

Spectra Energy Partners, LP
Form 10-Q
August 07, 2014
Table of Contents

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

FORM 10-Q

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

For the quarterly period ended June 30, 2014

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)

Delaware

(State or other jurisdiction of incorporation)

5400 Westheimer Court

Houston, Texas 77056

(Address of principal executive offices, including zip code)

713-627-5400

(Registrant's telephone number, including area code)

41-2232463

(IRS Employer Identification No.)

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

Indicate by check mark whether the registrant has submitted electronically 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, 2014, there were 287,927,070 Common Units and 5,876,063 General Partner Units outstanding.

SPECTRA ENERGY PARTNERS, LP
 FORM 10-Q FOR THE QUARTER ENDED
 June 30, 2014
 INDEX

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2014 and 2013</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2014 and 2013</u>	<u>5</u>
<u>Condensed Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013</u>	<u>8</u>
<u>Condensed Consolidated Statements of Equity for the six months ended June 30, 2014 and 2013</u>	<u>9</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>10</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>19</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>29</u>
Item 4. <u>Controls and Procedures</u>	<u>29</u>
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>30</u>
Item 1A. <u>Risk Factors</u>	<u>30</u>
Item 6. <u>Exhibits</u>	<u>30</u>
<u>Signatures</u>	<u>32</u>

Table of Contents

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 represent management’s intentions, plans, expectations, assumptions and beliefs about future events. 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 are subject to risks, uncertainties and other factors, many of which are outside our control and could cause actual results to differ materially from the results expressed or implied by those forward-looking statements. Factors used to develop these forward-looking statements and that could cause actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to:

- state, provincial, federal and foreign 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 and oil 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 and foreign currency exchange 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 oil 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 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 U.S. and Canadian pipeline, storage, gathering and other related infrastructure projects and the effects of competition;
- the performance of natural gas transmission, storage and gathering facilities, and crude oil transportation and storage;
 - the extent of success in connecting natural gas and oil supplies to transmission and gathering systems and in connecting to expanding gas and oil markets;
- the effects of accounting pronouncements issued periodically by accounting standard-setting bodies;
- conditions of the capital markets during the periods covered by 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)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Operating Revenues				
Transportation of natural gas	\$402	\$355	\$828	\$724
Transportation of crude oil	70	67	141	80
Storage of natural gas and other	59	70	143	147
Total operating revenues	531	492	1,112	951
Operating Expenses				
Operating, maintenance and other	166	151	322	269
Depreciation and amortization	70	65	143	126
Property and other taxes	46	33	90	64
Total operating expenses	282	249	555	459
Operating Income	249	243	557	492
Other Income and Expenses				
Equity in earnings of unconsolidated affiliates	29	23	57	42
Other income and expenses, net	6	16	9	28
Total other income and expenses	35	39	66	70
Interest Expense	62	100	129	194
Earnings Before Income Taxes	222	182	494	368
Income Tax Expense	2	1	28	2
Net Income	220	181	466	366
Net Income—Noncontrolling Interests	5	4	9	8
Net Income—Controlling Interests	\$215	\$177	\$457	\$358
Calculation of Limited Partners' Interest in Net Income:				
Net income—Controlling Interests	\$215	\$177	\$457	\$358
Less: General partner's interest in net income	45	13	87	24
Limited partners' interest in net income	\$170	\$164	\$370	\$334
Weighted-average limited partner units outstanding—basic and diluted	286	108	285	106
(a)				
Net income per limited partner unit—basic and diluted (a)	\$0.59	\$1.52	\$1.30	\$3.15
Distributions paid per limited partner unit	\$0.55625	\$0.50125	\$1.1025	\$0.99625

Weighted average limited partners units outstanding used in the calculation of net income per limited partner unit (a) for the period prior to the November 1, 2013 U.S. Assets Dropdown has not been recast. See Note 4 for further information.

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

SPECTRA ENERGY PARTNERS, LP
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)
 (In millions)

	Three Months Ended		Six Months Ended		
	June 30,		June 30,		
	2014	2013	2014	2013	
Net Income	\$220	\$181	\$466	\$366	
Other comprehensive income (loss):					
Foreign currency translation adjustments	6	(2) 1	(2)
Total other comprehensive income (loss)	6	(2) 1	(2)
Total Comprehensive Income	226	179	467	364	
Less: Comprehensive Income—Noncontrolling Interests	5	4	9	8	
Comprehensive Income—Controlling Interests	\$221	\$175	\$458	\$356	

See Notes to Condensed Consolidated Financial Statements.

5

Table of Contents

SPECTRA ENERGY PARTNERS, LP
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)
 (In millions)

	June 30, 2014	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$123	\$121
Receivables, net	291	355
Inventory	38	42
Fuel tracker	68	28
Other	35	19
Total current assets	555	565
Investments and Other Assets		
Investments in and loans to unconsolidated affiliates	1,285	1,396
Goodwill	3,251	3,215
Other	3	2
Total investments and other assets	4,539	4,613
Property, Plant and Equipment		
Cost	14,940	14,592
Less accumulated depreciation and amortization	3,346	3,229
Net property, plant and equipment	11,594	11,363
Regulatory Assets and Deferred Debits	249	253
Total Assets	\$16,937	\$16,794

See Notes to Condensed Consolidated Financial Statements.

6

Table of Contents

SPECTRA ENERGY PARTNERS, LP
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)
 (In millions)

	June 30, 2014	December 31, 2013
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	\$212	\$231
Commercial paper	549	338
Taxes accrued	72	44
Interest accrued	60	61
Current maturities of long-term debt	34	445
Other	155	216
Total current liabilities	1,082	1,335
Long-term Debt	5,163	5,178
Deferred Credits and Other Liabilities		
Deferred income taxes	36	34
Regulatory and other	117	106
Total deferred credits and other liabilities	153	140
Commitments and Contingencies		
Equity		
Partners' Capital		
Common units (287.9 million and 284.1 million units issued and outstanding at June 30, 2014 and December 31, 2013, respectively)	10,050	9,778
General partner units (5.9 million and 5.8 million units issued and outstanding at June 30, 2014 and December 31, 2013, respectively)	256	241
Accumulated other comprehensive income	(4) (5
Total partners' capital	10,302	10,014
Noncontrolling interests	237	127
Total equity	10,539	10,141
Total Liabilities and Equity	\$16,937	\$16,794

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Six Months Ended	
	June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$466	\$366
Adjustments to reconcile net income to net cash provided by operating activities:		