

ENBRIDGE INC  
Form 10-Q  
May 10, 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 March 31, 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 1-10934

ENBRIDGE  
INC.  
(Exact  
Name of  
Registrant  
as Specified  
in Its  
Charter)

Canada \_\_\_\_\_ None  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)  
200, 425 - 1st Street S.W.  
Calgary, Alberta, Canada T2P 3L8  
(Address of Principal Executive Offices) (Zip Code)  
(403) 231-3900  
(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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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  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

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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

The registrant had 1,704,740,177 common shares outstanding as of May 4, 2018.

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GLOSSARY

AOCI	Accumulated other comprehensive income/(loss)
ALJ	Administrative Law Judge
ASU	Accounting Standards Update
Canadian L3R Program	Canadian portion of the Line 3 Replacement Program
CIACs	Contributions in Aid of Construction
EBITDA	Earnings before interest, income taxes and depreciation and amortization
Eddystone Rail	Eddystone Rail Company, LLC
EEP	Enbridge Energy Partners, L.P.
EGD	Enbridge Gas Distribution Inc.
Enbridge	Enbridge Inc.
FERC	Federal Energy Regulatory Commission
IDRs	Incentive distribution rights
Line 10	Line 10 crude oil pipeline
MNPUC	Minnesota Public Utilities Commission
NGL	Natural gas liquids
OCI	Other comprehensive income/(loss)
Route Permit	United States Line 3 Replacement Program route permit
Sabal Trail	Sabal Trail Transmission, LLC
SEP	Spectra Energy Partners, LP
TCJA	Tax Cuts and Jobs Act
Texas Express NGL pipeline system	Texas Express PL LLC and Texas Express Gathering LLC
the Merger Transaction	The stock-for-stock merger transaction on February 27, 2017 between Enbridge and Spectra Energy Corp

## CONVENTIONS

The terms "we", "our", "us" and "Enbridge" as used in this report refer collectively to Enbridge Inc. unless the context suggests otherwise. These terms are used for convenience only and are not intended as a precise description of any separate legal entity within Enbridge.

Unless otherwise specified, all dollar amounts are expressed in Canadian dollars, all references to "dollars", "\$" or "C\$" are to Canadian dollars and all references to "US\$" are to United States dollars. All amounts are provided on a before tax basis, unless otherwise stated.

## FORWARD-LOOKING INFORMATION

Forward-looking information, or forward-looking statements, have been included in this quarterly report on Form 10-Q to provide information about us and our subsidiaries and affiliates, including management's assessment of Enbridge and its subsidiaries' future plans and operations. This information may not be appropriate for other purposes. Forward-looking statements are typically identified by words such as "anticipate", "believe", "estimate", "expect", "forecast", "intend", "likely", "plan", "project", "target" and similar words suggesting future outcomes or statements regarding an outlook. Forward-looking information or statements included or incorporated by reference in this document include, but are not limited to, statements with respect to the following: expected earnings before interest, income taxes and depreciation and amortization (EBITDA); expected earnings/(loss); expected earnings/(loss) per share; expected future cash flows; expected performance of the Liquids Pipelines, Gas Transmission and Midstream, Gas Distribution, Green Power and Transmission, and Energy Services businesses; financial strength and flexibility; expectations on sources of liquidity and sufficiency of financial resources; expected costs related to announced projects and projects under construction; expected in-service dates for announced projects and projects under construction; expected capital expenditures; expected equity funding requirements for our commercially secured growth program; expected future growth and expansion opportunities; expectations about our joint venture partners' ability to complete and finance projects under construction; expected closing of acquisitions and dispositions; estimated future dividends; recovery of the costs of the Canadian portion of the Line 3 Replacement Program (Canadian L3R Program); expected future actions of regulators; expected costs related to leak remediation and potential insurance recoveries; expectations regarding commodity prices; supply forecasts; expectations regarding the impact of the stock-for-stock merger transaction on February 27, 2017 between Enbridge and Spectra Energy Corp (the Merger Transaction) including our combined scale, financial flexibility, growth program, future business prospects and performance; impact of the Canadian L3R Program on existing integrity programs; the sponsored vehicle strategy; dividend payout policy; dividend growth and dividend payout expectation; expectations on impact of hedging program; and expectations resulting from the successful execution of our 2018-2020 Strategic Plan.

