

Spectra Energy Partners, LP  
Form 10-Q  
May 10, 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 March 31, 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 March 31, 2011, there were 89,150,429 Common Units and 1,819,396 General Partner Units outstanding.

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

**March 31, 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<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2011</b>                             | <b>2010</b> |
| <b>Operating Revenues</b>                                      |   |             |
| Transportation of natural gas                                  | \$ 44.0                                 | \$ 42.1     |
| Storage of natural gas and other                               | 7.2                                     | 8.4         |
| Total operating revenues                                       | 51.2                                    | 50.5        |
| <b>Operating Expenses</b>                                      |   |             |
| Operating, maintenance and other                               | 15.0                                    | 15.7        |
| Depreciation and amortization                                  | 7.8                                     | 7.4         |
| Property and other taxes                                       | 3.3                                     | 2.4         |
| Total operating expenses                                       | 26.1                                    | 25.5        |
| <b>Operating Income</b>  | 25.1                                    | 25.0        |
| <b>Other Income and Expenses</b>                               |   |             |
| Equity in earnings of unconsolidated affiliates                | 27.8                                    | 18.4        |
| Other income and expenses, net                                 | 0.5                                     |             |
| Total other income and expenses                                | 28.3                                    | 18.4        |
| <b>Interest Income</b>   | 0.1                                     |             |
| <b>Interest Expense</b>  | 4.2                                     | 4.0         |
| <b>Earnings Before Income Taxes</b>                            | 49.3                                    | 39.4        |
| <b>Income Tax Expense</b>                                      | 0.4                                     | 0.3         |
| <b>Net Income</b>  | \$ 48.9                                 | \$ 39.1     |
| <b>Calculation of Limited Partners Interest in Net Income:</b> |   |             |
| Net income   | \$ 48.9                                 | \$ 39.1     |
| Less:  |   |             |
| General partner's interest in net income                       | 4.3                                     | 2.3         |
| Limited partners' interest in net income                       | \$ 44.6                                 | \$ 36.8     |

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|  |         |         |
|--|---------|---------|
| Weighted average limited partner units outstanding basic and diluted     | 89.2    | 80.3    |
| Net income per limited partner unit basic and diluted                    | \$ 0.50 | \$ 0.46 |
| Distributions paid per limited partner unit during the periods presented | \$ 0.45 | \$ 0.41 |

See Notes to Condensed Consolidated Financial Statements.

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

|  | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|--|---------------------------|------------------------------|
| <b>ASSETS</b>                                  |                           |                              |
| <b>Current Assets</b>                          |                           |                              |
| Cash and cash equivalents                      | \$ 29.4                   | \$ 27.4                      |
| Receivables, net                               | 25.8                      | 24.8                         |
| Other  | 7.2                       | 6.8                          |
| Total current assets                           | 62.4                      | 59.0                         |
| <b>Investments and Other Assets</b>            |                           |                              |
| Investments in unconsolidated affiliates       | 737.5                     | 728.6                        |
| Goodwill                                       | 267.9                     | 267.9                        |
| Other investments                              | 171.5                     | 209.1                        |
| Total investments and other assets             | 1,176.9                   | 1,205.6                      |
| <b>Property, Plant and Equipment</b>           |                           |                              |
| Cost   | 1,165.0                   | 1,148.3                      |
| Less accumulated depreciation and amortization | 214.0                     | 206.8                        |
| Net property, plant and equipment              | 951.0                     | 941.5                        |
| <b>Regulatory Assets and Deferred Debits</b>   | 15.4                      | 16.4                         |
| <b>Total Assets</b>                            | <b>\$ 2,205.7</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>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|--|---------------------------|------------------------------|
| <b>LIABILITIES AND PARTNERS' CAPITAL</b>                         |                           |                              |
| <b>Current Liabilities</b>                                       |                           |                              |
| Accounts payable   | \$ 14.7                   | \$ 13.8                      |
| Taxes accrued  | 3.3                       | 3.9                          |
| Note payable - affiliates  | 30.5                      | 34.0                         |
| Other  | 9.8                       | 7.9                          |
| <b>Total current liabilities</b>                                 | <b>58.3</b>               | <b>59.6</b>                  |
| <b>Long-term Debt</b>  | <b>632.2</b>              | <b>655.8</b>                 |
| <b>Deferred Credits and Other Liabilities</b>                    |                           |                              |
| Deferred income taxes  | 9.3                       | 9.0                          |
| Other  | 5.0                       | 3.7                          |
| <b>Total deferred credits and other liabilities</b>              | <b>14.3</b>               | <b>12.7</b>                  |
| <b>Commitments and Contingencies</b>                             |                           |                              |
| <b>Partners' Capital</b>   |                           |                              |
| Common units (89.2 million units issued and outstanding)         | 1,463.2                   | 1,458.7                      |
| General partner units (1.8 million units issued and outstanding) | 33.9                      | 32.9                         |
| Accumulated other comprehensive income                           | 3.8                       | 2.8                          |
| <b>Total partners' capital</b>                                   | <b>1,500.9</b>            | <b>1,494.4</b>               |
| <b>Total Liabilities and Partners' Capital</b>                   | <b>\$ 2,205.7</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>Three Months Ended<br/>March 31,</b> |                |
|---|---|----------------|
|   | <b>2011</b>                             | <b>2010</b>    |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |   |                |
| Net income  | \$ 48.9                                 | \$ 39.1        |
| Adjustments to reconcile net income to net cash provided by operating activities: |   |                |
| Depreciation and amortization   | 7.8                                     | 7.4            |
| Deferred income tax expense   | 0.3                                     | 0.2            |
| Equity in earnings of unconsolidated affiliates                                   | (27.8)                                  | (18.4)         |
| Distributions received from unconsolidated affiliates                             | 24.7                                    | 19.4           |
| Other   | 3.7                                     | 4.1            |
| <b>Net cash provided by operating activities</b>                                  | <b>57.6</b>                             | <b>51.8</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |   |                |
| Capital expenditures  | (16.8)                                  | (2.2)          |
| Investment expenditures   | (5.9)                                   | (6.5)          |
| Distributions received from unconsolidated affiliates                             |   | 4.7            |
| Purchases of available-for-sale securities  | (548.3)                                 |                |
| Proceeds from sales and maturities of available-for-sale securities               | 576.4                                   |                |
| Release of collateral investments   | 9.5                                     |                |
| <b>Net cash provided by (used in) investing activities</b>                        | <b>14.9</b>                             | <b>(4.0)</b>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |   |                |
| Proceeds from issuance of debt under credit facilities                            | 918.7                                   | 720.0          |
| Payments for the redemption of debt under credit facilities                       | (942.3)                                 | (720.0)        |
| Proceeds from notes payable affiliates  | 6.5                                     |                |
| Payments on notes payable affiliates  | (10.0)                                  |                |
| Distributions to partners   | (43.4)                                  | (34.9)         |
| <b>Net cash used in financing activities</b>                                      | <b>(70.5)</b>                           | <b>(34.9)</b>  |
| <b>Net increase in cash and cash equivalents</b>                                  | <b>2.0</b>                              | <b>12.9</b>    |
| <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>\$ 29.4</b>                          | <b>\$ 25.1</b> |
| <b>Supplemental Disclosures</b>   |   |                |
| Property, plant and equipment noncash accruals                                    | \$ 1.1                                  | \$ 4.1         |
| Deemed contributions from General Partner for services provided                   |   | 0.5            |

