

Spectra Energy Partners, LP  
Form 10-Q  
August 08, 2011  
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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 June 30, 2011

or

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

For the transition period from                      to

Commission file number 1-33556

**SPECTRA ENERGY PARTNERS, LP**

(Exact Name of Registrant as Specified in its Charter)

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

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

**5400 Westheimer Court**

**Houston, Texas 77056**

(Address of principal executive offices, including zip code)

**713-627-5400**

(Registrant's telephone number, including area code)

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

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

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

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

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

At June 30, 2011, there were 96,337,929 Common Units and 1,966,081 General Partner Units outstanding.

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**FORM 10-Q FOR THE QUARTER ENDED**

**June 30, 2011**

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

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

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

outcomes of litigation and regulatory investigations, proceedings or inquiries;

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

the timing and extent of changes in interest rates;

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

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

changes in environmental, safety and other laws and regulations;

the development of alternative energy resources;

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

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

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

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

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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 these forward-looking statements; and

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

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

**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 June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Operating Revenues</b>				
Transportation of natural gas	\$ 38.0	\$ 41.3	\$ 82.0	\$ 83.4
Storage of natural gas and other	5.0	6.1	12.2	14.5
Total operating revenues	43.0	47.4	94.2	97.9
<b>Operating Expenses</b>				
Operating, maintenance and other	18.1	17.3	33.1	33.0
Depreciation and amortization	7.4	7.4	15.2	14.8
Property and other taxes	2.2	2.8	5.5	5.2
Total operating expenses	27.7	27.5	53.8	53.0
<b>Operating Income</b>	15.3	19.9	40.4	44.9
<b>Other Income and Expenses</b>				
Equity in earnings of unconsolidated affiliates	26.8	17.2	54.6	35.6
Other income and expenses, net	0.8	0.2	1.3	0.2
Total other income and expenses	27.6	17.4	55.9	35.8
<b>Interest Income</b>	0.2	0.1	0.3	0.1
<b>Interest Expense</b>	5.3	3.9	9.5	7.9
<b>Earnings Before Income Taxes</b>	37.8	33.5	87.1	72.9
<b>Income Tax Expense</b>	0.2	0.3	0.6	0.6
<b>Net Income</b>	\$ 37.6	\$ 33.2	\$ 86.5	\$ 72.3
<b>Calculation of Limited Partners Interest in Net Income:</b>				
Net income	\$ 37.6	\$ 33.2	\$ 86.5	\$ 72.3
Less:				
General partner's interest in net income	4.8	2.4	9.1	4.7
Limited partners' interest in net income	\$ 32.8	\$ 30.8	\$ 77.4	\$ 67.6

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Weighted-average limited partner units outstanding basic and diluted	90.5	80.3	89.8	80.3
Net income per limited partner unit basic and diluted	\$ 0.36	\$ 0.38	\$ 0.86	\$ 0.84
Distributions paid per limited partner unit during the periods presented	\$ 0.46	\$ 0.42	\$ 0.91	\$ 0.83

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents****SPECTRA ENERGY PARTNERS, LP****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)****(In millions)**

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 459.5	\$ 27.4
Receivables, net	22.7	24.8
Other	9.7	6.8
Total current assets	491.9	59.0
<b>Investments and Other Assets</b>		
Investments in unconsolidated affiliates	729.2	728.6
Goodwill	267.9	267.9
Other investments	0.1	209.1
Total investments and other assets	997.2	1,205.6
<b>Property, Plant and Equipment</b>		
Cost	1,193.6	1,148.3
Less accumulated depreciation and amortization	219.7	206.8
Net property, plant and equipment	973.9	941.5
<b>Regulatory Assets and Deferred Debits</b>	18.9	16.4
<b>Total Assets</b>	<b>\$ 2,481.9</b>	<b>\$ 2,222.5</b>

See Notes to Condensed Consolidated Financial Statements.



**Table of Contents****SPECTRA ENERGY PARTNERS, LP****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)****(In millions)**

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
<b>LIABILITIES AND PARTNERS CAPITAL</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 30.8	\$ 13.8
Taxes accrued	4.9	3.9
Note payable affiliates	22.5	34.0
Other	8.8	7.9
<b>Total current liabilities</b>	<b>67.0</b>	<b>59.6</b>
<b>Long-term Debt</b>	<b>689.4</b>	<b>655.8</b>
<b>Deferred Credits and Other Liabilities</b>		
Deferred income taxes	7.4	9.0
Other	5.8	3.7
<b>Total deferred credits and other liabilities</b>	<b>13.2</b>	<b>12.7</b>
<b>Commitments and Contingencies</b>		
<b>Partners Capital</b>		
Common units (96.3 million and 89.2 million units issued and outstanding at June 30, 2011 and December 31, 2010, respectively)	1,668.8	1,458.7
General partner units (2.0 million and 1.8 million units issued and outstanding at June 30, 2011 and December 31, 2010, respectively)	39.0	32.9
Accumulated other comprehensive income	4.5	2.8
<b>Total partners capital</b>	<b>1,712.3</b>	<b>1,494.4</b>
<b>Total Liabilities and Partners Capital</b>	<b>\$ 2,481.9</b>	<b>\$ 2,222.5</b>

See Notes to Condensed Consolidated Financial Statements.