Although we believe these forward-looking statements are reasonable based on the information available on the date such statements are made and processes used to prepare the information, such statements are not guarantees of future performance and readers are cautioned against placing undue reliance on forward-looking statements. By their nature, these statements involve a variety of assumptions, known and unknown risks and uncertainties and other factors, which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Material assumptions include assumptions about the following: the expected supply of and demand for crude oil, natural gas, natural gas liquids (NGL) and renewable energy; prices of crude oil, natural gas, NGL and renewable energy; exchange rates; inflation; interest rates; availability and price of labor and construction materials; operational reliability; customer and regulatory approvals; maintenance of support and regulatory approvals for our projects; anticipated in-service dates; weather; the realization of anticipated benefits and synergies of the Merger Transaction; governmental legislation; acquisitions and the timing thereof; the success of integration plans; impact of the dividend policy on our future cash flows; credit ratings; capital project funding; expected EBITDA; expected earnings/(loss); expected earnings/(loss) per share; expected future cash flows and estimated future dividends. Assumptions regarding the expected supply of and demand for crude oil, natural gas, NGL and renewable energy, and the prices of these commodities, are material to and underlie all forward-looking

statements, as they may impact current and future levels of demand for our services. Similarly, exchange rates, inflation and interest rates impact the economies and business environments in which we operate and may impact levels of demand for our services and cost of inputs, and are therefore inherent in all forward-looking statements. Due to the interdependencies and correlation of these macroeconomic factors, the impact of any one assumption on a forward-looking statement cannot be determined with certainty, particularly with respect to the impact of the Merger Transaction on us, expected EBITDA, earnings/(loss), earnings/(loss) per share, or estimated future dividends. The most relevant assumptions associated with forward-looking statements on announced projects and projects under

construction, including estimated completion dates and expected capital expenditures, include the following: the availability and price of labor and construction materials; the effects of inflation and foreign exchange rates on labor and material costs; the effects of interest rates on borrowing costs; the impact of weather and customer, government and regulatory approvals on construction and in-service schedules and cost recovery regimes.

Our forward-looking statements are subject to risks and uncertainties pertaining to the impact of the Merger Transaction, operating performance, regulatory parameters, dividend policy, project approval and support, renewals of rights-of-way, weather, economic and competitive conditions, public opinion, changes in tax laws and tax rates, changes in trade agreements, exchange rates, interest rates, commodity prices, political decisions and supply of and demand for commodities, including but not limited to those risks and uncertainties discussed in this quarterly report on Form 10-Q and in our other filings with Canadian and United States securities regulators. The impact of any one risk, uncertainty or factor on a particular forward-looking statement is not determinable with certainty as these are interdependent and our future course of action depends on management's assessment of all information available at the relevant time. Except to the extent required by applicable law, Enbridge Inc. assumes no obligation to publicly update or revise any forward-looking statements made in this quarterly report on Form 10-Q or otherwise, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements, whether written or oral, attributable to us or persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements.

## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## ENBRIDGE INC.

## CONSOLIDATED STATEMENTS OF EARNINGS

	Three months ended	
	March 31,	
	2018	2017
(unaudited; millions of Canadian dollars, except per share amounts)		
Operating revenues		
Commodity sales	7,268	6,866
Gas distribution sales	1,926	1,363
Transportation and other services	3,532	2,917
Total operating revenues (Note 3)	12,726	11,146
Operating expenses		
Commodity costs	6,997	6,550
Gas distribution costs	1,324	1,015
Operating and administrative	1,641	1,551
Depreciation and amortization	824	672
Asset impairment (Note 6)	1,062	—
Total operating expenses	11,848	9,788
Operating income	878	1,358
Income from equity investments	335	236
Other income/(expense)		
Net foreign currency loss	(185)	(5)
Other	65	40
Interest expense	(656)	(486)
Earnings before income taxes	437	1,143
Income tax recovery/(expense) (Note 11)	73	(198)
Earnings	510	945
(Earnings)/loss attributable to noncontrolling interests and redeemable noncontrolling interests		
	24	(224)
Earnings attributable to controlling interests	534	721
Preference share dividends	(89)	(83)
Earnings attributable to common shareholders	445	638
Earnings per common share attributable to common shareholders (Note 5)	0.26	0.54
Diluted earnings per common share attributable to common shareholders (Note 5)	0.26	0.54

See accompanying notes to the interim consolidated financial statements.





ENBRIDGE INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended March 31,	
	2018	2017
(unaudited; millions of Canadian dollars)		
Earnings	510	945
Other comprehensive income/(loss), net of tax		
Change in unrealized gain/(loss) on cash flow hedges	66	(2 )
Change in unrealized gain/(loss) on net investment hedges	(184 )	49
Other comprehensive income from equity investees	14	6
Reclassification to earnings of loss on cash flow hedges	37	41
Reclassification to earnings of pension and other postretirement benefits (OPEB) amounts	(39 )	4
Foreign currency translation adjustments	1,579	432
Other comprehensive income, net of tax	1,473	530
Comprehensive income	1,983	1,475
Comprehensive income attributable to noncontrolling interests and redeemable noncontrolling interests	(147 )	(374 )
Comprehensive income attributable to controlling interests	1,836	1,101
Preference share dividends	(89 )	(83 )
Comprehensive income attributable to common shareholders	1,747	1,018
See accompanying notes to the interim consolidated financial statements.		

