

Spectra Energy Partners, LP  
Form 10-Q  
August 08, 2012

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

**FORM 10-Q**

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

For the quarterly period ended June 30, 2012

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-33556

**SPECTRA ENERGY PARTNERS, LP**

(Exact Name of Registrant as Specified in its Charter)

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**Delaware**  
(State or other jurisdiction of incorporation)

**41-2232463**  
(IRS Employer Identification No.)

**5400 Westheimer Court**

**Houston, Texas 77056**

(Address of principal executive offices, including zip code)

**713-627-5400**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically 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, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

At June 30, 2012, there were 96,355,150 Common Units and 1,966,432 General Partner Units outstanding.

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**SPECTRA ENERGY PARTNERS, LP**  
**FORM 10-Q FOR THE QUARTER ENDED**

**June 30, 2012**

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

This document includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are based on management's beliefs and assumptions. These forward-looking statements are identified by terms and phrases such as: anticipate, believe, intend, estimate, expect, continue, should, could, may, plan, project, predict, will, potential, forecast, and similar expressions. Forward-looking statements involve risks and uncertainties that may cause actual results to be materially different from the results predicted. Factors that could cause actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to:

state and federal legislative and regulatory initiatives that affect cost and investment recovery, have an effect on rate structure, and affect the speed at and degree to which competition enters the natural gas industries;

outcomes of litigation and regulatory investigations, proceedings or inquiries;

weather and other natural phenomena, including the economic, operational and other effects of hurricanes and storms;

the timing and extent of changes in interest rates;

general economic conditions, including the risk of a prolonged economic slowdown or decline, or the risk of delay in a recovery, which can affect the long-term demand for natural gas and related services;

potential effects arising from terrorist attacks and any consequential or other hostilities;

changes in environmental, safety and other laws and regulations;

the development of alternative energy resources;

results of financing efforts, including the ability to obtain financing on favorable terms, which can be affected by various factors, including credit ratings and general market and economic conditions;

increases in the cost of goods and services required to complete capital projects;

growth in opportunities, including the timing and success of efforts to develop domestic pipeline, storage, gathering and other related infrastructure projects and the effects of competition;

the performance of natural gas transmission, storage and gathering facilities;

the extent of success in connecting natural gas supplies to transmission and gathering systems and in connecting to expanding gas markets;

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the effect of accounting pronouncements issued periodically by accounting standard-setting bodies;

conditions of the capital markets during the periods covered by these forward-looking statements; and

the ability to successfully complete merger, acquisition or divestiture plans; regulatory or other limitations imposed as a result of a merger, acquisition or divestiture; and the success of the business following a merger, acquisition or divestiture.

In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than Spectra Energy Partners, LP has described. Spectra Energy Partners, LP undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****SPECTRA ENERGY PARTNERS, LP****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(In millions, except per-unit amounts)**

|  | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|--|--|-------------|--------------------------------------|-------------|
|  | <b>2012</b>                            | <b>2011</b> | <b>2012</b>                          | <b>2011</b> |
| <b>Operating Revenues</b>  |  |             |                                      |             |
| Transportation of natural gas  | \$ 54.5                                | \$ 38.0     | \$ 110.7                             | \$ 82.0     |
| Storage of natural gas and other                                       | 4.2                                    | 5.0         | 9.9                                  | 12.2        |
| Total operating revenues   | 58.7                                   | 43.0        | 120.6                                | 94.2        |
| <b>Operating Expenses</b>  |  |             |                                      |             |
| Operating, maintenance and other                                       | 15.6                                   | 18.1        | 31.4                                 | 33.1        |
| Depreciation and amortization  | 9.3                                    | 7.4         | 18.6                                 | 15.2        |
| Property and other taxes   | 2.7                                    | 2.2         | 6.4                                  | 5.5         |
| Total operating expenses   | 27.6                                   | 27.7        | 56.4                                 | 53.8        |
| <b>Operating Income</b>  | 31.1                                   | 15.3        | 64.2                                 | 40.4        |
| <b>Other Income and Expenses</b>                                       |  |             |                                      |             |
| Equity in earnings of unconsolidated affiliates                        | 23.8                                   | 26.8        | 51.2                                 | 54.6        |
| Other income and expenses, net   | 0.1                                    | 0.8         | 0.1                                  | 1.3         |
| Total other income and expenses  | 23.9                                   | 27.6        | 51.3                                 | 55.9        |
| <b>Interest Income</b>   |  | 0.2         |                                      | 0.3         |
| <b>Interest Expense</b>  | 7.7                                    | 5.3         | 15.4                                 | 9.5         |
| <b>Earnings Before Income Taxes</b>                                    | 47.3                                   | 37.8        | 100.1                                | 87.1        |
| <b>Income Tax Expense</b>  | 0.4                                    | 0.2         | 0.8                                  | 0.6         |
| <b>Net Income</b>  | \$ 46.9                                | \$ 37.6     | \$ 99.3                              | \$ 86.5     |
| <b>Calculation of Limited Partners Interest in Net Income:</b>         |  |             |                                      |             |
| Net income   | \$ 46.9                                | \$ 37.6     | \$ 99.3                              | \$ 86.5     |
| Less:  |  |             |                                      |             |
| General partner's interest in net income                               | 6.8                                    | 4.8         | 13.3                                 | 9.1         |
| Limited partners' interest in net income                               | \$ 40.1                                | \$ 32.8     | \$ 86.0                              | \$ 77.4     |
| Weighted-average limited partner units outstanding - basic and diluted | 96.3                                   | 90.5        | 96.3                                 | 89.8        |
| Net income per limited partner unit - basic and diluted                | \$ 0.42                                | \$ 0.36     | \$ 0.89                              | \$ 0.86     |

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|  |         |         |          |         |
|--|---------|---------|----------|---------|
| Distributions paid per limited partner unit during the periods presented | \$ 0.48 | \$ 0.46 | \$ 0.955 | \$ 0.91 |
|--|---------|---------|----------|---------|

See Notes to Condensed Consolidated Financial Statements.

**SPECTRA ENERGY PARTNERS, LP**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(Unaudited)**

**(In millions)**

|  | Three Months<br>Ended June 30, |         | Six Months<br>Ended June 30, |         |
|--|--------------------------------|---------|------------------------------|---------|
|  | 2012                           | 2011    | 2012                         | 2011    |
|  | (in millions)                  |         |                              |         |
| <b>Net income</b>                                  | \$ 46.9                        | \$ 37.6 | \$ 99.3                      | \$ 86.5 |
| Other comprehensive income                         |                                |         |                              |         |
| Reclassification of cash flow hedges into earnings | (0.2)                          | 0.7     | (0.3)                        | 1.7     |
| <b>Comprehensive Income</b>                        | \$ 46.7                        | \$ 38.3 | \$ 99.0                      | \$ 88.2 |

See Notes to Condensed Consolidated Financial Statements.



## SPECTRA ENERGY PARTNERS, LP

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions)

|  | June 30,<br>2012  | December 31,<br>2011 |
|--|-------------------|----------------------|
| <b>ASSETS</b>                                  |                   |                      |
| <b>Current Assets</b>                          |                   |                      |
| Cash and cash equivalents                      | \$ 0.4            | \$ 0.8               |
| Receivables, net                               | 28.1              | 30.3                 |
| Other  | 9.2               | 10.5                 |
| Total current assets                           | 37.7              | 41.6                 |
| <b>Investments and Other Assets</b>            |                   |                      |
| Investments in unconsolidated affiliates       | 727.0             | 727.2                |
| Goodwill and other                             | 461.8             | 461.8                |
| Total investments and other assets             | 1,188.8           | 1,189.0              |
| <b>Property, Plant and Equipment</b>           |                   |                      |
| Cost   | 1,455.0           | 1,439.3              |
| Less accumulated depreciation and amortization | 251.9             | 234.1                |
| Net property, plant and equipment              | 1,203.1           | 1,205.2              |
| <b>Regulatory Assets and Deferred Debits</b>   | <b>20.2</b>       | <b>21.1</b>          |
| <b>Total Assets</b>                            | <b>\$ 2,449.8</b> | <b>\$ 2,456.9</b>    |

See Notes to Condensed Consolidated Financial Statements.

