

Spectra Energy Partners, LP
Form 10-Q
November 07, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

or

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

For the transition period from _____ to _____

Commission file number 1-33556

SPECTRA ENERGY PARTNERS, LP
(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of incorporation)

5400 Westheimer Court

Houston, Texas 77056

(Address of principal executive offices, including zip code)

713-627-5400

(Registrant's telephone number, including area code)

41-2232463

(IRS Employer Identification No.)

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

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

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

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

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

At September 30, 2013, there were 115,871,489 Common Units and 2,364,726 General Partner Units outstanding.

SPECTRA ENERGY PARTNERS, LP
 FORM 10-Q FOR THE QUARTER ENDED
 September 30, 2013
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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This document includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements represent management’s intentions, plans, expectations, assumptions and beliefs about future events. These forward-looking statements are identified by terms and phrases such as: anticipate, believe, intend, estimate, expect, continue, should, could, may, plan, project, predict, will, potential, forecast, and similar expressions. Forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside our control and could cause actual results to differ materially from the results expressed or implied by those forward-looking statements. Factors used to develop these forward-looking statements and that could cause actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to:

- state 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 and oil industries;
- outcomes of litigation and regulatory investigations, proceedings or inquiries;
- weather and other natural phenomena, including the economic, operational and other effects of hurricanes and storms;
- the timing and extent of changes in interest rates and foreign currency exchange rates;
- general economic conditions, including the risk of a prolonged economic slowdown or decline, or the risk of delay in a recovery, which can affect the long-term demand for natural gas and oil and related services;
- potential effects arising from terrorist attacks and any consequential or other hostilities;
- changes in environmental, safety and other laws and regulations;
- the development of alternative energy resources;
- results and costs of financing efforts, including the ability to obtain financing on favorable terms, which can be affected by various factors, including credit ratings and general market and economic conditions;
- increases in the cost of goods and services required to complete capital projects;
- growth in opportunities, including the timing and success of efforts to develop U.S. and Canadian pipeline, storage, gathering and other related infrastructure projects and the effects of competition;
- the performance of natural gas transmission, storage and gathering facilities, and crude oil transportation and storage;
- the extent of success in connecting natural gas and oil supplies to transmission and gathering systems and in connecting to expanding gas and oil markets;
- the effects of accounting pronouncements issued periodically by accounting standard-setting bodies;
- conditions of the capital markets during the periods covered by forward-looking statements; and
- the ability to successfully complete merger, acquisition or divestiture plans; regulatory or other limitations imposed as a result of a merger, acquisition or divestiture; and the success of the business following a merger, acquisition or divestiture.

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

SPECTRA ENERGY PARTNERS, LP
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In millions, except per-unit amounts)

	Three Months Ended		Nine Months Ended	
	September 30, 2013	2012	September 30, 2013	2012
Operating Revenues				
Transportation of natural gas	\$52.2	\$53.0	\$159.5	\$163.7
Transportation of crude oil	70.7	—	150.6	—
Storage of natural gas and other	10.2	4.2	26.7	14.1
Total operating revenues	133.1	57.2	336.8	177.8
Operating Expenses				
Operating, maintenance and other	51.0	17.4	119.2	48.8
Depreciation and amortization	15.9	9.3	42.7	27.9
Property and other taxes	7.1	2.8	17.4	9.2
Total operating expenses	74.0	29.5	179.3	85.9
Operating Income	59.1	27.7	157.5	91.9
Other Income and Expenses				
Equity in earnings of unconsolidated affiliates	30.5	26.4	91.5	77.6
Other income and expenses, net	1.0	—	0.4	0.1
Total other income and expenses	31.5	26.4	91.9	77.7
Interest Income	0.1	—	0.5	—
Interest Expense	13.4	7.7	35.2	23.1
Earnings Before Income Taxes	77.3	46.4	214.7	146.5
Income Tax Expense	1.7	0.3	2.7	1.1
Net Income	75.6	46.1	212.0	145.4
Net Income-Noncontrolling Interests	16.0	—	34.4	—
Net Income-Controlling Interests	\$59.6	\$46.1	\$177.6	\$145.4
Calculation of Limited Partners' Interest in Net Income:				
Net income-Controlling Interests	\$59.6	\$46.1	\$177.6	\$145.4
Less: General partner's interest in net income	11.8	7.3	31.2	20.6
Limited partners' interest in net income	\$47.8	\$38.8	\$146.4	\$124.8
Weighted-average limited partner units outstanding—basic and diluted	113.4	96.3	108.5	96.3
Net income per limited partner unit—basic and diluted	\$0.42	\$0.40	\$1.35	\$1.30
Distributions paid per limited partner unit during the periods presented	\$0.50875	\$0.485	\$1.50500	\$1.44

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net Income	\$75.6	\$46.1	\$212.0	\$145.4
Other comprehensive income (loss)				
Foreign currency translation adjustments	0.6	—	0.6	—
Reclassification of cash flow hedges	(0.2	) (0.1	) (0.5	) (0.4
Total other comprehensive income (loss)	0.4	(0.1	) 0.1	(0.4
Total Comprehensive Income	76.0	46.0	212.1	145.0
Less: Comprehensive Income-Noncontrolling Interests	16.0	—	34.4	—
Comprehensive Income-Controlling Interests	\$60.0	\$46.0	\$177.7	\$145.0

See Notes to Condensed Consolidated Financial Statements.

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

	September 30, 2013	December 31, 2012
ASSETS		
Current Assets		
Cash and cash equivalents	\$92.5	\$20.6
Other investments	10.3	—
Receivables, net	59.4	29.2
Other	10.6	5.5
Total current assets	172.8	55.3
Investments and Other Assets		
Investments in unconsolidated affiliates	894.8	921.2
Goodwill	939.8	461.7
Other investments—restricted funds	2,002.8	140.7
Other	—	0.7
Total investments and other assets	3,837.4	1,524.3
Property, Plant and Equipment		
Cost	2,853.7	1,475.9
Less accumulated depreciation and amortization	306.0	269.6
Net property, plant and equipment	2,547.7	1,206.3
Regulatory Assets and Deferred Debits	23.1	19.8
Total Assets	\$6,581.0	\$2,805.7

See Notes to Condensed Consolidated Financial Statements.

