

ENBRIDGE ENERGY MANAGEMENT L L C

Form 10-Q

November 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from _____ to _____

Commission file number 1-31383

ENBRIDGE

ENERGY

MANAGEMENT,

L.L.C.

(Exact Name of

Registrant as

Specified in Its

Charter)

Delaware

61-1414604

(State or Other Jurisdiction of (I.R.S. Employer

Incorporation or Organization) Identification No.)

5400 Westheimer Court

Houston, Texas 77056

(Address of Principal Executive Offices) (Zip Code)

(713) 627-5400

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically 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.

Edgar Filing: ENBRIDGE ENERGY MANAGEMENT L L C - Form 10-Q

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

The Registrant had 98,611,093 Listed Shares outstanding as of October 30, 2018.

DOCUMENTS INCORPORATED BY REFERENCE:

Quarterly Report on Form 10-Q of Enbridge Energy Partners, L.P. for the quarterly period ended September 30, 2018.

TABLE OF CONTENTS

ENBRIDGE ENERGY MANAGEMENT, L.L.C.

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION

| | |
|---|-----------|
| <u>Item 1. Financial Statements</u> | |
| <u>Statements of Income for the three and nine months ended September 30, 2018 and 2017</u> | <u>1</u> |
| <u>Statements of Comprehensive Income for the three and nine months ended September 30, 2018 and 2017</u> | <u>2</u> |
| <u>Statements of Cash Flows for the nine months ended September 30, 2018 and 2017</u> | <u>3</u> |
| <u>Statements of Financial Position as of September 30, 2018 and December 31, 2017</u> | <u>4</u> |
| <u>Statements of Shareholders' Equity for the nine months ended September 30, 2018 and 2017</u> | <u>5</u> |
| <u>Notes to the Financial Statements</u> | <u>6</u> |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>8</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | <u>10</u> |
| <u>Item 4. Controls and Procedures</u> | <u>11</u> |
| PART II — OTHER INFORMATION | |
| <u>Item 1. Legal Proceedings</u> | <u>12</u> |
| <u>Item 1A. Risk Factors</u> | <u>13</u> |
| <u>Item 6. Exhibits</u> | <u>14</u> |
| <u>Signatures</u> | <u>14</u> |

In this report, unless the context requires otherwise, references to “we,” “us,” “our,” the “Company” or “Enbridge Management” are intended to mean Enbridge Energy Management, L.L.C. We are a limited partner of Enbridge Energy Partners, L.P., which we refer to as “the Partnership”. References to “Enbridge” refer collectively to Enbridge Inc. and its subsidiaries other than us.

This Quarterly Report on Form 10-Q includes forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including with respect to the transactions contemplated by the Agreement and Plan of Merger, dated September 17, 2018, by and among by and among Enbridge Energy Management, L.L.C., Enbridge Inc., Winter Acquisition Sub I, Inc., and solely for the purposes of Article I, Section 2.4 and Article X, Enbridge Energy Company, Inc. (the Proposed Merger). All statements other than statements of historical fact contained in this Quarterly Report on Form 10-Q are forward-looking statements, including, without limitation, statements regarding the consummation of the Proposed Merger, including the timing and expected effects thereof, which are statements that frequently use words such as “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “forecast,” “intend,” “may,” “opportunity,” “plan,” “position,” “should,” “strategy,” “target,” “will” and similar words. Although we believe that such forward-looking statements are reasonable based on currently available information, such statements involve risks, uncertainties and assumptions and are not guarantees of performance. Future actions, conditions or events and future results of operations may differ materially from those expressed in these forward-looking statements. Any forward-looking statement made by us in this Quarterly Report on Form 10-Q speaks only as of the date on which it is made, and we undertake no obligation to publicly update any forward-looking statement. Our results of operations, financial position and cash flows are dependent on the results of operations, financial position and cash flows of the Partnership. Many of the factors that will determine these results are beyond the Partnership’s or our ability to control or predict. Specific factors that could cause actual results to differ from those in the forward-looking statements include: (1) the risk that Enbridge may be unable to obtain governmental, shareholder and regulatory approvals required for the Proposed Merger, whereby Enbridge will acquire all of our outstanding Listed Shares or required governmental, shareholder and regulatory approvals may delay the Proposed Merger or result in the imposition of conditions that could cause the parties to abandon the Proposed Merger; (2) the risk that a condition to closing of the Proposed Merger may not be satisfied; (3) the timing to complete the Proposed Merger; (4) the ability to realize expected cost savings, benefits and any other

