

Spectra Energy Partners, LP  
Form 10-K  
March 11, 2010  
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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## Form 10-K

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

For the fiscal year ended December 31, 2009

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 001-33556

## SPECTRA ENERGY PARTNERS, LP

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of

incorporation or organization)

**41-2232463**

(I.R.S. Employer Identification No.)

**5400 Westheimer Court, Houston, Texas**

(Address of principal executive offices)

**77056**

(Zip Code)

**713-627-5400**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

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<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Common Units Representing Limited Partner Interests	New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: None.	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Securities Exchange Act). Yes  No

Estimated aggregate market value of the Common Units held by non-affiliates of the registrant at June 30, 2009: \$459,000,000.

At February 26, 2010, there were 58,705,791 Common Units, 21,638,730 Subordinated Units and 1,639,117 General Partner Units outstanding.

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**SPECTRA ENERGY PARTNERS, LP**

**FORM 10-K FOR THE YEAR ENDED**

**DECEMBER 31, 2009**

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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, which can affect the long-term demand for natural gas and related services;

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

changes in environmental, safety and other laws and regulations;

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

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

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

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

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

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

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

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

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

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**PART I**

**Item 1. Business.**

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.

**General**

Spectra Energy Partners, LP, through its subsidiaries and equity affiliates, is engaged in the transportation and gathering of natural gas through interstate pipeline systems with over 3,100 miles of pipelines that serve the southeastern United States, Oklahoma, Arkansas and Missouri, and the storage of natural gas in underground facilities with aggregate working gas storage capacity of approximately 49 billion cubic feet (Bcf) that are located in southeast Texas, south central Louisiana and southwest Virginia. We are a Delaware master limited partnership (MLP) formed on March 19, 2007. Our common units are listed on the New York Stock Exchange (NYSE) under the symbol SEP. Our internet website is <http://www.spectraenergypartners.com>.

We transport, gather and store natural gas for a broad mix of customers, including local gas distribution companies (LDCs, companies that obtain a major portion of their revenues from retail distribution systems for the delivery of natural gas for ultimate consumption), municipal utilities, interstate and intrastate pipelines, direct industrial users, electric power generators, marketers and producers, and exploration and production companies. In addition to serving the directly connected southeastern United States, Oklahoma, Arkansas and Missouri markets, our pipeline, storage and gathering systems have access to customers in the mid-Atlantic, northeastern and midwestern regions of the United States through numerous interconnections with major pipelines. Our rates are regulated under the Federal Energy Regulatory Commission's (FERC's) rate-making policies with the exception of Market Hub Partners Holdings' (Market Hub's) intrastate storage operations and our gathering facilities. The FERC is the U.S. agency that regulates the transportation of natural gas in interstate commerce.

Our operations and activities are managed by our general partner, Spectra Energy Partners (DE) GP, LP, which in turn is managed by its general partner, Spectra Energy Partners GP, LLC, (the General Partner). The General Partner is wholly owned by a subsidiary of Spectra Energy Corp (Spectra Energy). Spectra Energy is a separate, publicly traded entity which trades on the NYSE under the symbol SE. As of December 31, 2009, Spectra Energy and its subsidiaries collectively owned 74% of us and the remaining 26% was publicly owned.

**Initial Public Offering**

On July 2, 2007, immediately prior to the closing of our initial public offering (IPO), Spectra Energy contributed to us 100% of the ownership of East Tennessee Natural Gas, LLC (East Tennessee), 50% of the ownership of Market Hub and a 24.5% interest in Gulfstream Natural Gas System, L.L.C. (Gulfstream). Spectra Energy indirectly owned 100% of us prior to the closing of the IPO. On July 2, 2007, we issued 11.5 million common units to the public, representing 17% of our outstanding equity. As a result, Spectra Energy retained an 83% equity interest in us, including common units, subordinated units and a 2% general partner interest.

