

Spectra Energy Partners, LP  
Form 10-Q  
November 08, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended September 30, 2010

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 October 29, 2010, there were 80,353,212 Common Units and 1,639,117 General Partner Units outstanding.

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**SPECTRA ENERGY PARTNERS, LP**  
**FORM 10-Q FOR THE QUARTER ENDED**  
**September 30, 2010**

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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;

results and costs 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 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;

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

conditions of the capital markets during the periods covered by the 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.

**Table of Contents****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/>September 30,</b> |                | <b>Nine Months Ended<br/>September 30,</b> |                 |
|--|---|----------------|--|-----------------|
|  | <b>2010</b>                                 | <b>2009</b>    | <b>2010</b>                                | <b>2009</b>     |
| <b>Operating Revenues</b>                                      |   |                |  |                 |
| Transportation of natural gas                                  | \$ 42.1                                     | \$ 42.3        | \$ 125.5                                   | \$ 108.0        |
| Storage of natural gas and other                               | 6.9   | 7.5            | 21.4                                       | 18.7            |
| Total operating revenues                                       | 49.0  | 49.8           | 146.9                                      | 126.7           |
| <b>Operating Expenses</b>                                      |   |                |  |                 |
| Operating, maintenance and other                               | 16.5  | 14.5           | 49.5                                       | 37.0            |
| Depreciation and amortization                                  | 7.4   | 7.4            | 22.2                                       | 21.2            |
| Property and other taxes                                       | 0.8   | 1.8            | 6.0  | 5.7             |
| Total operating expenses                                       | 24.7  | 23.7           | 77.7                                       | 63.9            |
| <b>Operating Income</b>  | <b>24.3</b>                                 | <b>26.1</b>    | <b>69.2</b>                                | <b>62.8</b>     |
| <b>Other Income and Expenses</b>                               |   |                |  |                 |
| Equity in earnings of unconsolidated affiliates                | 18.4  | 18.6           | 54.0                                       | 53.0            |
| Other income and expenses, net                                 | 0.2   |                | 0.4  | 0.1             |
| Total other income and expenses                                | 18.6  | 18.6           | 54.4                                       | 53.1            |
| <b>Interest Income</b>   |   | <b>0.1</b>     | <b>0.1</b>                                 | <b>0.2</b>      |
| <b>Interest Expense</b>  | <b>4.3</b>                                  | <b>4.0</b>     | <b>12.2</b>                                | <b>12.6</b>     |
| <b>Earnings Before Income Taxes</b>                            | <b>38.6</b>                                 | <b>40.8</b>    | <b>111.5</b>                               | <b>103.5</b>    |
| <b>Income Tax Expense</b>                                      | <b>0.2</b>                                  | <b>0.4</b>     | <b>0.8</b>                                 | <b>1.0</b>      |
| <b>Net Income</b>  | <b>\$ 38.4</b>                              | <b>\$ 40.4</b> | <b>\$ 110.7</b>                            | <b>\$ 102.5</b> |
| <b>Calculation of Limited Partners Interest in Net Income:</b> |   |                |  |                 |
| Net income   | \$ 38.4                                     | \$ 40.4        | \$ 110.7                                   | \$ 102.5        |
| Less:  |   |                |  |                 |
| General partner's interest in net income                       | 2.7   | 1.8            | 7.4  | 3.8             |

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|  |         |         |          |         |
|--|---------|---------|----------|---------|
| Limited partners' interest in net income                                 | \$ 35.7 | \$ 38.6 | \$ 103.3 | \$ 98.7 |
| Weighted-average limited partner units outstanding - basic and diluted   | 80.3    | 80.3    | 80.3     | 75.0    |
| Net income per limited partner unit - basic and diluted                  | \$ 0.44 | \$ 0.48 | \$ 1.29  | \$ 1.32 |
| Distributions paid per limited partner unit during the periods presented | \$ 0.43 | \$ 0.38 | \$ 1.26  | \$ 1.11 |

See Notes to Condensed Consolidated Financial Statements.

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**SPECTRA ENERGY PARTNERS, LP**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(In millions)

|  | September 30,<br>2010 | December 31,<br>2009 |
|--|-----------------------|----------------------|
| <b>ASSETS</b>                                  |                       |                      |
| <b>Current Assets</b>                          |                       |                      |
| Cash and cash equivalents                      | \$ 10.4               | \$ 12.2              |
| Receivables, net                               | 22.6                  | 27.3                 |
| Other  | 6.8                   | 8.0                  |
| Total current assets                           | 39.8                  | 47.5                 |
| <b>Investments and Other Assets</b>            |                       |                      |
| Investments in unconsolidated affiliates       | 542.9                 | 536.3                |
| Goodwill                                       | 267.9                 | 267.9                |
| Total investments and other assets             | 810.8                 | 804.2                |
| <b>Property, Plant and Equipment</b>           |                       |                      |
| Cost   | 1,144.3               | 1,124.3              |
| Less accumulated depreciation and amortization | 200.8                 | 179.0                |
| Net property, plant and equipment              | 943.5                 | 945.3                |
| <b>Regulatory Assets and Deferred Debits</b>   |                       |                      |
|  | 16.1                  | 15.5                 |
| <b>Total Assets</b>                            | <b>\$ 1,810.2</b>     | <b>\$ 1,812.5</b>    |

See Notes to Condensed Consolidated Financial Statements.



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**SPECTRA ENERGY PARTNERS, LP**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(In millions)

|  | September 30,<br>2010 | December 31,<br>2009 |
|--|-----------------------|----------------------|
| <b>LIABILITIES AND PARTNERS CAPITAL</b>  |                       |                      |
| <b>Current Liabilities</b>   |                       |                      |
| Accounts payable   | \$ 12.5               | \$ 14.8              |
| Taxes accrued  | 4.7                   | 4.1                  |
| Interest accrued   | 2.9                   | 0.5                  |
| Note payable affiliates  | 33.0                  | 27.5                 |
| Other  | 7.9                   | 9.0                  |
| Total current liabilities  | 61.0                  | 55.9                 |
| <b>Long-term Debt</b>  | 380.0                 | 390.0                |
| <b>Deferred Credits and Other Liabilities</b>  |                       |                      |
| Deferred income taxes  | 10.4                  | 10.0                 |
| Other  | 3.8                   | 8.1                  |
| Total deferred credits and other liabilities   | 14.2                  | 18.1                 |
| <b>Commitments and Contingencies</b>   |                       |                      |
| <b>Partners Capital</b>  |                       |                      |
| Common units (80.4 million and 58.7 million units outstanding at September 30, 2010 and December 31, 2009, respectively) | 1,326.3               | 1,015.0              |
| Subordinated units (21.6 million units outstanding at December 31, 2009)   |                       | 308.5                |
| General partner units (1.6 million units outstanding)  | 29.4                  | 27.2                 |
| Accumulated other comprehensive loss   | (0.7)                 | (2.2)                |
| Total partners capital   | 1,355.0               | 1,348.5              |
| <b>Total Liabilities and Partners Capital</b>  | \$ 1,810.2            | \$ 1,812.5           |