## SPECTRA ENERGY PARTNERS, LP

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions)

|   | June 30,<br>2012  | December 31,<br>2011 |
|---|-------------------|----------------------|
| <b>LIABILITIES AND PARTNERS CAPITAL</b>   |                   |                      |
| <b>Current Liabilities</b>  |                   |                      |
| Accounts payable  | \$ 12.1           | \$ 20.7              |
| Taxes accrued   | 6.4               | 7.1                  |
| Note payable affiliates   | 28.5              | 30.5                 |
| Current maturities of long-term debt  | 150.0             | 150.0                |
| Commercial paper  | 40.0              | 27.0                 |
| Other   | 7.0               | 10.6                 |
| <b>Total current liabilities</b>  | <b>244.0</b>      | <b>245.9</b>         |
| <b>Long-term Debt</b>   | <b>499.5</b>      | <b>499.4</b>         |
| <b>Deferred Credits and Other Liabilities</b>   |                   |                      |
| Deferred income taxes   | 8.7               | 8.0                  |
| Other   | 5.2               | 5.9                  |
| <b>Total deferred credits and other liabilities</b>   | <b>13.9</b>       | <b>13.9</b>          |
| <b>Commitments and Contingencies</b>  |                   |                      |
| <b>Partners Capital</b>   |                   |                      |
| Common units (96.3 million units issued and outstanding at June 30, 2012 and December 31, 2011)         | 1,647.8           | 1,653.6              |
| General partner units (2.0 million units issued and outstanding at June 30, 2012 and December 31, 2011) | 40.4              | 39.6                 |
| Accumulated other comprehensive income  | 4.2               | 4.5                  |
| <b>Total partners capital</b>   | <b>1,692.4</b>    | <b>1,697.7</b>       |
| <b>Total Liabilities and Partners Capital</b>   | <b>\$ 2,449.8</b> | <b>\$ 2,456.9</b>    |

See Notes to Condensed Consolidated Financial Statements.

## SPECTRA ENERGY PARTNERS, LP

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In millions)

|   | Six Months Ended<br>June 30, |                 |
|---|------------------------------|-----------------|
|   | 2012                         | 2011            |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                              |                 |
| Net income  | \$ 99.3                      | \$ 86.5         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |                 |
| Depreciation and amortization   | 19.4                         | 15.2            |
| Deferred income tax expense   | 0.8                          | 0.5             |
| Equity in earnings of unconsolidated affiliates                                   | (51.2)                       | (54.6)          |
| Distributions received from unconsolidated affiliates                             | 53.1                         | 66.6            |
| Other   | (9.6)                        | 4.9             |
| Net cash provided by operating activities   | 111.8                        | 119.1           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                              |                 |
| Capital expenditures  | (16.9)                       | (31.9)          |
| Investment expenditures   | (13.2)                       | (12.9)          |
| Distributions received from unconsolidated affiliates                             | 11.2                         |                 |
| Purchases of available-for-sale securities  |                              | (901.6)         |
| Proceeds from sales and maturities of available-for-sale securities               |                              | 1,101.1         |
| Other   | 0.2                          | 10.6            |
| Net cash provided by (used in) investing activities                               | (18.7)                       | 165.3           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                              |                 |
| Proceeds from issuance of long-term debt  |                              | 499.4           |
| Payments for the redemption of long-term debt                                     |                              | (207.2)         |
| Net decrease in revolving credit facility borrowings                              |                              | (258.6)         |
| Net increase in commercial paper  | 13.0                         |                 |
| Proceeds from issuance of units   |                              | 217.9           |
| Proceeds from notes payable affiliates  | 5.0                          | 8.0             |
| Payments on notes payable affiliates  | (7.0)                        | (19.5)          |
| Distributions to partners   | (104.5)                      | (88.6)          |
| Other   |                              | (3.7)           |
| Net cash provided by (used in) financing activities                               | (93.5)                       | 147.7           |
| Net increase (decrease) in cash and cash equivalents                              | (0.4)                        | 432.1           |
| <b>Cash and cash equivalents at beginning of period</b>                           | <b>0.8</b>                   | <b>27.4</b>     |
| <b>Cash and cash equivalents at end of period</b>                                 | <b>\$ 0.4</b>                | <b>\$ 459.5</b> |

**Supplemental Disclosures**

|  |        |         |
|--|--------|---------|
| Property, plant and equipment noncash accruals | \$ 2.5 | \$ 16.4 |
|--|--------|---------|

See Notes to Condensed Consolidated Financial Statements.



## SPECTRA ENERGY PARTNERS, LP

## CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS CAPITAL

(Unaudited)

(In millions)

|  | Partners<br>Common | Capital<br>General<br>Partner | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total      |
|--|--------------------|-------------------------------|---|------------|
| <b>December 31, 2011</b>                           | \$ 1,653.6         | \$ 39.6                       | \$ 4.5  | \$ 1,697.7 |
| Net income   | 86.0               | 13.3                          |   | 99.3       |
| Reclassification of cash flow hedges into earnings |                    |                               | (0.3)   | (0.3)      |
| Issuance of units                                  | 0.3                |                               |   | 0.3        |
| Attributed deferred tax expense                    | (0.1)              |                               |   | (0.1)      |
| Distributions to partners                          | (92.0)             | (12.5)                        |   | (104.5)    |
| <b>June 30, 2012</b>                               | \$ 1,647.8         | \$ 40.4                       | \$ 4.2  | \$ 1,692.4 |
| <b>December 31, 2010</b>                           | \$ 1,458.7         | \$ 32.9                       | \$ 2.8  | \$ 1,494.4 |
| Net income   | 77.4               | 9.1                           |   | 86.5       |
| Reclassification of cash flow hedges into earnings |                    |                               | 1.7   | 1.7        |
| Issuance of units                                  | 213.4              | 4.5                           |   | 217.9      |
| Attributed deferred tax expense                    | 0.4                |                               |   | 0.4        |
| Distributions to partners                          | (81.1)             | (7.5)                         |   | (88.6)     |
| <b>June 30, 2011</b>                               | \$ 1,668.8         | \$ 39.0                       | \$ 4.5  | \$ 1,712.3 |

See Notes to Condensed Consolidated Financial Statements.

## SPECTRA ENERGY PARTNERS, LP

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**1. General**

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

**Nature of Operations.** Spectra Energy Partners, through its subsidiaries and equity affiliates is engaged in the transportation and gathering of natural gas through interstate pipeline systems that are located in the southeastern quadrant of the United States, and the storage of natural gas in underground facilities that are located in southeast Texas, south central Louisiana and southwest Virginia.

**Basis of Presentation.** The Condensed Consolidated Financial Statements include our accounts and the accounts of our wholly-owned subsidiaries. These interim financial statements should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2011, and reflect all normal recurring adjustments that are, in our opinion, necessary to fairly present our results of operations and financial position. Amounts reported in the Condensed Consolidated Statements of Operations are not necessarily indicative of amounts expected for the respective annual periods.

During the third quarter of 2011, we identified errors in our previously issued Condensed Consolidated Statements of Cash Flows related to the accounting for rollovers of outstanding borrowings under our revolving bank credit facility. These rollovers, which are extensions of borrowings beyond their scheduled due dates that did not involve the exchange of cash, were previously accounted for as cash activities and resulted in the overstatement of both Proceeds from Issuance of Long-Term Debt and Payments for the Redemption of Long-Term Debt for the six months ended June 30, 2011. Cash and Cash Equivalents and Net Cash Provided By (Used In) Financing Activities as previously reported are not affected by the errors. We evaluated materiality from both a qualitative and a quantitative perspective and concluded that the errors are immaterial to our previously issued Condensed Consolidated Statements of Cash Flows.

In addition to making this correction, effective with the third quarter of 2011, we have elected to present cash borrowings and repayments under our revolving bank credit facility on a net basis for all periods presented as Net Decrease in Revolving Credit Facility Borrowings. As these periodic borrowings and repayments are generally of significant amounts and have terms of 90 days or less, we believe our current presentation provides users with more meaningful and relevant information about our long-term debt financing activities.

