FERC	Federal Energy Regulatory Commission
FGT	Florida Gas Transmission Company, LLC
GAAP	accounting principles generally accepted in the United States of America
HPC	RIGS Haynesville Partnership Co.
IDRs	incentive distribution rights

Table of Contents

Lake Charles LNG	Lake Charles LNG Company, LLC
Legacy ETP Preferred Units	legacy ETP Series A cumulative convertible preferred units
LIBOR	London Interbank Offered Rate
MBbls	thousand barrels
MEP	Midcontinent Express Pipeline LLC
MTBE	methyl tertiary butyl ether
NGL	natural gas liquid, such as propane, butane and natural gasoline
NYMEX	New York Mercantile Exchange
OSHA	federal Occupational Safety and Health Act
OTC	over-the-counter
Panhandle	Panhandle Eastern Pipe Line Company, LP and its subsidiaries
PennTex	PennTex Midstream Partners, LP
PES	Philadelphia Energy Solutions
Regency	Regency Energy Partners LP
Retail Holdings	ETP Retail Holdings, LLC, a wholly-owned subsidiary of Sunoco, Inc.
RIGS	Regency Intrastate Gas LP
Rover	Rover Pipeline LLC, a subsidiary of ETP
SEC	Securities and Exchange Commission
Series A Preferred Units	6.250% Series A Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units
Series B Preferred Units	6.625% Series B Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units
Series C Preferred Units	7.375% Series C Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units
Series D Preferred Units	7.625% Series D Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units

Sunoco Logistics	Sunoco Logistics Partners L.P.
Transwestern	Transwestern Pipeline Company, LLC
Trunkline	Trunkline Gas Company, LLC, a subsidiary of Panhandle
USAC	USA Compression Partners, LP

Adjusted EBITDA is a term used throughout this document, which we define as earnings before interest, taxes, depreciation, depletion, amortization and other non-cash items, such as non-cash compensation expense, gains and losses on disposals of assets, the allowance for equity funds used during construction, unrealized gains and losses on commodity risk management activities, non-cash impairment charges, losses on extinguishments of debt and other non-operating income or expense items. Unrealized gains and losses on commodity risk management activities include unrealized gains and losses on commodity derivatives and inventory fair value adjustments. Adjusted EBITDA reflects amounts for less than wholly-owned subsidiaries based on 100% of the subsidiaries’ results of operations and for unconsolidated affiliates based on the Partnership’s proportionate ownership.

Table of Contents

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
ENERGY TRANSFER OPERATING, L.P. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in millions)
(unaudited)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 379	$ 306
Accounts receivable, net	3,671	3,946
Accounts receivable from related companies	333	318
Inventories	1,507	1,589
Income taxes receivable	169	135
Derivative assets	93	24
Other current assets	201	210
Total current assets	6,353	6,528
Property, plant and equipment	70,966	67,699
Accumulated depreciation and depletion	(10,416)	(9,262)
	60,550	58,437
Advances to and investments in unconsolidated affiliates	3,599	3,816
Other non-current assets, net	863	758
Intangible assets, net	4,925	5,311
Goodwill	2,866	3,115
Total assets	$ 79,156	$ 77,965

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

Table of Contents

ENERGY TRANSFER OPERATING, L.P. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in millions)
(unaudited)

	September 30, 2018	December 31, 2017
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 3,381	$ 4,126
Accounts payable to related companies	287	209
Derivative liabilities	338	109
Accrued and other current liabilities	2,603	2,143
Current maturities of long-term debt	2,649	407
Total current liabilities	9,258	6,994
Long-term debt, less current maturities	31,198	32,687
Non-current derivative liabilities	57	145
Deferred income taxes	2,845	2,883
Other non-current liabilities	1,100	1,084
Commitments and contingencies		
Redeemable noncontrolling interests	22	21
Equity:		
Limited Partners:		
Series A Preferred Unitholders	944	944
Series B Preferred Unitholders	547	547
Series C Preferred Unitholders	439	—
Series D Preferred Unitholders	436	—
Common Unitholders	25,628	26,531
General Partner	340	244
Accumulated other comprehensive income	8	3
Total partners’ capital	28,342	28,269
Noncontrolling interest	6,334	5,882
Total equity	34,676	34,151
Total liabilities and equity	$ 79,156	$ 77,965

