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UNITED STATES
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# FORM 10-Q

(Mark One)

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

**For the quarterly period ended June 30, 2020**

**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)
Registrant's telephone number, including area code: **(214) 981-0700**

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 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 ☒ 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 | ☐ | 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 ☒

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| **7.375% Series C Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units** | **ETPprC** | **New York Stock Exchange** |
| **7.625% Series D Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units** | **ETPprD** | **New York Stock Exchange** |
| **7.600% Series E Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units** | **ETPprE** | **New York Stock Exchange** |
| **4.250% Senior Notes due 2023** | **ETP 23** | **New York Stock Exchange** |
| **5.875% Senior Notes due 2024** | **ETP 24** | **New York Stock Exchange** |
| **5.500% Senior Notes due 2027** | **ETP 27** | **New York Stock Exchange** |

**FORM 10-Q**

**ENERGY TRANSFER OPERATING, L.P. AND SUBSIDIARIES**

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**Definitions**

References to the "Partnership" or "ETO" refer to Energy Transfer Operating, L.P. In addition, the following is a list of certain acronyms and terms used 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 |
| Citrus | Citrus, LLC |
| DOJ | United States Department of Justice |
| EPA | United States Environmental Protection Agency |
| ET | Energy Transfer LP, the parent company of ETO |
| ETP GP | Energy Transfer Partners GP, L.P., the general partner of ETO |
| 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, a wholly-owned subsidiary of Citrus |
| GAAP | accounting principles generally accepted in the United States of America |
| HFOTCO | Houston Fuel Oil Terminal Company, a wholly-owned subsidiary of ETO, which owns the Houston Terminal |
| Lake Charles LNG | Lake Charles LNG Company, LLC, a wholly-owned subsidiary of ETO |
| 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, wholly-owned by ETO |
| PES | Philadelphia Energy Solutions Refining and Marketing LLC, non-controlling interest owned by ETO |
| Preferred Unitholders | Unitholders of the Series A Preferred Units, Series B Preferred Units, Series C Preferred Units, Series D Preferred Units, Series E Preferred Units, Series F Preferred Units and Series G Preferred Units, collectively |
| Regency | Regency Energy Partners LP, a wholly-owned subsidiary of ETO |
| Rover | Rover Pipeline LLC, a less than wholly-owned subsidiary of ETO |
| SEC | Securities and Exchange Commission |
| SemCAMS | SemCAMS Midstream ULC, a less than wholly-owned subsidiary of ETO |
| SemGroup | SemGroup, LLC (formerly SemGroup Corporation) |

| | |
|---|---|
| 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 |
| Series E Preferred Units | 7.600% Series E Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units |
| Series F Preferred Units | 6.750% Series F Fixed-Rate Reset Cumulative Redeemable Perpetual Preferred Units |
| Series G Preferred Units | 7.125% Series G Fixed-Rate Reset Cumulative Redeemable Perpetual Preferred Units |
| SPLP | Sunoco Pipeline L.P., a wholly-owned subsidiary of ETO |
| Sunoco Logistics Operations | Sunoco Logistics Partners Operations L.P., a wholly-owned subsidiary of ETO |
| Sunoco R&M | Sunoco (R&M), LLC |
| Transwestern | Transwestern Pipeline Company, LLC, a wholly-owned subsidiary of ETO |
| Trunkline | Trunkline Gas Company, LLC, a wholly-owned subsidiary of Panhandle |
| USAC | USA Compression Partners, LP, a wholly-owned subsidiary of ETO |
| USAC Preferred Units | USAC Series A Preferred Units |
| White Cliffs | White Cliffs Pipeline |

**PART I – FINANCIAL INFORMATION**

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

| | June 30, 2020 | December 31, 2019* |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 152 | $ 288 |
| Accounts receivable, net | 2,955 | 5,038 |
| Accounts receivable from related companies | 139 | 167 |
| Inventories | 1,593 | 1,532 |
| Income taxes receivable | 68 | 147 |
| Derivative assets | 14 | 23 |
| Other current assets | 245 | 291 |
| Total current assets | 5,166 | 7,486 |
| | | |
| Property, plant and equipment | 91,774 | 89,294 |
| Accumulated depreciation and depletion | (17,125) | (15,398) |
| | 74,649 | 73,896 |
| | | |
| Advances to and investments in unconsolidated affiliates | 3,306 | 3,454 |
| Lease right-of-use assets, net | 1,112 | 964 |
| Other non-current assets, net | 1,511 | 1,572 |
| Notes receivable from related company | 2,865 | 3,603 |
| Intangible assets, net | 6,007 | 6,154 |
| Goodwill | 3,868 | 5,167 |
| Total assets | $ 98,484 | $ 102,296 |

*As adjusted. See Note 1.

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

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

| | June 30, 2020 | December 31, 2019* |
|---|---|---|
| **LIABILITIES AND EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 2,138 | $ 4,119 |
| Accounts payable to related companies | 36 | 31 |
| Derivative liabilities | 24 | 147 |
| Operating lease current liabilities | 54 | 60 |
| Accrued and other current liabilities | 2,730 | 3,339 |
| Current maturities of long-term debt | 34 | 25 |
| Total current liabilities | 5,016 | 7,721 |
| | | |
| Long-term debt, less current maturities | 51,179 | 50,905 |
| Non-current derivative liabilities | 577 | 273 |
| Non-current operating lease liabilities | 903 | 901 |
| Deferred income taxes | 3,277 | 3,171 |
| Other non-current liabilities | 1,216 | 1,161 |
| | | |
| Commitments and contingencies | | |
| Redeemable noncontrolling interests | 750 | 739 |
| | | |
| Equity: | | |
| Limited Partners: | | |
| Preferred Unitholders | 4,764 | 3,174 |
| Common Unitholders | 22,510 | 24,226 |
| Accumulated other comprehensive loss | (21) | (18) |
| Total partners’ capital | 27,253 | 27,382 |
| Noncontrolling interests | 8,313 | 8,018 |
| Predecessor equity | — | 2,025 |
| Total equity | 35,566 | 37,425 |
| Total liabilities and equity | $ 98,484 | $ 102,296 |

*As adjusted. See Note 1.

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019* | 2020 | 2019* |
| REVENUES: | | | | |
| Refined product sales | $ 2,000 | $ 4,477 | $ 5,232 | $ 8,203 |
| Crude sales | 1,329 | 4,346 | 4,872 | 7,871 |
| NGL sales | 1,254 | 1,996 | 2,943 | 4,398 |
| Gathering, transportation and other fees | 2,137 | 2,035 | 4,522 | 4,302 |
| Natural gas sales | 514 | 763 | 1,102 | 1,727 |
| Other | 104 | 260 | 294 | 497 |
| Total revenues | 7,338 | 13,877 | 18,965 | 26,998 |
| COSTS AND EXPENSES: | | | | |
| Cost of products sold | 4,117 | 10,301 | 12,408 | 19,778 |
| Operating expenses | 770 | 792 | 1,649 | 1,600 |
| Depreciation, depletion and amortization | 934 | 781 | 1,799 | 1,552 |
| Selling, general and administrative | 171 | 175 | 373 | 324 |
| Impairment losses | 4 | — | 1,329 | 50 |
| Total costs and expenses | 5,996 | 12,049 | 17,558 | 23,304 |
| OPERATING INCOME | 1,342 | 1,828 | 1,407 | 3,694 |
| OTHER INCOME (EXPENSE): | | | | |
| Interest expense, net of interest capitalized | (578) | (578) | (1,178) | (1,105) |
| Equity in earnings of unconsolidated affiliates | 85 | 77 | 78 | 142 |
| Losses on extinguishments of debt | — | — | (59) | (2) |
| Losses on interest rate derivatives | (3) | (122) | (332) | (196) |
| Other, net | (29) | 112 | 16 | 129 |
| INCOME (LOSS) BEFORE INCOME TAX EXPENSE | 817 | 1,317 | (68) | 2,662 |
| Income tax expense | 98 | 35 | 127 | 161 |
| NET INCOME (LOSS) | 719 | 1,282 | (195) | 2,501 |
| Less: Net income attributable to noncontrolling interests | 225 | 266 | 25 | 522 |
| Less: Net income attributable to redeemable noncontrolling interests | 13 | 13 | 25 | 26 |
| Less: Net loss attributable to predecessor equity | — | — | (6) | — |
| NET INCOME (LOSS) ATTRIBUTABLE TO PARTNERS | $ 481 | $ 1,003 | $ (239) | $ 1,953 |

*As adjusted. See Note 1.

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019* | 2020 | 2019* |
| Net income (loss) | $ 719 | $ 1,282 | $ (195) | $ 2,501 |
| Other comprehensive income (loss), net of tax: | | | | |
| Change in value of available-for-sale securities | 9 | 3 | — | 8 |
| Actuarial gain related to pension and other postretirement benefit plans | 8 | 3 | 14 | 10 |
| Foreign currency translation adjustments | 30 | — | 30 | — |
| Change in other comprehensive loss from unconsolidated affiliates | — | (5) | (16) | (9) |
| | 47 | 1 | 28 | 9 |
| Comprehensive income (loss) | 766 | 1,283 | (167) | 2,510 |
| Less: Comprehensive income attributable to noncontrolling interests | 225 | 266 | 25 | 522 |
| Less: Comprehensive income attributable to redeemable noncontrolling interests | 13 | 13 | 25 | 26 |
| Less: Comprehensive loss attributable to predecessor equity | — | — | (6) | — |
| Comprehensive income (loss) attributable to partners | $ 528 | $ 1,004 | $ (211) | $ 1,962 |

*As adjusted. See Note 1.

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

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

| | Limited Partners | | | | | |
|---|---|---|---|---|---|---|
| | Preferred Unitholders | Common Unitholders | AOCI | Noncontrolling Interests | Predecessor Equity | Total |
| Balance, December 31, 2019* | $ 3,174 | $ 24,226 | $ (18) | $ 8,018 | $ 2,025 | $ 37,425 |
| Distributions to partners | (80) | (2,550) | — | — | — | (2,630) |
| Distributions to noncontrolling interests | — | — | — | (340) | (25) | (365) |
| Units issued for cash | 1,580 | — | — | — | — | 1,580 |
| Capital contributions from noncontrolling interests | — | — | — | 66 | 30 | 96 |
| SemGroup contribution (See Note 2) | — | 1,840 | (2) | 333 | (2,171) | — |
| Other comprehensive loss, net of tax | — | — | (19) | — | (38) | (57) |
| Other, net | (3) | (8) | — | 3 | (10) | (18) |
| Net income (loss), excluding amounts attributable to redeemable noncontrolling interests | 77 | (797) | — | (200) | (6) | (926) |
| Balance, March 31, 2020* | 4,748 | 22,711 | (39) | 7,880 | (195) | 35,105 |
| Distributions to partners | (67) | — | — | — | — | (67) |
| Distributions to noncontrolling interests | — | — | — | (340) | — | (340) |
| Capital contributions from noncontrolling interests | — | — | — | 82 | — | 82 |
| SemGroup contribution (See Note 2) | — | (630) | (20) | 455 | 195 | — |
| Other comprehensive income, net of tax | — | — | 38 | 9 | — | 47 |
| Other, net | (1) | 32 | — | 2 | — | 33 |
| Net income, excluding amounts attributable to redeemable noncontrolling interests | 84 | 397 | — | 225 | — | 706 |
| Balance, June 30, 2020 | $ 4,764 | $ 22,510 | $ (21) | $ 8,313 | $ — | $ 35,566 |

*As adjusted. See Note 1.

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

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

| | Limited Partners | | | | |
|---|---|---|---|---|---|
| | Preferred Unitholders | Common Unitholders | AOCI | Noncontrolling Interests | Total |
| Balance, December 31, 2018* | $ 2,388 | $ 26,539 | $ (42) | $ 7,903 | $ 36,788 |
| Distributions to partners | (64) | (1,450) | — | — | (1,514) |
| Distributions to noncontrolling interests | — | — | — | (361) | (361) |
| Capital contributions from noncontrolling interests | — | — | — | 140 | 140 |
| Sale of noncontrolling interest in subsidiary | — | — | — | 93 | 93 |
| Other comprehensive income, net of tax | — | — | 8 | — | 8 |
| Other, net | — | 15 | — | 13 | 28 |
| Net income, excluding amounts attributable to redeemable noncontrolling interest | 40 | 910 | — | 256 | 1,206 |
| Balance, March 31, 2019* | 2,364 | 26,014 | (34) | 8,044 | 36,388 |
| Distributions to partners | (18) | (1,625) | — | — | (1,643) |
| Distributions to noncontrolling interests | — | — | — | (370) | (370) |
| Units issued for cash | 780 | — | — | — | 780 |
| Capital contributions from noncontrolling interests | — | — | — | 66 | 66 |
| Other comprehensive income, net of tax | — | — | 1 | — | 1 |
| Other, net | (1) | (36) | — | — | (37) |
| Net income, excluding amounts attributable to redeemable noncontrolling interest | 53 | 950 | — | 266 | 1,269 |
| Balance, June 30, 2019* | $ 3,178 | $ 25,303 | $ (33) | $ 8,006 | $ 36,454 |

*As adjusted. See Note 1.

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

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2020 | 2019* |
| OPERATING ACTIVITIES: | | |
| Net income (loss) | $ (195) | $ 2,501 |
| Reconciliation of net income (loss) to net cash provided by operating activities: | | |
| Depreciation, depletion and amortization | 1,799 | 1,552 |
| Deferred income taxes | 126 | 140 |
| Inventory valuation adjustments | 137 | (97) |
| Non-cash compensation expense | 63 | 58 |
| Impairment losses | 1,329 | 50 |
| Losses on extinguishments of debt | 59 | 2 |
| Distributions on unvested awards | (3) | (3) |
| Equity in earnings of unconsolidated affiliates | (78) | (142) |
| Distributions from unconsolidated affiliates | 125 | 170 |
| Other non-cash | (12) | (24) |
| Net change in operating assets and liabilities, net of effects of acquisitions | 27 | (187) |
| Net cash provided by operating activities | 3,377 | 4,020 |
| INVESTING ACTIVITIES: | | |
| Cash proceeds from sale of noncontrolling interest in subsidiary | — | 93 |
| Cash paid for all other acquisitions, net of cash received | — | (7) |
| Capital expenditures, excluding allowance for equity funds used during construction | (2,892) | (2,818) |
| Contributions in aid of construction costs | 47 | 41 |
| Contributions to unconsolidated affiliates | (16) | (254) |
| Distributions from unconsolidated affiliates in excess of cumulative earnings | 97 | 21 |
| Proceeds from the sale of other assets | 6 | 22 |
| Other | (5) | (40) |
| Net cash used in investing activities | (2,763) | (2,942) |
| FINANCING ACTIVITIES: | | |
| Proceeds from borrowings | 16,975 | 16,463 |
| Repayments of debt | (16,717) | (14,705) |
| Cash received from related company | 676 | 180 |
| Preferred units issued for cash | 1,580 | 780 |
| Capital contributions from noncontrolling interests | 148 | 206 |
| Predecessor capital contributions from noncontrolling interests | 30 | — |
| Distributions to partners | (2,697) | (3,157) |
| Distributions to noncontrolling interests | (680) | (731) |
| Predecessor distributions to noncontrolling interests | (25) | — |
| Debt issuance costs | (50) | (87) |
| Other | 10 | (1) |
| Net cash used in financing activities | (750) | (1,052) |
| Increase (decrease) in cash and cash equivalents | (136) | 26 |
| Cash and cash equivalents, beginning of period | 288 | 418 |
| Cash and cash equivalents, end of period | $ 152 | $ 444 |

*As adjusted. See Note 1.

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

**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

The consolidated financial statements presented herein include Energy Transfer Operating, L.P. and its subsidiaries (the "Partnership," "we," "us," "our" or "ETO").

Energy Transfer Operating, L.P. is a consolidated subsidiary of Energy Transfer LP. In December 2019, ET completed the acquisition of SemGroup. During the first and second quarters of 2020, ET contributed SemGroup and its former subsidiaries to ETO through sale and contribution transactions. The contribution transactions were accounted for as reorganizations of entities under common control; therefore, the contributed entities' assets and liabilities were not adjusted as of the contribution date. The Partnership's consolidated financial statements have been retrospectively adjusted to reflect consolidation beginning December 5, 2019 for SemGroup assets contributed (the date ET acquired SemGroup). Predecessor equity included in the consolidated financial statements represents the equity of contributed entities prior to the contribution transactions.

Our consolidated financial statements reflect the following reportable segments:

- intrastate transportation and storage;
- interstate transportation and storage;
- midstream;
- NGL and refined products transportation and services;
- crude oil transportation and services;
- investment in Sunoco LP;
- investment in USAC; and
- all other.

### 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 Operating, L.P. for the year ended December 31, 2019, included in the Partnership's Annual Report on Form 10-K filed with the SEC on February 21, 2020. 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 consolidated financial statements of the Partnership presented herein include the results of operations of our controlled subsidiaries, including Sunoco LP and USAC.

Certain prior period amounts have also been reclassified to conform to the current period presentation. These reclassifications had no impact on net income or total equity.

### Change in Accounting Policy

Effective January 1, 2020, the Partnership elected to change its accounting policy related to certain barrels of crude oil that were previously accounted for as inventory. Under the revised accounting policy, certain amounts of crude oil that are not available for sale have been reclassified from inventory to non-current assets. These crude oil barrels, which are owned by the Partnership's crude oil acquisition and marketing business, include pipeline linefill and tank bottoms and are not considered to be available for sale because the volumes must be maintained in order to continue normal operation of the related pipelines or tanks and because there is no expectation of liquidation or sale of these volumes in the near term.

Under the previous accounting policy, all crude oil barrels were recorded as inventory under the weighted-average cost method. Under the revised accounting policy, barrels related to pipeline linefill and tank bottoms are accounted for as long-lived assets and reflected as non-current assets on the consolidated balance sheet. These crude oil barrels will be tested for impairment

consistent with the Partnership’s existing accounting policy for impairments of long-lived assets. The Partnership’s management believes that the change in accounting policy is preferable as it more closely aligns the accounting policies across the consolidated entity, given that similar assets in the Partnership’s natural gas, NGLs and refined products businesses are accounted for as non-current assets. In addition, management believes that reflecting these crude oil barrels as non-current assets better represents the economic results of the Partnership’s crude oil acquisition and marketing business by reducing volatility resulting from market price adjustments to crude oil barrels that are not expected to be sold or liquidated in the near term.

The impacts of this accounting policy change on the Partnership’s net income for the six months ended June 30, 2020 was approximately $265 million. As a result of this change in accounting policy, the Partnership’s consolidated balance sheets for prior periods have been retrospectively adjusted as follows:

| | December 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | As Originally Reported* | Effect of Change | As Adjusted | As Originally Reported | Effect of Change | As Adjusted |
| Inventories | $ 1,935 | $ (403) | $ 1,532 | $ 1,677 | $ (305) | $ 1,372 |
| Total current assets | 7,889 | (403) | 7,486 | 6,820 | (305) | 6,515 |
| Other non-current assets, net | 1,076 | 496 | 1,572 | 1,006 | 472 | 1,478 |
| Total assets | 102,203 | 93 | 102,296 | 88,442 | 167 | 88,609 |
| Total partners’ capital | 27,289 | 93 | 27,382 | 28,718 | 167 | 28,885 |

* Amounts reflect the retrospective consolidation of the SemGroup entities discussed above.

In addition, the Partnership's consolidated statements of operations, comprehensive income and cash flows for prior periods have been retrospectively adjusted as follows:

| | Year Ended December 31, | | Three Months Ended June 30, | Six Months Ended June 30, |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2019 |
| **As originally reported:** | | | | |
| **Consolidated Statements of Operations and Comprehensive Income** | | | | |
| Cost of products sold | $ 39,603 | $ 41,658 | $ 10,302 | $ 19,717 |
| Operating income | 7,285 | 5,402 | 1,827 | 3,755 |
| Income from continuing operations before income tax expense | 5,386 | 4,044 | 1,316 | 2,723 |
| Net income | 5,186 | 3,774 | 1,281 | 2,562 |
| Comprehensive income | 5,210 | 3,731 | 1,282 | 2,571 |
| Comprehensive income attributable to partners | 4,108 | 2,982 | 1,003 | 2,023 |
| | | | | |
| **Consolidated Statements of Cash Flows** | | | | |
| Net income | 5,186 | 3,774 | 1,281 | 2,562 |
| Net change in operating assets and liabilities | (479) | 117 | 151 | (248) |
| | | | | |
| **Effect of change:** | | | | |
| **Consolidated Statements of Operations and Comprehensive Income** | | | | |
| Cost of products sold | 74 | (55) | (1) | 61 |
| Operating income | (74) | 55 | 1 | (61) |
| Income from continuing operations before income tax expense | (74) | 55 | 1 | (61) |
| Net income | (74) | 55 | 1 | (61) |
| Comprehensive income | (74) | 55 | 1 | (61) |
| Comprehensive income attributable to partners | (74) | 55 | 1 | (61) |
| | | | | |
| **Consolidated Statements of Cash Flows** | | | | |
| Net income | (74) | 55 | 1 | (61) |
| Net change in operating assets and liabilities | 74 | (55) | (1) | 61 |
| | | | | |
| **As adjusted:** | | | | |
| **Consolidated Statements of Operations and Comprehensive Income** | | | | |
| Cost of products sold | 39,677 | 41,603 | 10,301 | 19,778 |
| Operating income | 7,211 | 5,457 | 1,828 | 3,694 |
| Income from continuing operations before income tax expense | 5,312 | 4,099 | 1,317 | 2,662 |
| Net income | 5,112 | 3,829 | 1,282 | 2,501 |
| Comprehensive income | 5,136 | 3,786 | 1,283 | 2,510 |
| Comprehensive income attributable to partners | 4,034 | 3,037 | 1,004 | 1,962 |
| | | | | |
| **Consolidated Statements of Cash Flows** | | | | |
| Net income | 5,112 | 3,829 | 1,282 | 2,501 |
| Net change in operating assets and liabilities | (405) | 62 | 150 | (187) |

### 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**

Effective January 1, 2020, the Partnership adopted Accounting Standards Update ("ASU") 2016-13 "Financial Instruments - Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments." ASU 2016-13 requires an entity to utilize a new impairment model known as the current expected credit loss ("CECL") model to estimate its lifetime "expected credit loss" and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in more timely recognition of credit losses. The impact of adoption was immaterial to the Partnership. However, due in large part to the global economic impacts of COVID-19, the Partnership and its subsidiaries recorded an aggregate $16 million of current expected credit losses for the six months ended June 30, 2020.

**Goodwill**

During the first quarter of 2020, due to the impacts of the COVID-19 pandemic, the decline in commodity prices and the decreases in the Partnership's market capitalization, we determined that interim impairment testing should be performed on certain reporting units. We performed the interim impairment tests consistent with our approach for annual impairment testing, including using similar models, inputs and assumptions. As a result of the interim impairment test, the Partnership recognized a goodwill impairment of $483 million related to our Arklatex and South Texas operations within the midstream segment, a goodwill impairment of $183 million related to our Lake Charles LNG regasification operations within the interstate transportation and storage segment due to contractually scheduled reductions in payments for the remainder of the contract term, and a goodwill impairment of $40 million related to our all other operations primarily due to decreases in projected future revenues and cash flows as a result of the overall market demand decline. In addition, USAC recognized a goodwill impairment of $619 million during the three months ended March 31, 2020, which is included in the Partnership's consolidated results of operations. No other impairments of the Partnership's goodwill were identified.

In connection with aforementioned impairments, the Partnership determined the fair value of our reporting units using the income approach. The income approach is based on the present value of future cash flows, which are derived from our long-term financial forecasts, and requires significant assumptions including, among others, revenue growth rates, operating margins, weighted average costs of capital and future market conditions, among others. The Partnership believes the estimates and assumptions used in our impairment assessments are reasonable and based on available market information, but variations in any of the assumptions could result in materially different calculations of fair value and determinations of whether or not an impairment is indicated. Cash flow projections are derived from one-year budgeted amounts and three-year operating forecasts plus an estimate of later period cash flows, all of which are evaluated by management. Subsequent period cash flows are developed for each reporting unit using growth rates that management believes are reasonably likely to occur.

Of the $3.87 billion of goodwill on the Partnership's consolidated balance sheet as of June 30, 2020, approximately $1.2 billion is recorded in reporting units for which the estimated fair value exceeded the carrying value by less than 20% in the most recent quantitative test. Management believes that all of the $1.2 billion is at significant risk of impairment, if commodity prices and/or overall market demand remains low.