The correction and change in presentation reflected on the Condensed Consolidated Statement of Cash Flows are as follows:

| Six Months Ended June 30, 2011          | Proceeds from the<br>Issuance of<br>Long-Term<br>Debt | Payments for the<br>Redemption of<br>Long-Term Debt<br><br>(in millions) |
|---|---|--|
| As previously reported                  | \$ 2,117.9  | \$ 2,084.3   |
| Less non-cash activity                  | (1,567.0)   | (1,567.0)  |
| As corrected                            | 550.9   | 517.3  |
| Less revolving credit facility activity | (51.5)  | (310.1)  |
| Long-term debt activity                 | \$ 499.4  | \$ 207.2   |

**Use of Estimates.** To conform with generally accepted accounting principles (GAAP) in the United States, we make estimates and assumptions that affect the amounts reported in the Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements. Although these estimates are based on our best available knowledge at the time, actual results could differ.

## 2. Acquisition

**Big Sandy.** On July 1, 2011, we completed the acquisition of Big Sandy Pipeline, LLC (Big Sandy) from EQT Corporation (EQT) for approximately \$390 million in cash. Big Sandy's primary asset is a 68-mile Federal Energy Regulatory Commission (FERC) regulated natural gas pipeline system in eastern Kentucky with capacity of 0.2 billion cubic feet (Bcf) per day. The Big Sandy natural gas pipeline system connects Appalachian and Huron Shale natural gas supplies to markets in the mid-Atlantic and northeast portions of the United States. EQT is the main shipper on the pipeline, with over 80% of the pipeline's capacity. With 100% fee-based revenues and a weighted average contract life of 14 years, the acquisition of Big Sandy strengthens our portfolio of fee-based natural gas assets and is consistent with our strategy of growth through third-party acquisitions.

The assets and liabilities of Big Sandy were recorded at their respective fair values as of the purchase date and the results of operations were included in the Condensed Consolidated Financial Statements beginning as of the effective date of the acquisition. Since Big Sandy records assets and liabilities resulting from the rate making process, the fair values of the individual assets and liabilities are considered to approximate their carrying values. Pro forma results of operations reflecting the acquisition of Big Sandy as if the acquisition had occurred as of January 1, 2011 does not materially differ from actual reported results.

## 3. Business Segments

Our Gas Transportation and Storage segment aligns our operations with the chief operating decision maker's view of the business. This business segment is considered to be our sole reportable segment.

The Gas Transportation and Storage segment provides interstate transportation, storage and gathering services of natural gas, and the storage and redelivery of liquefied natural gas for customers in the southeastern quadrant of the United States. Substantially all of our operations are subject to the FERC and the Department of Transportation's (DOT) rules and regulations. This segment includes East Tennessee Natural Gas, LLC (East Tennessee), Ozark Gas Transmission, L.L.C. (Ozark Gas Transmission) and Ozark Gas Gathering, L.L.C. (Ozark Gas Gathering) (collectively, hereafter referred to as Ozark), Saltville Gas Storage, L.L.C. (Saltville), and Big Sandy.

The remainder of our operations is presented as Other. While it is not considered a business segment, Other mainly includes our equity investments in Gulfstream Natural Gas System, L.L.C. (Gulfstream) and Market Hub Partners Holding (Market Hub) and unallocated corporate costs.

Gulfstream provides interstate natural gas pipeline transportation from Pascagoula, Mississippi and Mobile, Alabama across the Gulf of Mexico into Florida for customers in central and southern Florida. Gulfstream's operations are subject to the rules and regulations of the FERC and DOT.

Market Hub owns and operates two natural gas storage facilities, Moss Bluff and Egan, which are located in southeast Texas and south central Louisiana, respectively. Market Hub's operations are subject to the rules and regulations of DOT. Moss Bluff is also subject to the rules and regulations of the Railroad Commission of Texas, while Egan is also subject to the rules and regulations of the FERC.

Management evaluates segment performance based on earnings before interest and taxes from continuing operations (EBIT). On a segment basis, EBIT represents all profits from continuing operations (both operating and non-operating) before deducting interest and income taxes.

**Business Segment Data**

|                                | Three Months Ended<br>June 30, |         | Six Months Ended<br>June 30, |         |
|--------------------------------|--------------------------------|---------|------------------------------|---------|
|                                | 2012                           | 2011    | 2012                         | 2011    |
|                                | (in millions)                  |         |                              |         |
| <b>Operating revenues</b>      |                                |         |                              |         |
| Gas Transportation and Storage | \$ 58.7                        | \$ 43.0 | \$ 120.6                     | \$ 94.2 |
| Other                          |                                |         |                              |         |
| Total operating revenues       | \$ 58.7                        | \$ 43.0 | \$ 120.6                     | \$ 94.2 |
| <b>Segment EBIT</b>            |                                |         |                              |         |
| Gas Transportation and Storage | \$ 33.2                        | \$ 19.4 | \$ 68.3                      | \$ 47.2 |
| Other                          | 21.8                           | 23.5    | 47.2                         | 49.1    |
| Total EBIT                     | 55.0                           | 42.9    | 115.5                        | 96.3    |
| Interest income                |                                | 0.2     |                              | 0.3     |
| Interest expense               | 7.7                            | 5.3     | 15.4                         | 9.5     |
| Earnings before income taxes   | \$ 47.3                        | \$ 37.8 | \$ 100.1                     | \$ 87.1 |

**4. Net Income Per Limited Partner Unit and Cash Distributions**

The following table presents our net income per limited partner unit calculations.

|  | Three Months Ended<br>June 30,         |         | Six Months Ended<br>June 30, |         |
|--|--|---------|------------------------------|---------|
|  | 2012                                   | 2011    | 2012                         | 2011    |
|  | (in millions, except per unit amounts) |         |                              |         |
| Net income   | \$ 46.9                                | \$ 37.6 | \$ 99.3                      | \$ 86.5 |
| Less:  |  |         |                              |         |
| General partner's interest in net income 2%  | 0.9                                    | 0.8     | 2.0                          | 1.7     |
| General partner's interest in net income attributable to incentive distribution rights | 5.9                                    | 4.0     | 11.3                         | 7.4     |
| Limited partners' interest in net income   | \$ 40.1                                | \$ 32.8 | \$ 86.0                      | \$ 77.4 |
| Weighted average limited partner units outstanding basic and diluted                   | 96.3                                   | 90.5    | 96.3                         | 89.8    |
| Net income per limited partner unit basic and diluted                                  | \$ 0.42                                | \$ 0.36 | \$ 0.89                      | \$ 0.86 |

The partnership agreement requires that, within 45 days after the end of each quarter, we distribute all of our Available Cash, as defined, to unitholders of record on the applicable record date.

*Available Cash.* Available Cash, for any quarter, consists of all cash on hand at the end of that quarter:

less the amount of cash reserves established by the general partner to:

provide for the proper conduct of business,



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comply with applicable law, any debt instrument or other agreement, or

provide funds for distributions to the unitholders and to the general partner for any one or more of the next four quarters,

plus, if the general partner so determines, all or a portion of cash on hand on the date of determination of Available Cash for the quarter.

*Incentive Distribution Rights.* The general partner holds incentive distribution rights beyond the first target distribution in accordance with the partnership agreement as follows:

|                                | Total Quarterly<br>Distribution | Marginal Percentage<br>Interest in Distributions |                    |
|--------------------------------|---------------------------------|--|--------------------|
|                                |                                 | Common and<br>Subordinated<br>Unitholders        | General<br>Partner |
|                                | Target Per-Unit Amount          |  |                    |
| Minimum Quarterly Distribution | \$0.30                          | 98%  | 2%                 |
| First Target Distribution      | up to \$0.345                   | 98%  | 2%                 |
| Second Target Distribution     | above \$0.345 up to \$0.375     | 85%  | 15%                |
| Third Target Distribution      | above \$0.375 up to \$0.45      | 75%  | 25%                |
| Thereafter                     | above \$0.45                    | 50%  | 50%                |

To the extent these incentive distributions are made to our general partner, there will be more Available Cash proportionately allocated to our general partner than to holders of common units. A cash distribution of \$0.485 per limited partner unit was declared on July 18, 2012 and is payable on August 14, 2012.