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

	September 30, 2013	December 31, 2012
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	\$51.6	\$14.4
Commercial paper	545.1	336.4
Taxes accrued	19.1	8.8
Interest accrued	12.9	1.3
Note payable—affiliates	15.7	17.0
Current maturities of long-term debt	28.5	—
Other	22.9	8.2
Total current liabilities	695.8	386.1
Long-term Debt		
Deferred Credits and Other Liabilities		
Deferred income taxes	44.6	9.4
Other	7.0	5.0
Total deferred credits and other liabilities	51.6	14.4
Commitments and Contingencies		
Equity		
Partners' Capital		
Common units (115.9 million and 103.6 million units issued and outstanding at September 30, 2013 and December 31, 2012, respectively)	2,137.5	1,659.5
General partner units (2.4 million and 2.1 million units issued and outstanding at September 30, 2013 and December 31, 2012, respectively)	54.3	42.2
Accumulated other comprehensive income	4.0	3.9
Total partners' capital	2,195.8	1,705.6
Noncontrolling interests	851.7	—
Total equity	3,047.5	1,705.6
Total Liabilities and Equity	\$6,581.0	\$2,805.7

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$212.0	\$145.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	43.9	29.1
Deferred income tax expense	1.4	1.1
Equity in earnings of unconsolidated affiliates	(91.5	) (77.6
Distributions received from unconsolidated affiliates	98.6	80.7
Other	12.3	6.4
Net cash provided by operating activities	276.7	185.1
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(31.3	) (27.7
Investment expenditures	(1.5	) (13.8
Acquisitions, net of cash acquired	(342.9) —
Distributions received from unconsolidated affiliates	17.4	11.2
Purchases of held-to-maturity securities	(39.5) —
Proceeds from sales and maturities of held-to-maturity securities	36.0	—
Purchases of available-for-sale securities	(5,663.0) —
Proceeds from sales and maturities of available-for-sale securities	3,800.9	—
Other	0.1	0.2
Net cash used in investing activities	(2,223.8	) (30.1
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of long-term debt	1,887.0	—
Payments for the redemption of long-term debt	(14.0) —
Net increase in commercial paper	208.7	13.9
Distributions to noncontrolling interests	(33.2) —
Proceeds from issuance of units	193.3	—
Proceeds on notes payable—affiliates	—	5.0
Payments on notes payable—affiliates	(1.3	) (15.5
Distributions to partners	(216.2	) (158.2
Other	(5.3) —
Net cash provided by (used in) financing activities	2,019.0	(154.8
Net increase in cash and cash equivalents	71.9	0.2
Cash and cash equivalents at beginning of period	20.6	0.8
Cash and cash equivalents at end of period	\$92.5	\$1.0
Supplemental Disclosures		
Property, plant and equipment noncash accruals	\$0.8	\$3.0

See Notes to Condensed Consolidated Financial Statements.

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

	Partners' Capital		Accumulated		Total	
	Common	General Partner	Other Comprehensive Income	Noncontrolling Interests		
December 31, 2012	\$ 1,659.5	\$ 42.2	\$ 3.9	\$ —	\$ 1,705.6	
Net income	146.4	31.2	—	34.4	212.0	
Other comprehensive income	—	—	0.1	—	0.1	
Excess purchase price over net acquired assets in Express-Platte	19.6	0.4	—	—	20.0	
Acquisition of interests in Express US	—	—	—	850.5	850.5	
Issuances of units	502.4	10.3	—	—	512.7	
Distributions to partners	(164.8) (29.3) —	—	(194.1)
Express-Platte distributions to partners (pre-acquisition)	(21.7) (0.4) —	(33.2) (55.3)
Other, net	(3.9) (0.1) —	—	(4.0)
September 30, 2013	\$ 2,137.5	\$ 54.3	\$ 4.0	\$ 851.7	\$ 3,047.5	
December 31, 2011	\$ 1,653.6	\$ 39.6	\$ 4.5	\$ —	\$ 1,697.7	
Net income	124.8	20.6	—	—	145.4	
Other comprehensive income (loss)	—	—	(0.4) —	(0.4)
Issuance of units	0.5	—	—	—	0.5	
Attributed deferred tax expense	(0.1) —	—	—	(0.1)
Distributions to partners	(138.8) (19.4) —	—	(158.2)
September 30, 2012	\$ 1,640.0	\$ 40.8	\$ 4.1	\$ —	\$ 1,684.9	

See Notes to Condensed Consolidated Financial Statements.

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SPECTRA ENERGY PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. General

The terms “we,” “our,” “us” and “Spectra Energy Partners” as used in this report refer collectively to Spectra Energy Partners, LP and its subsidiaries unless the context suggests otherwise. These terms are used for convenience only and are not intended as a precise description of any separate legal entity within Spectra Energy Partners.

Nature of Operations. Spectra Energy Partners, through its subsidiaries and equity affiliates, is engaged in the transportation and gathering of natural gas through interstate pipeline systems located throughout the United States, and the storage of natural gas in underground facilities that are located in southeast Texas, south central Louisiana and southwest Virginia. As a result of our acquisition on August 2, 2013 of interests in the Express-Platte crude oil pipeline system (Express-Platte), which connects Canadian and U.S. producers to refineries in the U.S. Rocky Mountain and Midwest regions, we are also engaged in the transportation of crude oil. We acquired the remaining interest in Express-Platte in the fourth quarter of 2013.

Basis of Presentation. The Condensed Consolidated Financial Statements include our accounts and those of our subsidiaries, after eliminating intercompany transactions and balances. These interim financial statements should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012, and reflect all normal recurring adjustments that are, in our opinion, necessary to fairly present our results of operations and financial position. Amounts reported in the Condensed Consolidated Statements of Operations are not necessarily indicative of amounts expected for the respective annual periods.

On March 14, 2013, Spectra Energy Corp (Spectra Energy) acquired 100% of the ownership interests in Express-Platte from third-parties. On August 2, 2013, we acquired a 40% ownership interest in the U.S. portion of Express-Platte (Express US) and a 100% ownership interest in the Canadian portion of Express-Platte (Express Canada) from subsidiaries of Spectra Energy (collectively, the Express-Platte acquisition). We determined that Express US is a variable interest entity (VIE) whereby we are the primary beneficiary based upon, among other things, the interdependencies that exist between Express Canada and Express US. As a result, at September 30, 2013, we present Express US on a 100%-consolidated basis, with the associated 60% interest that we did not own as of September 30, 2013 presented as noncontrolling interests. On November 1, 2013, we acquired the remaining 60% of Express US. As such, Express US will no longer be considered a VIE, and will be a 100%-consolidated entity with no associated noncontrolling interests effective November 1, 2013.

As the Express-Platte acquisition represented a transfer of entities under common control, the Condensed Consolidated Financial Statements and related information presented herein have been recast to include the historical results of Express-Platte since March 14, 2013, the date of Spectra Energy's acquisition of Express-Platte.

Use of Estimates. To conform with generally accepted accounting principles (GAAP) in the United States, we make estimates and assumptions that affect the amounts reported in the Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements. Although these estimates are based on our best available knowledge at the time, actual results could differ.