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 Income (Loss) | Total      |
|--|-------------------------|--------------|-----------------|---|------------|
|  | Common Limited Partners | Subordinated |                 |   |            |
| <b>December 31, 2010</b>                           | \$ 1,458.7              | \$           | \$ 32.9         | \$ 2.8  | \$ 1,494.4 |
| Net income   | 44.6                    |              | 4.3             |   | 48.9       |
| Reclassification of cash flow hedges into earnings |                         |              |                 | 1.0   | 1.0        |
| Distributions to partners                          | (40.1)                  |              | (3.3)           |   | (43.4)     |
| <b>March 31, 2011</b>                              | \$ 1,463.2              | \$           | \$ 33.9         | \$ 3.8  | \$ 1,500.9 |
| <b>December 31, 2009</b>                           | \$ 1,015.0              | \$ 308.5     | \$ 27.2         | \$ (2.2)                                      | \$ 1,348.5 |
| Net income   | 26.9                    | 9.9          | 2.3             |   | 39.1       |
| Unrealized mark-to-market net loss on hedges       |                         |              |                 | (1.1)   | (1.1)      |
| Reclassification of cash flow hedges into earnings |                         |              |                 | 1.2   | 1.2        |
| Attributed deferred tax benefit                    | 0.3                     | 0.1          |                 |   | 0.4        |
| Distributions to partners                          | (24.1)                  | (8.9)        | (1.9)           |   | (34.9)     |
| Contributions from general partner                 |                         |              | 0.5             |   | 0.5        |
| <b>March 31, 2010</b>                              | \$ 1,018.1              | \$ 309.6     | \$ 28.1         | \$ (2.1)                                      | \$ 1,353.7 |

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. Acquisition**

On November 30, 2010, we acquired an additional 24.5% interest in Gulfstream Natural Gas System, L.L.C. (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%.

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.

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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 Federal Energy Regulatory Commission (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).

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.