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents****SPECTRA ENERGY PARTNERS, LP****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(In millions)**

|   | <b>Nine Months Ended<br/>September 30,</b> |                |
|---|--|----------------|
|   | <b>2010</b>                                | <b>2009</b>    |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |  |                |
| Net income  | \$ 110.7                                   | \$ 102.5       |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |                |
| Depreciation and amortization   | 22.2                                       | 21.2           |
| Deferred income tax expense   | 0.4  | 0.8            |
| Equity in earnings of unconsolidated affiliates                                   | (54.0)                                     | (53.0)         |
| Distributions received from unconsolidated affiliates                             | 59.8                                       | 52.4           |
| Other   | 5.4  | (13.0)         |
| <b>Net cash provided by operating activities</b>                                  | <b>144.5</b>                               | <b>110.9</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |  |                |
| Capital expenditures  | (19.7)                                     | (12.3)         |
| Investment expenditures   | (18.8)                                     | (30.3)         |
| Acquisition of Ozark  |  | (294.5)        |
| Distributions received from unconsolidated affiliates                             | 6.1  | 70.5           |
| Proceeds from sales and maturities of available-for-sale securities               |  | 31.6           |
| <b>Net cash used in investing activities</b>                                      | <b>(32.4)</b>                              | <b>(235.0)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |  |                |
| Proceeds from issuance of debt under credit facilities                            | 2,146.0                                    | 2,439.0        |
| Payments for the redemption of debt under credit facilities                       | (2,156.0)                                  | (2,439.0)      |
| Proceeds from issuance of units   |  | 212.2          |
| Proceeds from notes payable affiliates  | 16.0                                       | 77.0           |
| Payments on notes payable affiliates  | (10.5)                                     | (97.0)         |
| Distributions to partners   | (107.8)                                    | (84.6)         |
| Other   | (1.6)                                      | (0.3)          |
| <b>Net cash provided by (used in) financing activities</b>                        | <b>(113.9)</b>                             | <b>107.3</b>   |
| Net decrease in cash and cash equivalents   | (1.8)                                      | (16.8)         |
| <b>Cash and cash equivalents at beginning of period</b>                           | <b>12.2</b>                                | <b>30.9</b>    |
| <b>Cash and cash equivalents at end of period</b>                                 | <b>\$ 10.4</b>                             | <b>\$ 14.1</b> |
| <b>Supplemental Disclosures</b>   |  |                |
| Property, plant and equipment noncash accruals                                    | \$ 0.7                                     | \$ 1.3         |
| Deemed contributions from General Partner for services provided                   | 1.4  |                |

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See Notes to Condensed Consolidated Financial Statements.

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## SPECTRA ENERGY PARTNERS, LP

## CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS CAPITAL

(Unaudited)

(In millions)

|  | Partners Capital |                               | General Partner | Accumulated Other Comprehensive Loss | Total      |
|--|------------------|-------------------------------|-----------------|--------------------------------------|------------|
|  | Common           | Limited Partners Subordinated |                 |                                      |            |
| <b>December 31, 2009</b>                           | \$ 1,015.0       | \$ 308.5                      | \$ 27.2         | \$ (2.2)                             | \$ 1,348.5 |
| Net income   | 85.0             | 18.3                          | 7.4             |                                      | 110.7      |
| Unrealized mark-to-market net loss on hedges       |                  |                               |                 | (2.0)                                | (2.0)      |
| Reclassification of cash flow hedges into earnings |                  |                               |                 | 3.5                                  | 3.5        |
| Attributed deferred tax benefit                    | 0.4              | 0.1                           |                 |                                      | 0.5        |
| Distributions to partners                          | (74.0)           | (27.2)                        | (6.6)           |                                      | (107.8)    |
| Contributions                                      |                  |                               | 1.4             |                                      | 1.4        |
| Conversion of subordinated units to common units   | 299.7            | (299.7)                       |                 |                                      |            |
| Other  | 0.2              |                               |                 |                                      | 0.2        |
| <b>September 30, 2010</b>                          | \$ 1,326.3       | \$                            | \$ 29.4         | \$ (0.7)                             | \$ 1,355.0 |
| <b>December 31, 2008</b>                           | \$ 794.5         | \$ 304.7                      | \$ 21.4         | \$ (2.2)                             | \$ 1,118.4 |
| Net income   | 72.0             | 28.9                          | 1.6             |                                      | 102.5      |
| Unrealized mark-to-market net loss on hedges       |                  |                               |                 | (4.4)                                | (4.4)      |
| Reclassification of cash flow hedges into earnings |                  |                               |                 | 3.6                                  | 3.6        |
| Issuance of units                                  | 207.8            |                               | 4.4             |                                      | 212.2      |
| Attributed deferred tax benefit                    | 0.1              |                               |                 |                                      | 0.1        |
| Distributions to partners                          | (58.0)           | (24.0)                        | (2.6)           |                                      | (84.6)     |
| Other, net   | 0.1              | 0.2                           |                 |                                      | 0.3        |
| <b>September 30, 2009</b>                          | \$ 1,016.5       | \$ 309.8                      | \$ 24.8         | \$ (3.0)                             | \$ 1,348.1 |

See Notes to Condensed Consolidated Financial Statements.

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**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, LP, 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. In addition, we own a 50% interest in Market Hub Partners Holding (Market Hub) and a 24.5% interest in Gulfstream Natural Gas System, L.L.C. (Gulfstream).

**Basis of Presentation.** The accompanying Condensed Consolidated Financial Statements include our accounts, our majority-owned subsidiaries where we have control and those variable interest entities, if any, where we are the primary beneficiary. 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, 2009, 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.

**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**

On May 4, 2009, we acquired all the ownership interests of NOARK Pipeline System Limited Partnership (NOARK) from Atlas Pipeline Partners, L.P. (Atlas) for approximately \$294.5 million. NOARK's assets consist of 100% ownership interests in Ozark Gas Transmission, L.L.C. (Ozark Gas Transmission), a 565-mile Federal Energy Regulatory Commission (FERC) regulated interstate natural gas transmission system, and Ozark Gas Gathering L.L.C. (Ozark Gas Gathering), a 365-mile, fee-based, natural gas gathering system whose operations are regulated by the applicable state commissions. The transaction was initially funded by \$218.0 million drawn on our available bank credit facility, \$70.0 million borrowed under a credit facility with a subsidiary of Spectra Energy Corp (Spectra Energy) and \$6.5 million from cash on hand. This transaction was partially refinanced through the issuance of 9.8 million common units to the public, representing limited partner interests, and 0.2 million general partner units to Spectra Energy in the second quarter of 2009. Spectra Energy's ownership in us decreased from 84% to 74% as a result of the issuance of 9.8 million common units to the public.

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The assets and liabilities of NOARK were recorded at their respective fair values as of May 4, 2009 and the results of NOARK's operations are included in the Condensed Consolidated Financial Statements beginning as of the effective date of the acquisition. The following unaudited pro forma information of Spectra Energy Partners has been prepared as if the acquisition had occurred on January 1, 2009.

|   | <b>Nine Months Ended<br/>September 30, 2009<br/>(in millions, except<br/>per-unit amounts)</b> |
|---|--|
| Operating revenues                                      | \$ 147.3   |
| Net income  | 116.8  |
| Net income per limited partner unit - basic and diluted | 1.42   |

**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 and Ozark Gas Gathering (collectively, hereafter referred to as "Ozark") and Saltville Gas Storage, L.L.C. (Saltville).