2. Acquisitions

Express-Platte. On August 2, 2013, we acquired a 40% ownership interest in Express US and a 100% ownership interest in Express Canada from subsidiaries of Spectra Energy for \$410.4 million in cash and 7.2 million of newly issued common and general partner units (valued at \$318.8 million). The Express-Platte pipeline system, which begins in Hardisty, Alberta, and terminates in Wood River, Illinois, is comprised of both the Express and Platte crude oil pipelines. The Express pipeline carries crude oil to U.S. refining markets in the Rockies area, including Montana, Wyoming, Colorado and Utah. The Platte pipeline, which interconnects with the Express pipeline in Casper, transports crude oil predominantly from the Bakken shale and western Canada to refineries in the Midwest. The completion of the acquisition expands our growth platform to include the rapidly growing North American crude oil transportation and storage market and diversifies our profile of steady, fee-based cash flows with an escalating-fee asset.

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The following table summarizes the preliminary fair values of the assets and liabilities as of March 14, 2013, the acquisition date of Express-Platte from third-parties by Spectra Energy. Subsequent adjustments may be recorded upon the completion of the valuation and the final determination of the purchase price allocation.

	Purchase Price Allocation (in millions)	
Cash	\$67.5	
Receivables	21.3	
Other current assets	10.2	
Goodwill	478.1	
Property, plant and equipment	1,352.5	
Accounts payable	(20.4)
Other current liabilities	(19.1)
Deferred credits and other liabilities	(327.1)
Long-term debt, including current portion	(241.9)
Total assets acquired/liabilities assumed	\$1,321.1	

The following tables present summarized financial information for Express US, which is a VIE, on a 100%-consolidated basis since March 14, 2013, the acquisition date of Express US from third-parties by Spectra Energy.

	Three Months Ended September 30, 2013 (in millions)	Nine Months Ended September 30, 2013 (in millions)
Operating revenues	\$61.1	\$131.7
EBIT	29.4	63.6
Net income	26.6	57.3
		September 30, 2013
		(in millions)
Total current assets		\$75.1
Investments and other assets		431.6
Net property, plant and equipment		1,112.9
Total Assets		1,619.6
Total current liabilities		55.0
Long-term debt		145.1
Equity		1,419.5
Total Liabilities and Equity		\$1,619.6

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The following table presents pro forma results of operations information that reflect the acquisition of Express-Platte as if the acquisition had occurred as of January 1, 2012, adjusted for items that are directly attributable to the acquisition. This information has been compiled from current and historical financial statements, and is not necessarily indicative of the results that actually would have been achieved had the transaction occurred at the beginning of the periods presented or that may be achieved in the future.

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	2012	2013	2012	2013
	(in millions, except per-unit amounts)			
Operating revenues	\$129.5	\$133.1	\$373.2	\$395.1
Earnings before income taxes	83.3	77.3	227.3	217.3
Net income	83.0	75.6	226.2	214.6
Net income-controlling interests	71.0	59.6	202.2	175.2
Net income per limited partner unit—basic and diluted	0.61	0.41	1.73	1.26

As of September 30, 2013, Express-Platte debt, including current maturities, totaled \$227.9 million, consisting of \$117.9 million of 7.39% subordinated notes due 2019 and \$110.0 million of 6.09% senior notes due 2020. The notes are secured by the assignment of the Express-Platte transportation receivables and by the assets of the Express Canada pipeline system assets.

U.S. assets acquisition. On August 5, 2013, we entered into a definitive agreement with Spectra Energy to acquire ownership interests in its remaining Spectra Energy U.S. transmission, storage and liquids assets, including Spectra Energy's remaining 60% interest in the U.S. portion of Express-Platte (the Dropdown Transactions). The pipeline systems include Texas Eastern Transmission, LP (Texas Eastern), Algonquin Gas Transmission, LLC, the remaining 60% ownership interest in Express US, an additional 38.77% interest in Maritimes & Northeast Pipeline, L.L.C. (M&N US), 33.3% interests in both DCP Sand Hills Pipeline, LLC (Sand Hills) and DCP Southern Hills Pipeline, LLC (Southern Hills), an additional 1% interest in Gulfstream Natural Gas System, L.L.C. (Gulfstream) and a 50% interest in Southeast Supply Header, LLC. The natural gas and crude oil storage businesses include Bobcat Gas Storage, the remaining 50% interest in Market Hub, a 49.9% interest in Steckman Ridge, LP, and Texas Eastern's and Express-Platte's storage facilities. Aggregate consideration for the Dropdown Transactions, when completed, will be approximately 175.5 million in newly issued Spectra Energy Partners partnership units and approximately \$2,300.0 million in cash. The contributed entities had approximately \$2,400.0 million of third-party debt at the date of the contribution. On November 1, 2013, we completed the closing of substantially all of the Dropdown Transactions. We paid Spectra Energy aggregate consideration with the issuance of approximately 171.1 million newly issued partnership units and \$2,300.0 million in cash. The first of the remaining two closings of the Dropdown Transactions is expected to occur at least 12 months following the November 1, 2013 closing, with the final closing expected to occur at least 12 months thereafter.

M&N US. On October 31, 2012, we acquired a 38.76% ownership interest in M&N US from Spectra Energy for approximately \$318.7 million in cash and approximately \$56.2 million in common and general partner units. As of the acquisition date, M&N US had debt outstanding of \$429.0 million. M&N US owns a Federal Energy Regulatory Commission (FERC) regulated mainline interstate natural gas transportation system in the United States which extends from the Canadian border near Baileyville, Maine to northeastern Massachusetts. M&N US' pipeline location and key interconnects with Spectra Energy's transmission system link regional natural gas supplies to the northeast U.S. and Atlantic Canadian markets.

The M&N US acquisition represented a transaction between entities under common control, but did not represent a change in reporting entity. Accordingly, the Condensed Consolidated Financial Statements and related information presented herein include the results of the acquisition of M&N US as of the date of the acquisition.

3. Business Segments

We manage our business in two reportable segments: Gas Transportation and Storage, and Liquids. Our chief operating decision maker regularly reviews financial information about both segments in deciding how to allocate

resources and evaluate performance. There is no aggregation of segments within our reportable business segments. The Gas Transportation and Storage segment provides interstate transportation, storage and gathering services of natural gas, and the storage and redelivery of liquefied natural gas for customers in the southeastern quadrant of the United States. Substantially all of our operations are subject to the FERC and the U.S. Department of Transportation's (DOT) rules and regulations. This segment includes East Tennessee Natural Gas, LLC (East Tennessee), Ozark Gas Transmission, L.L.C. (Ozark

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Gas Transmission) and Ozark Gas Gathering, L.L.C. (Ozark Gas Gathering) (collectively, hereafter referred to as “Ozark”), Saltville Gas Storage, L.L.C. (Saltville) and Big Sandy Pipeline, L.L.C. (Big Sandy).

