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Energy Transfer Operating, L.P.
Form 10-K
February 22, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

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

Commission file number 1-31219

ENERGY TRANSFER OPERATING, L.P.

(Exact name of registrant as specified in its charter)

Delaware

73-1493906

(state or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

8111 Westchester Drive, Suite 600, Dallas, Texas 75225

(Address of principal executive offices) (zip code)

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

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

Title of each class	Name of each exchange on which registered
Series C Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units	New York Stock Exchange
Series D Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes " No ý

The aggregate market value as of June 30, 2018, of the registrant's Common Units held by non-affiliates of the registrant, based on the reported closing price of such Common Units on the New York Stock Exchange on such date, was \$21.63 billion. Common Units held by each executive officer and director and by each person who owns 5% or more of the outstanding Common Units have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

DOCUMENTS INCORPORATED BY REFERENCE

None

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Forward-Looking Statements

Certain matters discussed in this report, excluding historical information, as well as some statements by Energy Transfer Operating, L.P. (the “Partnership,” or “ETO”) in periodic press releases and some oral statements of the Partnership’s officials during presentations about the Partnership, include forward-looking statements. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. Statements using words such as “anticipate,” “believe,” “intend,” “project,” “plan,” “expect,” “continue,” “estimate,” “goal,” “may,” “will” or similar expressions help identify forward-looking statements. Although the Partnership and its General Partner believe such forward-looking statements are based on reasonable assumptions and current expectations and projections about future events, no assurance can be given that such assumptions, expectations, or projections will prove to be correct. Forward-looking statements are subject to a variety of risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, the Partnership’s actual results may vary materially from those anticipated, projected or expected, forecasted, estimated or expressed in forward-looking statements since many of the factors that determine these results are subject to uncertainties and risks that are difficult to predict and beyond management’s control. For additional discussion of risks, uncertainties and assumptions, see “Item 1A. Risk Factors” included in this annual report.

Definitions

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

/d	per day
AOCI	accumulated other comprehensive income (loss)
AROs	asset retirement obligations
Bbls	barrels
BBtu	billion British thermal units
Bcf	billion cubic feet
Btu	British thermal unit, an energy measurement used by gas companies to convert the volume of gas used to its heat equivalent, and thus calculate the actual energy used
Capacity	capacity of a pipeline, processing plant or storage facility refers to the maximum capacity under normal operating conditions and, with respect to pipeline transportation capacity, is subject to multiple factors (including natural gas injections and withdrawals at various delivery points along the pipeline and the utilization of compression) which may reduce the throughput capacity from specified capacity levels
CDM	CDM Resource Management LLC and CDM Environmental & Technical Services LLC, collectively
Citrus	Citrus, LLC, which owns 100% of FGT
CrossCountry	CrossCountry Energy, LLC
Dakota Access	Dakota Access, LLC
DOE	United States Department of Energy

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DOJ	United States Department of Justice
DOT	United States Department of Transportation
EPA	United States Environmental Protection Agency
ET	Energy Transfer LP, a publicly traded partnership and the owner of ETP LLC for the periods presented herein
ETC FEP	ETC Fayetteville Express Pipeline, LLC
ETC MEP	ETC Midcontinent Express Pipeline, L.L.C.
ETC OLP	La Grange Acquisition, L.P., which conducts business under the assumed name of Energy Transfer Company

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ETC Tiger	ETC Tiger Pipeline, LLC
ETCO	Energy Transfer Crude Oil Company, LLC
ETP GP	Energy Transfer Partners GP, L.P., the general partner of ETO
ETP Holdco	ETP Holdco Corporation
ETP LLC	Energy Transfer Partners, L.L.C., the general partner of ETP GP
Exchange Act	Securities Exchange Act of 1934, as amended
ExxonMobil	Exxon Mobil Corporation
FEP	Fayetteville Express Pipeline LLC
FERC	Federal Energy Regulatory Commission
FGT	Florida Gas Transmission Company, LLC
GAAP	accounting principles generally accepted in the United States of America
Gulf States	Gulf States Transmission LLC
HPC	RIGS Haynesville Partnership Co.
IDRs	incentive distribution rights
KMI	Kinder Morgan Inc.
Lake Charles LNG	Lake Charles LNG Company, LLC (previously named Trunkline LNG Company, LLC)
LCL	Lake Charles LNG Export Company, LLC
LDEQ	Louisiana Department of Environmental Quality
LIBOR	London Interbank Offered Rate
LNG	liquefied natural gas
Lone Star	Lone Star NGL LLC
LPG	liquefied petroleum gas
MBbls	thousand barrels
MEP	Midcontinent Express Pipeline LLC
Mi Vida JV	Mi Vida JV LLC