#### 5. Investments in Unconsolidated Affiliates

As of June 30, 2012, our investments in unconsolidated affiliates consist of a 49% interest in Gulfstream and a 50% interest in Market Hub, both of which are accounted for using the equity method.

For the six months ended June 30, 2012, we received total distributions of \$41.0 million from Gulfstream, of which \$29.8 million were included in Cash Flows From Operating Activities Distributions Received From Unconsolidated Affiliates and \$11.2 million were included in Cash Flows From Investing Activities Distributions Received From Unconsolidated Affiliates. For the six months ended June 30, 2011, we received total distributions of \$38.6 million, all of which were included in Cash Flows From Operating Activities Distributions Received From Unconsolidated Affiliates. In 2011, Spectra Energy Corp (Spectra Energy) received a disproportionate distribution from Gulfstream in relation to their ownership percentage based on an agreement between Spectra Energy and us. This agreement does not impact future distributions.

We received distributions from Market Hub of \$23.3 million during the six months ended June 30, 2012 and \$28.0 million during the same period in 2011, all of which were included in Cash Flows From Operating Activities Distributions Received From Unconsolidated Affiliates.

#### *Investments in Unconsolidated Affiliates*

|            | June 30,<br>2012 | December 31,<br>2011 |
|------------|------------------|----------------------|
|            | (in millions)    |                      |
| Gulfstream | \$ 348.5         | \$ 360.0             |
| Market Hub | 378.5            | 367.2                |
| Total      | \$ 727.0         | \$ 727.2             |

#### *Equity in Earnings of Unconsolidated Affiliates*

|            | Three Months Ended<br>June 30, |         | Six Months Ended<br>June 30, |         |
|------------|--------------------------------|---------|------------------------------|---------|
|            | 2012                           | 2011    | 2012                         | 2011    |
|            | (in millions)                  |         |                              |         |
| Gulfstream | \$ 14.5                        | \$ 15.4 | \$ 29.8                      | \$ 32.2 |
| Market Hub | 9.3                            | 11.4    | 21.4                         | 22.4    |

|       |         |         |         |         |
|-------|---------|---------|---------|---------|
| Total | \$ 23.8 | \$ 26.8 | \$ 51.2 | \$ 54.6 |
|-------|---------|---------|---------|---------|

**Summarized Financial Information of Unconsolidated Affiliates**

(Presented at 100%)

|                    | Three Months Ended<br>June 30, |         | Six Months Ended<br>June 30, |          |
|--------------------|--------------------------------|---------|------------------------------|----------|
|                    | 2012                           | 2011    | 2012                         | 2011     |
| (in millions)      |                                |         |                              |          |
| <b>Gulfstream</b>  |                                |         |                              |          |
| Operating revenues | \$ 68.8                        | \$ 68.4 | \$ 136.5                     | \$ 135.3 |
| Operating expenses | 21.5                           | 19.3    | 40.5                         | 35.1     |
| Operating income   | 47.3                           | 49.1    | 96.0                         | 100.2    |
| Net income         | 29.6                           | 31.5    | 60.8                         | 65.8     |
| <b>Market Hub</b>  |                                |         |                              |          |
| Operating revenues | \$ 27.9                        | \$ 31.0 | \$ 59.1                      | \$ 61.1  |
| Operating expenses | 9.4                            | 8.3     | 16.4                         | 16.3     |
| Operating income   | 18.5                           | 22.7    | 42.7                         | 44.8     |
| Net income         | 18.7                           | 22.7    | 42.9                         | 44.8     |

**6. Goodwill**

We completed our annual goodwill impairment test as of April 1, 2012 and no impairments were identified.

We perform the annual review for goodwill impairment at the reporting unit level, which we have determined to be our one reportable operating segment, Gas Transportation and Storage. There have been no additions, amortization or other changes in the carrying amount of goodwill since December 31, 2011.

We primarily used a discounted cash flow analysis to determine fair value of our reporting unit. Key assumptions in the determination of fair value included the use of an appropriate discount rate and estimated future cash flows. In estimating cash flows, we incorporated expected long-term growth rates in key markets served by our operations, regulatory stability, and the ability to renew contracts, as well as other factors that affect our revenue, expense and capital expenditure projections.

**7. Marketable Securities**

We may actively invest a portion of our cash balances in various financial instruments, including taxable debt securities. In addition, we invest in short-term money market securities, some of which are restricted due to debt collateral requirements. We classify all short-term money market securities that are pledged as collateral as available-for-sale (AFS). We do not purchase marketable securities for speculative purposes, nor do we routinely sell marketable securities prior to their scheduled maturity dates. Therefore, we do not have any securities classified as trading securities. Initial investments in securities are classified as purchases of the respective type of securities (available-for-sale or held-to-maturity), and maturities of securities are classified within proceeds from sales and maturities of securities in the Condensed Consolidated Statements of Cash Flows. As of June 30, 2012 and December 31, 2011, there were no marketable securities outstanding.

In the fourth quarter of 2010, we invested in commercial paper with a portion of the proceeds from the equity issuance related to the Gulfstream acquisition. In June 2011, these investments were liquidated.

**8. Debt and Credit Facility**

|                             | Expiration<br>Date | Total<br>Credit Facility<br>Capacity | Outstanding at<br>June 30, 2012      |  |
|-----------------------------|--------------------|--------------------------------------|--------------------------------------|--|
|                             |                    |                                      | Commercial<br>Paper<br>(in millions) | Available<br>Credit Facility<br>Capacity |
| Spectra Energy Partners, LP | 2016               | \$ 700.0                             | \$ 40.0                              | \$ 660.0                                 |



The issuances of commercial paper, letters of credit and revolving borrowings reduce the amount available under the credit facility. As of June 30, 2012, there were no letters of credit and revolving borrowings outstanding.

The credit agreement contains various financial and other covenants, including the maintenance of a consolidated leverage ratio, as defined in the agreement. Failure to meet those covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreement. As of June 30, 2012, we were in compliance with those covenants. In addition, the credit agreement allows for the acceleration of payments or termination of the agreement due to nonpayment, or in some cases, due to the acceleration of our other significant indebtedness or other significant indebtedness of some of our subsidiaries. The credit agreement does not contain provisions that trigger an acceleration of indebtedness based solely on the occurrence of an adverse change in our financial condition or results of operations.

As noted above, the terms of the credit agreement requires us to maintain a consolidated leverage ratio of adjusted consolidated indebtedness to adjusted consolidated earnings before interest, taxes, depreciation and amortization (EBITDA), as defined in the agreement, of 5.0 or less. As of June 30, 2012, the consolidated leverage ratio was 2.7.

Adjusted EBITDA is a non-GAAP measure. Our definition of Adjusted EBITDA may not be comparable to similarly titled measures of other companies because our definition excludes some, but not all, items that affect net income and is defined in varying ways by companies in our industry. Adjusted EBITDA should not be considered an alternative to net income, operating income, cash from operations or any other measure of financial performance or liquidity presented in accordance with GAAP.

## 9. Fair Value Measurements

**Financial Instruments.** The fair values of financial instruments that are recorded and carried at book value are summarized in the following table. Judgment is required in interpreting market data to develop the estimates of fair value. These estimates are not necessarily indicative of the amounts we could have realized in current markets. The fair values of long-term debt, including current maturities are determined based on market-based prices which may include inputs such as quoted market prices of the exact or similar instruments, broker or dealer quotations, or alternative pricing sources that may include models or matrix pricing tools, with reasonable levels of price transparency.

| Condensed Consolidated Balance Sheet Caption | June 30, 2012 |                        | December 31, 2011 |                        |
|--|---------------|------------------------|-------------------|------------------------|
|  | Book Value    | Approximate Fair Value | Book Value        | Approximate Fair Value |
|  | (in millions) |                        |                   |                        |
| Current maturities of long-term debt (a)     | \$ 150.0      | \$ 152.3               | \$ 150.0          | \$ 154.3               |
| Long-term debt (b)                           | \$ 500.0      | \$ 523.4               | \$ 500.0          | \$ 514.8               |

(a) East Tennessee debt due in 2012

(b) Excludes unamortized items

The fair value of cash and cash equivalents, accounts receivable, accounts payable, commercial paper and note payable affiliates are not materially different from their carrying amounts because of the short-term nature of these instruments or because the stated rates approximate market rates.

