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

Washington, D.C. 20549

Form 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 001-33556

SPECTRA ENERGY PARTNERS, LP

(Exact name of registrant as specified in its charter)

Delaware	**41-2232463**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5400 Westheimer Court, Houston, Texas	**77056**
(Address of principal executive offices)	(Zip Code)

713-627-5400

(Registrant s telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Units Representing Limited Partner Interests	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

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 x No ¨

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 x	Non-accelerated filer ¨	Smaller reporting company ¨

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

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

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

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SPECTRA ENERGY PARTNERS, LP

FORM 10-K FOR THE YEAR ENDED

DECEMBER 31, 2009

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This document includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are based on management s beliefs and assumptions. These forward-looking statements are identified by terms and phrases such as: anticipate, believe, intend, estimate, expect, continue, should, could, may, plan, project, predict, will, potential, forecast, and similar expressions. Forward-looking statements involve risks and uncertainties that may cause actual results to be materially different from the results predicted. Factors that could cause actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to:

- state and federal legislative and regulatory initiatives that affect cost and investment recovery, have an effect on rate structure, and affect the speed at and degree to which competition enters the natural gas industries;
- outcomes of litigation and regulatory investigations, proceedings or inquiries;
- weather and other natural phenomena, including the economic, operational and other effects of hurricanes and storms;
- the timing and extent of changes in interest rates;
- general economic conditions, which can affect the long-term demand for natural gas and related services;
- potential effects arising from terrorist attacks and any consequential or other hostilities;
- changes in environmental, safety and other laws and regulations;
- results of financing efforts, including the ability to obtain financing on favorable terms, which can be affected by various factors, including credit ratings and general market and economic conditions;
- increases in the cost of goods and services required to complete capital projects;
- growth in opportunities, including the timing and success of efforts to develop domestic pipeline, storage, gathering and other infrastructure projects and the effects of competition;
- the performance of natural gas transmission, storage and gathering facilities;
- the extent of success in connecting natural gas supplies to transmission and gathering systems and in connecting to expanding gas markets;

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

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

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

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

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PART I

Item 1. Business.

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

General

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

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

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

Initial Public Offering

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

Acquisitions

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

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

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

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

Gas Transportation and Storage

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

General

East Tennessee

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

Saltville

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

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Ozark

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

Customers and Contracts

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

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

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

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

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

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

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

Source of Supply

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

Competition

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

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

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

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

Gulfstream

General

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

Customers, Contracts and Supply

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

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

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

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

Competition

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

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

Market Hub

General

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

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

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

Customer, Contracts and Supply

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

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

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

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

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

Competition

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

Revenue Contract Summary

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

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

(a) The average life of each contract is calculated based on contract revenues.
n/a Indicates not applicable.

Supplies and Raw Materials

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

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

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

Regulations

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

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

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

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

Environmental Matters

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

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

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

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

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

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

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

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

Employees

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

Glossary

Terms used to describe our business are defined below.

Available Cash. For any quarter ending prior to liquidation:

(a) the sum of:

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

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

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

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

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

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

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

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

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

(a) the sum of:

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

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

(b) the sum of:

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

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

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

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

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

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

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

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

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

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

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

Additional Information

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

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Item 1A. Risk Factors.

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

Risks Related to our Business

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

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

- the rates charged for transportation, storage and gathering services, and the volumes of natural gas contracted by customers for transportation, storage and gathering services;
- the overall demand for natural gas in the southeastern, mid-Continent and mid-Atlantic regions of the United States and the quantities of natural gas available for transport, especially from the Gulf of Mexico, Appalachian and mid-Continent areas;
- regulatory action affecting the demand for natural gas, the supply of natural gas, the rates we can charge, contracts for services, existing contracts, operating costs and operating flexibility;
- regulatory and economic limitations on the development of LNG import terminals in the Gulf Coast region; and
- the level of operating and maintenance, and general and administrative costs.

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

- the level of capital expenditures to complete construction projects;
- the cost and form of payment of acquisitions;
- debt service requirements and other liabilities;
- fluctuations in working capital needs;
- the ability to borrow funds and access capital markets;

- restrictions on distributions contained in debt agreements; and

- the amount of cash reserves established by our general partner.

Our subsidiaries and equity affiliates conduct operations and own our operating assets, which may affect our ability to make distributions to our unitholders. In addition, we cannot control the amount of cash that will be received from Gulfstream and Market Hub, and we may be required to contribute significant cash to fund their operations.

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

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

Our lack of control over the operations of Gulfstream and Market Hub may mean that we do not receive the amount of cash we expect to be distributed to us. In addition, we may be required to provide additional capital, and these contributions may be material. Neither Gulfstream nor Market Hub is prohibited from incurring indebtedness by the terms of their respective limited liability company agreement and general partnership agreements. If Gulfstream or Market Hub were to incur significant additional indebtedness, it could inhibit their respective abilities to make distributions to us. This lack of control may significantly and adversely affect our ability to distribute cash.

Natural gas transportation, storage and gathering operations are subject to regulation by federal, state and local authorities, which could have an adverse effect on our ability to establish transportation, storage and gathering rates that would allow us to recover the full cost of operating our pipelines, including a reasonable return, and our ability to make distributions.

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

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

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

Under the FERC policy, a regulated service provider and a customer may mutually agree to sign a contract for service at a negotiated rate which may be above or below the FERC-regulated recourse rate for that service. For 2009, 99% of Gulfstream s firm revenues were derived from such negotiated rate contracts and approximately 44% of Gas Transportation and Storage s firm revenues were derived from capacity reservation charges under negotiated rate contracts. These negotiated rate contracts are not subject to adjustment for increased costs which could be produced by inflation or other factors relating to the specific facilities being used to perform the services. It is possible that Gulfstream s, East Tennessee s, Ozark s and Saltville s costs to perform services under these negotiated rate contracts will exceed the negotiated rates. If this occurs, it could decrease cash flows from Gulfstream, East Tennessee, Ozark and Saltville.

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

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

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Increased competition from alternative natural gas transportation, storage and gathering options and alternative fuel sources could have a significant financial effect on us.

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

The principal elements of competition among natural gas transportation, storage and gathering assets are rates, terms of service, access to natural gas supplies, flexibility and reliability. The FERC s policies promoting competition in natural gas markets are having the effect of increasing the natural gas transportation, storage and gathering options for our traditional customer base. As a result, we could experience some turnback of firm capacity as existing agreements expire. If East Tennessee, Ozark, Saltville, Gulfstream or Market Hub are unable to remarket this capacity or can remarket it only at substantially discounted rates compared to previous contracts, they may have to bear the costs associated with the turned back capacity. Increased competition could reduce the volumes of natural gas transported, stored or gathered by our systems or, in cases where we do not have long-term fixed rate contracts, could force us to lower our transportation, storage or gathering rates. Competition could intensify the negative effect of factors that significantly decrease demand for natural gas in the markets served by our pipeline systems, such as competing or alternative forms of energy, a recession or other adverse economic conditions, weather, higher fuel costs and taxes or other governmental or regulatory actions that directly or indirectly increase the cost or limit the use of natural gas. Our ability to renew or replace existing contracts at rates sufficient to maintain current revenues and cash flows could be adversely affected by the activities of our competitors. All of these competitive pressures could have a material adverse effect on our business, financial condition, results of operations and ability to make distributions.

Any significant decrease in supplies of natural gas connected to our areas of operation could adversely affect business and operating results, and reduce cash available for distribution.

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

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

We may not be able to maintain or replace expiring natural gas transportation, storage and gathering contracts at favorable rates.