Changes in the carrying amounts of goodwill were as follows:

| | Intrastate Transportation and Storage | Interstate Transportation and Storage | Midstream | NGL and Refined Products Transportation and Services | Crude Oil Transportation and Services | Investment in Sunoco LP | Investment in USAC | All Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| Balance, December 31, 2019 | $ 10 | $ 226 | $ 483 | $ 693 | $ 1,397 | $ 1,555 | $ 619 | $ 184 | $ 5,167 |
| Impaired | — | (183) | (483) | — | — | — | (619) | (40) | (1,325) |
| Other | — | — | — | — | — | — | — | (7) | (7) |
| Balance, March 31, 2020 | 10 | 43 | — | 693 | 1,397 | 1,555 | — | 137 | 3,835 |
| Other | — | — | — | — | — | — | — | 33 | 33 |
| Balance, June 30, 2020 | $ 10 | $ 43 | $ — | $ 693 | $ 1,397 | $ 1,555 | $ — | $ 170 | $ 3,868 |

## 2. ACQUISITIONS AND RELATED TRANSACTIONS

**ET Contribution of SemGroup Assets to ETO**

As discussed in Note 1, former SemGroup subsidiaries were transferred from ET to ETO during the first and second quarter of 2020. The following table represents the fair value, as of December 5, 2019, of the SemGroup assets and liabilities transferred from ET to ETO:

| | At December 5, 2019 |
|---|---|
| Total current assets | $ 794 |
| Property, plant and equipment | 3,891 |
| Other non-current assets | 617 |
| Goodwill | 295 |
| Intangible assets | 460 |
| Total assets | 6,057 |
| | |
| Total current liabilities | 629 |
| Long-term debt, less current maturities [1] | 2,576 |
| Other non-current liabilities | 197 |
| SemCAMS Preferred shares | 241 |
| Total liabilities | 3,643 |
| | |
| Noncontrolling interest | 822 |
| | |
| Partners’ capital | 1,592 |
| Total liabilities and partners’ capital | $ 6,057 |

[1] Long-term debt at December 5, 2019 includes SemGroup senior notes with an aggregate principal amount of $1.375 billion and SemGroup subsidiary debt of $593 million, all of which was redeemed in December 2019, subsequent to the closing of ET’s acquisition of SemGroup, using proceeds from an intercompany promissory note from ETO.

## 3. 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. The Partnership’s consolidated balance sheets did not include any material amounts of restricted cash as of June 30, 2020 or December 31, 2019.

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.

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2020 | 2019 |
| Accounts receivable | $ 2,084 | $ (340) |
| Accounts receivable from related companies | 118 | 7 |
| Inventories | (180) | 28 |
| Other current assets | 150 | 37 |
| Other non-current assets, net | (159) | (43) |
| Accounts payable | (2,108) | 201 |
| Accounts payable to related companies | 12 | (109) |
| Accrued and other current liabilities | (122) | (21) |
| Other non-current liabilities | 42 | (87) |
| Derivative assets and liabilities, net | 190 | 140 |
| Net change in operating assets and liabilities, net of effects of acquisitions | $ 27 | $ (187) |

Non-cash activities are as follows:

| | Six Months Ended June 30, | |
|---|---|---|
| | 2020 | 2019 |
| NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Accrued capital expenditures | $ 742 | $ 714 |
| Lease assets obtained in exchange for new lease liabilities | 125 | 15 |

## 4. INVENTORIES

As further discussed in Note 1, the Partnership elected to change its accounting policy related to certain barrels of crude oil that were previously accounted for as inventory. As a result of this change in accounting policy, the Partnership's inventory balance for the prior period has been retrospectively adjusted.

Inventories consisted of the following:

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Natural gas, NGLs and refined products | $ 774 | $ 833 |
| Crude oil | 367 | 251 |
| Spare parts and other | 452 | 448 |
| Total inventories | $ 1,593 | $ 1,532 |

We utilize commodity derivatives to manage price volatility associated with our natural gas inventory. Changes in fair value of designated hedged inventory are recorded in inventory on our consolidated balance sheets and cost of products sold in our consolidated statements of operations.

Sunoco LP's fuel inventories are stated at the lower of cost or market using the last-in, first-out ("LIFO") method. As of June 30, 2020 and December 31, 2019, the carrying value of Sunoco LP's fuel inventory included lower of cost or market reserves of $372 million and $229 million, respectively, and the inventory carrying value equaled or exceeded its replacement cost. For the three and six months ended June 30, 2020 and 2019, the Partnership's consolidated income statements did not include any material amounts of income from the liquidation of LIFO fuel inventory.

## 5. FAIR VALUE MEASURES

We have commodity derivatives and interest rate derivatives that are accounted for as assets and liabilities at fair value in our consolidated balance sheets. We determine the fair value of our assets and liabilities subject to fair value measurement by using the highest possible "level" of inputs. Level 1 inputs are observable quotes in an active market for identical assets and liabilities. We consider the valuation of marketable securities and commodity derivatives transacted through a clearing broker with a published price from the appropriate exchange as a Level 1 valuation. Level 2 inputs are inputs observable for similar assets and liabilities. We consider OTC commodity derivatives entered into directly with third parties as a Level 2 valuation since the values of these derivatives are quoted on an exchange for similar transactions. Additionally, we consider our options transacted through our clearing broker as having Level 2 inputs due to the level of activity of these contracts on the exchange in which they trade. We consider the valuation of our interest rate derivatives as Level 2 as the primary input, the LIBOR curve, is based on quotes from an active exchange of Eurodollar futures for the same period as the future interest swap settlements. Level 3 inputs are unobservable. During the six months ended June 30, 2020, no transfers were made between any levels within the fair value hierarchy.

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The following tables summarize the gross fair value of our financial assets and liabilities measured and recorded at fair value on a recurring basis as of June 30, 2020 and December 31, 2019 based on inputs used to derive their fair values:

| | | Fair Value Measurements at June 30, 2020 | |
|---|---|---|---|
| | Fair Value Total | Level 1 | Level 2 |
| Assets: | | | |
| Commodity derivatives: | | | |
| Natural Gas: | | | |
| Basis Swaps IFERC/NYMEX | $ 112 | $ 112 | $ — |
| Swing Swaps IFERC | 2 | — | 2 |
| Fixed Swaps/Futures | 93 | 93 | — |
| Forward Physical Contracts | 7 | — | 7 |
| Power: | | | |
| Forwards | 21 | — | 21 |
| Futures | 3 | 3 | — |
| Options – Puts | 1 | 1 | — |
| Options – Calls | 1 | 1 | — |
| NGLs – Forwards/Swaps | 208 | 208 | — |
| Refined Products – Futures | 4 | 4 | — |
| Crude – Forwards/Swaps | 3 | 3 | — |
| Total commodity derivatives | 455 | 425 | 30 |
| Other non-current assets | 29 | 19 | 10 |
| Total assets | $ 484 | $ 444 | $ 40 |
| Liabilities: | | | |
| Interest rate derivatives | $ (577) | $ — | $ (577) |
| Commodity derivatives: | | | |
| Natural Gas: | | | |
| Basis Swaps IFERC/NYMEX | (83) | (83) | — |
| Swing Swaps IFERC | (5) | — | (5) |
| Fixed Swaps/Futures | (117) | (117) | — |
| Forward Physical Contracts | (1) | — | (1) |
| Power: | | | |
| Forwards | (17) | — | (17) |
| Futures | (3) | (3) | — |
| NGLs – Forwards/Swaps | (218) | (218) | — |
| Refined Products – Futures | (21) | (21) | — |
| Crude – Forwards/Swaps | (1) | (1) | — |
| Total commodity derivatives | (466) | (443) | (23) |
| Total liabilities | $ (1,043) | $ (443) | $ (600) |

| | Fair Value Total | Fair Value Measurements at December 31, 2019 | |
|---|---|---|---|
| | | Level 1 | Level 2 |
| Assets: | | | |
| Commodity derivatives: | | | |
| Natural Gas: | | | |
| Basis Swaps IFERC/NYMEX | $ 17 | $ 17 | $ — |
| Swing Swaps IFERC | 1 | — | 1 |
| Fixed Swaps/Futures | 65 | 65 | — |
| Forward Physical Contracts | 3 | — | 3 |
| Power: | | | |
| Forwards | 11 | — | 11 |
| Futures | 4 | 4 | — |
| Options – Puts | 1 | 1 | — |
| Options – Calls | 1 | 1 | — |
| NGLs – Forwards/Swaps | 260 | 260 | — |
| Refined Products – Futures | 8 | 8 | — |
| Crude – Forwards/Swaps | 13 | 13 | — |
| Total commodity derivatives | 384 | 369 | 15 |
| Other non-current assets | 31 | 20 | 11 |
| Total assets | $ 415 | $ 389 | $ 26 |
| Liabilities: | | | |
| Interest rate derivatives | $ (399) | $ — | $ (399) |
| Commodity derivatives: | | | |
| Natural Gas: | | | |
| Basis Swaps IFERC/NYMEX | (49) | (49) | — |
| Swing Swaps IFERC | (1) | — | (1) |
| Fixed Swaps/Futures | (43) | (43) | — |
| Power: | | | |
| Forwards | (5) | — | (5) |
| Futures | (3) | (3) | — |
| NGLs – Forwards/Swaps | (278) | (278) | — |
| Refined Products – Futures | (10) | (10) | — |
| Total commodity derivatives | (389) | (383) | (6) |
| Total liabilities | $ (788) | $ (383) | $ (405) |

Based on the estimated borrowing rates currently available to us and our subsidiaries for loans with similar terms and average maturities, the aggregate fair value and carrying amount of our consolidated debt obligations as of June 30, 2020 was $52.92 billion and $51.21 billion, respectively. As of December 31, 2019, the aggregate fair value and carrying amount of our consolidated debt obligations was $54.66 billion and $50.93 billion, respectively. The fair value of our consolidated debt obligations is a Level 2 valuation based on the observable inputs used for similar liabilities.

## 6. DEBT OBLIGATIONS

### Notes and Debentures

***ETO January 2020 Senior Notes Offering and Redemption***

On January 22, 2020, ETO completed a registered offering (the “January 2020 Senior Notes Offering”) of $1.00 billion aggregate principal amount of ETO’s 2.900% Senior Notes due 2025, $1.50 billion aggregate principal amount of the

Partnership's 3.750% Senior Notes due 2030 and $2.00 billion aggregate principal amount of ETO's 5.000% Senior Notes due 2050 (collectively, the "Notes"). The Notes are fully and unconditionally guaranteed by ETO's wholly-owned subsidiary, Sunoco Logistics Operations, on a senior unsecured basis.

Using proceeds from the January 2020 Senior Notes Offering, ETO redeemed its $400 million aggregate principal amount of 5.75% Senior Notes due September 1, 2020, its $1.05 billion aggregate principal amount of 4.15% Senior Notes due October 1, 2020, its $1.14 billion aggregate principal amount of 7.50% Senior Notes due October 15, 2020, its $250 million aggregate principal amount of 5.50% Senior Notes due February 15, 2020, ET's $52 million aggregate principal amount of 7.50% Senior Notes due October 15, 2020 and Transwestern's $175 million aggregate principal amount of 5.36% Senior Notes due December 9, 2020.

***HFOTCO Long-Term Debt***

In connection with the contribution transactions discussed in Note 2, HFOTCO became a wholly-owned subsidiary of ETO in February 2020. As of June 30, 2020, HFOTCO had $225 million outstanding of tax exempt notes due 2050 (the "Ike Bonds"). The Ike Bonds are fully and unconditionally guaranteed by the Partnership, on a senior unsecured basis. The indentures under which the Ike Bonds were issued are subject to customary representations and warranties and affirmative and negative covenants, the majority of which are substantially similar to those found in ETO's revolving credit facility, as further discussed below.

**Credit Facilities and Commercial Paper**

***ETO Term Loan***

ETO's term loan credit agreement provides for a $2 billion three-year term loan credit facility (the "ETO Term Loan"). Borrowings under the term loan agreement mature on October 17, 2022 and are available for working capital purposes and for general partnership purposes. The ETO Term Loan is unsecured and is guaranteed by ETO's subsidiary, Sunoco Logistics Operations.

As of June 30, 2020, the ETO Term Loan had $2 billion outstanding and was fully drawn. The weighted average interest rate on the total amount outstanding as of June 30, 2020 was 1.18%.

***ETO Five-Year Credit Facility***

ETO's revolving credit facility (the "ETO Five-Year Credit Facility") allows for unsecured borrowings up to $5.00 billion and matures on December 1, 2023. The ETO Five-Year Credit Facility contains an accordion feature, under which the total aggregate commitment may be increased up to $6.00 billion under certain conditions.

As of June 30, 2020, the ETO Five-Year Credit Facility had $3.01 billion of outstanding borrowings, $1.11 billion of which was commercial paper. The amount available for future borrowings was $1.90 billion, after taking into account letters of credit of $86 million. The weighted average interest rate on the total amount outstanding as of June 30, 2020 was 1.34%.

***ETO 364-Day Facility***

ETO's 364-day revolving credit facility (the "ETO 364-Day Facility") allows for unsecured borrowings up to $1.00 billion and matures on November 27, 2020. As of June 30, 2020, the ETO 364-Day Facility had no outstanding borrowings.

***Sunoco LP Credit Facility***

Sunoco LP maintains a $1.50 billion revolving credit facility (the "Sunoco LP Credit Facility"), which matures in July 2023. As of June 30, 2020, the Sunoco LP Credit Facility had $158 million of outstanding borrowings and $8 million in standby letters of credit. As of June 30, 2020, Sunoco LP had $1.33 billion of availability under the Sunoco LP Credit Facility. The weighted average interest rate on the total amount outstanding as of June 30, 2020 was 2.19%.

***USAC Credit Facility***

USAC maintains a $1.60 billion revolving credit facility (the "USAC Credit Facility"), with a further potential increase of $400 million, which matures in April 2023. As of June 30, 2020, the USAC Credit Facility had $448 million of outstanding borrowings and no outstanding letters of credit. As of June 30, 2020, USAC had $1.15 billion of borrowing base availability and, subject to compliance with the applicable financial covenants, available borrowing capacity of $151 million under the USAC Credit Facility. The weighted average interest rate on the total amount outstanding as of June 30, 2020 was 2.77%.

***SemCAMS Credit Facilities***

SemCAMS is party to a credit agreement providing for a C$350 million (US$257 million at the June 30, 2020 exchange rate) senior secured term loan facility, a C$525 million (US$385 million at the June 30, 2020 exchange rate) senior secured revolving credit facility, and a C$300 million (US$220 million at the June 30, 2020 exchange rate) senior secured construction loan facility (the "KAPS Facility"). The term loan facility and the revolving credit facility mature on February 25, 2024. The KAPS Facility matures on June 13, 2024. SemCAMS may incur additional term loans and revolving commitments in an aggregate amount not to exceed C$250 million (US$183 million at the June 30, 2020 exchange rate), subject to receiving commitments for such additional term loans or revolving commitments from either new lenders or increased commitments from existing lenders. As of June 30, 2020, the SemCAMS senior secured term loan facility and senior secured revolving credit facility had $251 million and $92 million, respectively, of outstanding borrowings. As of June 30, 2020, the KAPS Facility had no outstanding borrowings.

**Compliance with Our Covenants**

We and our subsidiaries were in compliance with all requirements, tests, limitations, and covenants related to our debt agreements as of June 30, 2020.

## 7. REDEEMABLE NONCONTROLLING INTERESTS

Certain redeemable noncontrolling interests in the Partnership's subsidiaries are reflected as mezzanine equity on the consolidated balance sheets. Redeemable noncontrolling interests as of June 30, 2020 included a balance of $477 million related to the USAC Preferred Units described below and a balance of $15 million related to noncontrolling interest holders in one of the Partnership's consolidated subsidiaries that have the option to sell their interests to the Partnership. In addition, redeemable noncontrolling interests includes a balance of $258 million in SemCAMS preferred shares.

***USAC Preferred Units***

As of June 30, 2020, USAC had 500,000 USAC Preferred Units issued and outstanding. The holders of these units are entitled to receive cumulative quarterly distributions equal to $24.375 per USAC Preferred Unit, subject to increase in certain limited circumstances. The USAC Preferred Units will have a perpetual term, unless converted or redeemed. Certain portions of the USAC Preferred Units will be convertible into USAC common units at the election of the holders beginning in 2021. To the extent the holders of the USAC Preferred Units have not elected to convert their preferred units by April 2, 2023, USAC will have the option to redeem all or any portion of the USAC Preferred Units for cash. In addition, at any time on or after April 2, 2028, the holders of the USAC Preferred Units will have the right to require USAC to redeem all or any portion of the USAC Preferred Units, and the Partnership may elect to pay up to 50% of such redemption amount in USAC common units.

***SemCAMS Redeemable Preferred Stock***

As of June 30, 2020, SemCAMS had 329,830 shares of cumulative preferred stock issued and outstanding. The preferred stock is redeemable at SemCAMS's option subsequent to January 3, 2021 at a redemption price of C$1,100 (US$807 at the June 30, 2020 exchange rate) per share. The preferred stock is redeemable by the holder contingent upon a change of control or liquidation of SemCAMS. The preferred stock is convertible to SemCAMS common shares in the event of an initial public offering by SemCAMS. Dividends on the preferred stock may be paid in-kind through June 30, 2021.

## 8. EQUITY

All of our common units are owned by ET.

**Preferred Units**

As of June 30, 2020 and December 31, 2019, our outstanding preferred units included 950,000 Series A Preferred Units, 550,000 Series B Preferred Units, 18,000,000 Series C Preferred Units, 17,800,000 Series D Preferred Units and 32,000,000 Series E Preferred Units. As of June 30, 2020, our outstanding preferred units also included 500,000 Series F Preferred Units and 1,100,000 Series G Preferred Units.

The following table summarizes changes in the amounts of our Series A, Series B, Series C, Series D, Series E, Series F and Series G preferred units for the six months ended June 30, 2020:

| | Preferred Unitholders | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Series A | Series B | Series C | Series D | Series E | Series F | Series G | Total |
| Balance, December 31, 2019 | $ 958 | $ 556 | $ 440 | $ 434 | $ 786 | $ — | $ — | $ 3,174 |
| Distributions to partners | (30) | (18) | (8) | (9) | (15) | — | — | (80) |
| Units issued for cash | — | — | — | — | — | 494 | 1,086 | 1,580 |
| Other, net | — | — | — | — | — | (1) | (2) | (3) |
| Net income | 15 | 9 | 8 | 9 | 15 | 6 | 15 | 77 |
| Balance, March 31, 2020 | 943 | 547 | 440 | 434 | 786 | 499 | 1,099 | 4,748 |
| Distributions to partners | — | — | (8) | (8) | (15) | (11) | (25) | (67) |
| Other, net | — | — | — | — | — | (1) | — | (1) |
| Net income | 15 | 9 | 8 | 8 | 15 | 9 | 20 | 84 |
| Balance, June 30, 2020 | $ 958 | $ 556 | $ 440 | $ 434 | $ 786 | $ 496 | $ 1,094 | $ 4,764 |

The following table summarizes changes in the amounts of our Series A, Series B, Series C, Series D and Series E preferred units for the six months ended June 30, 2019:

| | Preferred Unitholders | | | | | |
|---|---|---|---|---|---|---|
| | Series A | Series B | Series C | Series D | Series E | Total |
| Balance, December 31, 2018 | $ 958 | $ 556 | $ 440 | $ 434 | $ — | $ 2,388 |
| Distributions to partners | (30) | (18) | (8) | (8) | — | (64) |
| Net income | 15 | 9 | 8 | 8 | — | 40 |
| Balance, March 31, 2019 | 943 | 547 | 440 | 434 | — | 2,364 |
| Distributions to partners | — | — | (9) | (9) | — | (18) |
| Units issued for cash | — | — | — | — | 780 | 780 |
| Other, net | — | — | — | — | (1) | (1) |
| Net income | 15 | 9 | 9 | 9 | 11 | 53 |
| Balance, June 30, 2019 | $ 958 | $ 556 | $ 440 | $ 434 | $ 790 | $ 3,178 |

***Series F Preferred Units***

On January 22, 2020, the Partnership issued 500,000 of its Series F Preferred Units representing limited partner interest in the Partnership, at a price to the public of $1,000 per unit. Distributions on the Series F Preferred Units are cumulative from and including the original issue date and will be payable semi-annually in arrears on the 15th day of May and November of each year, commencing on May 15, 2020 to, but excluding, May 15, 2025, at a rate equal to 6.750% per annum of the $1,000 liquidation preference. On and after May 15, 2025, the distribution rate on the Series F Preferred Units will equal a percentage of the $1,000 liquidation preference equal to the five-year U.S. treasury rate plus a spread of 5.134% per annum. The Series F Preferred Units are redeemable at ETO’s option on or after May 15, 2025 at a redemption price of $1,000 per Series F Preferred Unit, plus an amount equal to all accumulated and unpaid distributions thereon to, but excluding, the date of redemption.

***Series G Preferred Units***

On January 22, 2020, the Partnership issued 1,100,000 of its Series G Preferred Units representing limited partner interest in the Partnership, at a price to the public of $1,000 per unit. Distributions on the Series G Preferred Units are cumulative from and including the original issue date and will be payable semi-annually in arrears on the 15th day of May and November of each year, commencing on May 15, 2020 to, but excluding, May 15, 2030, at a rate equal to 7.125% per annum of the $1,000 liquidation preference. On and after May 15, 2030, the distribution rate on the Series G Preferred Units will equal a percentage of the $1,000 liquidation preference equal to the five-year U.S. treasury rate plus a spread of 5.306% per annum. The Series G Preferred Units are redeemable at ETO’s option on or after May 15, 2030 at a redemption price of $1,000 per Series G

Preferred Unit, plus an amount equal to all accumulated and unpaid distributions thereon to, but excluding, the date of redemption.

**Subsidiary Equity Transactions**

***Sunoco LP Equity Distribution Program***

For the six months ended June 30, 2020, Sunoco LP issued no additional units under its at-the-market equity distribution program. As of June 30, 2020, $295 million of Sunoco LP common units remained available to be issued under the currently effective equity distribution agreement.

***USAC Class B Conversion***

On July 30, 2019, the 6,397,965 USAC Class B units held by the Partnership converted into 6,397,965 common units representing limited partner interests in USAC. These common units will participate in any future distributions declared by USAC.

***USAC Distribution Reinvestment Program***

During the six months ended June 30, 2020, distributions of $0.9 million were reinvested under the USAC distribution reinvestment program resulting in the issuance of approximately 96,592 USAC common units.

**Cash Distributions**

Distributions on ETO's preferred units declared and/or paid by the Partnership subsequent to December 31, 2019 were as follows:

| Period Ended | Record Date | Payment Date | Series A [1] | Series B [1] | Series C | Series D | Series E | Series F [2] | Series G [2] |
|---|---|---|---|---|---|---|---|---|---|
| December 31, 2019 | February 3, 2020 | February 18, 2020 | $ 31.25 | $ 33.125 | $ 0.4609 | $ 0.4766 | 0.4750 | $ — | $ — |
| March 31, 2020 | May 1, 2020 | May 15, 2020 | — | — | 0.4609 | 0.4766 | 0.4750 | 21.19 | 22.36 |
| June 30, 2020 | August 3, 2020 | August 17, 2020 | 31.25 | 33.125 | 0.4609 | 0.4766 | 0.4750 | — | — |

(1) Series A Preferred Unit and Series B Preferred Unit distributions are paid on a semi-annual basis.

(2) Series F Preferred Unit and Series G Preferred Unit distributions related to the period ended March 31, 2020 represent a prorated initial distribution. Distributions are paid on a semi-annual basis.

**Sunoco LP Cash Distributions**

Distributions declared and/or paid by Sunoco LP to its common unitholders subsequent to December 31, 2019 were as follows:

| Quarter Ended | Record Date | Payment Date | Rate |
|---|---|---|---|
| December 31, 2019 | February 7, 2020 | February 19, 2020 | $ 0.8255 |
| March 31, 2020 | May 7, 2020 | May 19, 2020 | 0.8255 |
| June 30, 2020 | August 7, 2020 | August 19, 2020 | 0.8255 |

**USAC Cash Distributions**

Distributions declared and/or paid by USAC to its common unitholders subsequent to December 31, 2019 were as follows:

| Quarter Ended | Record Date | Payment Date | Rate |
|---|---|---|---|
| December 31, 2019 | January 27, 2020 | February 7, 2020 | $ 0.5250 |
| March 31, 2020 | April 27, 2020 | May 8, 2020 | 0.5250 |
| June 30, 2020 | July 31, 2020 | August 10, 2020 | 0.5250 |

**Accumulated Other Comprehensive Income (Loss)**

The following table presents the components of AOCI, net of tax:

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Available-for-sale securities | $ 13 | $ 13 |
| Foreign currency translation adjustment | (32) | (5) |
| Actuarial loss related to pensions and other postretirement benefits | (14) | (25) |
| Investments in unconsolidated affiliates, net | (17) | (1) |
| Subtotal | (50) | (18) |
| Amounts attributable to noncontrolling interest | 29 | — |
| Total AOCI, net of tax | $ (21) | $ (18) |

## 9. INCOME TAXES

The Partnership's effective tax rate differs from the statutory rate primarily due to partnership earnings that are not subject to United States federal and most state income taxes at the partnership level.