The remainder of our operations is presented as "Other." While it is not considered a business segment, Other primarily includes our equity investments in Gulfstream and Market Hub and certain unallocated corporate costs.

Gulfstream provides interstate natural gas pipeline transportation 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 Texas Railroad Commission, 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.

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|                                | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|--------------------------------|-------------------------------------|---------|------------------------------------|----------|
|                                | 2010                                | 2009    | 2010                               | 2009     |
|                                | (in millions)                       |         |                                    |          |
| <b>Operating revenues</b>      |                                     |         |                                    |          |
| Gas Transportation and Storage | \$ 49.0                             | \$ 49.8 | \$ 146.9                           | \$ 126.7 |
| Other                          |                                     |         |                                    |          |
| Total operating revenues       | \$ 49.0                             | \$ 49.8 | \$ 146.9                           | \$ 126.7 |
| <b>Segment EBIT</b>            |                                     |         |                                    |          |
| Gas Transportation and Storage | \$ 26.0                             | \$ 28.1 | \$ 76.2                            | \$ 71.8  |
| Other                          | 16.9                                | 16.6    | 47.4                               | 44.1     |
| Total EBIT                     | 42.9                                | 44.7    | 123.6                              | 115.9    |
| Interest income                |                                     | 0.1     | 0.1                                | 0.2      |
| Interest expense               | 4.3                                 | 4.0     | 12.2                               | 12.6     |
| Earnings before income taxes   | \$ 38.6                             | \$ 40.8 | \$ 111.5                           | \$ 103.5 |

**4. Income Taxes**

As a result of our master limited partnership structure, we are not subject to federal income tax, but certain portions of our operations are subject to Tennessee state income tax. Market Hub is liable for Texas income (margin) tax under a tax sharing agreement with Spectra Energy.

**5. Comprehensive Income**

Components of comprehensive income are as follows:

|  | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|--|-------------------------------------|---------|------------------------------------|----------|
|  | 2010                                | 2009    | 2010                               | 2009     |
|  | (in millions)                       |         |                                    |          |
| Net income   | \$ 38.4                             | \$ 40.4 | \$ 110.7                           | \$ 102.5 |
| Unrealized mark-to-market net loss on hedges       | (0.5)                               | (1.5)   | (2.0)                              | (4.4)    |
| Reclassification of cash flow hedges into earnings | 1.1                                 | 1.3     | 3.5                                | 3.6      |
| Total comprehensive income                         | \$ 39.0                             | \$ 40.2 | \$ 112.2                           | \$ 101.7 |

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

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

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|  | Three Months Ended    |                       | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2010 | September 30,<br>2009 | September 30,<br>2010 | September 30,<br>2009 |
|  | (in millions)         |                       |                       |                       |
| Net income   | \$ 38.4               | \$ 40.4               | \$ 110.7              | \$ 102.5              |
| Less:  |                       |                       |                       |                       |
| General partner's interest in net income 2%  | 0.7                   | 0.8                   | 2.2                   | 2.0                   |
| General partner's interest in net income attributable to incentive distribution rights | 2.0                   | 1.0                   | 5.2                   | 1.8                   |
| Limited partners' interest in net income   | \$ 35.7               | \$ 38.6               | \$ 103.3              | \$ 98.7               |
| Weighted average limited partner units outstanding basic and diluted                   | 80.3                  | 80.3                  | 80.3                  | 75.0                  |
| Net income per limited partner unit basic and diluted                                  | \$ 0.44               | \$ 0.48               | \$ 1.29               | \$ 1.32               |



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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,

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.

*Subordinated Units.* Our subordinated units, which were all held by wholly owned subsidiaries of Spectra Energy, were converted into common units on a one-for-one basis effective as of August 13, 2010. The conversion of the subordinated units did not impact the amount of cash distributions paid or the total number of outstanding units. The conversion had no impact on our calculation of net income per limited partner unit since the subordinated units were previously included in the net income per limited partner unit calculation. In addition, since there are no further subordinated units, future distributions are shared equally among the limited partner units owned by subsidiaries of Spectra Energy and limited partner units owned by other common unitholders.

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

|                                | Total Quarterly<br>Distribution | Marginal Percentage<br>Interest in<br>Distributions |                    |
|--------------------------------|---------------------------------|---|--------------------|
|                                |                                 | Common<br>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 the general partner, there will be more Available Cash proportionately allocated to the general partner than to holders of common and subordinated units.

**7. Investments in Unconsolidated Affiliates**

As of September 30, 2010, our investments in unconsolidated affiliates consist of a 24.5% interest in Gulfstream and a 50% interest in Market Hub, both of which are accounted for using the equity method.

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For the nine months ended September 30, 2010, we received total distributions of \$29.4 million from Gulfstream. Of these distributions, \$23.3 million were included in Cash Flows From Operating Activities Distributions Received From Unconsolidated Affiliates and \$6.1 million were included in Cash Flows From Investing Activities Distributions Received From Unconsolidated Affiliates on the Condensed Consolidated Statements of Cash Flows. For the nine months ended September 30, 2009, we received total distributions of \$97.2 million, of which \$26.7 million were included in Cash Flows From Operating Activities Distributions Received From Unconsolidated Affiliates and \$70.5 million were included in Cash Flows From Investing Activities Distributions Received From Unconsolidated Affiliates as a result of proceeds received from Gulfstream's \$300.0 million debt issuance in the second quarter of 2009.

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We received distributions from Market Hub of \$36.5 million during the nine months ended September 30, 2010 and \$25.7 million during the same period in 2009, all of which were included in Cash Flows From Operating Activities Distributions Received From Unconsolidated Affiliates.

**Investments in Unconsolidated Affiliates**

|              | September 30,<br>2010 | December 31,<br>2009 |
|--------------|-----------------------|----------------------|
|              | (in millions)         |                      |
| Gulfstream   | \$ 180.9              | \$ 184.2             |
| Market Hub   | 362.0                 | 352.1                |
| <b>Total</b> | <b>\$ 542.9</b>       | <b>\$ 536.3</b>      |

**Equity in Earnings of Unconsolidated Affiliates**

|              | Three Months Ended<br>September 30, |                | Nine Months Ended<br>September 30, |                |
|--------------|-------------------------------------|----------------|------------------------------------|----------------|
|              | 2010                                | 2009           | 2010                               | 2009           |
|              | (in millions)                       |                |                                    |                |
| Gulfstream   | \$ 8.2                              | \$ 8.3         | \$ 23.7                            | \$ 22.0        |
| Market Hub   | 10.2                                | 10.3           | 30.3                               | 31.0           |
| <b>Total</b> | <b>\$ 18.4</b>                      | <b>\$ 18.6</b> | <b>\$ 54.0</b>                     | <b>\$ 53.0</b> |