Our primary exposure to market risk occurs at the time existing transportation, storage and gathering contracts expire and are subject to renegotiation and renewal. A portion of the revenue generated by our systems in 2009 is attributable to firm capacity reservation fees that are set to expire on or prior to December 31, 2012. For Gas Transportation and Storage, Gulfstream and Market Hub, those portions were 18%, 1% and 51%,

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respectively. Upon expiration, we may not be able to extend contracts with existing customers or obtain replacement contracts at favorable rates or on a long-term basis. The extension or replacement of existing contracts depends on a number of factors beyond our control, including:

- the level of existing and new competition to deliver natural gas to our markets;
- the growth in demand for natural gas in our markets;
- whether the market will continue to support long-term contracts;
- whether our business strategy continues to be successful; and
- the effects of state regulation on customer contracting practices.

Our key markets are projected to continue to exhibit higher than average annual growth in natural gas demand of approximately 3.0% through 2019 as compared with the U.S. lower 48 average growth rate of approximately 2% for the same period. This demand growth is primarily driven by the natural gas-fired electric generation sector.

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

We depend on certain key customers for a significant portion of our revenues. The loss of any of these key customers could result in a decline in our revenues and cash available to make distributions.

We rely on a limited number of customers for a significant portion of revenues. For the year ended December 31, 2009, the three largest customers for Gas Transportation and Storage were Atmos Energy Corporation, CNX Gas Corporation and Southwestern Energy Services, Co.; for Gulfstream were Florida Power & Light Company, Florida Power Corporation d/b/a Progress Energy Florida, Inc. and TECO Energy and its affiliates; and for Market Hub were J.P. Morgan Ventures Energy Corporation, NiSource and AGL Resources. In 2009, these customers accounted for approximately 26%, 87% and 25% of the operating revenues for Gas Transportation and Storage, Gulfstream and Market Hub, respectively. While most of these customers are subject to long-term contracts, the loss of all or even a portion of the contracted volumes of these customers as a result of competition, creditworthiness, inability to negotiate extensions or replacements of contracts or otherwise, could have a material adverse effect on our financial condition, results of operations and ability to make distributions, unless we are able to contract for comparable volumes from other customers at favorable rates.

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

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

If we do not complete expansion projects or make and integrate acquisitions, our future growth may be limited.

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

- an inability to identify attractive expansion projects or acquisition candidates or we are outbid by competitors;

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- an inability to obtain necessary rights-of-way or government approvals, including regulatory agencies;
- an inability to successfully integrate the businesses we build or acquire;
- we are unable to raise financing for such expansion projects or acquisitions on economically acceptable terms;
- incorrect assumptions about volumes, reserves, revenues and costs, including synergies and potential growth; or
- we are unable to secure adequate customer commitments to use the newly expanded or acquired facilities.

Expansion projects or future acquisitions that appear to be accretive may nevertheless reduce our cash from operations on a per unit basis.

Even if we complete expansion projects or make acquisitions that we believe will be accretive, these expansion projects or acquisitions may nevertheless reduce our cash from operations on a per-unit basis. Any expansion project or acquisition involves potential risks, including, among other things:

- an inability to complete expansion projects on schedule or within the budgeted cost due to the unavailability of required construction personnel, equipment or materials, and the risk of cost overruns resulting from inflation or increased costs of materials, labor and equipment;
- a decrease in our liquidity as a result of us using a significant portion of our Available Cash or borrowing capacity to finance the project or acquisition;
- an inability to complete expansion projects on schedule due to accidents, weather conditions or an inability to obtain necessary permits;
- an inability to receive cash flows from a newly built or acquired asset until it is operational;
- unforeseen difficulties operating in new product areas or new geographic areas; and
- customer losses at the acquired business.

Any of these risks could prevent a project from proceeding, delay its completion or increase our anticipated costs. As a result, our new facilities may not achieve expected investment returns, which could adversely affect our results of operations, financial position or cash flows. If any expansion projects or acquisitions that we ultimately complete are not accretive to cash available for distribution, our ability to make distributions may be reduced.

The amount of our cash available for distribution depends primarily on our cash flows and not solely on profitability, which may prevent us from making cash distributions during periods when we record net income.

Our amount of cash available for distribution depends primarily upon our cash flows, including cash flow from financial reserves and working capital or other borrowings, and not solely on profitability, which will be affected by non-cash items. As a result, we may make cash distributions during periods when we record a net loss for financial accounting purposes and may not make cash distributions during periods when we record net earnings for financial accounting purposes.

Significant prolonged changes in natural gas prices could affect supply and demand, reducing contracted volumes on our systems and adversely affecting revenues and cash available to make distributions over the long-term.

Higher natural gas prices over the long term could result in a decline in the demand for natural gas and, therefore, in the throughput on our systems. Also, lower natural gas prices over the long term could result in a

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decline in the production of natural gas resulting in reduced contracted volumes on our systems. In addition, prolonged reduced price volatility could reduce the revenues generated by our parking-and-lending and interruptible storage services. As a result, significant prolonged changes in natural gas prices could have a material adverse effect on our financial condition, results of operations and ability to make distributions.

Our operations are subject to environmental laws and regulations that may expose us to significant costs and liabilities.

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

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

The enactment of future climate change legislation could result in increased operating costs and delays in obtaining necessary permits for our capital projects.

The current international climate framework, the United Nations-sponsored Kyoto Protocol, prescribes specific targets to reduce greenhouse gas (GHG) emissions for developed countries for the 2008-2012 period. The Kyoto Protocol expires in 2012 and has not been signed by the United States. United Nations-sponsored international negotiations were held in Copenhagen, Denmark in December 2009 with the intent of defining a future agreement for 2012 and beyond. While the talks resulted in a non-binding political agreement, to date, a binding successor accord to the Kyoto Protocol has not been realized.

In the United States, climate change action is evolving at state, regional and federal levels. We expect that a number of our assets and operations could be affected by eventual mandatory GHG programs; however, the timing and specific policy objectives in many jurisdictions, including at the federal level, remain uncertain. In addition, a number of states in the United States are establishing or considering state or regional programs that would mandate reductions in GHG emissions. We expect a number of our assets and operations could be affected either directly or indirectly by state or regional programs. However, as the key details of future GHG restrictions and compliance mechanisms remain undefined, the likely future effects on our business are highly uncertain.

The EPA has proposed the Prevention of Significant Deterioration and Title V Greenhouse Gas Tailoring Rule in 2009 to address how GHG emissions would be regulated under the existing Clean Air Act. This proposed rulemaking has not yet been finalized. Regulation of GHG emissions under the Clean Air Act would subject our new capital projects to additional permitting requirements which may result in delays in completing such projects. In addition, several legislative proposals have been introduced and discussed in the U.S. Congress that would impose GHG emissions constraints, including H.R. 2454 the American Clean Energy and Security Act, which passed the House of Representatives in June 2009. To date, similar legislation has not been considered by the full U.S. Senate. Due to the speculative outlook regarding any U.S. federal and state policies, we cannot

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estimate the potential effect of proposed GHG policies on our future consolidated results of operations, financial position or cash flows. However such legislation could materially increase our operating costs, require material capital expenditures or create additional permitting, which could delay proposed construction projects.

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

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

- perform ongoing assessments of pipeline integrity;
- identify and characterize applicable threats to pipeline segments that could affect a high consequence area;
- improve data collection, integration and analysis;
- repair and remediate the pipeline as necessary; and
- implement preventive and mitigating actions.

Our actual implementation costs may be affected by industry-wide demand for the associated contractors and service providers. Additionally, should we fail to comply with DOT regulations, we could be subject to penalties and fines.

Our operations are subject to operational hazards and unforeseen interruptions.