Mid-Valley	Mid-Valley Pipeline Company
MMcf	million cubic feet
MTBE	methyl tertiary butyl ether
NGL	natural gas liquid, such as propane, butane and natural gasoline
NYMEX	New York Mercantile Exchange
NYSE	New York Stock Exchange
ORS	Ohio River System LLC
OSHA	federal Occupational Safety and Health Act
OTC	over-the-counter
Panhandle	Panhandle Eastern Pipe Line Company, LP and its subsidiaries
PCBs	polychlorinated biphenyls
PennTex	PennTex Midstream Partners, LP

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PEP	Permian Express Partners LLC
PES	Philadelphia Energy Solutions Refining and Marketing LLC
Phillips 66	Phillips 66 Partners LP
PHMSA	Pipeline Hazardous Materials Safety Administration
Ranch JV	Ranch Westex JV LLC
Regency	Regency Energy Partners LP
Retail Holdings	ETP Retail Holdings, LLC, a subsidiary of ETO
RIGS	Regency Intrastate Gas System
Rover	Rover Pipeline LLC, a subsidiary of ETO
Sea Robin	Sea Robin Pipeline Company, LLC, a subsidiary of Panhandle
SEC	Securities and Exchange Commission
Series A Preferred Units	6.250% Series A Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units
Series B Preferred Units	6.625% Series B Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units
Series C Preferred Units	7.375% Series C Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units
Series D Preferred Units	7.625% Series D Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units
Shell	Royal Dutch Shell plc
SPLP	Sunoco Pipeline L.P.
Sunoco GP	Sunoco GP LLC, the general partner of Sunoco LP
Sunoco Logistics	Sunoco Logistics Partners L.P.
Sunoco Partners	Sunoco Partners LLC, the general partner of Sunoco Logistics
Transwestern	Transwestern Pipeline Company, LLC
TRRC	Texas Railroad Commission
Trunkline	Trunkline Gas Company, LLC, a subsidiary of Panhandle
USAC	USA Compression Partners, LP

Adjusted EBITDA is a term used throughout this document, which we define as earnings before interest, taxes, depreciation, depletion, amortization and other non-cash items, such as non-cash compensation expense, gains and

losses on disposals of assets, the allowance for equity funds used during construction, unrealized gains and losses on commodity risk management activities, non-cash impairment charges, losses on extinguishments of debt and other non-operating income or expense items. Unrealized gains and losses on commodity risk management activities include unrealized gains and losses on commodity derivatives and inventory fair value adjustments (excluding lower of cost or market adjustments). Adjusted EBITDA reflects amounts for less than wholly-owned subsidiaries based on 100% of the subsidiaries' results of operations and for unconsolidated affiliates based on the Partnership's proportionate ownership.

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PART I

ITEM 1. BUSINESS

Overview

We (Energy Transfer Operating, L.P., a Delaware limited partnership, “ETO” or the “Partnership”) are a consolidated subsidiary of Energy Transfer LP (“ET”). In October 2018, ET completed the merger of ETO with a wholly-owned subsidiary of ET in a unit-for-unit exchange (the “Energy Transfer Merger”), as discussed further below, at which time the Partnership changed its name from Energy Transfer Partners, L.P. to Energy Transfer Operating, L.P.

We are managed by our general partner, Energy Transfer Partners GP, L.P. (our “General Partner” or “ETP GP”), and ETP GP is managed by its general partner, Energy Transfer Partners, L.L.C. (“ETP LLC”), which is owned by ET. The primary activities in which we are engaged, all of which are in the United States, are as follows:

natural gas operations, including the following:

natural gas midstream and intrastate transportation and storage;

interstate natural gas transportation and storage; and

crude oil, NGL and refined products transportation, terminalling services and acquisition and marketing activities, as well as NGL storage and fractionation services.

