DEVON ENERGY CORP/DE
Form 10-Q
November 01, 2017
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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 September 30, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-32318

DEVON ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	73-1567067 (I.R.S. Employer identification No.)
333 West Sheridan Avenue, Oklahoma City, Oklahoma (Address of principal executive offices)	73102-5015 (Zip code)

Registrant’s telephone number, including area code: (405) 235-3611

Former name, address and former fiscal year, if changed from last report: Not applicable

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer	Accelerated filer	Non-accelerated filer
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 Act). Yes No

On October 18, 2017, 525.5 million shares of common stock were outstanding.

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DEVON ENERGY CORPORATION

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DEFINITIONS

Unless the context otherwise indicates, references to "us," "we," "our," "ours," "Devon" and the "Company" refer to Devon Er Corporation and its consolidated subsidiaries. In addition, the following are other abbreviations and definitions of certain terms used within this Quarterly Report on Form 10-Q:

"2015 Plan" means the Devon Energy Corporation 2015 Long-Term Incentive Plan.

"2017 Plan" means the Devon Energy Corporation 2017 Long-Term Incentive Plan.

"ASU" means Accounting Standards Update.

"Bbl" or "Bbls" means barrel or barrels.

"Boe" means barrel of oil equivalent. Gas proved reserves and production are converted to Boe, at the pressure and temperature base standard of each respective state in which the gas is produced, at the rate of six Mcf of gas per Bbl of oil, based upon the approximate relative energy content of gas and oil. Bitumen and NGL proved reserves and production are converted to Boe on a one-to-one basis with oil.

"Btu" means British thermal units, a measure of heating value.

"Canada" means the division of Devon encompassing oil and gas properties located in Canada. All dollar amounts associated with Canada are in U.S. dollars, unless stated otherwise.

"Canadian Plan" means Devon Canada Corporation Incentive Savings Plan.

"DD&A" means depreciation, depletion and amortization expenses.

"Devon Plan" means Devon Energy Corporation Incentive Savings Plan.

"E&P" means exploration and production activities.

"EnLink" means EnLink Midstream Partners, LP, a master limited partnership.

"FASB" means Financial Accounting Standards Board.

"G&A" means general and administrative expenses.

"GAAP" means U.S. generally accepted accounting principles.

"General Partner" means EnLink Midstream, LLC, the indirect general partner of EnLink.

"Inside FERC" refers to the publication Inside FERC's Gas Market Report.

"LIBOR" means London Interbank Offered Rate.

"LOE" means lease operating expenses.

"MBbls" means thousand barrels.

“MBoe” means thousand Boe.

“Mcf” means thousand cubic feet.

“MMBoe” means million Boe.

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“MMBtu” means million Btu.

“MMcf” means million cubic feet.

“N/M” means not meaningful.

“NGL” or “NGLs” means natural gas liquids.

“NYMEX” means New York Mercantile Exchange.

“OPIS” means Oil Price Information Service.

“SEC” means United States Securities and Exchange Commission.

“Senior Credit Facility” means Devon’s syndicated unsecured revolving line of credit.

“TSR” means total shareholder return.

“U.S.” means United States of America.

“WTI” means West Texas Intermediate.

“/d” means per day.

“/Bbl” means per barrel.

“/MMBtu” means per MMBtu.

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INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This report includes “forward-looking statements” as defined by the SEC. Such statements include those concerning strategic plans, our expectations and objectives for future operations, as well as other future events or conditions, and are often identified by use of the words “expects,” “believes,” “will,” “would,” “could,” “forecasts,” “projections,” “estimates,” “expectations,” “targets,” “opportunities,” “potential,” “anticipates,” “outlook” and other similar terminology. Such forward-looking statements are based on our examination of historical operating trends, the information used to prepare our December 31, 2016 reserve reports and other data in our possession or available from third parties. Such statements are subject to a number of assumptions, risks and uncertainties, many of which are beyond our control. Consequently, actual future results could differ materially from our expectations due to a number of factors, including, but not limited to:

- the volatility of oil, gas and NGL prices;
- uncertainties inherent in estimating oil, gas and NGL reserves;
- the extent to which we are successful in acquiring and discovering additional reserves;
- the uncertainties, costs and risks involved in exploration and development activities;
- risks related to our hedging activities;
- counterparty credit risks;
- regulatory restrictions, compliance costs and other risks relating to governmental regulation, including with respect to environmental matters;
- risks relating to our indebtedness;
- our ability to successfully complete mergers, acquisitions and divestitures;
- the extent to which insurance covers any losses we may experience;
- our limited control over third parties who operate some of our oil and gas properties;
- midstream capacity constraints and potential interruptions in production;
- competition for leases, materials, people and capital;
- cyberattacks targeting our systems and infrastructure; and
- any of the other risks and uncertainties discussed in this report, our 2016 Annual Report on Form 10-K and our other filings with the SEC.

All subsequent written and oral forward-looking statements attributable to Devon, or persons acting on its behalf, are expressly qualified in their entirety by the cautionary statements above. We assume no duty to update or revise our forward-looking statements based on new information, future events or otherwise.

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Part I. Financial Information

Item 1. Financial Statements

DEVON ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED COMPREHENSIVE STATEMENTS OF EARNINGS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Unaudited) (Millions, except per share amounts)			
Oil, gas and NGL sales	$1,245	$1,113	$3,760	$3,023
Oil, gas and NGL derivatives	(144)	79	214	(30)
Marketing and midstream revenues	2,055	1,690	5,992	4,503
Asset dispositions and other	—	1,351	10	1,351
Total revenues and other	3,156	4,233	9,976	8,847
Lease operating expenses	391	355	1,176	1,215
Marketing and midstream operating expenses	1,813	1,480	5,319	3,884
General and administrative expenses	153	141	498	482
Production and property taxes	71	67	227	220
Depreciation, depletion and amortization	400	394	1,162	1,420
Asset impairments	2	319	9	4,851
Restructuring and transaction costs	—	(5)	—	266
Other operating items	—	17	11	41
Total operating expenses	2,830	2,768	8,402	12,379
Operating income (loss)	326	1,465	1,574	(3,532)
Net financing costs	127	243	370	570
Other nonoperating items	(73)	44	(124)	150
Earnings (loss) before income taxes	272	1,178	1,328	(4,252)
Income tax expense (benefit)	25	171	51	(228)
Net earnings (loss)	247	1,007	1,277	(4,024)
Net earnings (loss) attributable to noncontrolling interests	19	14	59	(391)
Net earnings (loss) attributable to Devon	$228	$993	$1,218	$(3,633)
Net earnings (loss) per share attributable to Devon:				
Basic	$0.43	$1.90	$2.32	$(7.22)
Diluted	$0.43	$1.89	$2.31	$(7.22)
Comprehensive earnings (loss):				
Net earnings (loss)	$247	$1,007	$1,277	$(4,024)
Other comprehensive earnings, net of tax:				
Foreign currency translation	1	2	1	28
Pension and postretirement plans	5	11	14	20
Other	—	—	(2)	—
Other comprehensive earnings, net of tax	6	13	13	48