Our operations are subject to many hazards inherent in the transportation, storage and gathering of natural gas, including:

- damage to pipelines, facilities and related equipment caused by hurricanes, tornadoes, floods, fires and other natural disasters, explosions and acts of terrorism;
- inadvertent damage from third parties, including from construction, farm and utility equipment;
- leaks of natural gas and other hydrocarbons or losses of natural gas as a result of the malfunction of equipment or facilities;
- collapse of storage caverns;
- operator error;

- environmental pollution;
- explosions and blowouts;
- risks related to underwater pipelines in the Gulf of Mexico, which are susceptible to damage from shifting as a result of water currents (as seen in the Gulf of Mexico following Hurricanes Katrina, Rita, Gustav and Ike), as well as damage from vessels;
- risks related to pipeline that traverses areas in Florida where karst conditions exist. Karst conditions refers to terrain, usually found where limestone or other carbonate rock is present, that may subside or result in a sinkhole collapse when the underlying water table changes; and
- risks related to operating in a marine environment.

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

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We do not insure against all potential losses and could be seriously harmed by unexpected liabilities.

We are not fully insured against all risks inherent to our business. We are not insured against all environmental accidents that might occur. If a significant accident or event occurs that is not fully insured, it could adversely affect our operations and financial condition. In addition, we may not be able to maintain or obtain insurance of the type and amount we desire at reasonable rates. Changes in the insurance markets subsequent to the September 11, 2001 terrorist attacks, and Hurricanes Katrina, Rita, Gustav and Ike have made it more difficult for us to obtain certain types of coverage, and we may elect to self insure a portion of our asset portfolio. In addition, we do not maintain offshore business interruption insurance. There can be no assurance that we will be able to obtain the levels or types of insurance we would otherwise have obtained prior to these market changes or that the insurance coverage we do obtain will not contain large deductibles or fail to cover certain hazards or cover all potential losses. The occurrence of any operating risks not fully covered by insurance could have a material adverse effect on our business, financial condition, results of operations and ability to make distributions.

Our debt levels may limit our flexibility in obtaining additional financing and in pursuing other business opportunities.

At December 31, 2009, we had $240 million in revolving debt under our $500 million credit facility. We continue to have the ability to incur additional debt, subject to limitations in our credit facility. Our level of debt could have important consequences, including the following:

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

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

- our debt level could make us more vulnerable than our competitors with less debt to competitive pressures or a downturn in our business or the economy in general.

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

Restrictions in our credit facility may limit our ability to make distributions and may limit our ability to capitalize on acquisition and other business opportunities.

We are a holding company with no business operations. As such, we depend upon the earnings and cash flow of our subsidiaries and equity investments and the distribution of that cash to us in order to meet our obligations and to allow us to make distributions to our unitholders. Any interruption of distributions to us from our subsidiaries and equity investments may limit our ability to satisfy our obligations and to make distributions. The operating and financial restrictions and covenants in our credit facility and any future financing agreements could restrict our ability to finance future operations or capital needs or to expand or pursue business activities associated with our subsidiaries and equity investments. Our credit facility contains covenants that restrict or limit our ability to:

- make distributions if any default or event of default, as defined, occurs;

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- make other restricted distributions or dividends on account of the purchase, redemption, retirement, acquisition, cancellation or termination of partnership interests;
- incur additional indebtedness or guarantee other indebtedness;
- grant liens or make certain negative pledges;
- make certain loans or investments;
- engage in transactions with affiliates;
- make any material change to the nature of our business from the midstream energy business;
- make a disposition of assets; or
- enter into a merger, consolidate, liquidate, wind up or dissolve.

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

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

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

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

Terrorist attacks, and the threat of terrorist attacks, have resulted in increased costs to our business. Continued global hostilities or other sustained military campaigns may adversely affect our results of operations.

Acts of terrorism and any possible reprisals as a consequence of any action by the United States and its allies could be directed against companies operating in the United States. This risk is particularly great for companies, like ours, operating in any energy infrastructure industry that handles volatile gaseous and liquid hydrocarbons. The potential for terrorism has subjected our operations to increased risks that could have a material adverse effect on our business. In particular, we may experience increased capital and operating costs to implement increased security for our facilities and pipelines, such as additional physical facility and pipeline security, and additional security personnel. Moreover, any physical damage to high profile facilities resulting from acts of terrorism may not be covered, or covered fully, by insurance. We may be required to expend material amounts of capital to repair any facilities, the expenditure of which could adversely affect our cash flows and business.

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

Risks Inherent in an Investment in Us

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

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

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

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

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

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

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

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

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

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

our general partner determines which costs incurred by it and its affiliates are reimbursable by us;

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

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- our partnership agreement does not restrict our general partner from causing us to pay it or our affiliates for any services rendered to us or entering into additional contractual arrangements with any of these entities on our behalf;

- our general partner intends to limit its liability regarding our contractual and other obligations and, in some circumstances, is entitled to be indemnified by us;

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

- our general partner controls the enforcement of obligations owed to us by our general partner and its affiliates; and

- our general partner decides whether to retain separate counsel, accountants or others to perform services for us.

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

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

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

In order to comply with certain FERC rate-making policies applicable to entities that pass through taxable income to their owners, we have adopted certain requirements regarding those investors who may own our common and subordinated units. Eligible Holders are individuals or entities subject to United States federal income taxation on the income generated by us or entities not subject to United States federal income taxation on the income generated by us, so long as all of the entity s owners are subject to such taxation. If a unitholder is not a person who fits the requirements to be an Eligible Holder, such unitholder will not receive distributions or allocations of income and loss on the unitholder s units and the unitholder runs the risk of having the units redeemed by us at the lower of the unitholder s purchase price cost or the then-current market price. The redemption price will be paid in cash or by delivery of a promissory note, as determined by our general partner.

Cost reimbursements to our general partner and its affiliates for services provided, which will be determined by our general partner, will be substantial and will reduce our cash available for distribution.

Pursuant to an omnibus agreement we entered into with Spectra Energy, our general partner and certain of their affiliates, Spectra Energy will receive reimbursement for the payment of operating expenses related to our operations and for the provision of various general and administrative services for our benefit, including costs for rendering administrative staff and support services, and overhead allocated to us, which amounts will be determined by our general partner in its sole discretion. Payments for these services will be substantial and will reduce the amount of cash available for distribution. In addition, under Delaware partnership law, our general partner has unlimited liability for our obligations, such as our debts and environmental liabilities, except for

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contractual obligations that are expressly made without recourse to our general partner. To the extent our general partner incurs obligations on our behalf, we are obligated to reimburse or indemnify it. If we are unable or unwilling to reimburse or indemnify our general partner, our general partner may take actions to cause us to make payments of these obligations and liabilities. Any such payments could reduce the amount of our cash otherwise available for distribution.

Our partnership agreement limits our general partner s fiduciary duties to holders of our common and subordinated units, and restricts the remedies available to holders of our common and subordinated units for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty.

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

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

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

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

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

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

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

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

Our general partner has the right, at a time when there are no subordinated units outstanding and it has received incentive distributions at the highest level to which it is entitled (48%) for each of the prior four consecutive fiscal quarters, to reset the initial cash target distribution levels at higher levels based on the distribution at the time of the exercise of the reset election. Following a reset election by our general partner, the

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minimum quarterly distribution amount will be reset to an amount equal to the average cash distribution amount per common unit for the two fiscal quarters immediately preceding the reset election (such amount is referred to as the reset minimum quarterly distribution) and the target distribution levels will be reset to correspondingly higher levels based on percentage increases above the reset minimum quarterly distribution amount.

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

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

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

Even if holders of our common units are dissatisfied, they cannot initially remove our general partner without its consent.