In addition, we own investments in other businesses, including Sunoco LP and USAC, both of which are publicly traded master limited partnerships.

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The following chart summarizes our organizational structure as of February 15, 2019. For simplicity, certain immaterial entities and ownership interest have not been depicted.

Unless the context requires otherwise, the Partnership and its subsidiaries are collectively referred to in this report as “we,” “us,” “ETO,” “Energy Transfer” or “the Partnership.”

Significant Achievements in 2018 and Beyond

Our significant strategic transactions in 2018 and beyond included the following, as discussed in more detail herein:

Strategic Transactions Related to the Partnership

- In October 2018, ET and ETO (previously named Energy Transfer Equity, L.P. and Energy Transfer Partners, L.P., respectively, prior to the October 2018 transactions) completed the merger of ETO with a wholly-owned subsidiary of ET in a unit-for-unit exchange (the “Energy Transfer Merger”). Immediately prior to the Energy Transfer Merger, (i) the IDRs in ETO were converted into ETO Common Units, (ii) the general partner interest in ETO was converted into ETO Common Units, (iii) ET’s interests in Sunoco LP, USAC and their respective general partners were contributed to ETO, and (iv) certain other

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interests owned by ET were contributed to ETO. The Energy Transfer Merger and these related transactions are discussed further in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.” In April 2018, ETO contributed to USAC all of the issued and outstanding membership interests of CDM for aggregate consideration of approximately \$1.7 billion, consisting of (i) 19,191,351 USAC common units, (ii) 6,397,965 units of a new class of units representing limited partner interests in USAC (“USAC Class B Units”) and (iii) \$1.23 billion in cash, including customary closing adjustments (the “CDM Contribution”). The USAC Class B Units have substantially all of the rights and obligations of a USAC common unit, except the USAC Class B Units will not participate in distributions for the first four quarters following the closing date of April 2, 2018. Each USAC Class B Unit will automatically convert into one USAC common unit on the first business day following the record date attributable to the quarter ending June 30, 2019. ETO subsequently obtained control of USAC in connection with the transactions related to the Energy Transfer Merger in October 2018, as discussed above.

ETO previously owned a 49.99% interest in HPC, which owns RIGS. In April 2018, ETO acquired the remaining 50.01% interest in HPC. Prior to April 2018, HPC was reflected as an unconsolidated affiliate in ETO’s financial statements; beginning in April 2018, RIGS is reflected as a wholly-owned subsidiary in ETO’s financial statements. On January 23, 2018, Sunoco LP closed on an asset purchase agreement with 7-Eleven, Inc., a Texas corporation (“7-Eleven”), and SEI Fuel Services, Inc., a Texas corporation and wholly-owned subsidiary of 7-Eleven. Under the agreement, Sunoco LP sold a portfolio of approximately 1,030 company-operated retail fuel outlets in 19 geographic regions, together with ancillary businesses and related assets, including the proprietary Laredo Taco Company brand, for an aggregate purchase price of \$3.2 billion.

Significant Organic Growth Projects

Our significant announced organic growth projects in 2018 included the following, as discussed in more detail herein: In September 2018, ETO, Magellan Midstream Partners, L.P., MPLX LP and Delek US Holdings, Inc. announced that they have received sufficient commitments to proceed with plans to construct a new 30-inch diameter common carrier pipeline, the Permian Gulf Coast (“PGC”) pipeline, to transport crude oil from the Permian Basin to the Texas Gulf Coast region. The transaction structure for this project has not been finalized.

In August 2018, the Partnership received approval to commence service on 100% of the long-haul contractual commitments on Rover to begin September 1, 2018, and on November 2, 2018, the Partnership announced that it received approval to commence service on the final laterals needed to complete the Rover pipeline project.

In March 2018, ETO and Satellite Petrochemical USA Corp. (“Satellite”) entered into definitive agreements to form a joint venture, Orbit Gulf Coast NGL Exports, LLC (“Orbit”), with the purpose of constructing a new export terminal on the United States Gulf Coast to provide ethane to Satellite for consumption at its ethane cracking facilities in China.

Segment Overview

See Note 15 to our consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” for additional financial information about our segments.

