

Spectra Energy Partners, LP  
Form 10-K  
March 25, 2008

**Table of Contents**

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

**Form 10-K**

**þ** ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
**For the fiscal year ended December 31, 2007**

**or**

**o** 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:**

**Title of Each Class**

**Name of Each Exchange on Which Registered**

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

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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. (Check one):

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 of 1934). Yes  No

Estimated aggregate market value of the Common Units held by non-affiliates of the registrant at June 30, 2007: \$327,000,000.

At March 06, 2008, there were 44,640,245 Common Units, 21,638,730 Subordinated Units and 1,352,421 General Partner Units outstanding.

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**SPECTRA ENERGY PARTNERS, LP**  
**FORM 10-K FOR THE YEAR ENDED**  
**DECEMBER 31, 2007**

**TABLE OF CONTENTS**

<b>Item</b>	<b>Page</b>
<b><u>PART I.</u></b>	
<u>1. Business</u>	4
<u>General</u>	4
<u>Initial Public Offering</u>	4
<u>East Tennessee</u>	5
<u>Gulfstream</u>	7
<u>Market Hub</u>	8
<u>Contract Mix Summary</u>	10
<u>Pending Acquisition</u>	10
<u>Supplies and Raw Materials</u>	10
<u>Regulations</u>	11
<u>Environmental Matters</u>	11
<u>Employees</u>	12
<u>Additional Information</u>	12
<u>Glossary</u>	13
<u>1A. Risk Factors</u>	15
<u>1B. Unresolved Staff Comments</u>	34
<u>2. Properties</u>	34
<u>3. Legal Proceedings</u>	34
<u>4. Submission of Matters to a Vote of Security Holders</u>	34
<b><u>PART II.</u></b>	
<u>5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	35
<u>6. Selected Financial Data</u>	37
<u>7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	37
<u>7A. Quantitative and Qualitative Disclosures About Market Risk</u>	53
<u>8. Financial Statements and Supplementary Data</u>	54
<u>9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	78
<u>9A. Controls and Procedures</u>	78
<u>9B. Other Information</u>	78
<b><u>PART III.</u></b>	
<u>10. Directors, Executive Officers and Corporate Governance</u>	78
<u>11. Executive Compensation</u>	83
<u>12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	104
<u>13. Certain Relationships and Related Transactions, and Director Independence</u>	105

14.	<u>Principal Accounting Fees and Services</u>	109
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**PART IV.**

15.	<u>Exhibits, Financial Statement Schedules</u>	110
	<u>Signatures</u>	111
	Exhibit Index	
	<u>Subsidiaries</u>	
	<u>Power of Attorney</u>	
	<u>Certification of CEO Pursuant to Section 302</u>	
	<u>Certification of CFO Pursuant to Section 302</u>	
	<u>Certification Pursuant to Section 1350</u>	
	<u>Certification Pursuant to Section 1350</u>	

**Table of Contents**

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

This document includes forward-looking statements that 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 any potential effects arising from terrorist attacks and any consequential hostilities 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 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, and other infrastructure projects and the effects of competition;

the performance of natural gas transmission and storage facilities;

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

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

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

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

**Table of Contents**

**PART I**

**Item 1. *Business.***

**General**

Spectra Energy Partners, LP, through its subsidiaries and equity affiliates (collectively, Spectra Energy Partners), is engaged in the transportation of natural gas through interstate pipeline systems with approximately 2,100 miles of pipelines that serve the southeastern United States, and the storage of natural gas in underground facilities with aggregate working gas storage capacity of approximately 35 billion cubic feet (Bcf) that are located in southeast Texas and in south central Louisiana. Spectra Energy Partners, LP is a Delaware master limited partnership formed on March 19, 2007.

Spectra Energy Partners transports and stores natural gas for a broad mix of customers, including local gas distribution companies, or LDCs, municipal utilities, interstate and intrastate pipelines, direct industrial users, electric power generators, marketers and producers. In addition to serving directly connected Southeastern markets, Spectra Energy Partners' pipeline and storage systems have access to customers in the Mid-Atlantic, Northeastern and Midwestern regions of the United States through numerous interconnections with major pipelines. Spectra Energy Partners' rates are regulated under Federal Energy Regulatory Commission (FERC) rate-making policies, and, in the case of the storage facility in Texas, by the Texas Railroad Commission (TRC).

The operations and activities of Spectra Energy Partners are managed by its 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 New York Stock Exchange under the symbol SE.

**Initial Public Offering**

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

**Table of Contents**

**East Tennessee**

***General***

Spectra Energy Partners owns and operates 100% of the approximately 1,400-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 19 receipt points and more than 175 delivery points and market delivery capability of approximately 1.3 billion cubic feet per day (Bcf/d) of natural gas. East Tennessee also owns and operates a liquefied natural gas (LNG) storage facility in Kingsport, Tennessee with working gas storage capacity of approximately 1.1 Bcf and regasification capability of 150 million cubic feet per day (MMcf/d).

***Customers and Contracts***

East Tennessee's customers include LDCs, utilities, industrial companies, natural gas marketers and producers and electric power generators. East Tennessee's three largest customers in 2007 were Atmos Energy Corporation, CNX Gas Company LLC and KGen Murray I and II LLC, which accounted for approximately 13%, 11% and 11%, respectively, of East Tennessee's revenues.

East Tennessee contracts with its customers to provide firm and interruptible transportation services. Payments under these services are 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 contract. Maximum and minimum rates for services are governed by East Tennessee's FERC-approved natural gas tariff.



## **Table of Contents**

In 2005, East Tennessee entered into a rate settlement with its customers which established new base rates under the tariff. The 2005 rate settlement provides rate certainty through the settlement's expiration in 2010, at which time East Tennessee's rates will remain the same, subject to further negotiation or the filing of a rate case. Neither regulation nor the terms of the settlement require East Tennessee to file a rate case at any time.

East Tennessee also provides interruptible transportation services under which gas is transported for customers when operationally feasible and customers pay only for the actual volume of gas transported. Under all contracts, East Tennessee 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, 2007, East Tennessee's firm transportation and storage contracts had a weighted average remaining life of approximately nine years. For the year ended December 31, 2007, 98% of East Tennessee'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***

Although East Tennessee does not own the natural gas transported or stored on its system, gas supply attachments are a critical factor for East Tennessee's customers. The majority of the gas supply benefiting East Tennessee's customers comes from the Gulf Coast region through Tennessee Gas Pipeline Company, as well as through Texas Eastern Transmission, L.P. (Texas Eastern Transmission), a subsidiary of Spectra Energy, and to a lesser degree Southern Natural Gas Company and Columbia Gulf Transmission Company. East Tennessee's customers also receive natural gas supply from the Appalachian region through several producers and also recently began to receive natural gas supply through the Jewell Ridge Lateral that connects to Appalachian supply basins. Natural gas withdrawn from East Tennessee's LNG storage facility and other on-system storage fields, including Spectra Energy's Saltville natural gas storage facility, provide East Tennessee's 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 East Tennessee. At both ends of East Tennessee's system, it 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 market area. While this competition does not directly affect its firm sales, its 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 its customers' demand requirements, East Tennessee has already benefited from the addition of new natural gas fired electric generation constructed in proximity to the pipeline.

An increase in competition in the region served by East Tennessee 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 competitors.

**Table of Contents**

**Gulfstream**

***General***

Spectra Energy Partners owns a 24.5% interest in the approximate 700-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 242 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. Gulfstream's 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 seven receipt points and 19 delivery points and has market delivery capability of approximately 1.1 Bcf/d of natural gas. Spectra Energy and 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 2007, Florida Power & Light Company, Florida Power Corporation and Tampa Electric Company and its affiliates accounted for approximately 50%, 22% and 10%, 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 FERC.

## **Table of Contents**

As of December 31, 2007, Gulfstream's firm transportation and storage contracts had a weighted average remaining life of 19 years. For the year ended December 31, 2007, 93% of Gulfstream's revenues were derived from capacity reservation charges under firm contracts, 3% of revenues were derived from variable usage fees under firm contracts and 4% 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 interconnected to processing plants and supply pipelines in the Mobile Bay area. Currently, shippers have the ability to source supply at seven access points. 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.

In the summer of 2008, Gulfstream shippers expect to have access to supplies delivered by Spectra Energy's Southeast Header Supply, LLC (SESH) joint venture. SESH will originate in Perryville, LA and interconnect with Gulfstream near Coden, Alabama.

### ***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, a subsidiary of Citrus Corp.

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***

Spectra Energy Partners owns 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 natural gas supplies from Texas, Louisiana and growing imports of LNG to the Gulf Coast, and each facility interconnects with Spectra Energy's Texas Eastern Transmission system. Spectra Energy owns the remaining 50% interest in Market Hub and operates the system.

The Egan storage facility, located in Acadia Parish, Louisiana, has a working gas capacity of approximately 20 Bcf, and includes a 38-mile pipeline system that interconnects with seven major pipeline systems. Egan offers access to Gulf Coast, Midwest, Southeast and Northeast markets.

**Table of Contents**

The Moss Bluff storage facility, located in Liberty County, Texas, has a working gas capacity of approximately 15 Bcf, and includes a 20-mile pipeline system that interconnects with five major pipeline systems. Moss Bluff offers access to Texas, Northeast and Midwest markets.

***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 2007, Spectra Energy accounted for 11% of Market Hub's revenues.

Market Hub provides firm storage, park and loan services and wheeling. 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, 2007, Market Hub's firm storage contracts had an average remaining life of approximately three years, which is typical of the shorter contract life of storage systems as compared to transportation systems. For the year ended December 31, 2007, approximately 83% of Market Hub's revenues were derived from capacity reservation fees under firm storage contracts, with the remaining 17% primarily from interruptible storage contracts, including park and loan services, and wheeling.

Egan has aggregate receipt capacity from major interconnecting pipelines of approximately 3.5 Bcf/d compared to an injection capability of 1.3 Bcf/d. Moss Bluff has aggregate receipt capacity from major interconnecting pipelines of approximately 1.7 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 future LNG supplies.

**Table of Contents****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.

**Contract Mix Summary**

Spectra Energy Partners competes for transportation and storage customers based on the specific type of service a customer needs, operating flexibility, available capacity and price. As noted previously, Spectra Energy Partners provides a significant portion of its transportation and storage services through firm contracts and derives a smaller portion of revenues through interruptible contracts, seeking to maximize the portion of physical capacity sold under firm contracts. To the extent that physical capacity that is contracted for firm service is not being fully utilized, Spectra Energy Partners can contract such capacity for interruptible service. The table below summarizes certain information regarding contracts and revenues as of and for the year ended December 31, 2007:

Asset	Revenue Composition %			% of Physical Capacity	Weighted Average Remaining Contract Life (in years)(a)
	Firm Contracts			Subscribed	
	Capacity Reservation Fees	Variable Fees	Interruptible Contracts	Under Firm Contracts	
East Tennessee	98%	1%	1%	96%	9
Gulfstream	93	3	4	68	19
Market Hub	83		17	100	3

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

**Pending Acquisition**

In December 2007, Spectra Energy Partners announced an agreement to acquire Virginia-based Saltville Gas Storage Company, L.L.C. (Saltville) and the P-25 Pipeline from Spectra Energy for \$107 million, consisting of newly issued partnership units and approximately \$5 million in cash. Saltville assets include three separate natural gas storage facilities with approximately 5.5 Bcf of working capacity. The P-25 Pipeline is a 72-mile, eight-inch natural gas pipeline with a capacity of 40 Mmcf/d. The transaction is expected to close during the second quarter of 2008, pending required regulatory approvals.

**Supplies and Raw Materials**

Spectra Energy Partners purchases 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, gas meters and other consumables.

Spectra Energy Partners utilizes 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 scale of Spectra Energy to maximize the efficiency of supply networks where applicable.

Global growth in the energy sector, particularly in North America, and rising international demand have led to increased demand levels and increased costs of steel used in certain of the manufactured equipment required by Spectra Energy Partners' operations. While some of these increases in price and supplier capacity will be offset through the use of strategic supplier contracts, Spectra Energy Partners expects stable to rising prices and constant to extended lead times for many of these products in 2008 through 2010 compared to the previous three year period. The increasing costs and extended lead times are expected to primarily affect Spectra Energy Partners' expansion project program. There can be no assurance that the ability to obtain sufficient equipment and materials will not be

## **Table of Contents**

adversely affected by unforeseen developments. In addition, the price of equipment and materials may vary, perhaps substantially, from year to year.

### **Regulations**

Spectra Energy Partners' interstate gas transmission pipeline and storage operations, with the exception of Moss Bluff, are regulated by the FERC. The FERC regulates natural gas transportation in U.S. interstate commerce including the establishment of rates for services. The FERC also regulates the construction of U.S. interstate pipelines and storage facilities including extension, enlargement and abandonment of facilities. In addition, the Moss Bluff intrastate storage operations are subject to oversight by the TRC.

FERC regulations restrict U.S. interstate pipelines from sharing transmission or customer information with marketing affiliates and require that U.S. interstate pipelines function independently of their marketing affiliates.

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

Spectra Energy Partners' gas transmission operations are subject to the jurisdiction of various federal, state and local environmental agencies. See **Environmental Matters** for a discussion of environmental regulation. Spectra Energy Partners' interstate natural gas pipelines are also subject to the regulations of the Department of Transportation (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 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 recently upheld 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 Spectra Energy Partners owns an interest may be required to demonstrate the extent to which inclusion of an income tax allowance in the company's 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**

Spectra Energy Partners is 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 Spectra Energy Partners include, but are not limited to:

The Clean Air Act, or 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. Spectra Energy Partners' natural gas transmission and storage assets are considered sources of air emissions and thus are subject to the CAA. Owners and/or operators of air emission sources, such as Spectra Energy Partners, are responsible for obtaining permits for existing and new sources of air emissions and for annual compliance and reporting.

The Federal Water Pollution Control 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 Spectra Energy Partners is primarily a natural gas business, OPA affects its business primarily because of the presence of liquid hydrocarbons (condensate) in its offshore pipeline.