**Summarized Financial Information of Unconsolidated Affiliates**

(Presented at 100%)

|                    | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|--------------------|-------------------------------------|---------|------------------------------------|----------|
|                    | 2010                                | 2009    | 2010                               | 2009     |
|                    | (in millions)                       |         |                                    |          |
| <b>Gulfstream</b>  |                                     |         |                                    |          |
| Operating revenues | \$ 69.5                             | \$ 67.9 | \$ 203.5                           | \$ 185.0 |
| Operating expenses | 18.4                                | 17.6    | 54.8                               | 52.8     |
| Operating income   | 51.1                                | 50.3    | 148.7                              | 132.2    |
| Net income         | 33.8                                | 33.9    | 96.9                               | 89.8     |
| <b>Market Hub</b>  |                                     |         |                                    |          |
| Operating revenues | \$ 29.2                             | \$ 28.6 | \$ 88.1                            | \$ 86.4  |
| Operating expenses | 9.0                                 | 7.9     | 28.1                               | 24.2     |
| Operating income   | 20.2                                | 20.7    | 60.0                               | 62.2     |
| Net income         | 20.3                                | 20.7    | 60.6                               | 62.2     |

**8. Goodwill**

We completed our annual goodwill impairment test as of April 1, 2010 and no impairments were identified. All of our goodwill is in our Gas Transportation and Storage segment, and there have been no additions, amortization or other changes in the carrying amount of goodwill since

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December 31, 2009.

We primarily use a discounted cash flow analysis to determine fair value for our reporting unit. Key assumptions in the determination of fair value include the use of an appropriate discount rate and estimated future cash flows. In estimating cash flows, we incorporate 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.

**Table of Contents****9. Debt and Credit Facility**

| Credit Facility Summary     | Expiration Date | Credit Facility Capacity | Outstanding as of September 30, 2010 |               |
|-----------------------------|-----------------|--------------------------|--------------------------------------|---------------|
|                             |                 |                          | Revolving Credit                     | (in millions) |
| Spectra Energy Partners, LP | 2012            | \$ 500.0                 | \$ 230.0                             |               |

The credit facility prohibits us from making distributions of Available Cash to unitholders if any default or event of default, as defined, exists. In addition, the credit facility contains covenants, among others, limiting our ability to make other restricted distributions or dividends on account of the purchase, redemption, retirement, acquisition, cancellation or termination of partnership interests, and is also subject to certain financial covenants. These financial covenants include financial leverage and interest coverage ratios. The terms of the credit agreement require us to maintain a ratio of total debt to Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), as defined in the credit agreement, of 5.0 or less. The terms of the credit agreement also require us to maintain a ratio of Adjusted EBITDA to interest expense of 2.5 or greater. As of September 30, 2010, we were in compliance with those covenants. The credit facility does not contain provisions that trigger an acceleration of indebtedness based solely on the occurrence of a material adverse change in our financial condition or results of operations.

In addition to the credit facility, long-term debt includes East Tennessee's 5.71% unsecured notes payable totaling \$150.0 million as of both September 30, 2010 and December 31, 2009. East Tennessee's debt agreement contains financial covenants which limit the amount of debt that can be outstanding as a percentage of total capital. Failure to maintain the covenants could require East Tennessee to immediately pay down the outstanding balance. As of September 30, 2010, East Tennessee was in compliance with those covenants. In addition, the debt agreement allows for acceleration of payments or termination of the agreements due to nonpayment, or to the acceleration of other significant indebtedness. The debt agreement does not contain provisions that trigger an acceleration of indebtedness based solely on the occurrence of a material adverse change.

**10. Fair Value Measurements**

The following table presents, for each of the fair value hierarchy levels, our assets and liabilities that are measured at fair value on a recurring basis:

| Description                    | Condensed Consolidated Balance Sheet Caption | Total         | September 30, 2010 |               |           |
|--------------------------------|--|---------------|--------------------|---------------|-----------|
|                                |  |               | Level 1            | Level 2       | Level 3   |
| Interest rate swap liabilities | Current liabilities other                    | \$ 2.9        | \$                 | \$ 2.9        | \$        |
| Interest rate swap liabilities | Deferred credits and other liabilities other | 0.9           |                    | 0.9           |           |
| <b>Total Liabilities</b>       |  | <b>\$ 3.8</b> | <b>\$</b>          | <b>\$ 3.8</b> | <b>\$</b> |

| Description                    | Condensed Consolidated Balance Sheet Caption | Total         | December 31, 2009 |               |           |
|--------------------------------|--|---------------|-------------------|---------------|-----------|
|                                |  |               | Level 1           | Level 2       | Level 3   |
| Interest rate swap liabilities | Current liabilities other                    | \$ 0.4        | \$                | \$ 0.4        | \$        |
| Interest rate swap liabilities | Deferred credits and other liabilities other | 5.2           |                   | 5.2           |           |
| <b>Total Liabilities</b>       |  | <b>\$ 5.6</b> | <b>\$</b>         | <b>\$ 5.6</b> | <b>\$</b> |

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**Level 2 Valuation Techniques.** Fair values of our financial instruments, which include interest rate swaps, are determined based on market-based prices. These valuations may include inputs such as quoted market prices of the exact or similar instruments or alternative pricing sources that may include models or matrix pricing tools, with reasonable levels of price transparency. For interest rate swaps, we utilize data obtained from multiple sources for the determination of fair value. Both the future cash flows for the fixed-leg and floating-leg of our swaps are discounted to present value. In addition, credit default swap rates are used to develop the adjustments for credit risk embedded in our positions. We believe that since some of the inputs and assumptions for the calculations of fair value are derived from observable market data, a Level 2 classification is appropriate.

**Financial Instruments.** There was no material change in fair value from December 31, 2009 for financial instruments recorded and carried at book value. Judgment is required in interpreting market data to develop the estimates of fair value.

During the 2010 and 2009 periods, there were no adjustments to assets and liabilities measured at fair value on a nonrecurring basis.

### **11. Commitments and Contingencies**

**Environmental.** We are subject to various federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. We believe there are no matters outstanding that upon resolution will have a material adverse 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, including matters regarding contracts, performance and other matters, arising in the ordinary course of business, 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 adverse effect on our consolidated results of operations, financial position or cash flows.

### **12. 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. We manage our interest rate exposure by limiting our variable-rate exposures and by monitoring the effects of market changes in interest rates. We also enter into financial derivative instruments, including, but not limited to, interest rate swaps to manage and mitigate interest rate risk exposure.

We use pay fixed receive floating interest rate swaps to mitigate our exposure to variable interest rates on loans outstanding under our revolving credit facility. During the second quarter of 2010, we settled our two-year interest rate swap agreements with Spectra Energy on \$25.0 million of loans outstanding under the revolving credit facility, thereby reducing our total notional amount from \$180.0 million as of December 31, 2009 to \$155.0 million as of September 30, 2010. Other than these interest rate swaps, we did not have any derivatives outstanding during the three and nine months ended September 30, 2010.

### **13. New Accounting Pronouncement**

The following new accounting pronouncement was adopted during the nine months ended September 30, 2010:

In June 2009, the Financial Accounting Standards Board issued an accounting standard which is intended to address (1) the effects on certain consolidation provisions as a result of the elimination of the concept of qualifying special-purpose entities and (2) constituent concerns about the application of certain consolidation provisions including those in which the accounting and disclosures do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. The adoption of the provisions of this standard on January 1, 2010 did not have any impact on our consolidated results of operations, financial position or cash flows.