**Business Segment Data**

|                                | <b>Three Months Ended<br/>March 31,</b> |             |
|--------------------------------|---|-------------|
|                                | <b>2011</b>                             | <b>2010</b> |
|                                | <b>(in millions)</b>                    |             |
| <b>Operating revenues</b>      |   |             |
| Gas Transportation and Storage | \$ 51.2                                 | \$ 50.5     |
| Other                          |   |             |
| Total operating revenues       | \$ 51.2                                 | \$ 50.5     |
| <b>Segment EBIT</b>            |   |             |
| Gas Transportation and Storage | \$ 27.8                                 | \$ 27.5     |
| Other                          | 25.6                                    | 15.9        |
| Total EBIT                     | 53.4                                    | 43.4        |
| Interest income                | 0.1                                     |             |
| Interest expense               | 4.2                                     | 4.0         |
| Earnings before income taxes   | \$ 49.3                                 | \$ 39.4     |

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**Ozark Gas Transmission.** In 2010, FERC initiated a rate proceeding that required Ozark to file a Cost and Revenue Study by February 1, 2011. On March 22, 2011, the parties involved in this rate proceeding reached a settlement in principle. The settlement agreement was filed with the FERC on April 30, 2011. A final FERC order on the settlement agreement is expected by mid-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. 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:

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2011</b>                             | <b>2010</b> |
|  | <b>(in millions)</b>                    |             |
| Net income   | \$ 48.9                                 | \$ 39.1     |
| Unrealized mark-to-market net loss on hedges       |   | (1.1)       |
| Reclassification of cash flow hedges into earnings | 1.0                                     | 1.2         |
| Total comprehensive income                         | \$ 49.9                                 | \$ 39.2     |

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

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

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2011</b>                             | <b>2010</b> |
|  | <b>(in millions)</b>                    |             |
| Net income   | \$ 48.9                                 | \$ 39.1     |
| Less:  |   |             |
| General partner's interest in net income 2%  | 1.0                                     | 0.8         |
| General partner's interest in net income attributable to incentive distribution rights | 3.3                                     | 1.5         |
| Limited partners' interest in net income   | \$ 44.6                                 | \$ 36.8     |
| Weighted average limited partner units outstanding basic and diluted                   | 89.2                                    | 80.3        |
| Net income per limited partner unit basic and diluted                                  | \$ 0.50                                 | \$ 0.46     |

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



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

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

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

|                                | Total Quarterly<br>Distribution<br><br>Target Per-Unit Amount | Marginal Percentage<br>Interest in Distributions |                    |
|--------------------------------|---|--|--------------------|
|                                |   | Common and<br>Subordinated<br>Unitholders        | General<br>Partner |
| 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.

**8. Investments in Unconsolidated Affiliates**

During the fourth quarter of 2010, we purchased an additional 24.5% interest in Gulfstream from a subsidiary of Spectra Energy, for a total interest of 49%. See Note 2 for further discussion. The equity earnings related to the additional 24.5% interest is included in our results from the date of the acquisition.

As of March 31, 2011, our investments in unconsolidated affiliates consist of a 49% interest in Gulfstream and a 50% interest in Market Hub, both of which are accounted for using the equity method.

For the three months ended March 31, 2011, we received total distributions of \$13.2 million from Gulfstream all of which were included in Cash Flows From Operating Activities Distributions Received From Unconsolidated Affiliates. For the three months ended March 31, 2010, we received total distributions of \$10.3 million, of which \$5.6 million were included in Cash Flows From Operating Activities Distributions Received From Unconsolidated Affiliates and \$4.7 million were included in Cash Flows From Investing Activities Distributions Received From Unconsolidated Affiliates.

We received distributions from Market Hub of \$11.5 million during the three months ended March 31, 2011 and \$13.8 million during the same period in 2010, all of which were included in Cash Flows From Operating Activities Distributions Received From Unconsolidated Affiliates.

*Investments in Unconsolidated Affiliates*

|            | March 31,<br>2011 | December 31,<br>2010 |
|------------|-------------------|----------------------|
|            | (in millions)     |                      |
| Gulfstream | \$ 375.3          | \$ 368.1             |
| Market Hub | 362.2             | 360.5                |
| Total      | \$ 737.5          | \$ 728.6             |



**Table of Contents****Equity in Earnings of Unconsolidated Affiliates**

|            | Three Months Ended<br>March 31, |         |
|------------|---------------------------------|---------|
|            | 2011                            | 2010    |
|            | (in millions)                   |         |
| Gulfstream | \$ 16.8                         | \$ 8.1  |
| Market Hub | 11.0                            | 10.3    |
| Total      | \$ 27.8                         | \$ 18.4 |

**Summarized Financial Information of Unconsolidated Affiliates***(Presented at 100%)*

|                    | Three Months Ended<br>March 31, |         |
|--------------------|---------------------------------|---------|
|                    | 2011                            | 2010    |
|                    | (in millions)                   |         |
| <b>Gulfstream</b>  |                                 |         |
| Operating revenues | \$ 66.9                         | \$ 67.3 |
| Operating expenses | 15.8                            | 17.1    |
| Operating income   | 51.1                            | 50.2    |
| Net income         | 34.3                            | 33.0    |
| <b>Market Hub</b>  |                                 |         |
| Operating revenues | \$ 30.1                         | \$ 29.1 |
| Operating expenses | 8.0                             | 9.2     |
| Operating income   | 22.1                            | 19.9    |
| Net income         | 22.1                            | 20.5    |

**9. Marketable Securities**

In the fourth quarter of 2010, we invested a portion of the proceeds from the equity issuance following the Gulfstream acquisition in commercial paper. These investments are pledged as collateral against new term loans that were used to repay revolving borrowings, which were used to fund a portion of the consideration of the additional interest in Gulfstream. These investments are classified as Other Investments on the Condensed Consolidated Balance Sheets. There was \$170.6 million and \$207.2 million of new term loans outstanding and \$171.4 million and \$209.0 million of investments pledged as collateral at March 31, 2011 and December 31, 2010, respectively. See Note 2 for additional information on the acquisition of additional interest in Gulfstream.