## **Table of Contents**

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 its business, Spectra Energy Partners generates 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 siting approvals. Many of Spectra Energy Partners' projects require federal agency review, and therefore the environmental effect of proposed projects is a factor in determining whether Spectra Energy Partners will be permitted to complete proposed projects.

For more information on environmental matters involving Spectra Energy Partners, including possible liability and capital costs, see Item 8. Financial Statements and Supplementary Data, Note 12 of Notes to Consolidated Financial Statements.

Except to the extent discussed in Note 12, 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 Spectra Energy Partners and is not expected to have a material adverse effect on Spectra Energy Partners' competitive position, consolidated results of operations, financial position or cash flows.

### **Employees**

Spectra Energy Partners does not have any employees. Spectra Energy Partners is managed by the directors and officers of its general partner. Spectra Energy Partners' general partner or its affiliates currently employ 62 people who spend at least a majority of their time operating the East Tennessee facilities and 5 people who are primarily dedicated to Spectra Energy Partners. 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 not included in the above numbers.

### **Additional Information**

Spectra Energy Partners was formed on March 19, 2007 as a Delaware master limited partnership. Its principal executive offices are located at 5400 Westheimer Court, Houston, Texas 77056 and its telephone number is 713-627-5400. Spectra Energy Partners electronically files 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 Spectra Energy Partners files 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 Spectra Energy Partners, including its reports filed with the SEC, is available through Spectra Energy Partners' web site at <http://www.spectraenergypartners.com>. Such reports are accessible at no charge through Spectra Energy Partners' web site and are made available as soon as reasonably practicable after such material is filed with or furnished to the SEC. Spectra Energy Partners' website and the information contained on that site, or connected to that site, are not incorporated by reference into this report.



**Table of Contents**

**Glossary**

Terms used to describe Spectra Energy Partners' business are defined below.

*Allowance for Funds Used During Construction (AFUDC).* An accounting convention of regulators that represents the estimated composite interest costs of debt and a return on equity funds used to finance construction. The allowance is capitalized in the property accounts and included in income.

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

(a) the sum of:

(1) all cash and cash equivalents of Spectra Energy Partners and its subsidiaries on hand at the end of that quarter; and

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

(b) less the amount of cash reserves established by Spectra Energy Partners' general partner to:

(1) provide for the proper conduct of the business of Spectra Energy Partners and its subsidiaries (including reserves for future capital expenditures and for future credit needs of Spectra Energy Partners and its subsidiaries) after that quarter;

(2) comply with applicable law or any debt instrument or other agreement or obligation to which Spectra Energy Partners or any of its subsidiaries is a part or its 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 Spectra Energy Partners' general partner may not establish cash reserves pursuant to clause (b)(3) immediately above unless Spectra Energy Partners' general partner has determined that the establishment of reserves will not prevent Spectra Energy Partners 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 Spectra Energy Partners or any of Spectra Energy Partners' 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 Spectra Energy Partners' general partner so determines.

*British Thermal Unit (Btu).* A standard unit for measuring thermal energy or heat commonly used as a gauge for the energy content of natural gas and other fuels.

*Cubic Foot (cf).* The most common unit of measurement of gas volume; the amount of natural gas required to fill a volume of one cubic foot under stated conditions of temperature, pressure and water vapor.

*Derivative.* A financial instrument or contract in which the price is based on the value of underlying securities, equity indices, debt instruments, commodities or other benchmarks or variables. Often used to hedge risk, derivatives involve the trading of rights or obligations, but not the direct transfer of property.

*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.

*Environmental Protection Agency (EPA).* The U.S. agency that is responsible for researching and setting national standards for a variety of environmental programs, and delegates to states the responsibility for issuing permits and for monitoring and enforcing compliance.

*Federal Energy Regulatory Commission (FERC).* The U.S. agency that regulates the transportation of electricity and natural gas in interstate commerce and authorizes the buying and selling of energy commodities at market-based rates.

**Table of Contents**

*Liquefied Natural Gas (LNG).* Natural gas that has been converted to a liquid by cooling it to minus 260 degrees Fahrenheit.

*Local Distribution Company (LDC).* A company that obtains the major portion of its revenues from the operations of a retail distribution system for the delivery of gas for ultimate consumption.

*Operating Expenditures.* All of Spectra Energy Partners' expenditures and expenditures of Spectra Energy Partners subsidiaries, including, but not limited to, taxes, payments to the general partner for reimbursements of expenses incurred by the general partner on Spectra Energy Partners' behalf, non-pro rata purchases of units, interest payments, payments made in the ordinary course of business under interest rate swap agreements and commodity hedge contracts and maintenance capital expenditures, subject to the following:

(a) Payments (including prepayments) of principal of and premium on indebtedness will not constitute operating expenditures.

(b) Operating expenditures will not include:

(1) expansion capital expenditures;

(2) payment of transaction expenses (including taxes) relating to interim capital transactions;

(3) distributions to unitholders; and

(4) non-pro rata purchases of units of any class made with the proceeds of an interim capital transaction.

Where capital expenditures consist of both maintenance capital expenditures and expansion capital expenditures, the general partner, with the concurrence of the Board of Directors of the General Partner's conflicts committee (the Conflicts Committee), shall determine the allocation between the amounts paid for each.

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

(a) the sum of:

(1) all cash receipts of Spectra Energy Partners, LP and Spectra Energy Partners' subsidiaries for the period beginning on the closing date of Spectra Energy Partners' 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 Spectra Energy Partners 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 Spectra Energy Partners' initial public offering and ending with the last day of that period; and

(2) the amount of cash reserves (or Spectra Energy Partners proportionate share of cash reserves in the case of subsidiaries that are not wholly owned) established by Spectra Energy Partners general partner to provide funds for future operating expenditures; provided however, that disbursements made (including contributions to Spectra Energy Partners or Spectra Energy Partners subsidiaries or disbursements on behalf of Spectra Energy Partners or Spectra Energy Partners 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 Spectra Energy Partners general partner so determines.

## **Table of Contents**

*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 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 Spectra Energy Partners has 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 Spectra Energy Partners' general partner upon the requisite vote by the limited partners under circumstances where cause does not exist and units held by Spectra Energy Partners' 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.

*Throughput.* The amount of natural gas transported through a pipeline system.

*Transmission System.* An interconnected group of natural gas pipelines and associated facilities for transporting natural gas in bulk between points of supply and delivery points to industrial customers, LDCs, or for delivery to other natural gas transmission systems.

## **Item 1A. Risk Factors.**

Discussed below are the more significant risk factors relating to Spectra Energy Partners.

### **Risks Related to Spectra Energy Partners' Business**

***Spectra Energy Partners may not have sufficient cash from operations to enable it to make cash distributions to holders of common and subordinated units.***

In order to make cash distributions at the minimum distribution rate of \$0.30 per common unit per complete quarter, or \$1.20 per unit per year, it will require Available Cash of approximately \$20.3 million per quarter, or \$81.2 million per year, depending on the actual number of common units and subordinated units outstanding. Spectra Energy Partners may not have sufficient Available Cash from operating surplus each quarter to enable it to make cash distributions at the minimum distribution rate. The amount of cash Spectra Energy Partners can distribute on its units principally depends upon the amount of cash it generates from operations, which will fluctuate based on, among other

things:

the rates charged for transportation and storage services, and the volumes of natural gas customers transport and store;

the overall demand for natural gas in the Southeastern 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;



**Table of Contents**

regulatory action affecting the demand for natural gas, the supply of natural gas, the rates Spectra Energy Partners 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;

successful development of LNG import terminals in the eastern or northeastern United States, which could reduce the need for natural gas to be transported on the East Tennessee pipeline system and for the development of additional natural gas storage capacity 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 Spectra Energy Partners' 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 Spectra Energy Partners' general partner.

***Gulfstream and Market Hub are controlled by Spectra Energy and other third parties who are responsible for the management and operations of those assets. As a result, Spectra Energy Partners cannot control the amount of cash that will be received from Gulfstream and Market Hub, and Spectra Energy Partners may be required to contribute significant cash to fund their operations.***

Market Hub and Gulfstream are expected to generate approximately one-half of the cash Spectra Energy Partners distributes. Spectra Energy operates Market Hub and the operation of Gulfstream is shared between Spectra Energy and Williams. Accordingly, Spectra Energy Partners does not control the amount of cash distributed to Spectra Energy Partners nor does Spectra Energy Partners control ongoing operational decisions, including the incurrence of capital expenditures that Spectra Energy Partners may be required to fund.

Spectra Energy Partners' lack of control over the operations of Gulfstream and Market Hub may mean that Spectra Energy Partners does not receive the amount of cash it expects to be distributed. This may require that Spectra Energy Partners provide additional capital, and these contributions may be material. This lack of control may significantly and adversely affect the ability to distribute cash.

***Natural gas transportation and storage operations are subject to regulation by FERC, which could have an adverse effect on the ability to establish transportation and storage rates that would allow Spectra Energy Partners to recover the full cost of operating its pipelines, including a reasonable return, and its ability to make distributions.***

Spectra Energy Partners' interstate natural gas transportation and storage operations are subject to federal, state and local regulatory authorities. Specifically, the natural gas pipeline systems and certain of the storage facilities and related assets are subject to regulation by FERC. Its authority to regulate natural gas pipeline transportation services includes the rates charged for the services, terms and conditions of service, certification and construction of new facilities, the extension or abandonment of services and facilities, the maintenance of accounts and records, the acquisition and disposition of facilities, the initiation and discontinuation of services, and various other matters.

In addition, Spectra Energy Partners cannot give any assurance regarding the likely future regulations under which it will operate its natural gas transportation and storage businesses or the effect such regulation could have on business, financial condition, results of operations and the ability to make distributions.

**Table of Contents**

***Certain transportation services are subject to long-term, fixed-price negotiated rate contracts that are not subject to adjustment, even if the cost to perform services exceeds the revenues received from such contracts, and, as a result, Spectra Energy Partners costs could exceed revenues received under these contracts.***

Under FERC policy, a regulated service provider and a customer may mutually agree to sign a contract for service at a negotiated rate which may be above or below the FERC regulated recourse rate for that service. For 2007, all of Gulfstream's firm revenues were derived from such negotiated rate contracts and approximately 37% of East Tennessee's firm revenues were derived from capacity reservation charges under negotiated rate contracts. These negotiated rate contracts are not subject to adjustment for increased costs which could be produced by inflation or other factors relating to the specific facilities being used to perform the services. It is possible that Gulfstream's and East Tennessee's costs to perform services under these negotiated rate contracts will exceed the negotiated rates. If this occurs, it could decrease cash flows from Gulfstream and East Tennessee.

***Market Hub's right to charge market-based rates at one of its facilities is subject to the continued existence of certain conditions related to the competitive position of Market Hub and, if those conditions change, the right to charge market-based rates could be terminated.***

Certain of the rates charged by Market Hub are regulated by FERC pursuant to its market-based rate policy, which allows regulated storage companies to charge rates above those which would be permitted under traditional cost-of-service regulation. The right of Market Hub to charge market-based rates is based upon determinations by FERC that it does not have market power in the relevant market areas it serves. This determination of a lack of market power is subject to review and revision by FERC if circumstances change. In the event of an adverse determination concerning market power with respect to Market Hub, its rates could become subject to cost-of-service regulation which could have adverse consequences for the cash flow of Market Hub.

***Increased competition from alternative natural gas transportation and storage options and alternative fuel sources could have a significant financial effect on Spectra Energy Partners.***

Spectra Energy Partners competes primarily with other interstate and intrastate pipelines and storage facilities in the transportation and storage of natural gas. Some of Spectra Energy Partners' competitors have greater financial resources and access to greater supplies of natural gas than Spectra Energy Partners does. Some of these competitors may expand or construct transportation and storage systems that would create additional competition for the services Spectra Energy Partners provides to its customers. Moreover, Spectra Energy and its affiliates are not limited in their ability to compete with Spectra Energy Partners. Further, natural gas also competes with other forms of energy available to Spectra Energy Partners' customers, including electricity, coal and fuel oils.

The principal elements of competition among natural gas transportation and storage assets are rates, terms of service, access to natural gas supplies, flexibility and reliability. FERC's policies promoting competition in natural gas markets are having the effect of increasing the natural gas transportation and storage options for Spectra Energy Partners' traditional customer base. As a result, Spectra Energy Partners could experience some turnback of firm capacity as existing agreements expire. If East Tennessee, Gulfstream or Market Hub are unable to remarket this capacity or can remarket it only at substantially discounted rates compared to previous contracts, they may have to bear the costs associated with the turned back capacity. Increased competition could reduce the volumes of natural gas transported or stored by Spectra Energy Partners' systems or, in cases where Spectra Energy Partners does not have long-term fixed rate contracts, could force Spectra Energy Partners to lower its transportation or storage rates. Competition could intensify the negative effect of factors that significantly decrease demand for natural gas in the markets served by Spectra Energy Partners' pipeline systems, such as competing or alternative forms of energy, a recession or other adverse economic conditions, weather, higher fuel costs and taxes or other governmental or regulatory actions that directly or indirectly increase the cost or limit the use of natural gas. The ability to renew or replace existing contracts

at rates sufficient to maintain current revenues and cash flows could be adversely affected by the activities of competitors. All of these competitive pressures could have a material adverse effect on Spectra Energy Partners business, financial condition, results of operations, and ability to make distributions.

**Table of Contents**

***Any significant decrease in supplies of natural gas in Spectra Energy Partners' areas of operation could adversely affect business and operating results, and reduce cash available for distribution.***

All of Spectra Energy Partners' businesses are dependent on the continued availability of natural gas production and reserves. Low prices for natural gas or regulatory limitations could adversely affect development of additional reserves and production that is accessible by Spectra Energy Partners' pipeline and storage assets. Production from existing wells and natural gas supply basins with access to Spectra Energy Partners' pipelines will naturally decline over time. Additionally, the amount of natural gas reserves underlying these wells may also be less than anticipated, and the rate at which production from these reserves declines may be greater than anticipated. Accordingly, to maintain or increase throughput on Spectra Energy Partners' pipelines and cash flows associated with the transportation of gas, Spectra Energy Partners' customers must continually obtain new supplies of natural gas.