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**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 September 30, 2010, we reported net income of \$38.4 million compared to \$40.4 million for the comparable period in 2009. The decrease resulted from a third quarter 2009 revenue benefit at the Ozark gas transmission system due to an opportunity to transport additional gas related to another company's pipeline outage. For the nine months ended September 30, 2010 and 2009, we reported net income of \$110.7 million and \$102.5 million, respectively. The increase was due primarily to the acquisition of the Ozark assets in May 2009 and increased earnings from expansion at Gulfstream. For the nine months ended September 30, 2010, cash available for distribution was \$139.5 million.

During the first quarter of 2010, East Tennessee Natural Gas executed a precedent agreement with the Tennessee Valley Authority for the Northeastern Tennessee Project (NET), and filed the related certificate application with the FERC. In July 2010, the FERC issued the environmental assessment and in October 2010, the project received full FERC certification. This project will provide 150,000 dekatherms per day (Dth/d) of gas service to a generation plant in Hawkins County, Tennessee. The initial in-service date is expected to be in the third quarter of 2011.

Gulfstream's Phase V project was granted its FERC certificate in the first quarter of 2010 and is under construction. The capacity expansion projects at Market Hub continue to progress. On Ozark, there has been a combination of contract renewals, extensions and new customers, along with notices of termination on certain contracts that expire at the end of the first quarter of 2011. We currently estimate that 2011 operating revenues and cash flows from operations could be reduced by approximately \$10 million as a result of this net Ozark customer activity.

We estimate total capital expansion expenditures of \$40 million in 2010 and \$140 million in 2011. These projections reflect a decrease of \$20 million in 2010 from previous estimates, primarily related to cost savings for the multi-year Market Hub expansion projects and moving certain costs for the NET project into 2011.

A cash distribution of \$0.44 per limited partner unit was declared in October 2010 and is payable on November 12, 2010, representing a 2.3% increase over the previous distribution of \$0.43 per limited partner unit paid in August 2010. The Spectra Energy Partners board evaluates each individual quarterly distribution decision based on an assessment of growth in cash available for distribution. Growth in our cash available for distribution over time is dependent on identification of incremental opportunities for organic expansion, third party acquisitions or acquisitions from Spectra Energy.

**Table of Contents****RESULTS OF OPERATIONS**

|   | Three Months Ended<br>September 30, |         |                        | Nine Months Ended<br>September 30, |          |                        |
|---|-------------------------------------|---------|------------------------|------------------------------------|----------|------------------------|
|   | 2010                                | 2009    | Increase<br>(Decrease) | 2010                               | 2009     | Increase<br>(Decrease) |
|   | (in millions)                       |         |                        |                                    |          |                        |
| Operating revenues                              | \$ 49.0                             | \$ 49.8 | \$ (0.8)               | \$ 146.9                           | \$ 126.7 | \$ 20.2                |
| Operating, maintenance and other expense        | 17.3                                | 16.3    | 1.0                    | 55.5                               | 42.7     | 12.8                   |
| Depreciation and amortization                   | 7.4                                 | 7.4     |                        | 22.2                               | 21.2     | 1.0                    |
| Operating income                                | 24.3                                | 26.1    | (1.8)                  | 69.2                               | 62.8     | 6.4                    |
| Equity in earnings of unconsolidated affiliates | 18.4                                | 18.6    | (0.2)                  | 54.0                               | 53.0     | 1.0                    |
| Other income and expenses, net                  | 0.2                                 |         | 0.2                    | 0.4                                | 0.1      | 0.3                    |
| Interest income                                 |                                     | 0.1     | (0.1)                  | 0.1                                | 0.2      | (0.1)                  |
| Interest expense                                | 4.3                                 | 4.0     | 0.3                    | 12.2                               | 12.6     | (0.4)                  |
| Earnings before income taxes                    | 38.6                                | 40.8    | (2.2)                  | 111.5                              | 103.5    | 8.0                    |
| Income tax expense                              | 0.2                                 | 0.4     | (0.2)                  | 0.8                                | 1.0      | (0.2)                  |
| Net income                                      | \$ 38.4                             | \$ 40.4 | \$ (2.0)               | \$ 110.7                           | \$ 102.5 | \$ 8.2                 |
| Net cash provided by operating activities       | \$ 50.8                             | \$ 45.6 | \$ 5.2                 | \$ 144.5                           | \$ 110.9 | \$ 33.6                |
| Adjusted EBITDA (a)                             | 31.7                                | 33.5    | (1.8)                  | 91.4                               | 84.0     | 7.4                    |
| Cash Available for Distribution (a)             | 50.4                                | 55.2    | (4.8)                  | 139.5                              | 134.1    | 5.4                    |

(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 September 30, 2010 compared to same period in 2009**

*Operating Revenues.* The \$0.8 million decrease was driven primarily by \$1.7 million of a third quarter 2009 revenue benefit at the Ozark gas transmission system due to an opportunity to transport additional gas related to another company's pipeline outage, partially offset by higher 2010 revenues of \$0.8 million at East Tennessee due to increased contracted volumes.

*Operating, Maintenance and Other Expense.* The \$1.0 million increase was driven primarily by:

a \$1.0 million increase due to timing of benefit costs within the year,

a \$0.7 million increase from lower pipeline fuel recoveries by East Tennessee, and

a \$0.4 million increase in pipeline integrity costs due to timing, partially offset by

a \$1.0 million decrease in ad valorem taxes due to a favorable 2010 valuation true-up in the third quarter of 2010.





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*Equity in Earnings of Unconsolidated Affiliates.* The \$0.2 million decrease includes a \$0.1 million decrease in equity earnings each from Gulfstream and 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.

|  | Three Months Ended<br>September 30, |                       | Increase<br>(Decrease) |
|--|-------------------------------------|-----------------------|------------------------|
|  | 2010                                | 2009<br>(in millions) |                        |
| <i>Gulfstream</i>                        |                                     |                       |                        |
| Operating revenues                       | \$ 69.5                             | \$ 67.9               | \$ 1.6                 |
| Operating, maintenance and other expense | 9.6                                 | 8.9                   | 0.7                    |
| Depreciation and amortization            | 8.8                                 | 8.7                   | 0.1                    |
| Other income and expenses, net           | 0.1                                 | 1.0                   | (0.9)                  |
| Interest expense                         | 17.4                                | 17.4                  |                        |
| <b>Net income</b>                        | <b>\$ 33.8</b>                      | <b>\$ 33.9</b>        | <b>\$ (0.1)</b>        |
| Spectra Energy Partners' share           | \$ 8.2                              | \$ 8.3                | \$ (0.1)               |

*Gulfstream Owned 24.5%*

Gulfstream's net income was relatively flat at \$33.8 million for the three-month period ended September 30, 2010 compared to \$33.9 million for the same period in 2009. The slight decrease was driven primarily by:

a \$0.7 million increase in operating, maintenance and other expense due primarily to higher labor, overhead and insurance costs, and

a \$0.9 million decrease in other income and expense primarily driven by a decrease in the equity portion of allowance for funds used during construction (AFUDC) due to higher capital expenditures in 2009 for Phase III expansion projects and a decrease resulting from a receipt in 2009 for capital work performed on behalf of a customer, offset by

a \$1.6 million increase in revenues primarily from short-term firm contracts and higher interruptible service revenues resulting from favorable market conditions.