**Acquisitions**

In 2008, we completed the acquisition of the equity interests of Saltville Gas Storage Company L.L.C. (Saltville) and the P-25 pipeline from a wholly owned subsidiary of Spectra Energy at a purchase price of \$107.0 million, which included the issuance of 4.2 million common units and 0.1 million general partner units, and a cash payment of \$4.7 million to Spectra Energy. Spectra Energy's ownership of our partnership increased from 83% to 84% as a result of receipt of the new common and general partner units.

In the second quarter of 2009, we acquired all of the ownership interests of NOARK Pipeline System, Limited Partnership (NOARK) from Atlas Pipeline Partners, L.P. (Atlas) for approximately \$294.5 million in cash. NOARK's

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assets consist of 100% ownership interests of Ozark Gas Transmission, L.L.C. (Ozark Gas Transmission) and Ozark Gas Gathering, L.L.C. (Ozark Gas Gathering) (collectively referred to as Ozark ). This transaction was partially refinanced in the second quarter of 2009 through our sale of common units, resulting in a reduction of Spectra Energy's ownership interest in us from 84% to 74%.

For financial information on our acquisitions, see Item 8. Financial Statements and Supplementary Data, Note 2 of Notes to Consolidated Financial Statements.

**Gas Transportation and Storage**

Our sole segment, Gas Transportation and Storage, includes East Tennessee, Saltville and Ozark. Gas Transportation and Storage provides interstate transportation, storage, fee-based gathering of natural gas, and storage and redelivery of liquefied natural gas (LNG, natural gas that has been converted to liquid form) for customers in the southeastern United States, Oklahoma, Arkansas and Missouri. These operations are primarily subject to the FERC's and the Department of Transportation's (DOT's) rules and regulations.

***General***

**East Tennessee**

We own and operate 100% of the 1,510-mile East Tennessee interstate natural gas transportation system, which extends from central Tennessee eastward into southwest Virginia and northern North Carolina, and southward into northern Georgia. East Tennessee supports the energy demands of the southeast and mid-Atlantic regions of the United States through connections to 31 receipt points and 179 delivery points and has market delivery capability of approximately 1.5 billion cubic feet per day (Bcf/d) of natural gas. East Tennessee also owns and operates an LNG storage facility in Kingsport, Tennessee with a working gas storage capacity of 1.1 Bcf and regasification capability of 150 million cubic feet per day (MMcf/d).

**Saltville**

We own and operate 100% of the Saltville natural gas storage facilities which consist of 5.5 Bcf of total storage capacity. The storage facilities interconnect with the East Tennessee system in southwest Virginia and offer high deliverability salt cavern and reservoir storage capabilities that are strategically located near markets in Tennessee, Virginia and North Carolina.

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**Ozark**

We own and operate 100% of the 565-mile Ozark Gas Transmission interstate natural gas transportation system, which extends from southeastern Oklahoma through Arkansas to southeastern Missouri. This system has connections to 52 receipt points and 26 delivery points and market delivery capability of approximately 0.5 Bcf/d of natural gas. We also own and operate 100% of the 365-mile Ozark Gas Gathering system that accesses Fayetteville Shale and Arkoma natural gas production that feeds into Ozark Gas Transmission.

***Customers and Contracts***

Gas Transportation and Storage's customers include LDCs, utilities, interstate and intrastate pipelines, industrial companies, natural gas marketers and producers, electric power generators, and exploration and production companies. Gas Transportation and Storage's largest customer in 2009 was Atmos Energy Corporation, which accounted for approximately 10% of Gas Transportation and Storage's revenues.

Gas Transportation and Storage has contracts with its customers to provide firm transportation and storage services as well as fee-based gathering services. Payments under firm transportation and storage services are primarily based on the volume of capacity reserved on the system regardless of the capacity actually used, plus a variable charge based on the volume of natural gas actually transported. As a result, firm transportation revenues typically remain relatively constant over the term of the contracts. Gathering service contracts, which represent less than 3% of Gas Transportation and Storage 2009 operating revenues, include variable charges based on volume of natural gas actually gathered and the number of compression stages needed to deliver the gathered gas. Maximum and minimum rates for transportation and storage services are governed by the applicable FERC-approved natural gas tariff while fee-based gathering services are governed by the applicable state oil and gas commissions.