If new supplies of natural gas are not obtained to replace the natural decline in volumes from existing supply basins, the overall volume of natural gas transported and stored on Spectra Energy Partners' systems would decline, which could have a material adverse effect on Spectra Energy Partners' business, financial condition, results of operations and ability to make distributions.

***The failure of LNG import terminals to be successfully developed in the Gulf Coast region or the successful development of LNG import terminals outside Spectra Energy Partners' areas of operations could reduce the demand for Spectra Energy Partners' services.***

Imported LNG is expected to be a significant component of future natural gas supply to the United States. Much of this increase in LNG supplies is expected to be imported through new LNG facilities to be developed over the next decade, and the Gulf Coast region is expected to be the region that will attract a majority of these projects. According to FERC's Office of Energy Projects, as of January 14, 2008, there were two LNG terminals operating in the Gulf Coast region and of the 19 applications filed with U.S. federal agencies for additional LNG terminals in the Gulf Coast region, 17 had been approved. Spectra Energy Partners cannot predict which, if any, of these projects will be constructed. Spectra Energy Partners may not realize expected increases in future natural gas supply available for transportation and storage on its systems due to factors including:

- new projects may fail to be developed;
- new projects may not be developed at their announced capacity;
- development of new projects may be significantly delayed;
- new projects may be built in locations that are not connected to Spectra Energy Partners' systems; or
- new projects may not influence sources of supply on Spectra Energy Partners' systems.

Similarly, the development of new, or expansion of existing, LNG facilities outside Spectra Energy Partners' areas of operations, or in an area with a direct connection into the Florida market served by Gulfstream, could reduce the need for customers to transport natural gas from the Gulf Coast and Appalachian regions, as well as other supply basins connected to Spectra Energy Partners' pipelines. This could reduce the amount of natural gas transported by Spectra Energy Partners' pipelines and the demand for Spectra Energy Partners' storage facilities.

If the expected increase in natural gas supply from imported LNG is not realized in Spectra Energy Partners' areas of operation, the future overall volume of natural gas transported and stored on Spectra Energy Partners' systems could decline, which could have a material adverse effect on Spectra Energy Partners' business, financial condition, results of

operations and ability to make distributions.

***Spectra Energy Partners may not be able to maintain or replace expiring natural gas transportation and storage contracts at favorable rates.***

Spectra Energy Partners' primary exposure to market risk occurs at the time existing transportation and storage contracts expire and are subject to renegotiation and renewal. A portion of the revenue generated by Spectra Energy Partners' systems in 2007 is attributable to firm capacity reservation fees that are set to expire on or prior to December 31, 2010. For Gulfstream, East Tennessee and Market Hub, those portions were 0%, 37%, and 68%,

**Table of Contents**

respectively. Upon expiration, Spectra Energy Partners may not be able to extend contracts with existing customers or obtain replacement contracts at favorable rates or on a long-term basis.

The extension or replacement of existing contracts depends on a number of factors beyond Spectra Energy Partners control, including:

the level of existing and new competition to deliver natural gas to Spectra Energy Partners markets;

the growth in demand for natural gas in Spectra Energy Partners markets;

whether the market will continue to support long-term contracts;

whether Spectra Energy Partners business strategy continues to be successful; and

the effects of state regulation on customer contracting practices.

According to the Energy Information Administration (EIA), overall demand for natural gas consumption in the markets Spectra Energy Partners serves is expected to grow by approximately 2.1% per year for the period from 2007-2012. Spectra Energy Partners believes this growth will be driven by the construction of new natural gas fired electric generation plants in Florida and elsewhere to meet both a growing population base and a growing per capita demand for electricity. With the recent trend towards natural gas fired electric generation, demand for natural gas during the summer months to satisfy cooling requirements is now increasing.

Any failure to extend or replace a significant portion of Spectra Energy Partners existing contracts may have a material adverse effect on Spectra Energy Partners business, financial condition, results of operations and ability to make distributions.

***Spectra Energy Partners and its equity affiliates depend on certain key customers for a significant portion of their revenues. The loss of any of these key customers could result in a decline in revenues and cash available to make distributions.***

Spectra Energy Partners relies on a limited number of customers for a significant portion of revenues. For the year ended December 31, 2007, the three largest customers for East Tennessee were Atmos Energy Corporation, CNX Gas Company LLC and KGen Murray I and II LLC; for Gulfstream were Florida Power & Light Company, Florida Power Corporation (d/b/a Progress Energy Florida, Inc.) and Tampa Electric Company and its affiliates; and for Market Hub were Texas Eastern Transmission (an affiliate), Luminant LLC and Northern Indiana Public Service Company. In 2007, these customers accounted for approximately 35%, 82% and 17% of the operating revenues for East Tennessee, Gulfstream and Market Hub, respectively. While most of these customers are subject to long-term contracts, the loss of all or even a portion of the contracted volumes of these customers as a result of competition, creditworthiness, inability to negotiate extensions or replacements of contracts or otherwise, could have a material adverse effect on Spectra Energy Partners financial condition, results of operations and ability to make distributions, unless Spectra Energy Partners is able to contract for comparable volumes from other customers at favorable rates.

***If third-party pipelines and other facilities interconnected to Spectra Energy Partners pipelines, and facilities become unavailable to transport natural gas, revenues and cash available to make distributions could be adversely affected.***

Spectra Energy Partners depends upon third-party pipelines and other facilities that provide delivery options to and from Spectra Energy Partners pipelines and storage facilities. Because Spectra Energy Partners does not own these

third-party pipelines or facilities, their continuing operation is not within Spectra Energy Partners' control. If these or any other pipeline connection were to become unavailable for current or future volumes of natural gas due to repairs, damage to the facility, lack of capacity or any other reason, the ability to operate efficiently and continue shipping natural gas to end-markets could be restricted, thereby reducing revenues. Any temporary or permanent interruption at any key pipeline interconnect could have a material adverse effect on Spectra Energy Partners' business, results of operations, financial condition and ability to make distributions.



**Table of Contents**

***Neither Gulfstream nor Market Hub is prohibited from incurring indebtedness, which may affect Spectra Energy Partners' ability to make distributions.***

Neither Gulfstream nor Market Hub is prohibited from incurring indebtedness by the terms of their respective limited liability company agreement and general partnership agreement. If Gulfstream or Market Hub were to incur significant additional indebtedness, it could inhibit their respective abilities to make distributions to Spectra Energy Partners. An inability by either Gulfstream or Market Hub to make distributions would materially and adversely affect the ability to make distributions because Spectra Energy Partners expects distributions it receives from each of them to represent a substantial portion of the cash distributed to the common and subordinated unitholders of Spectra Energy Partners.

***If Spectra Energy Partners does not complete expansion projects or make and integrate acquisitions, future growth may be limited.***

A principal focus of Spectra Energy Partners' strategy is to continue to grow the cash distributions on Spectra Energy Partners' units by expanding its business. The ability to grow depends on the ability to complete expansion projects and make acquisitions that result in an increase in cash generated. Spectra Energy Partners may be unable to complete successful, accretive expansion projects or acquisitions for any of the following reasons:

an inability to identify attractive expansion projects or acquisition candidates or is outbid by competitors;

an inability to obtain necessary rights of way or government approvals, including regulatory agencies;

an inability to integrate successfully the businesses it builds or acquires;

Spectra Energy Partners is unable to raise financing for such expansions projects or acquisitions on economically acceptable terms;

incorrect assumptions about volumes, reserves, revenues and costs, including synergies and potential growth; or

the inability to secure adequate customer commitments to use the newly expanded or acquired facilities.

***Acquisitions or expansion projects that appear to be accretive may nevertheless reduce Spectra Energy Partners' cash from operations on a per unit basis.***

Even if Spectra Energy Partners makes acquisitions or completes expansion projects that it believes will be accretive, these acquisitions or expansion projects may nevertheless reduce cash from operations on a per unit basis. Any acquisition or expansion project involves potential risks, including, among other things:

a decrease in liquidity as a result of using a significant portion of Available Cash or borrowing capacity to finance the project or acquisition;

an inability to complete expansion projects on schedule or within the budgeted cost due to the unavailability of required construction personnel, equipment or materials, and the risk of cost overruns resulting from inflation or increased costs of materials, labor and equipment;

an inability to complete expansion projects on schedule due to accidents, weather conditions or an inability to obtain necessary permits;

an inability to receive cash flows from a newly built or acquired asset until it is operational;

unforeseen difficulties operating in new product areas or new geographic areas; and

customer losses at the acquired business.

Any of these risks could prevent a project from proceeding, delay its completion or increase its anticipated costs. As a result, new facilities may not achieve expected investment return, which could adversely affect results of operations, financial position or cash flows. If any expansion projects or acquisitions that Spectra Energy Partners ultimately completes is not accretive to distributable cash flow per unit, the ability to make distributions may be reduced.

**Table of Contents**

***The amount of cash available for distribution depends primarily on cash flow and not solely on profitability, which may prevent Spectra Energy Partners from making cash distributions during periods when net income is recorded.***

The amount of cash available for distribution depends primarily upon cash flow, including cash flow from financial reserves and working capital or other borrowings, and not solely on profitability, which will be affected by non-cash items. As a result, Spectra Energy Partners may make cash distributions during periods when a net loss is recorded for financial accounting purposes and may not make cash distributions during periods when net earnings are reported for financial accounting purposes.

***Significant prolonged changes in natural gas prices could affect supply and demand, reducing throughput on Spectra Energy Partners systems and adversely affecting revenues and cash available to make distributions over the long-term.***

Higher natural gas prices over the long term could result in a decline in the demand for natural gas and, therefore, in the throughput on Spectra Energy Partners systems. Also, lower natural gas prices over the long term could result in a decline in the production of natural gas resulting in reduced throughput on Spectra Energy Partners systems. In addition, prolonged reduced price volatility could reduce the revenues generated by park-and-lease and interruptible storage services. As a result, significant prolonged changes in natural gas prices could have a material adverse effect on Spectra Energy Partners financial condition, results of operations and ability to make distributions.

***Operations are subject to environmental laws and regulations that may expose Spectra Energy Partners to significant costs and liabilities.***

Spectra Energy Partners natural gas transportation and storage activities are subject to stringent and complex federal, state and local environmental laws and regulations. Spectra Energy Partners may incur substantial costs in order to conduct operations in compliance with these laws and regulations. Moreover, new, stricter environmental laws, regulations or enforcement policies could be implemented that significantly increase compliance costs or the cost of any remediation of environmental contamination that may become necessary, and these costs could be material.

Failure to comply with environmental laws and regulations, or the permits issued under them, may result in the assessment of administrative, civil and criminal penalties, the imposition of remedial obligations and the issuance of injunctions limiting or preventing some or all of Spectra Energy Partners operations. In addition, strict joint and several liability may be imposed under certain environmental laws, which could cause Spectra Energy Partners to become liable for the conduct of others or for consequences of Spectra Energy Partners own actions that were in compliance with all applicable laws at the time those actions were taken. Private parties may also have the right to pursue legal actions against Spectra Energy Partners to enforce compliance, as well as to seek damages for non-compliance, with environmental laws and regulations or for personal injury or property damage that may result from environmental and other effects of operations. Spectra Energy Partners may not be able to recover some or any of these costs through insurance or increased revenues, which may have a material adverse effect on Spectra Energy Partners business, results of operations, financial condition and ability to make cash distributions.

***Spectra Energy Partners may incur significant costs and liabilities as a result of pipeline integrity management program testing and any necessary pipeline repair or preventative or remedial measures.***

The United States Department of Transportation (DOT), has adopted regulations requiring pipeline operators to develop integrity management programs for transportation pipelines located where a leak or rupture could do the most harm in high consequence areas. The regulations require operators to:

perform ongoing assessments of pipeline integrity;

identify and characterize applicable threats to pipeline segments that could affect a high consequence area;  
improve data collection, integration and analysis;

**Table of Contents**

repair and remediate the pipeline as necessary; and

implement preventive and mitigating actions.

Actual implementation costs may be affected by industry-wide demand for the associated contractors and service providers. Additionally, should Spectra Energy Partners fail to comply with DOT regulations, it could be subject to penalties and fines.

***Spectra Energy Partners does not own all of the land on which its pipelines and facilities are located, which could disrupt operations.***

Spectra Energy Partners does not own all of the land on which its pipelines and facilities have been constructed, and is therefore subject to the possibility of more onerous terms and/or increased costs to retain necessary land use if it does not have valid rights-of-way or if such rights-of-way lapse or terminate. Spectra Energy Partners obtains the rights to construct and operate its pipelines on land owned by third parties and governmental agencies for a specific period of time. The loss of these rights, through the inability to renew right-of-way contracts or otherwise, could have a material adverse effect on Spectra Energy Partners' business, results of operations and financial condition and ability to make cash distributions.

***Spectra Energy Partners' operations are subject to operational hazards and unforeseen interruptions.***

Spectra Energy Partners' operations are subject to many hazards inherent in the transportation and storage of natural gas, including:

damage to pipelines, facilities and related equipment caused by hurricanes, tornadoes, floods, fires and other natural disasters, explosions and acts of terrorism;

inadvertent damage from third parties, including from construction, farm and utility equipment;

leaks of natural gas and other hydrocarbons or losses of natural gas as a result of the malfunction of equipment or facilities;

collapse of storage caverns;

operator error;

environmental pollution;

explosions and blowouts;

risks related to underwater pipelines in the Gulf of Mexico, which are susceptible to damage from shifting as a result of water currents (as seen in the Gulf of Mexico following Hurricanes Katrina and Rita), as well as damage from vessels;

risks related to pipeline that traverses areas in Florida where karst conditions exist. Karst conditions refers to terrain, usually found where limestone or other carbonate rock is present, that may subside or result in a sinkhole collapse when the underlying water table changes; and

risks related to operating in a marine environment.

These risks could result in substantial losses due to personal injury and/or loss of life, severe damage to and destruction of property and equipment, and pollution or other environmental damage which may result in curtailment or suspension of related operations. A natural disaster or other hazard affecting the areas in which Spectra Energy Partners operates could have a material adverse effect on operations.