## 10. REGULATORY MATTERS, COMMITMENTS, CONTINGENCIES AND ENVIRONMENTAL LIABILITIES

**FERC Proceedings**

By Order issued January 16, 2019, the FERC initiated a review of Panhandle's existing rates pursuant to Section 5 of the Natural Gas Act to determine whether the rates currently charged by Panhandle are just and reasonable and set the matter for hearing. On August 30, 2019, Panhandle filed a general rate proceeding under Section 4 of the Natural Gas Act. The Natural Gas Act Section 5 and Section 4 proceedings were consolidated by the Order dated October 1, 2019. A hearing in the combined proceedings is scheduled for August 2020, with an initial decision expected in early 2021.

**Commitments**

In the normal course of business, ETO purchases, processes and sells natural gas pursuant to long-term contracts and enters into long-term transportation and storage agreements. Such contracts contain terms that are customary in the industry. ETO believes that the terms of these agreements are commercially reasonable and will not have a material adverse effect on its financial position or results of operations.

Our joint venture agreements require that we fund our proportionate share of capital contributions to our unconsolidated affiliates. Such contributions will depend upon our unconsolidated affiliates' capital requirements, such as for funding capital projects or repayment of long-term obligations.

We have certain non-cancelable rights-of-way ("ROW") commitments, which require fixed payments and either expire upon our chosen abandonment or at various dates in the future. The table below reflects ROW expense included in operating expenses in the accompanying consolidated statements of operations:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| ROW expense | $ 10 | $ 6 | $ 19 | $ 12 |

**PES Refinery Fire and Bankruptcy**

We previously owned an approximately 7.4% indirect non-operating interest in PES, which owned a former refinery in Philadelphia. In addition, the Partnership previously provided logistics services to PES under commercial contracts and Sunoco LP previously purchased refined products from PES. In June 2019, an explosion and fire occurred at the refinery complex.

On July 21, 2019, PES Holdings, LLC and seven of its subsidiaries (collectively, the "Debtors") filed voluntary petitions in the United States Bankruptcy Court for the District of Delaware seeking relief under the provisions of Chapter 11 of the United

States Bankruptcy Code, as a result of the explosion and fire at the Philadelphia refinery complex. The Debtors have also defaulted on a $75 million note payable to a subsidiary of the Partnership. In June 2020, the Partnership received $12 million from PES on the note payable and recorded a reserve for the remaining $63 million note balance.

In addition, the Partnership's subsidiaries retained certain environmental remediation liabilities when the refinery was sold to PES. As of June 30, 2020, the Partnership has funded these environmental remediation liabilities through its wholly-owned captive insurance company, based upon actuarially determined estimates for such costs, and these liabilities are included in the total environmental liabilities discussed below under "Environmental Remediation." It may be necessary for the Partnership to record additional environmental remediation liabilities in the future depending upon the use of such property by the buyer; however, management is not currently able to estimate such additional liabilities.

PES has rejected certain of the Partnership's commercial contracts pursuant to Section 365 of the Bankruptcy Code; however, the impact of the bankruptcy on the Partnership's commercial contracts and related revenue loss (temporary or permanent) is unknown at this time. In addition, Sunoco LP has been successful at acquiring alternative supplies to replace fuel volume lost from PES and does not anticipate any material impact to its business going forward.

**Litigation and Contingencies**

We may, from time to time, be involved in litigation and claims arising out of our operations in the normal course of business. Natural gas and crude oil are flammable and combustible. Serious personal injury and significant property damage can arise in connection with their transportation, storage or use. In the ordinary course of business, we are sometimes threatened with or named as a defendant in various lawsuits seeking actual and punitive damages for product liability, personal injury and property damage. We maintain liability insurance with insurers in amounts and with coverage and deductibles management believes are reasonable and prudent, and which are generally accepted in the industry. However, there can be no assurance that the levels of insurance protection currently in effect will continue to be available at reasonable prices or that such levels will remain adequate to protect us from material expenses related to product liability, personal injury or property damage in the future.

***Dakota Access Pipeline***

On July 27, 2016, the Standing Rock Sioux Tribe ("SRST") filed a lawsuit in the United States District Court for the District of Columbia challenging permits issued by the United States Army Corps of Engineers ("USACE") permitting Dakota Access, LLC ("Dakota Access") to cross the Missouri River at Lake Oahe in North Dakota. The case was subsequently amended to challenge an easement issued by the USACE allowing the pipeline to cross land owned by the USACE adjacent to the Missouri River. Dakota Access and the Cheyenne River Sioux Tribe ("CRST") intervened. Separate lawsuits filed by the Oglala Sioux Tribe ("OST") and the Yankton Sioux Tribe ("YST") were consolidated with this action and several individual tribal members intervened (collectively with SRST and CRST, the "Tribes"). Plaintiffs and Defendants filed cross motions for summary judgment. On March 25, 2020, the Court remanded the case back to the USACE for preparation of an Environment Impact Statement. On July 6, 2020, the Court vacated the easement and ordered Dakota Access to be shut down and emptied of oil by August 5, 2020. Dakota Access and USACE have filed notices of appeal with the United States Court of Appeals for the District of Columbia ("Court of Appeals") with respect to the Court's ruling related to the preparation of an Environmental Impact Statement and also filed motions for a stay of the Court's July 6, 2020 Order. On July 14, 2020, the Court of Appeals administratively stayed the Court's July 6 Order and ordered further briefing with respect to the motion to stay. On August 5, 2020, the Court of Appeals granted a stay of the portion of the District Court order that required Dakota Access to shut the pipeline down and empty it of oil. The Court of Appeals also denied a stay of the March 25 Order and the remaining portion of the July 6 Order vacating the easement. As a result, no court order stops Dakota Access from continuing to operate the Pipeline. The August 5 Order contemplates that the USACE will make a determination under its regulations and procedures whether vacating the easement requires oil to stop flowing. The Order also contemplates further proceedings in the District Court, and it expedites the appeal with briefing to conclude by September 30, 2020.

Energy Transfer cannot determine when or how these lawsuits will be resolved or the impact they may have on the Dakota Access project, but expects after the law and complete record are fully considered, the issues in this litigation will be resolved in a manner that will allow the pipeline to continue to operate.

***Mont Belvieu Incident***

On June 26, 2016, a hydrocarbon storage well located on another operator's facility adjacent to Lone Star NGL LLC's ("Lone Star") facilities in Mont Belvieu, Texas experienced an over-pressurization resulting in a subsurface release. The subsurface release caused a fire at Lone Star's South Terminal and damage to Lone Star's storage well operations at its South and North Terminals. Normal operations have resumed at the facilities with the exception of one of Lone Star's storage wells, however,

Lone Star is still quantifying the extent of its incurred and ongoing damages and has obtained, and will continue to seek, reimbursement for these losses.

***MTBE Litigation***

ETC Sunoco Holdings LLC and Sunoco (R&M), LLC (collectively, "Sunoco") are defendants in lawsuits alleging MTBE contamination of groundwater. The plaintiffs, state-level governmental entities, assert product liability, nuisance, trespass, negligence, violation of environmental laws, and/or deceptive business practices claims. The plaintiffs seek to recover compensatory damages, and in some cases also seek natural resource damages, injunctive relief, punitive damages, and attorneys' fees.

As of June 30, 2020, Sunoco is a defendant in five cases, including one case each initiated by the States of Maryland and Rhode Island, one by the Commonwealth of Pennsylvania and two by the Commonwealth of Puerto Rico. The more recent Puerto Rico action is a companion case alleging damages for additional sites beyond those at issue in the initial Puerto Rico action. The actions brought by the State of Maryland and Commonwealth of Pennsylvania have also named as defendants ETO, ETP Holdco Corporation, and Sunoco Partners Marketing & Terminals L.P. ("SPMT").

It is reasonably possible that a loss may be realized in the remaining cases; however, we are unable to estimate the possible loss or range of loss in excess of amounts accrued. An adverse determination with respect to one or more of the MTBE cases could have a significant impact on results of operations during the period in which any such adverse determination occurs, but such an adverse determination likely would not have a material adverse effect on the Partnership's consolidated financial position.

***Regency Merger Litigation***

On June 10, 2015, Adrian Dieckman ("Dieckman"), a purported Regency unitholder, filed a class action complaint related to the Regency-ETO merger (the "Regency Merger") in the Court of Chancery of the State of Delaware (the "Regency Merger Litigation"), on behalf of Regency's common unitholders against Regency GP LP, Regency GP LLC, ET, ETO, ETP GP, and the members of Regency's board of directors.

The Regency Merger Litigation alleges that the Regency Merger breached the Regency partnership agreement. On March 29, 2016, the Delaware Court of Chancery granted the defendants' motion to dismiss the lawsuit in its entirety. Plaintiff appealed, and the Delaware Supreme Court reversed the judgment of the Court of Chancery. Plaintiff then filed an Amended Verified Class Action Complaint, which defendants moved to dismiss. The Court of Chancery granted in part and denied in part the motions to dismiss, dismissing the claims against all defendants other than Regency GP LP and Regency GP LLC (the "Regency Defendants"). The Court of Chancery later granted Plaintiff's unopposed motion for class certification. Trial was held on December 10-16, 2019, and a post-trial hearing was held on May 6, 2020.

The Regency Defendants cannot predict the outcome of the Regency Merger Litigation or any lawsuits that might be filed subsequent to the date of this filing; nor can the Regency Defendants predict the amount of time and expense that will be required to resolve the Regency Merger Litigation. The Regency Defendants believe the Regency Merger Litigation is without merit and intend to vigorously defend against it.

***Rover***

On November 3, 2017, the State of Ohio and the Ohio Environmental Protection Agency ("Ohio EPA") filed suit against Rover and other defendants seeking to recover civil penalties allegedly owed and certain injunctive relief related to permit compliance. The defendants filed several motions to dismiss, which were granted on all counts. The Ohio EPA appealed, and on December 9, 2019, the Fifth District Court of Appeals entered a unanimous judgment affirming the trial court. The Ohio EPA sought review from the Ohio Supreme Court, which the defendants opposed in briefs filed in February 2020. On April 22, 2020, the Ohio Supreme Court granted the Ohio EPA's request for review. Briefing is underway and will conclude at the end of August 2020.

***Bayou Bridge***

On January 11, 2018, environmental groups and a trade association filed suit against the USACE in the United States District Court for the Middle District of Louisiana. Plaintiffs allege that the USACE's issuance of permits authorizing the construction of the Bayou Bridge Pipeline through the Atchafalaya Basin ("Basin") violated the National Environmental Policy Act, the Clean Water Act, and the Rivers and Harbors Act. ETO, through its subsidiary Bayou Bridge Pipeline, LLC ("Bayou Bridge"), intervened on January 26, 2018.

On March 25, 2020, the Court granted summary judgment in favor of the USACE. Plaintiffs did not appeal by the deadline, and the case has concluded.

***Revolution***

On September 10, 2018, a pipeline release and fire (the “Incident”) occurred on the Revolution pipeline, a natural gas gathering line located in Center Township, Beaver County, Pennsylvania. There were no injuries. On February 8, 2019, the Pennsylvania Department of Environmental Protection (“PADEP”) issued a Permit Hold on any requests for approvals/permits or permit amendments for any project in Pennsylvania pursuant to the state’s water laws. The Partnership filed an appeal of the Permit Hold with the Pennsylvania Environmental Hearing Board. On January 3, 2020, the Partnership entered into a Consent Order and Agreement with the PADEP in which, among other things, the Permit Hold was lifted, the Partnership agreed to pay a $28.6 million civil penalty and fund a $2 million community environmental project, and all related appeals were withdrawn.

The Pennsylvania Office of Attorney General has commenced an investigation regarding the Incident, and the United States Attorney for the Western District of Pennsylvania has issued a federal grand jury subpoena for documents relevant to the Incident. The scope of these investigations is not further known at this time.

***Chester County, Pennsylvania Investigation***

In December 2018, the former Chester County District Attorney (“DA”) sent a letter to the Partnership stating that his office was investigating the Partnership and related entities for “potential crimes” related to the Mariner East pipelines.

Subsequently, the matter was submitted to an Investigating Grand Jury in Chester County, Pennsylvania, which has issued subpoenas seeking documents and testimony. On September 24, 2019, the former DA sent a Notice of Intent to the Partnership of its intent to pursue an abatement action if certain conditions were not remediated. The Partnership responded to the Notice of Intent within the proscribed time period. To date, the Partnership is not aware of any further action with regard to this Notice.

In December 2019, the former DA announced charges against a current employee related to the provision of security services. On June 25, 2020, a preliminary hearing was held on the charges against the employee, and the judge dismissed all charges.

***Delaware County, Pennsylvania Investigation***

On March 11, 2019, the Delaware County District Attorney’s Office (“DA”) announced that the DA and the Pennsylvania Attorney General’s Office, at the request of the DA, are conducting an investigation of alleged criminal misconduct involving the construction and related activities of the Mariner East pipelines in Delaware County. On March 16, 2020, the Pennsylvania Attorney General Office served a Statewide Investigating Grand Jury subpoena for documents relating to inadvertent returns and water supplies related to the Mariner East pipelines. While the Partnership will cooperate with the subpoena, it intends to vigorously defend itself.

***Other Litigation and Contingencies***

We or our subsidiaries are a party to various legal proceedings and/or regulatory proceedings incidental to our businesses. For each of these matters, we evaluate the merits of the case, our exposure to the matter, possible legal or settlement strategies, the likelihood of an unfavorable outcome and the availability of insurance coverage. If we determine that an unfavorable outcome of a particular matter is probable and can be estimated, we accrue the contingent obligation, as well as any expected insurance recoverable amounts related to the contingency. As of June 30, 2020 and December 31, 2019, accruals of approximately $92 million and $98 million, respectively, were reflected on our consolidated balance sheets related to these contingent obligations. As new information becomes available, our estimates may change. The impact of these changes may have a significant effect on our results of operations in a single period.

The outcome of these matters cannot be predicted with certainty and there can be no assurance that the outcome of a particular matter will not result in the payment of amounts that have not been accrued for the matter. Furthermore, we may revise accrual amounts prior to resolution of a particular contingency based on changes in facts and circumstances or changes in the expected outcome. Currently, we are not able to estimate possible losses or a range of possible losses in excess of amounts accrued.

In addition, other legal proceedings exist that are considered reasonably possible to result in unfavorable outcomes. For those where possible losses can be estimated, the range of possible losses related to these contingent obligations is estimated to be up to $80 million; however, no accruals have been recorded as of June 30, 2020 or December 31, 2019.

**Environmental Matters**

Our operations are subject to extensive federal, tribal, state and local environmental and safety laws and regulations that require expenditures to ensure compliance, including related to air emissions and wastewater discharges, at operating facilities and for remediation at current and former facilities as well as waste disposal sites. Historically, our environmental compliance costs have not had a material adverse effect on our results of operations but there can be no assurance that such costs will not be material in the future or that such future compliance with existing, amended or new legal requirements will not have a material adverse effect on our business and operating results. Costs of planning, designing, constructing and operating pipelines, plants and other facilities must incorporate compliance with environmental laws and regulations and safety standards. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, the imposition of investigatory, remedial and corrective action obligations, natural resource damages, the issuance of injunctions in affected areas and the filing of federally authorized citizen suits. Contingent losses related to all significant known environmental matters have been accrued and/or separately disclosed. However, we may revise accrual amounts prior to resolution of a particular contingency based on changes in facts and circumstances or changes in the expected outcome.

Environmental exposures and liabilities are difficult to assess and estimate due to unknown factors such as the magnitude of possible contamination, the timing and extent of remediation, the determination of our liability in proportion to other parties, improvements in cleanup technologies and the extent to which environmental laws and regulations may change in the future. Although environmental costs may have a significant impact on our results of operations for any single period, we believe that such costs will not have a material adverse effect on our financial position.

Based on information available at this time and reviews undertaken to identify potential exposure, we believe the amount reserved for environmental matters is adequate to cover the potential exposure for cleanup costs.

In February 2017, we received letters from the DOJ on behalf of EPA and Louisiana Department of Environmental Quality (“LDEQ”) notifying SPLP and Mid-Valley Pipeline Company (“Mid-Valley”) that enforcement actions were being pursued for three separate crude oil releases: (a) an estimated 550 barrels released from the Colmesneil-to-Chester pipeline in Tyler County, Texas (“Colmesneil”) which allegedly occurred in February 2013; (b) an estimated 4,509 barrels released from the Longview-to-Mayersville pipeline in Caddo Parish, Louisiana (a/k/a Milepost 51.5) which allegedly occurred in October 2014; and (c) an estimated 40 barrels released from the Wakita 4-inch gathering line in Oklahoma which allegedly occurred in January 2015. In January 2019, a Consent Decree approved by all parties as well as an accompanying Complaint was filed in the United States District Court for the Western District of Louisiana seeking public comment and final court approval to resolve all penalties with the DOJ and LDEQ for the three releases. Subsequently, the court approved the Consent Decree and the penalty payment of $5.4 million was satisfied. The Consent Decree requires certain injunctive relief to be completed on the Longview-to-Mayersville pipeline within three years but the injunctive relief is not expected to have any material impact on operations. In addition to resolution of the civil penalty and injunctive relief, we continue to discuss natural resource damages with the Louisiana trustees related to the Caddo Parish, Louisiana release.

In October 2018, the Pipeline and Hazardous Materials Safety Administration (“PHMSA”) issued a notice of proposed safety order (the “Notice”) to SPMT, a wholly-owned subsidiary of ETO. The Notice alleged that conditions exist on certain pipeline facilities owned and operated by SPMT in Nederland, Texas that pose a pipeline integrity risk to public safety, property or the environment. The Notice also made preliminary findings of fact and proposed corrective measures. SPMT responded to the Notice by submitting a timely written response on November 2, 2018, attended an informal consultation held on January 30, 2019 and entered into a consent agreement with PHMSA resolving the issues in the Notice as of March 2019. SPMT is currently awaiting response from PHMSA regarding the approval status of the submitted Remedial Work Plan.

On June 4, 2019, the Oklahoma Corporation Commission’s (“OCC”) Transportation Division filed a complaint against SPLP seeking a penalty of up to $1 million related to a May 2018 rupture near Edmond, Oklahoma. The release occurred on the Noble to Douglas 8” pipeline in an area of external corrosion and caused the release of approximately fifteen barrels of crude oil. SPLP responded immediately to the release and remediated the surrounding environment and pipeline in cooperation with the OCC. The OCC filed the complaint alleging that SPLP failed to provide adequate cathodic protection to the pipeline causing the failure. SPLP is negotiating a settlement agreement with the OCC for a lesser penalty. The OCC has accepted our counter offer in conjunction with a proposed consent order. The Consent Order will be presented to the OCC at a final hearing, the date of which is to be determined.

***Environmental Remediation***

Our subsidiaries are responsible for environmental remediation at certain sites, including the following:

- Certain of our interstate pipelines conduct soil and groundwater remediation related to contamination from past uses of polychlorinated biphenyls ("PCBs"). PCB assessments are ongoing and, in some cases, our subsidiaries could be contractually responsible for contamination caused by other parties.
- Certain gathering and processing systems are responsible for soil and groundwater remediation related to releases of hydrocarbons.
- Legacy sites related to Sunoco that are subject to environmental assessments, including formerly owned terminals and other logistics assets, retail sites that Sunoco no longer operates, closed and/or sold refineries and other formerly owned sites.
- Sunoco is potentially subject to joint and several liability for the costs of remediation at sites at which it has been identified as a potentially responsible party ("PRP"). As of June 30, 2020, Sunoco had been named as a PRP at approximately 30 identified or potentially identifiable "Superfund" sites under federal and/or comparable state law. Sunoco is usually one of a number of companies identified as a PRP at a site. Sunoco has reviewed the nature and extent of its involvement at each site and other relevant circumstances and, based upon Sunoco's purported nexus to the sites, believes that its potential liability associated with such sites will not be significant.

To the extent estimable, expected remediation costs are included in the amounts recorded for environmental matters in our consolidated balance sheets. In some circumstances, future costs cannot be reasonably estimated because remediation activities are undertaken as claims are made by customers and former customers. To the extent that an environmental remediation obligation is recorded by a subsidiary that applies regulatory accounting policies, amounts that are expected to be recoverable through tariffs or rates are recorded as regulatory assets on our consolidated balance sheets.

The table below reflects the amounts of accrued liabilities recorded in our consolidated balance sheets related to environmental matters that are considered to be probable and reasonably estimable. Currently, we are not able to estimate possible losses or a range of possible losses in excess of amounts accrued. Except for matters discussed above, we do not have any material environmental matters assessed as reasonably possible that require disclosure in our consolidated financial statements.

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Current | $ 43 | $ 46 |
| Non-current | 261 | 274 |
| Total environmental liabilities | $ 304 | $ 320 |

We have established a wholly-owned captive insurance company to bear certain risks associated with environmental obligations related to certain sites that are no longer operating. The premiums paid to the captive insurance company include estimates for environmental claims that have been incurred but not reported, based on an actuarially determined fully developed claims expense estimate. In such cases, we accrue losses attributable to unasserted claims based on the discounted estimates that are used to develop the premiums paid to the captive insurance company.

During the three months ended June 30, 2020 and 2019, the Partnership recorded $7 million and $9 million, respectively, of expenditures related to environmental cleanup programs. During the six months ended June 30, 2020 and 2019, the Partnership recorded $15 million and $15 million, respectively, of expenditures related to environmental cleanup programs.

Our pipeline operations are subject to regulation by the United States Department of Transportation under PHMSA, pursuant to which PHMSA has established requirements relating to the design, installation, testing, construction, operation, replacement and management of pipeline facilities. Moreover, PHMSA, through the Office of Pipeline Safety, has promulgated a rule requiring pipeline operators to develop integrity management programs to comprehensively evaluate their pipelines, and take measures to protect pipeline segments located in what the rule refers to as "high consequence areas." Activities under these integrity management programs involve the performance of internal pipeline inspections, pressure testing or other effective means to assess the integrity of these regulated pipeline segments, and the regulations require prompt action to address integrity issues raised by the assessment and analysis. Integrity testing and assessment of all of these assets will continue, and the potential exists that results of such testing and assessment could cause us to incur future capital and operating expenditures for repairs or upgrades deemed necessary to ensure the continued safe and reliable operation of our pipelines; however, no estimate can be made at this time of the likely range of such expenditures.

Our operations are also subject to the requirements of OSHA, and comparable state laws that regulate the protection of the health and safety of employees. In addition, the Occupational Safety and Health Administration's hazardous communication standard requires that information be maintained about hazardous materials used or produced in our operations and that this information be provided to employees, state and local government authorities and citizens. We believe that our past costs for OSHA required activities, including general industry standards, record keeping requirements, and monitoring of occupational exposure to regulated substances have not had a material adverse effect on our results of operations, but there is no assurance that such costs will not be material in the future.

## 11. REVENUE

### Disaggregation of Revenue

The Partnership's consolidated financial statements reflect eight reportable segments, which also represent the level at which the Partnership aggregates revenue for disclosure purposes. Note 14 depicts the disaggregation of revenue by segment.

### Contract Balances with Customers

The Partnership satisfies its obligations by transferring goods or services in exchange for consideration from customers. The timing of performance may differ from the timing the associated consideration is paid to or received from the customer, thus resulting in the recognition of a contract asset or a contract liability.

The Partnership recognizes a contract asset when making upfront consideration payments to certain customers or when providing services to customers prior to the time at which the Partnership is contractually allowed to bill for such services.

The Partnership recognizes a contract liability if the customer's payment of consideration precedes the Partnership's fulfillment of the performance obligations. Certain contracts contain provisions requiring customers to pay a fixed fee for a right to use our assets, but allow customers to apply such fees against services to be provided at a future point in time. These amounts are reflected as deferred revenue until the customer applies the deficiency fees to services provided or becomes unable to use the fees as payment for future services due to expiration of the contractual period the fees can be applied or physical inability of the customer to utilize the fees due to capacity constraints. Additionally, Sunoco LP maintains some franchise agreements requiring dealers to make one-time upfront payments for long term license agreements. Sunoco LP recognizes a contract liability when the upfront payment is received and recognizes revenue over the term of the license.

The following table summarizes the consolidated activity of our contract liabilities:

| | Contract Liabilities |
|---|---|
| Balance, December 31, 2019 | $ 377 |
| Additions | 413 |
| Revenue recognized | (405) |
| Balance, June 30, 2020 | $ 385 |
| | |
| Balance, December 31, 2018 | $ 394 |
| Additions | 300 |
| Revenue recognized | (315) |
| Balance, June 30, 2019 | $ 379 |

The balances of receivables from contracts with customers listed in the table below include both current trade receivables and long-term receivables, net of allowance for expected credit losses. The allowance for expected credit losses represents Sunoco LP's best estimate of the probable losses associated with potential customer defaults. Sunoco LP estimates the expected credit losses based on historical write-off experience by industry and current expectations of future credit losses.