In 2005, East Tennessee entered into a rate settlement with its customers which established new base rates under the tariff and provided rate certainty through the settlement's expiration on October 31, 2010. Following

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expiration of the settlement agreement, East Tennessee's rates will remain the same, subject to further negotiation or a future rate proceeding.

On September 1, 2008, Saltville placed into effect new rates approved by the FERC as a result of a settlement with customers associated with a rate proceeding. This settlement includes a rate moratorium until October 1, 2011. Following expiration of the moratorium, Saltville's rates will remain the same, subject to further negotiation or a future rate proceeding. Also pursuant to the settlement, Saltville is required to file a rate case by October 1, 2013.

Gas Transportation and Storage also provides interruptible transportation and storage services under which gas is transported or stored for customers when operationally feasible and customers pay only for the actual volume of gas transported or stored. Under all contracts, Gas Transportation and Storage retains, at no cost, a fixed percentage of the natural gas it transports in order to supply the fuel needed for natural gas compression on the system.

As of December 31, 2009, East Tennessee and Saltville firm transportation and storage contracts had a weighted average remaining life of approximately eight years and Ozark, excluding gathering contracts, had a weighted average remaining life of approximately two years. In 2009, 97% of East Tennessee and Saltville and 67% of Ozark Gas Transmission's revenues were derived from capacity reservation charges under firm contracts (including LNG storage services), with the remainder representing variable usage fees under firm and interruptible transportation contracts.

***Source of Supply***

Gas supply attachments are a critical factor for Gas Transportation and Storage customers. Its customers benefit from gas supply from the Gulf Coast region through Tennessee Gas Pipeline Company, and to a lesser degree Texas Eastern Transmission, L.P. (Texas Eastern, a subsidiary of Spectra Energy), Southern Natural Gas Company, Columbia Gulf Transmission Company and Midwestern Gas Pipeline System. Its customers also receive natural gas supply from conventional and non-conventional sources such as Appalachian Shale and coal-bed methane, as well as from Fayetteville Shale and Arkoma supply basins. Natural gas withdrawn from East Tennessee's LNG storage facility and other on-system storage fields, including Saltville's natural gas storage facilities, provide customers with additional supply sources used to supplement supplies during periods of peak demand.

***Competition***

The mountainous geography of the regions served by East Tennessee creates natural barriers to entry that make competition from new pipeline entrants difficult and expensive. As a result, East Tennessee is the sole source of interstate natural gas transportation for many of the firm capacity customers that transport natural gas on this system. At both ends of this system, East Tennessee is subject to competition from other pipelines.

Natural gas is in direct competition with electricity for residential and commercial heating demand in East Tennessee's and Saltville's market areas. While this competition does not directly affect firm sales, LDC customers' growth is partially dependent upon the installation of natural gas furnaces in new home construction. Although substitution of electric heat for natural gas heat could have a long-term effect on customers demand requirements, East Tennessee and Saltville have already benefited from the addition of natural gas fired electric generation supplied by the pipeline.

An increase in competition in the region served by East Tennessee and Saltville could arise from new ventures or expanded operations from existing competitors. Other competitive factors include the quantity, location and physical flow characteristics of interconnected pipelines, the ability to offer service from multiple storage or production locations, and the cost-of-service and rates offered by East Tennessee's and Saltville's competitors.

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The Ozark assets compete with CenterPoint Energy Gas Transmission Company, Texas Gas Transmission, LLC's Fayetteville Lateral, which went into service in 2009, and the Fayetteville Express Pipeline LLC, which is scheduled to be in-service in the fourth quarter 2010.