The unitholders will be unable initially to remove our general partner without its consent because the general partner and its affiliates own sufficient units to be able to prevent its removal. The vote of the holders of at least 66 2/3% of all outstanding units voting together as a single class is required to remove our general partner. Our general partner and its affiliates own 73% of our aggregate outstanding common and subordinated units. Also, if our general partner is removed without cause during the subordination period and units held by our general partner and its affiliates are not voted in favor of that removal, all remaining subordinated units will automatically convert into common units and any existing arrearages on our common units will be extinguished. A removal of our general partner under these circumstances would adversely affect our common units by prematurely eliminating their distribution and liquidation preference over the subordinated units, which would otherwise have continued until we had met certain distribution and performance tests. Cause is narrowly defined to mean that a court of competent jurisdiction has entered a final, non-appealable judgment finding the general partner liable for actual fraud or willful or wanton misconduct in its capacity as our general partner. Cause does not include most cases of charges of poor management of the business, so the removal of the general partner because of the unitholders dissatisfaction with the general partner s performance in managing us will most likely result in the termination of the subordination period and conversion of all subordinated units to common units.

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Our partnership agreement restricts the voting rights of unitholders owning 20% or more of our common units.

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

If we are deemed an investment company under the Investment Company Act of 1940, it would adversely affect the price of our common units and could have a material adverse effect on our business.

Our assets include a 100% ownership interest in East Tennessee, Ozark and Saltville, a 24.5% limited liability company interest in Gulfstream and a 50% general partner interest in Market Hub. If a sufficient amount of our assets, such as our ownership interests in Gulfstream and Market Hub or other assets acquired in the future, are deemed to be investment securities within the meaning of the Investment Company Act of 1940, we would either have to register as an investment company under the Investment Company Act, obtain exemptive relief from the SEC or modify the organizational structure or contract rights to fall outside the definition of an investment company. Although general partner interests are typically not considered securities or investment securities, there is a risk that our 50% general partner interest in Market Hub could be deemed to be an investment security. In that event, it is possible that our ownership of this interest, combined with our 24.5% interest in Gulfstream or assets acquired in the future, could result in us being required to register under the Investment Company Act if we were not successful in obtaining exemptive relief or otherwise modifying the organizational structure or applicable contract rights. Registering as an investment company could, among other things, materially limit our ability to engage in transactions with affiliates, including the purchase and sale of certain securities or other property to or from its affiliates, restrict our ability to borrow funds or engage in other transactions involving leverage and require us to add additional directors who are independent of us or our affiliates. The occurrence of some or all of these events would adversely affect the price of the common units and could have a material adverse effect on our business.

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

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

Increases in interest rates could adversely affect our unit price and our ability to issue additional equity to make acquisitions, incur debt or for other purposes.

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

We may issue additional units without our common unitholders approval, which would dilute our existing common unitholders ownership interests.

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Our partnership agreement does not limit the number of additional limited partner interests that we may issue at any time without the approval of our unitholders. The issuance by us of additional common units or other equity securities of equal or senior rank will have the following effects:

- each unitholder s proportionate ownership interest in us will decrease;
- the amount of cash available for distribution on each unit may decrease;
- because a lower percentage of total outstanding units will be subordinated units, the risk that a shortfall in the payment of the minimum quarterly distribution will be borne by our common unitholders will increase;
- the ratio of taxable income to distributions may increase;
- the relative voting strength of each previously outstanding unit may be diminished; and
- the market price of the common units may decline.

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

As of February 26, 2010, Spectra Energy and its affiliates hold an aggregate of 37,337,521 common units and 21,638,730 subordinated units. All of the subordinated units will convert into common units at the end of the subordination period, which could occur on the first business day after June 30, 2010, and all of the subordinated units may convert into common units if additional tests are satisfied. The sale of any of these units in the public or private markets could have an adverse effect on the price of the common units or on any trading market that may develop.

Our general partner has a limited call right that may require our common unitholder to sell the units at an undesirable time or price.

If at any time our general partner and its affiliates own more than 80% of the common units, our general partner will have the right, but not the obligation, which it may assign to any of its affiliates or to us, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price not less than their then-current market price. As a result, our common unitholders may be required to sell their common units at an undesirable time or price and may not receive any return on their investment. A common unitholder may also incur a tax liability upon a sale of their units. As of February 26, 2010, our general partner and its affiliates own approximately 64% of our outstanding common units. At the end of the subordination period, assuming no additional issuances of common units (other than for the conversion of the subordinated units into common units), our general partner and its affiliates will own approximately 73% of our aggregate outstanding common units.

Our common unitholder s liability may not be limited if a court finds that unitholder action constitutes control of our business.

A general partner of a partnership generally has unlimited liability for the obligations of the partnership, except for those contractual obligations of the partnership that are expressly made without recourse to the general partner. We are organized under Delaware law and conduct business in a number of other states. The limitations on the liability of holders of limited partner interests for the obligations of a limited partnership have not been clearly established in some of the states in which we do business. Our common unitholders could be liable for any and all of our obligations as if our common unitholders were a general partner if a court or government agency determined that:

- we were conducting business in a state but had not complied with that particular state s partnership statute; or our common unitholder s right to act with other unitholders to remove or replace the general partner, to approve some amendments to our partnership agreement or to take other actions under our partnership agreement constitutes control of our business.

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

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

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

Tax Risks to Common Unitholders

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

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

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

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

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

An IRS contest of the federal income tax positions we take may adversely affect the market for our common units, and the cost of any IRS contest will reduce our cash available for distribution.

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

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The unitholder may be required to pay taxes on the unitholder s share of our income even if the unitholder does not receive any cash distributions.

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

Tax gain or loss on disposition of our common units could be more or less than expected.

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

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

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

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

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

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

When we issue additional units or engage in certain other transactions, we determine the fair market value of our assets and allocate any unrealized gain or loss attributable to our assets to the capital accounts of the unitholders and our general partner. Our methodology may be viewed as understating the value of our assets. In that case, there may be a shift of income, gain, loss and deduction between certain unitholders and the general

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partner, which may be unfavorable to such unitholders. Moreover, subsequent purchasers of common units may have a greater portion of their Internal Revenue Code Section 743(b) adjustment allocated to our tangible assets and a lesser portion allocated to our intangible assets. The IRS may challenge our valuation methods, or our allocation of the Section 743(b) adjustment attributable to tangible and intangible assets, and allocations of income, gain, loss and deduction between the general partner and certain of the unitholders.

A successful IRS challenge to these methods or allocations could adversely affect the amount of taxable income or loss being allocated to the unitholders. It also could affect the amount of gain from the unitholders sale of common units and could have a negative effect on the value of the common units or result in audit adjustments to unitholders tax returns without the benefit of additional deductions.

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

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

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

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

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

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

Item 3. Legal Proceedings.

For information regarding legal proceedings, including regulatory and environmental matters, see Item 8. Financial Statements and Supplementary Data, Notes 5 and 15 of Notes to Consolidated Financial Statements.

Item 4. Reserved.

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PART II

Item 5. Market for Registrant s Common Equity, Related Unitholder Matters and Issuer Purchases of Equity Securities.

Our common units are listed on the NYSE under the symbol SEP. The following table sets forth the high and low closing sales prices for our common units during the periods indicated, as reported by the NYSE, and the amount of the quarterly cash distributions we paid on each of our common units.

