

Spectra Energy Partners, LP
Form 10-Q
August 07, 2014
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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 June 30, 2014

or

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

For the transition period from _____ to _____

Commission file number 1-33556

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

Delaware

(State or other jurisdiction of incorporation)

5400 Westheimer Court

Houston, Texas 77056

(Address of principal executive offices, including zip code)

713-627-5400

(Registrant's telephone number, including area code)

41-2232463

(IRS Employer Identification No.)

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

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

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

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

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

At June 30, 2014, there were 287,927,070 Common Units and 5,876,063 General Partner Units outstanding.

SPECTRA ENERGY PARTNERS, LP
 FORM 10-Q FOR THE QUARTER ENDED
 June 30, 2014
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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, provincial, federal and foreign legislative and regulatory initiatives that affect cost and investment recovery, have an effect on rate structure, and affect the speed at and degree to which competition enters the natural gas and oil industries;
- outcomes of litigation and regulatory investigations, proceedings or inquiries;
- weather and other natural phenomena, including the economic, operational and other effects of hurricanes and storms;
- the timing and extent of changes in interest rates and foreign currency exchange rates;
- general economic conditions, including the risk of a prolonged economic slowdown or decline, or the risk of delay in a recovery, which can affect the long-term demand for natural gas and oil and related services;
 - potential effects arising from terrorist attacks and any consequential or other hostilities;
- changes in environmental, safety and other laws and regulations;
- the development of alternative energy resources;
- results and costs of financing efforts, including the ability to obtain financing on favorable terms, which can be affected by various factors, including credit ratings and general market and economic conditions;
- increases in the cost of goods and services required to complete capital projects;
- growth in opportunities, including the timing and success of efforts to develop U.S. and Canadian pipeline, storage, gathering and other related infrastructure projects and the effects of competition;
- the performance of natural gas transmission, storage and gathering facilities, and crude oil transportation and storage;
 - the extent of success in connecting natural gas and oil supplies to transmission and gathering systems and in connecting to expanding gas and oil markets;
- the effects of accounting pronouncements issued periodically by accounting standard-setting bodies;
- conditions of the capital markets during the periods covered by forward-looking statements; and
- the ability to successfully complete merger, acquisition or divestiture plans; regulatory or other limitations imposed as a result of a merger, acquisition or divestiture; and the success of the business following a merger, acquisition or divestiture.

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

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

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

See Notes to Condensed Consolidated Financial Statements.

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

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

See Notes to Condensed Consolidated Financial Statements.

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

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

See Notes to Condensed Consolidated Financial Statements.

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

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

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended	
	June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$466	\$366
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	148	130
Deferred income tax expense	25	1
Equity in earnings of unconsolidated affiliates	(57)	(42)
Distributions received from unconsolidated affiliates	56	46
Other	(35)	(15)
Net cash provided by operating activities	603	486
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(414)	(514)
Investment in and loans to unconsolidated affiliates	(30)	(161)
Purchases of held-to-maturity securities	(22)	(30)
Proceeds from sales and maturities of held-to-maturity securities	21	19
Purchases of available-for-sale securities	—	(2,897)
Proceeds from sales and maturities of available-for-sale securities	—	2,718
Distributions received from unconsolidated affiliates	142	13
Other	15	1
Net cash used in investing activities	(288)	(851)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for the redemption of long-term debt	(427)	(23)
Net increase (decrease) in commercial paper	211	(12)
Distributions to noncontrolling interests	(11)	(9)
Contributions from noncontrolling interests	112	—
Proceeds from issuance of units	195	193
Proceeds from notes payable—affiliates	—	220
Payments on notes payable—affiliates	—	(37)
Distributions to partners	(393)	(124)
Contribution from parent	—	209
Net cash provided by (used in) financing activities	(313)	417
Net increase in cash and cash equivalents	2	52
Cash and cash equivalents at beginning of period	121	48
Cash and cash equivalents at end of period	\$123	\$100
Supplemental Disclosures		
Property, plant and equipment noncash accruals	\$84	\$85

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 Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
	Common	General Partner			
December 31, 2013	\$9,778	\$241	\$ (5)	\$ 127	\$10,141
Net income	370	87	—	9	466
Other comprehensive income	—	—	1	—	1
Adjustment to purchase price under net acquired assets from dropdowns	28	—	—	—	28
Attributed deferred tax benefit	—	3	—	—	3
Issuances of units	191	4	—	—	195
Distributions to partners	(314)	(79)	—	—	(393)
Contributions from noncontrolling interests	—	—	—	112	112
Distributions to noncontrolling interests	—	—	—	(11)	(11)
Other, net	(3)	—	—	—	(3)
June 30, 2014	\$10,050	\$256	\$ (4)	\$ 237	\$10,539
December 31, 2012	\$5,483	\$141	\$ 3	\$ 107	\$5,734
Net income	334	24	—	8	366
Other comprehensive income (loss)	—	—	(2)	—	(2)
Net transfer from parent	1,340	27	—	—	1,367
Attributed deferred tax benefit	—	16	—	—	16
Issuances of units	189	4	—	—	193
Distributions to partners	(106)	(18)	—	—	(124)
Distributions to noncontrolling interests	—	—	—	(9)	(9)
June 30, 2013	\$7,240	\$194	\$ 1	\$ 106	\$7,541

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 transmission, storage and gathering of natural gas, the transportation and storage of crude oil, and the transportation of natural gas liquids (NGLs) through interstate pipeline systems. We are a Delaware master limited partnership (MLP). As of June 30, 2014, Spectra Energy Corp (Spectra Energy) and its subsidiaries collectively own 83% of us and the remaining 17% is publicly owned.