The balances of Sunoco LP's contract assets as of June 30, 2020 and December 31, 2019 were as follows:

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| **Contract asset balances:** | | |
| Contract assets | $ 128 | $ 117 |
| Accounts receivable from contracts with customers | 263 | 366 |

***Costs to Obtain or Fulfill a Contract***

Sunoco LP recognizes an asset from the costs incurred to obtain a contract (e.g., sales commissions) only if it expects to recover those costs. On the other hand, the costs to fulfill a contract are capitalized if the costs are specifically identifiable to a contract, would result in enhancing resources that will be used in satisfying performance obligations in the future, and are expected to be recovered. These capitalized costs are recorded as a part of other current assets and other non-current assets and are amortized on a systematic basis consistent with the pattern of transfer of the goods or services to which such costs relate. The amount of amortization expense that Sunoco LP recognized for the three months ended June 30, 2020 and 2019 was $5 million and $4 million, respectively. The amount of amortization expense that Sunoco LP recognized for the six months ended June 30, 2020 and 2019 was $10 million and $8 million, respectively. Sunoco LP has also made a policy election of expensing the costs to obtain a contract, as and when they are incurred, in cases where the expected amortization period is one year or less.

## 12. DERIVATIVE ASSETS AND LIABILITIES

**Commodity Price Risk**

We are exposed to market risks related to the volatility of commodity prices. To manage the impact of volatility from these prices, we utilize various exchange-traded and OTC commodity financial instrument contracts. These contracts consist primarily of futures, swaps and options and are recorded at fair value in our consolidated balance sheets.

We use futures and basis swaps, designated as fair value hedges, to hedge our natural gas inventory stored in our Bammel storage facility. At hedge inception, we lock in a margin by purchasing gas in the spot market or off peak season and entering into a financial contract. Changes in the spreads between the forward natural gas prices and the physical inventory spot price result in unrealized gains or losses until the underlying physical gas is withdrawn and the related designated derivatives are settled. Once the gas is withdrawn and the designated derivatives are settled, the previously unrealized gains or losses associated with these positions are realized.

We use futures, swaps and options to hedge the sales price of natural gas we retain for fees in our intrastate transportation and storage segment and operational gas sales in our interstate transportation and storage segment. These contracts are not designated as hedges for accounting purposes.

We use NGL and crude derivative swap contracts to hedge forecasted sales of NGL and condensate equity volumes we retain for fees in our midstream segment whereby our subsidiaries generally gather and process natural gas on behalf of producers, sell the resulting residue gas and NGL volumes at market prices and remit to producers an agreed upon percentage of the proceeds based on an index price for the residue gas and NGL. These contracts are not designated as hedges for accounting purposes.

We utilize swaps, futures and other derivative instruments to mitigate the risk associated with market movements in the price of refined products and NGLs to manage our storage facilities and the purchase and sale of purity NGL. These contracts are not designated as hedges for accounting purposes.

We use futures and swaps to achieve ratable pricing of crude oil purchases, to convert certain expected refined product sales to fixed or floating prices, to lock in margins for certain refined products and to lock in the price of a portion of natural gas purchases or sales. These contracts are not designated as hedges for accounting purposes.

We use financial commodity derivatives to take advantage of market opportunities in our trading activities which complement our transportation and storage segment's operations and are netted in cost of products sold in our consolidated statements of operations. We also have trading and marketing activities related to power and natural gas in our all other segment which are also netted in cost of products sold. As a result of our trading activities and the use of derivative financial instruments in our transportation and storage segment, the degree of earnings volatility that can occur may be significant, favorably or unfavorably, from period to period. We attempt to manage this volatility through the use of daily position and profit and loss reports

provided to our risk oversight committee, which includes members of senior management, and the limits and authorizations set forth in our commodity risk management policy.

The following table details our outstanding commodity-related derivatives:

| | June 30, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Notional Volume | Maturity | Notional Volume | Maturity |
| **Mark-to-Market Derivatives** | | | | |
| *(Trading)* | | | | |
| Natural Gas (BBtu): | | | | |
| Basis Swaps IFERC/NYMEX [(1)] | (20,433) | 2020-2024 | (35,208) | 2020-2024 |
| Fixed Swaps/Futures | 373 | 2020-2021 | 1,483 | 2020 |
| Power (Megawatt): | | | | |
| Forwards | 1,338,776 | 2020-2029 | 3,213,450 | 2020-2029 |
| Futures | 204,090 | 2020-2021 | (353,527) | 2020 |
| Options – Puts | (340,743) | 2020 | 51,615 | 2020 |
| Options – Calls | (1,268,532) | 2020-2021 | (2,704,330) | 2020-2021 |
| *(Non-Trading)* | | | | |
| Natural Gas (BBtu): | | | | |
| Basis Swaps IFERC/NYMEX | (27,713) | 2020-2022 | (18,923) | 2020-2022 |
| Swing Swaps IFERC | (35,590) | 2020-2021 | (9,265) | 2020 |
| Fixed Swaps/Futures | (10,708) | 2020-2022 | (3,085) | 2020-2021 |
| Forward Physical Contracts | (23,980) | 2020-2021 | (13,364) | 2020-2021 |
| NGLs (MBbls) – Forwards/Swaps | (8,830) | 2020 | (1,300) | 2020-2021 |
| Refined Products (MBbls) – Futures | (3,370) | 2020-2022 | (2,473) | 2020-2021 |
| Crude (MBbls) – Forwards/Swaps | 3,393 | 2020 | 4,465 | 2020 |
| Corn (thousand bushels) | — | — | (1,210) | 2020 |
| **Fair Value Hedging Derivatives** | | | | |
| *(Non-Trading)* | | | | |
| Natural Gas (BBtu): | | | | |
| Basis Swaps IFERC/NYMEX | (43,235) | 2020-2021 | (31,780) | 2020 |
| Fixed Swaps/Futures | (43,235) | 2020-2021 | (31,780) | 2020 |
| Hedged Item – Inventory | 43,235 | 2020-2021 | 31,780 | 2020 |

(1) Includes aggregate amounts for open positions related to Houston Ship Channel, Waha Hub, NGPL TexOk, West Louisiana Zone and Henry Hub locations.

**Interest Rate Risk**

We are exposed to market risk for changes in interest rates. To maintain a cost effective capital structure, we borrow funds using a mix of fixed rate debt and variable rate debt. We also manage our interest rate exposure by utilizing interest rate swaps to achieve a desired mix of fixed and variable rate debt. We also utilize forward starting interest rate swaps to lock in the rate on a portion of our anticipated debt issuances.

The following table summarizes our interest rate swaps outstanding, none of which were designated as hedges for accounting purposes:

| | | Notional Amount Outstanding | |
|---|---|---|---|
| Term | Type[1] | June 30, 2020 | December 31, 2019 |
| July 2020[2][3] | Forward-starting to pay a fixed rate of 3.52% and receive a floating rate | $ — | $ 400 |
| July 2021[2] | Forward-starting to pay a fixed rate of 3.55% and receive a floating rate | 400 | 400 |
| July 2022[2] | Forward-starting to pay a fixed rate of 3.80% and receive a floating rate | 400 | 400 |

(1) Floating rates are based on 3-month LIBOR.

(2) Represents the effective date. These forward-starting swaps have terms of 30 years with a mandatory termination date the same as the effective date.

(3) The July 2020 interest rate swaps were terminated in January 2020.

**Credit Risk**

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a loss to the Partnership. Credit policies have been approved and implemented to govern the Partnership's portfolio of counterparties with the objective of mitigating credit losses. These policies establish guidelines, controls and limits to manage credit risk within approved tolerances by mandating an appropriate evaluation of the financial condition of existing and potential counterparties, monitoring agency credit ratings, and by implementing credit practices that limit exposure according to the risk profiles of the counterparties. Furthermore, the Partnership may, at times, require collateral under certain circumstances to mitigate credit risk as necessary. The Partnership also uses industry standard commercial agreements which allow for the netting of exposures associated with transactions executed under a single commercial agreement. Additionally, we utilize master netting agreements to offset credit exposure across multiple commercial agreements with a single counterparty or affiliated group of counterparties.

The Partnership's counterparties consist of a diverse portfolio of customers across the energy industry, including petrochemical companies, commercial and industrial end-users, oil and gas producers, municipalities, gas and electric utilities, midstream companies and independent power generators. Our overall exposure may be affected positively or negatively by macroeconomic or regulatory changes that impact our counterparties to one extent or another. Currently, management does not anticipate a material adverse effect in our financial position or results of operations as a consequence of counterparty non-performance.

The Partnership has maintenance margin deposits with certain counterparties in the OTC market, primarily with independent system operators and with clearing brokers. Payments on margin deposits are required when the value of a derivative exceeds our pre-established credit limit with the counterparty. Margin deposits are returned to us on or about the settlement date for non-exchange traded derivatives, and we exchange margin calls on a daily basis for exchange traded transactions. Since the margin calls are made daily with the exchange brokers, the fair value of the financial derivative instruments are deemed current and netted in deposits paid to vendors within other current assets in the consolidated balance sheets.

For financial instruments, failure of a counterparty to perform on a contract could result in our inability to realize amounts that have been recorded on our consolidated balance sheets and recognized in net income or other comprehensive income.

**Derivative Summary**

The following table provides a summary of our derivative assets and liabilities:

| | Fair Value of Derivative Instruments | | | |
|---|---|---|---|---|
| | Asset Derivatives | | Liability Derivatives | |
| | June 30, 2020 | December 31, 2019 | June 30, 2020 | December 31, 2019 |
| Derivatives designated as hedging instruments: | | | | |
| Commodity derivatives (margin deposits) | $ 18 | $ 24 | $ (22) | $ — |
| Derivatives not designated as hedging instruments: | | | | |
| Commodity derivatives (margin deposits) | 370 | 319 | (367) | (350) |
| Commodity derivatives | 67 | 41 | (77) | (39) |
| Interest rate derivatives | — | — | (577) | (399) |
| | 437 | 360 | (1,021) | (788) |
| Total derivatives | $ 455 | $ 384 | $ (1,043) | $ (788) |

The following table presents the fair value of our recognized derivative assets and liabilities on a gross basis and amounts offset on the consolidated balance sheets that are subject to enforceable master netting arrangements or similar arrangements:

| | | Asset Derivatives | | Liability Derivatives | |
|---|---|---|---|---|---|
| | Balance Sheet Location | June 30, 2020 | December 31, 2019 | June 30, 2020 | December 31, 2019 |
| Derivatives without offsetting agreements | Derivative liabilities | $ — | $ — | $ (577) | $ (399) |
| Derivatives in offsetting agreements: | | | | | |
| OTC contracts | Derivative assets (liabilities) | 67 | 41 | (77) | (39) |
| Broker cleared derivative contracts | Other current assets (liabilities) | 388 | 343 | (389) | (350) |
| Total gross derivatives | | 455 | 384 | (1,043) | (788) |
| Offsetting agreements: | | | | | |
| Counterparty netting | Derivative assets (liabilities) | (53) | (18) | 53 | 18 |
| Counterparty netting | Other current assets (liabilities) | (349) | (318) | 349 | 318 |
| Total net derivatives | | $ 53 | $ 48 | $ (641) | $ (452) |

We disclose the non-exchange traded financial derivative instruments as derivative assets and liabilities on our consolidated balance sheets at fair value with amounts classified as either current or non-current depending on the anticipated settlement date.

The following table summarizes the location and amounts recognized in our consolidated statements of operations with respect to our derivative financial instruments:

| | Location | Amount of Gain (Loss) on Derivatives | | | |
|---|---|---|---|---|---|
| | | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | | 2020 | 2019 | 2020 | 2019 |
| Derivatives not designated as hedging instruments: | | | | | |
| Commodity derivatives – Trading | Cost of products sold | $ (5) | $ (20) | $ 11 | $ (14) |
| Commodity derivatives – Non-trading | Cost of products sold | (96) | (29) | 97 | (41) |
| Interest rate derivatives | Losses on interest rate derivatives | (3) | (122) | (332) | (196) |
| Total | | $ (104) | $ (171) | $ (224) | $ (251) |

## 13. RELATED PARTY TRANSACTIONS

**ET-ETO Promissory Note**

As of June 30, 2020 and December 31, 2019, ETO’s promissory note receivable from ET had an outstanding balance of $3.0 billion and $3.7 billion, respectively, and ETO’s long-term intercompany payable to ET had an outstanding balance of $135 million and $104 million, respectively. The outstanding promissory note receivable and intercompany payable are reflected on a net basis in the Partnership’s consolidated balance sheets.

Interest income attributable to promissory notes from ET included in other income, net in our consolidated statements of operations for the three months ended June 30, 2020 and 2019 was $38 million and $67 million. respectively. Interest income attributable to promissory notes from ET included in other income, net in our consolidated statements of operations for the six months ended June 30, 2020 and 2019 was $82 million and $88 million, respectively.

The Partnership also has related party transactions with several of its unconsolidated affiliates. In addition to commercial transactions, these transactions include the provision of certain management services and leases of certain assets.

The following table summarizes the revenues from related companies on our consolidated statements of operations:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Revenues from related companies | $ 142 | $ 136 | $ 275 | $ 245 |

The following table summarizes the accounts receivable from and accounts payable to related companies on our consolidated balance sheets:

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Accounts receivable from related companies: | | |
| ET | $ — | $ 8 |
| FGT | 13 | 50 |
| Phillips 66 | 9 | 36 |
| Traverse | 62 | 42 |
| Other | 55 | 31 |
| Total accounts receivable from related companies | $ 139 | $ 167 |
| | | |
| Accounts payable to related companies: | | |
| ET | $ 21 | $ — |
| Other | 15 | 31 |
| Total accounts payable to related companies | $ 36 | $ 31 |

## 14. REPORTABLE SEGMENTS

Our financial statements currently reflect the following reportable segments, which conduct their business primarily in the United States:

- intrastate transportation and storage;
- interstate transportation and storage;
- midstream;
- NGL and refined products transportation and services;
- crude oil transportation and services;
- investment in Sunoco LP;
- investment in USAC; and
- all other.

Consolidated revenues and expenses reflect the elimination of all material intercompany transactions.

Revenues from our intrastate transportation and storage segment are primarily reflected in natural gas sales and gathering, transportation and other fees. Revenues from our interstate transportation and storage segment are primarily reflected in gathering, transportation and other fees. Revenues from our midstream segment are primarily reflected in natural gas sales, NGL sales and gathering, transportation and other fees. Revenues from our NGL and refined products transportation and services segment are primarily reflected in NGL sales and gathering, transportation and other fees. Revenues from our crude oil transportation and services segment are primarily reflected in crude sales. Revenues from our investment in Sunoco LP segment are primarily reflected in refined product sales. Revenues from our investment in USAC segment are primarily reflected in gathering, transportation and other fees. Revenues from our all other segment are primarily reflected in natural gas sales and gathering, transportation and other fees.

We report Segment Adjusted EBITDA and consolidated Adjusted EBITDA as measures of segment performance. We define Segment Adjusted EBITDA and consolidated Adjusted EBITDA as total partnership 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, inventory valuation adjustments, non-cash impairment charges, losses on extinguishments of debt and other non-operating income or expense items. Inventory adjustments that are excluded from the calculation of Adjusted EBITDA represent only the changes in lower of cost or market reserves on inventory that is carried at last-in, first-out ("LIFO"). These amounts are unrealized valuation adjustments applied to Sunoco LP's fuel volumes remaining in inventory at the end of the period.

Segment Adjusted EBITDA and consolidated Adjusted EBITDA reflect amounts for unconsolidated affiliates based on the same recognition and measurement methods used to record equity in earnings of unconsolidated affiliates. Adjusted EBITDA related to unconsolidated affiliates excludes the same items with respect to the unconsolidated affiliate as those excluded from the calculation of Segment Adjusted EBITDA and consolidated Adjusted EBITDA, such as interest, taxes, depreciation, depletion, amortization and other non-cash items. Although these amounts are excluded from Adjusted EBITDA related to unconsolidated affiliates, such exclusion should not be understood to imply that we have control over the operations and resulting revenues and expenses of such affiliates. We do not control our unconsolidated affiliates; therefore, we do not control the earnings or cash flows of such affiliates. The use of Segment Adjusted EBITDA or Adjusted EBITDA related to unconsolidated affiliates as an analytical tool should be limited accordingly.

The following tables present financial information by segment:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Revenues: | | | | |
| Intrastate transportation and storage: | | | | |
| Revenues from external customers | $ 465 | $ 671 | $ 1,001 | $ 1,440 |
| Intersegment revenues | 51 | 94 | 108 | 181 |
| | 516 | 765 | 1,109 | 1,621 |
| Interstate transportation and storage: | | | | |
| Revenues from external customers | 440 | 487 | 899 | 979 |
| Intersegment revenues | 5 | 6 | 10 | 12 |
| | 445 | 493 | 909 | 991 |
| Midstream: | | | | |
| Revenues from external customers | 391 | 337 | 892 | 1,000 |
| Intersegment revenues | 627 | 861 | 1,296 | 1,916 |
| | 1,018 | 1,198 | 2,188 | 2,916 |
| NGL and refined products transportation and services: | | | | |
| Revenues from external customers | 1,666 | 2,356 | 3,784 | 5,069 |
| Intersegment revenues | 453 | 256 | 1,050 | 574 |
| | 2,119 | 2,612 | 4,834 | 5,643 |
| Crude oil transportation and services: | | | | |
| Revenues from external customers | 1,811 | 5,012 | 6,024 | 9,179 |
| Intersegment revenues | 28 | 34 | 28 | 53 |
| | 1,839 | 5,046 | 6,052 | 9,232 |
| Investment in Sunoco LP: | | | | |
| Revenues from external customers | 2,043 | 4,474 | 5,303 | 8,166 |
| Intersegment revenues | 37 | 1 | 49 | 1 |
| | 2,080 | 4,475 | 5,352 | 8,167 |
| Investment in USAC: | | | | |
| Revenues from external customers | 166 | 169 | 342 | 336 |
| Intersegment revenues | 3 | 5 | 6 | 9 |
| | 169 | 174 | 348 | 345 |
| All other: | | | | |
| Revenues from external customers | 356 | 371 | 720 | 829 |
| Intersegment revenues | 136 | 20 | 285 | 59 |
| | 492 | 391 | 1,005 | 888 |
| Eliminations | (1,340) | (1,277) | (2,832) | (2,805) |
| Total revenues | $ 7,338 | $ 13,877 | $ 18,965 | $ 26,998 |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019* | 2020 | 2019* |
| Segment Adjusted EBITDA: | | | | |
| Intrastate transportation and storage | $ 187 | $ 290 | $ 427 | $ 542 |
| Interstate transportation and storage | 403 | 460 | 807 | 916 |
| Midstream | 367 | 412 | 750 | 794 |
| NGL and refined products transportation and services | 674 | 644 | 1,337 | 1,256 |
| Crude oil transportation and services | 519 | 752 | 1,110 | 1,496 |
| Investment in Sunoco LP | 182 | 152 | 391 | 305 |
| Investment in USAC | 105 | 105 | 211 | 206 |
| All other | 4 | 13 | 46 | 46 |
| Total | 2,441 | 2,828 | 5,079 | 5,561 |
| Depreciation, depletion and amortization | (934) | (781) | (1,799) | (1,552) |
| Interest expense, net of interest capitalized | (578) | (578) | (1,178) | (1,105) |
| Impairment losses | (4) | — | (1,329) | (50) |
| Losses on interest rate derivatives | (3) | (122) | (332) | (196) |
| Non-cash compensation expense | (41) | (29) | (63) | (58) |
| Unrealized gains (losses) on commodity risk management activities | (48) | (23) | 3 | 26 |
| Losses on extinguishments of debt | — | — | (59) | (2) |
| Inventory valuation adjustments (Sunoco LP) | 90 | 4 | (137) | 97 |
| Adjusted EBITDA related to unconsolidated affiliates | (157) | (163) | (311) | (309) |
| Equity in earnings of unconsolidated affiliates | 85 | 77 | 78 | 142 |
| Other, net | (34) | 104 | (20) | 108 |
| Income (loss) before income tax expense | 817 | 1,317 | (68) | 2,662 |
| Income tax expense | (98) | (35) | (127) | (161) |
| Net income (loss) | $ 719 | $ 1,282 | $ (195) | $ 2,501 |

| | June 30, 2020 | December 31, 2019* |
|---|---|---|
| Segment assets: | | |
| Intrastate transportation and storage | $ 6,972 | $ 6,648 |
| Interstate transportation and storage | 17,413 | 18,111 |
| Midstream | 19,132 | 20,332 |
| NGL and refined products transportation and services | 21,803 | 19,145 |
| Crude oil transportation and services | 21,481 | 22,933 |
| Investment in Sunoco LP | 4,985 | 5,438 |
| Investment in USAC | 3,058 | 3,730 |
| All other | 3,640 | 5,959 |
| Total segment assets | $ 98,484 | $ 102,296 |

*As adjusted. See Note 1.

## ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Tabular dollar and unit amounts are in millions)

The following is a discussion of our historical consolidated financial condition and results of operations, and should be read in conjunction with (i) our historical consolidated financial statements and accompanying notes thereto included elsewhere in this Quarterly Report on Form 10-Q; and (ii) the consolidated financial statements and management’s discussion and analysis of financial condition and results of operations included in the Partnership’s Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on February 21, 2020. This discussion includes forward-looking statements that are subject to risk and uncertainties. Actual results may differ substantially from the statements we make in this section due to a number of factors that are discussed in “Part I – Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on February 21, 2020, “Part II - Item 1A. Risk Factors” of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 filed with the SEC on May 11, 2020 and “Part II - Item 1A. Risk Factors” in this Quarterly Report on Form 10-Q. Additional information on forward-looking statements is discussed below in “Forward-Looking Statements.”

References to “we,” “us,” “our,” the “Partnership” and “ETO” shall mean Energy Transfer Operating, L.P. and its subsidiaries.

### RECENT DEVELOPMENTS

#### *COVID-19*

In 2020, the COVID-19 pandemic prompted several states and municipalities in which we operate to take extraordinary and wide-ranging actions to contain and combat the outbreak and spread of the virus, including mandates for many individuals to substantially restrict daily activities and for many businesses to curtail or cease normal operations. To the extent COVID-19 continues or worsens, governments may impose additional similar restrictions. As a provider of critical energy infrastructure, our business has been designated as a "critical infrastructure sector" and our employees as "essential critical infrastructure workers" pursuant to the Department of Homeland Security Guidance on Essential Critical Infrastructure Workforce(s). To date, our field operations have continued uninterrupted, and remote work and other COVID-19 related conditions have not significantly impacted our ability to maintain operations or caused us to incur significant additional expenses; however, we are unable to predict the magnitude or duration of current and potential future COVID-19 mitigation measures. As an essential business providing critical energy infrastructure, the safety of our employees and the continued operation of our assets are our top priorities and we will continue to operate in accordance with federal and state health guidelines and safety protocols. We have implemented several new policies and provided employee training to help maintain the health and safety of our workforce.

#### *ET Contribution of SemGroup Assets to ETO*

On December 5, 2019, ET completed the acquisition of SemGroup. During the first and second quarters of 2020, ET contributed certain SemGroup assets to ETO through sale and contribution transactions. The Partnership and SemGroup are under common control by ET subsequent to ET’s acquisition of SemGroup; therefore, these transactions were accounted for as reorganizations of entities under common control. Accordingly, beginning with the quarter ending March 31, 2020, the Partnership’s consolidated financial statements have been retrospectively adjusted to reflect the consolidation of the contributed SemGroup businesses beginning December 5, 2019 (the date ET acquired SemGroup).

#### *ETO Series F and Series G Preferred Units Issuance*

On January 22, 2020, ETO issued 500,000 of its Series F Preferred Units at a price of $1,000 per unit and 1,100,000 of its Series G Preferred Units at a price of $1,000 per unit. The net proceeds were used to repay amounts outstanding under ETO's revolving credit facility and for general partnership purposes.

#### *ETO January 2020 Senior Notes Offering and Redemption*

On January 22, 2020, ETO completed a registered offering (the “January 2020 Senior Notes Offering”) of $1.00 billion aggregate principal amount of ETO’s 2.900% Senior Notes due 2025, $1.50 billion aggregate principal amount of the Partnership’s 3.750% Senior Notes due 2030 and $2.00 billion aggregate principal amount of ETO’s 5.000% Senior Notes due 2050 (collectively, the “Notes”). The Notes are fully and unconditionally guaranteed by ETO’s wholly-owned subsidiary, Sunoco Logistics Operations, on a senior unsecured basis.