Liquids, a newly formed segment effective with the August 2, 2013 Express-Platte acquisition, provides transportation of crude oil. The Express pipeline carries crude oil from Alberta, Canada to refining markets in the Rockies area. The Platte pipeline, which interconnects with Express pipeline in Casper, Wyoming, transports crude oil predominantly from the Bakken shale and western Canada to refineries in the Midwest. These operations are primarily subject to the rules and regulations of the FERC and the National Energy Board (NEB).

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

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

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

M&N US owns an interstate natural gas pipeline that extends from the Canadian border near Baileyville, Maine to northeastern Massachusetts. The M&N US pipeline links regional gas supplies with Northeast U.S. and Atlantic Canadian markets. M&N US’ operations are subject to the rules and regulations of the FERC.

Management evaluates segment performance based on earnings before interest and taxes from continuing operations (EBIT). On a segment basis, EBIT represents all profits from continuing operations (both operating and non-operating) before deducting interest and income taxes, net of noncontrolling interests related to those earnings.

Business Segment Data

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
	(in millions)			
Operating revenues				
Gas Transportation and Storage	\$56.8	\$57.2	\$174.6	\$177.8
Liquids	76.3	—	162.2	—
Other	—	—	—	—
Total operating revenues	\$133.1	\$57.2	\$336.8	\$177.8
Segment EBIT				
Gas Transportation and Storage	\$29.8	\$29.6	\$94.4	\$97.9
Liquids (a)	19.1	—	37.9	—
Other	23.6	24.5	79.6	71.7
Total EBIT	72.5	54.1	211.9	169.6
Interest income and other (b)	18.2	—	38.0	—
Interest expense	13.4	7.7	35.2	23.1
Earnings before income taxes	\$77.3	\$46.4	\$214.7	\$146.5

(a) Presented net of EBIT's noncontrolling interests for Liquids.

(b) Includes foreign currency transaction gains and losses and the add-back of noncontrolling interests related to segment EBIT.

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	September 30, 2013	December 31, 2012
	(in millions)	
Segment Assets		
Gas Transportation and Storage	\$1,714.1	\$1,715.0
Liquids	1,937.5	—
Total reportable segments	3,651.6	1,715.0
Other	2,929.4	1,090.7
Total consolidated	\$6,581.0	\$2,805.7

4. Regulatory Matters

Express-Platte. Express Pipeline Limited Partnership's (Express LP's) proposal for increases in uncommitted rates filed with the NEB became effective on April 1, 2013. Express Pipeline LLC's (Express LLC's) and Platte Pipe Line Company, LLC's (Platte LLC's) proposals for increases in uncommitted rates filed with the FERC became effective on July 1, 2013. Express LP's, Express LLC's and Platte LLC's proposals for increases in joint committed rates filed with the NEB and FERC also became effective on April 1, 2013. Express LP, Express LLC and Platte LLC filed new joint committed rates with the NEB and FERC with an effective date of October 1, 2013.

Saltville. Saltville received FERC approval on September 26, 2013 to amend its current rate settlement and extend the deadline to file a Section 4 rate case from October 1, 2013 to February 1, 2014. The extension allows Saltville and its customers to continue discussions towards a new settlement agreement in lieu of the required Section 4 rate case filing.

5. Net Income Per Limited Partner Unit and Cash Distributions

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in millions, except per unit amounts)			
Net income-controlling interests	\$59.6	\$46.1	\$177.6	\$145.4
Less:				
General partner's interest in net income—2%	1.2	0.9	3.6	2.9
General partner's interest in net income attributable to incentive distribution rights	10.6	6.4	27.6	17.7
Limited partners' interest in net income	\$47.8	\$38.8	\$146.4	\$124.8
Weighted average limited partner units outstanding—basic and diluted	113.4	96.3	108.5	96.3
Net income per limited partner unit—basic and diluted	\$0.42	\$0.40	\$1.35	\$1.30

The partnership agreement requires that, within 60 days after the end of each quarter, we distribute all of our Available Cash, as defined, to unitholders of record on the applicable record date.

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

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

provide for the proper conduct of business,

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

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

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

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

	Total Quarterly Distribution Target Per-Unit Amount	Marginal Percentage Interest in Distributions		
		Common Unitholders	General Partner	
Minimum Quarterly Distribution	\$0.30	98	% 2	%
First Target Distribution	up to \$0.345	98	% 2	%
Second Target Distribution	above \$0.345 up to \$0.375	85	% 15	%
Third Target Distribution	above \$0.375 up to \$0.45	75	% 25	%
Thereafter	above \$0.45	50	% 50	%

To the extent these incentive distributions are made to our general partner, there will be more Available Cash proportionately allocated to our general partner than to holders of common units. A cash distribution of \$0.51625 per limited partner unit was declared on October 17, 2013 and is payable on November 14, 2013 to unitholders of record at the close of business on October 31, 2013.

6. Investments in Unconsolidated Affiliates

As of September 30, 2013, our investments in unconsolidated affiliates consist of a 49% interest in Gulfstream, a 50% interest in Market Hub and a 38.76% interest in M&N US, all of which are accounted for using the equity method.

For the nine months ended September 30, 2013, we received total distributions of \$63.5 million from Gulfstream, of which \$49.7 million were included in Cash Flows From Operating Activities—Distributions Received From Unconsolidated Affiliates and \$13.8 million were included in Cash Flows From Investing Activities—Distributions Received From Unconsolidated Affiliates. For the nine months ended September 30, 2012, we received total distributions of \$57.1 million, of which \$45.9 million were included in Cash Flows From Operating Activities—Distributions Received From Unconsolidated Affiliates and \$11.2 million were included in Cash Flows From Investing Activities—Distributions Received From Unconsolidated Affiliates.

We received distributions from Market Hub of \$28.7 million during the nine months ended September 30, 2013 and \$34.8 million during the same period in 2012, all of which were included in Cash Flows From Operating Activities—Distributions Received From Unconsolidated Affiliates.

In the fourth quarter of 2012, we purchased a 38.76% ownership in M&N US from Spectra Energy. See Note 2 for further discussion. We received distributions from M&N US of \$23.8 million during the nine months ended September 30, 2013, of which \$20.2 million were included in Cash Flows From Operating Activities—Distributions Received From Unconsolidated Affiliates and \$3.6 million were included in Cash Flows from Investing Activities—Distributions Received from Unconsolidated Affiliates.