Basis of Presentation. The accompanying Condensed Consolidated Financial Statements include our accounts and the accounts of our majority-owned 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, 2013, 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.

In the third quarter of 2013, we acquired a 40% ownership interest in the U.S. portion of the Express-Platte crude oil pipeline system (Express US) and a 100% ownership interest in the Canadian portion of the pipeline system (Express Canada)(collectively, Express-Platte) from subsidiaries of Spectra Energy (the Express-Platte acquisition). In the fourth quarter 2013, we acquired substantially all of Spectra Energy’s remaining U.S. transmission, storage and liquids assets, including Spectra Energy’s remaining 60% interest in Express US (the U.S. Assets Dropdown).

As the Express-Platte acquisition and the U.S. Assets Dropdown represented transfers of entities under common control, the Condensed Consolidated Financial Statements for the periods prior to these transactions 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, and the U.S. Assets Dropdown for all periods presented. See Note 2 for further discussion of the transactions.

Spectra Energy and its affiliates are solely responsible for providing the employees and other personnel necessary to conduct our operations. Our costs of doing business have been reflected in our financial accounting records for the periods presented. These costs include direct charges and allocations from Spectra Energy and its affiliates for business services, such as payroll, accounts payable and facilities management; corporate services, such as finance and accounting, legal, human resources, investor relations, public and regulatory policy, and senior executives; and pension and other post-retirement benefit costs.

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

U.S. Assets Dropdown. On November 1, 2013, we completed the closing of the U.S. Assets Dropdown. Consideration to Spectra Energy included \$2.3 billion in cash, assumption (indirectly by acquisition of the contributed entities) of approximately \$2.4 billion of third-party indebtedness of the contributed entities, 167.6 million newly issued limited partner units and 3.4 million newly issued general partner units.

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 million in cash and 7.2 million of newly issued common and general partner units. 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, Wyoming, transports crude oil predominantly from the Bakken shale and western Canada to refineries in the Midwest.

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The following table summarizes the fair values of the assets and liabilities as of the acquisition date of Express-Platte from third-parties by Spectra Energy.

	Purchase Price Allocation (in millions)
Cash	\$67
Receivables	25
Other current assets	9
Goodwill	523
Property, plant and equipment	1,251
Accounts payable	(18)
Other current liabilities	(17)
Deferred credits and other liabilities	(259)
Long-term debt, including current portion	(260)
Total assets acquired/liabilities assumed	\$1,321

The allocation of the fair values of assets and liabilities acquired related to the acquisition of Express-Platte was finalized in the first quarter of 2014, resulting in the following adjustments to amounts reported as of December 31, 2013: a \$60 million decrease in Property, Plant and Equipment, a \$24 million decrease in Deferred Credits and Other Liabilities, and a \$1 million decrease in Other Current Assets, resulting in a \$37 million increase in Goodwill.

In the first quarter of 2014, we recorded \$23 million of income tax expense due to the adjustment to deferred income tax liabilities (eliminated and recorded as an income tax benefit in 2013 in connection with the U.S. Assets Dropdown and resulting changes in tax status of certain entities) as a result of the final purchase price allocation adjustments.

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, 2013, adjusted for items that are directly attributable to the acquisition. This information has been compiled from 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 2013 or that may be achieved in the future.

	Six Months Ended June 30, 2013 (in millions, except per-unit amount)
Operating revenues	\$1,009
Earnings before income taxes	381
Net income	379
Net income—controlling interests	371
Net income per limited partner unit—basic and diluted	3.05

3. Business Segments

As a result of the Express-Platte acquisition and the U.S. Assets Dropdown, which represented transfers of entities under common control, we realigned our reportable segments structure. Amounts presented herein for 2013 segment information have been recast to conform to our current segment reporting presentation.

We manage our business in two reportable segments: U.S. Transmission and Liquids. The remainder of our business operations is presented as “Other,” and consists of direct corporate costs as well as those costs charged by Spectra Energy.

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 U.S. Transmission segment provides interstate transmission and storage of natural gas. Substantially all of our operations are subject to the Federal Energy Regulatory Commission (FERC) and the Department of Transportation’s (DOT’s) rules and regulations. Our investments in Gulfstream Natural Gas System, LLC (Gulfstream), Southeast

Supply Header, LLC (SESH) and Steckman Ridge, LP (Steckman Ridge) are included in U.S. Transmission.

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Liquids provides transportation of crude oil and NGLs. The Express-Platte pipeline system is a crude oil pipeline system that connects Canadian and U.S. producers to refineries in the U.S. Rocky Mountain and Midwest regions. These operations are primarily subject to the rules and regulations of the FERC and the National Energy Board (NEB). DCP Sand Hills Pipeline, LLC (Sand Hills) and DCP Southern Hills Pipeline, LLC (Southern Hills), provide transportation of NGLs from the Permian Basin and Eagle Ford region to the premium NGL markets on the Gulf Coast, and from the Mid-Continent to Mont Belvieu, Texas, respectively. We have direct one-third ownership interests in Sand Hills and Southern Hills. Sand Hills and Southern Hills are subject to the rules and regulations of the FERC.

Our reportable segments offer different products and services and are managed separately as business units. Management evaluates segment performance based on earnings from continuing operations before interest, taxes, and depreciation and amortization (EBITDA). Cash, cash equivalents and investments are managed centrally, so the gains and losses on foreign currency transactions, and interest and dividend income are excluded from the segments' EBITDA. Our segment EBITDA may not be comparable to similarly titled measures of other companies because other companies may not calculate EBITDA in the same manner.