**Gulfstream**

***General***

We own a 24.5% interest in the 745-mile Gulfstream interstate natural gas transportation system which extends from Pascagoula, Mississippi and Mobile, Alabama across the Gulf of Mexico and into Florida. The Gulfstream pipeline currently includes approximately 295 miles of onshore pipeline in Florida, 15 miles of onshore pipeline in Alabama and Mississippi, and 435 miles of offshore pipeline in the Gulf of Mexico. Facilities also include gas treatment facilities and a compressor station in Coden, Alabama. Gulfstream supports the south and central Florida markets through its connection to eight receipt points and 23 delivery points and has market delivery capability of 1.26 Bcf/d of natural gas. Spectra Energy and affiliates of The Williams Companies, Inc. (Williams) own the remaining 25.5% and 50% interests in Gulfstream, respectively, and jointly operate the system.

***Customers, Contracts and Supply***

In 2009, Florida Power & Light Company and Florida Power Corporation d/b/a Progress Energy Florida, Inc. accounted for approximately 52% and 27%, respectively, of Gulfstream's revenues.

Gulfstream provides firm and interruptible transportation services, interruptible park and loan services, and operational balancing agreements to resolve any differences between scheduled and actual receipts and deliveries. All of Gulfstream's firm transportation contracts include negotiated rates through the life of the contract. These negotiated rates are currently less than the maximum applicable recourse rate allowed by the FERC.

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As of December 31, 2009, Gulfstream's firm transportation and storage contracts had a weighted average remaining life of 19 years. In 2009, 97% of Gulfstream's revenues were derived from capacity reservation charges under firm contracts, 2% of revenues were derived from variable usage fees under firm contracts and 1% of revenues were derived from interruptible transportation contracts.

Gulfstream shippers increasingly have the option of buying natural gas supplies from a wide range of producers in the eastern Gulf of Mexico and from onshore sites along the entire Gulf Coast. Gulfstream is connected to processing plants and supply pipelines in the Mobile Bay area. Currently, shippers have the ability to source supply at eight access points, including access to supplies delivered by the Southeast Header Supply, LLC (SESH) joint venture. SESH originates in Perryville, LA and interconnects with Gulfstream near Coden, Alabama. In addition, anticipated increasing LNG imports along the Gulf Coast should further diversify the gas supplies available to Gulfstream's customers, potentially offsetting some of the risks associated with offshore Gulf of Mexico natural gas production.

### ***Competition***

Within the Florida market for natural gas, Gulfstream competes with other pipelines that transport and supply natural gas to end-users. Gulfstream's competitors attempt to either attract new supply or attach new load to their pipelines, including those that are currently connected to markets served by Gulfstream. Gulfstream's most direct competitor is Florida Gas Transmission Company, LLC, owned by subsidiaries of El Paso Corporation and Southern Union Company.

An increase in competition in the market could arise from new ventures or expanded operations from existing competitors. Other competitive factors include the quantity, location and physical flow characteristics of interconnected pipelines, access to natural gas storage, the cost-of-service and rates, and the terms of service offered.

### **Market Hub**

#### ***General***

We own a 50% interest in Market Hub, which owns and operates two high-deliverability salt cavern natural gas storage facilities—the Egan facility and the Moss Bluff facility. These storage facilities are capable of being fully or partially filled and depleted, or cycled, multiple times per year. Market Hub's storage facilities offer access to traditional Gulf of Mexico natural gas supplies, onshore Texas and Louisiana supplies, mid-continent production, non-conventional (shale and tight-sands) onshore production, and growing imports of LNG to the Gulf Coast. Spectra Energy owns the remaining 50% interest in Market Hub and operates the system.

The Egan storage facility, located in Acadia Parish, Louisiana, has four storage caverns with a working gas capacity of approximately 28 Bcf, and includes a 47-mile pipeline system that interconnects with seven interstate pipeline systems, including Texas Eastern Transmission, and one intrastate pipeline system. Egan offers access to Gulf Coast, midwest, southeast and northeast markets. Egan is undergoing a multi-year expansion program to add approximately 8 Bcf of storage capacity and 16 miles of pipeline extensions. The initial phase-in of storage expansion of 6 Bcf occurred in mid-2009, and the project is scheduled to be completed in the second half of 2012.