synergies from the Proposed Merger and the proposed simplification of Enbridge's overall corporate structure may not be fully realized or may take longer to realize than expected; (5) disruption from the Proposed Merger may make it more difficult to maintain relationships with customers, employees or suppliers; (6) the impact and outcome of pending and future litigation, including litigation, if any, relating to the Proposed Merger; (7) the effectiveness of the various actions the Partnership has taken resulting from its strategic review process; (8) changes in the demand for the supply of, forecast data for, and price trends related to crude oil and liquid petroleum, including the rate of development of the Alberta Oil Sands; (9) the Partnership's ability to successfully complete and finance expansion projects; (10) the effects of competition, in particular, by other pipeline systems; (11) shut-downs or cutbacks at the Partnership's facilities or refineries, petrochemical plants, utilities or other businesses for which the Partnership transports products or to whom the Partnership sells products; (12) hazards and operating risks that may not be covered fully by insurance; (13) any fines, penalties and injunctive relief assessed in connection with any crude oil release; (14) state or federal legislative and regulatory initiatives or actions that affect cost and investment recovery or that have an effect on rate structure, or other changes in or challenges to the Partnership's tariff rates; (15) changes in laws or regulations to which the Partnership is subject, including compliance with environmental and operational safety regulations that may increase costs of system integrity testing and maintenance; and (16) permitting at federal, state and local levels or renewals of rights of way.

Forward-looking statements regarding sponsor support transactions or sales of assets (to Enbridge or otherwise) are further qualified by the fact that Enbridge is under no obligation to provide additional sponsor support and neither Enbridge nor any other party is under any obligation to offer to buy or sell us assets, and we are under no obligation to buy or sell any such assets. As a result, we do not know when or if any such

TABLE OF CONTENTS

transactions will occur. Any statements regarding sponsor expectations or intentions are based on information communicated to us by Enbridge, but there can be no assurance that these expectations or intentions will not change in the future.

For additional factors that may affect results, see “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2017 and in any Quarterly Report on Form 10-Q filed thereafter, which is available to the public over the Internet at the United States Securities and Exchange Commission’s (the SEC), website (www.sec.gov) and at our website (www.enbridgemanagement.com). Also see information regarding forward-looking statements and “Item 1A. Risk Factors” included in the Partnership’s Annual Report on Form 10-K for the year ended December 31, 2017 for a discussion of risks to the Partnership that also may affect us.

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ENBRIDGE ENERGY MANAGEMENT, L.L.C.

STATEMENTS OF INCOME

(unaudited; in millions, except per share amounts)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|--|-----------|---------------------------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Equity loss from investment in Enbridge Energy Partners, L.P. | \$(1.9) | \$(2.5) | \$(6.0) | \$(7.5) |
| Loss before income taxes | (1.9) | (2.5) | (6.0) | (7.5) |
| Income tax benefit | 0.6 | 0.8 | 1.9 | 2.4 |
| Net loss | \$(1.3) | \$(1.7) | \$(4.1) | \$(5.1) |
| Net loss per share, (basic and diluted) | \$(0.01) | \$(0.02) | \$(0.04) | \$(0.06) |
| Weighted average shares outstanding | 97.1 | 86.7 | 93.9 | 84.8 |
| Distribution paid per share | \$0.350 | \$0.350 | \$1.050 | \$1.283 |

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

1

TABLE OF CONTENTS

ENBRIDGE ENERGY MANAGEMENT, L.L.C.
 STATEMENTS OF COMPREHENSIVE INCOME
 (unaudited; in millions)

| | Three months ended | | Nine months ended | |
|---|--------------------|---------|-------------------|---------|
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Net loss | \$(1.3) | \$(1.7) | \$(4.1) | \$(5.1) |
| Equity in other comprehensive income of Enbridge Energy Partners, L.P., net of tax benefit of \$0.6, \$0.8, \$1.9 and \$2.4, respectively | 1.3 | 1.7 | 4.1 | 5.1 |
| Comprehensive income | \$— | \$— | \$— | \$— |

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

TABLE OF CONTENTS

ENBRIDGE ENERGY MANAGEMENT, L.L.C.

STATEMENTS OF CASH FLOWS

(unaudited; in millions)

| | Nine months ended September 30, 2018 2017 | |
|---|---|---------|
| Operating activities: | | |
| Net loss | \$(4.1) | \$(5.1) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Loss from equity investment in Enbridge Energy Partners, L.P. | 6.0 | 7.5 |
| Due from affiliates | (0.2) | — |
| Deferred income tax benefit | (1.9) | (2.4) |
| Net cash used in operating activities | (0.2) | — |
| Investing activities: | | |
| Net cash used in investing activities | — | — |
| Financing activities: | | |
| Net cash provided by financing activities | — | — |
| Decrease in cash and cash equivalents | (0.2) | — |
| Cash and cash equivalents at beginning of year | 0.8 | 0.8 |
| Cash and cash equivalents at end of period | \$0.6 | \$0.8 |

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

TABLE OF CONTENTS

ENBRIDGE ENERGY MANAGEMENT, L.L.C.
 STATEMENTS OF FINANCIAL POSITION
 (unaudited; in millions, except voting shares amounts)

| | September 30, 2018 | December 31, 2017 |
|--|-----------------------|----------------------|
| ASSETS | | |
| Cash | \$ 0.6 | \$ 0.8 |
| Due from affiliates | 0.2 | — |
| Total assets | \$ 0.8 | \$ 0.8 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Shareholders' equity | | |
| Voting shares - unlimited authorized; (7.4 and 6.8 issued and outstanding at September 30, 2018 and December 31, 2017, respectively) | \$ — | \$ — |
| Listed Shares - unlimited authorized; (98.6 and 89.8 issued and outstanding at September 30, 2018 and December 31, 2017, respectively) | 1,857.7 | 1,760.7 |
| Accumulated deficit | (1,833.5) | (1,732.4) |
| Accumulated other comprehensive loss | (23.4) | (27.5) |
| Total liabilities and shareholders' equity | \$ 0.8 | \$ 0.8 |