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Business Segment Data

Condensed Consolidated Statements of Operations	Total Operating Revenues	Depreciation and Amortization	Segment EBITDA/Consolidated Earnings Before Income Taxes
	(in millions)		
Three Months Ended June 30, 2014			
U.S. Transmission	\$454	\$63	\$ 320
Liquids	77	7	51
Total reportable segments	531	70	371
Other	—	—	(18)
Depreciation and amortization	—	—	70
Interest expense	—	—	62
Interest income and other	—	—	1
Total consolidated	\$531	\$70	\$ 222
Three Months Ended June 30, 2013			
U.S. Transmission	\$419	\$58	\$ 311
Liquids	73	7	40
Total reportable segments	492	65	351
Other	—	—	(3)
Depreciation and amortization	—	—	65
Interest expense	—	—	100
Interest income and other	—	—	(1)
Total consolidated	\$492	\$65	\$ 182
Six Months Ended June 30, 2014			
U.S. Transmission	\$954	\$128	\$ 694
Liquids	158	15	109
Total reportable segments	1,112	143	803
Other	—	—	(37)
Depreciation and amortization	—	—	143
Interest expense	—	—	129
Interest income and other	—	—	—
Total consolidated	\$1,112	\$143	\$ 494
Six Months Ended June 30, 2013			
U.S. Transmission	\$865	\$118	\$ 647
Liquids	86	8	47
Total reportable segments	951	126	694
Other	—	—	(5)
Depreciation and amortization	—	—	126
Interest expense	—	—	194
Interest income and other	—	—	(1)
Total consolidated	\$951	\$126	\$ 368

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4. Net Income Per Limited Partner Unit and Cash Distributions

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions, except per unit amounts)			
Net income—controlling interests	\$215	\$177	\$457	\$358
Less:				
General partner's interest in net income—2%	4	4	9	7
General partner's interest in net income attributable to incentive distribution rights	41	9	78	17
Limited partners' interest in net income	\$170	\$164	\$370	\$334
Weighted average limited partner units outstanding—basic and diluted (a)	286	108	285	106
Net income per limited partner unit—basic and diluted	\$0.59	\$1.52	\$1.30	\$3.15

As discussed in Note 1, the Condensed Consolidated Financial Statements for periods prior to the November 1, 2013 U.S. Assets Dropdown, including Net Income—Controlling Interests as presented on our Condensed (a) Consolidated Statements of Operations, have been recast. Weighted average limited partners units outstanding used in the calculation of net income per limited partner unit for periods prior to the U.S. Assets Dropdown has not been recast.

Our 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 and cash equivalents 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 minimum quarterly 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 and cash equivalents on hand on the date of determination of Available Cash for the quarter.

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 the general partner, there will be more Available Cash proportionately allocated to our general partner than to holders of common units. A cash distribution of \$0.56625 per limited partner unit was declared on August 6, 2014 and is payable on August 29, 2014 to unitholders of record at the close of business on August 18, 2014.

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5. 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, 2014 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 assessment or a quantitative assessment of each of our reporting units based on management's judgment. With respect to our qualitative assessments, 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 values of our reporting units are less than their respective carrying amounts.

The following presents changes in goodwill in 2014:

	Goodwill (in millions)
December 31, 2013	\$3,215
Acquisition of Express-Platte	37
Foreign currency translation	(1)
June 30, 2014	\$3,251

See Note 2 for discussion of the Express-Platte acquisition and an adjustment to Goodwill recorded in the first quarter of 2014 related to the acquisition.

6. Marketable Securities and Restricted Funds

We routinely invest excess cash and various restricted balances in securities such as commercial paper, bankers acceptances, corporate debt securities, treasury bill and money market funds in the United States. We do not purchase marketable securities for speculative purposes, therefore we do not have any securities classified as trading securities. Initial investments in securities are classified as purchases of the respective types of securities (available-for-sale (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. HTM Securities. All of our HTM securities are restricted funds. We had \$4 million and \$3 million of money market securities classified as Current Assets - Other on the Condensed Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013, respectively. These securities are restricted pursuant to certain Express-Platte debt agreements. At June 30, 2014, 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 June 30, 2014 or December 31, 2013.

7. Debt and Credit Facility

Available Credit Facility and Restricted Debt Covenants

	Expiration Date	Total Credit Facility Capacity	Commercial Paper Outstanding at June 30, 2014 (in millions)	Available Credit Facility Capacity
Spectra Energy Partners, LP	2018	\$2,000	\$ 549	\$ 1,451

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The issuances of commercial paper, letters of credit and revolving borrowings reduce the amount available under the credit facility. As of June 30, 2014, there were no letters of credit issued or revolving borrowings outstanding under the credit facility.

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 June 30, 2014, 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 consolidated indebtedness to consolidated EBITDA, as defined in the agreement, of less than or equal to 5.0 to 1.0, provided that for three fiscal quarters subsequent to certain acquisitions (such as the November 1, 2013 U.S. Assets Dropdown from Spectra Energy), the ratio shall be less than or equal to 5.5 to 1.0. As of June 30, 2014, the consolidated leverage ratio was 3.9.

8. Fair Value Measurements

The following presents, for each of the fair value hierarchy levels, assets that are measured at fair value on a recurring basis as of June 30, 2014. There were no assets or liabilities measured at fair value on a recurring basis at December 31, 2013.