|  | Three Months Ended<br>September 30, |                       | Increase<br>(Decrease) |
|--|-------------------------------------|-----------------------|------------------------|
|  | 2010                                | 2009<br>(in millions) |                        |
| <i>Market Hub</i>                        |                                     |                       |                        |
| Operating revenues                       | \$ 29.2                             | \$ 28.6               | \$ 0.6                 |
| Operating, maintenance and other expense | 5.4                                 | 4.8                   | 0.6                    |
| Depreciation and amortization            | 3.6                                 | 3.1                   | 0.5                    |
| Other income and expenses, net           |                                     |                       |                        |
| Interest income                          | 0.1                                 | 0.1                   |                        |
| Interest expense                         |                                     |                       |                        |

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|                               |         |         |          |
|-------------------------------|---------|---------|----------|
| Income tax expense            |         | 0.1     | (0.1)    |
| Net income                    | \$ 20.3 | \$ 20.7 | \$ (0.4) |
| Spectra Energy Partners share | \$ 10.2 | \$ 10.3 | \$ (0.1) |

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*Market Hub Owned 50%*

Market Hub's net income decreased \$0.4 million to \$20.3 million for the three-month period ended September 30, 2010 compared to \$20.7 million for the same period in 2009. The decrease was driven primarily by:

a \$1.2 million increase in operating and maintenance expense due primarily to lower net fuel recovery and higher benefits costs, partially offset by

a \$0.6 million increase in revenues resulting from the continued phase-in of the Egan Cavern 3 storage expansion, partially offset by lower demand for hub services compared to prior year, and

a \$0.6 million decrease in ad valorem taxes primarily due to a higher favorable ad valorem valuation true-up in 2010.

***Nine Months Ended September 30, 2010 compared to same period in 2009***

*Operating Revenues.* The \$20.2 million increase was driven primarily by \$16.4 million from the acquisition of the Ozark assets in May 2009 and higher revenues of \$3.6 million at East Tennessee due to increased contracted volumes in 2010.

*Operating, Maintenance and Other Expense.* The \$12.8 million increase was driven primarily by:

an \$8.7 million increase in operating costs associated with the Ozark assets acquired in May 2009,

a \$2.1 million increase in benefit costs, including costs related to Ozark,

a \$1.8 million increase from lower pipeline fuel recoveries by East Tennessee,

a \$1.4 million increase due to the timing of pipeline integrity and other maintenance costs, and

a \$0.7 million increase in bad debt expenses primarily due to a reversal of a bad debt provision in 2009, partially offset by

a \$2.9 million decrease as a result of 2009 transaction costs associated with the Ozark acquisition.

*Equity in Earnings of Unconsolidated Affiliates.* The \$1.0 million increase includes a \$1.7 million increase in equity earnings from Gulfstream, partially offset by a \$0.7 million decrease in equity 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.

**Nine Months Ended  
September 30,  
2010                      2009**

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|  | (in millions)  |                | Increase<br>(Decrease) |
|--|----------------|----------------|------------------------|
| <i>Gulfstream</i>                        |                |                |                        |
| Operating revenues                       | \$ 203.5       | \$ 185.0       | \$ 18.5                |
| Operating, maintenance and other expense | 28.5           | 27.0           | 1.5                    |
| Depreciation and amortization            | 26.3           | 25.8           | 0.5                    |
| Other income and expenses, net           | 0.6            | 1.3            | (0.7)                  |
| Interest expense                         | 52.4           | 43.7           | 8.7                    |
| <b>Net income</b>                        | <b>\$ 96.9</b> | <b>\$ 89.8</b> | <b>\$ 7.1</b>          |
| Spectra Energy Partners share            | \$ 23.7        | \$ 22.0        | \$ 1.7                 |

**Table of Contents***Gulfstream Owned 24.5%*

Gulfstream's net income increased \$7.1 million to \$96.9 million for the nine-month period ended September 30, 2010 compared to \$89.8 million for the same period in 2009. The increase was driven primarily by:

a \$18.5 million increase in revenues primarily from the Phase III expansion contracts that were fully ramped up by June 2009, short-term firm contracts and higher park and loan activity due to colder weather increasing the demand for natural gas in the first quarter of 2010, partially offset by

a \$1.5 million increase in operating, maintenance and other expense related primarily to higher 2009 ad valorem tax valuation adjustment,

an \$8.7 million increase in interest expense attributable to the \$300.0 million debt issued in May 2009 by Gulfstream, and

a \$0.7 million decrease in other income and expenses, net driven primarily by a decrease in the equity portion of AFUDC due to higher capital expenditures in 2009 for Phase III expansion projects and a decrease resulting from receipt in 2009 for capital work performed on behalf of a customer.

|  | 2010           | Nine Months Ended<br>September 30,<br>2009<br>(in millions) | Increase<br>(Decrease) |
|--|----------------|---|------------------------|
| <i>Market Hub</i>                        |                |   |                        |
| Operating revenues                       | \$ 88.1        | \$ 86.4   | \$ 1.7                 |
| Operating, maintenance and other expense | 17.4           | 15.5  | 1.9                    |
| Depreciation and amortization            | 10.7           | 8.7   | 2.0                    |
| Other income and expenses, net           | 0.6            |   | 0.6                    |
| Interest income                          | 0.2            | 0.3   | (0.1)                  |
| Interest expense                         |                | 0.1   | (0.1)                  |
| Income tax expense                       | 0.2            | 0.2   |                        |
| <b>Net income</b>                        | <b>\$ 60.6</b> | <b>\$ 62.2</b>  | <b>\$ (1.6)</b>        |
| Spectra Energy Partners' share           | \$ 30.3        | \$ 31.0   | \$ (0.7)               |

*Market Hub Owned 50%*

Market Hub's net income decreased \$1.6 million to \$60.6 million for the nine-month period ended September 30, 2010 compared to \$62.2 million for the same period in 2009. The decrease was driven primarily by:

a \$4.4 million decrease in hub services revenues due to lower demand compared to the prior year quarter, and

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a \$1.4 million increase in operating and maintenance expense due primarily to lower capitalized overhead costs resulting from lower capital expenditures in 2010 and lower net fuel recovery, partially offset by

a \$2.5 million increase in net earnings related to the continued phased-in of the Egan Cavern 3 storage expansion (comprised of \$6.1 million revenues, \$1.3 million operating, maintenance and other expenses and \$2.3 million depreciation expense),

a \$0.8 million decrease in ad valorem taxes primarily due to a higher favorable ad valorem valuation true-up in 2010, and

a \$0.6 million increase in other income and expenses, net primarily due to a 2010 right-of-way granted to a third party at Moss Bluff.

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### **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. Our Adjusted EBITDA is not a presentation made in accordance with GAAP. Because 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 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.

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 as our Adjusted EBITDA plus Cash Available for Distribution from Gulfstream and Market Hub and net preliminary project costs, less net cash paid for interest expense, cash paid for income tax expense, and maintenance capital expenditures, excluding the impact of reimbursable projects. 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 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 and the scheduled payments of interest.