***Spectra Energy Partners does not insure against all potential losses and could be seriously harmed by unexpected liabilities.***

Spectra Energy Partners is not fully insured against all risks inherent to its business. Spectra Energy Partners is not insured against all environmental accidents that might occur. If a significant accident or event occurs that is not fully insured, it could adversely affect operations and financial condition. In addition, Spectra Energy Partners may

**Table of Contents**

not be able to maintain or obtain insurance of the type and amount it desires at reasonable rates. Changes in the insurance markets subsequent to the September 11, 2001 terrorist attacks, and Hurricanes Katrina and Rita have made it more difficult to obtain certain types of coverage, and Spectra Energy Partners may elect to self insure a portion of its asset portfolio. In addition, Spectra Energy Partners does not maintain offshore business interruption insurance. There can be no assurance that Spectra Energy Partners will be able to obtain the levels or types of insurance it would otherwise have obtained prior to these market changes or that the insurance coverage it does obtain will not contain large deductibles or fail to cover certain hazards or cover all potential losses. The occurrence of any operating risks not fully covered by insurance could have a material adverse effect on Spectra Energy Partners' business, financial condition, results of operations and ability to make distributions.

***Spectra Energy Partners' debt levels may limit its flexibility in obtaining additional financing and in pursuing other business opportunities.***

At the closing of the IPO, Spectra Energy Partners borrowed \$194 million in term debt and \$125 million in revolving debt under its new \$500 million credit facility. Following the IPO, Spectra Energy Partners continued to have the ability to incur additional debt, subject to limitations in its credit facility. Spectra Energy Partners' level of debt could have important consequences, including the following:

the ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;

Spectra Energy Partners will need a substantial portion of its cash flow to make principal and interest payments on its indebtedness, reducing the funds that would otherwise be available for operations, future business opportunities and distributions to unitholders; and

Spectra Energy Partners' debt level could make it more vulnerable than its competitors with less debt to competitive pressures or a downturn in Spectra Energy Partners' business or the economy in general.

Spectra Energy Partners' ability to service its debt will depend upon, among other things, its future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, some of which are beyond Spectra Energy Partners' control. In addition, the ability to service debt under its revolving credit facility will depend on market interest rates, since Spectra Energy Partners anticipates that the interest rates applicable to its borrowings will fluctuate with movements in interest rate markets. If operating results are not sufficient to service current or future indebtedness, Spectra Energy Partners will be forced to take actions such as reducing distributions, reducing or delaying business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing debt, or seeking additional equity capital. Spectra Energy Partners may not be able to effect any of these actions on satisfactory terms, or at all.

***Restrictions in Spectra Energy Partners' credit facility may interrupt distributions to Spectra Energy Partners from its subsidiaries, which will limit its ability to make distributions and may limit the ability to capitalize on acquisition and other business opportunities.***

Spectra Energy Partners is a holding company with no business operations. As such, Spectra Energy Partners depends upon the earnings and cash flow of its subsidiaries and the distribution of that cash to Spectra Energy Partners in order to meet Spectra Energy Partners' obligations and to allow Spectra Energy Partners to make distributions to Spectra Energy Partners' unitholders. The operating and financial restrictions and covenants in Spectra Energy Partners' credit facility and any future financing agreements could restrict its ability to finance future operations or capital needs or to expand or pursue business activities. Spectra Energy Partners' credit facility contains covenants, some of which may be modified or eliminated upon Spectra Energy Partners' receipt of an investment grade rating, that restrict or limit

Spectra Energy Partners ability to:

make distributions if any default or event of default occurs;

make other restricted distributions or dividends on account of the purchase, redemption, retirement, acquisition, cancellation or termination of partnership interests;

incur additional indebtedness or guarantee other indebtedness;



**Table of Contents**

grant liens or make certain negative pledges;

make certain loans or investments;

engage in transactions with affiliates;

make any material change to the nature of Spectra Energy Partners' business from the midstream energy business;

dispose of assets; or

enter into a merger, consolidate, liquidate, wind up or dissolve.

Furthermore, the credit facility contains covenants requiring Spectra Energy Partners to maintain certain financial ratios and tests. The ability to comply with the covenants and restrictions contained in the credit facility may be affected by events beyond its control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, Spectra Energy Partners' ability to comply with these covenants may be impaired. If Spectra Energy Partners violates any of the restrictions, covenants, ratios or tests in its credit facility, the lenders will be able to accelerate the maturity of all borrowings under the credit facility and demand repayment of amounts outstanding, the lenders' commitment to make further loans to Spectra Energy Partners may terminate, and the operating partnership will be prohibited from making any distributions. Spectra Energy Partners might not have, or be able to obtain, sufficient funds to make these accelerated payments. Any subsequent replacement of Spectra Energy Partners' credit facility or any new indebtedness could have similar or greater restrictions. Any interruption of distributions to Spectra Energy Partners from its subsidiaries may limit Spectra Energy Partners' ability to satisfy its obligations and to make distributions.

***The credit and risk profile of Spectra Energy Partners' general partner and its owner, Spectra Energy, could adversely affect Spectra Energy Partners' credit ratings and risk profile, which could increase borrowing costs or hinder the ability to raise capital.***

The credit and business risk profiles of Spectra Energy Partners' general partner and Spectra Energy may be factors considered in credit evaluations of Spectra Energy Partners. This is because the general partner controls Spectra Energy Partners' business activities, including its cash distribution policy, acquisition strategy and business risk profile. Another factor that may be considered is the financial condition of Spectra Energy, including the degree of its financial leverage and its dependence on cash flow from the partnership to service its indebtedness.

If Spectra Energy Partners were to have a credit rating in the future, Spectra Energy Partners' credit rating may be adversely affected by the leverage of Spectra Energy Partners' general partner or Spectra Energy, as credit rating agencies may consider the leverage and credit profile of Spectra Energy and its affiliates because of their ownership interest in and control of Spectra Energy Partners and the strong operational links between Spectra Energy and Spectra Energy Partners. Any adverse effect on Spectra Energy Partners' credit rating would increase its cost of borrowing or hinder its ability to raise financing in the capital markets, which would impair its ability to grow its business and make distributions.

***Terrorist attacks, and the threat of terrorist attacks, have resulted in increased costs to Spectra Energy Partners' business. Continued hostilities in the Middle East or other sustained military campaigns may adversely affect Spectra Energy Partners' results of operations.***

The long-term effect of terrorist attacks and the threat of future terrorist attacks on Spectra Energy Partners' industry in general, and on Spectra Energy Partners in particular, is not known at this time. However, the U.S. government has issued warnings that energy assets, including the U.S. pipeline infrastructure, may be the future target of terrorist organizations. Increased security measures taken by Spectra Energy Partners as a precaution against possible terrorist attacks have resulted in increased costs. Uncertainty surrounding continued hostilities in the Middle East or other sustained military campaigns may affect Spectra Energy Partners' operations in unpredictable ways, including the possibility that infrastructure facilities could be direct targets of, or indirect casualties of, an act of terror. Any terrorist attack on Spectra Energy Partners' facilities or pipelines or those of its customers could have a material adverse effect on Spectra Energy Partners' business.

## **Table of Contents**

Changes in the insurance markets attributable to terrorist attacks may make certain types of insurance more difficult for Spectra Energy Partners to obtain. Moreover, the insurance that may be available to Spectra Energy Partners may be significantly more expensive than its existing insurance coverage. Instability in the financial markets as a result of terrorism or war could also affect Spectra Energy Partners' ability to raise capital.

### **Risks Inherent in an Investment in Spectra Energy Partners**

*Spectra Energy controls Spectra Energy Partners' general partner, which has sole responsibility for conducting Spectra Energy Partners' business and managing its operations. Spectra Energy Partners' general partner and its affiliates, including Spectra Energy, have conflicts of interest with Spectra Energy Partners and limited fiduciary duties, and may favor their own interests to the detriment of Spectra Energy Partners.*

Spectra Energy owns and controls Spectra Energy Partners' general partner. Some of Spectra Energy Partners' general partner's directors, and some of its executive officers, are directors or officers of Spectra Energy or its affiliates. Although Spectra Energy Partners' general partner has a fiduciary duty to manage Spectra Energy Partners in a manner beneficial to Spectra Energy and Spectra Energy Partners' unitholders, the directors and officers of Spectra Energy Partners' general partner have a fiduciary duty to manage Spectra Energy Partners' general partner in a manner beneficial to Spectra Energy. Therefore, conflicts of interest may arise between Spectra Energy and its affiliates, including Spectra Energy Partners' general partner, on the one hand, and Spectra Energy Partners and its unitholders, on the other hand. In resolving these conflicts of interest, Spectra Energy Partners' general partner may favor its own interests and the interests of its affiliates over the interests of Spectra Energy Partners' unitholders. These conflicts include, among others, the following situations:

neither Spectra Energy Partners' partnership agreement nor any other agreement requires Spectra Energy to pursue a business strategy that favors Spectra Energy Partners. Spectra Energy's directors and officers have a fiduciary duty to make these decisions in the best interests of the owners of Spectra Energy, which may be contrary to Spectra Energy Partners' interests;

the general partner is allowed to take into account the interests of parties other than Spectra Energy Partners, such as Spectra Energy and its affiliates, in resolving conflicts of interest;

Spectra Energy and its affiliates are not limited in their ability to compete with Spectra Energy Partners;

the general partner may make a determination to receive a quantity of Spectra Energy Partners' Class B units in exchange for resetting the target distribution levels related to its incentive distribution rights without the approval of the Conflicts Committee of Spectra Energy Partners' general partner or Spectra Energy Partners' unitholders;

some officers of Spectra Energy who provide services to Spectra Energy Partners also will devote significant time to the business of Spectra Energy, and will be compensated by Spectra Energy for the services rendered to it;

the general partner has limited its liability and reduced its fiduciary duties, and has also restricted the remedies available to Spectra Energy Partners' unitholders for actions that, without the limitations, might constitute breaches of fiduciary duty. By purchasing common units, unitholders will be deemed to have consented to some actions and conflicts of interest that might otherwise constitute a breach of fiduciary or other duties under applicable law;

the general partner determines the amount and timing of asset purchases and sales, borrowings, issuances of additional partnership securities and reserves, each of which can affect the amount of cash that is distributed to unitholders;

the general partner determines the amount and timing of any capital expenditures and, based on the applicable facts and circumstances, whether a capital expenditure is classified as a maintenance capital expenditure (which reduces operating surplus) or an expansion capital expenditure (which does not reduce operating surplus). This determination can affect the amount of cash that is distributed to unitholders and the ability of the subordinated units to convert to common units;

**Table of Contents**

the general partner determines which costs incurred by it and its affiliates are reimbursable by Spectra Energy Partners;

in some instances, the general partner may cause Spectra Energy Partners to borrow funds in order to permit the payment of cash distributions, even if the purpose or effect of the borrowing is to make a distribution on the subordinated units, to make incentive distributions or to accelerate the expiration of the subordination period;

Spectra Energy Partners' partnership agreement does not restrict the general partner from causing Spectra Energy Partners to pay it or its affiliates for any services rendered to Spectra Energy Partners or entering into additional contractual arrangements with any of these entities on Spectra Energy Partners' behalf;

the general partner intends to limit its liability regarding Spectra Energy Partners' contractual and other obligations and, in some circumstances, is entitled to be indemnified by Spectra Energy Partners;

the general partner may exercise its limited right to call and purchase common units if it and its affiliates own more than 80% of the common units;

the general partner controls the enforcement of obligations owed to Spectra Energy Partners by the general partner and its affiliates; and

the general partner decides whether to retain separate counsel, accountants or others to perform services for Spectra Energy Partners.

***Affiliates of the general partner, including Spectra Energy, DCP Midstream, LLC and DCP Midstream Partners, LP, are not limited in their ability to compete with Spectra Energy Partners, which could limit commercial activities or the ability to acquire additional assets or businesses.***

Neither Spectra Energy Partners' partnership agreement nor the omnibus agreement among Spectra Energy Partners, Spectra Energy and others prohibits affiliates of the general partner, including Spectra Energy, DCP Midstream, LLC and DCP Midstream Partners, LP, from owning assets or engaging in businesses that compete directly or indirectly with Spectra Energy Partners. In addition, Spectra Energy and its affiliates may acquire, construct or dispose of additional transportation and storage or other assets in the future, without any obligation to offer Spectra Energy Partners the opportunity to purchase or construct any of those assets. Each of these entities is a large, established participant in the midstream energy business, and each has significantly greater resources and experience than Spectra Energy Partners has, which factors may make it more difficult for Spectra Energy Partners to compete with these entities with respect to commercial activities as well as for acquisition candidates. As a result, competition from these entities could adversely affect Spectra Energy Partners' results of operations and cash available for distribution.

***If a unitholder is not an Eligible Holder, they will not be entitled to receive distributions or allocations of income or loss on common units and those common units will be subject to redemption at a price that may be below the current market price.***

In order to comply with certain FERC rate-making policies applicable to entities that pass through taxable income to their owners, Spectra Energy Partners has adopted certain requirements regarding those investors who may own common and subordinated units. Eligible Holders are individuals or entities subject to United States federal income taxation on the income generated by Spectra Energy Partners or entities not subject to United States federal income taxation on the income generated by Spectra Energy Partners, so long as all of the entity's owners are subject to such taxation. If a unitholder is not a person who fits the requirements to be an Eligible Holder, they will not receive

distributions or allocations of income and loss on the unitholder's units and the unitholder runs the risk of having the units redeemed by Spectra Energy Partners at the lower of the unitholder's purchase price cost or the then-current market price. The redemption price will be paid in cash or by delivery of a promissory note, as determined by Spectra Energy Partners' general partner.