ENBRIDGE INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Three months ended March 31,	
	2018	2017
(unaudited; millions of Canadian dollars, except per share amounts)		
Preference shares		
Balance at beginning and end of period	7,747	7,255
Common shares		
Balance at beginning of period	50,737	10,492
Common shares issued in Merger Transaction	—	37,428
Dividend Reinvestment and Share Purchase Plan	374	194
Shares issued on exercise of stock options	16	33
Balance at end of period	51,127	48,147
Additional paid-in capital		
Balance at beginning of period	3,194	3,399
Stock-based compensation	17	35
Fair value of outstanding earned stock-based compensation from Merger Transaction	—	77
Options exercised	(6)	(49)
Dilution gain on Spectra Energy Partners, LP restructuring (Note 9)	1,136	—
Dilution loss and other	(28)	(36)
Balance at end of period	4,313	3,426
Deficit		
Balance at beginning of period	(2,468)	(716)
Earnings attributable to controlling interests	534	721
Preference share dividends	(89)	(83)
Common share dividends declared	—	(548)
Dividends paid to reciprocal shareholder	7	7
Retrospective adoption of accounting standard (Note 2)	(86)	—
Redemption value adjustment attributable to redeemable noncontrolling interests	120	152
Adjustment for the recognition of unutilized tax deductions for stock-based compensation expense	—	41
Balance at end of period	(1,982)	(426)
Accumulated other comprehensive income/(loss) (Note 8)		
Balance at beginning of period	(973)	1,058
Other comprehensive income attributable to common shareholders, net of tax	1,302	380
Balance at end of period	329	1,438
Reciprocal shareholding		
Balance at beginning and end of period	(102)	(102)
Total Enbridge Inc. shareholders' equity	61,432	59,738
Noncontrolling interests		
Balance at beginning of period	7,597	577
Earnings attributable to noncontrolling interests	23	192
Other comprehensive income/(loss) attributable to noncontrolling interests, net of tax		
Change in unrealized gain/(loss) on cash flow hedges	4	(1)
Foreign currency translation adjustments	152	141
Reclassification to earnings of loss on cash flow hedges	8	10
	164	150
Comprehensive income attributable to noncontrolling interests	187	342
Noncontrolling interests resulting from Merger Transaction	—	8,792

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Enbridge Energy Company, Inc. common control transaction	—	43
Distributions	(209 )	(191 )
Contributions	8	215
Spectra Energy Partners, LP restructuring (Note 9)	(1,486 )	—
Other	(15 )	3
Balance at end of period	6,082	9,781
Total equity	67,514	69,519
Dividends paid per common share	0.671	0.583

See accompanying notes to the interim consolidated financial statements.

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ENBRIDGE INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		
	March 31,		
	2018		2017
(unaudited; millions of Canadian dollars)			
Operating activities			
Earnings	510		945
Adjustments to reconcile earnings to net cash provided by operating activities:			
Depreciation and amortization	824		672
Deferred income tax expense	(147)	)	161
Changes in unrealized (gain)/loss on derivative instruments, net (Note 10)	260		(418)
Earnings from equity investments	(335)	)	(236)
Distributions from equity investments	320		214
Asset impairment	1,062		—
Gain on dispositions	—		(14)
Other	78		112
Changes in operating assets and liabilities	622		340
Net cash provided by operating activities	3,194		1,776
Investing activities			
Capital expenditures	(1,635)	)	(1,642)
Long-term investments	(209)	)	(2,537)
Distributions from equity investments in excess of cumulative earnings	57		11
Restricted long-term investments	(13)	)	(15)
Additions to intangible assets	(258)	)	(233)
Cash acquired in Merger Transaction	—		681
Proceeds from dispositions	—		289
Affiliate loans, net	(10)	)	(2)
Net cash used in investing activities	(2,068)	)	(3,448)
Financing activities			
Net change in short-term borrowings	(443)	)	110
Net change in commercial paper and credit facility draws	(465)	)	2,662
Debenture and term note issues, net of issue costs	2,061		—
Debenture and term note repayments	(996)	)	(513)

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Debt extinguishment costs	(63	)	—	
Contributions from noncontrolling interests	8		215	
Distributions to noncontrolling interests	(209	)	(271	)
Contributions from redeemable noncontrolling interests	20		11	
Distributions to redeemable noncontrolling interests	(84	)	(54	)
Common shares issued	13		4	
Preference share dividends	(87	)	(83	)
Common share dividends	(764	)	(768	)
Net cash provided by/(used in) financing activities	(1,009	)	1,313	
Effect of translation of foreign denominated cash and cash equivalents and restricted cash	19		(9	)
Net increase/(decrease) in cash and cash equivalents and restricted cash	136		(368	)
Cash and cash equivalents and restricted cash at beginning of period	587		1,562	
Cash and cash equivalents and restricted cash at end of period	723		1,194	
Supplementary cash flow information				
Property, plant and equipment non-cash accruals	754		1,019	

See accompanying notes to the interim consolidated financial statements.