Comprehensive earnings (loss)	253	1,020	1,290	(3,976)
Comprehensive earnings (loss) attributable to				
noncontrolling interests	19	14	59	(391)
Comprehensive earnings (loss) attributable to Devon	$234	$1,006	$1,231	$(3,585)

See accompanying notes to consolidated financial statements

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DEVON ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Unaudited) (Millions)			
Cash flows from operating activities:				
Net earnings (loss)	$247	$1,007	$1,277	$(4,024)
Adjustments to reconcile net earnings (loss) to net cash from operating activities:				
Depreciation, depletion and amortization	400	394	1,162	1,420
Asset impairments	2	319	9	4,851
Gains and losses on asset sales	1	(1,351)	(6)	(1,351)
Deferred income tax expense (benefit)	(14)	86	(20)	(300)
Commodity derivatives	144	(79)	(214)	30
Cash settlements on commodity derivatives	24	12	43	15
Other derivatives and financial instruments	9	21	16	329
Cash settlements on other derivatives and financial instruments	—	3	—	(148)
Asset retirement obligation accretion	16	19	47	58
Share-based compensation	33	23	122	163
Other	(85)	127	(134)	(31)
Net change in working capital	7	137	94	208
Change in long-term other assets	2	(3)	12	10
Change in long-term other liabilities	(10)	12	12	7
Net cash from operating activities	776	727	2,420	1,237
Cash flows from investing activities:				
Capital expenditures	(735)	(421)	(2,203)	(1,659)
Acquisitions of property, equipment and businesses	(6)	(3)	(39)	(1,641)
Proceeds from sale of investment	—	—	190	—
Divestitures of property and equipment	209	1,680	323	1,889
Other	(1)	34	(5)	7
Net cash from investing activities	(533)	1,290	(1,734)	(1,404)
Cash flows from financing activities:				
Borrowings of long-term debt, net of issuance costs	413	816	2,208	1,662
Repayments of long-term debt	(571)	(2,173)	(1,950)	(2,722)
Payment of installment payable	—	—	(250)	—
Net short-term debt repayments	—	—	—	(626)
Early retirement of debt	—	(82)	(6)	(82)
Issuance of common stock	—	—	—	1,469
Issuance of subsidiary units	414	59	486	835
Dividends paid on common stock	(30)	(32)	(95)	(190)

Contributions from noncontrolling interests	18	146	47	152
Distributions to noncontrolling interests	(84)	(77)	(247)	(224)
Shares exchanged for tax withholdings	(3)	(2)	(67)	(30)
Other	—	(1)	(2)	(7)
Net cash from financing activities	157	(1,346)	124	237
Effect of exchange rate changes on cash	12	(9)	12	5
Net change in cash and cash equivalents	412	662	822	75
Cash and cash equivalents at beginning of period	2,369	1,723	1,959	2,310
Cash and cash equivalents at end of period	$2,781	$2,385	$2,781	$2,385

See accompanying notes to consolidated financial statements

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DEVON ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 30, 2017	December 31, 2016
	(Unaudited) (Millions, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$2,781	$1,959
Accounts receivable	1,462	1,356
Assets held for sale	—	193
Other current assets	379	264
Total current assets	4,622	3,772
Property and equipment, at cost:		
Oil and gas, based on full cost accounting:		
Subject to amortization	78,470	75,648
Not subject to amortization	2,853	3,437
Total oil and gas	81,323	79,085
Midstream and other	11,097	10,455
Total property and equipment, at cost	92,420	89,540
Less accumulated depreciation, depletion and amortization	(75,338)	(73,350)
Property and equipment, net	17,082	16,190
Goodwill	3,964	3,964
Other long-term assets	1,891	1,987
Total assets	$27,559	$25,913
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$797	$642
Revenues and royalties payable	1,012	908
Short-term debt	20	—
Other current liabilities	1,003	1,066
Total current liabilities	2,832	2,616
Long-term debt	10,383	10,154
Asset retirement obligations	1,100	1,226
Other long-term liabilities	645	894
Deferred income taxes	665	648
Equity:		
Common stock, $0.10 par value. Authorized 1.0 billion shares; issued 525 million and 523 million shares in 2017 and 2016, respectively	53	52
Additional paid-in capital	7,207	7,237
Accumulated deficit	(428)	(1,646)
Accumulated other comprehensive earnings	297	284
Total stockholders' equity attributable to Devon	7,129	5,927

Noncontrolling interests	4,805	4,448
Total equity	11,934	10,375
Total liabilities and equity	$27,559	$25,913

See accompanying notes to consolidated financial statements

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DEVON ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Earnings	Treasury Stock	Noncontrolling Interests	Total Equity
	(Unaudited) (Millions)							
Nine Months Ended September 30, 2017								
Balance as of December 31, 2016	523	$ 52	$ 7,237	$ (1,646)	$ 284	$ —	$ 4,448	$ 10,375
Net earnings	—	—	—	1,218	—	—	59	1,277
Other comprehensive earnings, net of tax	—	—	—	—	13	—	—	13
Restricted stock grants, net of cancellations	1	1	—	—	—	—	—	1
Common stock repurchased	—	—	—	—	—	(43)	—	(43)
Common stock retired	—	—	(43)	—	—	43	—	—
Common stock dividends	—	—	(95)	—	—	—	—	(95)
Share-based compensation	1	—	96	—	—	—	—	96
Subsidiary equity transactions	—	—	12	—	—	—	545	557
Distributions to noncontrolling interests	—	—	—	—	—	—	(247)	(247)
Balance as of September 30, 2017	525	$ 53	$ 7,207	$ (428)	$ 297	$ —	$ 4,805	$ 11,934
Nine Months Ended September 30, 2016								
Balance as of December 31, 2015	418	$ 42	$ 4,996	$ 1,781	$ 230	$ —	$ 3,940	$ 10,989
Net loss	—	—	—	(3,633)	—	—	(391)	(4,024)
Other comprehensive earnings, net of tax	—	—	—	—	48	—	—	48
Restricted stock grants, net of cancellations	3	—	—	—	—	—	—	—
Common stock repurchased	—	—	—	—	—	(23)	—	(23)
Common stock retired	—	—	(23)	—	—	23	—	—
Common stock dividends	—	—	(65)	(125)	—	—	—	(190)
Common stock issued	103	10	2,117	—	—	—	—	2,127
Share-based compensation	—	—	142	—	—	—	—	142
Subsidiary equity transactions	—	—	320	—	—	—	896	1,216
Distributions to noncontrolling interests	—	—	—	—	—	—	(224)	(224)
	524	$ 52	$ 7,487	$ (1,977)	$ 278	$ —	$ 4,221	$ 10,061

Balance as of September 30, 2016		

See accompanying notes to consolidated financial statements

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DEVON ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1.Summary of Significant Accounting Policies

The accompanying unaudited interim financial statements and notes of Devon have been prepared pursuant to the rules and regulations of the SEC. Pursuant to such rules and regulations, certain disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been omitted. The accompanying unaudited interim financial statements and notes should be read in conjunction with the financial statements and notes included in Devon’s 2016 Annual Report on Form 10-K.