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The Moss Bluff storage facility, located in Liberty County, Texas, has three storage caverns with a working gas capacity of approximately 15 Bcf, and includes a 20-mile pipeline system that interconnects with two interstate pipeline systems, including Texas Eastern Transmission, and three intrastate pipeline systems. Moss Bluff offers access to Texas, northeast and midwest markets. The construction on Cavern 4 will continue during 2010. This multi-year project is expected to increase working capacity by 6.5 Bcf as well as upgrade top-side facilities and expand pipeline interconnects. The cavern is expected to be placed in service in 2011.

***Customer, Contracts and Supply***

Market Hub provides storage services to a broad mix of customers including marketers, electric power generators, gas producers, pipelines and LDCs. In 2009, there were no customers that accounted for more than 10% of Market Hub's revenues.

Market Hub provides firm storage, park and loan, and wheeling services. Under firm storage contracts, customers pay a reservation rate for the right to inject, withdraw and store a specified volume of natural gas. Under park and loan contracts, customers pay for the interruptible right to park (store) or loan (borrow) gas for a specific period of time. Customers who desire to wheel gas through a Market Hub facility pay for the interruptible right to receive natural gas at one interconnecting pipeline on the storage facility header system and have it simultaneously delivered to a different interconnecting pipeline on the storage facility header system.

As of December 31, 2009, Market Hub's firm storage contracts had a weighted average remaining life of approximately three years, which is typical of the shorter contract life of market-based storage facilities as compared to transportation systems. Approximately 87% of Market Hub's revenues in 2009 were derived from capacity reservation fees under firm storage contracts and 13% from interruptible storage contracts including park and loan services.

Egan has aggregate receipt capacity from major interconnecting pipelines of approximately 3.8 Bcf/d compared to an injection capability of 1.3 Bcf/d. Moss Bluff has aggregate receipt capacity from major

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interconnecting pipelines of approximately 2.3 Bcf/d compared to an injection capability of 0.6 Bcf/d. Egan has access to major interstate pipelines, while Moss Bluff has access to major interstate and intrastate pipelines. This level of supply connectivity gives customers access to a broad range of natural gas supply sources from existing onshore and offshore Gulf Coast and mid-Continent production areas as well as LNG supplies.

***Competition***

Market Hub competes with several regional storage facilities along the Gulf Coast as well as the storage services offered by interstate and intrastate pipelines that serve the same markets as Market Hub. The principal elements of competition among storage facilities are rates, terms of service, types of service, deliverability, supply and market access, and flexibility and reliability of service. An increase in competition in the market could arise from new ventures or expanded operations from existing competitors.

**Revenue Contract Summary**

We compete for transportation, gathering and storage customers based on the specific type of service a customer needs, operating flexibility, available capacity and price. As noted previously, we provide a significant portion of our transportation and storage services through firm contracts and derive a smaller portion of our revenue through interruptible contracts, seeking to maximize the portion of physical capacity sold under firm contracts. To the extent physical capacity that is contracted for firm service is not being fully utilized, we can contract such capacity for interruptible service. Our gathering services, representing less than 3% of Gas Transmission and Storage operating revenues, are fee-based and dependent upon the volume of natural gas gathered. The table below summarizes certain information regarding our contracts and revenues as of and for the year ended December 31, 2009:

Asset	Revenue Composition %				% of Physical Capacity Subscribed Under Firm Contracts	Weighted Average Remaining Firm Contract Life (in years)(a)	
	Firm Contracts	Capacity Reservation Fees	Variable Fees	Interruptible Contracts			Volume-based Fees
East Tennessee	99%	1%		%	%	95%	9
Ozark							
Transmission	67	26	7			100	2
Gathering					100	n/a	n/a
Saltville	87	6	7			99	8
Gulfstream	97	2	1			99	19
Market Hub	87		13			100	3

(a) The average life of each contract is calculated based on contract revenues.

n/a Indicates not applicable.