Common Unit Data by Quarter

	Distributions Paid in the Quarter		Unit Price Range(a)	
	Per Common Unit	Per Subordinated Unit	High	Low
2009				
First Quarter	$ 0.36	$ 0.36	$ 22.78	$ 18.77
Second Quarter	0.37	0.37	23.55	19.85
Third Quarter	0.38	0.38	24.75	21.15
Fourth Quarter	0.40	0.40	29.93	23.84
2008				
First Quarter	0.32	0.32	25.97	21.17
Second Quarter	0.33	0.33	26.15	22.84
Third Quarter	0.34	0.34	25.00	17.06
Fourth Quarter	0.35	0.35	30.00	12.10

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

As of February 26, 2010, there were approximately 27 holders of record of our common units. A cash distribution to unitholders of $0.41 per limited partner unit was declared on January 21, 2010 and was paid on February 12, 2010, which is a $0.01 per limited partner unit increase over the cash distribution of $0.40 per limited partner unit paid on November 13, 2009.

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Unit Performance Graph

The following graph reflects the comparative changes in the value from June 27, 2007, the first trading day of our common units on the NYSE, through December 31, 2009 of $100 invested in (1) Spectra Energy Partners common units, (2) the Standard & Poor s 500 Stock Index, and (3) the Alerian MLP Index. The amounts included in the table were calculated assuming the reinvestment of distributions, at the time distributions were paid.

	June 27,		December 31,	
	2007	2007	2008	2009
Spectra Energy Partners	$ 100.00	$ 84.61	$ 74.07	$ 118.32
S&P 500	100.00	98.44	62.02	78.43
Alerian MLP Index	100.00	93.90	59.23	104.50

Market Repurchases

We have not made any repurchases of common, subordinated or general partner units.

Distributions of Available Cash

General. Our partnership agreement requires that, within 45 days after the end of each quarter, beginning with the quarter ending September 30, 2007, we distribute all of our Available Cash, as defined, to unitholders of record on the applicable record date.

See the Glossary contained in Item 1. for the definition of Available Cash.

Minimum Quarterly Distribution. The Minimum Quarterly Distribution, as set forth in the partnership agreement, is $0.30 per limited partner unit per quarter, or $1.20 per limited partner unit per year. The quarterly distribution as of January 21, 2010 is $0.41 per limited partner unit, or $1.64 per limited partner unit annualized. There is no guarantee that this distribution rate will be maintained or that we will pay the Minimum Quarterly Distribution on the units in any quarter. Even if our cash distribution policy is not modified or revoked, the amount of distributions paid under our policy and the decision to make any distribution is determined by our general partner, taking into consideration the terms of the partnership agreement. We will be prohibited from making any distributions to unitholders if it would cause an event of default, or an event of default is existing, under our credit agreement.

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General Partner Interest and Incentive Distribution Rights. Our general partner is entitled to 2% of all quarterly distributions since inception. This general partner interest is represented by 1,639,117 general partner units. Our general partner has the right, but not the obligation, to contribute a proportionate amount of capital to us to maintain its current general partner interest. The general partner s initial 2% interest in these distributions will be reduced if we issue additional units in the future and our general partner does not contribute a proportionate amount of capital to maintain its 2% general partner interest. During 2009, the general partner contributed $4.4 million to maintain its 2% interest as a result of the additional limited partner units issued in the second quarter 2009 associated with the financing of the Ozark acquisition.

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

Equity Compensation Plans

For information related to our equity compensation plans, see Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Unitholder Matters.

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Item 6. Selected Financial Data.

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

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

	2009	2008	2007	2006	2005
		(in millions, except per-unit amounts)			
Statements of Operations					
Operating revenues	$ 178.9	$ 124.9	$ 121.1	$ 101.5	$ 84.6
Operating income	82.8	51.9	60.6	47.9	28.1
Equity in earnings of unconsolidated affiliates	70.7	61.4	55.6	41.1	46.3
Net income	135.9	101.3	202.9(a)	68.1	59.0
Net Income per Limited Partner Unit(b)					
Net income per limited partner unit basic and diluted	$ 1.71	$ 1.40	$ 0.68	n/a	n/a
Distributions paid per limited partner unit	1.51	1.34	0.30	n/a	n/a

	2009	2008	December 31, 2007 (in millions)	2006	2005
Balance Sheet					
Total assets	$ 1,812.5	$ 1,601.5	$ 1,611.3	$ 1,399.5	$ 1,336.7
Long-term debt	390.0	390.0	400.0	150.0	150.0

(a) Includes a benefit of $110.5 million from the reversal of deferred income tax liabilities in 2007. See Item 8. Financial Statements and Supplementary Data, Note 6 of Notes to Consolidated Financial Statements for further discussion.

(b) Reflective of general and limited partners interests in Net Income since the closing of our IPO on July 2, 2007.

n/a Indicates not applicable.

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

INTRODUCTION

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

EXECUTIVE OVERVIEW

In 2009, our focus was to continue consistent delivery on the strategies we had communicated in conjunction with our IPO in 2007. This included a significant focus on growth opportunities to support our cash distribution objectives. During 2009, we completed the $294.5 million acquisition of NOARK and continued the execution and pursuit of organic growth projects. In addition, we increased the quarterly cash distributions each quarter in 2009 from $0.36 per limited partner unit for the fourth quarter of 2008, paid in February 2009, to $0.41 per limited partner unit for the fourth quarter of 2009, paid in February 2010, or a 14% increase.

We reported net income of $135.9 million in 2009 compared with $101.3 million in 2008. The increase resulted from higher earnings from the acquisition of the Ozark assets in the second quarter of 2009, a full year from the Greenway Nora and Glade Spring expansion projects at East Tennessee placed in service in late 2008, as well as increased equity earnings from Market Hub due to increased revenues from ongoing expansion projects.

Consistent with our strategy to opportunistically pursue acquisitions, on May 4, 2009, we acquired all of the ownership interests of NOARK from Atlas for approximately $294.5 million. NOARK s assets consist of 100% ownership interests in Ozark Gas Transmission, a 565-mile FERC-regulated interstate natural gas transmission system and Ozark Gas Gathering, a 365-mile, fee-based, natural gas gathering system whose operations are regulated by the applicable state commissions.

In the second quarter of 2009, we issued 9.8 million common units to the public, representing limited partner interests, and 0.2 million general partner units to Spectra Energy, in connection with the refinancing of the purchase of NOARK, resulting in net proceeds of $212.2 million and a reduction of Spectra Energy s ownership interest in us from 84% to 74%. See Note 2 of Notes to Consolidated Financial Statements for further discussion.

In 2010 and 2011, we expect to invest approximately $200 million in expansion capital, with $60 million in 2010. We will continue investing in our ongoing projects including the Gulfstream Phase V expansion project, a multi-year expansion program at Market Hub and the development of East Tennessee s Northeastern Tennessee expansion project. See further discussion under Liquidity and Capital Resources Investing Cash Flows.

Business Strategies

Our primary business objective is to grow unitholder value over time by executing the following strategies:

- *Optimize existing assets and achieve additional operating efficiencies.* We intend to enhance the profitability of our existing assets by undertaking additional initiatives to enhance utilization, improve operating efficiencies and develop rate and contract structures that create value for our customers.

- *Deliver on organic growth opportunities.* We continually evaluate organic expansion opportunities in existing and new markets that could allow us to increase value and cash distributions to our investors.

- *Opportunistically pursue acquisitions.* We may expand our existing natural gas transportation and storage businesses by pursuing acquisitions that add value and fit our fee-based business model. We would pursue acquisitions in areas where our assets currently operate that provide the opportunity for operational efficiencies or higher capacity utilization of existing assets, as well as acquisitions in complementary fee-based operations or new geographic areas of operation in order to grow the scale of our business.