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

TABLE OF CONTENTSENBRIDGE ENERGY MANAGEMENT, L.L.C.
STATEMENTS OF SHAREHOLDERS' EQUITY
(unaudited; in millions)

| | Listed Shares | Accumulated Deficit | Accumulated other comprehensive income (loss) | Total |
|---|------------------|------------------------|--|--------|
| December 31, 2017 | \$1,760.7 | \$ (1,732.4) | \$ (27.5) | \$0.8 |
| Net loss | — | (4.1) | — | (4.1) |
| Share distributions | 97.0 | (97.0) | — | — |
| Equity in other comprehensive income of Enbridge Energy Partners, L.P. | — | — | 4.1 | 4.1 |
| September 30, 2018 | \$1,857.7 | \$ (1,833.5) | \$ (23.4) | \$0.8 |
| December 31, 2016 | \$1,622.9 | \$ (1,565.6) | \$ (56.5) | \$0.8 |
| Net loss | — | (5.1) | — | (5.1) |
| Share distributions | 107.1 | (107.1) | — | — |
| Equity in other comprehensive income of Enbridge Energy Partners, L.P. | — | — | 5.1 | 5.1 |
| September 30, 2017 | \$1,730.0 | \$ (1,677.8) | \$ (51.4) | \$0.8 |

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

TABLE OF CONTENTS

ENBRIDGE ENERGY MANAGEMENT, L.L.C.
NOTES TO THE FINANCIAL STATEMENTS (unaudited)

1. BUSINESS OVERVIEW

The terms “we,” “our,” “us” and “Enbridge Energy Management” as used in this report refer collectively to Enbridge Energy Management, L.L.C. unless the context suggests otherwise.

General Business Description

We are a limited partner of Enbridge Energy Partners, L.P., (the Partnership), through our ownership of i-units, a special class of the Partnership’s limited partner interests. Under a delegation of control agreement among us, the Partnership and its general partner, Enbridge Energy Company, Inc., (the General Partner), we manage the Partnership’s business and affairs. The General Partner is an indirect, wholly-owned subsidiary of Enbridge Inc. (Enbridge), an energy infrastructure company based in Calgary, Alberta, Canada.

Basis of Presentation

The accompanying unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP), for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all the information and notes required by U.S. GAAP for annual financial statements and should therefore be read in conjunction with our annual financial statements and notes presented in our Annual Report on Form 10-K for the year ended December 31, 2017. In the opinion of management, the interim financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our financial position, results of operations and cash flows for the interim periods reported. These interim financial statements follow the same significant accounting policies as those included in our annual financial statements for the year ended December 31, 2017.

2. CHANGES IN ACCOUNTING POLICIES

There were no significant accounting pronouncements issued during the nine months ended September 30, 2018, that had a material impact on our results of operations, financial position or cash flows.

3. INCOME TAXES

The terms of the i-units provide that the units owned by us will not be allocated income, gain, loss or deductions of the Partnership for tax purposes until such time that we dispose of our investment in the Partnership. As a result, actual realization of any long-term deferred income tax asset or liability would only occur upon liquidation of our investment in the Partnership.

Based on the estimates of our future operating income included in our forecasts, including curing impacts, we have concluded that it is not more likely than not that our deferred tax assets will be realized. As a result, we continue to maintain a full valuation allowance on those tax assets as of September 30, 2018.

The effective income tax rates are presented in the following table:

| Three months ended | | Nine months ended | |
|--------------------|------|--------------------|------|
| September 30, 2018 | 2017 | September 30, 2018 | 2017 |

Edgar Filing: ENBRIDGE ENERGY MANAGEMENT L L C - Form 10-Q

(unaudited; in millions except for
tax rate amounts)

| | | | | |
|-----------------------------------|---------|---------|---------|---------|
| Loss before income taxes | \$(1.9) | \$(2.5) | \$(6.0) | \$(7.5) |
| Income tax benefit ⁽¹⁾ | 0.6 | 0.8 | 1.9 | 2.4 |
| Effective income tax rate | 31.6 % | 32.0 % | 31.7 % | 32.0 % |

(1) Amortization of accumulated other comprehensive income into earnings is recorded before tax to recognize the related tax benefit. Recognition of the tax benefit in earnings does not impact the balance of the deferred tax asset and associated full valuation allowance, which was previously recorded when the losses were reflected in other comprehensive income.

TABLE OF CONTENTS

4. CONTINGENCIES

We are a participant in various legal proceedings arising in the ordinary course of business. Some of these proceedings are covered, in whole or in part, by insurance. We believe that the outcome of all these proceedings will not, individually or in the aggregate, have a material adverse effect on our financial condition.