**Supplies and Raw Materials**

We purchase a variety of manufactured equipment and materials for use in operations and expansion projects. The primary equipment and materials utilized in operations and project execution processes are steel pipe, compression engines, valves, fittings, polyethylene plastic pipe, gas meters and other consumables.

We utilize Spectra Energy's supply chain management function which operates a North American supply chain management network with employees dedicated to this function in the United States and Canada. The supply chain management group uses the economies-of-scale of Spectra Energy to maximize the efficiency of supply networks where applicable.

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There can be no assurance that the ability to obtain sufficient equipment and materials will not be adversely affected by unforeseen developments. In addition, the price of equipment and materials may vary, perhaps substantially, from year to year.

**Regulations**

Our interstate gas transmission pipeline and storage operations are regulated by the FERC with the exception of Moss Bluff intrastate storage operations and the Ozark gathering facilities. The FERC regulates natural gas transportation in U.S. interstate commerce including the establishment of recourse rates for services. The FERC also regulates the construction of U.S. interstate pipelines and storage facilities including extension, enlargement and abandonment of facilities. Our Ozark gathering operations are subject to oversight by the Arkansas Public Service Commission and Oklahoma Corporation Commission. The Moss Bluff intrastate storage operations are subject to oversight by the Texas Railroad Commission (TRC).

The FERC may propose and implement new rules and regulations affecting interstate natural gas transmission and storage companies, which remain subject to the FERC's jurisdiction. These initiatives may also affect certain transportation of gas by intrastate pipelines.

Our gas transmission and storage operations are subject to the jurisdiction of the Environmental Protection Agency (EPA) and various other federal, state and local environmental agencies. See **Environmental Matters** for a discussion of environmental regulation. Our interstate natural gas pipelines are also subject to the regulations of the DOT concerning pipeline safety.

Under current policy, the FERC permits pipelines and storage companies to include a tax allowance in the cost-of-service used as the basis for calculating their regulated rates. For pipelines and storage companies owned by partnerships or limited liability company interests, the tax allowance will reflect the actual or potential income tax liability on the FERC jurisdictional income attributable to all partnership or limited liability company interests if the ultimate owner of the interest has an actual or potential income tax liability on such income. This policy was upheld on May 29, 2007 by the Court of Appeals for the District of Columbia Circuit. Whether the owners of a pipeline or storage company have such actual or potential income tax liability will be reviewed by the FERC on a case-by-case basis. In a future rate case, the pipelines and storage companies in which we own an interest may be required to demonstrate the extent to which inclusion of an income tax allowance in the applicable cost-of-service is permitted under the current income tax allowance policy. Egan and Moss Bluff have authority to charge market-based rates and therefore this tax allowance issue does not affect the rates that they charge their customers.

**Environmental Matters**

We are subject to federal, state and local laws and regulations with regard to air and water quality, hazardous and solid waste disposal and other environmental matters. These regulations often impose substantial testing and certification requirements.

Environmental laws and regulations affecting us include, but are not limited to:

The Clean Air Act (CAA) and the 1990 amendments to the CAA, as well as state laws and regulations affecting air emissions (including State Implementation Plans related to existing and new national ambient air quality standards), which may limit new sources of air emissions. Our natural gas transmission, storage and gathering assets are considered sources of air emissions and are thereby subject to the CAA. Owners and/or operators of air emission sources, such as us, are responsible for obtaining permits for existing and new sources of air emissions and for annual compliance and reporting.

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The Federal Water Pollution Control Act (Clean Water Act), which requires permits for facilities that discharge wastewaters into the environment. The Oil Pollution Act (OPA), was enacted in 1990 and amends parts of the Clean Water Act and other statutes as they pertain to the prevention of and response to oil spills. OPA imposes certain spill prevention, control and countermeasure requirements. Although we are primarily a natural gas business, OPA affects our business because of the presence of liquid hydrocarbons (condensate) in our offshore pipeline.

The Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act, which requires certain solid wastes, including hazardous wastes, to be managed pursuant to a comprehensive regulatory regime. As part of our business, we generate solid waste within the scope of these regulations and therefore must comply with such regulations.