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

	<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 86.5	\$ 72.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15.2	14.8
Deferred income tax expense	0.5	0.3
Equity in earnings of unconsolidated affiliates	(54.6)	(35.6)
Distributions received from unconsolidated affiliates	66.6	41.7
Other	4.9	0.2
<b>Net cash provided by operating activities</b>	<b>119.1</b>	<b>93.7</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(31.9)	(11.9)
Investment expenditures	(12.9)	(10.7)
Distributions received from unconsolidated affiliates		6.1
Purchases of available-for-sale securities	(901.6)	
Proceeds from sales and maturities of available-for-sale securities	1,101.1	
Other	10.6	
<b>Net cash provided by (used in) investing activities</b>	<b>165.3</b>	<b>(16.5)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of long-term debt	2,117.9	1,440.0
Payments for the redemption of long-term debt	(2,084.3)	(1,440.0)
Proceeds from issuance of units	217.9	
Proceeds from notes payable affiliates	8.0	
Payments on notes payable affiliates	(19.5)	(2.5)
Purchases of Spectra Energy Partners, LP common units		(1.6)
Distributions to partners	(88.6)	(70.8)
Other	(3.7)	
<b>Net cash provided by (used in) financing activities</b>	<b>147.7</b>	<b>(74.9)</b>
Net increase in cash and cash equivalents	432.1	2.3
<b>Cash and cash equivalents at beginning of period</b>	<b>27.4</b>	<b>12.2</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 459.5</b>	<b>\$ 14.5</b>
<b>Supplemental Disclosures</b>		
Property, plant and equipment noncash accruals	\$ 16.4	\$ 1.8
Deemed contributions from General Partner for services provided		1.4

See Notes to Condensed Consolidated Financial Statements.



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

	Partners Capital		General Partner	Accumulated Other Comprehensive Income (Loss)	Total
	Common Limited Partners	Subordinated			
<b>December 31, 2010</b>	\$ 1,458.7	\$	\$ 32.9	\$ 2.8	\$ 1,494.4
Net income	77.4		9.1		86.5
Reclassification of cash flow hedges into earnings				1.7	1.7
Issuance of units	213.4		4.5		217.9
Attributed deferred tax benefit	0.4				0.4
Distributions to partners	(81.1)		(7.5)		(88.6)
<b>June 30, 2011</b>	\$ 1,668.8	\$	\$ 39.0	\$ 4.5	\$ 1,712.3
<b>December 31, 2009</b>	\$ 1,015.0	\$ 308.5	\$ 27.2	\$ (2.2)	\$ 1,348.5
Net income	49.4	18.2	4.7		72.3
Unrealized mark-to-market net loss on hedges				(1.5)	(1.5)
Reclassification of cash flow hedges into earnings				2.4	2.4
Attributed deferred tax benefit	0.3	0.1			0.4
Distributions to partners	(48.7)	(18.0)	(4.1)		(70.8)
Contributions from general partner			1.4		1.4
Purchase of units for awards vesting	(1.6)				(1.6)
<b>June 30, 2010</b>	\$ 1,014.4	\$ 308.8	\$ 29.2	\$ (1.3)	\$ 1,351.1

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.

**Basis of Presentation.** The Condensed Consolidated Financial Statements include our accounts and the accounts of our majority-owned subsidiaries where we have control. 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, 2010, 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. Acquisitions**

**Big Sandy Pipeline, LLC (Big Sandy).** On July 1, 2011, we completed the acquisition of Big Sandy from EQT Corporation (EQT) for approximately \$390 million in cash. Big Sandy's primary asset is a 68-mile Federal Energy Regulatory Commission (FERC)-regulated natural gas pipeline system in eastern Kentucky with capacity of 171,000 dekatherms per day. The Big Sandy natural gas pipeline system connects Appalachian and Huron Shale natural gas supplies to markets in the mid-Atlantic and northeast portions of the United States. EQT will be the main shipper on the pipeline, with over 80% of the pipeline's capacity. With 100% fee-based revenues and a weighted average contract life of 15 years, the acquisition of Big Sandy strengthens our portfolio of fee-based natural gas assets and is consistent with our strategy of growth through third-party acquisitions.

The assets and liabilities of Big Sandy will be recorded at their respective fair values as of the purchase date and the results of operations will be included in the Consolidated Financial Statements beginning as of the effective date of the acquisition. Big Sandy will be part of the Gas Transportation and Storage segment. Given the recent closing of the transaction, the initial accounting and supplemental pro forma information for the transaction is not available.