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

Table of Contents

ENERGY TRANSFER OPERATING, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017*	2018	2017*
REVENUES:				
Natural gas sales	$1,026	$1,098	$3,112	$3,132
NGL sales	2,695	1,750	6,866	4,782
Crude sales	3,841	2,381	11,336	7,268
Gathering, transportation and other fees	1,579	1,027	4,440	3,118
Refined product sales	382	334	1,234	1,109
Other	118	383	343	1,035
Total revenues	9,641	6,973	27,331	20,444
COSTS AND EXPENSES:				
Cost of products sold	6,745	4,922	19,873	14,595
Operating expenses	632	571	1,863	1,603
Depreciation, depletion and amortization	636	596	1,827	1,713
Selling, general and administrative	123	105	347	335
Total costs and expenses	8,136	6,194	23,910	18,246
OPERATING INCOME	1,505	779	3,421	2,198
OTHER INCOME (EXPENSE):				
Interest expense, net	(387)	(352)	(1,091)	(1,020)
Equity in earnings of unconsolidated affiliates	113	127	147	139
Gain on Sunoco LP common unit repurchase	—	—	172	—
Loss on deconsolidation of CDM	—	—	(86)	—
Gains (losses) on interest rate derivatives	45	(8)	117	(28)
Other, net	21	57	127	137
INCOME BEFORE INCOME TAX EXPENSE (BENEFIT)	1,297	603	2,807	1,426
Income tax expense (benefit)	(61)	(112)	(32)	22
NET INCOME	1,358	715	2,839	1,404
Less: Net income attributable to noncontrolling interest	223	110	557	266
NET INCOME ATTRIBUTABLE TO PARTNERS	$1,135	$605	$2,282	$1,138

* As adjusted. See Note 1.

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

Table of Contents

ENERGY TRANSFER OPERATING, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in millions)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017*	2018	2017*
Net income	$1,358	$715	$2,839	$1,404
Other comprehensive income (loss), net of tax:				
Change in value of available-for-sale securities	2	2	—	5
Actuarial gain (loss) relating to pension and other postretirement benefit plans	—	5	(2)	2
Change in other comprehensive income from unconsolidated affiliates	2	—	9	(1)
	4	7	7	6
Comprehensive income	1,362	722	2,846	1,410
Less: Comprehensive income attributable to noncontrolling interest	223	110	557	266
Comprehensive income attributable to partners	$1,139	$612	$2,289	$1,144

* As adjusted. See Note 1.

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

Table of Contents

ENERGY TRANSFER OPERATING, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018
(Dollars in millions)
(unaudited)

	Limited Partners								
	Series A Preferred Units	Series B Preferred Units	Series C Preferred Units	Series D Preferred Units	Common Units	General Partner	AOCI	Noncontrolling Interest	Total
Balance, December 31, 2017	$944	$ 547	$ —	$ —	$26,531	$244	$ 3	$ 5,882	$34,151
Distributions to partners	(44)	(27)	(10)	—	(1,975)	(1,080)	—	—	(3,136)
Distributions to noncontrolling interest	—	—	—	—	—	—	—	(536)	(536)
Units issued for cash	—	—	436	431	58	—	—	—	925
Capital contributions from noncontrolling interest	—	—	—	—	—	—	—	438	438
Repurchases of common units	—	—	—	—	(24)	—	—	—	(24)
Other comprehensive income, net of tax	—	—	—	—	—	—	7	—	7
Other, net	(1)	—	(1)	(1)	41	(17)	(2)	(7)	12
Net income	45	27	14	6	997	1,193	—	557	2,839
Balance, September 30, 2018	$944	$ 547	$ 439	$ 436	$25,628	$340	$ 8	$ 6,334	$34,676

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

Table of Contents

ENERGY TRANSFER OPERATING, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in millions)
(unaudited)