The National Environmental Policy Act, which requires federal agencies to consider potential environmental effects in their decisions, including site approvals. Many of our capital projects require federal agency review, and therefore the environmental effect of proposed projects is a factor in determining whether we will be permitted to complete proposed projects.

For more information on environmental matters, including possible liability and capital costs, see Item 8. Financial Statements and Supplementary Data, Note 15 of Notes to Consolidated Financial Statements.

Except to the extent discussed in Note 15, compliance with federal, state and local provisions regulating the discharge of materials into the environment, or otherwise protecting the environment, is incorporated into the routine cost structure of our partnership and is not expected to have a material adverse effect on our competitive position or consolidated results of operations, financial position or cash flows.

**Employees**

We do not have any employees. We are managed by the directors and officers of our general partner. Our general partner or its affiliates currently employ 110 people who spend a majority of their time operating the East Tennessee, Ozark and Saltville facilities, and 5 people who are primarily dedicated to us. Market Hub is operated by Spectra Energy pursuant to an operating and maintenance agreement and the employees who operate the Market Hub assets are therefore not included in the above numbers. Gulfstream is operated by Spectra Energy (with respect to business functions) and Williams (with respect to technical functions) pursuant to an operating and maintenance agreement, and therefore, the employees who operate the Gulfstream assets are also not included in the above numbers.

**Glossary**

Terms used to describe our business are defined below.

**Available Cash.** For any quarter ending prior to liquidation:

(a) the sum of:

(1) all cash and cash equivalents of the partnership and our subsidiaries on hand at the end of that quarter; and

(2) if our general partner so determines all or a portion of any additional cash or cash equivalents of our partnership and our subsidiaries on hand on the date of determination of Available Cash for that quarter;

(b) less the amount of cash reserves established by our general partner to:

(1) provide for the proper conduct of the business of the partnership and our subsidiaries (including reserves for future capital expenditures and for future credit needs of the partnership and our subsidiaries) after that quarter;

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(2) comply with applicable law or any debt instrument or other agreement or obligation to which we or any of our subsidiaries are a part or our assets are subject; and

(3) provide funds for minimum quarterly distributions and cumulative common unit arrearages for any one or more of the next four quarters;

*provided, however*, that our general partner may not establish cash reserves pursuant to clause (b)(3) immediately above unless our general partner has determined that the establishment of reserves will not prevent us from distributing the minimum quarterly distribution on all common units and any cumulative common unit arrearages thereon for that quarter; and *provided, further*, that disbursements made by us or any of our subsidiaries or cash reserves established, increased or reduced after the end of that quarter but on or before the date of determination of Available Cash for that quarter shall be deemed to have been made, established, increased or reduced, for purposes of determining Available Cash, within that quarter if our general partner so determines.

**Cumulative Common Unit Arrearage.** The amount by which the minimum quarterly distribution for a quarter during the subordination period exceeds the distribution of Available Cash from operating surplus actually made for that quarter on a common unit, cumulative for that quarter and all prior quarters during the subordination period.

**Operating Surplus.** For any period prior to liquidation, on a cumulative basis and without duplication:

(a) the sum of:

(1) all cash receipts of our partnership and our subsidiaries for the period beginning on the closing date of our initial public offering and ending with the last day of the period, other than cash receipts from interim capital transactions; and

(2) an amount equal to the sum of (A) two times the amount needed for any one quarter for us to pay the minimum quarterly distribution on all units (including the general partner units) and (B) two times the amount in excess of the minimum quarterly distribution for any quarter to pay a distribution on all Common Units at the same per unit amount as was distributed on the Common Units in excess of the minimum quarterly distribution in the immediately preceding quarter, provided the amount in (B) will be deemed to be Operating Surplus only to the extent that the distribution paid in respect of such amounts is paid on Common Units, less

(b) the sum of:

(1) operating expenditures for the period beginning on the closing date of our initial public offering and ending with the last day of that period; and

(2) the amount of cash reserves (or our proportionate share of cash reserves in the case of subsidiaries that are not wholly owned) established by our general partner to provide funds for future operating expenditures; provided however, that disbursements made (including contributions to us or our subsidiaries or disbursements on behalf of us or our subsidiaries) or cash reserves established, increased or reduced after the end of that period but on or before the date of determination of Available Cash for that period shall be deemed to have been made, established, increased or reduced for purposes of determining operating surplus, within that period if our general partner so determines.