During 2012 and 2011, there were no material adjustments to assets and liabilities measured at fair value on a nonrecurring basis.

## 10. Commitments and Contingencies

**Environmental.** We are subject to various federal, state and local laws and regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. These laws and regulations can change from time to time, imposing new obligations on us. We believe there are no matters outstanding that, upon resolution, will have a material effect on our consolidated results of operations, financial position or cash flows.

**Litigation.** We are involved in legal, tax and regulatory proceedings in various forums arising in the ordinary course of business, including matters regarding contracts and payment claims, some of which may involve substantial monetary amounts. We have insurance coverage for certain of these losses should they be incurred. We believe that the final disposition of these proceedings will not have a material effect on our consolidated results of operations, financial position or cash flows.

Legal costs related to the defense of loss contingencies are expensed as incurred. We had no material reserves recorded as of June 30, 2012 or December 31, 2011 related to litigation.

## 11. Risk Management and Hedging Activities

We are exposed to the impact of changes in interest rates as a result of our issuance of variable and fixed-rate debt and commercial paper. We manage our interest rate exposure by limiting our variable-rate exposures and by monitoring the effects of market changes in interest rates. As of June 30, 2012 and December 31, 2011, we did not have any derivatives outstanding.

## 12. Sale of Common Units

On June 14, 2011, we issued 7.2 million common units to the public representing limited partner interests. The net proceeds from this offering were \$217.9 million, including our general partner's proportionate unit purchase of 0.1 million general partner units after deducting the underwriting discount and offering expenses. The net proceeds from this issuance were used to fund a portion of the purchase price of the Big Sandy acquisition, see Note 2 for additional information.

## 13. New Accounting Pronouncements

There were no significant accounting pronouncements adopted during the six months ended June 30, 2012 that had a material impact on our consolidated results of operations, financial position or cash flows.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**  
**INTRODUCTION**

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Condensed Consolidated Financial Statements.

**Executive Overview**

For the three months ended June 30, 2012, we reported net income of \$46.9 million compared to \$37.6 million for the comparable period in 2011. For the six months ended June 30, 2012 and 2011, we reported net income of \$99.3 million and \$86.5 million, respectively. Cash available for distribution was \$119.3 million for the six months ended June 30, 2012, an increase of \$15.4 million from the prior year. The increase in both net income and cash available for distribution was the result of the addition of Big Sandy pipeline and East Tennessee's Northeastern Tennessee (NET) assets to our portfolio in July and September 2011, respectively.

We estimate 2012 capital and investment expansion expenditures of approximately \$30.0 million, of which \$19.1 million was spent in the first half of 2012. The majority of these expenditures are to complete projects at East Tennessee and Market Hub, both of which went into commercial service in 2011.

A cash distribution of \$0.485 per limited partner unit was declared on July 18, 2012 and is payable on August 14, 2012, representing a 1.0% increase over the previous distribution of \$0.48 per limited partner unit paid in May 2012. Our board evaluates each individual quarterly distribution decision within the confines of the Partnership agreement and based on an assessment of growth in cash available for distribution.

**RESULTS OF OPERATIONS**

|   | Three Months Ended<br>June 30, |         |                        | Six Months Ended<br>June 30, |          |                        |
|---|--------------------------------|---------|------------------------|------------------------------|----------|------------------------|
|   | 2012                           | 2011    | Increase<br>(Decrease) | 2012                         | 2011     | Increase<br>(Decrease) |
|   | (in millions)                  |         |                        |                              |          |                        |
| Operating revenues                              | \$ 58.7                        | \$ 43.0 | \$ 15.7                | \$ 120.6                     | \$ 94.2  | \$ 26.4                |
| Operating, maintenance and other expense        | 18.3                           | 20.3    | (2.0)                  | 37.8                         | 38.6     | (0.8)                  |
| Depreciation and amortization                   | 9.3                            | 7.4     | 1.9                    | 18.6                         | 15.2     | 3.4                    |
| Operating income                                | 31.1                           | 15.3    | 15.8                   | 64.2                         | 40.4     | 23.8                   |
| Equity in earnings of unconsolidated affiliates | 23.8                           | 26.8    | (3.0)                  | 51.2                         | 54.6     | (3.4)                  |
| Other income and expenses, net                  | 0.1                            | 0.8     | (0.7)                  | 0.1                          | 1.3      | (1.2)                  |
| Interest income                                 |                                | 0.2     | (0.2)                  |                              | 0.3      | (0.3)                  |
| Interest expense                                | 7.7                            | 5.3     | 2.4                    | 15.4                         | 9.5      | 5.9                    |
| Earnings before income taxes                    | 47.3                           | 37.8    | 9.5                    | 100.1                        | 87.1     | 13.0                   |
| Income tax expense                              | 0.4                            | 0.2     | 0.2                    | 0.8                          | 0.6      | 0.2                    |
| Net income                                      | \$ 46.9                        | \$ 37.6 | \$ 9.3                 | \$ 99.3                      | \$ 86.5  | \$ 12.8                |
| Net cash provided by operating activities       | \$ 54.3                        | \$ 61.5 | \$ (7.2)               | \$ 111.8                     | \$ 119.1 | \$ (7.3)               |
| Adjusted EBITDA (a)                             | 40.4                           | 22.7    | 17.7                   | 82.8                         | 55.6     | 27.2                   |
| Cash Available for Distribution (a)             | 53.1                           | 45.1    | 8.0                    | 119.3                        | 103.9    | 15.4                   |

(a) See Reconciliation of Non-GAAP Measures for a reconciliation of this measure to its most directly comparable financial measures calculated and presented in accordance with GAAP.



*Three Months Ended June 30, 2012 compared to same period in 2011*

**Operating Revenues.** Operating revenues increased \$10.1 million due to the acquisition of Big Sandy in July 2011 and \$5.8 million due to the NET project placed into commercial service in September 2011. These increases were partially offset by lower revenues at Ozark.

**Operating, Maintenance and Other Expense.** The increased costs related to Big Sandy and accelerated software amortization were more than offset by transaction costs associated with the acquisition of Big Sandy, expenses related to securing an initial credit rating in 2011 and lower utilities and labor costs in 2012.

**Depreciation and Amortization.** The increase was driven mainly by the acquisition of the Big Sandy assets and the NET project.

**Equity in Earnings of Unconsolidated Affiliates.** The \$3.0 million decrease includes a \$0.9 million and a \$2.1 million decrease in earnings from Gulfstream and Market Hub, respectively.

The following discussion explains the factors affecting the earnings of Gulfstream and Market Hub, each representing 100% of the earnings drivers of those entities.

|  | Three Months Ended<br>June 30, |                       |                        |
|--|--------------------------------|-----------------------|------------------------|
|  | 2012                           | 2011<br>(in millions) | Increase<br>(Decrease) |
| <b>Gulfstream</b>                        |                                |                       |                        |
| Operating revenues                       | \$ 68.8                        | \$ 68.4               | \$ 0.4                 |
| Operating, maintenance and other expense | 12.6                           | 10.5                  | 2.1                    |
| Depreciation and amortization            | 8.9                            | 8.8                   | 0.1                    |
| Other income and expenses, net           |                                | (0.1)                 | 0.1                    |
| Interest expense                         | 17.7                           | 17.5                  | 0.2                    |
| <b>Net income</b>                        | <b>\$ 29.6</b>                 | <b>\$ 31.5</b>        | <b>\$ (1.9)</b>        |
| Spectra Energy Partners share 49%        | \$ 14.5                        | \$ 15.4               | \$ (0.9)               |

Gulfstream's revenues were in line with the prior year, and more than offset by higher operating, maintenance and other expenses related to pipeline integrity costs.

|  | Three Months Ended<br>June 30, |                       |                        |
|--|--------------------------------|-----------------------|------------------------|
|  | 2012                           | 2011<br>(in millions) | Increase<br>(Decrease) |
| <b>Market Hub</b>                        |                                |                       |                        |
| Operating revenues                       | \$ 27.9                        | \$ 31.0               | \$ (3.1)               |
| Operating, maintenance and other expense | 6.5                            | 5.6                   | 0.9                    |
| Depreciation and amortization            | 2.9                            | 2.7                   | 0.2                    |
| Interest income                          | 0.1                            |                       | 0.1                    |
| Income tax expense                       | (0.1)                          |                       | (0.1)                  |
| <b>Net income</b>                        | <b>\$ 18.7</b>                 | <b>\$ 22.7</b>        | <b>\$ (4.0)</b>        |
| Spectra Energy Partners share 50%        | \$ 9.3                         | \$ 11.4               | \$ (2.1)               |

Market Hub's revenues decreased due to expected lower rates on contract renewals. Operating, maintenance and other expense reflects higher maintenance costs.