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Significant Economic Factors for Our Business

The high percentage of our business derived from capacity reservation fees mitigates the risk of revenue fluctuations due to near-term changes in natural gas supply and demand conditions. However, all of our businesses can be negatively affected in the long term by sustained downturns in the economy in general, and are impacted by shifts in supply and demand dynamics, the mix of services requested by our customer, and changes in regulatory requirements affecting our operations. Short-term contracts and interruptible service arrangements are not a significant component of our revenue; however, these services can be impacted positively or negatively to varying degrees by natural gas price volatility and other factors beyond our control. We mitigate our exposure to natural gas prices by maximizing the contracting of our available transportation capacity with long-term, fixed-rate arrangements.

We believe the key factors that impact our business are the supply of and demand for natural gas in the markets in which we operate, our customers and their requirements, competition and government regulation of natural gas pipelines and storage systems. These key factors play an important role in how we evaluate our operations and implement our long-term strategies.

Supply and Demand Dynamics

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

Growing Markets

Our key markets are projected to continue to exhibit higher than average annual growth in natural gas demand of approximately 3.0% through 2019 compared with the U.S. lower 48 average growth rate of approximately 2% for the same period. This demand growth is primarily driven by the natural gas-fired electric generation sector.

Growth of Natural Gas Transportation Capacity

As natural gas supplies and demand continue to shift, our customers have additional options in meeting their needs for natural gas pipeline capacity. A number of new natural gas transmission projects have been announced in recent years, and are in various stages of development, especially in the Arkansas, Oklahoma, and Fayetteville supply regions. The increased supply of transmission capacity from these areas could result in some turnback of Ozark firm capacity over the next several years. We are actively engaged with customers to address their capacity needs on Ozark over the next several years.

Growth of Natural Gas Storage Facilities

Natural gas storage plays an important role in the natural gas transportation industry, due to the need to balance seasonal pricing, provide gas for power generation and to balance the difference in timing of natural gas supplies and natural gas demand. A substantial number of natural gas storage projects have been announced in recent years and are in various stages of development, especially in Mississippi, Texas and Louisiana. In 2009, 60.7 Bcf of natural gas storage came into service in this region, while another 32.8 Bcf was delayed or cancelled. The southeastern region of the United States has a large number of high-deliverability, salt-cavern storage facilities and the demand for this type of storage is expected to continue to grow. An increased supply of storage capacity competing with Market Hub s storage facilities could negatively impact our operations.

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Regulation

Government regulation of natural gas transportation, storage and gathering has a significant impact on our business. The natural gas transportation rates are regulated under the FERC rate-making policies. Our storage facility in Texas is subject to oversight by the TRC. Our gathering operations are subject to oversight by the Arkansas Public Service Commission and Oklahoma Corporation Commission. The FERC regulatory policies govern the rates that each pipeline is permitted to charge customers for interstate transportation and storage of natural gas. Under certain circumstances, we are permitted to enter into contracts with customers under negotiated rates and market-based rates that differ from the rates imposed by the FERC.

RESULTS OF OPERATIONS

	2009	2008 (in millions)	2007
Operating revenues	$ 178.9	$ 124.9	$ 121.1
Operating, maintenance and other expenses	67.6	46.7	34.1
Depreciation and amortization	28.5	26.3	26.4
Operating income	82.8	51.9	60.6
Equity in earnings of unconsolidated affiliates	70.7	61.4	55.6
Other income and expenses, net	0.1	0.9	0.4
Interest income	0.2	3.5	5.5
Interest expense	16.7	17.8	17.1
Earnings before income taxes	137.1	99.9	105.0
Income tax expense (benefit)	1.2	(1.4)	(97.9)
Net income	$ 135.9	$ 101.3	$ 202.9
Net cash provided by operating activities	$ 159.7	$ 139.2	$ 84.9
Adjusted EBITDA(a)	111.3	78.2	87.0
Cash Available for Distribution(a)	158.1	120.6	119.2

(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 (GAAP).

2009 Compared to 2008

Operating Revenues. The $54.0 million increase in 2009 was driven primarily by $43.5 million from the acquisition of the Ozark assets effective May 4, 2009 and $10.2 million from East Tennessee s Greenway Nora and Glade Spring expansion projects that were placed in service in the fourth quarter of 2008.

Operating, Maintenance and Other. The $20.9 million increase in 2009 was driven primarily by:

- a $16.2 million increase from the acquisition of the Ozark assets, including approximately $2.9 million of transaction costs, and

- a $2.5 million increase due to a favorable ad valorem tax adjustment recorded in 2008, partially offset by a $0.5 million increase in net fuel recoveries.

Equity in Earnings of Unconsolidated Affiliates. The $9.3 million increase in 2009 consisted of a $2.9 million increase in earnings from our 24.5% interest in Gulfstream and a $6.4 million increase in earnings from our 50% interest in Market Hub.

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

	2009	2008	Increase (Decrease)	2007	Increase (Decrease)
			(in millions)		
Gulfstream					
Operating revenues	$ 251.5	$ 206.7	$ 44.8	$ 185.3	$ 21.4
Operating, maintenance and other expenses	33.1	31.1	2.0	15.9	15.2
Depreciation and amortization	34.5	30.3	4.2	30.0	0.3
Loss on sale of assets		(0.6)	0.6		(0.6)
Other income and expenses, net	1.4	11.1	(9.7)	3.9	7.2
Interest expense	61.3	45.0	16.3	47.9	(2.9)
Net income	$ 124.0	$ 110.8	$ 13.2	$ 95.4	$ 15.4
Spectra Energy Partners share	$ 30.4	$ 27.5	$ 2.9	$ 23.5	$ 4.0

Gulfstream s net income increased $13.2 million to $124.0 million in 2009 compared to $110.8 million in 2008. The increase was primarily due to the final phase-in, which started in late 2008, of the Phase III and Phase IV expansion projects. With 2009 as the first full year of operations, these projects were the main driver for increased operating revenues, operating expenses (including ad valorem tax expense) and depreciation expense. In addition, other income and expenses were lower in 2009 due to a decrease in the equity portion of AFUDC as there were higher capital expenditures on these expansion projects in 2008. Interest expense increased related to a $300.0 million debt offering in May 2009.

	2009	2008	Increase (Decrease)	2007	Increase (Decrease)
			(in millions)		
Market Hub					
Operating revenues	$ 115.5	$ 98.0	$ 17.5	$ 91.3	$ 6.7
Operating, maintenance and other expenses	22.6	20.0	2.6	23.6	(3.6)
Depreciation and amortization	12.1	10.6	1.5	9.1	1.5
Gains on sale of other assets and other income and expenses		0.2	(0.2)	7.0	(6.8)
Interest income	0.3	3.1	(2.8)	2.3	0.8
Interest expense	0.1	1.0	(0.9)	3.6	(2.6)
Income tax expense	0.2	0.4	(0.2)	0.1	0.3
Net income	$ 80.8	$ 69.3	$ 11.5	$ 64.2	$ 5.1
Spectra Energy Partners share	$ 40.3	$ 33.9	$ 6.4	$ 32.1	$ 1.8

Market Hub s net income increased $11.5 million to $80.8 million in 2009 compared to $69.3 million in 2008. The increase was primarily due to the expansion projects at both Moss Bluff and Egan as well as lower interest rates.

The initial phase-in of the Egan Cavern 3 storage facilities expansion beginning in 2009 and the phase-in of the Egan Cavern 4 in August 2008 increased operating revenues when compared to 2008. Additional operating expenses and depreciation expense were attributable to these projects.

Lower interest rates caused both a decrease to interest income and interest expense. Interest income was also impacted by a lower balance of notes receivable from affiliates while interest expense was impacted by a reduction of collateral held from counterparties.

Interest Income. The $3.3 million decrease in 2009 was due to the sale of marketable securities held by us that were originally purchased with a portion of the IPO proceeds in July 2007.