**Subordination Period.** The subordination period began with the closing of the initial public offering on July 2, 2007, and will last until the first to occur of the following dates:

(a) The first day of any quarter beginning after June 30, 2010 in respect of which each of the following tests are met:

(1) distribution of Available Cash from operating surplus on each of the outstanding common units and subordinated units equaled or exceeded the sum of the minimum quarterly distributions on all

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of the outstanding common units and subordinated units for each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date;

(2) the adjusted operating surplus generated during each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding common units, subordinated units and general partner units during those periods on a fully diluted basis; and

(3) there are no outstanding cumulative common units arrearages.

(b) The first date after we have earned and paid at least \$0.45 per quarter (150% of the minimum quarterly distribution of \$0.30 per quarter, which is \$1.80 on an annualized basis) on each outstanding limited partner unit and general partner unit for any four consecutive quarters ending on or after June 30, 2008; and

(c) The date on which the general partner is removed as our general partner upon the requisite vote by the limited partners under circumstances where cause does not exist and units held by our general partner and its affiliates are not voted in favor of the removal.

When the subordination period ends, all remaining subordinated units will convert into common units on a one-for-one basis, and the common units will no longer be entitled to arrearages.

**Additional Information**

We were formed on March 19, 2007 as a Delaware master limited partnership. Our principal executive offices are located at 5400 Westheimer Court, Houston, Texas 77056 and our telephone number is 713-627-5400. We electronically file various reports with the Securities and Exchange Commission (SEC), including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports. The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site that contains reports and information statements, and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>. Additionally, information about us, including our reports filed with the SEC, is available through our web site at <http://www.spectraenergypartners.com>. Such reports are accessible at no charge through our web site and are made available as soon as reasonably practicable after such material is filed with or furnished to the SEC. Our website and the information contained on that site, or connected to that site, is not incorporated by reference into this report.

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**Item 1A. Risk Factors.**

Discussed below are the more significant risk factors relating to us.

**Risks Related to our Business**

*We may not have sufficient cash from operations to enable us to make cash distributions to holders of common and subordinated units.*

In order to make cash distributions at our minimum distribution rate of \$0.30 per common unit per quarter, or \$1.20 per unit per year, we will require Available Cash of approximately \$24.1 million per quarter, or \$96.4 million per year, depending on the actual number of common units and subordinated units outstanding. We may not have sufficient Available Cash from operating surplus each quarter to enable us to make cash distributions at the minimum distribution rate. The amount of cash we can distribute on our units principally depends upon the amount of cash we generate from operations, which will fluctuate based on, among other things:

the rates charged for transportation, storage and gathering services, and the volumes of natural gas contracted by customers for transportation, storage and gathering services;

the overall demand for natural gas in the southeastern, mid-Continent and mid-Atlantic regions of the United States and the quantities of natural gas available for transport, especially from the Gulf of Mexico, Appalachian and mid-Continent areas;

regulatory action affecting the demand for natural gas, the supply of natural gas, the rates we can charge, contracts for services, existing contracts, operating costs and operating flexibility;

regulatory and economic limitations on the development of LNG import terminals in the Gulf Coast region; and

the level of operating and maintenance, and general and administrative costs.

In addition, the actual amount of cash available for distribution will depend on other factors, some of which are beyond our control, including:

the level of capital expenditures to complete construction projects;

the cost and form of payment of acquisitions;

debt service requirements and other liabilities;

fluctuations in working capital needs;

the ability to borrow funds and access capital markets;

restrictions on distributions contained in debt agreements; and

the amount of cash reserves established by our general partner.

*o*