**Gulfstream Natural Gas System, L.L.C. (Gulfstream).** On November 30, 2010, we acquired an additional 24.5% interest in Gulfstream from a subsidiary of Spectra Energy Corp (Spectra Energy) for approximately \$330.0 million, consisting of approximately \$66.0 million in newly issued units, the assumption of \$7.4 million in debt owed to Spectra Energy Capital LLC, a subsidiary of Spectra Energy and \$256.6 million in cash, which was funded through borrowings under our credit facility. The acquisition increased our interest in Gulfstream to 49%.

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The Gulfstream acquisition represented a transaction between entities under common control, but did not represent a change in reporting entity as Gulfstream is accounted for as an equity method investment. Accordingly, the Condensed Consolidated Financial Statements and related information presented herein include the results of the acquisition of additional interest in Gulfstream as of the date of the acquisition.

The additional 24.5% interest in Gulfstream was recorded at the historical book value of Spectra Energy of \$179.9 million, including \$2.5 million of additional equity interest in Gulfstream's other comprehensive income. The \$150.1 million excess purchase price over the book value of net assets acquired was recorded as a reduction to Partners' Capital, and the \$66.0 million of common and general partner units issued were recorded as increases to Partners' Capital.

Following the acquisition of Gulfstream, we issued 6.9 million of our common units to the public, representing limited partner interests. The net proceeds from this offering were approximately \$221.0 million, including our general partner's proportionate unit purchase after deducting the underwriting fees. The proceeds were used to repay the \$7.4 million loan assumed in the Gulfstream acquisition. The remaining \$209.0 million in net proceeds (other than proceeds from our general partner) were used to purchase qualifying investment grade securities, which were assigned as collateral to secure the new term loan of an approximately equal principal amount. The proceeds of the term loan were used to repay revolving borrowings, which were incurred to fund a portion of the consideration of the Gulfstream acquisition. The approximately \$4.6 million in proceeds from our general partner's proportionate unit purchase were used for general partnership purposes.

### **3. Business Segments**

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

The Gas Transportation and Storage segment provides interstate transportation, storage and gathering services of natural gas, and the storage and redelivery of liquefied natural gas for customers in the southeastern quadrant of the United States. Substantially all of our operations are subject to the FERC and the Department of Transportation's (DOT) rules and regulations. This segment includes East Tennessee Natural Gas, LLC (East Tennessee), Ozark Gas Transmission, L.L.C. (Ozark Gas Transmission) and Ozark Gas Gathering, L.L.C. (Ozark Gas Gathering) (collectively, hereafter referred to as "Ozark") and Saltville Gas Storage, L.L.C. (Saltville). As discussed in Note 2, Big Sandy will be part of the Gas Transportation and Storage segment effective July 1, 2011.

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

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

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

**Table of Contents****Business Segment Data**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
(in millions)				
<b>Operating revenues</b>				
Gas Transportation and Storage	\$ 43.0	\$ 47.4	\$ 94.2	\$ 97.9
Other				
Total operating revenues	\$ 43.0	\$ 47.4	\$ 94.2	\$ 97.9
<b>Segment EBIT</b>				
Gas Transportation and Storage	\$ 19.4	\$ 22.7	\$ 47.2	\$ 50.2
Other	23.5	14.6	49.1	30.5
Total EBIT	42.9	37.3	96.3	80.7
Interest income	0.2	0.1	0.3	0.1
Interest expense	5.3	3.9	9.5	7.9
Earnings before income taxes	\$ 37.8	\$ 33.5	\$ 87.1	\$ 72.9

**4. Regulatory Matters**

**Ozark Gas Transmission.** In 2010, FERC initiated a rate proceeding that required Ozark to file a Cost and Revenue Study by February 1, 2011. A settlement agreement was reached with parties involved in the proceeding and filed with the FERC on April 29, 2011. A final FERC order on the settlement agreement is expected in the third quarter of 2011. Management believes that the effects of this matter will not have a material adverse effect on our future consolidated results of operations, financial position or cash flows.

**5. 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. We recognized a \$3 million increase in uncertain tax positions during the six months ended June 30, 2011. Although uncertain, no material increases or decreases in uncertain tax benefits are expected to occur prior to June 30, 2012. Market Hub is liable for Texas income (margin) tax under a tax sharing agreement with Spectra Energy.

**6. Comprehensive Income**

Components of comprehensive income are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
(in millions)				
Net income	\$ 37.6	\$ 33.2	\$ 86.5	\$ 72.3
Unrealized mark-to-market net loss on hedges		(0.4)		(1.5)
Reclassification of cash flow hedges into earnings	0.7	1.2	1.7	2.4
Total comprehensive income	\$ 38.3	\$ 34.0	\$ 88.2	\$ 73.2





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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in millions, except per unit amounts)			
Net income	\$ 37.6	\$ 33.2	\$ 86.5	\$ 72.3
Less:				
General partner's interest in net income 2%	0.8	0.7	1.7	1.5
General partner's interest in net income attributable to incentive distribution rights	4.0	1.7	7.4	3.2
Limited partners' interest in net income	\$ 32.8	\$ 30.8	\$ 77.4	\$ 67.6
				&nbsp;