The estimated fair values of long-term investments classified as available-for-sale were \$171.4 million at March 31, 2011 and \$209.0 million at December 31, 2010. There were no gross unrealized holding gains or losses as of March 31, 2011 or December 31, 2010.

**10. Debt and Credit Facility**

| Credit Facility Summary     | Expiration Date | Credit Facility Capacity<br>(in millions) | Outstanding as of<br>March 31, 2011<br>Revolving Credit |
|-----------------------------|-----------------|---|---|
| Spectra Energy Partners, LP | 2012            | \$ 500.0                                  | \$ 311.6  |



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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 March 31, 2011, 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 March 31, 2011 and December 31, 2010 and term borrowings of \$170.6 million and \$207.2 million at March 31, 2011 and December 31, 2010, respectively. 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 March 31, 2011, 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 in our financial condition or results of operations.

The term borrowings are secured by qualifying investment-grade securities in an amount equal to or greater than the outstanding principal amount of the loan. The term loan allows for liquidation of collateral to fund capital expenditures or certain acquisitions provided that an equal amount of term loan is repaid, which would typically be financed using the revolving credit facility. As of March 31, 2011, there was \$171.4 million of investments in marketable securities held as collateral. See Note 9 for further discussion on these investments.

**11. Fair Value Measurements**

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

| Description                    | Condensed Consolidated Balance Sheet Caption | Total    | March 31, 2011 |          |         |
|--------------------------------|--|----------|----------------|----------|---------|
|                                |  |          | Level 1        | Level 2  | Level 3 |
|                                |  |          | (in millions)  |          |         |
| Corporate debt securities      | Cash and cash equivalents                    | \$ 9.5   | \$             | \$ 9.5   | \$      |
| Corporate debt securities      | Other investments                            | 170.6    |                | 170.6    |         |
| Money market funds             | Other investments                            | 0.8      | 0.8            |          |         |
| Total Assets                   |  | \$ 180.9 | \$ 0.8         | \$ 180.1 | \$      |
| Interest rate swap liabilities | Current liabilities other                    | \$ 1.0   | \$             | \$ 1.0   | \$      |
| Interest rate swap liabilities | Deferred credits and other liabilities other | 0.6      |                | 0.6      |         |
| Total Liabilities              |  | \$ 1.6   | \$             | \$ 1.6   | \$      |

| Description                    | Condensed Consolidated Balance Sheet Caption | Total    | December 31, 2010 |          |         |
|--------------------------------|--|----------|-------------------|----------|---------|
|                                |  |          | Level 1           | Level 2  | Level 3 |
|                                |  |          | (in millions)     |          |         |
| Corporate debt securities      | Other investments                            | \$ 209.0 | \$                | \$ 209.0 | \$      |
| Total Assets                   |  | \$ 209.0 | \$                | \$ 209.0 | \$      |
| Interest rate swap liabilities | Current liabilities other                    | \$ 2.0   | \$                | \$ 2.0   | \$      |
| Interest rate swap liabilities | Deferred credits and other liabilities other | 0.7      |                   | 0.7      |         |
| Total Liabilities              |  | \$ 2.7   | \$                | \$ 2.7   | \$      |



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### **Level 1**

Level 1 valuations represent quoted unadjusted prices for identical instruments in active markets.

### **Level 2 Valuation Techniques.**

Fair values of our financial instruments, which include interest rate swaps and corporate debt securities that are actively traded in the secondary market, 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, 2010 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 2011 and 2010 periods, there were no adjustments to assets and liabilities measured at fair value on a nonrecurring basis.

## **12. Commitments and Contingencies**

**Environmental.** We are subject to various federal, state and local laws and regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. 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 arising in the ordinary course of business, including matters regarding contracts and payment claims, some of which may involve substantial monetary amounts. We have insurance coverage for certain of these losses should they be incurred. We believe that the final disposition of these proceedings will not have a material adverse effect on our consolidated results of operations, financial position or cash flows.

## **13. 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 use pay fixed receive floating interest rate swaps to mitigate our exposure to variable interest rates on loans outstanding under our revolving credit facility. Interest rate hedges with Spectra Energy and other third parties, having a total notional amount of \$155.0 million, were the only derivatives outstanding during the three months ended March 31, 2011.