**Table of Contents***Spectra Energy Partners**Reconciliation of Non-GAAP Adjusted EBITDA and Cash Available for Distribution*

|   | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|---|-------------------------------------|---------|------------------------------------|----------|
|   | 2010                                | 2009    | 2010                               | 2009     |
|   | (in millions)                       |         |                                    |          |
| <b>Net income</b>                               | \$ 38.4                             | \$ 40.4 | \$ 110.7                           | \$ 102.5 |
| Add:  |                                     |         |                                    |          |
| Interest expense                                | 4.3                                 | 4.0     | 12.2                               | 12.6     |
| Income tax expense                              | 0.2                                 | 0.4     | 0.8                                | 1.0      |
| Depreciation and amortization                   | 7.4                                 | 7.4     | 22.2                               | 21.2     |
| Less:   |                                     |         |                                    |          |
| Equity in earnings of Gulfstream                | 8.2                                 | 8.3     | 23.7                               | 22.0     |
| Equity in earnings of Market Hub                | 10.2                                | 10.3    | 30.3                               | 31.0     |
| Interest income                                 |                                     | 0.1     | 0.1                                | 0.2      |
| Other income and expenses, net                  | 0.2                                 |         | 0.4                                | 0.1      |
| <b>Adjusted EBITDA</b>                          | 31.7                                | 33.5    | 91.4                               | 84.0     |
| Add:  |                                     |         |                                    |          |
| Cash Available for Distribution from Gulfstream | 14.7                                | 14.4    | 34.3                               | 32.6     |
| Cash Available for Distribution from Market Hub | 11.4                                | 11.3    | 34.7                               | 32.6     |
| Preliminary project costs, net                  |                                     |         |                                    | 0.4      |
| Less:   |                                     |         |                                    |          |
| Cash paid for interest expense, net             | 2.0                                 | 0.5     | 9.7                                | 6.8      |
| Cash paid for income tax expense                | 0.2                                 |         | 0.7                                | 0.1      |
| Maintenance capital expenditures                | 5.2                                 | 3.5     | 10.5                               | 8.6      |
| <b>Cash Available for Distribution</b>          | \$ 50.4                             | \$ 55.2 | \$ 139.5                           | \$ 134.1 |

*Spectra Energy Partners**Reconciliation of Non-GAAP Adjusted EBITDA and Cash Available for Distribution*

|   | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|---|-------------------------------------|---------|------------------------------------|----------|
|   | 2010                                | 2009    | 2010                               | 2009     |
|   | (in millions)                       |         |                                    |          |
| <b>Net cash provided by operating activities</b>      | \$ 50.8                             | \$ 45.6 | \$ 144.5                           | \$ 110.9 |
| Interest income                                       |                                     | (0.1)   | (0.1)                              | (0.2)    |
| Interest expense                                      | 4.3                                 | 4.0     | 12.2                               | 12.6     |
| Income tax expense current                            | 0.1                                 | 0.1     | 0.4                                | 0.2      |
| Distributions received from Gulfstream and Market Hub | (18.1)                              | (15.5)  | (59.8)                             | (52.4)   |
| Changes in operating working capital and other        | (5.4)                               | (0.6)   | (5.8)                              | 12.9     |
| <b>Adjusted EBITDA</b>                                | 31.7                                | 33.5    | 91.4                               | 84.0     |
| Add:  |                                     |         |                                    |          |
| Cash Available for Distribution from Gulfstream       | 14.7                                | 14.4    | 34.3                               | 32.6     |
| Cash Available for Distribution from Market Hub       | 11.4                                | 11.3    | 34.7                               | 32.6     |

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|  |                |                |                 |                 |
|--|----------------|----------------|-----------------|-----------------|
| Preliminary project costs, net         |                |                |                 | 0.4             |
| Less:                                  |                |                |                 |                 |
| Cash paid for interest expense, net    | 2.0            | 0.5            | 9.7             | 6.8             |
| Cash paid for income tax expense       | 0.2            |                | 0.7             | 0.1             |
| Maintenance capital expenditures       | 5.2            | 3.5            | 10.5            | 8.6             |
| <b>Cash Available for Distribution</b> | <b>\$ 50.4</b> | <b>\$ 55.2</b> | <b>\$ 139.5</b> | <b>\$ 134.1</b> |

**Table of Contents***Gulfstream**Reconciliation of Non-GAAP Adjusted EBITDA and Cash Available for Distribution*

|  | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|--|-------------------------------------|---------|------------------------------------|----------|
|  | 2010                                | 2009    | 2010                               | 2009     |
|  | (in millions)                       |         |                                    |          |
| <b>Net income</b>                            | \$ 33.8                             | \$ 33.9 | \$ 96.9                            | \$ 89.8  |
| Add:   |                                     |         |                                    |          |
| Interest expense                             | 17.4                                | 17.4    | 52.4                               | 43.7     |
| Depreciation and amortization                | 8.8                                 | 8.7     | 26.3                               | 25.8     |
| Less:  |                                     |         |                                    |          |
| Other income and expenses, net               | 0.1                                 | 1.0     | 0.6                                | 1.3      |
| <b>Adjusted EBITDA 100%</b>                  | 59.9                                | 59.0    | 175.0                              | 158.0    |
| Add:   |                                     |         |                                    |          |
| Preliminary project costs, net               | 0.2                                 | 0.1     | 0.4                                | 0.4      |
| Less:  |                                     |         |                                    |          |
| Cash paid for interest expense, net          |                                     |         | 35.1                               | 24.7     |
| Maintenance capital expenditures             | 0.3                                 | 0.1     | 0.5                                | 0.6      |
| <b>Cash Available for Distribution 100%</b>  | \$ 59.8                             | \$ 59.0 | \$ 139.8                           | \$ 133.1 |
| <b>Adjusted EBITDA 24.5%</b>                 | \$ 14.7                             | \$ 14.4 | \$ 42.9                            | \$ 38.7  |
| <b>Cash Available for Distribution 24.5%</b> | 14.7                                | 14.4    | 34.3                               | 32.6     |

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

|   | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|---|-------------------------------------|---------|------------------------------------|---------|
|   | 2010                                | 2009    | 2010                               | 2009    |
|   | (in millions)                       |         |                                    |         |
| <b>Net income</b>                           | \$ 20.3                             | \$ 20.7 | \$ 60.6                            | \$ 62.2 |
| Add:  |                                     |         |                                    |         |
| Interest expense                            |                                     |         |                                    | 0.1     |
| Income tax expense                          |                                     | 0.1     | 0.2                                | 0.2     |
| Depreciation and amortization               | 3.6                                 | 3.1     | 10.7                               | 8.7     |
| Less:                                       |                                     |         |                                    |         |
| Interest income                             | 0.1                                 | 0.1     | 0.2                                | 0.3     |
| Other income and expenses, net              |                                     |         | 0.6                                |         |
| <b>Adjusted EBITDA 100%</b>                 | 23.8                                | 23.8    | 70.7                               | 70.9    |
| Less:                                       |                                     |         |                                    |         |
| Cash paid for interest expense, net         |                                     |         | (0.1)                              | 3.5     |
| Cash paid for income tax expense            |                                     |         |                                    |         |
| Maintenance capital expenditures            | 0.9                                 | 1.2     | 1.4                                | 2.3     |
| <b>Cash Available for Distribution 100%</b> | \$ 22.9                             | \$ 22.6 | \$ 69.4                            | \$ 65.1 |

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|  |         |         |         |         |
|--|---------|---------|---------|---------|
| <b>Adjusted EBITDA 50%</b>                 | \$ 11.9 | \$ 11.9 | \$ 35.4 | \$ 35.5 |
| <b>Cash Available for Distribution 50%</b> | 11.4    | 11.3    | 34.7    | 32.6    |

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### **Goodwill Impairment Test**

We completed our annual goodwill impairment test as of April 1, 2010 and no impairments were identified. All of our goodwill is in our Gas Transportation and Storage segment, and there have been no additions, amortization or other changes in the carrying amount of goodwill since December 31, 2009.