5. SUMMARIZED FINANCIAL INFORMATION FOR ENBRIDGE ENERGY PARTNERS, L.P.

The following table provides summarized financial information of the Partnership:

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|---|--------|---------------------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| | (unaudited; in millions) | | | |
| Operating revenues | \$560 | \$616 | \$1,689 | \$1,817 |
| Operating expenses | 303 | 350 | 955 | 971 |
| Operating income | \$257 | \$266 | \$734 | \$846 |
| Income from continuing operations | \$207 | \$196 | \$566 | \$607 |
| Net income | 207 | 196 | 566 | 550 |
| Noncontrolling interests | (103) | (103) | (293) | (262) |
| Series 1 preferred unit distributions | — | — | — | (29) |
| Accretion of discount on Series 1 preferred units | — | — | — | (8) |
| Net income attributable to Enbridge Energy Partners, L.P. | \$104 | \$93 | \$273 | \$251 |
| Net income attributable to the General Partner ⁽¹⁾ | (12) | (11) | (36) | (35) |
| Net income attributable to common units and i-units ⁽²⁾ | \$92 | \$82 | \$237 | \$216 |

(1) Net income attributable to the General Partner includes net income attributable to the general partner interest as well as to Class F units and Class E units.

The Partnership allocates its net income among the General Partner and limited partners using the two-class method in accordance with applicable authoritative accounting guidance. Under the two-class method, the Partnership allocates its net income after noncontrolling interests to the General Partner and limited partners, including us, according to the distribution formula for available cash as set forth in the Partnership Agreement.

We owned approximately 21.4% and 19.5% of the Partnership at September 30, 2018 and 2017, respectively.

6. SUBSEQUENT EVENTS

Share Distribution

On October 24, 2018, our board of directors declared a share distribution payable on November 14, 2018, to shareholders of record as of November 7, 2018, based on the \$0.35 per limited partner unit distribution declared by the Partnership.

The Partnership's distribution increases the number of i-units that we own. The amount of this increase is calculated by dividing the cash amount distributed by the Partnership per common unit by the average closing price of one of our Listed Shares on the New York Stock Exchange (NYSE) for the 10 trading day period immediately preceding the ex-dividend date for our shares, multiplied by the number of shares outstanding on the record date. We distribute additional Listed Shares to our shareholders and additional voting shares to the General Partner in respect of these additional i-units.

TABLE OF CONTENTS

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

The following discussion and analysis of our financial condition and results of operations is based on and should be read in conjunction with our financial statements and the accompanying notes included in Item 1. Financial Statements of this Quarterly Report on Form 10-Q and in conjunction with the audited financial statements and accompanying footnotes in our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the Securities and Exchange Commission (SEC) on February 16, 2018.

RECENT DEVELOPMENTS

PROPOSED MERGER

On September 18, 2018, we announced our entry into a definitive agreement (the Merger Agreement) with respect to the Proposed Merger pursuant to which a wholly-owned subsidiary of Enbridge will be merged with and into us with us surviving as an indirect wholly-owned subsidiary of Enbridge. Under the terms of the Merger Agreement, at the effective time of the Proposed Merger, Enbridge will acquire all of our outstanding Listed Shares not currently beneficially owned by Enbridge in an all stock-for-stock transaction at a ratio of 0.3350 common shares of Enbridge per Listed Share (the Agreed Exchange Ratio), in a taxable transaction to our shareholder. The Agreed Exchange Ratio represents an approximate 16% increase to the exchange ratio of 0.2887 common shares of Enbridge per Listed Share that was initially offered by Enbridge on May 17, 2018. The Proposed Merger is part of Enbridge's sponsored vehicle restructuring initiative to simplify its corporate structure.

The completion of the Proposed Merger is subject to certain and customary closing conditions, including (i) the affirmative vote of a majority of the outstanding Listed Shares (other than the Listed Shares held by Enbridge and its affiliates) (the Shareholder Approval) as of the close of business on November 5, 2018, the record date for determining the shareholders entitled to vote on the Proposed Merger, (ii) the concurrent closing of the merger of Winter Acquisition Sub II, LLC with and into the Partnership, with the Partnership continuing as the sole surviving entity (the Partnership Merger), (iii) the Enbridge common stock issuable in connection with the Proposed Merger having been approved for listing on the NYSE and the Toronto Stock Exchange, subject to official notice of issuance, (iv) Enbridge's registration statement on Form S-4 having become effective under the Securities Act of 1933, as amended (the Securities Act). (v) the expiration or termination of any waiting period (and any extension thereof) applicable to the Merger under the Hart-Scott Rodino Antitrust Improvements Act of 1976, and (vi) the absence of any governmental order prohibiting the consummation of the Proposed Merger or the other transactions contemplated thereby. The obligation of each party to the Merger Agreement to consummate the Proposed Merger is also conditioned upon the accuracy of the representations and warranties of the other parties as of the date of the Merger Agreement and as of the closing (subject to customary materiality qualifiers), the performance by the other parties of all obligations under the Merger Agreement at or prior to closing and receipt of an officer's certificate evidencing the satisfaction of the foregoing.