## **14. New Accounting Pronouncement**

There were no significant accounting pronouncements adopted during the three months ended March 31, 2011 that had a material 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 March 31, 2011, we reported net income of \$48.9 million compared to \$39.1 million for the comparable period in 2010. The increase was due primarily to increased equity earnings from Gulfstream resulting from the acquisition of an additional 24.5% interest in November 2010. For the three months ended March 31, 2011, cash available for distribution was \$69.7 million.

On April 1, 2011, the Gulfstream Phase V compression project was completed ahead of schedule and under budget. The East Tennessee Natural Gas Northeastern Tennessee Project (NET) and Market Hub expansion projects continue to progress as scheduled. The NET project is expected to be in service by the end of the third quarter 2011 and the Market Hub expansion projects are expected to be in service by mid-2011. We estimate total capital expansion expenditures of \$140 million in 2011.

In November 2010, the FERC commenced the Ozark rate proceeding to determine whether Ozark Gas Transmission is over-recovering its costs. During the first quarter 2011, the parties involved in the November 2010 rate proceeding reached a settlement in principle. The settlement agreement was filed with the FERC on April 30, 2011. A final FERC order on the settlement agreement is expected by mid-2011. Management believes that the effects of these matters will not have a material adverse effect on our future results of operations, financial position or cash flows.

A cash distribution of \$0.46 per limited partner unit was declared in April 2011 and is payable on May 13, 2011, representing a 2.2% increase over the previous distribution of \$0.45 per limited partner unit paid in February 2011. 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>March 31, |                       |                        |
|---|---------------------------------|-----------------------|------------------------|
|   | 2011                            | 2010<br>(in millions) | Increase<br>(Decrease) |
| Operating revenues                                  | \$ 51.2                         | \$ 50.5               | \$ 0.7                 |
| Operating, maintenance and other expense            | 18.3                            | 18.1                  | 0.2                    |
| Depreciation and amortization                       | 7.8                             | 7.4                   | 0.4                    |
| Operating income                                    | 25.1                            | 25.0                  | 0.1                    |
| Equity in earnings of unconsolidated affiliates (a) | 27.8                            | 18.4                  | 9.4                    |
| Other income and expenses, net                      | 0.5                             |                       | 0.5                    |
| Interest income                                     | 0.1                             |                       | 0.1                    |
| Interest expense                                    | 4.2                             | 4.0                   | 0.2                    |
| Earnings before income taxes                        | 49.3                            | 39.4                  | 9.9                    |
| Income tax expense                                  | 0.4                             | 0.3                   | 0.1                    |
| Net income  | \$ 48.9                         | \$ 39.1               | \$ 9.8                 |
| Net cash provided by operating activities           | \$ 57.6                         | \$ 51.8               | \$ 5.8                 |
| Adjusted EBITDA (b)                                 | 32.9                            | 32.4                  | 0.5                    |
| Cash Available for Distribution (b)                 | 69.7                            | 55.7                  | 14.0                   |

(a) During the fourth quarter of 2010, we purchased an additional 24.5% interest in Gulfstream which is accounted for as an equity method investment. The equity earnings related to the additional interests are recorded prospectively from the date of acquisition.

(b) 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.

*Operating Revenues.* The \$0.7 million increase was driven by \$1.8 million at East Tennessee mainly due to increased contracted volumes related to the Glade Springs expansion project and higher fees due to unseasonably cold weather, partially offset by \$1.3 million of decreased contracted volumes at Ozark.

*Equity in Earnings of Unconsolidated Affiliates.* The \$9.4 million increase includes a \$8.7 million increase in earnings from Gulfstream and a \$0.7 million increase from Market Hub. During the fourth quarter of 2010, we purchased an additional 24.5% interest in Gulfstream from a subsidiary of Spectra Energy. The additional interest increased our ownership in Gulfstream to 49% and accounted for \$8.4 million of the increase in earnings compared to the prior year quarter.

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

|  | Three Months Ended<br>March 31, |                       |                        |
|--|---------------------------------|-----------------------|------------------------|
|  | 2011                            | 2010<br>(in millions) | Increase<br>(Decrease) |
| <i>Gulfstream</i>                        |                                 |                       |                        |
| Operating revenues                       | \$ 66.9                         | \$ 67.3               | \$ (0.4)               |
| Operating, maintenance and other expense | 7.0                             | 8.4                   | (1.4)                  |
| Depreciation and amortization            | 8.8                             | 8.7                   | 0.1                    |

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|                                |         |         |        |
|--------------------------------|---------|---------|--------|
| Other income and expenses, net | 0.4     | 0.3     | 0.1    |
| Interest expense               | 17.2    | 17.5    | (0.3)  |
| Net income                     | \$ 34.3 | \$ 33.0 | \$ 1.3 |
| Spectra Energy Partners share  | \$ 16.8 | \$ 8.1  | \$ 8.7 |