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Interest Expense. The $1.1 million decrease was due to lower interest rates on credit facility borrowings, partially offset by interest on borrowings associated with the acquisition of NOARK.

Income Tax Expense (Benefit). Income tax expense was $1.2 million in 2009 compared to an income tax benefit of $1.4 million in 2008. The benefit in 2008 was due to a change in the tax status of certain businesses related to the Saltville acquisition.

2008 Compared to 2007

Operating Revenues. The $3.8 million increase in 2008 was driven by a $6.4 million increase from new and replacement firm transportation contracts on East Tennessee s Jewell Ridge lateral and Patriot systems, partially offset by the absence of $2.5 million of salt sales during 2008 due to the sale of the salt plant in the second quarter of 2007.

Operating, Maintenance and Other. The $12.6 million increase in 2008 was driven by:

- a $6.2 million increase from lower net pipeline fuel recoveries recognized by East Tennessee in the 2008 period compared to the 2007 period,
- a $4.0 million increase in public company costs and governance expenses from a full year s activity in 2008 compared to only six months of activity in 2007 subsequent to the formation of Spectra Energy Partners,
- a $2.2 million increase from higher project costs at East Tennessee related to activities around the proposed Greenway expansions, and
- a $1.5 million increase in general and administrative expenses as a result of increased outside services and labor costs, partially offset by
- a $1.3 million decrease in ad valorem tax expense primarily related to lower tax rates and lower franchise taxes.

Equity in Earnings of Unconsolidated Affiliates. The $5.8 million increase in 2008 consisted of a $4.0 million increase in earnings from Gulfstream and a $1.8 million increase in earnings from Market Hub.

The following discussion explains the factors affecting the equity earnings of Gulfstream (owned 24.5%) and Market Hub (owned 50%), each representing 100% of the earnings drivers of those entities.

Gulfstream s net income increased $15.4 million to $110.8 million in 2008 compared to $95.4 million in 2007. The increase was primarily driven by:

- a $21.4 million increase in revenues driven primarily by the Phase III and Phase IV expansion contracts,
- a $7.2 million increase in other income and expenses driven primarily by AFUDC as a result of capital expenditures for Gulfstream s Phase III and Phase IV expansion projects,

a $2.9 million decrease in interest expense resulting from higher interest costs capitalized as a result of capital expenditures for Gulfstream s Phase III and Phase IV expansion projects, partially offset by

a $15.2 million increase in operating, maintenance and other expenses primarily resulting from a $7.0 million increase in ad valorem tax expense due to the impact of a favorable valuation in 2007, a $3.6 million increase in project costs due to the 2007 capitalization of previously expensed costs related to the Phase IV expansion, and a $4.6 million increase due to higher pipeline operations costs and a favorable adjustment to administrative and general expenses in 2007.

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Market Hub s net income increased $5.1 million to $69.3 million in 2008 compared to $64.2 million in 2007. The increase was primarily due to:

- a $6.7 million increase in revenues driven by an increase of $11.6 million in firm storage revenues as a result of the completion of the Egan Cavern 4 expansion, partially offset by a decrease in interruptible services of $4.9 million driven by a change in market demand,
- a $0.8 million increase in interest income due to notes receivable with affiliates issued in the third quarter of 2007,
- a $2.6 million decrease in interest expense primarily due to lower interest rates associated with collateral held from counterparties and affiliates, and
- a $3.6 million decrease in operating, maintenance and other expenses resulting primarily from a $5.1 million write-down of inventory at Egan in 2007, partially offset by a $0.8 million increase in ad valorem tax expense primarily due to a favorable valuation in the first quarter of 2007 and a $0.6 increase in operating expenses due to the Egan expansion in 2007, partially offset by
- a $7.0 million gain on sales of other assets in 2007 relating to the receipt of an insurance settlement associated with an incident at Moss Bluff in 2005, and
- a $1.5 million increase in depreciation expense primarily due to the Egan horsepower expansion placed in service in July 2007.

Interest Income. The $2.0 million decrease in 2008 was caused by lower interest earned due to the sale of marketable securities purchased with a portion of the IPO proceeds in July 2007.

Interest Expense. The $0.7 million increase in 2008 was due to a full year s expense in 2008 as compared to six months in 2007 from term and revolver borrowings entered into on July 2, 2007, mostly offset by lower interest rates in 2008.

Income Tax Expense (Benefit). Our income tax benefit in 2008 was $1.4 million compared to an income tax benefit of $97.9 million in the same period in 2007. We recorded a one-time benefit of $110.5 million in the third quarter of 2007 from the reversal of deferred income tax liabilities. Effective July 2, 2007, as a result of our MLP structure, we are no longer subject to federal income taxes. In addition, a tax benefit of $2.5 million was recognized in the second quarter of 2008 due to a change in tax status of certain businesses related to the Saltville acquisition.

Matters Affecting Future Results

We plan to continue earnings growth through a consistent focus on executing our strategy of optimization, organic growth and opportunistic acquisitions that fit our business model.

Future earnings growth will be dependent on the success of our expansion plans in both the market and supply areas of the pipeline network, the ability to continue renewing service contracts and continued regulatory stability.

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Adjusted EBITDA and Cash Available for Distribution

Adjusted EBITDA

We define our Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) as Net Income plus Interest Expense, Income Taxes and Depreciation and Amortization less our Equity in Earnings of Gulfstream and Market Hub, Interest Income, and Other Income and Expenses, Net, which primarily consists of non-cash AFUDC. Our Adjusted EBITDA is not a presentation made in accordance with GAAP. Because Adjusted EBITDA excludes some, but not all, items that affect net income and is defined differently by companies in our industry, our definition of Adjusted EBITDA may not be comparable to similarly titled measures of other companies.

Adjusted EBITDA 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 and Market Hub and net preliminary project costs, less net cash paid for interest expense, net cash paid for income tax expense, and maintenance capital expenditures. Cash Available for Distribution does not reflect changes in working capital balances. Cash Available for Distribution for Gulfstream and Market Hub is defined on a basis consistent with us. Cash Available for Distribution should not be viewed as indicative of the actual amount of cash that we plan to distribute for a given period.

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

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

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Spectra Energy Partners

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

	2009	2008 (in millions)	2007
Net income	$ 135.9	$ 101.3	$ 202.9
Add:			
Interest expense	16.7	17.8	17.1
Income tax expense (benefit)	1.2	(1.4)	(97.9)
Depreciation and amortization	28.5	26.3	26.4
Less:			
Equity in earnings of Gulfstream	30.4	27.5	23.5
Equity in earnings of Market Hub	40.3	33.9	32.1
Interest income	0.2	3.5	5.5
Other income and expenses, net	0.1	0.9	0.4
Adjusted EBITDA	111.3	78.2	87.0
Add:			
Cash Available for Distribution from Gulfstream	38.2	30.7	28.3
Cash Available for Distribution from Market Hub	40.8	36.0	31.9
Preliminary project costs, net	0.4	2.2	
Less:			
Cash paid for interest expense, net	16.2	14.3	10.3
Cash paid for income tax expense, net	0.1	0.9	6.5
Maintenance capital expenditures	16.3	11.3	11.2
Cash Available for Distribution	$ 158.1	$ 120.6	$ 119.2

Spectra Energy Partners

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

	2009	2008 (in millions)	2007
Net cash provided by operating activities	$ 159.7	$ 139.2	$ 84.9
Interest income	(0.2)	(3.5)	(5.5)
Interest expense	16.7	17.8	17.1
Income tax expense current		0.6	5.7
Distributions received from Gulfstream	(38.6)	(28.5)	(16.8)
Distributions received from Market Hub	(35.7)	(43.2)	(5.9)
Changes in working capital and other	9.4	(4.2)	7.5
Adjusted EBITDA	111.3	78.2	87.0
Add:			
Cash Available for Distribution from Gulfstream	38.2	30.7	28.3
Cash Available for Distribution from Market Hub	40.8	36.0	31.9
Preliminary project costs, net	0.4	2.2	
Less:			
Cash paid for interest expense, net	16.2	14.3	10.3