**Table of Contents**

***Cost reimbursements to the general partner and its affiliates for services provided, which will be determined by the general partner, will be substantial and will reduce Spectra Energy Partners' cash available for distribution.***

Pursuant to an omnibus agreement Spectra Energy Partners entered into with Spectra Energy, the general partner and certain of their affiliates, Spectra Energy will receive reimbursement for the payment of operating expenses related to Spectra Energy Partners' operations and for the provision of various general and administrative services for Spectra Energy Partners' benefit, including costs for rendering administrative staff and support services, and overhead allocated to Spectra Energy Partners, which amounts will be determined by the general partner in its sole discretion. Payments for these services will be substantial and will reduce the amount of cash available for distribution. In addition, under Delaware partnership law, general partner has unlimited liability for Spectra Energy Partners' obligations, such as its debts and environmental liabilities, except for contractual obligations that are expressly made without recourse to the general partner. To the extent the general partner incurs obligations on Spectra Energy Partners' behalf, Spectra Energy Partners is obligated to reimburse or indemnify it. If Spectra Energy Partners is unable or unwilling to reimburse or indemnify the general partner, the general partner may take actions to cause Spectra Energy Partners to make payments of these obligations and liabilities. Any such payments could reduce the amount of cash otherwise available for distribution.

***The partnership agreement limits the general partner's fiduciary duties to holders of Spectra Energy Partners' common and subordinated units, and restricts the remedies available to holders of common and subordinated units for actions taken by the general partner that might otherwise constitute breaches of fiduciary duty.***

Spectra Energy Partners' partnership agreement contains provisions that reduce the fiduciary standards to which the general partner would otherwise be held by state fiduciary duty laws. For example, Spectra Energy Partners' partnership agreement:

permits the general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as Spectra Energy Partners' general partner. This entitles the general partner to consider only the interests and factors that it desires, and it has no duty or obligation to give any consideration to any interest of, or factors affecting Spectra Energy Partners, Spectra Energy Partners' affiliates or any limited partner;

provides that the general partner will not have any liability to Spectra Energy Partners or Spectra Energy Partners' unitholders for decisions made in its capacity as a general partner so long as it acted in good faith, meaning it believed the decision was in the best interests of Spectra Energy Partners' partnership;

generally provides that affiliated transactions and resolutions of conflicts of interest not approved by the Conflicts Committee of the board of directors of the general partner acting in good faith and not involving a vote of unitholders must be on terms no less favorable to Spectra Energy Partners than those generally being provided to or available from unrelated third parties or must be fair and reasonable to Spectra Energy Partners, as determined by the general partner in good faith. In determining whether a transaction or resolution is fair and reasonable, the general partner may consider the totality of the relationships between the parties involved, including other transactions that may be particularly advantageous or beneficial to unitholders;

provides that the general partner and its officers and directors will not be liable for monetary damages to Spectra Energy Partners, Spectra Energy Partners' limited partners or assignees for any acts or omissions unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that the general partner or those other persons acted in bad faith or engaged in fraud or willful misconduct or, in the case of a criminal matter, acted with knowledge that the conduct was criminal; and

provides that in resolving conflicts of interest, it will be presumed that in making its decision the general partner or its Conflicts Committee acted in good faith, and in any proceeding brought by or on behalf of any limited partner or Spectra Energy Partners, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption.



**Table of Contents**

By purchasing a common unit, a common unitholder will agree to become bound by the provisions in the partnership agreement, including the provisions discussed above.

***The general partner may elect to cause Spectra Energy Partners to issue Class B units to the general partner in connection with a resetting of the target distribution levels related to the general partner's incentive distribution rights without the approval of the Conflicts Committee of the general partner or holders of Spectra Energy Partners common units and subordinated units. This may result in lower distributions to holders of Spectra Energy Partners common units in certain situations.***

Spectra Energy Partners' general partner has the right, at a time when there are no subordinated units outstanding and it has received incentive distributions at the highest level to which it is entitled (48%) for each of the prior four consecutive fiscal quarters, to reset the initial cash target distribution levels at higher levels based on the distribution at the time of the exercise of the reset election. Following a reset election by the general partner, the minimum quarterly distribution amount will be reset to an amount equal to the average cash distribution amount per common unit for the two fiscal quarters immediately preceding the reset election (such amount is referred to as the reset minimum quarterly distribution) and the target distribution levels will be reset to correspondingly higher levels based on percentage increases above the reset minimum quarterly distribution amount.

In connection with resetting these target distribution levels, the general partner will be entitled to receive a number of Class B units. The Class B units will be entitled to the same cash distributions per unit as Spectra Energy Partners' common units and will be convertible into an equal number of common units. The number of Class B units to be issued will be equal to that number of common units whose aggregate quarterly cash distributions equaled the average of the distributions to the general partner on the incentive distribution rights in the prior two quarters. Spectra Energy Partners anticipates that the general partner would exercise this reset right in order to facilitate acquisitions or internal growth projects that would not be sufficiently accretive to cash distributions per common unit without such conversion; however, it is possible that the general partner could exercise this reset election at a time when it is experiencing, or may be expected to experience, declines in the cash distributions it receives related to its incentive distribution rights and may therefore desire to be issued Spectra Energy Partners' Class B units, which are entitled to receive cash distributions from Spectra Energy Partners on the same priority as Spectra Energy Partners' common units, rather than retain the right to receive incentive distributions based on the initial target distribution levels. As a result, a reset election may cause Spectra Energy Partners' common unitholders to experience dilution in the amount of cash distributions that they would have otherwise received had Spectra Energy Partners not issued new Class B units to the general partner in connection with resetting the target distribution levels related to the general partner incentive distribution rights.

***Holders of Spectra Energy Partners common units have limited voting rights and are not entitled to elect Spectra Energy Partners' general partner or its directors, which could reduce the price at which the common units will trade.***

Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting Spectra Energy Partners' business and, therefore, limited ability to influence management's decisions regarding such business. Unitholders will not elect Spectra Energy Partners' general partner or its board of directors, and will have no right to elect the general partner or board of directors on an annual or other continuing basis. The board of directors of the general partner, including the independent directors, will be chosen entirely by its owners and not by the unitholders. Furthermore, if the unitholders were dissatisfied with the performance of the general partner, they will have little ability to remove the general partner. As a result of these limitations, the price at which the common units will trade could be diminished because of the absence or reduction of a takeover premium in the trading price.

***Even if holders of Spectra Energy Partners common units are dissatisfied, they cannot initially remove Spectra Energy Partners general partner without its consent.***

The unitholders will be unable initially to remove Spectra Energy Partners general partner without its consent because the general partner and its affiliates will own sufficient units upon completion of this offering to be able to prevent its removal. The vote of the holders of at least 66<sup>2</sup>/<sub>3</sub>% of all outstanding units voting together as a single class

**Table of Contents**

is required to remove the general partner. Spectra Energy Partners' general partner and its affiliates own 83% of Spectra Energy Partners' aggregate outstanding common and subordinated units. Also, if the general partner is removed without cause during the subordination period and units held by the general partner and its affiliates are not voted in favor of that removal, all remaining subordinated units will automatically convert into common units and any existing arrearages on Spectra Energy Partners' common units will be extinguished. A removal of the general partner under these circumstances would adversely affect Spectra Energy Partners' common units by prematurely eliminating their distribution and liquidation preference over the subordinated units, which would otherwise have continued until Spectra Energy Partners had met certain distribution and performance tests. Cause is narrowly defined to mean that a court of competent jurisdiction has entered a final, non-appealable judgment finding the general partner liable for actual fraud or willful or wanton misconduct in its capacity as Spectra Energy Partners' general partner. Cause does not include most cases of charges of poor management of the business, so the removal of the general partner because of the unitholders' dissatisfaction with the general partner's performance in managing Spectra Energy Partners' partnership will most likely result in the termination of the subordination period and conversion of all subordinated units to common units.

***Spectra Energy Partners' partnership agreement restricts the voting rights of unitholders owning 20% or more of Spectra Energy Partners' common units.***

Spectra Energy Partners' partnership agreement restricts unitholders' voting rights by providing that any units held by a person that owns 20% or more of any class of units then outstanding, other than the general partner, its affiliates, their transferees and persons who acquired such units with the prior approval of the board of directors of the general partner, cannot vote on any matter. The partnership agreement also contains provisions limiting the ability of unitholders to call meetings or to acquire information about Spectra Energy Partners' operations, as well as other provisions limiting the unitholders' ability to influence the manner or direction of management.

***Spectra Energy Partners has a holding company structure in which the subsidiaries conduct operations and own operating assets, which may affect Spectra Energy Partners' ability to make distributions.***

Spectra Energy Partners is a partnership holding company and its operating subsidiaries conduct all of the operations and own all of the operating assets. Spectra Energy Partners has no significant assets other than the ownership interests in its subsidiaries and equity investments, including Gulfstream and Market Hub. As a result, the ability to make distributions to Spectra Energy Partners' unitholders depends on the performance of these subsidiaries and equity investments and their ability to distribute funds to Spectra Energy Partners. The ability of the subsidiaries and joint ventures to make distributions to Spectra Energy Partners may be restricted by, among other things, the provisions of existing and future indebtedness, applicable state partnership and limited liability company laws and other laws and regulations, including FERC policies.

***If Spectra Energy Partners is deemed an investment company under the Investment Company Act of 1940, it would adversely affect the price of its common units and could have a material adverse effect on its business.***

Spectra Energy Partners' initial assets consist of a 100% ownership interest in East Tennessee, a 24.5% limited liability company interest in Gulfstream and a 50% general partner interest in Market Hub. If a sufficient amount of Spectra Energy Partners' assets, such as its ownership interests in Gulfstream and Market Hub or other assets acquired in the future, are deemed to be investment securities within the meaning of the Investment Company Act of 1940, Spectra Energy Partners would either have to register as an investment company under the Investment Company Act, obtain exemptive relief from the Commission or modify the organizational structure or contract rights to fall outside the definition of an investment company. Although general partner interests are typically not considered securities or investment securities, there is a risk that Spectra Energy Partners' 50% general partner interest in Market Hub could be deemed to be an investment security. In that event, it is possible that the ownership of this interest, combined with the

24.5% interest in Gulfstream or assets acquired in the future, could result in Spectra Energy Partners being required to register under the Investment Company Act if Spectra Energy Partners were not successful in obtaining exemptive relief or otherwise modifying the organizational structure or applicable contract rights. Registering as an investment company could, among other things, materially limit the ability to

**Table of Contents**

engage in transactions with affiliates, including the purchase and sale of certain securities or other property to or from its affiliates, restrict its ability to borrow funds or engage in other transactions involving leverage and require Spectra Energy Partners to add additional directors who are independent of Spectra Energy Partners or its affiliates. The occurrence of some or all of these events would adversely affect the price of the common units and could have a material adverse effect on Spectra Energy Partners' business.

***Control of the general partner may be transferred to a third party without unitholder consent.***

The general partner may transfer its general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of the unitholders. Furthermore, the partnership agreement does not restrict the ability of the owners of the general partner or its parent, from transferring all or a portion of their respective ownership interest in the general partner or its parent to a third party. The new owners of the general partner or its parent would then be in a position to replace the board of directors and officers of its parent with its own choices and thereby influence the decisions taken by the board of directors and officers.

***Increases in interest rates could adversely affect Spectra Energy Partners' unit price and the ability to issue additional equity to make acquisitions, incur debt or for other purposes.***

In recent years, the U.S. credit markets experienced 50-year record lows in interest rates. If the overall economy strengthens, it is possible that monetary policy will tighten, resulting in higher interest rates to counter possible inflation risk. Interest rates on future credit facilities and debt offerings could be higher than current levels, causing financing costs to increase accordingly. As with other yield-oriented securities, Spectra Energy Partners' unit price is affected by the level of cash distributions and implied distribution yield. Therefore, changes in interest rates may affect the yield requirements of investors who invest in Spectra Energy Partners' units, and a rising interest rate environment could have an adverse effect on Spectra Energy Partners' unit price and the ability to issue additional equity to make acquisitions, to incur debt or for other purposes.

***Spectra Energy Partners may issue additional units without the common unitholders' approval, which would dilute existing common unitholders' ownership interests.***

Spectra Energy Partners' partnership agreement does not limit the number of additional limited partner interests that may be issued at any time without the approval of the unitholders. The issuance by Spectra Energy Partners of additional common units or other equity securities of equal or senior rank will have the following effects:

each unitholder's proportionate ownership interest in Spectra Energy Partners will decrease;

the amount of cash available for distribution on each unit may decrease;

because a lower percentage of total outstanding units will be subordinated units, the risk that a shortfall in the payment of the minimum quarterly distribution will be borne by Spectra Energy Partners' common unitholders will increase;

the ratio of taxable income to distributions may increase;

the relative voting strength of each previously outstanding unit may be diminished; and

the market price of the common units may decline.

***Spectra Energy and its affiliates may sell units in the public or private markets, which sales could have an adverse effect on the trading price of the common units.***

Spectra Energy and its affiliates hold an aggregate of 33,129,880 common units and 21,638,730 subordinated units. All of the subordinated units will convert into common units at the end of the subordination period, which could occur on the first business day after June 30, 2010, and all of the subordinated units may convert into common units as early as June 30, 2008 if additional tests are satisfied. The sale of any of these units in the public or private markets could have an adverse effect on the price of the common units or on any trading market that may develop.

**Table of Contents**

***The general partner has a limited call right that may require a common unitholder to sell the unitholder's units at an undesirable time or price.***

If at any time the general partner and its affiliates own more than 80% of the common units, the general partner will have the right, but not the obligation, which it may assign to any of its affiliates or to Spectra Energy Partners, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price not less than their then-current market price. As a result, a common unitholder may be required to sell their common units at an undesirable time or price and may not receive any return on their investment. A common unitholder may also incur a tax liability upon a sale of their units. As of March 6, 2008, the general partner and its affiliates own approximately 74% of Spectra Energy Partners' outstanding common units. At the end of the subordination period, assuming no additional issuances of common units (other than for the conversion of the subordinated units into common units), the general partner and its affiliates will own approximately 83% of Spectra Energy Partners' aggregate outstanding common units.