Description	Condensed Consolidated Balance Sheet Caption	June 30, 2014			
		Total (in millions)	Level 1	Level 2	Level 3
Corporate debt securities	Cash and cash equivalents	\$20	\$—	\$20	\$—
Interest rate swaps	Investments and other assets — other	1	—	1	—
Total Assets		\$21	\$—	\$21	\$—

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.

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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.

	June 30, 2014		December 31, 2013	
	Book Value (in millions)	Approximate Fair Value	Book Value	Approximate Fair Value
Note receivable, noncurrent (a)	\$71	\$71	\$71	\$71
Long-term debt, including current maturities (b)	5,199	5,638	5,625	5,813

(a)Included within Investments in and Loans to Unconsolidated Affiliates.

(b)Excludes unamortized items and fair value hedge carrying value adjustments.

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

The fair values of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, note receivable-noncurrent, accounts payable, commercial paper and short-term money market securities - 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 the 2014 and 2013 periods, there were no material adjustments to assets and liabilities measured at fair value on a nonrecurring basis.

9. 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, which may include the use of derivatives, mostly around interest rate exposures.

During the second quarter of 2014, we entered into “pay floating — receive fixed” interest rate swaps with a total notional principal amount of \$300 million to hedge against changes in the fair value of our fixed-rate debt that arise as a result of changes in market interest rates. The interest rate swaps we currently have expire in 2020 and thereafter. These swaps also allow us to transform a portion of the underlying interest payments related to our long-term fixed-rate debt securities into variable-rate interest payments in order to achieve our desired mix of fixed and variable-rate debt.

The interest rate derivative instruments are designated and qualify as fair value hedges. The gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk is recognized in the Consolidated Statements of Operations. There were no material amounts of gains or losses, either effective or ineffective, recognized in net income or other comprehensive income during the six months ended June 30, 2014.

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10. 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.

Like others in the energy industry, we and our affiliates are responsible for environmental remediation at various contaminated sites. These include some properties that are part of our ongoing operations, sites formerly owned or used by us, and sites owned by third parties. Remediation typically involves management of contaminated soils and may involve groundwater remediation. Managed in conjunction with relevant federal, state/provincial and local agencies, activities vary with site conditions and locations, remedial requirements, complexity and sharing of responsibility. If remediation activities involve statutory joint and several liability provisions, strict liability, or cost recovery or contribution actions, we or our affiliates could potentially be held responsible for contamination caused by other parties. In some instances, we may share liability associated with contamination with other potentially responsible parties, and may also benefit from insurance policies or contractual indemnities that cover some or all cleanup costs. All of these sites generally are managed in the normal course of business or affiliated operations. 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 June 30, 2014 or December 31, 2013 related to litigation.

11. Issuances of Common Units

During the first half of 2014, we issued 3.9 million common units to the public, representing limited partner interests, and 80,000 general partner units to Spectra Energy in connection with our continuous offering program. Total net proceeds from sales under the program were \$195 million, including \$4 million of proceeds from our general partner's proportionate unit purchase. The net proceeds were used for general partnership purposes, which may have included debt repayments, future acquisitions, capital expenditures and/or additions to working capital.

12. New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers," which supersedes the revenue recognition requirements of "Revenue Recognition (Topic 605)," and clarifies the principles of recognizing revenue. This ASU is effective for us January 1, 2017 and is to be applied retrospectively. We are currently evaluating this ASU and its potential impact on us.

In April 2014, the FASB issued ASU No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." This ASU revises the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have or will have a major effect on an entity's operations and financial results, removing the lack of continuing involvement criteria and requiring discontinued operations reporting for the disposal of an equity method investment that meets the definition of discontinued operations. The update also requires expanded disclosures for discontinued operations, and disclosure of pretax profit or loss of certain individually significant components of an entity that do not qualify for discontinued operations reporting. This ASU is effective for us on January 1, 2015 and is to be applied prospectively. We do not expect the adoption of the provisions of this ASU to have any impact on our consolidated results of operations, financial position or cash flows.

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

INTRODUCTION

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the accompanying Condensed Consolidated Financial Statements.

As the Express-Platte acquisition and the U.S. Assets Dropdown represented transfers of entities under common control, the Condensed Consolidated Financial Statements for the periods prior to these transactions and related information presented herein have been recast to present results as if the related assets had been owned historically. As a result of these transactions, we realigned our reportable segments structure. Amounts presented herein for segment information have been recast for all periods presented to conform to our current segment reporting presentation. See Note 2 of Notes to Condensed Consolidated Financial Statements for further discussion of the transactions.

EXECUTIVE OVERVIEW

For the three months ended June 30, 2014 and 2013, we reported net income from controlling interests of \$215 million and \$177 million, respectively. Earnings benefited mainly from expansion projects at Texas Eastern Transmission, LP (Texas Eastern), higher transportation revenues at Express-Platte as a result of increased tariff rates and higher volumes, and higher earnings from Sand Hills and Southern Hills which were placed into service in June 2013.

For the six months ended June 30, 2014 and 2013, we reported net income from controlling interests of \$457 million and \$358 million, respectively. The increased earnings were driven by expansion projects at Texas Eastern, the acquisition of Express-Platte in March 2013, higher natural gas transportation revenues as a result of colder weather and higher earnings from Sand Hills and Southern Hills.

For the three months ended June 30, 2014 and 2013, distributable cash flow was \$239 million and \$56 million, respectively. For the six months ended June 30, 2014 and 2013, distributable cash flow was \$563 million and \$129 million, respectively.