The accompanying unaudited interim financial statements furnished in this report reflect all adjustments that are, in the opinion of management, necessary for a fair statement of Devon’s results of operations and cash flows for the three-month and nine-month periods ended September 30, 2017 and 2016 and Devon’s financial position as of September 30, 2017.

Recently Adopted Accounting Standards

In January 2017, Devon adopted ASU 2016-09, Compensation – Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting. Its objective is to simplify several aspects of the accounting for share-based payments, including income taxes when awards vest or are settled, statutory withholding and forfeitures. As the result of adoption, Devon made certain income tax presentation changes, most notably prospectively presenting excess tax benefits and deficiencies in the consolidated comprehensive statements of earnings and as operating cash flows in the consolidated statements of cash flows. Devon also retrospectively applied the new cash flow statement guidance dictating the presentation of shares exchanged for tax-withholding purposes as a financing activity. The adoption of the new guidance did not materially impact the consolidated financial statements for the nine months ended September 30, 2017 or previously reported financial information but could have a more material future impact.

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill And Other (Topic 350), Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). ASU 2017-04 simplifies the accounting for goodwill impairments by eliminating the requirement to compare the implied fair value of goodwill with its carrying amount as part of step two of the goodwill impairment test. Under ASU 2017-04, an entity should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. However, the impairment loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for annual reporting periods beginning after December 15, 2019, including any interim impairment tests within those annual periods, with early application for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. In January 2017, Devon elected to early adopt ASU 2017-04, and the adoption had no impact on the consolidated financial statements. Devon will perform future goodwill impairment tests according to ASU 2017-04.

Issued Accounting Standards Not Yet Adopted

The FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition and industry-specific guidance in Subtopic

932-605, Extractive Activities – Oil and Gas – Revenue Recognition. This ASU provides guidance concerning the recognition and measurement of revenue from contracts with customers. Its objective is to increase the usefulness of information in the financial statements regarding the nature, timing and uncertainty of revenues. The effective date for ASU 2014-09 was delayed through the issuance of ASU 2015-14, Revenue from Contracts with Customers – Deferral of the Effective Date, to annual and interim periods beginning in 2018, with early adoption permitted in 2017. Devon has not early adopted this ASU. The ASU is required to be adopted using either the retrospective transition method, which requires restating previously reported results or the cumulative effect (modified retrospective) transition method, which utilizes a cumulative-effect adjustment to retained earnings in the period of adoption to account for prior period effects rather than restating previously reported results. Devon intends to use the cumulative effect transition method and does not anticipate this ASU will have a material impact on its balance sheet or related consolidated statements of earnings, equity or cash flows. However, Devon continues to evaluate the “gross versus net” presentation of certain revenues and associated expenses in its consolidated statements of earnings. Any presentation changes would have no impact on operating income, earnings or cash flows. Devon does not expect significant changes to its annual disclosures; however, Devon’s quarterly disclosures will expand upon adoption of this ASU. Devon has implemented a process to gather and provide the quarterly disclosures required by the ASU.

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DEVON ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

The FASB issued ASU 2016-02, Leases (Topic 842). This ASU will supersede the lease requirements in Topic 840, Leases. Its objective is to increase transparency and comparability among organizations. This ASU provides guidance requiring lessees to recognize most leases on their balance sheet. Lessor accounting does not significantly change, except for some changes made to align with new revenue recognition requirements. This ASU is effective for Devon beginning January 1, 2019 and will be applied using a modified retrospective transition method, which requires applying the new guidance to leases that exist or are entered into after the beginning of the earliest period in the financial statements. Early adoption is permitted, but Devon does not plan to early adopt. Devon is in the process of evaluating contracts and gathering the necessary terms and data elements for purposes of determining the impact this ASU will have on its consolidated financial statements and related disclosures. Recently, the FASB issued Proposed Accounting Standards Update (ASU) No. 2017-290, Leases (Topic 842), Land Easement Practical Expedient for Transition to Topic 842. This proposed ASU would permit an entity not to apply Topic 842 to land easements and rights-of-way that exist or expired before the effective date of Topic 842 and that were not previously assessed under Topic 840. An entity would continue to apply its current accounting policy for accounting for land easements that existed before the effective date of Topic 842. Once an entity adopts Topic 842, it would apply that Topic prospectively to all new (or modified) land easements and rights-of-way to determine whether the arrangement should be accounted for as a lease. For Devon, these contracts represent a relatively small percentage of the aggregate value of contracts being evaluated but represent a significant number of contracts.

Based on continuing research, Devon estimates a large number of contracts and data elements must be gathered and reviewed to ensure proper accounting of these contracts once this ASU is effective. Devon anticipates the adoption of this standard will significantly impact its consolidated financial statements, systems, processes and controls and is evaluating technology requirements and solutions needed to comply with the requirements of this ASU.

The FASB issued ASU No. 2017-07, Compensation – Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This ASU will require entities to present the service cost component of net periodic benefit cost in the same line item as other employee compensation costs and present the other components of net periodic benefit cost outside of operating income in the statement of earnings. Only the service cost component of net periodic benefit cost is eligible for capitalization. This ASU is effective for Devon beginning January 1, 2018, and presentation changes in the statement of earnings will be applied retrospectively, while service cost component capitalization will be applied prospectively. Upon adoption of this ASU, Devon will reclassify $7 million, $14 million and $16 million of non-service cost components of net periodic benefit costs for 2017, 2016 and 2015, respectively, as other nonoperating items. Such amounts are currently classified in Devon’s G&A. No other changes upon adopting this ASU are expected to be material.

2. Acquisitions and Divestitures

Devon Acquisitions

In January 2016, Devon acquired approximately 80,000 net acres (unaudited) and assets in the STACK play for approximately $1.5 billion. Devon funded the acquisition with $849 million of cash, after adjustments, and $659 million of common equity shares. The purchase price allocation was approximately $1.3 billion to unproved properties and approximately $200 million to proved properties.

2017 Devon Asset Divestitures

In May 2017, Devon announced a program to divest approximately $1 billion of upstream assets. The non-core assets identified for monetization include select portions of the Barnett Shale focused primarily in and around Johnson County and other properties located principally within Devon’s U.S. resource base. Through September 30, 2017, Devon completed divestiture transactions totaling approximately $400 million, before purchase price adjustments. Estimated proved reserves associated with these assets were less than 1% of total U.S. proved reserves.

2016 Devon Asset Divestitures

In the second quarter of 2016, Devon divested non-core assets for approximately $200 million. Estimated proved reserves associated with these assets were less than 1% of total U.S. proved reserves.

In the third quarter of 2016, in several separate transactions with different purchasers, Devon divested non-core upstream assets located in east Texas, the Anadarko Basin and the Midland Basin for approximately $1.7 billion. Estimated proved reserves associated with these assets were approximately 146 MMBoe, or approximately 9% of total U.S. proved reserves.

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DEVON ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

Proceeds from the transactions were used primarily for debt repayment and to support capital investment in Devon’s core resource plays.