Using proceeds from the January 2020 Senior Notes Offering, ETO redeemed its $400 million aggregate principal amount of 5.75% Senior Notes due September 1, 2020, its $1.05 billion aggregate principal amount of 4.15% Senior Notes due October 1, 2020, its $1.14 billion aggregate principal amount of 7.50% Senior Notes due October 15, 2020, its $250 million aggregate principal amount of 5.50% Senior Notes due February 15, 2020, ET’s $52 million aggregate principal amount of 7.50% Senior Notes due October 15, 2020 and Transwestern’s $175 million aggregate principal amount of 5.36% Senior Notes due December 9, 2020.

**Lake Charles LNG**

On March 30, 2020, Shell Royal Dutch Plc announced that it would not proceed with a proposed equity interest in the Lake Charles LNG liquefaction project due to adverse market factors affecting Shell's business and its desire to preserve cash in light of the current environment. We intend to continue to develop the project, possibly in conjunction with one or more equity partners, and we plan to evaluate a variety of alternatives to advance the project, including the possibility of reducing the size of the project from three trains (16.45 million tonnes per annum of LNG capacity) to two trains (11.0 million tonnes per annum). The project is fully permitted by federal, state and local authorities, has all necessary export licenses and benefits from the infrastructure related to the existing regasification facility at the same site, including four LNG storage tanks, two deep water docks and other assets. In light of the existing brownfield infrastructure and the advanced state of the development of the project, we plan to continue to pursue the project on a disciplined, cost effective basis, and ultimately we will determine whether to make a final investment decision to proceed with the project based on market conditions, capital expenditure considerations and our success in securing equity participation by third parties as well as long-term LNG offtake commitments on satisfactory terms.

**Regulatory Update**

***Interstate Natural Gas Transportation Regulation***

*Rate Regulation*

Effective January 2018, the 2017 Tax and Jobs Act (the "Tax Act") changed several provisions of the federal tax code, including a reduction in the maximum corporate tax rate. On March 15, 2018, in a set of related proposals, the FERC addressed treatment of federal income tax allowances in regulated entity rates. The FERC issued a Revised Policy Statement on Treatment of Income Taxes ("Revised Policy Statement") stating that it will no longer permit master limited partnerships to recover an income tax allowance in their cost of service rates. The FERC issued the Revised Policy Statement in response to a remand from the United States Court of Appeals for the District of Columbia Circuit in United Airlines v. FERC, in which the court determined that the FERC had not justified its conclusion that a pipeline organized as a master limited partnership would not "double recover" its taxes under the current policy by both including an income-tax allowance in its cost of service and earning a return on equity calculated using the discounted cash flow methodology. On July 18, 2018, the FERC issued an order denying requests for rehearing and clarification of its Revised Policy Statement. In the rehearing order, the FERC clarified that a pipeline organized as a master limited partnership will not be not be precluded in a future proceeding from arguing and providing evidentiary support that it is entitled to an income tax allowance and demonstrating that its recovery of an income tax allowance does not result in a double-recovery of investors' income tax costs. In light of the rehearing order, the impacts of the FERC's policy on the treatment of income taxes may have on the rates ETO can charge for the FERC regulated transportation services are unknown at this time.

The FERC also issued a Notice of Inquiry (“2017 Tax Law NOI”) on March 15, 2018, requesting comments on the effect of the Tax Act on FERC jurisdictional rates. The 2017 Tax Law NOI states that of particular interest to the FERC is whether, and if so how, the FERC should address changes relating to accumulated deferred income taxes and bonus depreciation. Comments in response to the 2017 Tax Law NOI were due on or before May 21, 2018.

In March 2019, following the decision of the D.C. Circuit in Emera Maine v. Federal Energy Regulatory Commission, the FERC issued a Notice of Inquiry regarding its policy for determining return on equity ("ROE"). The FERC specifically sought information and stakeholder views to help the FERC explore whether, and if so how, it should modify its policies concerning the determination of ROE to be used in designing jurisdictional rates charged by public utilities. The FERC also expressly sought comment on whether any changes to its policies concerning public utility ROEs should be applied to interstate natural gas and oil pipelines. Initial comments were due in June 2019, and reply comments were due in July 2019. The FERC has not taken any further action with respect to the Notice of Inquiry as of this time, and therefore we cannot predict what effect, if any, such development could have on our cost-of-service rates in the future.

By order issued January 16, 2019, the FERC initiated a review of Panhandle’s existing rates pursuant to Section 5 of the Natural Gas Act to determine whether the rates currently charged by Panhandle are just and reasonable and set the matter for hearing. Panhandle filed a cost and revenue study on April 1, 2019. Panhandle filed a NGA Section 4 rate case on August 30, 2019.

Even without action on the 2017 Tax Law NOI or as contemplated in the Final Rule, the FERC or our shippers may challenge the cost of service rates we charge. The FERC’s establishment of a just and reasonable rate is based on many components, and tax-related changes will affect two such components, the allowance for income taxes and the amount for accumulated deferred income taxes, while other pipeline costs also will continue to affect the FERC’s determination of just and reasonable cost of service rates. Although changes in these two tax related components may decrease, other components in the cost of service rate calculation may increase and result in a newly calculated cost of service rate that is the same as or greater than the prior cost of service rate. Moreover, we receive revenues from our pipelines based on a variety of rate structures, including cost of service rates, negotiated rates, discounted rates and market-based rates. Many of our interstate pipelines, such as ETC Tiger Pipeline, LLC, MEP and FEP,

have negotiated market rates that were agreed to by customers in connection with long-term contracts entered into to support the construction of the pipelines. Other systems, such as FGT, Transwestern and Panhandle, have a mix of tariff rate, discount rate, and negotiated rate agreements. We do not expect market-based rates, negotiated rates or discounted rates that are not tied to the cost of service rates to be affected by the Revised Policy Statement or any final regulations that may result from the March 15, 2018 proposals. The revenues we receive from natural gas transportation services we provide pursuant to cost of service based rates may decrease in the future as a result of the ultimate outcome of the NOI, the Final Rule, and the Revised Policy Statement, combined with the reduced corporate federal income tax rate established in the Tax Act. The extent of any revenue reduction related to our cost of service rates, if any, will depend on a detailed review of all of ETO's cost of service components and the outcomes of any challenges to our rates by the FERC or our shippers.

*Pipeline Certification*

The FERC issued a Notice of Inquiry on April 19, 2018 ("Pipeline Certification NOI"), thereby initiating a review of its policies on certification of natural gas pipelines, including an examination of its long-standing Policy Statement on Certification of New Interstate Natural Gas Pipeline Facilities, issued in 1999, that is used to determine whether to grant certificates for new pipeline projects. We are unable to predict what, if any, changes may be proposed as a result of the Pipeline Certification NOI that will affect our natural gas pipeline business or when such proposals, if any, might become effective. Comments in response to the Pipeline Certification NOI were due on or before July 25, 2018. We do not expect that any change in this policy would affect us in a materially different manner than any other natural gas pipeline company operating in the United States.

***Interstate Common Carrier Regulation***

The FERC utilizes an indexing rate methodology which, as currently in effect, allows common carriers to change their rates within prescribed ceiling levels that are tied to changes in the Producer Price Index, or PPI. The indexing methodology is applicable to existing rates, with the exclusion of market-based rates. The FERC's indexing methodology is subject to review every five years. During the five-year period commencing July 1, 2016 and ending June 30, 2021, common carriers charging indexed rates are permitted to adjust their indexed ceilings annually by PPI plus 1.23 percent. Many existing pipelines utilize the FERC liquids index to change transportation rates annually every July 1. With respect to liquids and refined products pipelines subject to FERC jurisdiction, the Revised Policy Statement requires the pipeline to reflect the impacts to its cost of service from the Revised Policy Statement and the Tax Act on Page 700 of FERC Form No. 6. This information will be used by the FERC in its next five year review of the liquids pipeline index to generate the index level to be effective July 1, 2021, thereby including the effect of the Revised Policy Statement and the Tax Act in the determination of indexed rates prospectively, effective July 1, 2021. The FERC's establishment of a just and reasonable rate, including the determination of the appropriate liquids pipeline index, is based on many components, and tax related changes will affect two such components, the allowance for income taxes and the amount for accumulated deferred income taxes, while other pipeline costs also will continue to affect the FERC's determination of the appropriate pipeline index. Accordingly, depending on the FERC's application of its indexing rate methodology for the next five year term of index rates, the Revised Policy Statement and tax effects related to the Tax Act may impact our revenues associated with any transportation services we may provide pursuant to cost of service based rates in the future, including indexed rates.

**Trends and Outlook**

Recent market disruptions involving the COVID-19 pandemic have negatively impacted our earnings and cash flows from operations and may continue to do so. Reduced demand for natural gas, NGLs, refined products and/or crude oil caused by the COVID-19 pandemic and a continuation of low WTI crude oil prices may result in the shut-in of production from U.S. oil and gas wells, which in turn may result in decreased volumes transported on our pipeline systems and decreased overall utilization of our midstream services.

With respect to commodity prices, natural gas prices have remained comparatively low in recent months as associated gas from shale oil resources has provided additional supply to the market. Meanwhile, crude oil prices saw a sharp declines as a result of actions by foreign oil-producing nations and a decrease in global demand as result of the COVID-19 pandemic but have subsequently risen and stabilized. We cannot predict the future impacts, or the duration of such impacts, from the COVID-19 pandemic.

The outlook for commodity prices is mixed and could have a varying impact on our business. Reduced demand and increased supply of crude oil has resulted in an increase in worldwide crude oil storage inventories, which is expected to keep crude oil prices suppressed for the foreseeable future. With respect to natural gas markets, a relatively more moderate decrease in demand, coupled with anticipated decreases in gas production associated with wells drilled to produce crude oil, have counterbalanced softness in pricing. The overall outlook for our midstream services will depend, in part, on the timing and extent of recovery in the commodity markets.

While we anticipate that current and projected commodity prices and the related impact to activity levels in both the upstream and midstream sectors will impact our business, we cannot predict the ultimate magnitude of that impact and expect it to be varied across our operations, depending on the region, customer, type of service, contract term and other factors.

While the vast majority of our counterparties are investment grade rated companies, some of our counterparties may be forced to file for bankruptcy protection, in which case our existing contracts with those counterparties may be rejected by the bankruptcy court. In this case, we expect that we would attempt to negotiate replacement contracts with those counterparties and, depending on the availability of alternatives to our services, these contracts may have terms that are less favorable to us than the contracts rejected in bankruptcy court.

Ultimately, the extent to which our business will be impacted by recent market developments depends on the factors described above as well as future developments beyond our control, which are highly uncertain and cannot be predicted. In response to these market events and uncertainties, we have cut our already reduced 2020 growth capital spending budget by a total of $600 million and reduced planned operating expenses by approximately $400 million. While current market volatility makes the near-term unpredictable, we believe that overall the long-term demand for our services will continue given the essential nature of the midstream natural gas, NGLs, refined products and crude oil business, although we cannot predict any possible changes in such demand with reasonable certainty.

We currently have ample liquidity to fund our business and we do not anticipate any liquidity concerns in the immediate future (see "Liquidity and Capital Resources" below). In addition, while the trading price of ET common units declined significantly during the first half of 2020, thereby making equity capital market transactions less attractive in the near term, we continue to have access to the debt capital markets on generally favorable terms. In the event we seek additional equity or debt capital, our blended cost of capital for equity and debt is expected to be modestly higher in the near term; however, we will continue to evaluate growth projects and acquisitions as such opportunities may be identified in the future in light of this higher cost of capital.

## Results of Operations

We report Segment Adjusted EBITDA and consolidated Adjusted EBITDA as measures of segment performance. We define Segment Adjusted EBITDA and consolidated Adjusted EBITDA as total partnership 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, inventory valuation adjustments, non-cash impairment charges, losses on extinguishments of debt and other non-operating income or expense items. Inventory adjustments that are excluded from the calculation of Adjusted EBITDA represent only the changes in lower of cost or market reserves on inventory that is carried at last-in, first-out ("LIFO"). These amounts are unrealized valuation adjustments applied to Sunoco LP's fuel volumes remaining in inventory at the end of the period.

Segment Adjusted EBITDA and consolidated Adjusted EBITDA reflect amounts for unconsolidated affiliates based on the same recognition and measurement methods used to record equity in earnings of unconsolidated affiliates. Adjusted EBITDA related to unconsolidated affiliates excludes the same items with respect to the unconsolidated affiliate as those excluded from the calculation of Segment Adjusted EBITDA and consolidated Adjusted EBITDA, such as interest, taxes, depreciation, depletion, amortization and other non-cash items. Although these amounts are excluded from Adjusted EBITDA related to unconsolidated affiliates, such exclusion should not be understood to imply that we have control over the operations and resulting revenues and expenses of such affiliates. We do not control our unconsolidated affiliates; therefore, we do not control the earnings or cash flows of such affiliates. The use of Segment Adjusted EBITDA or Adjusted EBITDA related to unconsolidated affiliates as an analytical tool should be limited accordingly.

Segment Adjusted EBITDA, as reported for each segment in the table below, is analyzed for each segment in the section titled "Segment Operating Results." Adjusted EBITDA is a non-GAAP measure used by industry analysts, investors, lenders and rating agencies to assess the financial performance and the operating results of the Partnership's fundamental business activities and should not be considered in isolation or as a substitution for net income, income from operations, cash flows from operating activities or other GAAP measures.

As discussed in Note 1 of the Partnership's consolidated financial statements included in "Item 1. Financial Statements," during the first quarter of 2020, the Partnership elected to change its inventory accounting policy related to certain barrels of crude oil that were previously accounted for as inventory. These changes have been applied retrospectively to all prior periods, and the prior period amounts reflected below have been adjusted from those amounts previously reported.

**Consolidated Results**

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2020 | 2019* | Change | 2020 | 2019* | Change |
| **Segment Adjusted EBITDA:** | | | | | | |
| Intrastate transportation and storage | $ 187 | $ 290 | $ (103) | $ 427 | $ 542 | $ (115) |
| Interstate transportation and storage | 403 | 460 | (57) | 807 | 916 | (109) |
| Midstream | 367 | 412 | (45) | 750 | 794 | (44) |
| NGL and refined products transportation and services | 674 | 644 | 30 | 1,337 | 1,256 | 81 |
| Crude oil transportation and services | 519 | 752 | (233) | 1,110 | 1,496 | (386) |
| Investment in Sunoco LP | 182 | 152 | 30 | 391 | 305 | 86 |
| Investment in USAC | 105 | 105 | — | 211 | 206 | 5 |
| All other | 4 | 13 | (9) | 46 | 46 | — |
| Adjusted EBITDA (consolidated) | 2,441 | 2,828 | (387) | 5,079 | 5,561 | (482) |
| Depreciation, depletion and amortization | (934) | (781) | (153) | (1,799) | (1,552) | (247) |
| Interest expense, net of interest capitalized | (578) | (578) | — | (1,178) | (1,105) | (73) |
| Impairment losses | (4) | — | (4) | (1,329) | (50) | (1,279) |
| Losses on interest rate derivatives | (3) | (122) | 119 | (332) | (196) | (136) |
| Non-cash compensation expense | (41) | (29) | (12) | (63) | (58) | (5) |
| Unrealized gains (losses) on commodity risk management activities | (48) | (23) | (25) | 3 | 26 | (23) |
| Losses on extinguishments of debt | — | — | — | (59) | (2) | (57) |
| Inventory valuation adjustments (Sunoco LP) | 90 | 4 | 86 | (137) | 97 | (234) |
| Adjusted EBITDA related to unconsolidated affiliates | (157) | (163) | 6 | (311) | (309) | (2) |
| Equity in earnings of unconsolidated affiliates | 85 | 77 | 8 | 78 | 142 | (64) |
| Other, net | (34) | 104 | (138) | (20) | 108 | (128) |
| Income (loss) before income tax expense | 817 | 1,317 | (500) | (68) | 2,662 | (2,730) |
| Income tax expense | (98) | (35) | (63) | (127) | (161) | 34 |
| Net income (loss) | $ 719 | $ 1,282 | $ (563) | $ (195) | $ 2,501 | $ (2,696) |

*As adjusted.

*Adjusted EBITDA (consolidated).* For the three and six months ended June 30, 2020 compared to the same period last year, Adjusted EBITDA decreased 14% and 9%, respectively, primarily due to the impacts of lower volumes and market prices among several of our core operating segments; these decreases were partially offset by net increases of approximately $150 million and $290 million, respectively, in Adjusted EBITDA from recent acquisitions and assets placed in service.

Additional discussion of these and other factors affecting Adjusted EBITDA is included in the analysis of Segment Adjusted EBITDA in the “Segment Operating Results” section below.

*Depreciation, Depletion and Amortization.* Depreciation, depletion and amortization increased for the three and six months ended June 30, 2020 compared to the same periods last year due to the acquisition of SemGroup on December 5, 2019, as well as incremental depreciation related to assets recently placed in service.

*Interest Expense, Net of Interest Capitalized.* Interest expense, net of interest capitalized, increased for the six months ended June 30, 2020 compared to the same periods last year primarily due to the following:

- an increase of $67 million recognized by the Partnership primarily attributable to higher debt balances following the March 2019 ET-ETO notes exchange and the December 2019 SemGroup acquisition, partially offset by lower borrowing costs on both recently refinanced debt and floating rate debt and higher capitalized interest;
- an increase of $3 million for USAC for the six months ended June 30, 2020 compared to the six months ended June 30, 2019 was primarily attributable to a full six months of interest expense incurred in the current period on its senior notes issued in March 2019, which were used to reduce borrowings under the credit agreement, partially offset by reduced borrowings and lower weighted average interest rates under the credit agreement; and
- an increase of $3 million for Sunoco LP for the six months ended June 30, 2020 compared to the same period last year primarily related to an increase in Sunoco LP's total long-term debt.

*Impairment Losses.* During the three months ended March 31, 2020, the Partnership performed an interim impairment test on certain reporting units within midstream, interstate, crude, NGL and all other operations. As a result of the interim impairment test, the Partnership recognized a goodwill impairment of $483 million related to our Arklatex and South Texas operations within the midstream segment, a goodwill impairment of $183 million related to our Lake Charles LNG regasification operations with the interstate transportation and storage segment, and a goodwill impairment of $40 million related to our all other operations primarily due to decreases in projected future revenues and cash flows as a result of the overall market demand decline. In addition, USAC recognized a goodwill impairment of $619 million, during the three months ended March 31, 2020, which is included in the Partnership's consolidated results of operations. During the three months ended March 31, 2019, USAC recorded a $3 million impairment of compression equipment as a result of its evaluations of the future deployment of USAC's idle fleet under then-current market conditions. USAC recorded a $4 million impairment of compression equipment during the three months ended June 30, 2020 as a result of its evaluations of the future deployment of its idle fleet under current market conditions.

*Losses on Interest Rate Derivatives.* Losses on interest rate derivatives during the three and six months ended June 30, 2020 resulted from decreases in forward interest rates, which caused our forward-starting swaps to decrease in value.

*Unrealized Gains (Losses) on Commodity Risk Management Activities.* See additional information on the unrealized gains (losses) on commodity risk management activities included in "Segment Operating Results" below.

*Losses on Extinguishments of Debt.* During the three and six months ended June 30, 2020, amounts were related to ETO senior notes redemption in January 2020.

*Inventory Valuation Adjustments.* Inventory valuation adjustments were recorded for the inventory associated with Sunoco LP due to changes in fuel prices between periods.

*Adjusted EBITDA Related to Unconsolidated Affiliates* and *Equity in Earnings of Unconsolidated Affiliates.* See additional information in "Supplemental Information on Unconsolidated Affiliates" and "Segment Operating Results" below.

*Other, net.* Other, net primarily includes the interest income related to the ET-ETO Promissory Notes, as well as amortization of regulatory assets and other income and expense amounts.

*Income Tax Expense*. For the three months ended June 30, 2020 compared to the same period in the prior year, income tax expense increased due to higher earnings at our corporate subsidiaries in the current period. For the six months ended June 30, 2020 compared to the same period in the prior year, income tax expense decreased due to the recognition of a taxable gain on the sale of assets at our corporate subsidiaries in the prior period.

**Supplemental Information on Unconsolidated Affiliates**

The following table presents financial information related to unconsolidated affiliates:

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | Change | 2020 | 2019 | Change |
| **Equity in earnings (losses) of unconsolidated affiliates:** | | | | | | |
| Citrus | $ 42 | $ 39 | $ 3 | $ 77 | $ 71 | $ 6 |
| FEP | 18 | 14 | 4 | (52) | 28 | (80) |
| MEP | (2) | 7 | (9) | (2) | 14 | (16) |
| White Cliffs | 9 | — | 9 | 17 | — | 17 |
| Other | 18 | 17 | 1 | 38 | 29 | 9 |
| Total equity in earnings (losses) of unconsolidated affiliates | $ 85 | $ 77 | $ 8 | $ 78 | $ 142 | $ (64) |
| **Adjusted EBITDA related to unconsolidated affiliates[(1)]:** | | | | | | |
| Citrus | $ 89 | $ 87 | $ 2 | $ 168 | $ 168 | $ — |
| FEP | 19 | 18 | 1 | 38 | 37 | 1 |
| MEP | 7 | 20 | (13) | 15 | 39 | (24) |
| White Cliffs | 13 | — | 13 | 27 | — | 27 |
| Other | 29 | 38 | (9) | 63 | 65 | (2) |
| Total Adjusted EBITDA related to unconsolidated affiliates | $ 157 | $ 163 | $ (6) | $ 311 | $ 309 | $ 2 |
| **Distributions received from unconsolidated affiliates:** | | | | | | |
| Citrus | $ 58 | $ 39 | $ 19 | $ 107 | $ 74 | $ 33 |
| FEP | 17 | 16 | 1 | 35 | 33 | 2 |
| MEP | 7 | 15 | (8) | 18 | 26 | (8) |
| White Cliffs | 10 | — | 10 | 23 | — | 23 |
| Other | 20 | 42 | (22) | 39 | 58 | (19) |
| Total distributions received from unconsolidated affiliates | $ 112 | $ 112 | $ — | $ 222 | $ 191 | $ 31 |

(1) These amounts represent our proportionate share of the Adjusted EBITDA of our unconsolidated affiliates and are based on our equity in earnings or losses of our unconsolidated affiliates adjusted for our proportionate share of the unconsolidated affiliates' interest, depreciation, depletion, amortization, non-cash items and taxes.

**Segment Operating Results**

We evaluate segment performance based on Segment Adjusted EBITDA, which we believe is an important performance measure of the core profitability of our operations. This measure represents the basis of our internal financial reporting and is one of the performance measures used by senior management in deciding how to allocate capital resources among business segments.

The tables below identify the components of Segment Adjusted EBITDA, which is calculated as follows:

- *Segment margin*, *operating expenses*, and *selling, general and administrative expenses*. These amounts represent the amounts included in our consolidated financial statements that are attributable to each segment.
- *Unrealized gains or losses on commodity risk management activities and inventory valuation adjustments*. These are the unrealized amounts that are included in cost of products sold to calculate segment margin. These amounts are not included in Segment Adjusted EBITDA; therefore, the unrealized losses are added back and the unrealized gains are subtracted to calculate the segment measure.

- *Non-cash compensation expense*. These amounts represent the total non-cash compensation recorded in operating expenses and selling, general and administrative expenses. This expense is not included in Segment Adjusted EBITDA and therefore is added back to calculate the segment measure.
- *Adjusted EBITDA related to unconsolidated affiliates*. Adjusted EBITDA related to unconsolidated affiliates excludes the same items with respect to the unconsolidated affiliate as those excluded from the calculation of Segment Adjusted EBITDA, such as interest, taxes, depreciation, depletion, amortization and other non-cash items. Although these amounts are excluded from Adjusted EBITDA related to unconsolidated affiliates, such exclusion should not be understood to imply that we have control over the operations and resulting revenues and expenses of such affiliates. We do not control our unconsolidated affiliates; therefore, we do not control the earnings or cash flows of such affiliates.

In the following analysis of segment operating results, a measure of segment margin is reported for segments with sales revenues. Segment margin is a non-GAAP financial measure and is presented herein to assist in the analysis of segment operating results and particularly to facilitate an understanding of the impacts that changes in sales revenues have on the segment performance measure of Segment Adjusted EBITDA. Segment margin is similar to the GAAP measure of gross margin, except that segment margin excludes charges for depreciation, depletion and amortization. Among the GAAP measures reported by the Partnership, the most directly comparable measure to segment margin is Segment Adjusted EBITDA; a reconciliation of segment margin to Segment Adjusted EBITDA is included in the following tables for each segment where segment margin is presented.

In addition, for certain segments, the sections below include information on the components of segment margin by sales type, which components are included in order to provide additional disaggregated information to facilitate the analysis of segment margin and Segment Adjusted EBITDA. For example, these components include transportation margin, storage margin and other margin. These components of segment margin are calculated consistent with the calculation of segment margin; therefore, these components also exclude charges for depreciation, depletion and amortization.