**Other Income and Expenses, Net.** The decrease is primarily due to a higher equity portion of allowance for funds used during construction (AFUDC) on the NET project in 2011.

**Interest Expense.** The increase is due to the issuance of \$500.0 million of unsecured senior notes in June 2011.

**Six Months Ended June 30, 2012 compared to same period in 2011**

**Operating Revenues.** Operating revenues increased \$20.3 million due to the acquisition of Big Sandy in July 2011 and \$11.5 million due to the NET project being placed into commercial service in September 2011. These increases were partially offset by lower revenues at Ozark.

**Operating, Maintenance and Other Expense.** The increased costs related to Big Sandy and accelerated software amortization were more than offset by transaction costs associated with the acquisition of Big Sandy, expenses related to securing an initial credit rating in 2011 and higher fuel recoveries at Ozark.

**Depreciation and Amortization.** The increase was driven mainly by the acquisition of the Big Sandy assets and the NET project.

**Equity in Earnings of Unconsolidated Affiliates.** The \$3.4 million decrease includes a \$2.4 million decrease in earnings from Gulfstream and a \$1.0 million decrease in earnings from Market Hub.

The following discussion explains the factors affecting the equity earnings of Gulfstream and Market Hub, each representing 100% of the earnings drivers of those entities.

|  | 2012           | Six Months Ended<br>June 30,<br>2011<br>(in millions) | Increase<br>(Decrease) |
|--|----------------|---|------------------------|
| <b>Gulfstream</b>                        |                |   |                        |
| Operating revenues                       | \$ 136.5       | \$ 135.3  | \$ 1.2                 |
| Operating, maintenance and other expense | 22.7           | 17.5  | 5.2                    |
| Depreciation and amortization            | 17.8           | 17.6  | 0.2                    |
| Other income and expenses, net           |                | 0.3   | (0.3)                  |
| Interest expense                         | 35.2           | 34.7  | 0.5                    |
| <b>Net income</b>                        | <b>\$ 60.8</b> | <b>\$ 65.8</b>  | <b>\$ (5.0)</b>        |
| Spectra Energy Partners share 49%        | \$ 29.8        | \$ 32.2   | \$ (2.4)               |

Gulfstream's Phase V expansion project went into service on April 1, 2011 and increased operating revenues by \$2.6 million. This increase in revenue was partially offset by higher short-term transportation revenues from colder weather in 2011. The increase in operating, maintenance and other expense reflects a favorable ad valorem tax adjustment in 2011 and higher pipeline integrity costs in 2012.

|  | 2012    | Six Months Ended<br>June 30,<br>2011<br>(in millions) | Increase<br>(Decrease) |
|--|---------|---|------------------------|
| <b>Market Hub</b>                        |         |   |                        |
| Operating revenues                       | \$ 59.1 | \$ 61.1   | \$ (2.0)               |
| Operating, maintenance and other expense | 10.7    | 11.0  | (0.3)                  |
| Depreciation and amortization            | 5.7     | 5.3   | 0.4                    |
| Interest expense                         | (0.1)   |   | (0.1)                  |
| Interest income                          | 0.1     | 0.1   |                        |

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|                                   |         |         |          |
|-----------------------------------|---------|---------|----------|
| Income tax expense                |         | 0.1     | (0.1)    |
| Net income                        | \$ 42.9 | \$ 44.8 | \$ (1.9) |
| Spectra Energy Partners share 50% | \$ 21.4 | \$ 22.4 | \$ (1.0) |

Market Hub's revenues decreased \$2.0 million primarily due to expected lower rates on contract renewals, partially offset by revenues from cavern expansion projects placed into commercial service during the second quarter of 2011. Operating, maintenance and other expense reflects \$1.5 million of favorable tax adjustments in 2012, partially offset by higher maintenance costs.

**Other Income and Expenses, Net.** The decrease is primarily due to a higher equity portion of allowance for funds used during construction (AFUDC) on the NET project in 2011.

**Interest Expense.** The increase is due to the issuance of \$500.0 million of unsecured senior notes in June 2011.

#### **Adjusted EBITDA and Cash Available for Distribution**

##### **Adjusted EBITDA**

We define our Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) as Net Income plus Interest Expense, Income Taxes and Depreciation and Amortization less our Equity in Earnings of Gulfstream and Market Hub, Interest Income, and Other Income and Expenses, Net, which primarily consists of non-cash AFUDC. Since Adjusted EBITDA excludes some, but not all, items that affect net income and is defined differently by companies in our industry, our definition of Adjusted EBITDA may not be comparable to similarly titled measures of other companies. Adjusted EBITDA is a non-GAAP measure and should not be considered an alternative to Net Income, Operating Income, cash from operations or any other measure of financial performance or liquidity in accordance with GAAP.

Adjusted EBITDA is used as a supplemental financial measure by our management and by external users of our financial statements to assess:

the financial performance of assets without regard to financing methods, capital structure or historical cost basis;

the ability to generate cash sufficient to pay interest on indebtedness and to make distributions to partners; and

operating performance and return on invested capital as compared to those of other publicly traded limited partnerships that own energy infrastructure assets, without regard to financing methods and capital structure.

Significant drivers of variances in Adjusted EBITDA between the periods presented are substantially the same as those previously discussed under Results of Operations.

##### **Cash Available for Distribution**

We define Cash Available for Distribution (CAD) as our Adjusted EBITDA plus Cash Available for Distribution from Gulfstream and Market Hub and net preliminary project costs, less interest expense, cash paid for income tax expense, maintenance capital expenditures, excluding the impact of reimbursable projects, and other non-cash items affecting net income. Cash Available for Distribution does not reflect changes in working capital balances. Cash Available for Distribution for Gulfstream and Market Hub is defined on a basis consistent with us. Cash Available for Distribution should not be viewed as indicative of the actual amount of cash we plan to distribute for a given period.

Cash Available for Distribution is a non-GAAP measure and should not be considered an alternative to Net Income, Operating Income, cash from operations or any other measure of financial performance or liquidity presented in accordance with GAAP. Cash Available for Distribution excludes some, but not all, items that affect Net Income and Operating Income and these measures may vary among other companies. Therefore, Cash Available for Distribution as presented may not be comparable to similarly titled measures of other companies.

Significant drivers of variances in Cash Available for Distribution between the periods presented are substantially the same as those previously discussed under Results of Operations. Other drivers include the timing of certain cash outflows, such as capital expenditures for maintenance.