A cash distribution of \$0.56625 per limited partner unit was declared on August 6, 2014 and is payable on August 29, 2014. It is our intention to increase our quarterly distribution paid by one cent per unit each quarter through 2015. Our Board of Directors evaluates each distribution decision within the confines of the Partnership agreement and based on an assessment of growth in distributable cash flow.

In the first six months of 2014, we had \$444 million of capital and investment expenditures, excluding reimbursements from noncontrolling interests of \$20 million. We currently project \$1.2 billion of capital and investment expenditures for the full year. Projected 2014 expenditures include \$0.9 billion of expansion and investment expenditures.

We are committed to an investment-grade balance sheet and continued prudent financial management of our capital structure. Therefore, financing these growth activities will continue to be based on our strong and growing fee-based earnings and cash flows as well as the issuances of debt and/or equity securities. As of June 30, 2014, we have access to a \$2.0 billion revolving credit facility which is used principally as a back-stop for our commercial paper program.

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RESULTS OF OPERATIONS

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	(in millions)			
Operating revenues	\$531	\$492	\$1,112	\$951
Operating expenses	282	249	555	459
Operating income	249	243	557	492
Equity in earnings of unconsolidated affiliates	29	23	57	42
Other income and expenses, net	6	16	9	28
Interest expense	62	100	129	194
Earnings before income taxes	222	182	494	368
Income tax expense	2	1	28	2
Net income	220	181	466	366
Net income—noncontrolling interests	5	4	9	8
Net income—controlling interests	\$215	\$177	\$457	\$358

Three Months Ended June 30, 2014 Compared to Same Period in 2013

Operating Revenues. Operating revenues for the three months ended June 30, 2014 increased by \$39 million, or 8%, compared to the same period in 2013. The increases were driven mainly by:

- revenues from expansion projects, primarily on Texas Eastern,
- higher transportation revenues mainly at Texas Eastern and East Tennessee Natural Gas, LLC (East Tennessee), and higher Express-Platte transportation revenues as a result of increased tariff rates and higher contracted volumes, partially offset by
- lower processing revenues, and
- a decrease in storage revenues due to lower contract renewal rates.

Operating Expenses. Operating expenses for the three months ended June 30, 2014 increased by \$33 million, or 13%, compared to the same period in 2013. The increases were driven mainly by:

- expansion projects, primarily on Texas Eastern,
- higher governance costs associated with the U.S. Assets Dropdown, and
- higher depreciation due to expansion projects.

Equity in Earnings of Unconsolidated Affiliates. Equity in earnings of unconsolidated affiliates for the three months ended June 30, 2014 increased by \$6 million, or 26%, compared to the same period in 2013. The increases were attributable to higher earnings from Sand Hills and Southern Hills, which were placed in service in June 2013.

Other Income and Expenses, Net. Other income and expenses, net for the three months ended June 30, 2014 decreased by \$10 million, or 63%, compared to the same period in 2013. The decrease was mainly attributable to lower allowance for funds used during construction (AFUDC) resulting from decreased capital spending on expansion projects.

Interest Expense. Interest expense for the three months ended June 30, 2014 decreased by \$38 million, or 38%, compared to the same period in 2013. The decreases were driven mainly by:

- the restructuring of an intercompany loan contributed to us as part of the U.S. Assets Dropdown, partially offset by higher debt balances attributable to a third quarter 2013 \$1.9 billion debt issuance primarily related to the U.S. Assets Dropdown, and
- lower capitalized interest resulting from projects placed in service in 2013.

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Six Months Ended June 30, 2014 Compared to Same Period in 2013

Operating Revenues. Operating revenues for the six months ended June 30, 2014 increased by \$161 million, or 17%, compared to the same period in 2013. The increases were driven mainly by:

- revenues from expansion projects, primarily on Texas Eastern,
- revenues from Express-Platte acquired in March 2013,
- increased natural gas transportation revenues from higher demands, primarily as a result of colder weather, and higher Express-Platte transportation revenues as a result of increased tariff rates and higher contracted volumes, partially offset by
- a decrease in storage revenues due to lower contract renewal rates, and
- lower processing revenues.

Operating Expenses. Operating expenses for the six months ended June 30, 2014 increased by \$96 million, or 21%, compared to the same period in 2013. The increases were driven mainly by:

- operating costs from Express-Platte,
- expansion projects, primarily on Texas Eastern,
- higher governance costs associated with the U.S. Assets Dropdown, and
- higher depreciation due to the acquisition of Express-Platte and expansion projects.

Equity in Earnings of Unconsolidated Affiliates. Equity in earnings of unconsolidated affiliates for the six months ended June 30, 2014 increased by \$15 million, or 36%, compared to the same period in 2013. The increases were attributable to higher earnings from Sand Hills and Southern Hills.

Other Income and Expenses, Net. Other income and expenses, net for the six months ended June 30, 2014 decreased \$19 million, or 68%, compared to the same period in 2013. The decrease was mainly attributable to lower AFUDC resulting from decreased capital spending on expansion projects.

Interest Expense. Interest expense for the six months ended June 30, 2014 decreased by \$65 million, or 34%, compared to the same periods in 2013. The decreases were driven mainly by:

- the restructuring of an intercompany loan contributed to us as part of the U.S. Assets Dropdown, partially offset by higher debt balances attributable to a third quarter 2013 \$1.9 billion debt issuance primarily related to the U.S. Assets Dropdown, and
- lower capitalized interest resulting from projects placed in service in 2013.

Income Tax Expense. Income tax expense for the six months ended June 30, 2014 increased by \$26 million compared to the same period in 2013 primarily due to an adjustment to the deferred income tax liabilities as a result of the final purchase price adjustments related to the acquisition of Express-Platte.