***Intrastate Transportation and Storage***

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Natural gas transported (BBtu/d) | 12,921 | 12,115 | 806 | 13,028 | 12,049 | 979 |
| Withdrawals from storage natural gas inventory (BBtu) | (1,910) | — | (1,910) | 5,065 | — | 5,065 |
| Revenues | $ 516 | $ 765 | $ (249) | $ 1,109 | $ 1,621 | $ (512) |
| Cost of products sold | 248 | 400 | (152) | 551 | 972 | (421) |
| Segment margin | 268 | 365 | (97) | 558 | 649 | (91) |
| Unrealized gains on commodity risk management activities | (33) | (26) | (7) | (39) | (16) | (23) |
| Operating expenses, excluding non-cash compensation expense | (48) | (47) | (1) | (89) | (89) | — |
| Selling, general and administrative expenses, excluding non-cash compensation expense | (6) | (7) | 1 | (15) | (13) | (2) |
| Adjusted EBITDA related to unconsolidated affiliates | 6 | 5 | 1 | 12 | 11 | 1 |
| Segment Adjusted EBITDA | $ 187 | $ 290 | $ (103) | $ 427 | $ 542 | $ (115) |

*Volumes*. For the three and six months ended June 30, 2020 compared to the same periods last year, transported volumes increased primarily due to increased utilization of our Texas pipelines.

*Segment Margin.* The components of our intrastate transportation and storage segment margin were as follows:

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Transportation fees | $ 148 | $ 148 | $ — | $ 309 | $ 302 | $ 7 |
| Natural gas sales and other (excluding unrealized gains and losses) | 68 | 173 | (105) | 156 | 293 | (137) |
| Retained fuel revenues (excluding unrealized gains and losses) | 10 | 12 | (2) | 19 | 23 | (4) |
| Storage margin (excluding unrealized gains and losses) | 9 | 6 | 3 | 35 | 15 | 20 |
| Unrealized gains on commodity risk management activities | 33 | 26 | 7 | 39 | 16 | 23 |
| Total segment margin | $ 268 | $ 365 | $ (97) | $ 558 | $ 649 | $ (91) |

*Segment Adjusted EBITDA.* For the three months ended June 30, 2020 compared to the same period last year, Segment Adjusted EBITDA related to our intrastate transportation segment decreased due to the net impacts of the following:

- a decrease of $105 million in realized natural gas sales and other primarily due to lower realized gains from pipeline optimization activity; and
- an increase of $1 million in operating expenses primarily due to higher maintenance project costs and higher cost of fuel consumption; partially offset by
- an increase of $3 million in realized storage margin primarily due to higher storage optimization and fees.

*Segment Adjusted EBITDA.* For the six months ended June 30, 2020 compared to the same period last year, Segment Adjusted EBITDA related to our intrastate transportation segment decreased due to the net impacts of the following:

- a decrease of $137 million in realized natural gas sales and other primarily due to lower realized gains from pipeline optimization activity;
- a decrease of $4 million in retained fuel revenues primarily due to lower gas prices; and
- an increase of $2 million in selling, general and administrative expenses primarily due to higher allocated corporate costs; partially offset by
- an increase of $20 million in realized storage margin primarily due to higher storage optimization;
- an increase of $7 million in transportation fees primarily due to volume ramp-ups on the Red Bluff Express pipeline and new contracts; and
- an increase of $1 million in Adjusted EBITDA related to unconsolidated affiliates primarily due to higher fee revenue on the Trans-Pecos and Comanche Trail pipelines.

***Interstate Transportation and Storage***

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Natural gas transported (BBtu/d) | 10,152 | 10,825 | (673) | 10,440 | 11,177 | (737) |
| Natural gas sold (BBtu/d) | 17 | 17 | — | 16 | 18 | (2) |
| Revenues | $ 445 | $ 493 | $ (48) | $ 909 | $ 991 | $ (82) |
| Operating expenses, excluding non-cash compensation, amortization and accretion expenses | (139) | (138) | (1) | (282) | (284) | 2 |
| Selling, general and administrative expenses, excluding non-cash compensation, amortization and accretion expenses | (16) | (18) | 2 | (37) | (32) | (5) |
| Adjusted EBITDA related to unconsolidated affiliates | 115 | 125 | (10) | 221 | 244 | (23) |
| Other | (2) | (2) | — | (4) | (3) | (1) |
| Segment Adjusted EBITDA | $ 403 | $ 460 | $ (57) | $ 807 | $ 916 | $ (109) |

*Volumes.* For the three and six months ended June 30, 2020 compared to the same periods last year, transported volumes decreased 0.7 Bcf/d primarily due to shut-ins of crude production resulting in lower associated gas and a decrease in demand for LNG export.

*Segment Adjusted EBITDA.* For the three months ended June 30, 2020 compared to the same period last year, Segment Adjusted EBITDA related to our interstate transportation and storage segment decreased due to the net impacts of the following:

- a decrease of $43 million in reservation fees primarily due to a decrease of $18 million from additional revenue recognized in 2019 associated with a shipper bankruptcy, a decrease of $16 million from lower rates on Lake Charles LNG effective January 2020 and a decrease of $12 million due to less capacity sold on our Panhandle and Trunkline systems as well as lower rates on the sale of uncommitted capacity on our Rover pipeline. These decreases were partially offset by increased margin from our Transwestern system due to increased demand in firm transportation;
- a decrease of $4 million in interruptible transportation due to lower rates and lower short-term customer demand on our Sea Robin and Transwestern systems; and
- a decrease of $10 million in Adjusted EBITDA related to unconsolidated affiliates primarily due to lower earnings of $12 million from our Midcontinent Express Pipeline joint venture as a result of less capacity sold and lower rates received following the expiration of certain contracts, partially offset by a $2 million increase from Citrus primarily due to higher margins and lower operating expenses.

*Segment Adjusted EBITDA.* For the six months ended June 30, 2020 compared to the same period last year, Segment Adjusted EBITDA related to our interstate transportation and storage segment decreased due to the net impacts of the following:

- a decrease of $73 million in reservation fees primarily due to a decrease of $18 million from additional revenue recognized in 2019 associated with a shipper bankruptcy, a decrease of $30 million due to less capacity sold at lower rates on our Panhandle and Trunkline system as well as lower rates on the sale of uncommitted capacity on our Rover pipeline, and a decrease of $32 million due to a contractual rate adjustment on commitments at our Lake Charles LNG facility. These decreases were partially offset by increased revenues from our Transwestern system due to increased demand in firm transportation;
- a decrease of $8 million in operational gas sales, interruptible transportation, parking and storage revenue due to unfavorable market conditions;
- an increase of $5 million in selling, general and administrative expenses primarily due to higher allocated overhead costs and an increase in reserves for insurance claims; and
- a decrease of $23 million in Adjusted EBITDA related to unconsolidated affiliates primarily due to lower earnings from our Midcontinent Express Pipeline joint venture as a result of less capacity sold and lower rates received following the expiration of certain contracts; partially offset by

- a decrease of $2 million in operating expenses primarily due to lower employee costs resulting from cost-cutting initiatives of $10 million and an $8 million decrease in ad valorem taxes, partially offset by bad debt expense of $10 million and a $5 million change in lower of cost or market adjustments.

***Midstream***

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Gathered volumes (BBtu/d) | 12,964 | 13,148 | (184) | 13,155 | 12,934 | 221 |
| NGLs produced (MBbls/d) | 602 | 565 | 37 | 606 | 564 | 42 |
| Equity NGLs (MBbls/d) | 37 | 30 | 7 | 37 | 33 | 4 |
| Revenues | $ 1,018 | $ 1,198 | $ (180) | $ 2,188 | $ 2,916 | $ (728) |
| Cost of products sold | 473 | 584 | (111) | 1,048 | 1,725 | (677) |
| Segment margin | 545 | 614 | (69) | 1,140 | 1,191 | (51) |
| Operating expenses, excluding non-cash compensation expense | (166) | (189) | 23 | (359) | (372) | 13 |
| Selling, general and administrative expenses, excluding non-cash compensation expense | (20) | (23) | 3 | (46) | (42) | (4) |
| Adjusted EBITDA related to unconsolidated affiliates | 7 | 9 | (2) | 14 | 15 | (1) |
| Other | 1 | 1 | — | 1 | 2 | (1) |
| Segment Adjusted EBITDA | $ 367 | $ 412 | $ (45) | $ 750 | $ 794 | $ (44) |

*Volumes*. Gathered volumes decreased during the three months ended June 30, 2020 compared to the same period last year primarily due to decreases in the South Texas and North Texas regions, partially offset by the impact of the SemGroup acquisition in the Mid-Continent/Panhandle region. NGL production increased due to the impact of the SemGroup acquisition in the Mid-Continent/Panhandle region and increased ethane recovery in the Permian, South Texas and North Texas regions.

Gathered volumes increased during the six months ended June 30, 2020 compared to the same period last year primarily due to the impact of the SemGroup acquisition in the Mid-Continent/Panhandle region and volume increases in the Northeast region, partially offset by decreases in the South Texas region. NGL production increased due to the impact of the SemGroup acquisition in the Mid-Continent/Panhandle region and increased ethane recovery in the Permian, South Texas and North Texas regions.

*Segment Margin*. The table below presents the components of our midstream segment margin. For the prior period included in the table below, the amounts previously reported for fee-based and non-fee-based margin have been adjusted to reflect reclassification of certain contractual minimum fees in order to conform to the current period classification:

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Gathering and processing fee-based revenues | $ 503 | $ 530 | $ (27) | $ 1,033 | $ 1,034 | $ (1) |
| Non-fee-based contracts and processing | 42 | 84 | (42) | 107 | 157 | (50) |
| Total segment margin | $ 545 | $ 614 | $ (69) | $ 1,140 | $ 1,191 | $ (51) |

*Segment Adjusted EBITDA.* For the three months ended June 30, 2020 compared to the same period last year, Segment Adjusted EBITDA related to our midstream segment decreased due to the net impacts of the following:

- a decrease $39 million in non fee-based margin due to lower NGL prices;
- a decrease of $3 million in non-fee based margin due to decreased throughput volume in the South Texas region; and
- a decrease of $27 million in fee-based margin due to volume declines in the South Texas and North Texas regions; partially offset by

- a decrease of $23 million in operating expenses due to decreases of $11 million in outside services, $8 million in employee costs and $3 million in materials; and
- a decrease of $3 million in selling, general and administrative expenses due to a decrease in allocated overhead costs.

*Segment Adjusted EBITDA.* For the six months ended June 30, 2020 compared to the same period last year, Segment Adjusted EBITDA related to our midstream segment decreased due to the net impacts of the following:

- a decrease of $61 million in non-fee-based margin due to lower NGL prices of $56 million and lower gas prices of $5 million;
- an increase of $4 million in selling, general and administrative expenses due to an increase of $3 million in capitalized overhead costs and an increase of $1 million in insurance; partially offset by
- an increase of $11 million in non-fee-based margin due to increased throughput volume in the Mid-Continent/Panhandle region as a result of the SemGroup acquisition; and
- a decrease of $13 million in operating expenses due to decreases of $11 million in outside services, $4 million in employee costs and $3 million in materials, partially offset by an increase of $7 million in maintenance project costs.

***NGL and Refined Products Transportation and Services***

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | Change | 2020 | 2019 | Change |
| NGL transportation volumes (MBbls/d) | 1,401 | 1,305 | 96 | 1,400 | 1,237 | 163 |
| Refined products transportation volumes (MBbls/d) | 377 | 628 | (251) | 460 | 623 | (163) |
| NGL and refined products terminal volumes (MBbls/d) | 748 | 885 | (137) | 798 | 831 | (33) |
| NGL fractionation volumes (MBbls/d) | 836 | 701 | 135 | 820 | 690 | 130 |
| Revenues | $ 2,119 | $ 2,612 | $ (493) | $ 4,834 | $ 5,643 | $ (809) |
| Cost of products sold | 1,368 | 1,848 | (480) | 3,204 | 4,174 | (970) |
| Segment margin | 751 | 764 | (13) | 1,630 | 1,469 | 161 |
| Unrealized losses on commodity risk management activities | 78 | 39 | 39 | 23 | 96 | (73) |
| Operating expenses, excluding non-cash compensation expense | (154) | (155) | 1 | (313) | (304) | (9) |
| Selling, general and administrative expenses, excluding non-cash compensation expense | (19) | (26) | 7 | (44) | (45) | 1 |
| Adjusted EBITDA related to unconsolidated affiliates | 18 | 21 | (3) | 41 | 39 | 2 |
| Other | — | 1 | (1) | — | 1 | (1) |
| Segment Adjusted EBITDA | $ 674 | $ 644 | $ 30 | $ 1,337 | $ 1,256 | $ 81 |

*Volumes.* For the three and six months ended June 30, 2020 compared to the same periods last year, NGL transportation volumes increased due to higher throughput volumes on our Mariner East pipeline system. In addition, throughput barrels on our Texas NGL pipeline system increased due to higher receipt of liquids production from both wholly-owned and third-party gas plants primarily in the Permian and North Texas regions.

Refined products transportation volumes decreased for the three and six months ended June 30, 2020 compared to the same periods last year due to the closure of a third-party refinery during the third quarter of 2019, which negatively impacted supply to our refined products transportation system, and less domestic demand for jet fuel and other refined products. These decreases in volumes are partially offset by the initiation of service on our JC Nolan diesel fuel pipeline in the third quarter of 2019.

NGL and refined products terminal volumes decreased for the three and six months ended June 30, 2020 compared to the same periods last year primarily due to the closure of a third-party refinery during the third quarter of 2019, and less domestic demand for jet fuel and other refined products. These decreases were partially offset by higher volumes from our Mariner East system,

and the initiation of service on our JC Nolan diesel fuel pipeline and natural gasoline export project, both of which commenced service in the third quarter of 2019.

Average fractionated volumes at our Mont Belvieu, Texas fractionation facility increased 20% for both the three and six months ended June 30, 2020 compared to the same periods last year primarily due to the commissioning of our sixth and seventh fractionators in February 2019 and February 2020, respectively.

*Segment Margin.* The components of our NGL and refined products transportation and services segment margin were as follows:

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Transportation margin | $ 449 | $ 422 | $ 27 | $ 925 | $ 785 | $ 140 |
| Fractionators and refinery services margin | 173 | 154 | 19 | 352 | 320 | 32 |
| Terminal services margin | 129 | 166 | (37) | 280 | 303 | (23) |
| Storage margin | 55 | 53 | 2 | 118 | 109 | 9 |
| Marketing margin | 23 | 8 | 15 | (22) | 48 | (70) |
| Unrealized losses on commodity risk management activities | (78) | (39) | (39) | (23) | (96) | 73 |
| Total segment margin | $ 751 | $ 764 | $ (13) | $ 1,630 | $ 1,469 | $ 161 |

*Segment Adjusted EBITDA.* For the three months ended June 30, 2020 compared to the same period last year, Segment Adjusted EBITDA related to our NGL and refined products transportation and services segment increased due to the net impacts of the following:

- an increase of $27 million in transportation margin primarily due to a $28 million increase from higher throughput volumes on our Mariner East pipeline system, an $11 million increase from higher throughput volumes received from the Permian region on our Texas NGL pipelines, a $6 million increase due to the initiation of service on our JC Nolan diesel fuel pipeline in the third quarter of 2019, and a $4 million increase due to higher throughput volumes from the Southeast Texas region. These increases were partially offset by an $8 million decrease due to a reclassification between our transportation and fractionators margins, a $7 million decrease due to less domestic demand for jet fuel and other refined products, a $5 million decrease resulting from the closure of a third-party refinery during the third quarter of 2019, and a $2 million decrease due to lower third-party volumes on our Mariner West pipeline;
- an increase of $15 million in marketing margin primarily due to a $50 million increase due to higher optimization gains from the sale of NGL component products at our Mont Belvieu facility and a $10 million increase due to write-downs of NGL inventory in the second quarter of 2019. These increases were partially offset by lower gains from our butane blending business during the second quarter of 2020 due to unfavorable market conditions; and
- an increase of $19 million in fractionators and refinery services margin primarily due to a $15 million increase resulting from the commissioning of our seventh fractionator in February 2020 and higher NGL volumes from the Permian and Barnett regions feeding our Mont Belvieu fractionation facility, and an increase of $8 million due to a reclassification between our transportation and fractionators margins. These increases were partially offset by a $4 million decrease due to the expiration of a third-party blending contract during the second quarter of 2020; partially offset by
- a decrease of $37 million in terminal services margin primarily due to a $25 million decrease resulting from the expiration of a third party contract at our Nederland export facility in the second quarter of 2020, a $9 million decrease due to lower third-party and intercompany volumes feeding our Marcus Hook Industrial Complex, a $6 million decrease due to less domestic demand for jet fuel and other refined products, and a $4 million decrease due to the closure of a third-party refinery. These decreases were partially offset by a $6 million increase due to higher throughput on our Mariner East system.

*Segment Adjusted EBITDA.* For the six months ended June 30, 2020 compared to the same period last year, Segment Adjusted EBITDA related to our NGL and refined products transportation and services segment increased due to the net impacts of the following:

- an increase of $140 million in transportation margin primarily due to a $103 million increase from higher throughput volumes on our Mariner East pipeline system, a $46 million increase resulting from higher throughput volumes received from the Permian region on our Texas NGL pipelines, a $14 million increase due to the initiation of service on our JC Nolan diesel fuel pipeline in the third quarter of 2019, a $9 million increase due to higher throughput volumes from the Barnett region, and a $6 million increase due to higher throughput from the Southeast Texas region. These increases were partially offset by an $11 million decrease resulting from the closure of a third-party refinery during the third quarter of 2019, a $10 million decrease due to less domestic demand for jet fuel and other refined products, an $8 million decrease due to a reclassification between our transportation and fractionators margins, a $5 million decrease due to lower volumes from the Eagle Ford region, and a $3 million decrease due to lower third-party volumes on our Mariner West pipeline;
- an increase of $32 million in fractionators and refinery services margin primarily due to a $25 million increase resulting from the commissioning of our sixth and seventh fractionators in February 2019 and February 2020, respectively, and higher NGL volumes from the Permian and Barnett regions feeding our Mont Belvieu fractionation facility, an $8 million increase due to a reclassification between our transportation and fractionators margins, and a $3 million increase in truck and rail volumes feeding our refinery services facility. These increases were partially offset by a $6 million decrease due to the expiration of a third-party blending contract during the second quarter of 2020; and
- an increase of $9 million in storage margin primarily due to a $6 million increase in fees generated from exported volumes and a $3 million increase from higher throughput; partially offset by
- a decrease of $70 million in marketing margin primarily due to a $54 million decrease due to lower gains from our butane and gasoline blending business due to unfavorable market conditions, a $35 million decrease from capacity lease fees incurred by our marketing affiliate on our Mariner East pipeline system and a $12 million decrease due to fewer export and rack sales. These decreases were partially offset by higher optimization gains from the sale of NGL component products at our Mont Belvieu facility;
- a decrease of $23 million in terminal services margin primarily due to a $25 million decrease resulting from the expiration of a third-party contract at our Nederland export facility in the second quarter of 2020, a $16 million decrease due to lower third-party and intercompany volumes feeding our Marcus Hook Industrial Complex, a $10 million decrease due to a closure of a third-party refinery, and an $8 million decrease due to less domestic demand for jet fuel and other refined products. These decreases were partially offset by a $33 million increase due to higher throughput on our Mariner East system and a $3 million increase resulting from initiation of service of our natural gasoline export in the third quarter of 2019; and
- an increase of $9 million in operating expenses primarily due to increases totaling $15 million for costs associated with operating additional assets as well as an increase in throughput volumes, partially offset by a $5 million reduction to lower power costs.

***Crude Oil Transportation and Services***

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Crude transportation volumes (MBbls/d) | 3,590 | 4,266 | (676) | 4,021 | 4,158 | (137) |
| Crude terminals volumes (MBbls/d) | 2,716 | 2,846 | (130) | 2,851 | 2,704 | 147 |
| Revenues | $ 1,839 | $ 5,046 | $ (3,207) | $ 6,052 | $ 9,232 | $ (3,180) |
| Cost of products sold | 1,175 | 4,136 | (2,961) | 4,633 | 7,298 | (2,665) |
| Segment margin | 664 | 910 | (246) | 1,419 | 1,934 | (515) |
| Unrealized (gains) losses on commodity risk management activities | — | 11 | (11) | 10 | (98) | 108 |
| Operating expenses, excluding non-cash compensation expense | (131) | (150) | 19 | (289) | (300) | 11 |
| Selling, general and administrative expenses, excluding non-cash compensation expense | (26) | (20) | (6) | (54) | (40) | (14) |
| Adjusted EBITDA related to unconsolidated affiliates | 11 | 1 | 10 | 23 | (1) | 24 |
| Other | 1 | — | 1 | 1 | 1 | — |
| Segment Adjusted EBITDA | $ 519 | $ 752 | $ (233) | $ 1,110 | $ 1,496 | $ (386) |

*Volumes.* For the three months ended June 30, 2020 compared to the same period last year, crude transportation and terminal volumes were lower due to decreased demand on our Texas pipeline system and our Bakken pipeline, driven by lower production in these regions as well as lower refinery utilization, partly offset by contributions from assets acquired in 2019.

For the six months ended June 30, 2020 compared to the same period last year, crude transportation volumes were lower due to decreased demand on our Texas pipeline system and our Bakken pipeline, driven by lower production in these regions and lower refinery utilization. Terminal volumes were higher due to contributions from assets acquired in 2019.

*Segment Adjusted EBITDA.* For the three months ended June 30, 2020 compared to the same period last year, Segment Adjusted EBITDA related to our crude oil transportation and services segment decreased due to the net impacts of the following:

- a decrease of $257 million in segment margin (excluding unrealized gains and losses on commodity risk management activities) primarily due to a $62 million decrease (excluding a net change of $11 million in unrealized gains and losses on commodity risk management activities) from our crude oil acquisition and marketing business due to well shut-ins resulting in unfulfilled producer supply commitments, as well as unfavorable pricing conditions impacting our Permian to Gulf Coast and Bakken to Gulf Coast trading operations, a $123 million decrease from our Texas crude pipeline system due to lower utilization due in part to well shut-ins, as well as lower average tariff rates realized, a $117 million decrease due to lower volumes on our Bakken Pipeline resulting from well shut-ins, a $10 million decrease in marine throughput at our crude terminals, and a $7 million decrease due to lower volumes on our Bayou Bridge Pipeline, partially offset by an increase of $74 million related to assets acquired in 2019; and
- an increase of $6 million in selling, general and administrative expenses primarily due to a $3 million increase in legal expenses, and a $2 million increase in insurance expenses, partially offset by a $1 million decrease in allocated overhead costs; offset by
- a decrease of $19 million in operating expenses primarily due to lower volume-driven pipeline expenses, partially offset by increased costs related to assets acquired in 2019; and
- an increase of $10 million in Adjusted EBITDA related to unconsolidated affiliates due to assets acquired in 2019.

*Segment Adjusted EBITDA.* For the six months ended June 30, 2020 compared to the same period last year, Segment Adjusted EBITDA related to our crude oil transportation and services segment decreased due to the net impacts of the following:

- a decrease of $407 million in segment margin (excluding unrealized gains and losses on commodity risk management activities) primarily due to a $268 million decrease (excluding a net change of $108 million in unrealized gains and losses on commodity risk management activities) from our crude oil acquisition and marketing business due primarily to unfavorable pricing conditions, as well as unfulfilled producer supply commitments due to well shut-ins, impacting our Permian to Gulf Coast

and Bakken to Gulf Coast trading operations, a $194 million decrease from our Texas crude pipeline system due to lower utilization due in part to well shut-ins, as well as lower average tariff rates realized, a $97 million decrease due to lower volumes on our Bakken Pipeline resulting from well shut-ins, and an $8 million decrease in marine throughput at our crude terminals, offset by a $162 million increase related to assets acquired in 2019 and an $11 million increase due to higher volumes on our Bayou Bridge Pipeline; and

- an increase of $14 million in selling, general and administrative expenses primarily due to a $4 million increase in legal expenses, a $4 million increase related to assets acquired in 2019, a $2 million increase in insurance expenses, and a $2 million increase in allocated overhead costs; partially offset by
- a decrease of $11 million in operating expenses primarily due to lower volume-driven pipeline expenses, partially offset by increased costs related to assets acquired in 2019; and
- an increase of $24 million in Adjusted EBITDA related to unconsolidated affiliates due to assets acquired in 2019.