We primarily use a discounted cash flow analysis to determine fair value for our reporting unit. Key assumptions in the determination of fair value include the use of an appropriate discount rate and estimated future cash flows. In estimating cash flows, we incorporate 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.

The long-term growth rates used for our reporting unit reflect continued expansion of our assets, driven by new natural gas supplies such as shale gas and increasing demand for natural gas transportation capacity on our pipeline systems. We assumed a weighted-average long-term growth rate of 3% for our 2010 goodwill impairment analysis. Had we assumed a 1% lower growth rate for our reporting unit, there would have been no impairment of goodwill.

We continue to monitor the effects of the economic downturn that global economies are currently facing on the long-term cost of capital utilized to calculate our reporting unit fair value. We assumed a weighted-average cost of capital that market participants would use in evaluating our business of 9.4% for our 2010 goodwill impairment analysis. 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.

### **LIQUIDITY AND CAPITAL RESOURCES**

We will rely primarily upon cash flows from operations, including cash distributions received from Gulfstream and Market Hub, an available credit facility and potential additional financing transactions to fund our liquidity and capital requirements for the next 12 months. Future financing could include long-term debt and equity issuances as needed to fund growth opportunities. As of September 30, 2010, we had negative net working capital of \$21.2 million compared to negative \$8.4 million as of December 31, 2009, of which the September 30, 2010 balance included \$33.0 million and the December 31, 2009 balance included \$27.5 million for the note payable on demand to Market Hub.

#### **Operating Cash Flows**

Net cash provided by operating activities totaled \$144.5 million in the first nine months of 2010 compared to \$110.9 million during the same period in 2009. This increase was driven primarily by earnings from the Ozark acquisition in May 2009, as well as increased distributions received from Market Hub and 2010 collection of receivables primarily at Ozark.

#### **Investing Cash Flows**

Cash flows used in investing activities totaled \$32.4 million in the first nine months of 2010 compared to \$235.0 million during the same period in 2009. The change was driven primarily by:

the \$294.5 million acquisition of Ozark in 2009, partially offset by

the \$70.5 million distribution received from Gulfstream resulting from their \$300.0 million debt issuance in 2009, and

\$31.6 million of proceeds in 2009 from the liquidation of the remaining available-for-sale securities previously held as collateral for our term loan. The term loan was repaid and that feature of the credit facility is no longer available.



**Table of Contents****Capital and Investment Expenditures**

|   | Nine Months Ended<br>September 30,<br>2010                      2009<br>(in millions) |         |
|---|---|---------|
| Capital Expenditures                      |   |         |
| Gas Transportation and Storage            | \$ 19.7   | \$ 12.3 |
| Investment Expenditures                   |   |         |
| Gulfstream                                | 2.7   | 8.1     |
| Market Hub                                | 16.1  | 22.2    |
| Total capital and investment expenditures | \$ 38.5   | \$ 42.6 |

Capital and investment expenditures for the nine months ended September 30, 2010 totaled \$38.5 million and included \$27.4 million for expansion projects and \$11.1 million for maintenance and other projects. We estimate 2010 capital and investment expenditures of approximately \$55 million, of which \$40 million is expected to be used for expansion projects and \$15 million for maintenance and other projects. These projections reflect a decrease of \$20 million in 2010 from previous estimates, primarily related to cost savings for the multi-year Market Hub expansion projects and moving certain costs for the NET project into 2011. For 2011, expansion expenditures remain projected at \$140 million and primarily relate to the NET project. Given our objective of growth through acquisitions and expansions of existing assets, we anticipate that we will continue to invest significant amounts of capital to grow and acquire assets. Expansion capital expenditures may vary significantly based on investment opportunities.

We continue to evaluate customers' needs for incremental expansion opportunities at East Tennessee, Ozark, Gulfstream and Market Hub. 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.

**Financing Cash Flows**

Net cash used in financing activities totaled \$113.9 million in the first nine months of 2010 compared to \$107.3 million cash provided by in the same prior-year period. This change was driven primarily by:

\$212.2 million of net proceeds received from the issuance of units associated with the Ozark acquisition in 2009,

\$10.0 million of net payments on long-term debt in 2010, and

\$23.2 million increase in distributions to partners in 2010 compared to the same period in 2009, as a result of increased distribution rates and an increase in the number of units outstanding due to the issuance in the second quarter of 2009, partially offset by

\$5.5 million of net proceeds on note payable to affiliates in 2010 versus \$20.0 million of net payments in the same period in 2009.

*Available Credit Facility and Restrictive Debt Covenants.* See Note 9 of Notes to Condensed Consolidated Financial Statements for a discussion of the available credit facility and related financial and other covenants.

*Cash Distributions.* As previously discussed, a cash distribution of \$0.44 per limited partner unit was declared in October 2010, payable on November 12, 2010, representing a 2.3% increase over the previous distribution of \$0.43 per limited partner unit and the twelfth consecutive

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quarterly increase. This cash distribution represents a 10.0% increase over the distribution of \$0.40 per limited partner unit declared in October 2009.

*Other Financing Matters.* On August 13, 2010, all subordinated units were converted into common units on a one-for-one basis. Since there are no subordinated units, distributions are shared equally among the limited partner units owned by subsidiaries of Spectra Energy and limited partner units owned by other common unitholders.



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As of the date of this filing, we have \$1.3 billion available in the aggregate under an effective shelf registration statement on file with the Securities and Exchange Commission (SEC) to register the issuance of limited partner common units and various debt securities.

### **OTHER ISSUES**

#### **New Accounting Pronouncement**

See Note 13 of Notes to Condensed Consolidated Financial Statements for discussion.

#### **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, 2009. 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 September 30, 2010, and, based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective.

##### **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 September 30, 2010 and found no change that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

For information regarding material legal proceedings and environmental matters, see Note 11 of Notes to Condensed Consolidated Financial Statements, which 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, 2009, 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 of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- \*31.2 Certification of the Chief Financial Officer 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.

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\*32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Filed herewith

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**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: November 8, 2010

/s/ GREGORY J. RIZZO

**Gregory J. Rizzo**

**President and Chief Executive Officer**

**Spectra Energy Partners GP, LLC**

Date: November 8, 2010

/s/ LAURA BUSS SAYAVEDRA

**Laura Buss Sayavedra**

**Vice President and Chief Financial Officer**

**Spectra Energy Partners GP, LLC**