**Table of Contents***Gulfstream Owned 49.0%*

Gulfstream's net income was \$34.3 million for the three-month period ended March 31, 2011 compared to \$33.0 million for the same period in 2010. The increase was driven primarily by a \$1.4 million decrease in operating, maintenance and other expense due to a favorable ad valorem tax expense adjustment in 2011.

|  | Three Months Ended<br>March 31, |                       |                        |
|--|---------------------------------|-----------------------|------------------------|
|  | 2011                            | 2010<br>(in millions) | Increase<br>(Decrease) |
| <i>Market Hub</i>                        |                                 |                       |                        |
| Operating revenues                       | \$ 30.1                         | \$ 29.1               | \$ 1.0                 |
| Operating, maintenance and other expense | 5.4                             | 5.7                   | (0.3)                  |
| Depreciation and amortization            | 2.6                             | 3.5                   | (0.9)                  |
| Other income and expenses, net           |                                 | 0.6                   | (0.6)                  |
| Interest income                          | 0.1                             | 0.1                   |                        |
| Interest expense                         |                                 |                       |                        |
| Income tax expense                       | 0.1                             | 0.1                   |                        |
| <b>Net income</b>                        | <b>\$ 22.1</b>                  | <b>\$ 20.5</b>        | <b>\$ 1.6</b>          |
| Spectra Energy Partners' share           | \$ 11.0                         | \$ 10.3               | \$ 0.7                 |

*Market Hub Owned 50%*

Market Hub's net income increased \$1.6 million to \$22.1 million for the three-month period ended March 31, 2011 compared to \$20.5 million for the same period in 2010. The increase was driven mainly by:

a \$1.0 million increase in revenues resulting from the continued phase-in of expansion projects, partially offset by lower contract renewal rates, and

a \$0.9 million decrease in depreciation expense due primarily to a change in estimated useful life of storage facilities, partially offset by

a \$0.6 million decrease in other income primarily due to a right-of-way granted to a third party at Moss Bluff in 2010.

**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

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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.

***Spectra Energy Partners***

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

|   | <b>Three Months Ended<br/>March 31,</b> |                |
|---|---|----------------|
|   | <b>2011</b>                             | <b>2010</b>    |
|   | <b>(in millions)</b>                    |                |
| <b>Net income</b>                               | \$ 48.9                                 | \$ 39.1        |
| Add:  |   |                |
| Interest expense                                | 4.2                                     | 4.0            |
| Income tax expense                              | 0.4                                     | 0.3            |
| Depreciation and amortization                   | 7.8                                     | 7.4            |
| Less:   |   |                |
| Equity in earnings of Gulfstream                | 16.8                                    | 8.1            |
| Equity in earnings of Market Hub                | 11.0                                    | 10.3           |
| Interest income                                 | 0.1                                     |                |
| Other income and expenses, net                  | 0.5                                     |                |
| <b>Adjusted EBITDA</b>                          | <b>32.9</b>                             | <b>32.4</b>    |
| Add:  |   |                |
| Cash Available for Distribution from Gulfstream | 29.1                                    | 14.4           |
| Cash Available for Distribution from Market Hub | 12.2                                    | 11.6           |
| Preliminary project costs, net                  |   |                |
| Less:   |   |                |
| Cash paid for interest expense, net             | 1.9                                     | 1.7            |
| Cash paid for income tax expense                |   |                |
| Maintenance capital expenditures                | 2.6                                     | 1.0            |
| <b>Cash Available for Distribution</b>          | <b>\$ 69.7</b>                          | <b>\$ 55.7</b> |



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

|   | Three Months Ended<br>March 31, |         |
|---|---------------------------------|---------|
|   | 2011                            | 2010    |
|   | (in millions)                   |         |
| <b>Net cash provided by operating activities</b>      | \$ 57.6                         | \$ 51.8 |
| Interest income                                       | (0.1)                           |         |
| Interest expense                                      | 4.2                             | 4.0     |
| Income tax expense - current                          | 0.1                             | 0.1     |
| Distributions received from Gulfstream and Market Hub | (24.7)                          | (19.4)  |
| Changes in operating working capital and other        | (4.2)                           | (4.1)   |
| <b>Adjusted EBITDA</b>                                | 32.9                            | 32.4    |
| Add:  |                                 |         |
| Cash Available for Distribution from Gulfstream       | 29.1                            | 14.4    |
| Cash Available for Distribution from Market Hub       | 12.2                            | 11.6    |
| Preliminary project costs, net                        |                                 |         |
| Less:   |                                 |         |
| Cash paid for interest expense, net                   | 1.9                             | 1.7     |
| Cash paid for income tax expense                      |                                 |         |
| Maintenance capital expenditures                      | 2.6                             | 1.0     |
| <b>Cash Available for Distribution</b>                | \$ 69.7                         | \$ 55.7 |