	Nine Months Ended September 30, 2018	2017*
OPERATING ACTIVITIES		
Net income	$2,839	$1,404
Reconciliation of net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	1,827	1,713
Deferred income taxes	(17)	(1)
Non-cash compensation expense	61	57
Gain on Sunoco LP common unit repurchase	(172)	—
Loss on deconsolidation of CDM	86	—
Distributions on unvested awards	(24)	(21)
Equity in earnings of unconsolidated affiliates	(147)	(139)
Distributions from unconsolidated affiliates	328	319
Other non-cash	(132)	(163)
Net change in operating assets and liabilities, net of effects of acquisitions and deconsolidations	451	168
Net cash provided by operating activities	5,100	3,337
INVESTING ACTIVITIES		
Cash proceeds from CDM contribution	1,227	—
Cash proceeds from Sunoco LP common unit repurchase	540	—
Cash proceeds from Bakken pipeline transaction	—	2,000
Cash paid for acquisition of PennTex noncontrolling interest	—	(280)
Cash paid for all other acquisitions	(29)	(264)
Capital expenditures, excluding allowance for equity funds used during construction	(4,962)	(6,074)
Contributions in aid of construction costs	95	18
Contributions to unconsolidated affiliates	(13)	(230)
Distributions from unconsolidated affiliates in excess of cumulative earnings	62	116
Proceeds from the sale of assets	13	33
Other	—	(6)
Net cash used in investing activities	(3,067)	(4,687)
FINANCING ACTIVITIES		
Proceeds from borrowings	16,930	19,978
Repayments of debt	(16,520)	(18,487)
Cash paid to affiliate notes	—	(255)
Common units issued for cash	58	2,162
Preferred units issued for cash	867	—
Capital contributions from noncontrolling interest	438	919
Distributions to partners	(3,136)	(2,543)
Distributions to noncontrolling interest	(536)	(306)
Repurchases of common units	(24)	—
Redemption of Legacy ETP Preferred Units	—	(53)
Debt issuance costs	(42)	(50)
Other	5	4
Net cash (used in) provided by financing activities	(1,960)	1,369

Increase in cash and cash equivalents	73	19
Cash and cash equivalents, beginning of period	306	360
Cash and cash equivalents, end of period	$379	$379

* As adjusted. See Note 1.

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

Table of Contents

ENERGY TRANSFER OPERATING, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular dollar and unit amounts are in millions)
(unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

Energy Transfer Operating, L.P. is a consolidated subsidiary of Energy Transfer LP. In October 2018, Energy Transfer Equity, L.P. (“ETE”) and Energy Transfer Partners, L.P. (“ETP”) completed the merger of ETP with a wholly-owned subsidiary of ETE in a unit-for-unit exchange (the “ETE-ETP Merger”). In connection with the transaction, ETP unitholders (other than ETE and its subsidiaries) received 1.28 common units of ETE for each common unit of ETP they owned.

Immediately prior to the closing of the ETE-ETP Merger, the following also occurred:

- the IDRs in ETP were converted into 1,168,205,710 ETP common units; and
- the general partner interest in ETP was converted to a non-economic general partner interest and ETP issued 18,448,341 ETP common units to ETP GP.

Following the closing of the ETE-ETP Merger, ETE changed its name to “Energy Transfer LP” and its common units began trading on the New York Stock Exchange under the “ET” ticker symbol on Friday, October 19, 2018. In addition, ETP changed its name to “Energy Transfer Operating, L.P.” For purposes of maintaining clarity, the following references are used herein:

- References to “ETP” refer to the entity named Energy Transfer Partners, L.P. prior to the close of the ETE-ETP Merger and Energy Transfer Operating, L.P. subsequent to the close of the ETE-ETP Merger; and
- References to “ETE” refer to the entity named Energy Transfer Equity, L.P. prior to the close of the ETE-ETP Merger and Energy Transfer LP subsequent to the close of the ETE-ETP Merger.

In April 2017, Energy Transfer Partners, L.P. and Sunoco Logistics completed a merger transaction in which Sunoco Logistics acquired Energy Transfer Partners, L.P. in a unit-for-unit transaction (the “Sunoco Logistics Merger”), with the Energy Transfer Partners, L.P. unitholders receiving 1.5 common units of Sunoco Logistics for each Energy Transfer Partners, L.P. common unit they owned. In connection with the Sunoco Logistics Merger, Sunoco Logistics was renamed Energy Transfer Partners, L.P. and Sunoco Logistics’ general partner was merged with and into ETP GP, with ETP GP surviving as an indirect wholly-owned subsidiary of ETE.

The Sunoco Logistics Merger resulted in Energy Transfer Partners, L.P. being treated as the surviving consolidated entity from an accounting perspective, while Sunoco Logistics (prior to changing its name to “Energy Transfer Partners, L.P.”) was the surviving consolidated entity from a legal and reporting perspective. Therefore, for the pre-merger periods, the consolidated financial statements reflect the consolidated financial statements of the legal acquiree (i.e., the entity that was named “Energy Transfer Partners, L.P.” prior to the Sunoco Logistics Merger and related name changes).