The divestiture transactions that closed in the third quarter of 2016 significantly altered the costs and reserves relationship of Devon’s U.S. cost center. Therefore, Devon recognized a $1.4 billion gain in the third quarter of 2016 associated with these divestitures. A summary of the gain computation follows.

	Three Months Ended September 30, 2016 (Millions)
Proceeds received, net of purchase price adjustments and selling costs	$ 1,653
Asset retirement obligation assumed by purchasers	250
Total consideration received	1,903
Allocated oil and gas property basis sold	355
Allocated goodwill	197
Total assets sold	552
Gain on asset sales	$ 1,351

EnLink Acquisitions

In January 2016, EnLink acquired Anadarko Basin gathering and processing midstream assets, along with dedicated acreage service rights and service contracts, for approximately $1.4 billion. The purchase price allocation was $1.0 billion to intangible assets and approximately $400 million to property and equipment. EnLink funded the acquisition with approximately $215 million of General Partner common units and approximately $800 million of cash, primarily funded with the issuance of EnLink preferred units. The remaining $500 million of the purchase price was to be paid within one year with the option to defer $250 million of the final payment 24 months from the close date. The first installment payment of $250 million was paid in January 2017. The remaining $250 million payment is reported in other current liabilities in the accompanying consolidated balance sheets. The accretion of the discount is reported within net financing costs in the accompanying consolidated comprehensive statement of earnings.

In August 2016, EnLink formed a joint venture to operate and expand its midstream assets in the Delaware Basin. The joint venture is initially owned 50.1% by EnLink and 49.9% by the joint venture partner. EnLink contributed approximately $244 million of existing non-monetary assets to the joint venture and committed an additional $262 million in capital to fund potential future development projects and potential acquisitions. The joint venture partner committed an aggregate of approximately $400 million of capital, including initial cash contributions of approximately $138 million, and granted EnLink call rights beginning in 2021 to acquire increasing portions of the joint venture partner’s interest.

EnLink Asset Divestitures

During the first quarter of 2017, EnLink divested its ownership interest in Howard Energy Partners for approximately $190 million.

3. Derivative Financial Instruments

Objectives and Strategies

Devon periodically enters into derivative financial instruments with respect to a portion of its oil, gas and NGL production to hedge future prices received. Additionally, Devon and EnLink periodically enter into derivative financial instruments with respect to a portion of their oil, gas and NGL marketing activities. These commodity derivative financial instruments include financial price swaps, basis swaps and costless price collars. Devon periodically enters into interest rate swaps to manage its exposure to interest rate volatility and foreign exchange forward contracts to manage its exposure to fluctuations in the U.S. and Canadian dollar exchange rates. As of September 30, 2017, Devon did not have any open foreign exchange contracts.

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DEVON ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

Devon does not intend to hold or issue derivative financial instruments for speculative trading purposes and has elected not to designate any of its derivative instruments for hedge accounting treatment.

Counterparty Credit Risk

By using derivative financial instruments, Devon is exposed to credit risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. To mitigate this risk, the hedging instruments are placed with a number of counterparties whom Devon believes are acceptable credit risks. It is Devon's policy to enter into derivative contracts only with investment-grade rated counterparties deemed by management to be competent and competitive market makers. Additionally, Devon's derivative contracts generally contain provisions that provide for collateral payments if Devon's or its counterparty's credit rating falls below certain credit rating levels.

Commodity Derivatives

As of September 30, 2017, Devon had the following open oil derivative positions. The first table presents Devon's oil derivatives that settle against the average of the prompt month NYMEX WTI futures price. The second table presents Devon's oil derivatives that settle against the respective indices noted within the table.

	Price Swaps		Price Collars		
Period	Volume (Bbls/d)	Weighted Average Price ($/Bbl)	Volume (Bbls/d)	Weighted Average Floor Price ($/Bbl)	Weighted Average Ceiling Price ($/Bbl)
Q4 2017	82,167	$ 53.87	79,200	$ 45.51	$ 57.41
Q1-Q4 2018	22,792	$ 51.13	34,121	$ 45.71	$ 55.71
Q1-Q4 2019	1,356	$ 49.79	2,096	$ 44.10	$ 54.10

	Oil Basis Swaps		
Period	Index	Volume (Bbls/d)	Weighted Average Differential to WTI ($/Bbl)
Q4 2017	Midland Sweet	20,000	$ (0.41)
Q4 2017	Western Canadian Select	87,304	$ (14.57)
Q1-Q4 2018	Midland Sweet	23,000	$ (1.02)
Q1-Q4 2018	Western Canadian Select	59,718	$ (14.85)
Q1-Q4 2019	Midland Sweet	1,000	$ (0.80)

As of September 30, 2017, Devon had the following open natural gas derivative positions. The first table presents Devon’s natural gas derivatives that settle against the Inside FERC first of the month Henry Hub index. The second table presents Devon’s natural gas derivatives that settle against the respective indices noted within the table.

	Price Swaps		Price Collars		
Period	Volume (MMBtu/d)	Weighted Average Price ($/MMBtu)	Volume (MMBtu/d)	Weighted Average Floor Price ($/MMBtu)	Weighted Average Ceiling Price ($/MMBtu)
Q4 2017	331,196	$ 3.21	455,000	$ 3.03	$ 3.41
Q1-Q4 2018	261,888	$ 3.09	149,982	$ 2.99	$ 3.30
Q1-Q4 2019	6,164	$ 3.08	8,630	$ 2.92	$ 3.22

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	Natural Gas Basis Swaps		
Period	Index	Volume (MMBtu/d)	Weighted Average Differential to Henry Hub ($/MMBtu)
Q4 2017	Panhandle Eastern Pipe Line	150,000	$ (0.34)
Q4 2017	El Paso Natural Gas	80,000	$ (0.13)
Q4 2017	Houston Ship Channel	35,000	$ 0.06
Q4 2017	Transco Zone 4	205,000	$ 0.03
Q1-Q4 2018	Panhandle Eastern Pipe Line	50,000	$ (0.29)

As of September 30, 2017, Devon had the following open NGL derivative positions. Devon's NGL positions settle against the average of the prompt month OPIS Mont Belvieu, Texas index.

		Price Swaps		Price Collars		
Period	Product	Volume (Bbls/d)	Weighted Average Price ($/Bbl)	Volume (Bbls/d)	Weighted Average Floor Price ($/Bbl)	Weighted Average Ceiling Price ($/Bbl)
Q4 2017	Propane	2,663	$ 31.98	1,000	$ 28.35	$ 30.45

As of September 30, 2017, EnLink had the following open derivative positions associated with gas processing and fractionation. EnLink's NGL positions settle by purity product against the average of the prompt month OPIS Mont Belvieu, Texas index.

Period	Product	Volume (Total)	Weighted Average Price Paid	Weighted Average Price Received
Q4 2017-Q3 2018	Propane	537 MBbls	Index	$0.66/gal
Q4 2017-Q3 2018	Normal Butane	344 MBbls	Index	$0.77/gal

Interest Rate Derivatives

As of September 30, 2017, Devon had the following open interest rate derivative positions:

Notional (Millions)	Rate Received	Rate Paid	Expiration
$ 750	Three Month LIBOR	2.98%	December 2048 (1)
$ 100	1.76%	Three Month LIBOR	January 2019

(1) Mandatory settlement in December 2018.