***Investment in Sunoco LP***

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Revenues | $ 2,080 | $ 4,475 | $ (2,395) | $ 5,352 | $ 8,167 | $ (2,815) |
| Cost of products sold | 1,722 | 4,206 | (2,484) | 4,886 | 7,528 | (2,642) |
| Segment margin | 358 | 269 | 89 | 466 | 639 | (173) |
| Unrealized (gains) losses on commodity risk management activities | — | 3 | (3) | 6 | (3) | 9 |
| Operating expenses, excluding non-cash compensation expense | (72) | (89) | 17 | (181) | (187) | 6 |
| Selling, general and administrative expenses, excluding non-cash compensation expense | (22) | (31) | 9 | (52) | (55) | 3 |
| Adjusted EBITDA related to unconsolidated affiliates | 3 | — | 3 | 5 | — | 5 |
| Inventory valuation adjustments | (90) | (4) | (86) | 137 | (97) | 234 |
| Other | 5 | 4 | 1 | 10 | 8 | 2 |
| Segment Adjusted EBITDA | $ 182 | $ 152 | $ 30 | $ 391 | $ 305 | $ 86 |

The Investment in Sunoco LP segment reflects the consolidated results of Sunoco LP.

*Segment Adjusted EBITDA.* For the three months ended June 30, 2020 compared to the same period last year, Segment Adjusted EBITDA related to our investment in Sunoco LP segment increased due to the net impacts of the following:

- an increase of $16 million in motor fuel sales as a result of an increase in gross profit per gallon sold, partially offset by a decrease in gallons sold;
- a decrease of $26 million in operating expenses and selling, general and administrative expenses, excluding non-cash compensation expense, primarily attributable to lower employee costs, maintenance, advertising, credit card fees and utilities; and
- an increase of $3 million in Adjusted EBITDA related to unconsolidated affiliates which was attributable to the JC Nolan joint venture entered into in 2019; partially offset by
- a decrease of $15 million in non-motor fuel sales gross margin as a result of reduced credit card transactions related to the COVID-19 pandemic.

*Segment Adjusted EBITDA.* For the six months ended June 30, 2020 compared to the same period last year, Segment Adjusted EBITDA related to our investment in Sunoco LP segment increased due to the net impacts of the following:

- an increase of $84 million in motor fuel sales as a result of a 39.6% increase in gross profit per gallon sold and the receipt of a $13 million make-up payment under the fuel supply agreement with 7-Eleven, Inc.; partially offset by a 14.6% decrease in gallons sold;

- a decrease of $9 million in operating expenses and selling, general and administrative expenses, excluding non-cash compensation expense, primarily attributable to lower employee costs, maintenance, advertising, credit card fees and utilities. This decrease is primarily offset by a $16 million charge for current credit losses on Sunoco LP's accounts receivable in connection with the financial impact from COVID-19; and
- an increase in unconsolidated affiliate Adjusted EBITDA of $5 million, which was attributable to the JC Nolan joint venture entered into in 2019; partially offset by
- a decrease of $13 million in non motor fuel sales primarily due to reduced credit card transactions related to the COVID-19 pandemic.

***Investment in USAC***

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Revenues | $ 169 | $ 174 | $ (5) | $ 348 | $ 345 | $ 3 |
| Cost of products sold | 18 | 24 | (6) | 42 | 46 | (4) |
| Segment margin | 151 | 150 | 1 | 306 | 299 | 7 |
| Operating expenses, excluding non-cash compensation expense | (30) | (32) | 2 | (65) | (67) | 2 |
| Selling, general and administrative expenses, excluding non-cash compensation expense | (16) | (13) | (3) | (30) | (26) | (4) |
| Segment Adjusted EBITDA | $ 105 | $ 105 | $ — | $ 211 | $ 206 | $ 5 |

The Investment in USAC segment reflects the consolidated results of USAC.

*Segment Adjusted EBITDA.* For the three months ended June 30, 2020, Segment Adjusted EBITDA related to our investment in USAC segment was consistent with the same period last year primarily due to the offsetting impacts of the following:

- an increase of $3 million in selling, general and administrative expenses primarily due to an increase in the provision for expected credit losses; offset by
- a decrease of $2 million in operating expenses, as well as an increase of $1 million in segment margin primarily due to a decrease in cost of products sold offset by a decrease in revenues as a result of a decrease in average revenue generating horsepower.

*Segment Adjusted EBITDA.* For the six months ended June 30, 2020 compared to the same period last year, Segment Adjusted EBITDA related to our investment in USAC segment increased due to the net impacts of the following:

- an increase of $7 million in segment margin primarily due to an increase revenues as a result of an increase in fleet horsepower and a decrease in cost of products sold; partially offset by
- an increase of $4 million in selling, general and administrative expenses primarily due to an increase in the provision for expected credit losses.

***All Other***

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Revenues | $ 492 | $ 391 | $ 101 | $ 1,005 | $ 888 | $ 117 |
| Cost of products sold | 377 | 343 | 34 | 792 | 798 | (6) |
| Segment margin | 115 | 48 | 67 | 213 | 90 | 123 |
| Unrealized (gains) losses on commodity risk management activities | 2 | (4) | 6 | (3) | (5) | 2 |
| Operating expenses, excluding non-cash compensation expense | (27) | (6) | (21) | (65) | (13) | (52) |
| Selling, general and administrative expenses, excluding non-cash compensation expense | (19) | (20) | 1 | (51) | (33) | (18) |
| Adjusted EBITDA related to unconsolidated affiliates | — | 2 | (2) | — | 1 | (1) |
| Other and eliminations | (67) | (7) | (60) | (48) | 6 | (54) |
| Segment Adjusted EBITDA | $ 4 | $ 13 | $ (9) | $ 46 | $ 46 | $ — |

Amounts reflected in our all other segment primarily include:

- our natural gas marketing operations;
- our wholly-owned natural gas compression operations;
- our investment in coal handling facilities; and
- our Canadian operations, which were acquired in the SemGroup acquisition in December 2019 and include natural gas gathering and processing assets.

*Segment Adjusted EBITDA.* For the three months ended June 30, 2020 compared to the same period last year, Segment Adjusted EBITDA related to our all other segment decreased due to the net impacts of the following:

- a decrease of $7 million due to lower sales of residue gas;
- a decrease of $11 million due to lower revenues from our compression equipment business;
- a decrease of $7 million due to power trading activities;
- a decrease of $5 million due to lower demand and operator production at our natural resources business;
- a decrease of $4 million due to storage gains; and
- a decrease of $3 million from increased power costs at our compression services business; partially offset by
- an increase of $25 million from the acquisition of SemCAMS; and
- an increase of $6 million in settled derivatives.

*Segment Adjusted EBITDA.* For the six months ended June 30, 2020 compared to the same period last year, Segment Adjusted EBITDA related to our all other segment was comparable due to the net impacts of the following:

- a decrease of $9 million from power trading activities;
- a decrease of $9 million due to lower sales of residue gas;
- a decrease of $6 million due to lower gas prices and increased power costs at our compression services business;
- a decrease of $4 million due to storage, park and loan operations;
- a decrease of $18 million due to lower revenue from our compression equipment business;
- a decrease of $20 million due to higher merger and acquisition expense;
- a decrease of $8 million due to lower demand and operator production at our natural resources business; and

- a decrease of $5 million due to the elimination of Sunoco LP’s interest in our JC Nolan joint venture; partially offset by
- an increase of $51 million from the acquisition of SemCAMS;
- an increase of $17 million from settlement payments received from our ownership of PES; and
- an increase of $8 million in settled derivatives.

## LIQUIDITY AND CAPITAL RESOURCES

### Overview

Our ability to satisfy obligations and pay distributions to unitholders will depend on its future performance, which will be subject to prevailing economic, financial, business and weather conditions, and other factors, many of which are beyond management's control.

We currently expect capital expenditures in 2020 to be within the following ranges (excluding capital expenditures related to our investments in Sunoco LP and USAC):

| | Growth | | Maintenance | |
|---|---|---|---|---|
| | Low | High | Low | High |
| Intrastate transportation and storage | $ 10 | $ 20 | $ 40 | $ 45 |
| Interstate transportation and storage [1] | 75 | 100 | 115 | 120 |
| Midstream | 450 | 475 | 105 | 110 |
| NGL and refined products transportation and services | 2,425 | 2,525 | 95 | 105 |
| Crude oil transportation and services [1] | 275 | 300 | 130 | 140 |
| All other (including eliminations) | 75 | 100 | 55 | 60 |
| Total capital expenditures | $ 3,310 | $ 3,520 | $ 540 | $ 580 |

[1] Includes capital expenditures related to our proportionate ownership of the Bakken, Rover and Bayou Bridge pipeline projects.

The assets used in our natural gas and liquids operations, including pipelines, gathering systems and related facilities, are generally long-lived assets and do not require significant maintenance capital expenditures. Accordingly, we do not have any significant financial commitments for maintenance capital expenditures in our businesses. From time to time we experience increases in pipe costs due to a number of factors, including but not limited to, delays from steel mills, limited selection of mills capable of producing large diameter pipe timely, higher steel prices and other factors beyond our control; however, we have included these factors in our anticipated growth capital expenditures for each year.

We generally fund maintenance capital expenditures and distributions with cash flows from operating activities. We generally fund growth capital expenditures with borrowings under credit facilities, long-term debt, the issuance of additional preferred units or a combination thereof.

#### Sunoco LP

Sunoco LP currently expects to spend approximately $30 million on growth capital and $75 million on maintenance capital for the full year 2020.

#### USAC

USAC currently plans to spend approximately $30 million on maintenance capital expenditures during 2020, including parts consumed from inventory.

Without giving effect to any equipment USAC may acquire pursuant to any future acquisitions, it currently has budgeted between $80 million and $90 million in expansion capital expenditures during 2020. As of June 30, 2020, USAC has binding commitments to purchase $18 million of additional compression units and serialized parts, all of which USAC expects to be delivered throughout 2020.

### Cash Flows

Our cash flows may change in the future due to a number of factors, some of which we cannot control. These factors include regulatory changes, the price for our and our subsidiaries' products and services, the demand for such products and services, margin requirements resulting from significant changes in commodity prices, operational risks, the successful integration of our acquisitions and other factors.

#### Operating Activities

Changes in cash flows from operating activities between periods primarily result from changes in earnings (as discussed in "Results of Operations" above), excluding the impacts of non-cash items and net changes in operating assets and liabilities (net of effects

of acquisitions). Non-cash items include recurring non-cash expenses, such as depreciation, depletion and amortization expense and non-cash compensation expense. The increase in depreciation, depletion and amortization expense during the periods presented primarily resulted from construction and acquisition of assets, while changes in non-cash compensation expense resulted from changes in the number of units granted and changes in the grant date fair value estimated for such grants. Cash flows from operating activities also differ from earnings as a result of non-cash charges that may not be recurring, such as impairment charges and allowance for equity funds used during construction. The allowance for equity funds used during construction increases in periods when we have a significant amount of interstate pipeline construction in progress. Changes in operating assets and liabilities between periods result from factors such as the changes in the value of price risk management assets and liabilities, the timing of accounts receivable collection, the timing of payments on accounts payable, the timing of purchase and sales of inventories and the timing of advances and deposits received from customers.

***Six months ended June 30, 2020 compared to six months ended June 30, 2019.*** Cash provided by operating activities during 2020 was $3.38 billion compared to $4.02 billion for 2019, and net loss was $195 million for 2020 and net income was $2.50 billion for 2019. The difference between net loss and net cash provided by operating activities for the six months ended June 30, 2020 primarily consisted of net changes in operating assets and liabilities (net of effects of acquisitions) of $27 million and other non-cash items totaling $3.42 billion.

The non-cash activity in 2020 and 2019 consisted primarily of depreciation, depletion and amortization of $1.80 billion and $1.55 billion, respectively, non-cash compensation expense of $63 million and $58 million, respectively, inventory valuation adjustments of $137 million and $97 million, respectively, and deferred incomes taxes of $126 million and $140 million, respectively. Non-cash activity also included losses on extinguishments of debt in 2020 and 2019 of $59 million and $2 million, respectively, and impairment losses of $1.33 billion and $50 million in 2020 and 2019, respectively.

Unconsolidated affiliate activity in 2020 and 2019 consisted of equity in earnings of $78 million and $142 million, respectively, and cash distributions received of $125 million and $170 million, respectively.

Cash paid for interest, net of interest capitalized, was $1.05 billion and $1.02 billion for the six months ended June 30, 2020 and 2019, respectively. Interest capitalized was $106 million and $94 million for the six months ended June 30, 2020 and 2019, respectively.

**Investing Activities**

Cash flows from investing activities primarily consist of cash amounts paid for acquisitions, capital expenditures, cash contributions to our joint ventures, and cash proceeds from sales or contributions of assets or businesses. In addition, distributions from equity investees are included in cash flows from investing activities if the distributions are deemed to be a return of the Partnership's investment. Changes in capital expenditures between periods primarily result from increases or decreases in our growth capital expenditures to fund our construction and expansion projects.

***Six months ended June 30, 2020 compared to six months ended June 30, 2019.*** Cash used in investing activities during 2020 was $2.76 billion compared to $2.94 billion in 2019. Total capital expenditures (excluding the allowance for equity funds used during construction and net of contributions in aid of construction costs) for 2020 were $2.85 billion compared to $2.78 billion for 2019. Additional detail related to our capital expenditures is provided in the table below. During 2019, we received $93 million of cash proceeds from the sale of a noncontrolling interest in a subsidiary and paid $7 million in cash for all other acquisitions.

The following is a summary of capital expenditures (including only our proportionate share of the Bakken, Rover and Bayou Bridge pipeline projects and net of contributions in aid of construction costs) on an accrual basis for the six months ended June 30, 2020:

| | Capital Expenditures Recorded During Period | | |
|---|---|---|---|
| | Growth | Maintenance | Total |
| Intrastate transportation and storage | $ 2 | $ 34 | $ 36 |
| Interstate transportation and storage | 22 | 34 | 56 |
| Midstream | 243 | 55 | 298 |
| NGL and refined products transportation and services | 1,340 | 39 | 1,379 |
| Crude oil transportation and services | 115 | 37 | 152 |
| Investment in Sunoco LP | 50 | 9 | 59 |
| Investment in USAC | 69 | 13 | 82 |
| All other (including eliminations) | 56 | 18 | 74 |
| Total capital expenditures | $ 1,897 | $ 239 | $ 2,136 |

**Financing Activities**

Changes in cash flows from financing activities between periods primarily result from changes in the levels of borrowings and equity issuances, which are primarily used to fund our acquisitions and growth capital expenditures.

***Six months ended June 30, 2020 compared to six months ended June 30, 2019.*** Cash used in financing activities during 2020 was $750 million compared to $1.05 billion for 2019. During 2020, we received net proceeds of $1.58 billion from the issuance of preferred units. During 2020, we had a net increase in our debt level of $934 million compared to a net increase of $1.94 billion for 2019. In 2020 and 2019, we paid debt issuance costs of $50 million and $87 million, respectively.

In 2020 and 2019, we paid distributions of $2.70 billion and $3.16 billion, respectively, to our partners. In 2020 and 2019, we paid distributions of $680 million and $731 million, respectively, to noncontrolling interests. In addition, we received capital contributions of $148 million in cash from noncontrolling interests in 2020 compared to $206 million in cash from noncontrolling interests in 2019.

**Description of Indebtedness**

Our outstanding consolidated indebtedness was as follows:

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| ETO Senior Notes | $ 37,783 | $ 36,118 |
| Transwestern Senior Notes | 400 | 575 |
| Panhandle Senior Notes | 235 | 235 |
| Bakken Senior Notes | 2,500 | 2,500 |
| Sunoco LP Senior Notes and lease-related obligations | 2,929 | 2,935 |
| USAC Senior Notes | 1,475 | 1,475 |
| Credit facilities and commercial paper: | | |
| ETO $2.00 billion Term Loan facility due October 2022 | 2,000 | 2,000 |
| ETO $5.00 billion Revolving Credit Facility due December 2023 (1) | 3,010 | 4,214 |
| Sunoco LP $1.50 billion Revolving Credit Facility due July 2023 | 158 | 162 |
| USAC $1.60 billion Revolving Credit Facility due April 2023 | 448 | 403 |
| HFOTCO Tax Exempt Notes due 2050 | 225 | 225 |
| SemCAMS Revolver due February 2024 | 92 | 92 |
| SemCAMS Revolver Term Loan A due February 2024 | 251 | 269 |
| Other long-term debt | 11 | 2 |
| Net unamortized premiums, discounts, and fair value adjustments | (11) | 4 |
| Deferred debt issuance costs | (293) | (279) |
| Total debt | 51,213 | 50,930 |
| Less: current maturities of long-term debt | 34 | 25 |
| Long-term debt, less current maturities | $ 51,179 | $ 50,905 |

(1) Includes $1.11 billion and $1.64 billion of commercial paper outstanding at June 30, 2020 and December 31, 2019, respectively.

**Recent Transactions**

***ETO January 2020 Senior Notes Offering and Redemption***

On January 22, 2020, ETO completed a registered offering (the “January 2020 Senior Notes Offering”) of $1.00 billion aggregate principal amount of the Partnership’s 2.900% Senior Notes due 2025, $1.50 billion aggregate principal amount of the Partnership’s 3.750% Senior Notes due 2030 and $2.00 billion aggregate principal amount of the Partnership’s 5.000% Senior Notes due 2050 (collectively, the “Notes”). The Notes are fully and unconditionally guaranteed by the Partnership’s wholly-owned subsidiary, Sunoco Logistics Partners Operations L.P., on a senior unsecured basis.

Utilizing proceeds from the January 2020 Senior Notes Offering, ETO redeemed its $400 million aggregate principal amount of 5.75% Senior Notes due September 1, 2020, its $1.05 billion aggregate principal amount of 4.15% Senior Notes due October 1, 2020, its $1.14 billion aggregate principal amount of 7.50% Senior Notes due October 15, 2020, its $250 million aggregate principal amount of 5.50% Senior Notes due February 15, 2020, ET's $52 million aggregate principal amount of 7.50% Senior Notes due October 15, 2020 and Transwestern's $175 million aggregate principal amount of 5.36% Senior Notes due December 9, 2020.

**Credit Facilities and Commercial Paper**

***ETO Term Loan***

ETO’s term loan credit agreement provides for a $2 billion three-year term loan credit facility (the “ETO Term Loan”). Borrowings under the term loan agreement mature on October 17, 2022 and are available for working capital purposes and for general partnership purposes. The ETO Term Loan is unsecured and is guaranteed by ETO’s subsidiary, Sunoco Logistics Operations.

As of June 30, 2020, the ETO Term Loan had $2 billion outstanding and was fully drawn. The weighted average interest rate on the total amount outstanding as of June 30, 2020 was 1.18%.

***ETO Five-Year Credit Facility***

ETO's revolving credit facility (the "ETO Five-Year Credit Facility") allows for unsecured borrowings up to $5.00 billion and matures on December 1, 2023. The ETO Five-Year Credit Facility contains an accordion feature, under which the total aggregate commitment may be increased up to $6.00 billion under certain conditions.

As of June 30, 2020, the ETO Five-Year Credit Facility had $3.01 billion of outstanding borrowings, $1.11 billion of which was commercial paper. The amount available for future borrowings was $1.90 billion, after taking into account letters of credit of $86 million. The weighted average interest rate on the total amount outstanding as of June 30, 2020 was 1.34%.

***ETO 364-Day Facility***

ETO's 364-day revolving credit facility (the "ETO 364-Day Facility") allows for unsecured borrowings up to $1.00 billion and matures on November 27, 2020. As of June 30, 2020, the ETO 364-Day Facility had no outstanding borrowings.

***Sunoco LP Credit Facility***

Sunoco LP maintains a $1.50 billion revolving credit facility (the "Sunoco LP Credit Facility"), which matures in July 2023. As of June 30, 2020, the Sunoco LP Credit Facility had $158 million of outstanding borrowings and $8 million in standby letters of credit. As of June 30, 2020, Sunoco LP had $1.33 billion of availability under the Sunoco LP Credit Facility. The weighted average interest rate on the total amount outstanding as of June 30, 2020 was 2.19%.

***USAC Credit Facility***

USAC maintains a $1.60 billion revolving credit facility (the "USAC Credit Facility"), with a further potential increase of $400 million, which matures in April 2023. As of June 30, 2020, the USAC Credit Facility had $448 million of outstanding borrowings and no outstanding letters of credit. As of June 30, 2020, USAC had $1.15 billion of borrowing base availability and, subject to compliance with the applicable financial covenants, available borrowing capacity of $151 million under the USAC Credit Facility. The weighted average interest rate on the total amount outstanding as of June 30, 2020 was 2.77%.

***SemCAMS Credit Facilities***

SemCAMS is party to a credit agreement providing for a C$350 million (US$257 million at the June 30, 2020 exchange rate) senior secured term loan facility, a C$525 million (US$385 million at the June 30, 2020 exchange rate) senior secured revolving credit facility, and a C$300 million (US$220 million at the June 30, 2020 exchange rate) senior secured construction loan facility (the "KAPS Facility"). The term loan facility and the revolving credit facility mature on February 25, 2024. The KAPS Facility matures on June 13, 2024. SemCAMS may incur additional term loans and revolving commitments in an aggregate amount not to exceed C$250 million (US$183 million at the June 30, 2020 exchange rate), subject to receiving commitments for such additional term loans or revolving commitments from either new lenders or increased commitments from existing lenders. As of June 30, 2020, the SemCAMS senior secured term loan facility and senior secured revolving credit facility had $251 million and $92 million, respectively, of outstanding borrowings. As of June 30, 2020, the KAPS Facility had no outstanding borrowings.

**Covenants Related to Our Credit Agreements**

We and our subsidiaries were in compliance with all requirements, tests, limitations, and covenants related to our debt agreements as of June 30, 2020.

**Parent and Subsidiary Guarantee of Senior Notes**

Sunoco Logistics Operations is the issuer of multiple series of senior notes that are guaranteed by ETO. Supplemental indentures were previously issued on all of the outstanding ETO senior notes to provide the guaranty by Sunoco Logistics Operations. These guarantees are full and unconditional on a senior unsecured basis. No other consolidated subsidiaries of the Partnership guarantee the senior notes. Neither Sunoco Logistics Operations nor ETO have material independent assets or operations, other than their investments in and receivables from affiliates which are not subject to these guarantees.

Certain of ETO's and Sunoco Logistics Operations' subsidiaries are less than wholly-owned. Consequently, such subsidiaries have noncontrolling interest holders whose rights and obligations are generally similar to ours, except in cases where redeemable and/or preferred noncontrolling interests exist. Additional information and balances related to noncontrolling interests are available in the consolidated financial statements and notes thereto included in "Item 1. Financial Statements" in this quarterly report on Form 10-Q and in "Item 8. Financial Statements and Supplementary Data" included in our annual report on Form 10-K.

In addition, because none of ETO's or Sunoco Logistics Operations' other subsidiaries guarantee the senior notes, the senior notes are structurally subordinated to the claims of all creditors, including unsecured indebtedness, trade creditors and tort claimants,

of those subsidiaries. In the event of the insolvency, bankruptcy, liquidation, reorganization, dissolution or winding up of the business of any of our subsidiaries (except for Sunoco Logistics Operations), creditors of such subsidiaries would generally have the right to be paid in full before any distribution is made to us or the holders of the senior notes. As of June 30, 2020, our subsidiaries (other than Sunoco Logistics Operations) had an aggregate of $8.8 billion of indebtedness outstanding.

## CASH DISTRIBUTIONS

Distributions on ETO's preferred units declared and/or paid by the Partnership subsequent to December 31, 2019 were as follows:

| Period Ended | Record Date | Payment Date | Series A [1] | Series B [1] | Series C | Series D | Series E | Series F [2] | Series G [2] |
|---|---|---|---|---|---|---|---|---|---|
| December 31, 2019 | February 3, 2020 | February 18, 2020 | $ 31.25 | $ 33.125 | $ 0.4609 | $ 0.4766 | $ 0.4750 | $ — | $ — |
| March 31, 2020 | May 1, 2020 | May 15, 2020 | — | — | 0.4609 | 0.4766 | 0.4750 | 21.19 | 22.36 |
| June 30, 2020 | August 3, 2020 | August 17, 2020 | 31.25 | 33.125 | 0.4609 | 0.4766 | 0.4750 | — | — |

(1) Series A Preferred Unit and Series B Preferred Unit distributions are paid on a semi-annual basis.

(2) Series F Preferred Unit and Series G Preferred Unit distributions related to the period ended March 31, 2020 represent a prorated initial distribution. Distributions are paid on a semi-annual basis.