Investments in Unconsolidated Affiliates

	September 30, 2013	December 31, 2012
	(in millions)	
Gulfstream	\$331.2	\$345.5
Market Hub	372.6	378.2
M&N US	191.0	197.5
Total	\$894.8	\$921.2

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Equity in Earnings of Unconsolidated Affiliates

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
	(in millions)			
Gulfstream	\$17.5	\$16.8	\$49.7	\$46.6
Market Hub	6.5	9.6	21.6	31.0
M&N US (a)	6.5	—	20.2	—
Total	\$30.5	\$26.4	\$91.5	\$77.6

(a) We acquired a 38.76% interest of M&N US during the fourth quarter of 2012. The equity earnings related to the acquired interest was recorded prospectively from the date of the acquisition.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
	(in millions)			
Gulfstream				
Operating revenues	\$69.5	\$70.1	\$205.5	\$206.6
Operating expenses	16.3	18.4	51.4	58.9
Operating income	53.2	51.7	154.1	147.7
Net income	35.7	34.3	101.5	95.1
Market Hub				
Operating revenues	21.5	27.2	70.5	86.3
Operating expenses	8.4	7.9	27.6	24.3
Operating income	13.1	19.3	42.9	62.0
Net income	13.1	19.1	43.2	62.0
M&N US (a)				
Operating revenues	40.7	—	123.7	—
Operating expenses	14.8	—	43.1	—
Operating income	25.9	—	80.6	—
Net income	16.6	—	52.0	—

(a) We acquired a 38.76% interest in M&N US in the fourth quarter of 2012. Summarized financial information is included for periods after date of acquisition.

7. Goodwill

We perform our goodwill impairment test annually and evaluate goodwill when events or changes in circumstances indicate that its carrying value may not be recoverable. We completed our annual goodwill impairment test as of April 1, 2013 and no impairments were identified.

We perform our annual review for goodwill impairment at the reporting unit level, which is identified by assessing whether the components of our operating segments constitute businesses for which discrete financial information is available, whether segment management regularly reviews the operating results of those components and whether the economic and regulatory characteristics are similar. We determined that our reporting units are equivalent to our reportable segments.

As permitted under accounting guidance on testing goodwill for impairment, we perform either a qualitative or quantitative assessment on our reporting unit based on management's judgment. With respect to our qualitative assessment, we consider events and circumstances specific to us, such as macroeconomic conditions, industry and

market considerations, cost factors and overall financial performance, when evaluating whether it is more likely than not that the fair value of our reporting unit is less than its respective carrying amount.

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In connection with our quantitative assessment, we primarily use a discounted cash flow analysis to determine fair value of our reporting unit. Key assumptions in the determination of fair value include the use of an appropriate discount rate and estimated future cash flows. In estimating cash flows, we incorporate expected long-term growth rates in key markets served by our operations, regulatory stability, and the ability to renew contracts, as well as other factors that affect our reporting units' revenue, expense and capital expenditure projections.

The following presents changes in goodwill during 2013:

	Goodwill (in millions)
December 31, 2012	\$461.7
Acquisition of interests in Express-Platte	478.1
September 30, 2013	\$939.8

See Note 2 for discussion of the acquisition of interests in Express-Platte.

8. Marketable Securities and Restricted Funds

We may actively invest a portion of our cash balances in various financial instruments, including taxable debt securities and short-term money market funds. We do not purchase marketable securities for speculative purposes; therefore, we do not have any securities classified as trading securities. While we do not routinely sell marketable securities prior to their scheduled maturity dates, some of our investments are held and restricted for the purposes of funding future capital expenditures and acquisitions, so these investments are classified as available-for-sale (AFS) marketable securities as they may occasionally be sold prior to their scheduled maturity dates due to the unexpected timing of cash needs. Initial investments in securities are classified as purchases of the respective types of securities (AFS marketable securities or held-to-maturity (HTM) marketable securities). Maturities of securities are classified within proceeds from sales and maturities of securities in the Condensed Consolidated Statements of Cash Flows. AFS Securities. All of our AFS securities are restricted funds and are as follows:

	Estimated Fair Value	
	September 30, 2013	December 31, 2012
	(in millions)	
Commercial paper	\$119.5	\$ 140.7
Money market funds	1,883.3	—
Total available-for-sale securities	\$2,002.8	\$ 140.7

All of our AFS marketable securities are classified as Investments and Other Assets - Other Investments-Restricted Funds on the Condensed Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012, respectively.

During the second quarter of 2013, we invested the proceeds from our issuance of common units in AFS marketable securities. These securities are restricted for the purpose of funding future capital expenditures and acquisitions.

In September 2013, we issued \$1,900.0 million of long-term debt for which the net proceeds are restricted for the purpose of paying a portion of the cash consideration to Spectra Energy for the acquisition of its remaining U.S. transmission, storage, and liquids assets.

At September 30, 2013, the weighted-average contractual maturity of outstanding AFS securities was less than one year.

There were no material gross unrealized holding gains or losses associated with investments in AFS securities at September 30, 2013 or December 31, 2012.

HTM Securities. All of our HTM securities are restricted funds. We had \$10.3 million of money market securities classified as Current Assets - Other Investments on the Condensed Consolidated Balance Sheets as of September 30, 2013. These securities are restricted pursuant to certain Express-Platte debt agreements.

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At September 30, 2013, the weighted-average contractual maturity of outstanding HTM securities was less than one year.

There were no material gross unrealized holding gains or losses associated with investments in HTM securities at September 30, 2013 or December 31, 2012.

9. Debt and Credit Facility

Available Credit Facility and Restricted Debt Covenants

	Expiration Date	Total Credit Facility Capacity	Outstanding at September 30, 2013 Commercial Paper (in millions)	Available Credit Facility Capacity
Spectra Energy Partners, LP	2016	\$700.0	\$545.1	\$154.9

The issuances of commercial paper, letters of credit and revolving borrowings reduce the amount available under the credit facility.

On November 1, 2013, we amended and restated our credit agreement. The credit facility was increased to \$2,000.0 million and expires in 2018.

The credit agreement contains various financial and other covenants, including the maintenance of a consolidated leverage ratio, as defined in the agreement. Failure to meet those covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreement. As of September 30, 2013, we were in compliance with those covenants. In addition, the credit agreement allows for the acceleration of payments or termination of the agreement due to nonpayment, or in some cases, due to the acceleration of our other significant indebtedness or other significant indebtedness of some of our subsidiaries. The credit agreement does not contain provisions that trigger an acceleration of indebtedness based solely on the occurrence of an adverse change in our financial condition or results of operations.

As noted above, the terms of the credit agreement requires us to maintain a consolidated leverage ratio of adjusted consolidated indebtedness to adjusted consolidated earnings before interest, taxes, depreciation and amortization (EBITDA), as defined in the agreement, of 5.0 or less, provided that for three fiscal quarters subsequent to certain acquisitions (such as the November 1, 2013 U.S. assets dropdown from Spectra Energy Corp), the ratio may be 5.5 or less. As of September 30, 2013, the consolidated leverage ratio was 4.3 after giving effect to the impact of the dropdown.