As a result of the completion of the Proposed Merger, our Listed Units will no longer be publicly traded. Subject to the satisfaction or waiver of certain conditions, including the Shareholder Approval, the Proposed Merger is targeted to close in the fourth quarter of 2018.

RESULTS OF OPERATIONS

The information set forth under Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations of the Partnership's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2018, is hereby incorporated by reference, as our results of operations, financial position and cash

flows are dependent on the results of operations, financial position and cash flows of the Partnership.

Our results of operations consist of our share of earnings from the Partnership, attributed to our ownership of the i-units, a special class of limited partner interest in the Partnership. At September 30, 2018 and 2017, through our ownership of i-units, we had an approximate 21.4% and 19.5%, respectively, limited partner voting interest in the Partnership. Our percentage ownership of the Partnership will change over time as the number of i-units we own becomes a different percentage of the total limited partner interests outstanding due to our ownership of additional i-units and other issuances of limited partner interests by the Partnership.

TABLE OF CONTENTS

During the first quarter of 2016, our share of losses in the Partnership, driven primarily from curing losses, exceeded the carrying amount of our investment in the Partnership. As a result, we discontinued application of the equity method of accounting when the carrying amount of our investment was reduced to zero and we no longer provide for additional losses as we are not obligated to provide further financial support to the Partnership. Further, we amortize into earnings the remaining accumulated other comprehensive loss on a straight-line basis over the remaining term of the Partnership's underlying hedge contracts. As a result, our net loss for the three and nine months ended September 30, 2018, consist of amortization of the remaining accumulated other comprehensive loss.

The following table presents our results of operations:

| | Three months ended | | Nine months ended | |
|---|--------------------------|---------|-------------------|---------|
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| | (unaudited; in millions) | | | |
| Equity loss from investment in Enbridge Energy Partners, L.P. | \$(1.9) | \$(2.5) | \$(6.0) | \$(7.5) |
| Loss before income taxes | (1.9) | (2.5) | (6.0) | (7.5) |
| Income tax benefit | 0.6 | 0.8 | 1.9 | 2.4 |
| Net loss | \$(1.3) | \$(1.7) | \$(4.1) | \$(5.1) |

THREE MONTHS ENDED SEPTEMBER 30, 2018 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2017

There were no material change in our net loss as there were no material changes in the amortization of the remaining accumulated other comprehensive income or income tax benefits, respectively.

NINE MONTHS ENDED SEPTEMBER 30, 2018 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2017

There were no material change in our net loss as there were no material changes in the amortization of the remaining accumulated other comprehensive income or income tax benefits, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Our authorized capital structure consists of two classes of limited liability company interests: (i) our Listed Shares, which are traded on the NYSE and represent limited liability company interests with limited voting rights, and (ii) our voting shares, which represent limited liability company interests with full voting rights and are held solely by the General Partner. At September 30, 2018, our issued capitalization consisted of \$1,857.7 million associated with our 98.6 million Listed Shares outstanding.

We use our capital to invest in i-units of the Partnership. We have, from time to time, raised capital through public equity offerings. Any net cash proceeds we receive from the sale of additional shares will immediately be used to purchase additional i-units. We have not issued additional shares in 2018. The number of our shares outstanding, including the voting shares owned by the General Partner, will at all times equal the number of i-units we own in the Partnership. Typically, the General Partner and owners of the Partnership's Class A and Class B common units, Class F units and Class E units will receive distributions from the Partnership in cash. We receive additional i-units under the terms of the Partnership Agreement instead of receiving cash distribution on the i-units we own. The number of additional i-units we receive is calculated by dividing the amount of the cash distribution paid by the Partnership on each of its common units by the average closing price of one of our Listed Shares on the NYSE for the 10 trading day

period immediately preceding the ex-dividend date for our shares, multiplied by the number of our shares outstanding on the record date. We make share distributions to our shareholders concurrently with the i-unit distributions we receive from the Partnership that increases the number of i-units we own. As a result of our share distributions, the number of shares outstanding is equal to the number of i-units that we own in the Partnership.

We are not permitted to borrow money or incur debt other than with Enbridge and its affiliates without the approval of holders owning at least a majority of our shares.

Under the Enbridge purchase provisions, which are a part of our limited liability company agreement, Enbridge has the right and obligation, under limited circumstances, to purchase our outstanding shares. On September 18,

TABLE OF CONTENTS

2018, we announced our entry into the Merger Agreement with Enbridge, to acquire all of our outstanding Listed Shares not beneficially owned by Enbridge. The purchase offer under the Proposed Merger was not made under the purchase provisions, and as such, none of the purchase provisions are applicable, refer to Recent Developments for further details.

Enbridge generally agrees to indemnify us for any tax liability attributable to our formation, our management of the Partnership or our ownership of the i-units. Additionally, Enbridge generally agrees to indemnify us for any taxes arising from a transaction involving the i-units to the extent the transaction does not generate cash sufficient to pay such taxes, in each case, other than any Texas franchise taxes or other capital-based foreign, state or local taxes that are required to be paid or reimbursed by the Partnership under the delegation of control agreement.