***A common unitholder's liability may not be limited if a court finds that unitholder action constitutes control of Spectra Energy Partners' business.***

A general partner of a partnership generally has unlimited liability for the obligations of the partnership, except for those contractual obligations of the partnership that are expressly made without recourse to the general partner. Spectra Energy Partners' partnership is organized under Delaware law and Spectra Energy Partners conducts business in a number of other states. The limitations on the liability of holders of limited partner interests for the obligations of a limited partnership have not been clearly established in some of the states in which Spectra Energy Partners does business. A common unitholder could be liable for any and all of Spectra Energy Partners' obligations as if a common unitholder was a general partner if a court or government agency determined that:

Spectra Energy Partners was conducting business in a state but had not complied with that particular state's partnership statute; or

A common unitholder's right to act with other unitholders to remove or replace the general partner, to approve some amendments to Spectra Energy Partners' partnership agreement or to take other actions under the partnership agreement constitutes control of its business.

***Unitholders may have liability to repay distributions that were wrongfully distributed to them.***

Under certain circumstances, unitholders may have to repay amounts wrongfully returned or distributed to them. Under Section 17-607 of the Delaware Revised Uniform Limited Partnership Act, Spectra Energy Partners may not make a distribution to the unitholder if the distribution would cause Spectra Energy Partners' liabilities to exceed the fair value of Spectra Energy Partners' assets. Delaware law provides that for a period of three years from the date of the impermissible distribution, limited partners who received the distribution and who knew at the time of the distribution that it violated Delaware law will be liable to the limited partnership for the distribution amount. Substituted limited partners are liable for the obligations of the assignor to make contributions to the partnership that are known to the substituted limited partner at the time it became a limited partner and for unknown obligations if the liabilities could be determined from the partnership agreement.

Liabilities to partners on account of their partnership interest and liabilities that are non-recourse to the partnership are not counted for purposes of determining whether a distribution is permitted.

***Spectra Energy Partners will incur increased costs as a result of being a publicly-traded partnership.***

Spectra Energy Partners had no history operating as a publicly-traded partnership prior to the IPO. As a publicly-traded partnership, Spectra Energy Partners will incur significant legal, accounting and other expenses. In addition, the Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the SEC and the New York Stock Exchange, have required changes in corporate governance practices of publicly-traded entities. Spectra Energy Partners expects these new rules and regulations to increase legal and financial compliance costs and to make activities more time-consuming and costly.



## **Table of Contents**

### **Tax Risks to Common Unitholders**

***Spectra Energy Partners tax treatment depends on Spectra Energy Partners status as a partnership for federal income tax purposes, as well as Spectra Energy Partners not being subject to a material amount of entity-level taxation by individual states. If the Internal Revenue Service (the IRS) treats Spectra Energy Partners as a corporation or Spectra Energy Partners becomes subject to a material amount of entity-level taxation for state tax purposes, it would substantially reduce the amount of cash available for distribution.***

The anticipated after-tax economic benefit of an investment in Spectra Energy Partners common units depends largely on Spectra Energy Partners being treated as a partnership for federal income tax purposes. Spectra Energy Partners has not requested, and does not plan to request, a ruling from the IRS on this or any other tax matter affecting Spectra Energy Partners.

If Spectra Energy Partners were treated as a corporation for federal income tax purposes, it would pay federal income tax on taxable income at the corporate tax rate, which is currently a maximum of 35% and would likely pay state income tax at varying rates. Distributions would generally be taxed again as corporate distributions, and no income, gains, losses or deductions would flow through to a common unitholder. Because a tax would be imposed upon Spectra Energy Partners as a corporation, cash available for distribution would be substantially reduced. Therefore, treatment of Spectra Energy Partners as a corporation would result in a material reduction in the anticipated cash flow and after-tax return to a common unitholder, likely causing a substantial reduction in the value of Spectra Energy Partners common units.

Current law may change so as to cause Spectra Energy Partners to be treated as a corporation for federal income tax purposes or otherwise subject Spectra Energy Partners to entity-level taxation. In addition, because of widespread state budget deficits and other reasons, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise and other forms of taxation.

Spectra Energy Partners partnership agreement provides that if a law is enacted or existing law is modified or interpreted in a manner that subjects Spectra Energy Partners to taxation as a corporation or otherwise subjects Spectra Energy Partners to entity-level taxation for federal, state or local income tax purposes, the minimum quarterly distribution amount and the target distribution levels may be adjusted to reflect the effect of that law.

***An IRS contest of the federal income tax positions Spectra Energy Partners takes may adversely affect the market for Spectra Energy Partners common units, and the cost of any IRS contest will reduce cash available for distribution.***

Spectra Energy Partners has not requested a ruling from the IRS with respect to Spectra Energy Partners treatment as a partnership for federal income tax purposes or any other matter. The IRS may adopt positions that differ from the conclusions of Spectra Energy Partners. It may be necessary to resort to administrative or court proceedings to sustain some or all of Spectra Energy Partners counsel's conclusions or the positions Spectra Energy Partners takes. A court may not agree with all of Spectra Energy Partners conclusions or positions Spectra Energy Partners takes. Any contest with the IRS may materially and adversely affect the market for Spectra Energy Partners common units and the price at which they trade. In addition, costs of any contest with the IRS will be borne indirectly by Spectra Energy Partners unitholders and the general partner because the costs will reduce Spectra Energy Partners cash available for distribution.

***The unitholder may be required to pay taxes on the unitholder's share of Spectra Energy Partners income even if the unitholder does not receive any cash distributions.***

Because Spectra Energy Partners unitholders will be treated as partners to whom Spectra Energy Partners will allocate taxable income which could be different in amount than the cash distributed, a common unitholder will be required to pay any federal income taxes and, in some cases, state and local income taxes on the common unitholder's share of taxable income even if the common unitholder receives no cash distributions from Spectra Energy Partners. A common unitholder may not receive cash distributions from Spectra Energy Partners equal to the unitholder's share of taxable income or even equal to the actual tax liability that results from that income.

**Table of Contents*****Tax gain or loss on disposition of Spectra Energy Partners' common units could be more or less than expected.***

If the common unitholder sells the common units, they will recognize a gain or loss equal to the difference between the amount realized and the common unitholder's tax basis in those common units. Because distributions in excess of the common unitholder's allocable share of Spectra Energy Partners' net taxable income decrease the common unitholder's tax basis in the common units, the amount, if any, of such prior excess distributions with respect to the units the unitholder sells will, in effect, become taxable income to the unitholder if the unitholder sells such units at a price greater than the tax basis, even if the price the unitholder receives is less than the original cost. Furthermore, a substantial portion of the amount realized, whether or not representing gain, may be taxed as ordinary income due to potential recapture items, including depreciation recapture. In addition, because the amount realized includes the share of Spectra Energy Partners' nonrecourse liabilities, if the common unitholder sells the units, they may incur a tax liability in excess of the amount of cash the unitholder receives from the sale.

***Tax-exempt entities and foreign persons face unique tax issues from owning common units that may result in adverse tax consequences to them.***

Investment in common units by tax-exempt entities, such as individual retirement accounts (IRAs), other retirement plans and non-U.S. persons raises issues unique to them. For example, virtually all of Spectra Energy Partners' income allocated to organizations that are exempt from federal income tax, including IRAs and other retirement plans, will be unrelated business taxable income and will be taxable to them. Distributions to non-U.S. persons will be reduced by withholding taxes at the highest applicable effective tax rate, and non-U.S. persons will be required to file United States federal tax returns and pay tax on their share of Spectra Energy Partners' taxable income. If the unitholder is a tax-exempt entity or a foreign person, the unitholder should consult a tax advisor before investing in Spectra Energy Partners' common units.

***Spectra Energy Partners will treat each purchaser of common units as having the same tax benefits without regard to the actual common units purchased. The IRS may challenge this treatment, which could adversely affect the value of the common units.***

Because Spectra Energy Partners cannot match transferors and transferees of common units and because of other reasons, Spectra Energy Partners will adopt depreciation and amortization positions that may not conform to all aspects of existing U.S. Treasury Regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to the common unitholder. It also could affect the timing of these tax benefits or the amount of gain from the sale of Spectra Energy Partners' common units and could have a negative effect on the value of Spectra Energy Partners' common units or result in audit adjustments to the tax returns.

***Spectra Energy Partners has adopted certain valuation methodologies that may result in a shift of income, gain, loss and deduction between the general partner and the unitholders. The IRS may challenge this treatment, which could adversely affect the value of the common units.***

When Spectra Energy Partners issues additional units or engages in certain other transactions, Spectra Energy Partners determines the fair market value of its assets and allocates any unrealized gain or loss attributable to its assets to the capital accounts of its unitholders and general partner. Spectra Energy Partners' methodology may be viewed as understating the value of its assets. In that case, there may be a shift of income, gain, loss and deduction between certain unitholders and the general partner, which may be unfavorable to such unitholders. Moreover, subsequent purchasers of common units may have a greater portion of their Internal Revenue Code Section 743(b) adjustment allocated to Spectra Energy Partners' tangible assets and a lesser portion allocated to its intangible assets. The IRS may challenge Spectra Energy Partners' valuation methods, or its allocation of the Section 743(b) adjustment attributable to tangible and intangible assets, and allocations of income, gain, loss and deduction between the general partner and

certain of Spectra Energy Partners' unitholders.

A successful IRS challenge to these methods or allocations could adversely affect the amount of taxable income or loss being allocated to Spectra Energy Partners' unitholders. It also could affect the amount of gain from

## **Table of Contents**

Spectra Energy Partners' unitholders' sale of common units and could have a negative effect on the value of the common units or result in audit adjustments to unitholders' tax returns without the benefit of additional deductions.

*The sale or exchange of 50% or more of Spectra Energy Partners' capital and profits interests during any twelve-month period will result in the termination of the partnership for federal income tax purposes.*

Spectra Energy Partners will be considered to have terminated the partnership for federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in Spectra Energy Partners' capital and profits within a twelve-month period. Spectra Energy Partners' termination would, among other things, result in the closing of the taxable year for all unitholders and could result in a deferral of depreciation deductions allowable in computing Spectra Energy Partners' taxable income.

*A common unitholder will likely be subject to state and local taxes and return filing requirements in states where the common unitholder does not live as a result of investing in Spectra Energy Partners' common units.*

In addition to federal income taxes, a common unitholder will likely be subject to other taxes, including foreign, state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which Spectra Energy Partners does business or owns property, even if the common unitholder does not live in any of those jurisdictions. A common unitholder will likely be required to file foreign, state and local income tax returns and pay state and local income taxes in some or all of these jurisdictions. Further, a common unitholder may be subject to penalties for failure to comply with those requirements. Spectra Energy Partners will initially own assets and do business in Alabama, Florida, Georgia, Louisiana, Mississippi, North Carolina, Tennessee, Texas and Virginia. Each of these states, other than Texas and Florida, currently imposes a personal income tax on individuals. A majority of these states impose an income tax on corporations and other entities. As Spectra Energy Partners makes acquisitions or expands its business, it may own assets or conduct business in additional states that impose an income tax. It is the common unitholder's responsibility to file all United States federal, foreign, state and local tax returns. Spectra Energy Partners' counsel has not rendered an opinion on the foreign, state or local tax consequences of an investment in the common units.

### **Item 1B. *Unresolved Staff Comments.***

None.

### **Item 2. *Properties.***

Spectra Energy Partners' principal executive offices are located at 5400 Westheimer Court, Houston, Texas 77056, which is a facility leased by Spectra Energy. Spectra Energy Partners' telephone number is 713-627-5400.

For a description of material properties, see Item 1. Business.

### **Item 3. *Legal Proceedings.***

For information regarding legal proceedings, including regulatory and environmental matters, see Notes 4 and 12 of Notes to Consolidated Financial Statements.

### **Item 4. *Submission of Matters to a Vote of Security Holders.***

None.



**Table of Contents****PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Spectra Energy Partners' common units have been listed on the New York Stock Exchange (NYSE) under the symbol SEP since June 27, 2007. Prior to that, Spectra Energy Partners equity securities were not listed on any exchange or traded on any public trading market. Prior to the IPO, the operations comprising Spectra Energy Partners were owned by Spectra Energy. The following table sets forth the high and low closing sales prices of the common units, as reported by the NYSE, as well as the amount of cash distributions declared per quarter from the closing of the Spectra Energy Partners IPO through December 31, 2007.

**Common Unit Data by Quarter**

2007	Unit Price Range(a)		Distributions per	Distributions per Subordinated
	High	Low	Common Unit	Unit
Second Quarter(b)	\$ 29.29	\$ 26.50		
Third Quarter	\$ 30.99	\$ 24.65		
Fourth Quarter	\$ 26.73	\$ 23.70	\$ 0.30	\$ 0.30

(a) Unit prices represent the intra-day high and low unit price.

(b) Since June 27, 2007, the commencement date of trading.

As of March 6, 2008, there were approximately 22 holders of record of Spectra Energy Partners common units. A cash distribution to unitholders of \$0.32 per unit was declared on January 24, 2008 and was paid on February 14, 2008, which is a \$0.02 per unit increase over the cash distribution of \$0.30 per unit paid on November 14, 2007.

**Market Repurchases**

Spectra Energy Partners has not made any repurchases of common, subordinated or general partner units.

**Distributions of Available Cash**

*General.* Spectra Energy Partners' partnership agreement requires that, within 45 days after the end of each quarter, beginning with the quarter ending September 30, 2007, Spectra Energy Partners distributes all of its Available Cash to unitholders of record on the applicable record date.

*Definition of Available Cash.* Available Cash, for any quarter, consists of all cash on hand at the end of that quarter:

less the amount of cash reserves established by the general partner to:

provide for the proper conduct of business;

comply with applicable law, any debt instrument or other agreement; or

provide funds for distributions to Spectra Energy Partners unitholders and to Partners 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.

See the Glossary contained in Part I, Item 1. Business for a more complete definition of Available Cash.

*Minimum Quarterly Distribution.* The Minimum Quarterly Distribution, as set forth in the partnership agreement, is \$0.30 per unit per quarter, or \$1.20 per unit per year. The quarterly distribution as of January 24, 2008 is \$0.32 per unit, or \$1.28 per unit annualized. There is no guarantee that this distribution rate will be maintained or that Spectra Energy Partners will pay the Minimum Quarterly Distribution on the units in any quarter. Even if Spectra Energy Partners cash distribution policy is not modified or revoked, the amount of distributions paid under



**Table of Contents**

Spectra Energy Partners' policy and the decision to make any distribution is determined by the general partner, taking into consideration the terms of the partnership agreement. Spectra Energy Partners will be prohibited from making any distributions to unitholders if it would cause an event of default, or an event of default is existing, under Spectra Energy Partners' credit agreement.