*Spectra Energy Partners*

*Reconciliation of Net Income to Non-GAAP Adjusted EBITDA and Cash Available for Distribution*

|   | Three Months Ended<br>June 30, |         | Six Months Ended<br>June 30, |          |
|---|--------------------------------|---------|------------------------------|----------|
|   | 2012                           | 2011(a) | 2012                         | 2011(a)  |
|   | (in millions)                  |         |                              |          |
| <b>Net income</b>                               | \$ 46.9                        | \$ 37.6 | \$ 99.3                      | \$ 86.5  |
| Add:  |                                |         |                              |          |
| Interest expense                                | 7.7                            | 5.3     | 15.4                         | 9.5      |
| Income tax expense                              | 0.4                            | 0.2     | 0.8                          | 0.6      |
| Depreciation and amortization                   | 9.3                            | 7.4     | 18.6                         | 15.2     |
| Less:   |                                |         |                              |          |
| Equity in earnings of Gulfstream                | 14.5                           | 15.4    | 29.8                         | 32.2     |
| Equity in earnings of Market Hub                | 9.3                            | 11.4    | 21.4                         | 22.4     |
| Interest income                                 |                                | 0.2     |                              | 0.3      |
| Other income and expenses, net                  | 0.1                            | 0.8     | 0.1                          | 1.3      |
| <b>Adjusted EBITDA</b>                          | 40.4                           | 22.7    | 82.8                         | 55.6     |
| Add:  |                                |         |                              |          |
| Cash Available for Distribution from Gulfstream | 18.9                           | 19.8    | 38.5                         | 40.3     |
| Cash Available for Distribution from Market Hub | 10.5                           | 12.5    | 24.0                         | 24.7     |
| Preliminary project costs, net                  |                                |         |                              |          |
| Less:   |                                |         |                              |          |
| Interest expense                                | 7.7                            | 5.3     | 15.4                         | 9.5      |
| Cash paid for income tax expense                |                                |         |                              |          |
| Maintenance capital expenditures                | 9.2                            | 4.7     | 10.9                         | 7.3      |
| Other   | (0.2)                          | (0.1)   | (0.3)                        | (0.1)    |
| <b>Cash Available for Distribution</b>          | \$ 53.1                        | \$ 45.1 | \$ 119.3                     | \$ 103.9 |

(a) Cash Available for Distribution for the three and six months ended June 30, 2011 has been revised to reflect the refinement to our definition that was effective January 1, 2012.

*Spectra Energy Partners***Reconciliation of Net Cash Provided by Operating Activities to Non-GAAP Adjusted EBITDA and Cash Available for Distribution**

|  | Three Months Ended<br>June 30, |         | Six Months Ended<br>June 30, |          |
|--|--------------------------------|---------|------------------------------|----------|
|  | 2012                           | 2011(a) | 2012                         | 2011(a)  |
|  | (in millions)                  |         |                              |          |
| <b>Net cash provided by operating activities</b> | \$ 54.3                        | \$ 61.5 | \$ 111.8                     | \$ 119.1 |
| Interest income                                  |                                | (0.2)   |                              | (0.3)    |
| Interest expense                                 | 7.7                            | 5.3     | 15.4                         | 9.5      |
| Income tax expense - current                     |                                |         |                              | 0.1      |
| Distributions received from Gulfstream           | (14.5)                         | (25.4)  | (29.8)                       | (38.6)   |
| Distributions received from Market Hub           | (14.3)                         | (16.5)  | (23.3)                       | (28.0)   |
| Changes in operating working capital and other   | 7.2                            | (2.0)   | 8.7                          | (6.2)    |
| <b>Adjusted EBITDA</b>                           | 40.4                           | 22.7    | 82.8                         | 55.6     |
| Add:   |                                |         |                              |          |
| Cash Available for Distribution from Gulfstream  | 18.9                           | 19.8    | 38.5                         | 40.3     |
| Cash Available for Distribution from Market Hub  | 10.5                           | 12.5    | 24.0                         | 24.7     |
| Preliminary project costs, net                   |                                |         |                              |          |
| Less:  |                                |         |                              |          |
| Interest expense                                 | 7.7                            | 5.3     | 15.4                         | 9.5      |
| Cash paid for income tax expense                 |                                |         |                              |          |
| Maintenance capital expenditures                 | 9.2                            | 4.7     | 10.9                         | 7.3      |
| Other  | (0.2)                          | (0.1)   | (0.3)                        | (0.1)    |
| <b>Cash Available for Distribution</b>           | \$ 53.1                        | \$ 45.1 | \$ 119.3                     | \$ 103.9 |

- (a) Cash Available for Distribution for the three and six months ended June 30, 2011 has been revised to reflect the refinement to our definition that was effective January 1, 2012.

**Gulfstream****Reconciliation of Net Income to Non-GAAP Adjusted EBITDA and Cash Available for Distribution**

|   | Three Months Ended<br>June 30, |         | Six Months Ended<br>June 30, |         |
|---|--------------------------------|---------|------------------------------|---------|
|   | 2012                           | 2011(a) | 2012                         | 2011(a) |
|   | (in millions)                  |         |                              |         |
| <b>Net income</b>                           | \$ 29.6                        | \$ 31.5 | \$ 60.8                      | \$ 65.8 |
| Add:  |                                |         |                              |         |
| Interest expense                            | 17.7                           | 17.5    | 35.2                         | 34.7    |
| Depreciation and amortization               | 8.9                            | 8.8     | 17.8                         | 17.6    |
| Less:                                       |                                |         |                              |         |
| Other income and expenses, net              |                                | (0.1)   |                              | 0.3     |
| <b>Adjusted EBITDA 100%</b>                 | 56.2                           | 57.9    | 113.8                        | 117.8   |
| Add:  |                                |         |                              |         |
| Preliminary project costs, net              | 0.1                            | 0.2     | 0.4                          | 0.4     |
| Less:                                       |                                |         |                              |         |
| Interest expense                            | 17.7                           | 17.5    | 35.2                         | 34.7    |
| Maintenance capital expenditures            | 0.2                            | 0.2     | 0.5                          | 0.9     |
| Other                                       |                                |         |                              | 0.3     |
| <b>Cash Available for Distribution 100%</b> | \$ 38.4                        | \$ 40.4 | \$ 78.5                      | \$ 82.3 |
| <b>Adjusted EBITDA 49%</b>                  | \$ 27.6                        | \$ 28.4 | \$ 55.8                      | \$ 57.7 |
| <b>Cash Available for Distribution 49%</b>  | 18.9                           | 19.8    | 38.5                         | 40.3    |

(a) Cash Available for Distribution for the three and six months ended June 30, 2011 has been revised to reflect the refinement to our definition that was effective January 1, 2012.

**Market Hub****Reconciliation of Net Income to Non-GAAP Adjusted EBITDA and Cash Available for Distribution**

|                                  | Three Months Ended<br>June 30, |         | Six Months Ended<br>June 30, |         |
|----------------------------------|--------------------------------|---------|------------------------------|---------|
|                                  | 2012                           | 2011    | 2012                         | 2011    |
|                                  | (in millions)                  |         |                              |         |
| <b>Net income</b>                | \$ 18.7                        | \$ 22.7 | \$ 42.9                      | \$ 44.8 |
| Add:                             |                                |         |                              |         |
| Interest expense                 |                                |         | (0.1)                        |         |
| Income tax expense               | (0.1)                          |         |                              | 0.1     |
| Depreciation and amortization    | 2.9                            | 2.7     | 5.7                          | 5.3     |
| Less:                            |                                |         |                              |         |
| Interest income                  | 0.1                            |         | 0.1                          | 0.1     |
| Other income and expenses, net   |                                |         |                              |         |
| <b>Adjusted EBITDA 100%</b>      | 21.4                           | 25.4    | 48.4                         | 50.1    |
| Less:                            |                                |         |                              |         |
| Interest expense                 |                                | (0.1)   | (0.1)                        | (0.1)   |
| Cash paid for income tax expense |                                |         |                              |         |
| Maintenance capital expenditures | 0.4                            | 0.4     | 0.5                          | 0.8     |



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|   |         |         |         |         |
|---|---------|---------|---------|---------|
| <b>Cash Available for Distribution 100%</b> | \$ 21.0 | \$ 25.1 | \$ 48.0 | \$ 49.4 |
| <b>Adjusted EBITDA 50%</b>                  | \$ 10.7 | \$ 12.7 | \$ 24.2 | \$ 25.1 |
| <b>Cash Available for Distribution 50%</b>  | 10.5    | 12.5    | 24.0    | 24.7    |

### **Goodwill Impairment Test**

We perform the annual review for goodwill impairment at the reporting unit level, which we have determined to be our one reportable operating segment, Gas Transportation and Storage.

We primarily used a discounted cash flow analysis to determine fair value of our reporting unit. The long-term growth rate used for our reporting unit that we quantitatively assessed reflects continued expansion of our assets, driven by new natural gas supplies such as shale gas in North America and increasing demand for natural gas transportation capacity on our pipeline systems primarily as a result of forecasted growth in natural gas-fired power plants. We assumed a long-term growth rate of 3.0% for our 2012 quantitative goodwill impairment analysis. Had we assumed a 100 basis point lower growth rate for our reporting unit, there would have been no impairment of goodwill. We continue to monitor the effects of the global economic downturn with respect to the long-term cost of capital utilized to calculate our reporting unit fair value. In evaluating our reporting unit for our 2012 quantitative goodwill impairment analysis, we assumed a weighted-average cost of capital that market participants would use in evaluating our business of 6.7%. Had we assumed a 100 basis point increase in the weighted-average cost of capital for our reporting unit, there would have been no impairment of goodwill.