If we incur liabilities or other obligations in connection with the performance of our obligations under the delegation of control agreement, we are entitled to be reimbursed or to be indemnified by the Partnership or the General Partner. Thus, we expect that our expenditures associated with managing the business and affairs of the Partnership and the reimbursement of these expenses that we receive will continue to be equal. As previously stated, we do not receive quarterly cash distributions on the i-units we hold. Therefore, we expect neither to generate nor to require significant amounts of cash in ongoing operations. Any net cash proceeds we receive from the sale of additional shares will immediately be used to purchase additional i-units. Accordingly, we do not anticipate any other sources of or needs for additional liquidity. For further details regarding any contingencies, refer to Item 1. Financial Statements – Note 4 - Contingencies.

SHARE DISTRIBUTIONS

The following table sets forth our distributions, as approved by the board of directors during the nine months ended September 30, 2018.

| Distribution Declaration Date | Record Date | Distribution Payment Date | Distribution per Unit of the Partnership | Average Closing Price of the Listed Shares | Additional i-units Owned | Listed Shares Distributed to Public | Shares Distributed to General Partner |
|---------------------------------------|------------------|---------------------------|--|--|--------------------------|-------------------------------------|---------------------------------------|
| (in million, except per unit amounts) | | | | | | | |
| July 25, 2018 | August 7, 2018 | August 14, 2018 | \$0.35 | \$10.64 | 3.2 | 2.8 | 0.4 |
| April 27, 2018 | May 8, 2018 | May 15, 2018 | \$0.35 | \$9.45 | 3.4 | 3.0 | 0.4 |
| January 31, 2018 | February 7, 2018 | February 14, 2018 | \$0.35 | \$13.90 | 2.3 | 2.0 | 0.3 |

We had non-cash operating activities in the form of i-units distributed to us by the Partnership and corresponding non-cash financing activities in the form of share distributions to our shareholders in the amounts of 97.0 million and \$107.1 million during the nine months ended September 30, 2018 and 2017, respectively.

CHANGES IN ACCOUNTING POLICIES

There were no significant accounting pronouncements issued during the nine months ended September 30, 2018, that had a material impact on our results of operations, financial position or cash flows.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The nature of our business and operations is such that we do not conduct activities or enter into transactions of the type requiring discussion under this item.

For a discussion of these matters as they pertain to the Partnership, please read Part I, Item 3. Quantitative and Qualitative Disclosures About Market Risk of the Partnership's Quarterly Report on Form 10-Q, which is hereby incorporated by reference as activities of the Partnership have an impact on our results of operations and financial position.

TABLE OF CONTENTS

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We and Enbridge maintain systems of disclosure controls and procedures designed to provide reasonable assurance that we are able to record, process, summarize and report the information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the Exchange Act), within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. Our management, with the participation of our principal executive and principal financial officers, has evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2018. Based upon that evaluation, our principal executive and principal financial officers concluded that our disclosure controls and procedures are effective at the reasonable assurance level. In conducting this assessment, our management relied on similar evaluations conducted by employees of Enbridge affiliates who provide certain treasury, accounting and other services on our behalf.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during the three months ended September 30, 2018.

TABLE OF CONTENTS

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are a participant in various legal proceedings arising in the ordinary course of business. Some of these proceedings are covered, in whole or in part, by insurance. We believe the outcome of all these proceedings will not, individually or in the aggregate, have a material adverse effect on our financial condition. The disclosures included in Part I – Item 1. Financial Statements – Note 4 - Contingencies, address the matters required by this item and are incorporated herein by reference.

JUDY MESIROV v. ENBRIDGE ENERGY CO., INC. ET AL.

On July 20, 2015, plaintiff Peter Brinckerhoff (the Plaintiff), individually and as trustee of the Peter R. Brinckerhoff Trust, filed a Verified Class Action and Derivative Complaint in the Court of Chancery of the State of Delaware against the Enbridge Energy Company Inc., Enbridge, Enbridge Energy Partners, L.P., Enbridge Pipelines (Alberta Clipper) L.L.C., Enbridge Energy, Limited Partnership, us, and the following individuals: Jeffrey A. Connelly, Rebecca B. Roberts, Dan A. Westbrook, J. Richard Bird, J. Herbert England, C. Gregory Harper, D. Guy Jarvis, Mark A. Maki, and John K. Whelen, (collectively, the Director Defendants). The initial Complaint asserted both class action claims on behalf of holders of the Partnership's Class A Common Units, as well as derivative claims brought on behalf of the Partnership. The Plaintiff's claims arose out of the January 2, 2015 repurchase by the Partnership of the General Partner's 66.67% interest in the pipeline that runs from the Canadian international border near Neche, North Dakota to Superior, Wisconsin on the Partnership's Lakehead System (Alberta Clipper Pipeline), known as the 2015 Transaction. First, the Plaintiff alleged that the 2015 Transaction improperly amended without Public Unitholder consent the Sixth Amended and Restated Agreement of Limited Partnership (the LPA) so as to allocate to the Public Unitholders gross income that should have been allocated to the General Partner (the Special Tax Allocation). Second, the Plaintiff alleged that the Partnership paid an unfair price for the General Partner's 66.67% interest in the Alberta Clipper Pipeline such that the 2015 Transaction breached the LPA because it was not fair and reasonable to the Partnership. The initial Complaint asserted claims for breach of fiduciary duty, breach of the covenant of good faith and fair dealing, breach of residual fiduciary duties, tortious interference, aiding and abetting, and rescission and reformation.