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Financial Statement Presentation

The following table presents the net gains and losses by derivative financial instrument type followed by the corresponding individual consolidated comprehensive statements of earnings caption.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Millions)			
Commodity derivatives:				
Oil, gas and NGL derivatives	$(144)	$79	$214	$(30)
Marketing and midstream revenues	(5)	(1)	3	(7)
Interest rate derivatives:				
Other nonoperating items	(4)	(20)	(19)	(163)
Foreign currency derivatives:				
Other nonoperating items	—	—	—	(159)
Net gains (losses) recognized	$(153)	$58	$198	$(359)

The following table presents the derivative fair values by derivative financial instrument type followed by the corresponding individual consolidated balance sheet caption.

	September 30, 2017	December 31, 2016
	(Millions)	
Commodity derivative assets:		
Other current assets	$39	$ 9
Other long-term assets	4	1
Interest rate derivative assets:		
Other current assets	1	1
Total derivative assets	$44	$ 11
Commodity derivative liabilities:		
Other current liabilities	$53	$ 187
Other long-term liabilities	7	16

Interest rate derivative liabilities:		
Other current liabilities	1	—
Other long-term liabilities	61	41
Total derivative liabilities	$122	$ 244

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4. Share-Based Compensation

In the second quarter of 2017, Devon's stockholders approved the 2017 Plan. The 2017 Plan replaces the 2015 Plan. From the effective date of the 2017 Plan, no further awards may be made under the 2015 Plan, and awards previously granted will continue to be governed by the terms of the respective award documents. Subject to the terms of the 2017 Plan, awards may be made for a total of 33.5 million shares of Devon common stock, plus the number of shares available for issuance under the 2015 Plan (including shares subject to outstanding awards under the 2015 Plan that are transferred to the 2017 Plan in accordance with its terms). The 2017 Plan authorizes the Compensation Committee, which consists of independent, non-management members of Devon's Board of Directors, to grant nonqualified and incentive stock options, restricted stock awards or units, Canadian restricted stock units, performance units and stock appreciation rights to eligible employees. The 2017 Plan also authorizes the grant of nonqualified stock options, restricted stock awards or units and stock appreciation rights to non-employee directors. To calculate the number of shares that may be granted in awards under the 2017 Plan, options and stock appreciation rights represent one share and other awards represent 2.3 shares.

The following table presents the effects of share-based compensation included in Devon's accompanying consolidated comprehensive statements of earnings. Gross G&A expense for the first nine months of 2017 and 2016 includes $28 million and $18 million, respectively, of unit-based compensation related to grants made under EnLink's long-term incentive plans.

The vesting for certain share-based awards was accelerated in 2016 in conjunction with the reduction of workforce described in Note 6. For the nine months ended September 30, 2016, approximately $60 million of associated expense for these accelerated awards is included in restructuring and transaction costs in the accompanying consolidated comprehensive statements of earnings.

	Nine Months Ended September 30,	
	2017	2016
	(Millions)	
Gross G&A for share-based compensation	$141	$117
Share-based compensation expense capitalized pursuant to the full cost method of accounting for oil and gas properties	$31	$30
Related income tax benefit	$3	$3

Under its approved long-term incentive plan, Devon granted share-based awards to certain employees in the first nine months of 2017. The following table presents a summary of Devon's unvested restricted stock awards and units, performance-based restricted stock awards and performance share units granted under the plan.

	Restricted Stock Awards and Units		Performance-Based Restricted Stock Awards		Performance Share Units	
	Awards and Units	Weighted Average Grant-Date Fair Value	Awards	Weighted Average Grant-Date Fair Value	Units	Weighted Average Grant-Date Fair Value
	(Thousands, except fair value data)					
Unvested at 12/31/16	6,407	$ 34.40	585	$ 37.60	2,604	$ 46.66
Granted	2,691	$ 44.87	223	$ 44.85	1,010	$ 52.58
Vested	(2,321)	$ 39.51	(233)	$ 41.27	(832)	$ 78.19
Forfeited	(252)	$ 36.06	—	$ —	(24)	$ 40.70
Unvested at 9/30/17	6,525	$ 36.83	575	$ 38.92	2,758 (1)	$ 41.21

(1) A maximum of 5.5 million common shares could be awarded based upon Devon’s final TSR ranking relative to Devon’s peer group established under applicable award agreements.

The following table presents the assumptions related to the performance share units granted in 2017, as indicated in the previous summary table.

	2017
Grant-date fair value	$51.05 — $53.12
Risk-free interest rate	1.50%
Volatility factor	45.8%
Contractual term (years)	2.89

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The following table presents a summary of the unrecognized compensation cost and the related weighted average recognition period associated with unvested awards and units as of September 30, 2017.

	Restricted Stock Awards and Units	Performance-Based Restricted Stock Awards	Performance Share Units
Unrecognized compensation cost (millions)	$ 160	$ 6	$ 35
Weighted average period for recognition (years)	2.5	1.8	2.0

EnLink Share-Based Awards

In March 2017, the General Partner and EnLink issued restricted incentive units as bonus payments to officers and certain employees. The combined grant fair value was $10 million, and the total cost was recognized in the first quarter of 2017 due to the awards vesting immediately.

The following table presents a summary of the unrecognized compensation cost and the related weighted average recognition period associated with the General Partner's and EnLink's unvested restricted incentive units and performance units as of September 30, 2017.

	General Partner		EnLink	
	Restricted Incentive Units	Performance Units	Restricted Incentive Units	Performance Units
Unrecognized compensation cost (millions)	$ 14	$ 6	$ 15	$ 6
Weighted average period for recognition (years)	1.8	2.0	1.7	1.9

5. Asset Impairments

The following table presents the components of asset impairments.

	Three Months Ended	Nine Months Ended

	September 30,		September 30,	
	2017	2016	2017	2016
	(Millions)			
U.S. oil and gas assets	$—	$317	$—	$2,810
Canada oil and gas assets	—	—	—	1,166
EnLink goodwill	—	—	—	873
Other assets	2	2	9	2
Total asset impairments	$2	$319	$9	$4,851

Oil and Gas Impairments

Under the full cost method of accounting, capitalized costs of oil and gas properties, net of accumulated DD&A and deferred income taxes, may not exceed the full cost “ceiling” at the end of each quarter. The ceiling is calculated separately for each country and is based on the present value of estimated future net cash flows from proved oil and gas reserves, discounted at 10% per annum, net of related tax effects. Estimated future net cash flows are calculated using end-of-period costs and an unweighted arithmetic average of commodity prices in effect on the first day of each of the previous 12 months.

The oil and gas impairments in 2016 resulted from declines in the U.S. and Canada full cost ceilings. The lower ceiling values resulted primarily from significant decreases in the 12-month average trailing prices for oil, bitumen, gas and NGLs, which significantly reduced proved reserves values and, to a lesser degree, proved reserves.

EnLink Goodwill Impairments

In the first quarter of 2016, EnLink recognized goodwill impairments. See Note 12 for additional details.