*General Partner Interest and Incentive Distribution Rights.* The general partner is entitled to 2% of all quarterly distributions since inception. This general partner interest is represented by 1,352,421 general partner units. The general partner has the right, but not the obligation, to contribute a proportionate amount of capital to Spectra Energy Partners to maintain its current general partner interest. The general partner's initial 2% interest in these distributions will be reduced if Spectra Energy Partners issues additional units in the future and the general partner does not contribute a proportionate amount of capital to maintain its 2% general partner interest.

The general partner also currently holds incentive distribution rights that entitle it to receive increasing percentages, up to a maximum of 50%, of the cash Spectra Energy Partners distributes from operating surplus in excess of \$0.345 per unit per quarter. The maximum distribution of 50% includes distributions paid to the general partner on its 2% general partner interest and assumes that the general partner maintains its general partner interest at 2%. The maximum distribution of 50% does not include any distributions that the general partner may receive on units that it owns.

**Equity Compensation Plans**

The information relating to Spectra Energy Partners equity compensation plans required by Item 5 is included in Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters contained herein.

**Table of Contents****Item 6. Selected Financial Data.**

The following selected financial data should be read in conjunction with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplemental Data.

*Basis of Presentation.* For periods prior to the closing of Spectra Energy Partners' IPO on July 2, 2007, the selected financial data presented was prepared from the separate records maintained by Spectra Energy Capital, LLC for East Tennessee, Market Hub and Gulfstream, the entities that were contributed to Spectra Energy Partners by Spectra Energy, and are based on Spectra Energy's historical ownership percentages of these operations. The combined financial results of these entities are treated as the historical results of Spectra Energy Partners for financial statement reporting purposes. The selected financial data covering periods prior to the closing of the IPO may not necessarily be indicative of the actual results of operations had those contributed entities been operated separately during those periods.

	2007	2006	2005	2004	2003
	(In millions, except per-unit amounts)				
<b>Statements of Operations</b>					
Operating revenues	\$ 100.1	\$ 82.6	\$ 80.0	\$ 81.7	\$ 65.9
Operating income	54.1	37.6	26.5	33.6	26.6
Equity in earnings of unconsolidated affiliates	55.6	41.1	46.3	35.5	28.4
Net income	197.5(a)	61.6	57.0	53.2	50.7
<b>Net Income per Limited Partner Unit(b)</b>					
Common unit	\$ 0.68	n/a	n/a	n/a	n/a
Subordinated unit	0.68	n/a	n/a	n/a	n/a
Cash distributions declared per unit	0.30	n/a	n/a	n/a	n/a

	2007	2006	December 31, 2005	2004	2003
	(In millions)				
<b>Balance Sheet</b>					
Total assets	\$ 1,507.6	\$ 1,284.6	\$ 1,202.8	\$ 1,303.0	\$ 1,258.1
Long-term debt	400.0	150.0	150.0	150.0	150.0

(a) Includes a one-time benefit of \$110.5 million from the reversal of deferred income tax liabilities.

(b) Reflective of general and limited partners' interests in Net Income since the closing of Spectra Energy Partners' IPO on July 2, 2007. See Item 8. Financial Statements and Supplementary Data, Note 5 for further discussion.

n/a indicates not applicable

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.****INTRODUCTION**

Management's Discussion and Analysis should be read in conjunction with Item 8. Financial Statements and Supplementary Data.

## **EXECUTIVE OVERVIEW**

In July 2007, Spectra Energy Partners completed its IPO. Spectra Energy Partners issued 11.5 million common units to the public, representing 17% of its outstanding equity. Spectra Energy retained an 83% equity interest in Spectra Energy Partners, including common units, subordinated units and a 2% general partner interest. See Note 1 of Notes to Consolidated Financial Statements for further discussion.

Spectra Energy Partners reported net income of \$197.5 million compared with \$61.6 million for the prior year. 2007 results include a one-time benefit of \$110.5 million from the reversal of income tax liabilities as a result of Spectra Energy Partners' master limited partnership structure. Excluding the tax benefit, net income in 2007 was \$87.0 million, a 41% increase over 2006, primarily the result of strong revenues from new firm transportation

## **Table of Contents**

contracts at East Tennessee and increased equity earnings from Gulfstream and Market Hub. Spectra Energy Partners paid unitholders a cash distribution of \$0.30 per unit during the year ended December 31, 2007.

For periods prior to the closing of Spectra Energy Partners' IPO on July 2, 2007, the financial data and related discussion presented herein were prepared from the separate records maintained by Spectra Energy Capital, LLC for East Tennessee, Market Hub and Gulfstream, the entities that were contributed to Spectra Energy Partners by Spectra Energy and are based on Spectra Energy's historical ownership percentages of these operations. The combined financial results of these entities are treated as the historical results of Spectra Energy Partners for financial statement reporting purposes. The historical data of periods prior to the closing of the IPO may not necessarily be indicative of the actual results of operations had those contributed entities been operated separately during those periods.

## **Business Strategies**

Spectra Energy Partners' primary business objective is to increase cash distributions per unit over time by executing the following strategies:

*Pursue economically attractive organic expansion opportunities and greenfield construction projects.* Spectra Energy Partners and its partners, including Spectra Energy, continually evaluate organic expansion and greenfield construction opportunities in existing and new markets that may increase the volume of natural gas and storage capacity reserved on Spectra Energy Partners' systems.

*Increase contracted capacity for natural gas transportation and storage on Spectra Energy Partners' systems by further expanding Spectra Energy Partners' customer base and diverse sources of natural gas supply.* Spectra Energy Partners' transportation and storage systems have access to numerous natural gas producing regions, including the Gulf Coast, Mid-Continent and Appalachian regions. Additionally, Spectra Energy Partners is seeking to attach new sources of supply, including LNG, to enhance the attractiveness of its system to current and future customers.

*Optimize Spectra Energy Partners' existing assets and achieving additional operating efficiencies.* Spectra Energy Partners intends to enhance the profitability of its existing assets by undertaking additional initiatives to enhance utilization, improve operating efficiencies and develop rate and contract structures that meet its customers needs.

*Grow through strategic and accretive acquisitions of assets from third parties, Spectra Energy or both.* Spectra Energy Partners intends to expand its existing natural gas transportation and storage businesses by pursuing acquisitions that are accretive to distributable cash flow. Either independently or jointly with Spectra Energy, Spectra Energy Partners will seek future acquisitions in areas where its assets currently operate that provide the opportunity for operational efficiencies or higher capacity utilization of its existing assets, as well as acquisitions in new geographic areas of operation in order to expand its footprint.

## **Significant Economic Factors for Spectra Energy Partners' Business**

The high percentage of Spectra Energy Partners' business derived from capacity reservation fees mitigates the risk of revenue fluctuations due to near-term changes in natural gas supply and demand conditions. However, all of Spectra Energy Partners' businesses can be negatively affected in the long term by sustained downturns or sluggishness in the economy in general, and are impacted by shifts in supply and demand dynamics, the mix of services requested by customers, and changes in regulatory requirements affecting operations. Short-term contracts and interruptible service arrangements are not a significant component of Spectra Energy Partners' revenue; however, these services can be impacted positively or negatively to varying degrees by natural gas price volatility and other factors beyond Spectra

Energy Partners control. Spectra Energy Partners mitigates exposure to natural gas prices by contracting available transportation capacity with long-term, fixed-rate arrangements.

Spectra Energy Partners believes the key factors that impact its business are the supply of and demand for natural gas in the markets in which it operates, Spectra Energy Partners customers and their requirements, and government regulation of natural gas pipelines and storage systems. These key factors play an important role in how Spectra Energy Partners evaluates its operations and implements its long-term strategies.

**Table of Contents**

***Supply and Demand Dynamics***

Changes in natural gas supply such as new discoveries of natural gas reserves, declining production in older fields and the introduction of new sources of natural gas supply, such as imported LNG, affect the demand for Spectra Energy Partners' services from both producers and consumers. As these supply dynamics shift, Spectra Energy Partners anticipates that it will actively pursue projects that link these new sources of supply to producers and consumers willing to contract for transportation or storage on a long-term firm basis. Changes in demographics, the amount of natural gas fired power generation and shifts in residential usage affect the overall demand for natural gas. In turn, Spectra Energy Partners' customers, which include LDCs, utilities and power generators, increase or decrease their demand for Spectra Energy Partners' services as a result of these changes.

***Growing Markets***

According to the U.S. Energy Information Administration, overall demand for natural gas consumption in the markets Spectra Energy Partners serves is expected to grow by approximately 2.1% per year for the period from 2006-2012. Spectra Energy Partners believes this growth will be driven by the construction of new natural gas fired electric generation plants in Florida and elsewhere to meet both a growing population base and a growing per capita demand for electricity. With the recent trend towards natural gas fired electric generation, demand for natural gas during the summer months to satisfy cooling requirements is increasing.

***Growth of Natural Gas Storage Facilities***

Natural gas storage is becoming an increasingly important factor in the natural gas transportation marketplace, and will play a significant role in handling the increased deliveries of LNG expected in the coming years. As a consequence, a substantial number of natural gas storage projects have been announced and are under development, especially in the Texas and Louisiana areas. These projects, assuming full implementation, would increase the working gas capacity in the U.S. by 5% by the end of 2008, and include 16 storage projects underway in the Southwest (including Texas and Louisiana). The Southwestern region of the United States has the highest number of high-deliverability, salt-cavern storage facilities, and the demand for this type of storage is expected to continue to grow. An increased supply of storage competing with Market Hub's storage facilities could negatively impact Spectra Energy Partners' operations.

***Regulation***

Government regulation of natural gas transportation and storage has a significant impact on Spectra Energy Partners' business. Rates are regulated under FERC rate-making policies, and, in the case of Spectra Energy Partners' storage facility in Texas, by the TRC. FERC regulatory policies govern the rates that each pipeline is permitted to charge customers for interstate transportation and storage of natural gas. Under certain circumstances, Spectra Energy Partners is permitted to enter into contracts with customers under negotiated rates that differ from the rates imposed by FERC.

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

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>(In millions)</b>		
Operating revenues	\$ 100.1	\$ 82.6	\$ 80.0
Operating, maintenance and other expenses	22.8	26.0	29.9
Depreciation and amortization	23.2	19.0	23.6
Operating income	54.1	37.6	26.5
Equity in earnings of unconsolidated affiliates	55.6	41.1	46.3
Other income and expenses, net	0.3	1.8	0.5
Interest income	5.5		
Interest expense	17.1	8.2	8.5
Earnings before income taxes	98.4	72.3	64.8
Income tax expense (benefit)	(99.1)	10.7	7.8
Net income	\$ 197.5	\$ 61.6	\$ 57.0
Adjusted EBITDA(a)	\$ 77.3	\$ 56.6	\$ 50.1
Cash Available for Distribution(a)	117.7	80.4	77.5

(a) For a reconciliation of this measure to its most directly comparable financial measures calculated and presented in accordance with generally accepted accounting principles, see Reconciliation of Non-GAAP Measures.

**Operating Revenues**

*2007 Compared to 2006.* The \$17.5 million increase was primarily due to new firm transportation contracts with contract terms varying from 10 to 15 years, from the Jewell Ridge expansion project placed into service during the fourth quarter of 2006, and additional firm transportation contracts on the Patriot lateral pipeline.

*2006 Compared to 2005.* The \$2.6 million increase was primarily due to new firm transportation contracts associated with the Jewell Ridge expansion project.

**Operating, Maintenance and Other**

*2007 Compared to 2006.* The \$3.2 million decrease was driven by:

an \$11.0 million increase in net pipeline fuel recoveries that reduced operating costs in 2007. The higher net recoveries primarily resulted from a timing difference related to the recognition of recoveries.

a \$1.4 million decrease in ad valorem taxes as a result of lower negotiated 2007 rates, partially offset by

a \$5.7 million increase due to net capitalization in 2006 of previously expensed project development costs for Jewell Ridge. Spectra Energy Partners expenses project development costs until such time as recovery of costs is determined to be probable. At that time, these costs are capitalized to property, plant and equipment and

operating expenses are reduced,

a \$2.1 million increase due to lower capitalization of certain corporate overhead expenses as a result of lower capital spending in 2007 as compared to 2006, and

a \$1.9 million increase in pipeline integrity costs in the 2007 period.

*2006 Compared to 2005.* The \$3.9 million decrease was primarily due to:

an \$11.4 million decrease in expenses primarily resulting from \$5.7 million of net capitalization of previously expensed development costs of Jewell Ridge in 2006 compared to \$5.7 million in project development costs expensed in 2005, partially offset by

a \$3.5 million increase in pipeline integrity costs in the 2006 period,



**Table of Contents**

a \$3.1 million increase in allocations from Spectra Energy related to financial re-engineering and other project costs, and

a \$1.2 million increase in insurance costs as a result of higher insurance market rates.

**Depreciation and Amortization**

*2007 Compared to 2006.* The \$4.2 million increase is primarily due to the Jewell Ridge expansion project placed in service in the fourth quarter of 2006.

*2006 Compared to 2005.* The \$4.6 million decrease was due to an increase in the estimated useful lives of certain assets, as agreed to in a negotiated rate settlement with customers of East Tennessee and approved by FERC.

**Equity in Earnings of Unconsolidated Affiliates**

*2007 Compared to 2006.* The \$14.5 million increase consisted of a \$7.8 million increase in earnings from Market Hub and a \$6.7 million increase in earnings from Gulfstream.

*2006 Compared to 2005.* The \$5.2 million decrease consisted of a \$5.4 million decrease in earnings from Market Hub, partially offset by a \$0.2 million increase in earnings from Gulfstream.