Adjusted EBITDA is a non-GAAP measure. Our definition of Adjusted EBITDA may not be comparable to similarly titled measures of other companies because our definition excludes some, but not all, items that affect net income and is defined in varying ways by companies in our industry. Adjusted EBITDA should not be considered an alternative to net income, operating income, cash from operations or any other measure of financial performance or liquidity presented in accordance with GAAP.

Debt Issuance

On September 25, 2013, we issued \$1,900.0 million aggregate principal amount of senior unsecured notes, comprised of \$500.0 million of 2.95% senior notes due in 2018, \$1,000.0 million of 4.75% senior notes due in 2024 and \$400.0 million of 5.95% senior notes due in 2043. Net proceeds from the offering were used to pay a portion of the cash consideration for the U.S. assets acquisition from Spectra Energy which closed on November 1, 2013.

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10. Fair Value Measurements

The following tables present, for each of the fair value hierarchy levels, assets that are measured at fair value on a recurring basis:

Description	Condensed Consolidated Balance Sheet Caption	September 30, 2013			
		Total	Level 1	Level 2	Level 3
		(in millions)			
Commercial paper	Cash and cash equivalents	\$15.4	\$—	\$15.4	\$—
Commercial paper	Investments and other assets - other investments-restricted funds	119.5	—	119.5	—
Money market funds	Investments and other assets - other investments-restricted funds	1,883.3	1,883.3	—	—
Total Assets		\$2,018.2	\$1,883.3	\$134.9	\$—

Description	Condensed Consolidated Balance Sheet Caption	December 31, 2012			
		Total	Level 1	Level 2	Level 3
		(in millions)			
Money market funds	Cash and cash equivalents	\$15.7	\$—	\$15.7	\$—
Commercial paper	Investments and other assets - other investments-restricted funds	140.7	—	140.7	—
Total Assets		\$156.4	\$—	\$156.4	\$—

Level 1

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

Level 2 Valuation Techniques

Fair values of our financial instruments that are actively traded in the secondary market, including our long-term debt, are determined based on market-based prices. These valuations may include inputs such as quoted market prices of the exact or similar instruments, broker or dealer quotations, or alternative pricing sources that may include models or matrix pricing tools, with reasonable levels of price transparency.

Level 3 Valuation Techniques

Level 3 valuation techniques include the use of pricing models, discounted cash flow methodologies or similar techniques where at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation. Financial Instruments. The fair values of financial instruments that are recorded and carried at book value are summarized in the following table. Judgment is required in interpreting market data to develop the estimates of fair value. These estimates are not necessarily indicative of the amounts we could have realized in current markets.

	September 30, 2013		December 31, 2012	
	Book Value (in millions)	Approximate Fair Value	Book Value	Approximate Fair Value
Long-term debt, including current maturities (a)	\$2,827.9	\$2,916.9	\$700.0	\$727.2

(a) Excludes unamortized items.

The fair value of our long-term debt is determined based on market-based prices as described in the Level 2 valuation technique above.

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The fair value of cash and cash equivalents, accounts receivable, accounts payable, commercial paper, short-term money market securities and note payable—affiliates are not materially different from their carrying amounts because of the short-term nature of these instruments or because the stated rates approximate market rates.

During 2013 and 2012, there were no material adjustments to assets and liabilities measured at fair value on a nonrecurring basis.

11. Commitments and Contingencies

Environmental. We are subject to various federal, state and local laws and regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. These laws and regulations can change from time to time, imposing new obligations on us. We believe there are no matters outstanding that upon resolution will have an adverse effect on our consolidated results of operations, financial position or cash flows.

Litigation. We are involved in legal, tax and regulatory proceedings in various forums arising in the ordinary course of business, including matters regarding contracts and payment claims, some of which may involve substantial monetary amounts. We have insurance coverage for certain of these losses should they be incurred. We believe that the final disposition of these proceedings will not have a material effect on our consolidated results of operations, financial position or cash flows.

Legal costs related to the defense of loss contingencies are expensed as incurred. We had no material reserves recorded as of September 30, 2013 or December 31, 2012 related to litigation.

12. Risk Management and Hedging Activities

We are exposed to the impact of changes in interest rates as a result of our issuance of variable and fixed-rate debt and commercial paper. We are exposed to minimal foreign currency risk from Express Canada operations. We employ established policies and procedures to manage our risks associated with these market fluctuations. As of September 30, 2013 and December 31, 2012, we did not have any derivatives outstanding.

13. Issuances of Common Units

In April 2013, we issued 5.2 million common units to the public representing limited partner interests and 0.1 million general partner units. The net proceeds from this offering were \$193.3 million, after deducting underwriting discount and offering expenses. The net proceeds from this issuance may only be used to fund capital expenditures and acquisitions. Pending such use, the net proceeds of this offering will be held as cash or invested in short-term securities, or a combination of both.

On August 2, 2013, we issued 7.1 million common units and 0.1 million general partner units to Spectra Energy in connection with the acquisition of Express-Platte, valued at \$318.8 million. See Note 2 for further discussion of the acquisition of Express-Platte.

14. New Accounting Pronouncements

There were no significant accounting pronouncements adopted during the nine months ended September 30, 2013 that had a material impact on our consolidated results of operations, financial position or cash flows.

15. Subsequent Events

On November 1, 2013, we completed the closing of substantially all of the Dropdown Transactions. See Note 2 for additional information.

On November 1, 2013, Spectra Energy Partners, LP entered into and borrowed \$400.0 million under a senior unsecured five-year term loan agreement. A portion of the proceeds from the borrowing were used to pay Spectra Energy for the Dropdown Transactions.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

EXECUTIVE OVERVIEW

As discussed in Note 1 of Notes to Condensed Consolidated Financial Statements, our results include the results of Express Canada and Express US since March 14, 2013, the date of Spectra Energy's acquisition of both entities, as the subsequent acquisition by us represented a transfer of entities under common control. As also discussed in Note 1, it was determined that Express US is a VIE, and as such, we present Express US on a 100%-consolidated basis, with the associated 60% interest that we did not own as of September 30, 2013 presented as noncontrolling interests.

For the three months ended September 30, 2013, we reported net income from controlling interests of \$59.6 million compared to \$46.1 million for the comparable period in 2012. For the three months ended September 30, 2013, cash available for distribution (CAD) was \$66.3 million, an increase of \$10.0 million from the prior year quarter. The increase in both net income from controlling interests and CAD was primarily the result of the acquisition of the 38.76% interest in the M&N US pipeline in October 2012 and the acquisition of a 40% ownership interest in Express US and a 100% ownership interest in Express Canada from subsidiaries of Spectra Energy (collectively, the Express-Platte acquisition).