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Segment Results

Management evaluates segment performance based on EBITDA. Cash, cash equivalents and investments are managed centrally, so the gains and losses on foreign currency transactions, and interest and dividend income, are excluded from the segments' EBITDA. We consider segment EBITDA 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 EBITDA may not be comparable to similarly titled measures of other companies because other companies may not calculate EBITDA in the same manner.

Segment EBITDA is summarized in the following table. Detailed discussions follow.

EBITDA by Business Segment

	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
	(in millions)			
U.S. Transmission	\$320	\$311	\$694	\$647
Liquids	51	40	109	47
Total reportable segment EBITDA	371	351	803	694
Other	(18)	(3)	(37)	(5)
Total reportable segment and other EBITDA	353	348	766	689
Depreciation and amortization	70	65	143	126
Interest expense	62	100	129	194
Interest income and other	1	(1)	—	(1)
Earnings before income taxes	\$222	\$182	\$494	\$368

The amounts discussed below are after eliminating intercompany transactions.

U.S. Transmission	Three Months Ended			Six Months Ended		
	June 30, 2014	2013	Increase (Decrease)	June 30, 2014	2013	Increase (Decrease)
	(in millions)					
Operating revenues	\$454	\$419	\$35	\$954	\$865	\$89
Operating expenses						
Operating, maintenance and other	160	147	13	311	289	22
Other income and expenses	26	39	(13)	51	71	(20)
EBITDA	\$320	\$311	\$9	\$694	\$647	\$47

Three Months Ended June 30, 2014 Compared to Same Period in 2013

Operating Revenues. The \$35 million increase was driven by:

- a \$43 million increase due to expansion projects, primarily on Texas Eastern, and an \$8 million increase due to higher natural gas transportation revenues mainly at Texas Eastern and East Tennessee, partially offset by
- an \$8 million decrease due to lower processing revenues, and
- a \$7 million decrease in storage revenues due to lower contract renewal rates.

Operating Expenses. The \$13 million increase was driven by:

- an \$11 million increase from expansion projects, primarily on Texas Eastern, and

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•a \$3 million increase from project development costs expensed in 2014.
Other Income and Expenses. The \$13 million decrease was primarily due to lower AFUDC resulting from decreased capital spending on expansion projects.

EBITDA. The \$9 million increase was driven by expansions, primarily on Texas Eastern, partially offset by lower processing revenues.

Six Months Ended June 30, 2014 Compared to Same Period in 2013

Operating Revenues. The \$89 million increase was driven by:

- an \$85 million increase due to expansion projects, primarily on Texas Eastern, and
- a \$26 million increase due to higher natural gas transportation revenues from higher demands, primarily as a result of colder weather, partially offset by
- a \$12 million decrease in storage revenues due to lower contract renewal rates, and
- a \$7 million decrease due to lower processing revenues.

Operating Expenses. The \$22 million increase was driven by:

- a \$23 million increase from expansion projects, primarily on Texas Eastern, and
- a \$3 million increase from project development costs expensed in 2014.

Other Income and Expenses. The \$20 million decrease was primarily due to lower AFUDC resulting from decreased capital spending on expansion projects.

EBITDA. The \$47 million increase was driven by expansions, primarily on Texas Eastern.

Liquids

	Three Months Ended June 30,			Six Months Ended June 30,		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
	(in millions)					
Operating revenues	\$77	\$73	\$ 4	\$158	\$86	\$ 72
Operating expenses						
Operating, maintenance and other	34	34	—	64	39	25
Other income and expenses	8	1	7	15	—	15
EBITDA	\$51	\$40	\$ 11	\$109	\$47	\$ 62
Platte PADD II deliveries, MBbl/d (a)(b)	176	165	11	171	165	6

(a) Thousand barrels per day.

(b) Data includes activity since March 14, 2013, the date of the acquisition of Express-Platte by Spectra Energy. Our Liquids segment is comprised of Express-Platte and our investments in Sand Hills and Southern Hills. As previously discussed, Liquids results include the results of Express-Platte since March 14, 2013, the date of Spectra Energy's acquisition.

Three Months Ended June 30, 2014 Compared to Same Period in 2013

Operating Revenues. The \$4 million increase in operating revenues was due primarily to higher transportation revenues as a result of increased tariff rates and higher contracted volumes.

Other Income and Expenses. The \$7 million increase was primarily due to higher earnings from Sand Hills and Southern Hills, which were placed in service in June 2013.

EBITDA. The \$11 million increase was driven by higher earnings from our equity investments in Sand Hills and Southern Hills, and higher transportation revenues as a result of increased tariff rates and higher contracted volumes.

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Six Months Ended June 30, 2014 Compared to Same Period in 2013

Operating Revenues. The \$72 million increase in operating revenues was driven by:

• A \$68 million increase primarily due to the acquisition of Express-Platte, and

• a \$4 million increase in operating revenues due primarily to higher transportation revenues as a result of increased tariff rates and higher contracted volumes.

Operating Expenses. The \$25 million increase in operating expenses was attributable to the acquisition of Express-Platte.

Other Income and Expenses. The \$15 million increase was primarily due to higher earnings from Sand Hills and Southern Hills.

EBITDA. The \$62 million increase was driven by the acquisition of Express-Platte and higher earnings from Sand Hills and Southern Hills.