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

	2007	2006	Increase (Decrease) (In millions)	2005	Increase (Decrease)
<i>Gulfstream</i>					
Operating revenues	\$ 185.3	\$ 180.3	\$ 5.0	\$ 145.1	\$ 35.2
Operating, maintenance and other expenses	15.9	33.1	(17.2)	24.4	8.7
Depreciation and amortization	30.0	30.4	(0.4)	29.2	1.2
Gain on sales of other assets, net		0.1	(0.1)		0.1
Other income and expenses, net	3.9	0.3	3.6	1.8	(1.5)
Interest expense	47.9	48.8	(0.9)	25.5	23.3
Net income	\$ 95.4	\$ 68.4	\$ 27.0	\$ 67.8	\$ 0.6
Spectra Energy Partners 24.5% share	\$ 23.5	\$ 16.8	\$ 6.7	\$ 16.6	\$ 0.2

**Gulfstream Owned 24.5%**

*2007 Compared to 2006.* Gulfstream's net income increased \$27.0 million to \$95.4 million in 2007 compared to \$68.4 million in 2006. The increase was primarily driven by:

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a \$5.0 million increase in revenues related to increased demand for transportation services due to warmer summer weather and a favorable gas to oil commodity price relationship for Gulfstream's generation customers,

a \$5.0 million decrease in expenses primarily resulting from \$2.5 million of capitalization of previously expensed project development costs of the Phase IV expansion project in 2007 compared to \$2.8 million in project development costs expensed in 2006,

a \$12.2 million decrease in ad valorem taxes primarily as a result of favorable valuations, and

a \$3.6 million increase in other income and expenses, net primarily due to a 2006 charge related to a sales and use tax matter, increased interest income and increased AFUDC resulting from higher capital spending in 2007.

**Table of Contents**

*2006 Compared to 2005.* Gulfstream's net income increased \$0.6 million to \$68.4 million in 2006 from \$67.8 million in 2005. The increase was primarily due to:

a \$38.5 million increase in natural gas transportation revenues primarily from significant new firm transportation contracts as a result of Gulfstream's Phase II expansion completed in June 2005, partially offset by

a \$3.3 million decrease in other revenue due to lower interruptible services as a result of higher demand in 2005 created by the more active 2005 hurricane season compared to 2006,

an \$8.7 million increase in operating and maintenance expenses primarily due to \$2.9 million of increased project development costs for Phase III and Phase IV expansion projects, \$2.1 million of higher property and liability premiums due to increased insurance rates for wind-storm insurance coverage, and \$2.8 million increase in Florida property taxes, and

a \$23.3 million increase in interest expense as a result of \$850 million in project financing entered into in October 2005.

	2007	2006	Increase (Decrease) (In millions)	2005	Increase (Decrease)
<i>Market Hub</i>					
Operating revenues	\$ 91.3	\$ 78.8	\$ 12.5	\$ 78.0	\$ 0.8
Operating, maintenance and other expenses	23.6	30.3	(6.7)	12.9	17.4
Depreciation and amortization	9.1	7.8	1.3	6.9	0.9
Gains on sales of other assets	7.0	10.6	(3.6)	1.2	9.4
Interest income	2.3		2.3		
Interest expense	3.6	2.6	1.0		2.6
Income tax expense	0.1		0.1		
Net income	\$ 64.2	\$ 48.7	\$ 15.5	\$ 59.4	\$ (10.7)
Spectra Energy Partners 50% share	\$ 32.1	\$ 24.3	\$ 7.8	\$ 29.7	\$ (5.4)

*Market Hub Owned 50%*

*2007 Compared to 2006.* Market Hub's net income increased \$15.5 million to \$64.2 million in 2007 compared to \$48.7 million in 2006. The increase was primarily due to:

a \$12.5 million increase in revenues primarily resulting from a \$6.7 million increase in new firm storage revenues associated with additional Egan storage capacity that was placed in service during the third quarter 2006 and a \$5.8 million increase resulting from higher demand for short-term interruptible storage services,

a \$6.7 million decrease in operating expenses, primarily driven by a \$4.6 million decrease in corporate costs charged by Spectra Energy in 2007 as compared to allocated costs from Duke Energy Corporation in 2006, and a \$1.7 million reduction in property and other taxes due to the favorable resolution of ad valorem tax matters in 2007, and

\$2.3 million of interest income from affiliates recognized in 2007 related to notes receivable from affiliates, partially offset by

a \$3.6 million decrease in gains on sales of other assets primarily as a result of property insurance gain in 2006 of \$10.6 million as compared to \$7.0 million in 2007.

a \$1.3 million increase in depreciation primarily due to an Egan expansion project placed in service in 2006.

**Table of Contents**

*2006 Compared to 2005.* Market Hub's net income decreased by \$10.7 million to \$48.7 million in 2006 compared to \$59.4 million in 2005. The decrease was primarily driven by:

a \$17.4 million increase in operating expenses primarily attributable to a \$6.2 million fuel loss in 2006, \$3.8 million in higher operations costs due to compressor overhauls and general maintenance costs and a \$4.1 million increase in corporate costs in 2006 primarily from insurance and allocations, partially offset by

a \$0.8 million increase in operating revenues, which included a \$9.2 million increase in firm storage revenues arising from expanded storage capacity and higher realized rates and a \$2.8 million increase in interruptible storage revenues, partially offset by \$6.2 million of business interruption insurance proceeds received in 2005 associated with lost revenue related to the 2004 cavern well-head fire at Moss Bluff and a \$4.2 million gain in 2005 in net fuel recoveries from customers, and

a \$9.4 million net increase in gains on sales of other assets principally due to the recognition of a \$9.8 million gain from the property insurance settlement related to the 2004 cavern well-head fire at Moss Bluff.

***Other Income and Expenses, Net***

Other income and expenses in 2006 primarily represented the equity component of AFUDC resulting from the Jewell Ridge expansion project placed in service in 2006.

***Interest Income***

*2007 Compared to 2006.* The \$5.5 million recognized in 2007 represents interest earned on marketable securities purchased with a portion of the IPO proceeds.

*2006 Compared to 2005.* Prior to the IPO, all cash generated by Spectra Energy Partners was advanced to Spectra Energy. There was no interest income earned on such balances.

***Interest Expense***

*2007 Compared to 2006.* The \$8.9 million increase mainly results from the term and revolver borrowings entered into on July 2, 2007.

*2006 Compared to 2005.* Interest expense in 2006 and 2005 represents interest costs on the outstanding term loan of East Tennessee.

***Income Tax Expense (Benefit)***

*2007 Compared to 2006.* Spectra Energy Partners recorded an income tax benefit in 2007 of \$99.1 million compared to income tax expense of \$10.7 million in 2006. Effective July 2, 2007, as a result of Spectra Energy Partners' master limited partnership structure, Spectra Energy Partners is no longer subject to federal income taxes. Therefore, in the third quarter of 2007, Spectra Energy Partners recorded a one-time benefit of \$110.5 million from the reversal of deferred income tax liabilities. This tax benefit was partially offset by taxes on higher earnings of East Tennessee in the 2007 period. Spectra Energy Partners is still subject to Tennessee state income tax.

*2006 Compared to 2005.* The \$2.9 million increase was primarily attributable to increased earnings at East Tennessee.

**Spectra Energy Partners Adjusted EBITDA and Cash Available for Distribution**

***Adjusted EBITDA***

Spectra Energy Partners defines its Adjusted Earnings before interest, taxes, depreciation and amortization (EBITDA) as Net Income plus Interest Expense, Income Taxes and Depreciation and Amortization less Equity in Earnings of Gulfstream and Market Hub, Interest Income, and Other Income and Expenses, Net, which primarily consists of non-cash AFUDC. Spectra Energy Partners Adjusted EBITDA is not a presentation made in accordance with generally accepted accounting principles (GAAP). Because Adjusted EBITDA excludes some, but not all, items that affect net income and is defined differently by companies in Spectra Energy Partners industry, Spectra

**Table of Contents**

Energy Partners' definition of Adjusted EBITDA may not be comparable to similarly titled measures of other companies.

Adjusted EBITDA is used as a supplemental financial measure by Spectra Energy Partners' management and by external users of Spectra Energy Partners' financial statements to assess:

the financial performance of Spectra Energy Partners' assets without regard to financing methods, capital structure or historical cost basis;

the ability of Spectra Energy Partners' assets to generate cash sufficient to pay interest on indebtedness and to make distributions to partners; and

Spectra Energy Partners' 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 their 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. Other drivers include the timing of certain cash outflows, such as capital expenditures for maintenance and the scheduled payments of interest.

***Cash Available for Distribution***

Spectra Energy Partners defines its Cash Available for Distribution as Spectra Energy Partners' Adjusted EBITDA plus Cash Available for Distribution from Gulfstream and Market Hub, less cash paid for interest expense, net, and maintenance capital expenditures. Spectra Energy Partners' Cash Available for Distribution does not reflect changes in working capital balances. Spectra Energy Partners' Cash Available for Distribution for 2007 also includes Spectra Energy Partners' incremental general and administrative expenses of being a publicly-traded partnership.

For Gulfstream and Market Hub, Spectra Energy Partners defines their Cash Available for Distribution as their Adjusted EBITDA less cash paid for interest expense, net, and maintenance capital expenditures. Cash available for distribution does not reflect changes in their working capital balances.

Cash Available for Distribution should not be viewed as indicative of the actual amount of cash available for distribution or that Spectra Energy Partners plans to distribute for a given period.

Cash Available for Distribution should not be considered an alternative to net income, operating income, cash from operations or any other measure of financial performance or liquidity presented in accordance with GAAP. Cash Available for Distribution excludes some, but not all, items that affect net income and operating income and these measures may vary among other companies. Therefore, Cash Available for Distribution as presented may not be comparable to similarly titled measures of other companies.

Significant drivers of variances in Cash Available for Distribution between the periods presented are substantially the same as those previously discussed under Results of Operations. Other drivers include the timing of certain cash outflows, such as capital expenditures for maintenance and the scheduled payments of interest.

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

	2007	2006	Increase (Decrease) (In millions)	2005	Increase (Decrease)
<b>Net income</b>	\$ 197.5	\$ 61.6	\$ 135.9	\$ 57.0	\$ 4.6
Add:					
Interest expense	17.1	8.2	8.9	8.5	(0.3)
Income tax expense (benefit)	(99.1)	10.7	(109.8)	7.8	2.9
Depreciation and amortization	23.2	19.0	4.2	23.6	(4.6)
Less:					
Equity in earnings of Gulfstream	23.5	16.8	6.7	16.6	0.2
Equity in earnings of Market Hub	32.1	24.3	7.8	29.7	(5.4)
Interest income	5.5		5.5		
Other income, net	0.3	1.8	(1.5)	0.5	1.3
<b>Adjusted EBITDA</b>	77.3	56.6	20.7	50.1	6.5
Add:					
Cash Available for Distribution from Gulfstream	28.9	23.8	5.1	25.5	(1.7)
Cash Available for Distribution from Market Hub	31.9	19.5	12.4	18.7	0.8
Less:					
Cash paid for interest expense, net	10.3	8.6	1.7	8.6	
Maintenance capital expenditures	10.1	10.9	(0.8)	8.2	2.7
<b>Cash Available for Distribution</b>	\$ 117.7	\$ 80.4	\$ 37.3	\$ 77.5	\$ 2.9



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

	<b>2007</b>	<b>2006</b>	<b>Increase (Decrease) (In millions)</b>	<b>2005</b>	<b>Increase (Decrease)</b>
<b>Net cash provided by operating activities</b>	\$ 72.4	\$ 62.3	\$ 10.1	\$ 93.3	\$ (31.0)
Interest income	(5.5)		(5.5)		
Interest expense	17.1	8.2	8.9	8.5	(0.3)
Income tax expense current	5.6	(2.1)	7.7	3.5	(5.6)
Distributions received from Gulfstream	(16.8)	(20.3)	3.5	(29.7)	9.4
Distributions received from Market Hub	(5.9)		(5.9)		
Changes in working capital and other	10.4	8.5	1.9	(25.5)	34.0
<b>Adjusted EBITDA</b>	77.3	56.6	20.7	50.1	6.5
Add:					
Cash Available for Distribution from Gulfstream	28.9	23.8	5.1	25.5	(1.7)
Cash Available for Distribution from Market Hub	31.9	19.5	12.4	18.7	0.8
Less:					
Cash paid for interest expense, net	10.3	8.6	1.7	8.6	
Maintenance capital expenditures	10.1	10.9	(0.8)	8.2	2.7
<b>Cash Available for Distribution</b>	\$ 117.7	\$ 80.4	\$ 37.3	\$ 77.5	\$ 2.9

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

	<b>2007</b>	<b>2006</b>	<b>Increase (Decrease) (In millions)</b>	<b>2005</b>	<b>Increase (Decrease)</b>
<b>Net income</b>	\$ 95.4	\$ 68.4	\$ 27.0	\$ 67.8	\$ 0.6
Add:					
Interest expense	47.9	48.8	(0.9)	25.5	23.3
Depreciation and amortization	30.0	30.4	(0.4)	29.2	1.2
Less:					
Other income, net	3.9	0.4	3.5	1.8	(1.4)
<b>Adjusted EBITDA 100%</b>	169.4	147.2	22.2	120.7	26.5
Less:					
Cash paid for interest expense, net	49.9	49.5	0.4	15.8	33.7
Maintenance capital expenditures	1.4	0.6	0.8	0.9	(0.3)
<b>Cash Available for Distribution 100%</b>	\$ 118.1	\$ 97.1	\$ 21.0	\$ 104.0	\$ (6.9)

<b>Adjusted EBITDA</b>	<b>24.5%</b>	\$	41.5	\$	36.1	\$	5.4	\$	29.6	\$	6.5
<b>Cash Available for Distribution</b>	<b>24.5%</b>		28.9		23.8		5.1		25.5		(1.7)

**Table of Contents**

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

	<b>2007</b>	<b>2006</b>	<b>Increase (Decrease) (In millions)</b>	<b>2005</b>	<b>Increase (Decrease)</b>
<b>Net income</b>	\$ 64.2	\$ 48.7	\$ 15.5	\$ 59.4	\$ (10.7)