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6.Restructuring and Transaction Costs

The following table summarizes restructuring and transaction costs presented in the accompanying consolidated comprehensive statement of earnings.

	September 30, 2016	
	Three Months Ended	Nine Months Ended
	(Millions)	
2016 reduction in workforce:		
Employee related costs	$(7)	$ 229
Lease obligations	—	17
Asset impairments	—	3
Transaction costs	2	17
Restructuring and transaction costs	$(5)	$ 266

The following table summarizes Devon’s restructuring liabilities.

	Other Current Liabilities	Other Long-term Liabilities	Total
	(Millions)		
Balance as of December 31, 2016	$48	$ 62	$110
Changes due to 2016 workforce reductions	(25)	(2)	(27)
Changes related to prior years' restructurings	(3)	(24)	(27)
Balance as of September 30, 2017	$20	$ 36	$56
Balance as of December 31, 2015	$13	$ 63	$76
Changes due to 2016 workforce reductions	58	13	71
Changes related to prior years' restructurings	5	(8)	(3)
Balance as of September 30, 2016	$76	$ 68	$144

Reduction in Workforce

In the first nine months of 2016, Devon recognized $229 million in employee-related costs associated with a reduction in workforce. Of these employee-related costs, approximately $60 million resulted from accelerated vesting of share-based grants, which are noncash charges. Additionally, approximately $30 million resulted from estimated settlements of defined retirement benefits.

As a result of the reduction of workforce, Devon ceased using certain office space that was subject to non-cancellable operating lease arrangements. Devon recognized restructuring costs that represent the present value of its future obligations under the leases and impairment charges for leasehold improvements and furniture associated with the office space it ceased using.

Transaction Costs

In the first nine months of 2016, Devon and EnLink recognized transaction costs primarily associated with the closing of the acquisitions discussed in Note 2.

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7. Income Taxes

The following table presents Devon's total income tax expense (benefit) and a reconciliation of its effective income tax rate to the U.S. statutory income tax rate.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Millions)			
Current income tax expense	$39	$85	$71	$72
Deferred income tax expense (benefit)	(14)	86	(20)	(300)
Total income tax expense (benefit)	$25	$171	$51	$(228)
U.S. statutory income tax rate	35 %	35 %	35 %	35 %
Deferred tax asset valuation allowance	(9 %)	(35 %)	(25 %)	(20 %)
Non-deductible goodwill impairments	0 %	6 %	0 %	(9 %)
Change in unrecognized tax benefits	3 %	7 %	1 %	(2 %)
Taxation on Canadian operations	(1 %)	0 %	0 %	(3 %)
State income taxes	0 %	2 %	0 %	1 %
Other	(19 %)	0 %	(7 %)	3 %
Effective income tax rate	9 %	15 %	4 %	5 %

Devon estimates its annual effective income tax rate in recording its quarterly provision for income taxes in the various jurisdictions in which it operates. Statutory tax rate changes and other significant or unusual items are recognized as discrete items in the quarter in which they occur.

Throughout 2016 and through the first nine months of 2017, Devon continued to maintain a 100% valuation allowance against its U.S. deferred tax assets resulting from prior year cumulative financial losses largely due to full cost impairments. Furthermore, a partial allowance continues to be held against certain Canadian segment deferred tax assets.

Devon provided an additional $796 million to the U.S. segment valuation allowance in the first nine months of 2016 based on the financial loss recorded during the period. Also, during the third quarter of 2016, Devon's Canadian segment recorded a $71 million partial valuation allowance. Devon reduced its U.S. segment valuation allowance by $348 million in the first nine months of 2017 based on the financial income recorded during the period.

Also in the table above, the "other" effect is primarily composed of permanent differences for which dollar amounts do not increase or decrease in relation to the change in pre-tax earnings. Generally, such items have an insignificant impact on our effective income tax rate. However, these items have a more noticeable impact to our rate in the third quarter of 2017 due to lower relative earnings during the period. During the third quarter of 2017, "other" is primarily related to the taxation of foreign earnings and other financing items.

In the first quarter of 2016, EnLink recorded goodwill impairments totaling $873 million. These impairments are not deductible for purposes of calculating income tax and, therefore, have an impact on the effective tax rate.

Devon is under audit in the U.S. and various foreign jurisdictions as part of its normal course of business. The timing of resolution of income tax examinations is uncertain as are the amounts and timing of tax payments that are part of any audit settlement process. Devon believes that within the next 12 months it is reasonably possible that certain tax examinations will be resolved by settlement with the taxing authorities.

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8. Net Earnings (Loss) Per Share Attributable to Devon

The following table reconciles net earnings (loss) attributable to Devon and weighted-average common shares outstanding used in the calculations of basic and diluted net earnings (loss) per share.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Millions, except per share amounts)			
Net earnings (loss):				
Net earnings (loss) attributable to Devon	$228	$993	$1,218	$(3,633)
Attributable to participating securities	(2)	(11)	(13)	(1)
Basic and diluted earnings (loss)	$226	$982	$1,205	$(3,634)
Common shares:				
Common shares outstanding - total	526	524	525	509
Attributable to participating securities	(6)	(6)	(6)	(6)
Common shares outstanding - basic	520	518	519	503
Dilutive effect of potential common shares issuable	3	3	3	—
Common shares outstanding - diluted	523	521	522	503
Net earnings (loss) per share attributable to Devon:				
Basic	$0.43	$1.90	$2.32	$(7.22)
Diluted	$0.43	$1.89	$2.31	$(7.22)
Antidilutive options (1)	2	3	2	3

(1) Amounts represent options to purchase shares of Devon's common stock that are excluded from the diluted net earnings (loss) per share calculations because the options are antidilutive.

9. Other Comprehensive Earnings

Components of other comprehensive earnings consist of the following:

Three Months Ended September 30,		Nine Months Ended September 30,	
2017	2016	2017	2016

	(Millions)			
Foreign currency translation:				
Beginning accumulated foreign currency translation	$456	$450	$456	$424
Change in cumulative translation adjustment	17	(1)	31	52
Income tax benefit (expense)	(16)	3	(30)	(24)
Ending accumulated foreign currency translation	457	452	457	452
Pension and postretirement benefit plans:				
Beginning accumulated pension and postretirement benefits	(163)	(185)	(172)	(194)
Recognition of net actuarial loss and prior service cost in earnings [(1)]	5	7	14	20
Income tax benefit	—	4	—	—
Ending accumulated pension and postretirement benefits	(158)	(174)	(158)	(174)
Other	(2)	—	(2)	—
Accumulated other comprehensive earnings, net of tax	$297	$278	$297	$278

(1) These accumulated other comprehensive earnings components are included in the computation of net periodic benefit cost, which is a component of G&A on the accompanying consolidated comprehensive statements of earnings. See Note 16 for additional details.