Other

	Three Months Ended June 30,			Six Months Ended June 30,		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
	(in millions)					
Operating expenses	\$18	\$3	\$15	\$37	\$5	\$32
EBITDA	\$(18)	\$(3)	\$(15)	\$(37)	\$(5)	\$(32)

Three Months Ended June 30, 2014 Compared to Same Period in 2013

Operating Expenses. The \$15 million increase was driven by higher allocated governance costs associated with the U.S. Transmission and Liquids assets that were dropped down on November 1, 2013.

Six Months Ended June 30, 2014 Compared to Same Period in 2013

Operating Expenses. The \$32 million increase was driven by higher allocated governance costs associated with the U.S. Transmission and Liquids assets that were dropped down on November 1, 2013.

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Distributable Cash Flow

We define Distributable Cash Flow as EBITDA plus

• distributions from equity investments,

• other non-cash items affecting net income, less

• equity in earnings of unconsolidated affiliates,

• interest expense,

• distributions to noncontrolling interests,

• maintenance capital expenditures, excluding the effect of reimbursable projects, and

• equity AFUDC.

Distributable Cash Flow does not reflect changes in working capital balances. Distributable Cash Flow should not be viewed as indicative of the actual amount of cash that we plan to distribute for a given period.

Distributable Cash Flow is the primary financial measure used by our management and by external users of our financial statements to assess the amount of cash that is available for distribution. The effects of the U.S. Assets Dropdown and the Express-Platte acquisition have been excluded from the Distributable Cash Flow calculation for periods prior to the dropdown transactions in order to reflect the true amount of the cash that was available for distribution.

Distributable Cash Flow 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. Distributable Cash Flow excludes some, but not all, items that affect Net Income and Operating Income and these measures may vary among other companies. Therefore, Distributable Cash Flow as presented may not be comparable to similarly titled measures of other companies.

Significant drivers of variances in Distributable Cash Flow 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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Reconciliation of Net Income to Non-GAAP “Distributable Cash Flow”

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	(in millions)			
Net income	\$220	\$181	\$466	\$366
Add:				
Interest expense	62	100	129	194
Income tax expense	2	1	28	2
Depreciation and amortization	70	65	143	126
Foreign currency loss (gain)	(1) 1	—	1
EBITDA	353	348	766	689
Add:				
Equity in earnings of unconsolidated affiliates	(29) (23) (57) (42
Distributions from equity investments	43	30	80	59
Other	4	2	6	4
Less:				
Interest expense	62	100	129	194
Distributions to noncontrolling interests	6	4	11	9
Maintenance capital expenditures (a)	54	45	78	63
Net cash paid for income taxes	5	—	5	—
Equity AFUDC	5	17	9	28
Adjustment (b)	—	135	—	287
Distributable Cash Flow	\$239	\$56	\$563	\$129

(a) Excludes reimbursable expenditures.

Removes the results of the U.S. Assets Dropdown for the periods prior to the dropdown (January 1, 2013 to (b) October 31, 2013) and the results of Express-Platte for the periods prior to the dropdown (March 14, 2013 to August 1, 2013).

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Impairment of Goodwill

As permitted under accounting guidance on testing goodwill for impairment, we perform either a qualitative assessment or a quantitative assessment of each of our reporting units based on management's judgment. With respect to our qualitative assessments, 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 values of our reporting units are less than their respective carrying amounts.

In connection with our quantitative assessments, we primarily use a discounted cash flow analysis to determine fair values of those reporting units. The long-term growth rates used for the reporting units that we quantitatively assessed reflect continued expansion of our assets, driven by new natural gas supplies such as shale gas in North America and increasing demand for natural gas transportation capacity on our pipeline systems primarily as a result of forecasted growth in natural gas-fired power plants and increasing demand for crude oil and NGL transportation capacity on our pipeline systems.

We performed a test on all our reporting units for our test of goodwill impairment as of April 1, 2014. Based on the results of our annual goodwill impairment testing, no indicators of impairment were noted and the fair values of the reporting units that we assessed at April 1, 2014 (our testing date) were substantially in excess of their respective carrying values.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2014, we had negative net working capital of \$527 million. This balance includes commercial paper liabilities of \$549 million and current maturities of long-term debt of \$34 million. We will rely upon cash flows from operations, including cash distributions received from our equity affiliates, and various financing transactions, which may include issuances of debt and/or equity securities, to fund our liquidity and capital requirements for the next 12 months. We have access to a credit facility, with an available capacity of \$1,451 million at June 30, 2014. This facility is used principally to back-stop our commercial paper program, which is used to manage working capital requirements and for temporary funding of our capital expenditures. We expect to be self-funding and plan to continue to pursue expansion opportunities over the next several years. Capital resources may continue to include commercial paper, short-term borrowings under our current credit facility and possibly securing additional sources of capital including debt and/or equity. See Note 7 of Notes to Condensed Consolidated Financial Statements for a discussion of the available credit facility and Financing Cash Flows and Liquidity for a discussion of effective shelf registrations.

Cash Flow Analysis

The following table summarizes the changes in cash flows for each of the periods presented:

	Six Months Ended June 30,	
	2014	2013
	(in millions)	
Net cash provided by (used in):		
Operating activities	\$603	\$486
Investing activities	(288)	(851)
Financing activities	(313)	417
Net increase in cash and cash equivalents	2	52
Cash and cash equivalents at beginning of the period	121	48
Cash and cash equivalents at end of the period	\$123	\$100

Operating Cash Flows

Net cash provided by operating activities increased \$117 million to \$603 million in the first six months of 2014 compared to the same period in 2013, driven primarily by higher earnings related to the acquisition of Express-Platte

in March 2013 and expansion projects, primarily on Texas Eastern.