The consolidated financial statements of the Partnership presented herein include our operating subsidiaries (collectively, the “Operating Companies”), through which our activities are primarily conducted, as follows:

- ETC OLP, Regency and PennTex, which are primarily engaged in midstream and intrastate transportation and storage natural gas operations. ETC OLP and Regency own and operate, through their wholly and majority-owned subsidiaries, natural gas gathering systems, intrastate natural gas pipeline systems and gas processing plants and are engaged in the business of purchasing, gathering, transporting, processing, and marketing natural gas and NGLs in the states of Texas, Louisiana, New Mexico, West Virginia, Colorado and Ohio.
- Energy Transfer Interstate Holdings, LLC, (“ETIH”) with revenues consisting primarily of fees earned from natural gas transportation services and operational gas sales, which is the parent company of:
- Transwestern, engaged in interstate transportation of natural gas. Transwestern’s revenues consist primarily of fees earned from natural gas transportation services and operational gas sales.
- ETC Fayetteville Express Pipeline, LLC, which directly owns a 50% interest in FEP, which owns 100% of the Fayetteville Express interstate natural gas pipeline.
- ETC Tiger Pipeline, LLC, engaged in interstate transportation of natural gas.

- CrossCountry Energy, LLC, which indirectly owns a 50% interest in Citrus, which owns 100% of the FGT interstate natural gas pipeline.

Table of Contents

- ETC Midcontinent Express Pipeline, L.L.C., which directly owns a 50% interest in MEP.
- ET Rover Pipeline, LLC, which ETIH directly owns a 50.1% interest in, which owns a 65% interest in the Rover pipeline.
- ETC Compression, LLC, engaged in natural gas compression services and related equipment sales. As discussed further in Note 2 below, in April 2018, we contributed certain assets to USAC.
- ETP Holdco, which indirectly owns Panhandle and Sunoco, Inc. Panhandle owns and operates assets in the regulated and unregulated natural gas industry and is primarily engaged in the transportation and storage of natural gas in the United States. Sunoco Inc.'s assets primarily consist of its ownership in Retail Holdings, which owns noncontrolling interests in Sunoco LP and PES. ETP Holdco also holds an equity method investment in ETP through its ownership of ETP Class E, Class G, and Class K units, which investment is eliminated in ETP's consolidated financial statements.
- Sunoco Logistics Partners Operations L.P., which owns and operates a logistics business, consisting of a geographically diverse portfolio of complementary pipeline, terminalling, and acquisition and marketing assets, which are used to facilitate the purchase and sale of crude oil, NGLs and refined products.

Our consolidated financial statements reflect the following reportable business segments:

- intrastate transportation and storage;
- interstate transportation and storage;
- midstream;
- NGL and refined products transportation and services;
- crude oil transportation and services; and
- all other.

Prior periods have been retrospectively adjusted to reflect the impact of the Sunoco Logistics Merger on our reportable business segments.

Basis of Presentation

The unaudited financial information included in this Form 10-Q has been prepared on the same basis as the audited consolidated financial statements of Energy Transfer Partners, L.P. for the year ended December 31, 2017, included in the Partnership's Annual Report on Form 10-K filed with the SEC on February 23, 2018. In the opinion of the Partnership's management, such financial information reflects all adjustments necessary for a fair presentation of the financial position and the results of operations for such interim periods in accordance with GAAP. All intercompany items and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been omitted pursuant to the rules and regulations of the SEC.

The historical common unit amounts presented in these consolidated financial statements have been retrospectively adjusted to reflect the 1.5 to one unit-for-unit exchange in connection with the Sunoco Logistics Merger.

Change in Accounting Policy

Inventory Accounting Change

During the fourth quarter of 2017, the Partnership elected to change its method of inventory costing to weighted-average cost for certain inventory that had previously been accounted for using the last-in, first-out ("LIFO") method. The inventory impacted by this change included the crude oil, refined products and NGLs associated with the legacy Sunoco Logistics business. Management believes that the weighted-average cost method is preferable to the LIFO method as it more closely aligns the accounting policies across the consolidated entity.