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10. Supplemental Information to Statements of Cash Flows

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Millions)			
Net change in working capital accounts, net of assets and liabilities assumed:				
Accounts receivable	$(215)	$81	$(85)	$87
Income taxes receivable	—	6	8	107
Other current assets	12	98	(43)	242
Accounts payable	48	(34)	98	(185)
Revenues and royalties payable	63	40	92	34
Other current liabilities	99	(54)	24	(77)
Net change in working capital	$7	$137	$94	$208
Interest paid (net of capitalized interest)	$49	$113	$285	$402
Income taxes paid (received)	$—	$(7)	$(1)	$(130)

Devon's acquisition of certain STACK assets during the first three months of 2016 included the noncash issuance of Devon common stock. See Note 2 for additional details.

EnLink's acquisition of Anadarko Basin gathering and processing midstream assets during the first quarter of 2016 included the noncash issuance of General Partner common units. Additionally, EnLink's formation of a joint venture during the third quarter of 2016 included non-monetary asset contributions. See Note 2 for additional details.

11. Accounts Receivable

Components of accounts receivable include the following:

	September 30, 2017	December 31, 2016

	(Millions)	
Oil, gas and NGL sales	$528	$ 487
Joint interest billings	111	110
Marketing and midstream revenues	792	708
Other	44	69
Gross accounts receivable	1,475	1,374
Allowance for doubtful accounts	(13)	(18)
Net accounts receivable	$1,462	$ 1,356

12. Goodwill and Other Intangible Assets

Goodwill

Devon performs an annual impairment test of goodwill at October 31, or more frequently if events or changes in circumstances indicate that the carrying value of a reporting unit may not be recoverable. Sustained weakness in the overall energy sector driven by low commodity prices, together with a decline in EnLink's unit price, caused a noncash goodwill impairment of $873 million in the first quarter of 2016. This consisted of a full impairment charge of $93 million related to EnLink's Crude and Condensate reporting unit and partial impairments to EnLink's Texas and General Partner reporting units of $473 million and $307 million, respectively.

Asset Divestitures

During the third quarter of 2016, Devon derecognized $197 million of goodwill in conjunction with the upstream oil and gas asset divestitures discussed in Note 2.

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Other Intangible Assets

The following table presents other intangible assets reported in other long-term assets in the accompanying consolidated balance sheets.

	September 30, 2017	December 31, 2016
	(Millions)	
Customer relationships	$1,796	$ 1,796
Accumulated amortization	(202)	(172)
Net intangibles	$1,594	$ 1,624

The weighted-average amortization period for other intangible assets is 15 years. Amortization expense for intangibles was $37 million and $29 million for the three months ended September 30, 2017 and 2016, respectively, and $96 million and $87 million for the nine months ended September 30, 2017 and 2016, respectively. The remaining amortization expense is estimated to be $123 million for each of the next five years.

13. Other Current Liabilities

Components of other current liabilities include the following:

	September 30, 2017	December 31, 2016
	(Millions)	
Installment payment - see Note 2	$243	$ 249
Accrued interest payable	204	130
Income taxes payable	197	32
Derivative liabilities	54	187
Restructuring liabilities	20	48
Other	285	420
Other current liabilities	$1,003	$ 1,066

14. Debt and Related Expenses

A summary of debt is as follows:

	September 30, 2017	December 31, 2016
	(Millions)	
Devon debt:		
Debentures and notes	$ 6,933	$ 6,933
Net discount on debentures and notes	(30)	(30)
Debt issuance costs	(41)	(44)
Total Devon debt	6,862	6,859
EnLink debt:		
Credit facilities	74	148
Debentures and notes	3,500	3,163
Net premium (discount) on debentures and notes	(6)	9
Debt issuance costs	(27)	(25)
Total EnLink debt	3,541	3,295
Total debt	10,403	10,154
Less amount classified as short-term debt [1]	20	—
Total long-term debt	$ 10,383	$ 10,154

(1) Short-term debt as of September 30, 2017 consists of $20 million of 8.25% senior notes due July 1, 2018.

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Credit Lines

Devon has a $3.0 billion Senior Credit Facility. As of September 30, 2017, Devon had $59 million in outstanding letters of credit under the Senior Credit Facility. There were no outstanding borrowings under the Senior Credit Facility at September 30, 2017. The Senior Credit Facility contains only one material financial covenant. This covenant requires Devon’s ratio of total funded debt to total capitalization, as defined in the credit agreement, to be no greater than 65%. Under the terms of the credit agreement, total capitalization is adjusted to add back noncash financial write-downs such as full cost ceiling impairments or goodwill impairments. As of September 30, 2017, Devon was in compliance with this covenant with a debt-to-capitalization ratio of 18.9%.

Retirement of Senior Notes

In the third quarter of 2016, Devon completed tender offers to repurchase $1.2 billion of debt securities, using proceeds from the asset divestitures discussed in Note 2. Devon recognized a loss on early retirement of debt, primarily consisting of $82 million in cash retirement costs and other fees. These costs, along with other minimal noncash charges associated with retiring the debt, are included in net financing costs in the consolidated comprehensive statements of earnings.

EnLink Debt

All of EnLink’s and the General Partner’s debt is non-recourse to Devon.

EnLink has a $1.5 billion unsecured revolving credit facility. As of September 30, 2017, there were $9 million in outstanding letters of credit and no outstanding borrowings under the $1.5 billion credit facility. The General Partner has a $250 million secured revolving credit facility. As of September 30, 2017, the General Partner had $74 million in outstanding borrowings at an average rate of 3.2%. EnLink and the General Partner were in compliance with all financial covenants in their respective credit facilities as of September 30, 2017.

In the second quarter of 2017, EnLink issued $500 million of 5.45% unsecured senior notes due in 2047. The proceeds were used to repay outstanding borrowings under its revolving credit facility and for general partnership purposes. Additionally, in the second quarter of 2017, EnLink redeemed its $163 million 7.125% senior unsecured notes due in 2022. EnLink redeemed the notes at 103.6% of the principal amount, plus accrued unpaid interest, for aggregate cash consideration of $174 million, which resulted in a gain on extinguishment of debt of $9 million during the second quarter of 2017. The gain is included in net financing costs in the consolidated comprehensive statement of earnings.

Net Financing Costs

The following schedule includes the components of net financing costs.

	Three Months	Nine Months

	Ended September 30,		Ended September 30,	
	2017	2016	2017	2016
Devon net financing costs:				
Interest based on debt outstanding	$97	$120	$292	$376
Early retirement of debt	—	84	—	84
Capitalized interest	(19)	(16)	(53)	(47)
Other	(1)	7	(3)	18
Total Devon net financing costs	77	195	236	431
EnLink net financing costs:				
Interest based on debt outstanding	43	37	125	105
Interest accretion on deferred installment payment	7	13	20	39
Early retirement of debt	—	—	(9)	—
Other	—	(2)	(2)	(5)
Total EnLink net financing costs	50	48	134	139
Total net financing costs	$127	$243	$370	$570

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15. Asset Retirement Obligations

The following table presents the changes in Devon's asset retirement obligations.