Investing Cash Flows

Net cash used in investing activities decreased \$563 million to \$288 million in the first six months of 2014 compared to the same period in 2013. The change was driven mainly by:

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- a \$231 million decrease in capital and investment expenditures in 2014 primarily due to Sand Hills, Southern Hills and certain expansion projects being placed into service in 2013,
- a \$179 million decrease in net proceeds of available-for-sale securities, and
- a \$129 million increase in distributions from unconsolidated affiliates.

Capital and Investment Expenditures by Business Segment

	Six Months Ended	
	June 30,	
	2014	2013
	(in millions)	
U.S. Transmission (a)	\$406	\$510
Liquids	38	165
Total consolidated	\$444	\$675

(a) Excludes reimbursements from noncontrolling interests of \$20 million in 2014.

Capital and investment expenditures for the six months ended June 30, 2014 totaled \$444 million and included \$375 million for expansion projects and \$69 million for maintenance and other projects. We estimate total 2014 capital and investment expenditures of approximately \$1.2 billion, including \$0.9 billion of expansion capital expenditures and \$0.3 billion for maintenance and upgrades of existing plants, pipelines and infrastructure to serve growth. This excludes an estimated \$94 million capital contribution we anticipate making in August 2014 to SESH in connection with a SESH debt retirement. Given our objective of growth through acquisitions, we anticipate that we will continue to invest significant amounts of capital to acquire assets. Expansion capital expenditures may vary significantly based on investment opportunities.

Financing Cash Flows and Liquidity

Net cash used in financing activities totaled \$313 million in the first six months of 2014 compared to \$417 million provided by financing activities during the same period in 2013. This \$730 million change was driven mainly by:

- a \$404 million increase in the redemption of long-term debt,
- a \$269 million increase in distributions to partners in 2014,
- a \$209 million decrease in contributions from parent, and
- a \$183 million decrease in notes payable due to affiliates, partially offset by
- a \$223 million increase in net issuances of commercial paper in 2014, and
- a \$112 million increase in contributions from noncontrolling interests.

Available Credit Facility and Restrictive Debt Covenants. See Note 7 of Notes to Condensed Consolidated Financial Statements for a discussion of the available credit facility and related financial and other covenants.

Cash Distributions. A cash distribution of \$0.56625 per limited partner unit was declared on August 6, 2014, payable on August 29, 2014, representing the twenty-seventh consecutive quarterly increase.

Common Unit Issuance. During the first half of 2014, we issued 3.9 million common units to the public, representing limited partner interests, and 80,000 general partner units to Spectra Energy in connection with our continuous offering program. Total net proceeds from sales under the program were \$195 million, including \$4 million of proceeds from our general partner's proportionate unit purchase. The net proceeds were used for general partnership purposes, which may have included debt repayment, future acquisitions, capital expenditures and/or additions to working capital.

Other Financing Matters. We have an effective shelf registration statement on file with the Securities and Exchange Commission (SEC) to register the issuance of unspecified amounts of limited partner common units and various debt securities and another registration statement on file with the SEC to register the issuance of \$500 million, in the aggregate, of limited partner units and various debt securities over time. This registration has \$282 million available as of June 30, 2014.

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OTHER ISSUES

New Accounting Pronouncements. See Note 12 of Notes to Condensed Consolidated Financial Statements for discussion.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Our exposure to market risk is described in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2013. We believe the exposure to market risk has not changed materially since then.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 (Exchange Act) is recorded, processed, summarized, and reported, within the time periods specified by the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of the management of Spectra Energy Partners (DE) GP, LP (our General Partner), including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2014, and, based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

Under the supervision and with the participation of the management of our General Partner, including the Chief Executive Officer and Chief Financial Officer, we have evaluated changes in internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended June 30, 2014 and found no change that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

We have no material pending legal proceedings that are required to be disclosed hereunder. For information regarding other legal proceedings and environmental matters, see Note 10 of Notes to Condensed Consolidated Financial Statements, which information is incorporated by reference into this Part II.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, careful consideration should be given to the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2013, which could materially affect our financial condition or future results. There have been no material changes to those risk factors.

Item 6. Exhibits.

Any agreements included as exhibits to this Form 10-Q may contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- were not intended to be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- may have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement;
- may apply contract standards of "materiality" that are different from "materiality" under the applicable securities laws; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement.

We acknowledge that, notwithstanding the inclusion of the foregoing cautionary statements, we are responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this Form 10-Q not misleading.

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(a) Exhibits

Exhibit
Number

*4.1	Third Supplemental Indenture, dated June 30, 2014, between Spectra Energy Partners, LP, as Issuer and Wells Fargo Bank, National Association, as Trustee.
*31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*101.INS	XBRL Instance Document.
*101.SCH	XBRL Taxonomy Extension Schema.
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
*101.DEF	XBRL Taxonomy Extension Definition Linkbase.
*101.LAB	XBRL Taxonomy Extension Label Linkbase.
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
*	Filed herewith

The total amount of securities of the registrant or its subsidiaries authorized under any instrument with respect to long-term debt not filed as an exhibit does not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis. The registrant agrees, upon request of the Securities and Exchange Commission, to furnish copies of any or all of such instruments to it.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SPECTRA ENERGY PARTNERS, LP

By: Spectra Energy Partners (DE) GP, LP,
its general partner

By: Spectra Energy Partners GP, LLC,
its general partner

Date: August 7, 2014

/S/ GREGORY L. EBEL
Gregory L. Ebel
President and Chief Executive Officer

Date: August 7, 2014

/S/ J. PATRICK REDDY
J. Patrick Reddy
Vice President and Chief Financial
Officer