ENBRIDGE INC.  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31, 2018	December 31, 2017	
(unaudited; millions of Canadian dollars; number of shares in millions)			
Assets			
Current assets			
Cash and cash equivalents	610	480	
Restricted cash	113	107	
Accounts receivable and other	6,271	7,053	
Accounts receivable from affiliates	48	47	
Inventory	872	1,528	
	7,914	9,215	
Property, plant and equipment, net	92,521	90,711	
Long-term investments	17,360	16,644	
Restricted long-term investments	280	267	
Deferred amounts and other assets	5,614	6,442	
Intangible assets, net	3,455	3,267	
Goodwill	35,168	34,457	
Deferred income taxes	1,182	1,090	
Total assets	163,494	162,093	
Liabilities and equity			
Current liabilities			
Short-term borrowings	1,004	1,444	
Accounts payable and other	6,823	9,478	
Accounts payable to affiliates	168	157	
Interest payable	592	634	
Environmental liabilities	33	40	
Current portion of long-term debt	4,152	2,871	
	12,772	14,624	
Long-term debt	61,191	60,865	
Other long-term liabilities	8,390	7,510	
Deferred income taxes	9,812	9,295	
	92,165	92,294	
Contingencies (Note 13)			
Redeemable noncontrolling interests	3,815	4,067	
Equity			
Share capital			
Preference shares	7,747	7,747	
Common shares (1,705 and 1,695 outstanding at March 31, 2018 and December 31, 2017, respectively)	51,127	50,737	
Additional paid-in capital	4,313	3,194	
Deficit	(1,982)	(2,468)	)
Accumulated other comprehensive income/(loss) (Note 8)	329	(973)	)
Reciprocal shareholding	(102)	(102)	)
Total Enbridge Inc. shareholders' equity	61,432	58,135	
Noncontrolling interests	6,082	7,597	
	67,514	65,732	
Total liabilities and equity	163,494	162,093	

See accompanying notes to the interim consolidated financial statements.



NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements of Enbridge Inc. have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) and Regulation S-X for interim consolidated financial information. They do not include all of the information and notes required by U.S. GAAP for annual consolidated financial statements and should therefore be read in conjunction with our audited consolidated financial statements and notes for the year ended December 31, 2017 included in our Annual Report on Form 10-K. In the opinion of management, the interim consolidated financial statements contain all normal recurring adjustments necessary to present fairly our financial position, results of operations and cash flows for the interim periods reported. These interim consolidated financial statements follow the same significant accounting policies as those included in our annual consolidated financial statements for the year ended December 31, 2017, except for the adoption of new standards (Note 2) and the presentation of Cash and cash equivalents to include Bank indebtedness, as discussed below. Amounts are stated in Canadian dollars unless otherwise noted.

Our operations and earnings for interim periods can be affected by seasonal fluctuations within the gas distribution utility businesses, as well as other factors such as the supply of and demand for crude oil and natural gas, and may not be indicative of annual results.

Effective September 30, 2017, we combined Cash and cash equivalents and amounts previously presented as Bank indebtedness where the corresponding bank accounts are subject to cash pooling arrangements. As at March 31, 2018 and December 31, 2017, \$0.9 billion and \$0.6 billion of Bank indebtedness has been combined within Cash and cash equivalents in our Consolidated Statements of Financial Position, respectively. Net cash provided by financing activities in our Consolidated Statements of Cash Flows for the three months period ended March 31, 2017 have been reduced by \$0.2 billion to reflect this change.

Certain comparative figures in our Consolidated Statement of Cash Flows have been reclassified to conform with the current year's presentation. In addition, activities for the three months ended March 31, 2017 relating to distributions to noncontrolling interests in relation to the Merger Transaction have been reclassified, resulting in an increase to investing activities of \$67 million and a decrease to financing activities of \$67 million.

2. CHANGES IN ACCOUNTING POLICIES

ADOPTION OF NEW STANDARDS

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

Effective January 1, 2018, we adopted Accounting Standards Update (ASU) 2018-02 to address a specific consequence of the Tax Cuts and Jobs Act (TCJA) enacted by the United States federal government on December 22, 2017. The amendments in this accounting update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the TCJA. The amendments will eliminate the stranded tax effects as a result of the reduction of the historical United States federal corporate income tax rate to the newly enacted United States federal corporate income tax rate. The adoption of this accounting update did not have a material impact on our consolidated financial statements.

Clarifying Guidance on the Application of Modification Accounting on Stock Compensation

Effective January 1, 2018, we adopted ASU 2017-09 and applied the standard on a prospective basis. The new standard was issued to clarify the scope of modification accounting. Under the new guidance, modification accounting is required for all changes to share based payment awards, unless all of the



following conditions are met: 1) there is no change to the fair value of the award, 2) the vesting conditions have not changed, and 3) the classification of the award as an equity instrument or a debt instrument has not changed. The adoption of this accounting update is not expected to have a material impact on our consolidated financial statements.

#### Improving the Presentation of Net Periodic Benefit Cost related to Defined Benefit Plans

Effective January 1, 2018, we adopted ASU 2017-07 which was issued primarily to improve the income statement presentation of the components of net periodic pension cost and net periodic postretirement benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. Upon adoption of this accounting update, our consolidated statement of earnings presents the current service cost within Operating and administrative expenses and the other components of net benefit cost within Other income/(expense). Previously, all components of net benefit cost were presented within Operating and administrative expenses. In addition, only the service cost component of net benefit cost will be capitalized on a prospective basis. The adoption of this accounting update did not, and is not expected to have a material impact on our consolidated financial statements.