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

|  | Three Months Ended<br>March 31, |         |
|--|---------------------------------|---------|
|  | 2011                            | 2010    |
|  | (in millions)                   |         |
| <b>Net income</b>  | \$ 34.3                         | \$ 33.0 |
| Add:   |                                 |         |
| Interest expense   | 17.2                            | 17.5    |
| Depreciation and amortization                            | 8.8                             | 8.7     |
| Less:  |                                 |         |
| Other income and expenses, net                           | 0.4                             | 0.3     |
| <b>Adjusted EBITDA 100%</b>                              | 59.9                            | 58.9    |
| Add:   |                                 |         |
| Preliminary project costs, net                           | 0.2                             |         |
| Less:  |                                 |         |
| Cash paid for interest expense, net                      |                                 |         |
| Maintenance capital expenditures                         | 0.7                             | 0.1     |
| <b>Cash Available for Distribution 100%</b>              | \$ 59.4                         | \$ 58.8 |
| <b>Adjusted EBITDA Spectra Energy Partners Share (a)</b> | \$ 29.3                         | \$ 14.4 |

|  |      |      |
|--|------|------|
| <b>Cash Available for Distribution Spectra Energy Partners Share (a)</b> | 29.1 | 14.4 |
|--|------|------|

- (a) During the fourth quarter of 2010, we purchased an additional 24.5% interest in Gulfstream which is accounted for as an equity method investment. The equity earnings related to the additional interest was recorded as of the date of the acquisition.



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

|   | Three Months Ended<br>March 31, |         |
|---|---------------------------------|---------|
|   | 2011                            | 2010    |
|   | (in millions)                   |         |
| <b>Net income</b>                           | \$ 22.1                         | \$ 20.5 |
| Add:  |                                 |         |
| Interest expense                            |                                 |         |
| Income tax expense                          | 0.1                             | 0.1     |
| Depreciation and amortization               | 2.6                             | 3.5     |
| Less:                                       |                                 |         |
| Interest income                             | 0.1                             | 0.1     |
| Other income and expenses, net              |                                 | 0.6     |
| <b>Adjusted EBITDA 100%</b>                 | 24.7                            | 23.4    |
| Less:                                       |                                 |         |
| Cash paid for interest expense, net         |                                 |         |
| Cash paid for income tax expense            |                                 |         |
| Maintenance capital expenditures            | 0.4                             | 0.2     |
| <b>Cash Available for Distribution 100%</b> | \$ 24.3                         | \$ 23.2 |
| <b>Adjusted EBITDA 50%</b>                  | \$ 12.4                         | \$ 11.7 |
| <b>Cash Available for Distribution 50%</b>  | 12.2                            | 11.6    |

**LIQUIDITY AND CAPITAL RESOURCES**

We will rely upon cash flows from operations, including cash distributions received from Gulfstream and Market Hub and various financing transactions including the sale of short-term investments, to fund our liquidity and capital requirements for the next 12 months. As of March 31, 2011, we had positive net working capital of \$4.1 million compared to negative \$0.6 million as of December 31, 2010, of which the March 31, 2011 balance included \$30.5 million and the December 31, 2010 balance included \$34.0 million for the note payable on demand to Market Hub. We have access to a credit facility, with a capacity of \$188.4 million at March 31, 2011, and additional borrowings available under the note payable with Market Hub of \$19.5 million, which are used to manage working capital requirements. Given that we expect to continue to pursue expansion opportunities over the next several years, capital resources will continue to include long-term borrowings on our current credit facility and possibly securing additional sources of capital including debt and/or equity.

**Operating Cash Flows**

Net cash provided by operating activities totaled \$57.6 million in the first three months of 2011 compared to \$51.8 million during the same period in 2010. This increase was driven primarily by distributions received from Gulfstream related to the additional 24.5% interest acquired in November 2010.

**Investing Cash Flows**

Cash flows provided by investing activities totaled \$14.9 million in the first three months of 2011 compared to \$4.0 million cash used in the same period in 2010. The change was driven mainly by:

\$28.1 million of net proceeds in 2011 from the liquidation of available-for-sale securities that were held as collateral for the term loan, and

\$9.5 million due to release of collateral investments, partially offset by

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\$14.6 million increase in capital expenditures due to the NET expansion project at East Tennessee which will be going into service later this year, and

\$4.7 million of distributions received from Gulfstream in 2010.

**Capital and Investment Expenditures**

|   | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2011</b>                             | <b>2010</b> |
|   | <b>(in millions)</b>                    |             |
| Capital Expenditures                      |   |             |
| Gas Transportation and Storage            | \$ 16.8                                 | \$ 2.2      |
| Investment Expenditures                   |   |             |
| Gulfstream                                | 3.8                                     | 1.3         |
| Market Hub                                | 2.1                                     | 5.2         |
| Total capital and investment expenditures | \$ 22.7                                 | \$ 8.7      |

Capital and investment expenditures for the three months ended March 31, 2011 totaled \$22.7 million and included \$20.0 million for expansion projects and \$2.7 million for maintenance and other projects. We estimate 2011 capital and investment expenditures of approximately \$152 million, of which \$140 million is expected to be used for expansion projects and \$12 million for maintenance and other projects. 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, Gulfstream and Market Hub. In addition, we are assessing the needs of our Ozark customers for additional transportation services. We expect that significant natural gas infrastructure, including both natural gas transportation and storage with links to growing gas supplies and markets, will be needed over time to serve growth in gas-fired power generation, oil-to-gas conversions, industrial development and attachments to new gas supply.