Intrastate Transportation and Storage Segment

Natural gas transportation pipelines receive natural gas from other mainline transportation pipelines, storage facilities and gathering systems and deliver the natural gas to industrial end-users, storage facilities, utilities, power generators and other third-party pipelines. Through our intrastate transportation and storage segment, we own and operate (through wholly-owned or through joint venture interests) approximately 9,400 miles of natural gas transportation pipelines with approximately 21 Bcf/d of transportation capacity and three natural gas storage facilities located in the state of Texas.

We own a 70% interest in the Red Bluff Express Pipeline, a 100-mile intrastate pipeline system that connects our Orla Plant, as well as third-party plants to the Waha Oasis Header.

Energy Transfer operates one of the largest intrastate pipeline systems in the United States providing energy logistics to major trading hubs and industrial consumption areas throughout the United States. Our intrastate transportation and storage segment focuses on the transportation of natural gas to major markets from various prolific natural gas producing areas (Permian, Barnett, Haynesville and Eagle Ford Shale) through our Oasis pipeline, our ETC Katy pipeline, our natural gas pipeline and storage systems that are referred to as the ET Fuel System, and our HPL System, as further described below.

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Our intrastate transportation and storage segment's results are determined primarily by the amount of capacity our customers reserve as well as the actual volume of natural gas that flows through the transportation pipelines. Under transportation contracts, our customers are charged (i) a demand fee, which is a fixed fee for the reservation of an agreed amount of capacity on the transportation pipeline for a specified period of time and which obligates the customer to pay a fee even if the customer does not transport natural gas on the respective pipeline, (ii) a transportation fee, which is based on the actual throughput of natural gas by the customer, (iii) fuel retention based on a percentage of gas transported on the pipeline, or (iv) a combination of the three, generally payable monthly. We also generate revenues and margin from the sale of natural gas to electric utilities, independent power plants, local distribution companies, industrial end-users and marketing companies on our HPL System. Generally, we purchase natural gas from either the market (including purchases from our marketing operations) or from producers at the wellhead. To the extent the natural gas comes from producers, it is primarily purchased at a discount to a specified market price and typically resold to customers based on an index price. In addition, our intrastate transportation and storage segment generates revenues from fees charged for storing customers' working natural gas in our storage facilities and from managing natural gas for our own account.

Interstate Transportation and Storage Segment

Natural gas transportation pipelines receive natural gas from supply sources including other transportation pipelines, storage facilities and gathering systems and deliver the natural gas to industrial end-users and other pipelines. Through our interstate transportation and storage segment, we directly own and operate approximately 12,200 miles of interstate natural gas pipelines with approximately 10.3 Bcf/d of transportation capacity and another approximately 6,750 miles and 10.5 Bcf/d of transportation capacity through joint venture interests.

Rover Pipeline, completed and available for full commercial operation since November 2018, is a new 713-mile system designed to transport 3.25 Bcf/d of domestically produced natural gas from the Marcellus and Utica Shale production areas to markets across the United States and into Canada.

ETO's vast interstate natural gas network spans the United States from Florida to California and Texas to Michigan, offering a comprehensive array of pipeline and storage services. Our pipelines have the capability to transport natural gas from nearly all Lower 48 onshore and offshore supply basins to customers in the Southeast, Gulf Coast, Southwest, Midwest, Northeast and Canada. Through numerous interconnections with other pipelines, our interstate systems can access virtually any supply or market in the country. As discussed further herein, our interstate segment operations are regulated by the FERC, which has broad regulatory authority over the business and operations of interstate natural gas pipelines.

Lake Charles LNG, our wholly-owned subsidiary, owns an LNG import terminal and regasification facility located on Louisiana's Gulf Coast near Lake Charles, Louisiana. The import terminal has approximately 9.0 Bcf of above ground storage capacity and the regasification facility has a send out capacity of 1.8 Bcf/d. Lake Charles LNG derives all of its revenue from a series of long-term contracts with a wholly-owned subsidiary of Shell.

LCL, our wholly-owned subsidiary, is currently developing a natural gas liquefaction facility for the export of LNG. In December 2015, Lake Charles LNG received authorization from the FERC to site, construct and operate facilities for the liquefaction and export of natural gas. The project would utilize existing dock and storage facilities owned by Lake Charles LNG located on the Lake Charles site.

The results from our interstate transportation and storage segment are primarily derived from the fees we earn from natural gas transportation and storage services.