#### Clarifying Guidance on Derecognition and Partial Sales of Nonfinancial Assets

Effective January 1, 2018, we adopted ASU 2017-05 on a modified retrospective basis. The new standard clarifies the scope provisions of nonfinancial assets and how to allocate consideration to each distinct asset, and amends the guidance for derecognition of a distinct nonfinancial asset in partial sale transactions. The adoption of this accounting update did not have a material impact on our consolidated financial statements.

#### Clarifying the Presentation of Restricted Cash in the Statement of Cash Flows

Effective January 1, 2018, we adopted ASU 2016-18 on a retrospective basis. The new standard clarifies guidance on the classification and presentation of changes in restricted cash and restricted cash equivalents within the statement of cash flows. The amendments require that changes in restricted cash and restricted cash equivalents be included within cash and cash equivalents when reconciling the opening and closing period amounts shown on the statement of cash flows. For current and comparative periods, we amended the presentation in the Consolidated Statement of Cash Flows to include restricted cash and restricted cash equivalents with cash and cash equivalents.

#### 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 Consolidated Statement of Cash Flows. The new guidance addresses eight specific presentation issues. We assessed each of the eight specific presentation issues and the adoption of this ASU did not have a material impact on our consolidated financial statements.

#### Recognition and Measurement of Financial Assets and Liabilities

Effective January 1, 2018, we adopted ASU 2016-01 on a prospective basis. The new standard addresses certain aspects of recognition, measurement, presentation and disclosure of financial assets and liabilities. Investments in equity securities, excluding equity method and consolidated investments, are no longer classified as trading or available-for-sale securities. All investments in equity securities with readily determinable fair values are classified as investments at fair value through net income. Investments in equity securities without readily determinable fair values are measured using the fair value measurement alternative and are recorded at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. Investments in equity securities measured using the fair value measurement alternative are reviewed for indicators of impairment each reporting period. Fair value of financial instruments for disclosure purposes is measured using exit price. The adoption of this accounting update did not have a material impact on our consolidated financial statements.

## Revenue from Contracts with Customers

Effective January 1, 2018, we adopted ASU 2014-09 on a modified retrospective basis to contracts that were not complete at the date of initial application. The new standard was issued 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 previous standards.

In adopting Accounting Standards Codification (ASC) 606, we applied the practical expedient for contract modifications whereby contracts that were modified before January 1, 2018 were not retrospectively restated. Instead, the aggregate effect of all contract modifications occurring before that time has been reflected when identifying satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to satisfied and unsatisfied obligations.

The below table presents the cumulative, immaterial effect of the adoption of ASC 606 on our Consolidated Statement of Financial Position as at January 1, 2018 on each affected financial statement line item along with explanations of those effects. For the three months ended March 31, 2018, the effect of the adoption of ASC 606 on our Consolidated Statement of Earnings was not material.

	Balance at December 31, 2017	Adjustments Due to ASC 606	Balance at January 1, 2018
(millions of Canadian dollars)			
Assets			
Deferred amounts and other assets <sup>1,2</sup>	6,442	(170 )	6,272
Property, plant and equipment, net <sup>2</sup>	90,711	112	90,823
Liabilities and equity			
Accounts payable and other <sup>1,2</sup>	9,478	62	9,540
Other long-term liabilities <sup>2</sup>	7,510	66	7,576
Deferred income taxes <sup>1,2</sup>	9,295	(62 )	9,233
Redeemable noncontrolling interests <sup>1,2</sup>	4,067	(38 )	4,029
Deficit <sup>1,2</sup>	(2,468 )	(86 )	(2,554 )

Revenue was previously recognized for a certain contract within the Liquids Pipelines business unit using a formula-based method. Under the new revenue standard, revenue is recognized on a straight-line basis over the term of the agreement in order to reflect the fulfillment of our performance obligation to provide up to a specified volume of pipeline capacity throughout the term of the contract.

Certain payments received from customers to offset the cost of constructing assets required to provide services to those customers, referred to as Contributions in Aid of Construction (CIACs) were previously recorded as reductions of property, plant and equipment regardless of whether the amounts were imposed by regulation or arose from negotiations with customers. Under the new revenue standard, CIACs which are negotiated as part of an agreement to provide transportation and other services to a customer are deemed to be advance payments for future services and are recognized as revenue when those future services are provided. Accordingly, negotiated CIACs are accounted for as deferred revenue and recognized as revenue over the term of the associated revenue contract.

Amounts which are required to be collected from the customer based on requirements of the regulator continue to be accounted for as reductions of property, plant and equipment.