Based on the results of our annual impairment testing, the fair value of our reporting unit at April 1, 2012 (our testing date) was substantially in excess of its carrying value. No triggering events or changes in circumstances occurred during the period April 1, 2012 through June 30, 2012 that would warrant re-testing for goodwill impairment.

### **LIQUIDITY AND CAPITAL RESOURCES**

We will rely upon cash flows from operations, including cash distributions received from Gulfstream and Market Hub, and various financing transactions, which may include issuances of short-term and long-term debt, to fund our liquidity and capital requirements for the next 12 months. As of June 30, 2012, we had negative net working capital of \$206.3 million compared to a negative \$204.3 million of working capital as of December 31, 2011, both of which included the East Tennessee notes payable of \$150.0 million.

We have access to a credit facility, with available capacity of \$660.0 million at June 30, 2012, which is used to manage working capital requirements. Given that we expect to continue to pursue expansion opportunities over the next several years, capital resources may continue to include commercial paper, short-term borrowings under our current credit facility and possibly securing additional sources of capital including debt and/or equity.

### **Operating Cash Flows**

Net cash provided by operating activities totaled \$111.8 million in the first six months of 2012 compared to \$119.1 million during the same period in 2011. Increased earnings from the acquisition of Big Sandy and the completion of the NET project, both in 2011, were more than offset by a portion of the Gulfstream distribution received in 2012 being classified as a return of capital and an increase in payments for normal operating expenses.

### **Investing Cash Flows**

Net cash flows used in investing activities was \$18.7 million in the first six months of 2012 compared to \$165.3 million of cash provided by in the same period in 2011. The change was driven mainly by:

\$199.5 million of net proceeds in 2011 from the liquidation of available-for-sale securities, and

a \$9.5 million release of collateral investments in 2011, partially offset by

a \$15.0 million decrease in capital expenditures due to the NET project at East Tennessee going into commercial service in September 2011, and

an \$11.2 million return of capital distributions received from Gulfstream in 2012.



**Capital and Investment Expenditures**

|   | Six Months Ended<br>June 30, |         |
|---|------------------------------|---------|
|   | 2012                         | 2011    |
|   | (in millions)                |         |
| Capital Expenditures                      |                              |         |
| Gas Transportation and Storage            | \$ 16.9                      | \$ 31.9 |
| Investment Expenditures                   |                              |         |
| Gulfstream                                |                              | 3.8     |
| Market Hub                                | 13.2                         | 9.1     |
| Total capital and investment expenditures | \$ 30.1                      | \$ 44.8 |

Capital and investment expenditures for the six months ended June 30, 2012 totaled \$30.1 million and included \$19.1 million for expansion projects and \$11.0 million for maintenance and other projects. We estimate 2012 capital and investment expenditures of approximately \$49.0 million, \$30.0 million is expected to be used to complete expansion projects placed into service during 2011 and \$19.0 million is to be used for maintenance and other projects.

We continue to evaluate customers' needs for incremental expansion opportunities at East Tennessee, Big Sandy, Gulfstream and Market Hub. In addition, we are assessing the needs of our Ozark customers for additional transportation services. We expect that significant natural gas infrastructure, including both natural gas transportation and storage with links to growing gas supplies and markets, will be needed over time to serve growth in gas-fired power generation, oil-to-gas conversions, industrial development and attachments to new gas supply.

**Financing Cash Flows**

Net cash used in financing activities was \$93.5 million in the first six months of 2012 compared to \$147.7 million of cash provided by the same period in 2011. This change was driven mainly by:

\$217.9 million of proceeds from the 2011 issuance of common units,

\$13.0 million of net commercial paper issuances in 2012 compared to \$33.6 million of net debt proceeds in 2011, including the issuance of unsecured senior notes and net revolver borrowings, and

a \$15.9 million increase in distributions to partners in 2012 as a result of increases in distribution rates, limited partner units outstanding and incentive distribution rights, partially offset by

\$2.0 million of net payments on note payable to affiliates in 2012, compared to \$11.5 million of net payments in 2011.

*Available Credit Facility and Restrictive Debt Covenants.* See Note 8 of Notes to Condensed Consolidated Financial Statements for a discussion of the available credit facility and related financial and other covenants.

*Credit Ratings.* As of June 30, 2012 our credit ratings are BBB/Stable from Standard & Poor's and Fitch Ratings and Baa3/Stable from Moody's Investors Service. Our credit ratings are dependent upon, among other factors, our ability to generate sufficient cash to fund capital and investment expenditures, our results of operations, market conditions, the leverage of Spectra Energy and other factors. Our credit ratings could impact our ability to raise capital in the future, impact the cost of capital and, as a result, have an impact on our liquidity.

*Cash Distributions.* As previously discussed, a cash distribution of \$0.485 per limited partner unit was declared in July 2012, payable on August 14, 2012, representing a 1.0% increase over the previous distribution of \$0.48 per limited partner unit and the nineteenth consecutive quarterly increase.



*Other Financing Matters.* We have an effective shelf registration statement on file with the Securities and Exchange Commission (SEC) to register the issuance of unspecified amounts of limited partner common units and various debt securities.

#### **OTHER ISSUES**

*New Accounting Pronouncement.* There were no significant accounting pronouncements adopted during the six months ended June 30, 2012 that had a material impact on our consolidated results of operations, financial position or cash flows.

#### **Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

Our exposure to market risk is described in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2011. We believe the exposure to market risk has not changed materially.

#### **Item 4. Controls and Procedures.**

##### **Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 (Exchange Act) is recorded, processed, summarized, and reported, within the time periods specified by the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of the management of Spectra Energy Partners (DE) GP, LP (our General Partner), including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2012, and, based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective at the reasonable assurance level.

##### **Changes in Internal Control over Financial Reporting**

Under the supervision and with the participation of the management of our General Partner, including the Chief Executive Officer and Chief Financial Officer, we have evaluated changes in internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended June 30, 2012 and found no change that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

We have no material pending legal proceedings that are required to be disclosed hereunder. For information regarding other legal proceedings and environmental matters, see Note 10 of Notes to Condensed Consolidated Financial Statements, which information is incorporated by reference into this Part II.

**Item 1A. Risk Factors.**

In addition to the other information set forth in this report, careful consideration should be given to the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011, which could materially affect our financial condition or future results. There have been no material changes to those risk factors.

**Item 6. Exhibits.**

Any agreements included as exhibits to this Form 10-Q may contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

were not intended to be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;

may have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement;

may apply contract standards of materiality that are different from materiality under the applicable securities laws; and

were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement. We acknowledge that, notwithstanding the inclusion of the foregoing cautionary statements, we are responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this Form 10-Q not misleading.

(a) Exhibits

**Exhibit**

**Number**

|          |   |
|----------|---|
| *31.1    | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| *31.2    | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| *32.1    | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| *32.2    | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| *101.INS | XBRL Instance Document.   |
| *101.SCH | XBRL Taxonomy Extension Schema.   |
| *101.CAL | XBRL Taxonomy Extension Calculation Linkbase.   |
| *101.DEF | XBRL Taxonomy Extension Definition Linkbase.  |
| *101.LAB | XBRL Taxonomy Extension Label Linkbase.   |
| *101.PRE | XBRL Taxonomy Extension Presentation Linkbase.  |

\* Filed herewith



**SIGNATURES**

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

SPECTRA ENERGY PARTNERS, LP

By: Spectra Energy Partners (DE) GP, LP,

its general partner

By: Spectra Energy Partners GP, LLC,

its general partner

Date: August 8, 2012

/s/ JULIE A. DILL  
**Julie A. Dill**

**President and Chief Executive Officer**

Date: August 8, 2012

/s/ LAURA BUSS SAYAVEDRA  
**Laura Buss Sayavedra**

**Vice President and Chief Financial Officer**