Table of Contents

As a result of this change in accounting policy, the consolidated statement of operations and comprehensive income in prior periods have been retrospectively adjusted, as follows:

	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	As Originally Reported	Effect of Change	As Adjusted	As Originally Reported	Effect of Change	As Adjusted
Cost of products sold	$4,876	$ 46	$ 4,922	$14,582	$ 13	$ 14,595
Operating income	825	(46)	779	2,211	(13)	2,198
Income before income tax expense (benefit)	649	(46)	603	1,439	(13)	1,426
Net income	761	(46)	715	1,417	(13)	1,404
Net income attributable to partners	651	(46)	605	1,174	(36)	1,138
Comprehensive income	768	(46)	722	1,423	(13)	1,410
Comprehensive income attributable to partners	658	(46)	612	1,180	(36)	1,144

As a result of this change in accounting policy, the consolidated statement of cash flows in prior periods have been retrospectively adjusted, as follows:

	Nine Months Ended September 30, 2017		
	As Originally Reported	Effect of Change	As Adjusted
Net income	$1,417	$ (13)	$ 1,404
Inventory valuation adjustments	(30)	30	—
Net change in operating assets and liabilities, net of effects from acquisitions (change in inventories)	185	(17)	168

Revenue Recognition Standard

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”), which clarifies the principles for recognizing revenue based on the core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Partnership adopted ASU 2014-09 on January 1, 2018.

Upon the adoption of ASU 2014-09, the amount of revenue that the Partnership recognizes on certain contracts has changed, primarily due to decreases in revenue (with offsetting decreases to cost of sales) resulting from recognition of non-cash consideration as revenue when received and as cost of sales when sold to third parties. In addition, income statement reclassifications were required for fuel usage and loss allowances related to multiple segments as well as contracts deemed to be in-substance supply agreements in our midstream segment. In addition to the evaluation performed, we have made appropriate design and implementation updates to our business processes, systems and internal controls to support recognition and disclosure under the new standard.

Utilizing the practical expedients allowed under the modified retrospective adoption method, Accounting Standards Codification (“ASC”) Topic 606 was only applied to existing contracts for which the Partnership has remaining performance obligations as of January 1, 2018, and new contracts entered into after January 1, 2018. ASC Topic 606 was not applied to contracts that were completed prior to January 1, 2018.

The Partnership has elected to apply the modified retrospective method to adopt the new standard. For contracts in scope of the new revenue standard as of January 1, 2018, the cumulative effect adjustment to partners’ capital was not material. The comparative information has not been restated under the modified retrospective method and continues to be reported under the accounting standards in effect for those periods.

Table of Contents

The adoption of the new revenue standard resulted in reclassifications between revenue, cost of sales and operating expenses. There were no material changes in the timing of recognition of revenue and therefore no material impacts to the balance sheet upon adoption.

The disclosure below shows the impact of adopting the new standard during the period of adoption compared to amounts that would have been reported under the Partnership's previous revenue recognition policies:

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change: Higher/(Lower)	As Reported	Balances Without Adoption of ASC 606	Effect of Change: Higher/(Lower)
Revenues:						
Natural gas sales	$1,026	$ 1,026	$ —	$3,112	$ 3,112	$ —
NGL sales	2,695	2,686	9	6,866	6,839	27
Crude sales	3,841	3,838	3	11,336	11,326	10
Gathering, transportation and other fees	1,579	1,783	(204)	4,440	4,977	(537)
Refined product sales	382	381	1	1,234	1,233	1
Other	118	118	—	343	343	—
Costs and expenses:						
Cost of products sold	$6,745	$ 6,949	$ (204)	$19,873	$ 20,410	$ (537)
Operating expenses	632	619	13	1,863	1,825	38

Additional disclosures related to revenue are included in Note 11.

Use of Estimates

The unaudited consolidated financial statements have been prepared in conformity with GAAP, which includes the use of estimates and assumptions made by management that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities that exist at the date of the consolidated financial statements. Although these estimates are based on management's available knowledge of current and expected future events, actual results could be different from those estimates.