On August 2, 2013, we acquired a 40% ownership interest in Express US and a 100% ownership interest in Express Canada from subsidiaries of Spectra Energy for \$410.4 million in cash and 7.2 million of newly issued common and general partner units (valued at \$318.8 million). See Note 2 of Notes to the Condensed Consolidated Financial Statements for further discussion.

On August 5, 2013, we entered into a definitive agreement with Spectra Energy to acquire ownership interests in the remaining Spectra Energy U.S. transmission, storage and liquids assets, including the remaining 60% interest in Express US (the Dropdown Transactions). On November 1, 2013, we completed the closing of substantially all of the Dropdown Transactions. See Note 2 of Notes to the Condensed Consolidated Financial Statements for further discussion.

On September 25, 2013, Spectra Energy Partners, LP issued \$1,900.0 million aggregate principal amount of senior unsecured notes, comprised of \$500.0 million of 2.95% senior notes due in 2018, \$1,000.0 million of 4.75% senior notes due in 2024 and \$400.0 million of 5.95% senior notes due in 2043. Net proceeds from the offering were used to pay a portion of the cash consideration for the Dropdown Transactions from Spectra Energy which closed on November 1, 2013.

On November 1, 2013, Spectra Energy Partners, LP entered into and borrowed \$400.0 million under a senior unsecured five-year term loan agreement. A portion of the proceeds from the borrowing were used to pay Spectra Energy for the Dropdown Transactions.

A cash distribution of \$0.51625 per limited partner unit was declared on October 17, 2013 and is payable on November 14, 2013, representing a 1.5% increase over the previous distribution of \$0.50875 per limited partner unit paid in August 2013. With the close of the Dropdown Transactions on November 1, 2013, it is our intention to increase our quarterly distribution paid by three cents per unit in the first quarter 2014, and by one cent per unit each quarter thereafter. Our Board of Directors evaluates each distribution decision within the confines of the Partnership agreement and based on an assessment of growth in CAD.

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RESULTS OF OPERATIONS

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	2012	Increase (Decrease)	2013	2012	Increase (Decrease)
	(in millions)					
Operating revenues	\$133.1	\$57.2	\$75.9	\$336.8	\$177.8	\$159.0
Operating expenses	58.1	20.2	37.9	136.6	58.0	78.6
Depreciation and amortization	15.9	9.3	6.6	42.7	27.9	14.8
Operating income	59.1	27.7	31.4	157.5	91.9	65.6
Equity in earnings of unconsolidated affiliates	30.5	26.4	4.1	91.5	77.6	13.9
Other income and expenses, net	1.0	—	1.0	0.4	0.1	0.3
Interest income	0.1	—	0.1	0.5	—	0.5
Interest expense	13.4	7.7	5.7	35.2	23.1	12.1
Earnings before income taxes	77.3	46.4	30.9	214.7	146.5	68.2
Income tax expense	1.7	0.3	1.4	2.7	1.1	1.6
Net income	75.6	46.1	29.5	212.0	145.4	66.6
Net income-noncontrolling interests	16.0	—	16.0	34.4	—	34.4
Net income-controlling interests	\$59.6	\$46.1	\$13.5	\$177.6	\$145.4	\$32.2
Adjusted EBITDA (a)	46.1	37.0	9.1	124.3	119.8	4.5
Cash Available for Distribution (a)	66.3	56.3	10.0	194.8	175.6	19.2

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

Three Months Ended September 30, 2013 compared to same period in 2012

Operating Revenues. Operating revenues increased \$75.9 million primarily due to the Express-Platte acquisition on August 2, 2013. Express-Platte revenues for the quarter were \$76.3 million.

Operating Expenses. The \$37.9 million increase was mainly driven by Express-Platte operating expenses of \$33.2 million and \$5.8 million of transaction costs related to the U.S. assets acquisition from Spectra Energy, which closed on November 1, 2013.

Equity in Earnings of Unconsolidated Affiliates. The \$4.1 million increase was driven by the acquisition of a 38.76% interest in M&N US on October 31, 2012 and higher equity earnings at Gulfstream resulting from a favorable ad valorem tax adjustment in the current quarter, partially offset by lower equity earnings from Market Hub due to expected lower rates on contract renewals.

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	Three Months Ended September 30,		Increase (Decrease)	
	2013	2012		
	(in millions)			
Gulfstream				
Net income	\$35.7	\$34.3	\$1.4	
Ownership interest	49	% 49	% —	
Equity in earnings of unconsolidated affiliates	\$17.5	\$16.8	\$0.7	
Market Hub				
Net income	\$13.1	\$19.1	\$(6.0))
Ownership interest	50	% 50	% —	
Equity in earnings of unconsolidated affiliates	\$6.5	\$9.6	\$(3.1))
M&N US				
Net income	\$16.6	\$—	\$16.6	
Ownership interest	38.76	% —	38.76	%
Equity in earnings of unconsolidated affiliates	\$6.5	\$—	\$6.5	
Total Equity in Earnings of Unconsolidated Affiliates	\$30.5	\$26.4	\$4.1	

Other Expenses. The increases in depreciation and amortization expense, interest expense, income tax expense (foreign income tax), and net income-noncontrolling interests were mostly driven by the Express-Platte acquisition. In addition, interest expense also increased due to the issuance of \$1,900.0 million senior notes in September 2013.

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Nine Months Ended September 30, 2013 compared to same period in 2012

Operating Revenues. Operating revenues increased \$159.0 million primarily due to the Express-Platte acquisition on August 2, 2013. Express-Platte revenues for the nine months ended September 30, 2013 were \$162.2 million. The increase was partially offset by lower revenues at Ozark due to low natural gas prices and the decision by some producers to delay production in the Fayetteville Shale for the near-term.

Operating Expenses. The \$78.6 million increase was mainly driven by Express-Platte operating expenses of \$72.1 million, \$5.8 million of transaction costs related to the U.S. assets acquisition from Spectra Energy, which closed on November 1, 2013, higher benefit costs and higher pipeline integrity costs, partially offset by accelerated software amortization costs in 2012.

Equity in Earnings of Unconsolidated Affiliates. The \$13.9 million increase was mainly driven by the acquisition of a 38.76% interest in M&N US on October 31, 2012 and higher equity earnings at Gulfstream resulting from a reversal of previously expensed project development costs, higher pipeline integrity costs in 2012, and a favorable ad valorem tax adjustment in the current quarter. These increases were partially offset by lower equity earnings from Market Hub due to expected lower rates on contract renewals.