**Financing Cash Flows**

Net cash used in financing activities totaled \$70.5 million in the first three months of 2011 compared to \$34.9 million during the same period in 2010. This change was driven mainly by:

\$23.6 million of net payments on long-term debt in 2011 primarily from reductions in the term loan balances and associated collateral securities,

\$8.5 million increase in distributions to partners in 2011 compared to the same period in 2010, as a result of increased distribution rates and higher incentive distribution rights as a result of higher available cash for distribution, and

\$3.5 million of net payments on note payable to affiliates in 2011.

*Available Credit Facility and Restrictive Debt Covenants.* See Note 10 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 \$0.46 per limited partner unit was declared in April 2011, payable on May 13, 2011, representing a 2.2% increase over the previous distribution of \$0.45 per limited partner unit and the fourteenth consecutive quarterly increase.



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*Other Financing Matters.* As of the date of this filing, we have \$1.1 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**

*Pipeline Safety Laws and Regulations.* Laws, regulations and policies regarding pipeline safety may be enacted or changed in the future as a result of various pipeline incidents in 2010 on systems unrelated to ours. Consistent with our advisor of choice business strategy, we are engaged with policy makers to ensure that the importance of pipeline operations and the delivery of natural gas in interstate commerce is taken into consideration in any such policy development. See Item 1A. Risk Factors for further discussion.

*New Accounting Pronouncement.* See Note 14 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, 2010. 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 March 31, 2011, and, based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective at the reasonable assurance level.

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

Under the supervision and with the participation of the management of our General Partner, including the Chief Executive Officer and Chief Financial Officer, we have evaluated changes in internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended March 31, 2011 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 12 of Notes to Condensed Consolidated Financial Statements, which information is incorporated by reference into this Part II.

**Item 1A. Risk Factors.**

In addition to the other information set forth in this report, careful consideration should be given to the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our financial condition or future results. Other than the risk factor below, there have been no material changes to those risk factors.

*We are subject to pipeline safety laws and regulations, compliance with which can require significant capital expenditures, can increase our cost of operations and may affect or limit our business plans.*

Our interstate pipeline operations are subject to pipeline safety regulation administered by the Pipeline and Hazardous Materials Safety Administration (the PHMSA) of the U.S. Department of Transportation. These laws and regulations require us to comply with a significant set of requirements for the design, construction, maintenance and operation of our interstate pipelines. These regulations, among other things, include requirements to monitor and maintain the integrity of our pipelines. The regulations determine the pressures at which our pipelines can operate.

In 2010, serious pipeline incidents on systems unrelated to ours focused the attention of Congress and the public on pipeline safety. Legislative proposals have been introduced in Congress that would strengthen PHMSA's enforcement and penalty authority, and expand the scope of its oversight. PHMSA has initiated an evaluation of its existing regulations and appears to be considering substantial revisions in its regulations. PHMSA also has issued guidance that states it will focus near-term enforcement efforts on recordkeeping and integrity management, following urgent National Transportation Safety Board recommendations related to pipeline pressure and recordkeeping. Because it is uncertain what legislation or regulatory changes will be enacted, we cannot determine the impact that such legislation or regulatory changes may have on our operations or financial condition at this time. Pipeline failures or failure to comply with applicable regulations could result in reduction of allowable operating pressures as authorized by the PHMSA, which would reduce available capacity on our pipelines. Should any of these risks materialize, it could have a material adverse effect on our operations, earnings, financial condition and cash flows.

**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.



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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**

|          |   |
|----------|---|
| *2.1     | First Amendment to Contribution Agreement, dated as of January 21, 2011, by and among Spectra Energy Partners, LP, Spectra Energy Partners (DE) (GP), LP and Spectra Energy Southeast Pipeline Corporation. |
| *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.   |
| *32.2    | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| *101.INS | XBRL Instance Document.   |
| *101.SCH | XBRL Taxonomy Extension Schema.   |
| *101.CAL | XBRL Taxonomy Extension Calculation Linkbase.   |
| *101.DEF | XBRL Taxonomy Extension Definition Linkbase.  |
| *101.LAB | XBRL Taxonomy Extension Label Linkbase.   |
| *101.PRE | XBRL Taxonomy Extension Presentation Linkbase.  |

\* Filed herewith



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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: May 09, 2011

/s/ GREGORY J. RIZZO  
**Gregory J. Rizzo**

**President and Chief Executive Officer**

**Spectra Energy Partners GP, LLC**

Date: May 09, 2011

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

**Vice President and Chief Financial Officer**

**Spectra Energy Partners GP, LLC**