Recent Accounting Pronouncements

ASU 2016-02

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842) ("ASU 2016-02"), which establishes the principles that lessees and lessors shall apply to report information about the amount, timing, and uncertainty of cash flows arising from a lease. The update requires lessees to record virtually all leases on their balance sheets. For lessors, this amended guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. In January 2018, the FASB issued Accounting Standards Update No. 2018-01 ("ASU 2018-01"), which provides an optional transition practical expedient to not evaluate under Topic 842 existing or expired land easements that were not previously accounted for as leases under the existing lease guidance in Topic 840. The Partnership plans to elect the package of transition practical expedients and will adopt this standard beginning with its first quarter of fiscal 2019 and apply it retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment to retained earnings. The Partnership has performed several procedures to evaluate the impact of the adoption of this standard on the financial statements and disclosures and address the implications of Topic 842 on future lease arrangements. The procedures include reviewing all forms of leases, performing a completeness assessment over the lease population, establishing processes and controls to timely identify new and modified lease agreements, educating its employees on these new processes and controls and implementing a third-party supported lease accounting information system to account for our leases in accordance with the new standard. However, we are still in the process of quantifying this impact. We expect that upon adoption most of the Partnership's lease commitments will be recognized as right of use assets and lease obligations.

10

Table of Contents

ASU 2017-12

In August 2017, the FASB issued Accounting Standards Update No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The amendments in this update improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. In addition, the amendments in this update make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. This ASU is effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The Partnership is currently evaluating the impact that adopting this new standard will have on the consolidated financial statements and related disclosures.

ASU 2018-02

In February 2018, the FASB issued Accounting Standards Update No. 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows a reclassification from accumulated other comprehensive income to partners' capital for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. The Partnership elected to early adopt this ASU in the first quarter of 2018. The effect of the adoption was not material.

2. ACQUISITIONS AND OTHER INVESTING TRANSACTIONS

ETE Contribution of Assets to ETP

Immediately prior to the closing of the ETE-ETP Merger discussed in Note 1, ETE contributed the following to ETP:

- 2,263,158 common units representing limited partner interests in Sunoco LP to ETP in exchange for 2,874,275 ETP common units;
- 100 percent of the limited liability company interests in Sunoco GP LLC, the sole general partner of Sunoco LP, and all of the IDRs in Sunoco LP, to ETP in exchange for 42,812,389 ETP common units;
- 12,466,912 common units representing limited partner interests in USAC and 100 percent of the limited liability company interests in USA Compression GP, LLC, the general partner of USAC, to ETP in exchange for 16,134,903 ETP common units; and
- a 100 percent limited liability company interest in Lake Charles LNG and a 60 percent limited liability company interest in each of Energy Transfer LNG Export, LLC, ET Crude Oil Terminals, LLC and ETC Illinois LLC (collectively, "Lake Charles LNG and Other") to ETP in exchange for 37,557,815 ETP common units.

ETP, Sunoco LP, USAC and Lake Charles LNG and Other are under common control of ETE; therefore, we expect to account for the contribution transactions at historical cost as a reorganization of entities under common control. Accordingly, beginning with the quarter ending December 31, 2018, ETP's consolidated financial statements will be retrospectively adjusted to reflect consolidation of Sunoco LP and Lake Charles LNG and Other for all prior periods and consolidation of USAC subsequent to April 2, 2018 (the date ETE acquired USAC's general partner).

Table of Contents

The following table summarizes the assets and liabilities of Sunoco LP, USAC and Lake Charles LNG and Other as of September 30, 2018, which amounts will be retrospectively consolidated in ETP's consolidated balance sheets beginning with the quarter ending December 31, 2018, subject to the elimination of intercompany balances:

	Sunoco LP	USAC	Lake Charles LNG and Other
Current assets	$1,331	$230	$ 28
Property, plant and equipment, net	1,494	2,541	746
Goodwill	1,534	619	184
Intangible assets	655	399	35
Other non-current assets	134	25	909
Total assets	$5,148	$3,814	$ 1,902
Current liabilities	$1,086	$173	$ 107
Long-term debt, less current maturities	2,774	1,731	—
Other non-current liabilities	343	6	8
Preferred Units	—	477	—
Net assets	$945	$1,427	$ 1,787

The unaudited financial information in the table below summarizes the combined results of our operations and those of Sunoco LP, USAC and Lake Charles LNG and Other on a pro forma basis, to reflect the retrospective consolidation of those entities. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved. The pro forma adjustments include the effect of intercompany revenue eliminations:

	Unaudited Pro Forma Nine Months Ended September 30,	
	2018	2017
Revenues	$40,514	$29,072
Net income attributable to partners	$2,282	$1,138

CDM Contribution

On April 2, 2018, ETP contributed to USAC all of the issued and outstanding membership interests of CDM for aggregate consideration of approximately $1.7 billion, consisting of (i) 19,191,351 common units representing limited partner interests in USAC, (ii) 6,397,965 units of a newly authorized and established class of units representing limited partner interests in USAC ("USAC Class B Units") and (iii) $1.23 billion in cash, including customary closing adjustments (the "CDM Contribution"). The USAC Class B Units are a new class of partnership interests of USAC that have substantially all of the rights and obligations of a USAC common unit, except the USAC Class B Units will not participate in distributions for the first four quarters following the closing date of April 2, 2018. Each USAC Class B Unit will automatically convert into one USAC common unit on the first business day following the record date attributable to the quarter ending June 30, 2019.