On April 29, 2016, the Court of Chancery granted Enbridge's and the Director Defendants' motion to dismiss and dismissed the case in its entirety. On May 26, 2016 the Plaintiff appealed that dismissal to the Delaware Supreme Court. On March 20, 2017, the Delaware Supreme Court reversed in part and affirmed in part the ruling of the Court of Chancery. Specifically, the Delaware Supreme Court affirmed that the enactment of the Special Tax Allocation did not breach the LPA, but reversed on the question of whether the Plaintiff had adequately alleged that the price the Partnership paid in the 2015 Transaction, including the Special Tax Allocation component, was fair and reasonable to the Partnership. On November 15, 2017, Plaintiff filed a Verified Second Amended Complaint (the Second Amended Complaint). The Second Amended Complaint added Piper Jaffray & Co. as successor to Simmons & Company International (Simmons) as a direct Defendant. Simmons acted as the financial advisor to our Special Committee in the 2015 Transaction. The Second Amended Complaint also revised many of the allegations against Enbridge and the Director Defendants. On December 18, 2017, all Defendants except Simmons filed their brief in support of their motion to dismiss the Second Amended Complaint. On January 19, 2018, Simmons filed its brief in support of its motion to dismiss the Second Amended Complaint.

On February 28, 2018, Plaintiff filed a Motion for Leave to File a Verified Third Amended Complaint and a Motion to Intervene on behalf of a proposed new plaintiff, Judy Mesirov (subsequently amended). On March 23, 2018, Plaintiff filed a Verified Third Amended Complaint and a Motion for Voluntary Dismissal of Brinckerhoff. On April 3, 2018, all Defendants filed their briefs in support of their motions to dismiss the Third Amended Complaint. Plaintiff Brinckerhoff has now been dismissed as a named Plaintiff. Plaintiff Mesirov filed a Fourth Amended Complaint,

which is substantially the same as the Third Amended Complaint except that it substitutes Judy Mesirov in place of Peter Brinckerhoff as the named Plaintiff. On August 29, 2018, the Court granted in part and denied in part Defendants' Motions to Dismiss the Third (now Fourth) Amended Complaint. All direct claims have now been dismissed, and only derivative claims for breach of contract (including equitable remedies of rescission or reformation) against Enbridge Energy Company Inc and aiding and abetting a breach of contract against Simmons remain in the Fourth Amended Complaint. On September 28, 2018, Plaintiff filed a Fifth Amended Complaint, adding Enbridge and the Director Defendants as defendants to the derivative claims.

TABLE OF CONTENTS

On September 18, 2018, Enbridge announced that it (on behalf of itself and certain of its wholly owned U.S. subsidiaries) had entered into definitive merger agreements with us, under which Enbridge would, subject to certain approvals of shareholders and other conditions, acquire all of our Listed Shares (other than those held by Enbridge and its wholly owned subsidiaries). If the Proposed Merger transaction to buy-in Enbridge Energy Partnership, L.P. closes and Enbridge acquires all of the outstanding Class A common units of Enbridge Energy Partnership, L.P., Plaintiff will lose standing to continue her derivative claims on behalf of Enbridge Energy Partners, L.P., and Enbridge will become the owner of such derivative claims. Trial is currently scheduled for the second quarter of 2019.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on February 16, 2018, except as described below.

THE PROPOSED MERGER IS SUBJECT TO CONDITIONS, INCLUDING SOME CONDITIONS THAT MAY NOT BE SATISFIED ON A TIMELY BASIS, IF AT ALL. FAILURE TO COMPLETE THE PROPOSED MERGER, OR SIGNIFICANT DELAYS IN COMPLETING THE PROPOSED MERGER, COULD NEGATIVELY AFFECT THE PARTNERSHIP'S BUSINESS AND FINANCIAL RESULTS AND THE TRADING PRICES OF OUR LISTED SHARES.