## FUTURE ACCOUNTING POLICY CHANGES

## Improvements to Accounting for Hedging Activities

ASU 2017-12 was issued in August 2017 with the objective of better aligning a company's risk management activities and the resulting hedge accounting reflected in the financial statements. The amendments allow cash flow hedging of contractually specified components in financial and non-financial items. Under the new guidance, hedge

ineffectiveness is no longer required to be measured and hedging instruments' fair value changes will be recorded in the same income statement line as the hedged item. The ASU also allows the initial quantitative hedge effectiveness assessment to be performed at any time before the end of the quarter in which the hedge is designated. After initial quantitative testing is performed, an ongoing qualitative effectiveness assessment is permitted. The accounting update is effective January 1, 2019, with early adoption permitted, and is to be applied on a modified retrospective

basis. We are currently assessing the impact of the new standard on our consolidated financial statements.

#### Amending the Amortization Period for Certain Callable Debt Securities Purchased at a Premium

ASU 2017-08 was issued in March 2017 with the intent of shortening the amortization period to the earliest call date for certain callable debt securities held at a premium. The accounting update is effective January 1, 2019 and will be applied on a modified retrospective basis. We are currently assessing the impact of the new standard on our consolidated financial statements.

#### Accounting for Credit Losses

ASU 2016-13 was issued in June 2016 with the intent of providing financial statement users with more useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. Current treatment uses the incurred loss methodology for recognizing credit losses that delays the recognition until it is probable a loss has been incurred. The accounting update adds a new impairment model, known as the current expected credit loss model, which is based on expected losses rather than incurred losses. Under the new guidance, an entity will recognize as an allowance its estimate of expected credit losses, which the Financial Accounting Standards Board believes will result in more timely recognition of such losses. The accounting update is effective January 1, 2020. We are currently assessing the impact of the new standard on our consolidated 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 are currently gathering a complete inventory of our lease contracts in order to assess the impact of the new standard on our consolidated financial statements. We will adopt the new standard on January 1, 2019 and we are currently evaluating options with respect to the transition practical expedients offered in connection with this update.

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.

## 3. REVENUE

## REVENUE FROM CONTRACTS WITH CUSTOMERS

## Major Products and Services

Three months ended March 31, 2018 (millions of Canadian dollars)	Liquids Pipelines	Gas Transmission and Midstream	Gas Distribution	Green Power and Transmission	Energy Services	Eliminations and Other	Consolidated
Transportation revenue	2,058	952	239	—	—	—	3,249
Storage and other revenue	40	60	66	—	—	—	166
Gas gathering and processing revenue	—	205	—	—	—	—	205
Gas distribution revenue	—	—	1,926	—	—	—	1,926
Electricity and transmission revenue	—	—	—	154	—	—	154
Commodity sales	—	693	—	—	—	—	693
Total revenue from contracts with customers	2,098	1,910	2,231	154	—	—	6,393
Commodity sales	—	—	—	—	6,575	—	6,575
Other revenue <sup>1</sup>	(269	)25	2	3	—	(3	)(242
Intersegment revenue	80	2	4	—	57	(143	)—
Total revenue	1,909	1,937	2,237	157	6,632	(146	)12,726

<sup>1</sup> Includes mark-to-market gains/(losses) from our hedging program.

We disaggregate revenue into categories which represent our principal performance obligations within each business segment because these revenue categories represent the most significant revenue streams in each segment and consequently are considered to be the most relevant revenue information for management to consider in evaluating performance.

## Contract Balances

(millions of Canadian dollars)	Receivables	Contract Assets	Contract Liabilities
Balance at adoption date	2,475	290	992
Balance at reporting date	2,533	290	1,008

Contract assets represent the amount of revenue which has been recognized in advance of payments received for performance obligations we have fulfilled (or partially fulfilled) and prior to the point in time at which our right to the payment is unconditional. Amounts included in contract assets are transferred to accounts receivable when our right to

the consideration becomes unconditional.

Contract liabilities represent payments received for performance obligations which have not been fulfilled. Contract liabilities primarily relate to make-up rights and deferred revenue. Revenue recognized during the current period included in contract liabilities at the beginning of the period is \$95 million. Increases in contract liabilities from cash received, net of amounts recognized as revenue during the three months ended March 31, 2018, were \$96 million during the period.



Performance Obligations

Business Unit	Nature of Performance Obligation
Transportation services - pipelines	• Transportation and storage of crude oil, natural gas and natural gas liquids (NGL)
	• Sale of crude oil, natural gas and NGLs
Gas Transmission and Midstream	• Transportation, storage, gathering, compression and treating of natural gas
	• Supply and delivery of natural gas
Gas Distribution	• Transportation of natural gas
	• Storage of natural gas
Green Power and transmission	• Generation and transmission of electricity
	• Delivery of electricity from renewable energy generation facilities

There was no material revenue recognized in the current period from performance obligations satisfied in previous periods.

Payment Terms

Payments are received monthly from customers under long-term transportation, commodity sales, and gas gathering and processing contracts. Payments from Gas Distribution customers are received on a continuous basis based on established billing cycles.

Certain contracts in the United States offshore business provide for us to receive a series of fixed monthly payments (FMPs) for a specified period which is less than the period during which the performance obligations are satisfied. As a result, a portion of the FMPs is recorded as a contract liability. The FMPs are not considered to be a financing arrangement because the payments are scheduled to match the production profiles of offshore oil and gas fields, which generate greater revenue in the initial years of their productive lives.