	Nine Months Ended September 30,		Increase (Decrease)
	2013	2012	
	(in millions)		
Gulfstream			
Net income	\$101.5	\$95.1	\$6.4
Ownership interest	49	% 49	% —
Equity in earnings of unconsolidated affiliates	\$49.7	\$46.6	\$3.1
Market Hub			
Net income	\$43.2	\$62.0	\$(18.8)
Ownership interest	50	% 50	% —
Equity in earnings of unconsolidated affiliates	\$21.6	\$31.0	\$(9.4)
M&N US			
Net income	\$52.0	\$—	\$52.0
Ownership interest	38.76	% —	38.76 %
Equity in earnings of unconsolidated affiliates	\$20.2	\$—	\$20.2
Total Equity in Earnings of Unconsolidated Affiliates	\$91.5	\$77.6	\$13.9

Other Expenses. The increases in depreciation and amortization expense, interest expense, income tax expense (foreign income tax), and net income-noncontrolling interests were mostly driven by the Express-Platte acquisition. In addition, interest expense also increased due to the issuance of \$1,900.0 million senior notes in September 2013.

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Segment Results

Management evaluates segment performance based on EBIT, which represents earnings from continuing operations (both operating and non-operating) before interest and taxes, net of noncontrolling interests related to those earnings. Cash, cash equivalents and investments are managed centrally, so the gains and losses on foreign currency remeasurement, and interest and dividend income on those balances, are excluded from the segments' EBIT. We consider segment EBIT to be a good indicator of each segment's operating performance from its continuing operations, as it represents the results of our ownership interest in operations without regard to financing methods or capital structures.

Our segment EBIT may not be comparable to similarly titled measures of other companies because other companies may not calculate EBIT in the same manner.

Gas Transportation and Storage

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	2012	Increase (Decrease)	2013	2012	Increase (Decrease)
	(in millions)					
Operating revenues	\$56.8	\$57.2	\$(0.4)	\$174.6	\$177.8	\$(3.2)
Operating expenses	18.0	18.3	(0.3)	52.6	52.1	0.5
Depreciation and amortization	9.3	9.3	—	28.2	27.9	0.3
Operating income	29.5	29.6	(0.1)	93.8	97.8	(4.0)
Other income and expenses	0.3	—	0.3	0.6	0.1	0.5
EBIT	\$29.8	\$29.6	\$0.2	\$94.4	\$97.9	\$(3.5)

Three Months Ended September 30, 2013 Compared to Same Period in 2012

Results for the Gas Transportation and Storage segment for the 2013 quarter were relatively flat compared to the 2012 quarter.

Nine Months Ended September 30, 2013 Compared to Same Period in 2012

Operating Revenues. Operating revenues decreased \$3.2 million primarily due to lower revenues at Ozark due to low natural gas prices and the decision by some producers to delay production in the Fayetteville Shale for the near-term. The decrease was partially offset by higher revenues at East Tennessee and Saltville primarily due to changes in rates. **Operating Expenses.** The \$0.5 million increase was mainly driven by higher benefit costs and higher pipeline integrity costs, partially offset by accelerated software amortization costs in 2012.

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Liquids

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	2012	Increase (Decrease)	2013	2013	Increase (Decrease)
	(in millions)					
Operating revenues	\$76.3	\$—	\$76.3	\$162.2	\$—	\$162.2
Operating expenses	33.2	—	33.2	72.1	—	72.1
Depreciation and amortization	6.6	—	6.6	14.5	—	14.5
Operating income	36.5	—	36.5	75.6	—	75.6
Other income and expenses	0.2	—	0.2	0.5	—	0.5
Noncontrolling interests	17.6	—	17.6	38.2	—	38.2
EBIT	\$19.1	\$—	\$19.1	\$37.9	\$—	\$37.9
Express pipeline receipts, MBbl/d (a)	205	—	205	204	—	204
Platte PADD II deliveries, MBbl/d	173	—	173	169	—	169
Canadian dollar exchange rate, average	1.04	—	n/a	1.02	—	n/a

(a) Thousand barrels per day.

Our Liquids segment is comprised of Express US and Express Canada. As previously discussed, Liquids results include the results of Express US and Express Canada since March 14, 2013, the date of Spectra Energy's acquisition of both entities.

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Adjusted EBITDA and Cash Available for Distribution

Adjusted EBITDA

We define our Adjusted EBITDA as Net Income plus Interest Expense, Income Taxes and Depreciation and Amortization less our Equity in Earnings of Gulfstream, Market Hub and M&N US, Interest Income, and Other Income and Expenses, net, which primarily consists of non-cash Allowance for Funds Used During Construction (AFUDC). Adjusted EBITDA is also less the effects of noncontrolling interests. Since Adjusted EBITDA excludes some, but not all, items that affect net income and is defined differently by companies in our industry, our definition of Adjusted EBITDA may not be comparable to similarly titled measures of other companies. Adjusted EBITDA is a non-GAAP measure and should not be considered an alternative to Net Income, Operating Income, cash from operations or any other measure of financial performance or liquidity in accordance with GAAP.

Adjusted EBITDA is used as a supplemental financial measure by our management and by external users of our financial statements to assess:

- the financial performance of assets without regard to financing methods, capital structure or historical cost basis;
- the ability to generate cash sufficient to pay interest on indebtedness and to make distributions to partners; and
- operating performance and return on invested capital as compared to those of other publicly traded limited partnerships that own energy infrastructure assets, without regard to financing methods and capital structure.

Significant drivers of variances in Adjusted EBITDA between the periods presented are substantially the same as those previously discussed under Results of Operations.

Cash Available for Distribution

We define Cash Available for Distribution as our Adjusted EBITDA plus Cash Available for Distribution from Gulfstream, Market Hub, and M&N US and net preliminary project costs, less interest expense, cash paid for income tax expense, maintenance capital expenditures, excluding the impact of reimbursable projects, and other non-cash items affecting net income. Cash Available for Distribution is also less the effects of noncontrolling interests. Cash Available for Distribution does not reflect changes in working capital balances. Cash Available for Distribution for Gulfstream and Market Hub is defined on a basis consistent with us. Cash Available for Distribution for M&N US includes an adjustment for amortizing bond payments. These bond payments are paid out in the second and fourth quarters of each year using operating cash flows. Spectra Energy Partners, Gulfstream and Market Hub do not make similar bond payments. Cash Available for Distribution should not be viewed as indicative of the actual amount of cash we plan to distribute for a given period.

Cash Available for Distribution is a non-GAAP measure and 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.

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Spectra Energy Partners

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
	(in millions)			
Net income	\$75.6	\$46.1	\$212.0	\$145.4
Add:				
Interest expense	13.4	7.7	35.2	23.1
Income tax expense	1.7	0.3	2.7	1.1
Depreciation and amortization	15.9	9.3	42.7	27.9
Less:				