The completion of the Proposed Merger is not assured and is subject to risks, including the risk the Shareholder Approval is not obtained and the risks associated with the closing of the Partnership Merger. Further, the Proposed Merger may not be completed even if the Shareholder Approval is obtained. The Merger Agreement contains conditions, some of which are beyond our control, that, if not satisfied or waived, may prevent, delay or otherwise result in the Proposed Merger not occurring. In particular, the Proposed Merger is subject to the concurrent closing of the Partnership Merger, which itself is subject to the satisfaction of certain closing conditions, including (i) the receipt of approval of holders of 66 2/3% of the outstanding limited partner units of the Partnership entitled to vote on such matter and (ii) the receipt of approval of a majority of the outstanding Class A common units (other than such units held by Enbridge and its affiliates) and the outstanding i-units of the Partnership held by us (other than such units voted at the direction of Enbridge and its affiliates) entitled to vote on such matter, voting as a single class. As a result, the Proposed Merger is subject to risks affecting the Partnership Merger, which are further described in the Partnership's quarterly report on Form 10-Q, filed with the SEC as of November 1, 2018. Further information regarding the Partnership Merger can be found in Partnership's current report on Form 8-K, filed with the SEC as of September 17, 2018.

If the Proposed Merger is not completed, or if there are significant delays in completing the Proposed Merger, Enbridge's and the Partnership's future business and financial results and the trading price of our Listed Shares could be negatively affected, and each of the parties will be subject to several risks, including the following:

- the parties may be liable for expenses to one another under the terms and conditions of the Merger Agreement; and
- there may be negative reactions from the financial markets due to the fact that current prices of our Listed Shares may reflect a market assumption that the Proposed Merger will be completed.

BECAUSE THE EXCHANGE RATIO IS FIXED AND BECAUSE THE MARKET PRICE OF ENBRIDGE COMMON SHARES WILL FLUCTUATE PRIOR TO THE COMPLETION OF THE PROPOSED MERGER, OUR SHAREHOLDERS CANNOT BE SURE OF THE MARKET VALUE OF THE ENBRIDGE COMMON SHARES THEY WILL RECEIVE AS MERGER CONSIDERATION RELATIVE TO THE VALUE OF OUR LISTED SHARES THEY EXCHANGE.

The market value of the consideration that our unitholders will receive in the Proposed Merger will depend on the trading price of Enbridge common shares at the closing of the Proposed Merger. The exchange ratio that determines

the number of Enbridge common shares that our shareholders will received in the Proposed Merger is fixed at 0.3350 common shares of Enbridge per Listed Share. This means that there is no mechanism contained in the Merger Agreement that would adjust the number of Enbridge common shares that our shareholders will receive based on any decreases or increases in the trading price of Enbridge common shares. Share price changes may result from a variety of factors (many of which are beyond Enbridge's and our control), including:

- changes in Enbridge's or the Partnership's business, operations and prospects;
- changes in market assessments of Enbridge's or the Partnership's business, operations and prospects;
- changes in market assessments of the likelihood that the Proposed Merger will be completed;
- interest rates, commodity prices, general market, industry and economic conditions and other factors generally affecting the price of Enbridge common shares or our Listed Shares; and

TABLE OF CONTENTS

federal, state and local legislation, governmental regulation and legal developments in the businesses in which Enbridge and the Partnership operate.

If the price of Enbridge common shares at the closing of the Proposed Merger is less than the price of Enbridge common shares on the date that the Merger Agreement was signed, then the market value of the merger consideration will be less than contemplated at the time the Merger Agreement was signed.

WHEN OUR SHAREHOLDERS RECEIVE THE MERGER CONSIDERATION DEPENDS ON THE COMPLETION DATE OF THE PROPOSED MERGER, WHICH IS UNCERTAIN.

Completing the Proposed Merger is subject to several conditions, not all of which are controllable by us. Accordingly, the date on which our shareholders will receive merger consideration depends on the completion date of the Proposed Merger, which is uncertain and subject to several other closing conditions.

ITEM 6. EXHIBITS

Reference is made to the “Index of Exhibits” following immediately below, which is hereby incorporated into this Item.

INDEX OF EXHIBITS

Each exhibit identified below is filed as a part of this Quarterly Report on Form 10-Q. Exhibits included in this filing are designated by an asterisk (“*”); all exhibits not so designated are incorporated by reference to a prior filing as indicated.

| Exhibit Number | Description |
|----------------|---|
| <u>2.1</u> | <u>Agreement and Plan of Merger, dated as of September 17, 2018, by and among Enbridge Energy Management, L.L.C., Enbridge Inc., Winter Acquisition Sub I, Inc., and solely for the purposes of Article I, Section 2.4 and Article X, Enbridge Energy Company, Inc. (incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K, filed on September 19, 2018)</u> |
| <u>31.1*</u> | <u>Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>31.2*</u> | <u>Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>32.1*</u> | <u>Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>32.2*</u> | <u>Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>99.1*</u> | <u>Enbridge Energy Partners, L.P.’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018.</u> |
| 101.INS* | XBRL Instance Document. |
| 101.SCH* | XBRL Taxonomy Extension Schema Document. |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document. |

SIGNATURES

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.

TABLE OF CONTENTS

Enbridge Energy Management,
L.L.C.
(Registrant)

Date: November 1, 2018 By: /s/ Mark A. Maki
Mark A. Maki
President
(Principal Executive Officer)

Date: November 1, 2018 By: /s/ Christopher J. Johnston
Christopher J. Johnston
Vice President, Finance
(Principal Financial Officer)