### Sunoco LP Cash Distributions

Distributions declared and/or paid by Sunoco LP to its common unitholders subsequent to December 31, 2019 were as follows:

| Quarter Ended | Record Date | Payment Date | Rate |
|---|---|---|---|
| December 31, 2019 | February 7, 2020 | February 19, 2020 | $ 0.8255 |
| March 31, 2020 | May 7, 2020 | May 19, 2020 | 0.8255 |
| June 30, 2020 | August 7, 2020 | August 19, 2020 | 0.8255 |

### USAC Cash Distributions

Distributions declared and/or paid by USAC to its common unitholders subsequent to December 31, 2019 were as follows:

| Quarter Ended | Record Date | Payment Date | Rate |
|---|---|---|---|
| December 31, 2019 | January 27, 2020 | February 7, 2020 | $ 0.5250 |
| March 31, 2020 | April 27, 2020 | May 8, 2020 | 0.5250 |
| June 30, 2020 | July 31, 2020 | August 10, 2020 | 0.5250 |

## ESTIMATES AND CRITICAL ACCOUNTING POLICIES

The selection and application of accounting policies is an important process that has developed as our business activities have evolved and as the accounting rules have developed. Accounting rules generally do not involve a selection among alternatives, but involve an implementation and interpretation of existing rules, and the use of judgment applied to the specific set of circumstances existing in our business. We make every effort to properly comply with all applicable rules, and we believe the proper implementation and consistent application of the accounting rules are critical. We describe our significant accounting policies in Note 2 to our consolidated financial statements in the Partnership's Annual Report on Form 10-K filed with the SEC on February 21, 2020. See Note 1 in "Item 1. Financial Statements" for information regarding recent changes to the Partnership's critical accounting policies related to inventory.

## RECENT ACCOUNTING PRONOUNCEMENTS

Currently, there are no accounting pronouncements that have been issued, but not yet adopted, that are expected to have a material impact on the Partnership's financial position or results of operations.

**FORWARD-LOOKING STATEMENTS**

This quarterly report contains various forward-looking statements and information that are based on our beliefs and those of our General Partner, as well as assumptions made by and information currently available to us. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. When used in this annual report, words such as “anticipate,” “project,” “expect,” “plan,” “goal,” “forecast,” “estimate,” “intend,” “could,” “believe,” “may,” “will” and similar expressions and statements regarding our plans and objectives for future operations, are intended to identify forward-looking statements. Although we and our General Partner believe that the expectations on which such forward-looking statements are based are reasonable, neither we nor our General Partner can give assurances that such expectations 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, our actual results may vary materially from those anticipated, estimated, projected or expected. Among the key risk factors that may have a direct bearing on our results of operations and financial condition are:

- changes in the long-term supply of and demand for natural gas, NGLs, refined products and/or crude oil, including as a result of uncertainty regarding the length of time it will take for the United States and the rest of the world to slow the spread of the COVID-19 virus to the point where applicable authorities are comfortable easing current restrictions on various commercial and economic activities; such restrictions are designed to protect public health but also have the effect of reducing demand for natural gas, NGLs, refined products and crude oil;
- the severity and duration of world health events, including the recent COVID-19 pandemic, related economic repercussions, actions taken by governmental authorities and other third parties in response to the pandemic and the resulting severe disruption in the oil and gas industry and negative impact on demand for natural gas, NGLs, refined products and crude oil, which may negatively impact our business;
- changes in general economic conditions and changes in economic conditions of the crude oil and natural gas industries specifically, including the current significant surplus in the supply of oil and actions by foreign oil-producing nations with respect to oil production levels and announcements of potential changes in such levels, including the ability of those countries to agree on and comply with supply limitation;
- uncertainty regarding the timing, pace and extent of an economic recovery in the United States and elsewhere, which in turn will likely affect demand for natural gas, NGLs, refined products and crude oil and therefore the demand for midstream services we provide and the commercial opportunities available to us;
- the deterioration of the financial condition of our customers and the potential renegotiation or termination of customer contracts as a result of such deterioration;
- operational challenges relating to the COVID-19 pandemic and efforts to mitigate the spread of the virus, including logistical challenges, protecting the health and well-being of our employees, remote work arrangements, performance of contracts and supply chain disruptions;
- actions taken by federal, state or local governments to require producers of natural gas, NGL, refined products and crude oil to proration or cut their production levels as a way to address any excess market supply situations;
- the ability of our subsidiaries to make cash distributions to us, which is dependent on their results of operations, cash flows and financial condition;
- the actual amount of cash distributions by our subsidiaries to us;
- the volumes transported on our subsidiaries’ pipelines and gathering systems;
- the level of throughput in our subsidiaries’ processing and treating facilities;
- the fees our subsidiaries charge and the margins they realize for their gathering, treating, processing, storage and transportation services;
- the prices and market demand for, and the relationship between, natural gas and NGLs;
- energy prices generally;
- the prices of natural gas and NGLs compared to the price of alternative and competing fuels;
- the general level of petroleum product demand and the availability and price of NGL supplies;
- the level of domestic natural gas, NGL, refined products and crude oil production;
- the availability of imported natural gas, NGLs, refined products and crude oil;

- actions taken by foreign oil and gas producing nations;
- the political and economic stability of petroleum producing nations;
- the effect of weather conditions on demand for natural gas, NGLs, refined products and crude oil;
- availability of local, intrastate and interstate transportation systems;
- the continued ability to find and contract for new sources of natural gas supply;
- availability and marketing of competitive fuels;
- the impact of energy conservation efforts;
- energy efficiencies and technological trends;
- governmental regulation and taxation;
- changes to, and the application of, regulation of tariff rates and operational requirements related to our subsidiaries' interstate and intrastate pipelines;
- hazards or operating risks incidental to the gathering, treating, processing and transporting of natural gas and NGLs;
- competition from other midstream companies and interstate pipeline companies;
- loss of key personnel;
- loss of key natural gas producers or the providers of fractionation services;
- reductions in the capacity or allocations of third-party pipelines that connect with our subsidiaries pipelines and facilities;
- the effectiveness of risk-management policies and procedures and the ability of our subsidiaries liquids marketing counterparties to satisfy their financial commitments;
- the nonpayment or nonperformance by our subsidiaries' customers;
- regulatory, environmental, political and legal uncertainties that may affect the timing and cost of our subsidiaries' internal growth projects, such as our subsidiaries' construction of additional pipeline systems;
- risks associated with the construction of new pipelines and treating and processing facilities or additions to our subsidiaries' existing pipelines and facilities, including difficulties in obtaining permits and rights-of-way or other regulatory approvals and the performance by third-party contractors;
- the availability and cost of capital and our subsidiaries' ability to access certain capital sources;
- a deterioration of the credit and capital markets;
- risks associated with the assets and operations of entities in which our subsidiaries own less than a controlling interests, including risks related to management actions at such entities that our subsidiaries may not be able to control or exert influence;
- the ability to successfully identify and consummate strategic acquisitions at purchase prices that are accretive to our financial results and to successfully integrate acquired businesses;
- changes in laws and regulations to which we are subject, including tax, environmental, transportation and employment regulations or new interpretations by regulatory agencies concerning such laws and regulations; and
- the costs and effects of legal and administrative proceedings.

Many of the foregoing risks and uncertainties are, and will be, heightened by the COVID-19 pandemic and any further worsening of the global business and economic environment. New factors emerge from time to time, and it is not possible for us to predict all such factors. Should one or more of the risks or uncertainties described in this Quarterly Report on Form 10-Q or our Annual Report on Form 10-K occur, or should underlying assumptions prove incorrect, actual results and plans could differ materially from those expressed in any forward-looking statements.

You should not put undue reliance on any forward-looking statements. When considering forward-looking statements, please review the risks described under “Part I - Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2019, “Part II - Item 1A. Risk Factors” in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 and “Part II - Item 1A. Risk Factors” in this Quarterly Report on Form 10-Q. Any forward-looking statement made by us in this Quarterly Report on Form 10-Q is based only on information currently available to us and speaks only as of the date on which it is made. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information contained in Item 3 updates, and should be read in conjunction with, information set forth in Part II - Item 7A. included in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on February 21, 2020, in addition to the accompanying notes and management's discussion and analysis of financial condition and results of operations presented in Items 1 and 2 of this Quarterly Report on Form 10-Q. Our quantitative and qualitative disclosures about market risk are consistent with those discussed for the year ended December 31, 2019. Since December 31, 2019, there have been no material changes to our primary market risk exposures or how those exposures are managed.

**Commodity Price Risk**

The table below summarizes our commodity-related financial derivative instruments and fair values, including derivatives related to our consolidated subsidiaries, as well as the effect of an assumed hypothetical 10% change in the underlying price of the commodity. Dollar amounts are presented in millions.

| | June 30, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | Notional Volume | Fair Value Asset (Liability) | Effect of Hypothetical 10% Change | Notional Volume | Fair Value Asset (Liability) | Effect of Hypothetical 10% Change |
| **Mark-to-Market Derivatives** | | | | | | |
| *(Trading)* | | | | | | |
| Natural Gas (BBtu): | | | | | | |
| Basis Swaps IFERC/NYMEX [1] | (20,433) | $ 10 | $ 4 | (35,208) | $ 2 | $ 5 |
| Fixed Swaps/Futures | 373 | — | — | 1,483 | — | — |
| Power (Megawatt): | | | | | | |
| Forwards | 1,338,776 | 4 | 3 | 3,213,450 | 6 | 8 |
| Futures | 204,090 | — | 1 | (353,527) | 1 | 2 |
| Options – Puts | (340,743) | 1 | — | 51,615 | 1 | — |
| Options – Calls | (1,268,532) | 1 | — | (2,704,330) | 1 | — |
| *(Non-Trading)* | | | | | | |
| Natural Gas (BBtu): | | | | | | |
| Basis Swaps IFERC/NYMEX | (27,713) | 19 | 8 | (18,923) | (35) | 15 |
| Swing Swaps IFERC | (35,590) | (3) | 8 | (9,265) | — | 4 |
| Fixed Swaps/Futures | (10,708) | (20) | 20 | (3,085) | (1) | 1 |
| Forward Physical Contracts | (23,980) | 6 | 6 | (13,364) | 3 | 3 |
| NGLs (MBbls) – Forwards/Swaps | (8,830) | (10) | 20 | (1,300) | (18) | 18 |
| Refined Products (MBbls) – Futures | (3,370) | (17) | 1 | (2,473) | (2) | 16 |
| Crude (MBbls) – Forwards/Swaps | 3,393 | 2 | — | 4,465 | 13 | 2 |
| Corn (thousand bushels) | — | — | — | (1,210) | — | — |
| **Fair Value Hedging Derivatives** | | | | | | |
| *(Non-Trading)* | | | | | | |
| Natural Gas (BBtu): | | | | | | |
| Basis Swaps IFERC/NYMEX | (43,235) | — | 10 | (31,780) | 1 | 7 |
| Fixed Swaps/Futures | (43,235) | (4) | 11 | (31,780) | 23 | 7 |

(1) Includes aggregate amounts for open positions related to Houston Ship Channel, Waha Hub, NGPL TexOk, West Louisiana Zone and Henry Hub locations.

The fair values of the commodity-related financial positions have been determined using independent third-party prices, readily available market information and appropriate valuation techniques. Non-trading positions offset physical exposures to the cash market; none of these offsetting physical exposures are included in the above tables. Price-risk sensitivities were calculated by assuming a theoretical 10% change (increase or decrease) in price regardless of term or historical relationships between the contractual price of the instruments and the underlying commodity price. Results are presented in absolute terms and represent a potential gain or loss in net income or in other comprehensive income. In the event of an actual 10% change in prompt month natural gas prices, the fair value of our total derivative portfolio may not change by 10% due to factors such as when the financial

instrument settles and the location to which the financial instrument is tied (i.e., basis swaps) and the relationship between prompt month and forward months.

**Interest Rate Risk**

As of June 30, 2020, we had $6.78 billion of floating rate debt outstanding. A hypothetical change of 100 basis points would result in a maximum potential change to interest expense of $68 million annually; however, our actual change in interest expense may be less in a given period due to interest rate floors included in our variable rate debt instruments. We manage a portion of our interest rate exposure by utilizing interest rate swaps, including forward-starting interest rate swaps to lock-in the rate on a portion of anticipated debt issuances.

The following table summarizes our interest rate swaps outstanding (dollars in millions), none of which are designated as hedges for accounting purposes:

| | | Notional Amount Outstanding | |
|---|---|---|---|
| Term | Type[1] | June 30, 2020 | December 31, 2019 |
| July 2020[2][3] | Forward-starting to pay a fixed rate of 3.52% and receive a floating rate | $ — | $ 400 |
| July 2021[2] | Forward-starting to pay a fixed rate of 3.55% and receive a floating rate | 400 | 400 |
| July 2022[2] | Forward-starting to pay a fixed rate of 3.80% and receive a floating rate | 400 | 400 |

(1) Floating rates are based on 3-month LIBOR.

(2) Represents the effective date. These forward-starting swaps have terms of 30 years with a mandatory termination date the same as the effective date.

(3) The July 2020 interest rate swaps were terminated in January 2020.

A hypothetical change of 100 basis points in interest rates for these interest rate swaps would result in a net change in the fair value of interest rate derivatives and earnings (recognized in gains and losses on interest rate derivatives) of $311 million as of June 30, 2020. For the forward-starting interest rate swaps, a hypothetical change of 100 basis points in interest rates would not affect cash flows until the swaps are settled.

## ITEM 4. CONTROLS AND PROCEDURES

**Evaluation of Disclosure Controls and Procedures**

We have established disclosure controls and procedures to ensure that information required to be disclosed by us, including our consolidated entities, in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Under the supervision and with the participation of senior management, including the Chief Executive Officer ("Principal Executive Officer") and the Chief Financial Officer ("Principal Financial Officer") of our General Partner, we evaluated our disclosure controls and procedures, as such term is defined under Rule 13a–15(e) promulgated under the Exchange Act. Based on this evaluation, the Principal Executive Officer and the Principal Financial Officer of our General Partner concluded that our disclosure controls and procedures were effective as of June 30, 2020 to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) is accumulated and communicated to management, including the Principal Executive Officer and Principal Financial Officer of our General Partner, to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting**

During the three months ended June 30, 2020, certain of the Partnership's subsidiaries implemented an enterprise resource planning ("ERP") system, in order to update existing technology and to integrate, simplify and standardize processes among the Partnership and its subsidiaries. Accordingly, we have made changes to our internal controls to address systems and/or processes impacted by the ERP implementation. Neither the ERP implementation nor the related control changes were undertaken in response to any deficiencies in the Partnership's internal control over financial reporting.

Other than as discussed above, there have been no changes in our internal controls over financial reporting (as defined in Rule 13(a)-15(f) or Rule 15d-15(f) of the Exchange Act) during the three months ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

For information regarding legal proceedings, see our Annual Report on Form 10-K filed with the SEC on February 21, 2020 and Note 10 – Regulatory Matters, Commitments, Contingencies and Environmental Liabilities of the Notes to Consolidated Financial Statements of Energy Transfer Operating, L.P. and Subsidiaries included in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2020.

Additionally, we have received notices of violations and potential fines under various federal, state and local provisions relating to the discharge of materials into the environment or protection of the environment. While we believe that even if any one or more of the environmental proceedings listed below were decided against us, it would not be material to our financial position, results of operations or cash flows, we are required to report governmental proceedings if we reasonably believe that such proceedings will result in monetary sanctions in excess of $100,000.

Pursuant to the instructions to Form 10-Q, matters disclosed in this Part II - Item 1 include any reportable legal proceeding (i) that has been terminated during the period covered by this report, (ii) that became a reportable event during the period covered by this report, or (iii) for which there has been a material development during the period covered by this report.

For a description of other legal proceedings, see Note 10 to our consolidated financial statements included in “Item 1. Financial Statements.”

### ITEM 1A. RISK FACTORS

The following risk factors should be read in conjunction with our risk factors described in "Part I - Item 1A. Risk Factors" in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on February 21, 2020 and from the risk factors described in "Part II - Item 1A. Risk Factors" in the Partnership's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 filed with the SEC on May 11, 2020.

***Legal or regulatory actions related to the Dakota Access Pipeline could cause an interruption to current or future operations, which could have an adverse effect on our business and results of operations.***

On July 27, 2016, the Standing Rock Sioux Tribe (“SRST”) filed a lawsuit in the United States District Court for the District of Columbia challenging permits issued by the United States Army Corps of Engineers (“USACE”) permitting Dakota Access, LLC (“Dakota Access”) to cross the Missouri River at Lake Oahe in North Dakota. The case was subsequently amended to challenge an easement issued by the USACE allowing the pipeline to cross land owned by the USACE adjacent to the Missouri River. Dakota Access and the Cheyenne River Sioux Tribe (“CRST”) intervened. Separate lawsuits filed by the Oglala Sioux Tribe (“OST”) and the Yankton Sioux Tribe (“YST”) were consolidated with this action and several individual tribal members intervened (collectively with SRST and CRST, the “Tribes”). Plaintiffs and Defendants filed cross motions for summary judgment. On March 25, 2020, the Court remanded the case back to the USACE for preparation of an Environment Impact Statement. On July 6, 2020, the Court vacated the easement and ordered Dakota Access to be shut down and emptied of oil by August 5, 2020. Dakota Access and USACE have filed notices of appeal with the United States Court of Appeals for the District of Columbia (“Court of Appeals”) with respect to the Court’s ruling related to the preparation of an Environmental Impact Statement and also filed motions for a stay of the Court’s July 6, 2020 Order. On July 14, 2020, the Court of Appeals administratively stayed the Court’s July 6 Order and ordered further briefing with respect to the motion to stay. On August 5, 2020, the Court of Appeals granted a stay of the portion of the District Court order that required Dakota Access to shut the pipeline down and empty it of oil. The Court of Appeals also denied a stay of the March 25 Order and the remaining portion of the July 6 Order vacating the easement. As a result, no court order stops Dakota Access from continuing to operate the Pipeline. The August 5 Order contemplates that the USACE will make a determination under its regulations and procedures whether vacating the easement requires oil to stop flowing. The Order also contemplates further proceedings in the District Court, and it expedites the appeal with briefing to conclude by September 30, 2020.

While we believe that the pending lawsuits are unlikely to adversely affect the continued operation or potential expansion of the pipeline, we cannot assure this outcome. At this time, we cannot determine when or how these lawsuits will be resolved or the impact they may have on the Dakota Access project.

In addition, lawsuits and/or regulatory proceedings or actions of this or a similar nature could result in interruptions to construction or operations of current or future projects, delays in completing those projects and/or increased project costs, all of which could have an adverse effect on our business and results of operations.

**ITEM 6. EXHIBITS**

The exhibits listed below are filed or furnished, as indicated, as part of this report:

| Exhibit Number | Description |
|---|---|
| 3.1 | Certificate of Limited Partnership of Sunoco Logistics Partners L.P. (incorporated by reference to Exhibit 3.1 of Form S-1, File No. 333-71968, filed October 22, 2001) |
| 3.2 | Amendment to the Certificate of Limited Partnership of Sunoco Logistics Partners L.P. dated as of August 28, 2015 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K, File No. 1-31219, filed September 1, 2015) |
| 3.3 | Amendment to the Certificate of Limited Partnership of Sunoco Logistics Partners L.P. dated as of April 28, 2017 (incorporated by reference to Exhibit 3.3 to the Current Report on Form 8-K, File No. 1-31219, filed April 28, 2017) |
| 3.4 | Amended Certificate of Limited Partnership of Energy Transfer Partners, L.P. (formerly known as Sunoco Logistics Partners L.P.) (incorporated by reference to Exhibit 3.3 to the Current Report on Form 8-K, File No. 1-31219, filed April 28, 2017) |
| 3.5 | Certificate of Merger of Streamline Merger Sub, LLC, with and into Energy Transfer Partners, L.P., dated as of October 19, 2018 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K, File No. 1-31219, filed October 19, 2018) |
| 3.6 | Restated Certificate of Limited Partnership of Energy Transfer Partners GP, L.P. (incorporated by reference to Exhibit 3.14 to the Registrant's Form 10-Q for the quarter ended March 31, 2010) |
| 3.7 | Certificate of Formation of Energy Transfer Partners, L.L.C. (incorporated by reference to Exhibit 3.13 to the Registrant's Form 10-Q for the quarter ended March 31, 2010) |
| 3.8 | Certificate of Amendment of Energy Transfer Partners, L.L.C. (incorporated by reference to Exhibit 3.1 to the Registrant's Form 10-Q for the quarter ended March 31, 2010) |
| 3.9 | Fifth Amended and Restated Agreement of Limited Partnership of Energy Transfer Operating, L.P., dated as of October 19, 2018 (incorporated by reference to Exhibit 3.3 to the Current Report on Form 8-K, File No. 1-31219, filed October 19, 2018) |
| 3.10 | Amendment No. 1, dated as of December 31, 2018, to Fifth Amended and Restated Agreement of Limited Partnership of Energy Transfer Operating, L.P. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K, File No. 1-31219, filed January 4, 2019) |
| 3.11 | Amendment No. 2, dated as of April 25, 2019, to Fifth Amended and Restated Agreement of Limited Partnership of Energy Transfer Operating, L.P. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K, File No. 1-31219, filed April 25, 2019) |
| 3.12 | Amendment No. 3, dated as of July 1, 2019, to Fifth Amended and Restated Agreement of Limited Partnership of Energy Transfer Operating, L.P. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K, File No. 1-31219, filed July 2, 2019) |
| 3.13 | Amendment No. 4 to Fifth Amended and Restated Agreement of Limited Partnership of Energy Transfer Operating, L.P. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K File No. 1-31219, filed January 22, 2020) |
| 3.14 | Amendment No. 5 to Fifth Amended and Restated Agreement of Limited Partnership of Energy Transfer Operating, L.P. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K File No. 1-31219, filed May 5, 2020) |
| 3.15 | Third Amended and Restated Agreement of Limited Partnership of Energy Transfer Partners GP, L.P., dated as of April 17, 2007 (incorporated by reference to Exhibit 3.5 to the Registrant's Form 10-Q for the quarter ended May 31, 2007) |
| 3.16 | Amendment No. 2, dated March 26, 2012, to the Third Amended and Restated Agreement of Limited Partnership of Energy Transfer Partners GP, L.P. (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K, File No. 1-31219, filed March 28, 2012) |
| 3.17 | Fourth Amended and Restated Limited Liability Company Agreement of Energy Transfer Partners, L.L.C. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K, File No. 1-31219, filed August 10, 2010) |
| 3.18 | Amendment No. 1, dated March 26, 2012, to the Fourth Amended and Restated Limited Liability Company Agreement of Energy Transfer Partners, L.L.C., dated as of August 10, 2010 (incorporated by reference to Exhibit 3.3 to the Current Report on Form 8-K, File No. 1-31219, filed March 28, 2012) |

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| 4.1 | Fourth Supplemental Indenture, dated as of January 22, 2020, by and among Energy Transfer Operating, L.P., as issuer, Sunoco Logistics Partners Operations L.P., as guarantor, and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2. to the Current Report on Form 8-K, File No. 1-31219, filed January 22, 2020) |
| 4.2 | Forms of Notes (included in Exhibit 4.1 hereto, incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K, File No. 1-31219, filed January 22, 2020) |
| 22.1 | Issuers and Guarantors of Registered Securities (incorporated by reference to Exhibit 22.1 to the Registrant's Form 10-Q for the quarter ended March 31, 2020) |
| 31.1* | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2* | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1** | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2** | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101* | Interactive data files pursuant to Rule 405 of Regulation S-T: (i) our Consolidated Balance Sheets as of June 30, 2020 and December 31, 2019; (ii) our Consolidated Statements of Operations for the three and six months ended June 30, 2020 and 2019; (iii) our Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2020 and 2019; (iv) our Consolidated Statements of Partners' Capital for the three and six months ended June 30, 2020 and 2019; (v) our Consolidated Statements of Cash Flows for the six months ended June 30, 2020 and 2019; and (vi) the notes to our Consolidated Financial Statements. |
| 104 | Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101) |

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|---|---|
| * | Filed herewith. |
| ** | Furnished herewith. |

## SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENERGY TRANSFER OPERATING, L.P.

By: Energy Transfer Partners GP, L.P.,
its general partner

By: Energy Transfer Partners, L.L.C.,
its general partner

Date: August 6, 2020

By: /s/ A. Troy Sturrock

A. Troy Sturrock
Senior Vice President, Controller and Principal Accounting Officer
(duly authorized to sign on behalf of the registrant)

**Exhibit 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**
**PURSUANT TO**
**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kelcy L. Warren, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Energy Transfer Operating, L.P.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2020

/s/ Kelcy L. Warren

Kelcy L. Warren
Chief Executive Officer

**Exhibit 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**
**PURSUANT TO**
**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Thomas E. Long, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Energy Transfer Operating, L.P.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2020

/s/ Thomas E. Long

Thomas E. Long
Chief Financial Officer

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Energy Transfer Operating, L.P. (the “Partnership”) on Form 10-Q for the quarter ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Kelcy L. Warren, Chief Executive Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Date: August 6, 2020

/s/ Kelcy L. Warren
Kelcy L. Warren
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to and will be retained by Energy Transfer Operating, L.P. and furnished to the Securities and Exchange Commission upon request.

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Energy Transfer Operating, L.P. (the "Partnership") on Form 10-Q for the quarter ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas E. Long, Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Date: August 6, 2020

/s/ Thomas E. Long
Thomas E. Long
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to and will be retained by Energy Transfer Operating, L.P. and furnished to the Securities and Exchange Commission upon request.