	Nine Months Ended September 30,	
	2017	2016
	(Millions)	
Asset retirement obligations as of beginning of period	$1,272	$1,414
Liabilities incurred and assumed through acquisitions	30	18
Liabilities settled and divested	(53)	(310)
Revision of estimated obligation	(184)	70
Accretion expense on discounted obligation	47	58
Foreign currency translation adjustment	29	26
Asset retirement obligations as of end of period	1,141	1,276
Less current portion	41	46
Asset retirement obligations, long-term	$1,100	$1,230

During the first quarter of 2017, Devon reduced its estimated asset retirement obligations by $184 million primarily due to changes in the assumed inflation rate and retirement dates for its oil and gas assets.

During the first nine months of 2016, Devon reduced its asset retirement obligation by $285 million for those obligations that were assumed by purchasers of certain upstream U.S. assets. See Note 2 for additional details.

16. Retirement Plans

The following table presents the components of net periodic benefit cost for Devon's pension and postretirement benefit plans.

	Pension Benefits		Postretirement Benefits	
	Three Months Ended	Nine Months Ended	Three Months Ended	Nine Months Ended

	September 30, 2017	2016	September 30, 2017	2016	September 30, 2017	2016	September 30, 2017	2016
	(Millions)							
Service cost	$4	$3	$12	$12	$—	$—	$—	$—
Interest cost	11	9	32	32	—	—	—	—
Expected return on plan assets	(14)	(14)	(41)	(40)	—	—	—	—
Amortization of prior service cost (1)	—	1	1	2	—	—	(1)	(1)
Net actuarial loss (1)	5	6	14	19	—	—	—	—
Net periodic benefit cost (2)	$6	$5	$18	$25	$—	$—	$(1)	$(1)

(1) These net periodic benefit costs were reclassified out of other comprehensive earnings in the current period.
(2) Net periodic benefit cost is a component of G&A in the accompanying consolidated comprehensive statements of earnings.

17. Stockholders' Equity

Common Stock Issued

In January 2016, Devon issued approximately 23 million shares of common stock in conjunction with the STACK asset acquisition discussed in Note 2.

In February 2016, Devon issued 79 million shares of common stock to the public, inclusive of 10 million shares sold as part of the underwriters' option. Net proceeds from the offering were $1.5 billion.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

Dividends

The table below summarizes the dividends Devon paid on its common stock.

	Amounts (Millions)	Rate (Per Share)
Quarter Ended 2017:		
First quarter 2017	$ 32	$ 0.06
Second quarter 2017	33	$ 0.06
Third quarter 2017	30	$ 0.06
Total year-to-date	$ 95	
Quarter Ended 2016:		
First quarter 2016	$ 125	$ 0.24
Second quarter 2016	33	$ 0.06
Third quarter 2016	32	$ 0.06
Total year-to-date	$ 190	

In response to the depressed commodity price environment, Devon reduced its quarterly dividend to $0.06 per share in the second quarter of 2016.

18. Noncontrolling Interests

Subsidiary Equity Transactions

EnLink has the ability to sell common units through its “at the market” equity offering programs. In the third quarter of 2017, EnLink entered into additional equity distribution agreements to sell up to $600 million in common units through its programs. Future common units that EnLink issues will be issued under the new equity distribution agreement. During the first nine months of 2017, EnLink issued and sold 5 million common units through its programs and generated $92 million in net proceeds.

In September 2017, EnLink issued 400,000 preferred units through an underwritten public offering for net proceeds of approximately $394 million.

During the first nine months of 2016, EnLink issued and sold 7 million common units for net proceeds of $110 million. In conjunction with its acquisition of Anadarko Basin gathering and processing midstream assets during the first quarter of 2016, EnLink issued preferred units as discussed in Note 2.

As of September 30, 2017, Devon’s ownership interest in EnLink was 23%, excluding the interest held by the General Partner. Devon’s controlling ownership interest in the General Partner as of September 30, 2017 was 64%. The net gains and losses and related income taxes resulting from these transactions have been recorded as an adjustment to equity, with the change in ownership reflected as an adjustment to noncontrolling interests.

Distributions to Noncontrolling Interests

EnLink and the General Partner distributed $247 million and $224 million to non-Devon unitholders during the first nine months of 2017 and 2016, respectively.

19. Commitments and Contingencies

Devon is party to various legal actions arising in the normal course of business. Matters that are probable of unfavorable outcome to Devon and which can be reasonably estimated are accrued. Such accruals are based on information known about the matters, Devon's estimates of the outcomes of such matters and its experience in contesting, litigating and settling similar matters. None of the actions are believed by management to involve future amounts that would be material to Devon's financial position or results of operations after consideration of recorded accruals. Actual amounts could differ materially from management's estimates.

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Royalty Matters

Numerous oil and natural gas producers and related parties, including Devon, have been named in various lawsuits alleging royalty underpayments. The suits allege that the producers and related parties used below-market prices, made improper deductions, used improper measurement techniques and entered into gas purchase and processing arrangements with affiliates that resulted in underpayment of royalties in connection with oil, natural gas and NGLs produced and sold. Devon is also involved in governmental agency proceedings and is subject to related contracts and regulatory controls in the ordinary course of business, some that may lead to additional royalty claims. Devon does not currently believe that it is subject to material exposure with respect to such royalty matters.

Environmental Matters

Devon is subject to certain environmental, health and safety laws and regulations, including with respect to environmental remediation activities associated with past operations, such as the Comprehensive Environmental Response, Compensation, and Liability Act and similar state statutes. In response to liabilities associated with these activities, loss accruals primarily consist of estimated uninsured remediation costs. Devon's monetary exposure for environmental matters is not expected to be material.

Other Matters

Devon is involved in other various legal proceedings incidental to its business. However, to Devon's knowledge, there were no other material pending legal proceedings to which Devon is a party or to which any of its property is subject.

20. Fair Value Measurements

The following table provides carrying value and fair value measurement information for certain of Devon's financial assets and liabilities. None of the items below are measured using Level 3 inputs. The carrying values of cash, accounts receivable, other current receivables, accounts payable, other current payables and accrued expenses included in the accompanying consolidated balance sheets approximated fair value at September 30, 2017 and December 31, 2016. Therefore, such financial assets and liabilities are not presented in the following table. Additionally, the fair values of oil and gas assets, goodwill and other intangible assets and related impairments are measured as of the impairment date using Level 3 inputs. More information on these items is provided in Note 5 and Note 12, respectively.

			Fair Value Measurements Using:	
	Carrying Amount	Total Fair Value	Level 1 Inputs	Level 2 Inputs

	(Millions)			
September 30, 2017 assets (liabilities):				
Cash equivalents	$1,510	$1,510	$1,431	$79
Commodity derivatives	$43	$43	$—	$43
Commodity derivatives	$(60)	$(60)	$—	$(60)
Interest rate derivatives	$1	$1	$—	$1
Interest rate derivatives	$(62)	$(62)	$—	$(62)
Debt	$(10,403)	$(11,480)	$—	$(11,480)
Installment payment	$(243)	$(244)	$—	$(244)
Capital lease obligations	$(4)	$(4)	$—	$(4)
December 31, 2016 assets (liabilities):				
Cash equivalents	$1,542	$1,542	$1,298	$244
Commodity derivatives	$10	$10	$—	$10
Commodity derivatives	$(203)	$(203)		