Revenue to be Recognized from Unfulfilled Performance Obligations

Total revenue from performance obligations expected to be fulfilled in future periods is \$63.8 billion, of which \$5.7 billion and \$5.9 billion is expected to be recognized during the nine months ending December 31, 2018 and year ending December 31, 2019, respectively.

The revenues excluded from the amounts above based on optional exemptions available under ASC 606, as explained below, represent a significant portion of our overall revenues and revenues from contracts with customers. Certain revenues such as flow-through operating costs charged to shippers are recognized at the amount for which we have the right to invoice our customers. Those revenues are not included in the amounts for revenue to be recognized in the future from unfulfilled performance obligations above. Variable consideration is excluded from the amounts above due to the uncertainty of the associated consideration, which is generally resolved when actual volumes and prices are determined. Additionally, the effect of escalation on certain tolls which are contractually escalated for inflation has not been reflected in the amounts above as it is not possible to reliably estimate future inflation rates. Finally, revenues from contracts with customers which have an original expected duration of one year or less are excluded from the amounts above.

SIGNIFICANT JUDGMENTS MADE IN RECOGNIZING REVENUE

Long-Term Transportation Agreements

For long-term transportation agreements, significant judgments pertain to the period over which revenue is recognized and whether the agreement provides for make-up rights for the shippers. Transportation revenue earned from firm contracted capacity arrangements is recognized ratably over the contract period. Transportation revenue from

interruptible or volumetric-based arrangements is recognized when services are performed.

### Estimates of Variable Consideration

Revenue from arrangements subject to variable consideration is recognized only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Uncertainties associated with variable consideration relate principally to differences between estimated and actual volumes and prices. These uncertainties are resolved each month when actual volumes sold or transported and actual tolls and prices are determined.

### Recognition and Measurement of Revenue

Three months ended March 31, 2018 (millions of Canadian dollars)	Liquids Pipelines	Gas Transmission and Midstream	Gas Distribution	Green Power and Transmission	Energy Services	Consolidated
Revenue from products transferred at a point in time <sup>1</sup>	—	693	25	—	—	718
Revenue from products and services transferred over time <sup>2</sup>	2,098	1,217	2,206	154	—	5,675
Total revenue from contracts with customers	2,098	1,910	2,231	154	—	6,393

<sup>1</sup> Revenue from sales of crude oil, natural gas and NGLs.

<sup>2</sup> Revenue from crude oil and natural gas pipeline transportation, storage, natural gas gathering, compression and treating, natural gas distribution, natural gas storage services and electricity sales.

### Performance Obligations Satisfied at a Point in Time

Revenue from commodity sales where the commodity is not immediately consumed prior to use is recognized at the point in time when the contractually specified volume of the commodity has been delivered, as control over the commodity transfers to the customer upon delivery.

### Performance Obligations Satisfied Over Time

For arrangements involving the transportation and sale of petroleum products and natural gas where the transportation services or commodities are simultaneously received and consumed by the shipper or customer, we recognize revenue over time using an output method based on volumes of commodities delivered or transported. The measurement of the volumes transported or delivered corresponds directly to the benefits received by the shippers or customers during that period.

### Determination of Transaction Prices

Prices for gas processing and transportation services are determined based on the capital cost of the facilities, pipelines and associated infrastructure required to provide such services plus a rate of return on capital invested that is determined either through negotiations with customers or through regulatory processes for those operations that are subject to rate regulation.

Prices for commodities sold are determined by reference to market price indices plus or minus a negotiated differential and in certain cases a marketing fee.

Prices for natural gas sold and distribution services provided by regulated natural gas distribution operations are prescribed by regulation.

## 4. SEGMENTED INFORMATION

Effective December 31, 2017, we changed our segment-level profit measure to Earnings before interest, income taxes and depreciation and amortization from the previous measure of Earnings before interest and income taxes. We also

renamed the Gas Pipelines and Processing segment to Gas Transmission and Midstream. The presentation of the prior year table has been revised in order to align with the current presentation.