Midstream Segment

The midstream industry consists of natural gas gathering, compression, treating, processing, storage, and transportation, and is generally characterized by regional competition based on the proximity of gathering systems and processing plants to natural gas producing wells and the proximity of storage facilities to production areas and end-use markets. Gathering systems generally consist of a network of small diameter pipelines and, if necessary, compression systems, that collect natural gas from points near producing wells and transports it to larger pipelines for further transportation.

Treating plants remove carbon dioxide and hydrogen sulfide from natural gas that is higher in carbon dioxide, hydrogen sulfide or certain other contaminants, to ensure that it meets pipeline quality specifications. Natural gas

processing involves the separation of natural gas into pipeline quality natural gas, or residue gas, and a mixed NGL stream. Some natural gas produced by a well does not meet the pipeline quality specifications established by downstream pipelines or is not suitable for commercial use and must be processed to remove the mixed NGL stream. In addition, some natural gas can be processed to take advantage of favorable margins for NGLs extracted from the gas stream.

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Through our midstream segment, we own and operate natural gas gathering and NGL pipelines, natural gas processing plants, natural gas treating facilities and natural gas conditioning facilities with an aggregate processing capacity of approximately 7.9 Bcf/d. Our midstream segment focuses on the gathering, compression, treating, blending, and processing, and our operations are currently concentrated in major producing basins and shales in South Texas, West Texas, New Mexico, North Texas, East Texas, West Virginia, Pennsylvania, Ohio and Louisiana. Many of our midstream assets are integrated with our intrastate transportation and storage assets.

Our midstream segment also includes a 60% interest in Edwards Lime Gathering, LLC, which operates natural gas gathering, oil pipeline and oil stabilization facilities in South Texas and a 75% membership interest in ORS, which operates a natural gas gathering system in the Utica shale in Ohio.

Our midstream segment results are derived primarily from margins we earn for natural gas volumes that are gathered, transported, purchased and sold through our pipeline systems and the natural gas and NGL volumes processed at our processing and treating facilities.

NGL and Refined Products Transportation and Services Segment

Our NGL operations transport, store and execute acquisition and marketing activities utilizing a complementary network of pipelines, storage and blending facilities, and strategic off-take locations that provide access to multiple NGL markets.

Our NGL and refined products transportation and services segment includes:

- approximately 4,769 miles of NGL pipelines;

- NGL and propane fractionation facilities with an aggregate capacity of 825 MBbls/d;

- NGL storage facility in Mont Belvieu with a working storage capacity of approximately 45 million Bbls; and

- other NGL storage assets, located at our Cedar Bayou and Hattiesburg storage facilities, and our Nederland, Marcus Hook and Inkster NGL terminals with an aggregate storage capacity of approximately 11 million Bbls.

We are currently constructing a seventh fractionator at our Mont Belvieu facility, which we expect to be operational in the first quarter of 2020. In addition, we are constructing an expansion to the Lone Star Express pipeline, which is expected to be in service early in the fourth quarter of 2020. The NGL pipelines primarily transport NGLs from the Permian and Delaware basins and the Barnett and Eagle Ford Shales to Mont Belvieu.

NGL terminalling services are facilitated by approximately 7 million Bbls of NGL storage capacity. These operations also support our liquids blending activities, including the use of our patented butane blending technology. Refined products operations provide transportation and terminalling services through the use of approximately 2,203 miles of refined products pipelines and approximately 35 active refined products marketing terminals. Our marketing terminals are located primarily in the northeast, midwest and southwest United States, with approximately 8 million Bbls of refined products storage capacity. Our refined products operations utilize our integrated pipeline and terminalling assets, as well as acquisition and marketing activities, to service refined products markets in several regions throughout the United States.

Revenues in this segment are principally generated from fees charged to customers under dedicated contracts or take-or-pay contracts. Under a dedicated contract, the customer agrees to deliver the total output from particular processing plants that are connected to the NGL pipeline. Take-or-pay contracts have minimum throughput commitments requiring the customer to pay regardless of whether a fixed volume is transported. Fees are market-based, negotiated with customers and competitive with regional regulated pipelines and fractionators. Storage revenues are derived from base storage and throughput fees. This segment also derives revenues from the marketing of NGLs and processing and fractionating refinery off-gas.