Prior to the CDM Contribution, the CDM entities were indirect wholly-owned subsidiaries of ETP. Beginning April 2018, ETP's consolidated financial statements reflected an equity method investment in USAC. CDM's assets and liabilities were not reflected as held for sale, nor were CDM's results reflected as discontinued operations in these financial statements. At September 30, 2018, the carrying value of ETP's investment in USAC was $385 million, which is reflected in the all other segment. ETP recorded an $86 million loss on the deconsolidation of CDM including a $45 million accrual related to the indemnification of USAC related to an ongoing CDM sales and use tax audit.

In connection with the CDM Contribution, ETE acquired (i) all of the outstanding limited liability company interests in USA Compression GP, LLC, the general partner of USAC, and (ii) 12,466,912 USAC common units for cash consideration equal to $250 million.

Table of Contents

3. ADVANCES TO AND INVESTMENTS IN UNCONSOLIDATED AFFILIATES

HPC

ETP previously owned a 49.99% interest in HPC, which owns RIGS. In April 2018, ETP acquired the remaining 50.01% interest in HPC. Prior to April 2018, HPC was reflected as an unconsolidated affiliate in ETP's financial statements; beginning in April 2018, RIGS is reflected as a wholly-owned subsidiary in ETP's financial statements.

Sunoco LP

In February 2018, after the record date for Sunoco LP's fourth quarter 2017 cash distributions, Sunoco LP repurchased 17,286,859 Sunoco LP common units owned by ETP for aggregate cash consideration of approximately $540 million. ETP used the proceeds from the sale of the Sunoco LP common units to repay amounts outstanding under its revolving credit facility.

As of September 30, 2018, ETP owned 26.2 million Sunoco LP common units representing 31.8% of Sunoco LP's total outstanding common units. Our investment in Sunoco LP is reflected in the all other segment. As of September 30, 2018, the carrying value of our investment in Sunoco LP was $542 million.

Subsequent to the ETE-ETP Merger, ETP owns 28.5 million Sunoco LP common units. For the periods presented herein, ETP's investment in Sunoco LP is reflected under the equity method of accounting; however, for periods subsequent to the ETE-ETP Merger, ETP will reflect Sunoco LP as a consolidated subsidiary.

USAC

As of September 30, 2018, ETP owned 19.2 million USAC common units and 6.4 million USAC Class B Units, together representing 26.6% of the limited partner interests in USAC. USAC provides compression services to producers, processors, gatherers and transporters of natural gas and crude oil. Our investment in USAC is reflected in the all other segment. As of September 30, 2018, the carrying value of our investment in USAC was $385 million.

Subsequent to the ETE-ETP Merger, ETP owns 39.7 million USAC common units and 6.4 million USAC Class B Units. For the periods presented herein, ETP's investment in USAC is reflected under the equity method of accounting; however, for periods subsequent to the ETE-ETP Merger, ETP will reflect USAC as a consolidated subsidiary.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all cash on hand, demand deposits, and investments with original maturities of three months or less. We consider cash equivalents to include short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

We place our cash deposits and temporary cash investments with high credit quality financial institutions. At times, our cash and cash equivalents may be uninsured or in deposit accounts that exceed the Federal Deposit Insurance Corporation insurance limit.

Table of Contents

The net change in operating assets and liabilities (net of effects of acquisitions and deconsolidations) included in cash flows from operating activities is comprised as follows:

	Nine Months Ended September 30,	
	2018	2017*
Accounts receivable	$251	$(77)
Accounts receivable from related companies	206	46
Inventories	48	133
Other current assets	(23)	37
Other non-current assets, net	(99)	(89)
Accounts payable	(177)	96
Accounts payable to related companies	(199)	(11)
Accrued and other current liabilities	351	(26)
Other non-current liabilities	21	57