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Three months ended March 31, 2018 (millions of Canadian dollars)	Liquids Pipelines	Gas Transmission and Midstream	Gas Distribution	Green Power and Transmission	Energy Services	Eliminations and Other	Consolidated
Revenues	1,909	1,937	2,237	157	6,632	(146	)12,726
Commodity and gas distribution costs	(4	)(620	)(1,388	)—	(6,455	)146	(8,321 )
Operating and administrative	(747	)(507	)(248	)(30	)(12	)(97	)(1,641 )
Asset impairment	(144	)(913	)—	—	—	(5	)(1,062 )
Income/(loss) from equity investments	131	208	17	(25	)4	—	335
Other income/(expense)	11	21	18	7	—	(177	)(120 )
Earnings/(loss) before interest, income taxes, and depreciation and amortization	1,156	126	636	109	169	(279	)1,917
Depreciation and amortization							(824 )
Interest expense							(656 )
Income tax recovery							73
Earnings							510
Capital expenditures <sup>1</sup>	615	825	183	14	—	6	1,643
Three months ended March 31, 2017 (millions of Canadian dollars)	Liquids Pipelines	Gas Transmission and Midstream	Gas Distribution	Green Power and Transmission	Energy Services	Eliminations and Other	Consolidated
Revenues	2,155	1,235	1,584	137	6,133	(98	)11,146
Commodity and gas distribution costs	(3	)(647	)(1,046	)1	(5,968	)98	(7,565 )
Operating and administrative	(760	)(254	)(189	)(40	)(12	)(296	)(1,551 )
Income from equity investments	86	110	36	2	2	—	236
Other income/(expense)	2	31	2	1	1	(2	)35
Earnings/(loss) before interest, income taxes, and depreciation and amortization	1,480	475	387	101	156	(298	)2,301
							(672 )

Depreciation and amortization								
Interest expense							(486	)
Income tax expense							(198	)
Earnings							945	
Capital expenditures <sup>1</sup>	654	655	183	114	—	59	1,665	

1 Includes allowance for equity funds used during construction.

#### TOTAL ASSETS

	March 31, 2018	December 31, 2017
(millions of Canadian dollars)		
Liquids Pipelines	64,842	63,881
Gas Transmission and Midstream	61,880	60,745
Gas Distribution	25,784	25,956
Green Power and Transmission	6,466	6,289
Energy Services	1,628	2,514
Eliminations and Other	2,894	2,708
	163,494	162,093

## 5. EARNINGS PER COMMON SHARE

### BASIC

Earnings per common share is calculated by dividing earnings attributable to common shareholders by the weighted average number of common shares outstanding. The weighted average number of common shares outstanding has been reduced by our pro-rata weighted average interest in our own common shares of 13 million for the three months ended March 31, 2018 and 2017, resulting from our reciprocal investment in Noverco Inc.

### DILUTED

The treasury stock method is used to determine the dilutive impact of stock options. This method assumes any proceeds from the exercise of stock options would be used to purchase common shares at the average market price during the period.

Weighted average shares outstanding used to calculate basic and diluted earnings per share are as follows:

	Three months ended March 31, 2018 2017	
(number of common shares in millions)		
Weighted average shares outstanding	1,685	1,177
Effect of dilutive options	4	10
Diluted weighted average shares outstanding	1,689	1,187

For the three months ended March 31, 2018 and 2017, 29,882,142 and 13,545,193, respectively, of anti-dilutive stock options with a weighted average exercise price of \$49.80 and \$57.71, respectively, were excluded from the diluted earnings per common share calculation.

## 6. ASSETS HELD FOR SALE

### Midcoast Operating, L.P.

On May 9, 2018 our indirect subsidiary, Enbridge (U.S.) Inc. entered into a definitive agreement to sell Midcoast Operating, L.P. and its subsidiaries (Sales Agreement), which conducts our United States natural gas and NGL gathering, processing, transportation and marketing businesses, to AL Midcoast Holdings, LLC (an affiliate of ArcLight Capital Partners, LLC) for a cash purchase price of US\$1.1 billion, subject to customary closing adjustments. The transaction is expected to close in the third quarter of 2018, subject to receipt of customary regulatory approvals and satisfaction of other customary closing conditions.

These assets, excluding our equity method investment in the Texas Express NGL pipeline system, were classified as held for sale and were measured at the lower of their carrying value or fair value less costs to sell as at December 31, 2017. As a result of entering into the Sales Agreement, the fair value of the assets held for sale as at March 31, 2018 were revised based on the sale price. Accordingly, we recorded a loss of \$913 million (\$701 million after-tax attributable to us). This loss has been included within Asset impairment on the Consolidated Statements of Earnings for the three months ended March 31, 2018.

### Line 10 Crude Oil Pipeline

At March 31, 2018, we satisfied the condition as set out in our agreements for the sale of our Line 10 crude oil pipeline (Line 10), which originates near Hamilton, Ontario and terminates at West Seneca, New York. Our subsidiaries, Enbridge Pipelines Inc. and Enbridge Energy Partners, L.P., own the Canadian and United States portion of Line 10, respectively, and the related assets are included in our Liquids Pipeline segment.





We expect to close the sale of Line 10 within one year, subject to regulatory approval and certain closing conditions. As such, we classified Line 10 assets as held for sale and measured them at the lower of their carrying value or fair value less costs to sell, which resulted in a loss of \$144 million (\$85 million after-tax attributable to us) included within Asset impairment on the Consolidated Statements of Earnings for the three months ended March 31, 2018.

The table below summarizes the presentation of net assets held for sale in our Consolidated Statements of Financial Position:

	March 31, 2018	December 31, 2017
(millions of Canadian dollars)		
Accounts receivable and other (current assets held for sale)	305	424
Deferred amounts and other assets (long-term assets held for sale)	422	1,190
Accounts payable and other (current liabilities held for sale)	(233	)