Cash paid for income tax expense, net	0.1	0.9	6.5
Maintenance capital expenditures	16.3	11.3	11.2
Cash Available for Distribution	$ 158.1	$ 120.6	$ 119.2

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Gulfstream

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

	2009	2008 (in millions)	2007
Net income	$ 124.0	$ 110.8	$ 95.4
Add:			
Interest expense	61.3	45.0	47.9
Depreciation and amortization	34.5	30.3	30.0
Less:			
Other income and expenses, net	1.4	11.1	3.9
Adjusted EBITDA 100%	218.4	175.0	169.4
Add:			
Preliminary project costs, net	(1.3)	1.1	(2.5)
Less:			
Cash paid for interest expense, net	60.1	49.5	49.9
Maintenance capital expenditures	0.9	1.3	1.4
Cash Available for Distribution 100%	$ 156.1	$ 125.3	$ 115.6
Adjusted EBITDA 24.5%	$ 53.5	$ 42.9	$ 41.5
Cash Available for Distribution 24.5%	$ 38.2	$ 30.7	$ 28.3

Market Hub

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

	2009	2008 (in millions)	2007
Net income	$ 80.8	$ 69.3	$ 64.2
Add:			
Interest expense	0.1	1.0	3.6
Income tax expense	0.2	0.4	0.1
Depreciation and amortization	12.1	10.6	9.1
Less:			
Interest income	0.3	3.1	2.2
Other income and expenses, net		0.2	7.1
Adjusted EBITDA 100%	92.9	78.0	67.7
Less:			
Cash paid for interest expense, net	7.1		
Cash paid for income tax expense, net	0.5		
Maintenance capital expenditures	3.8	5.9	4.0
Cash Available for Distribution 100%	$ 81.5	$ 72.1	$ 63.7
Adjusted EBITDA 50%	$ 46.5	$ 39.0	$ 33.9

Cash Available for Distribution 50%	$ 40.8	$ 36.0	$ 31.9

Effective January 1, 2009, we revised the calculation of Cash Available for Distribution, within the definition contained in the partnership agreement. As discussed in Item 8. Financial Statements and Supplementary Data, Note 1 of Notes to Consolidated Financial Statements, for our regulated entities that follow current regulatory accounting standards, we expense preliminary project costs until such time that management determines that recovery of these costs is probable. At that time, we capitalize those costs, which reduces

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operating expenses in that period. The revised calculation for Cash Available for Distribution adds back preliminary project costs to EBITDA as those costs are initially incurred and deducts the expense reductions in the period the costs are capitalized. These project costs do not represent operating cash flow activity. In addition, we also revised the calculation of Cash Available for Distribution to exclude net cash paid for income tax expense.

The effects of these changes on Spectra Energy Partners and Gulfstream for 2008 and 2007 were as follows:

Spectra Energy Partners

	2008	2007
	(in millions)	
Cash Available for Distribution, as previously reported	$ 119.0	$ 126.3
Add:		
Change in Cash Available for Distribution from Gulfstream (see below)(a)	0.3	(0.6)
Preliminary project costs, net	2.2	
Less:		
Cash paid for income tax expense, net	0.9	6.5
Cash Available for Distribution, as revised	$ 120.6	$ 119.2

(a) Amount represents 24.5% of Gulfstream s preliminary project costs, net.

Gulfstream

	2008	2007
	(in millions)	
Cash Available for Distribution, as previously reported	$ 124.2	$ 118.1
Add:		
Preliminary project costs, net	1.1	(2.5)
Cash Available for Distribution, as revised 100%	$ 125.3	$ 115.6
Cash Available for Distribution, as revised 24.5%	$ 30.7	$ 28.3

These changes did not have an effect on the Cash Available for Distribution calculation for Market Hub.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The application of accounting policies and estimates is an important process that continues to evolve as our operations change and accounting guidance is issued. We have identified a number of critical accounting policies and estimates that require the use of significant estimates and judgments.

We base our estimates and judgments on historical experience and on other various assumptions that we believe are reasonable at the time of application. The estimates and judgments may change as time passes and more information becomes available. If estimates and judgments are different than the actual amounts recorded, adjustments are made in subsequent periods to take into consideration the new information. We discuss our critical accounting policies and estimates and other significant accounting policies with our Audit Committee.

Regulatory Accounting

We account for our regulated operations at East Tennessee, Ozark Gas Transmission and Saltville under accounting for regulated entities. As a result, we record assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in

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customer rates. Regulatory liabilities generally represent obligations to make refunds to customers for previous collections for costs that either are not likely to or have yet to be incurred. We continually assess whether the regulatory assets are probable of future recovery by considering factors such as applicable regulatory changes and recent rate orders to other regulated entities. Based on this continual assessment, we believe our existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels, and is subject to change in the future. If future recovery of costs ceases to be probable, asset write-offs would be required to be recognized. Additionally, regulatory agencies can provide flexibility in the manner and timing of the depreciation of property, plant and equipment and amortization of regulatory assets. Total regulatory assets were $15.4 million as of December 31, 2009 and $10.0 million as of December 31, 2008. We had no regulatory liabilities included in our financial statements.

Impairment of 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. Prior to 2009, we performed the annual impairment testing of goodwill using August 31 as the measurement date. Our financial and strategic planning process, including the preparation of long-term cash flow projections, commences in October and typically concludes in January of the following year. These long-term cash flow projections are a key component in performing our annual impairment test of goodwill. This planning cycle historically created significant constraints in the availability of both information and human resources needed to provide the appropriate projections to be used in the goodwill impairment test using the August 31 test date. Accordingly, effective with our 2009 annual impairment test, we changed our goodwill impairment test date from August 31 to April 1. We believe that using the April 1 date will alleviate the information and resource constraints that historically existed during the third quarter and will better coincide with the completion of our long-term financial projections. We believe that this accounting change is to an alternative accounting principle that is preferable under the circumstances and did not result in the delay, acceleration or avoidance of an impairment charge. We have determined that this change in accounting principle does not result in adjustments to our 2008 or 2007 Consolidated Financial Statements when applied retrospectively as our base assumptions used in the August 31 measurement date would not have changed significantly had we used April 1 as the measurement date.

We had goodwill balances of $267.9 million at December 31, 2009 and $118.3 million at December 31, 2008. The increase in goodwill in 2009 was the result of $149.6 million of goodwill associated with the acquisition of NOARK in May 2009. There was no impairment of goodwill recorded during 2009, 2008 or 2007.

We perform an annual goodwill impairment test and update the test if events or circumstances occur that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Key assumptions used 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 revenue, expense and capital expenditure projections.

The long-term growth rates used for our reporting unit reflect continued expansion of our assets, driven by new natural gas supplies such as shale gas and, notwithstanding the current economic downturn, increasing demand for capacity on our pipeline systems. For our 2009 goodwill impairment analysis, we assumed a weighted-average long-term growth rate of 3%. If we had assumed a zero growth rate for our reporting unit, there would have been no impairment of goodwill in 2009.

We continue to monitor the effects of the economic downturn that global economies are currently facing on the long-term cost of capital utilized to calculate our reporting unit fair value. For our 2009 goodwill impairment analysis, we estimated a weighted-average cost of capital that market participants would use in evaluating our business of 7.7%. If we had assumed a 100 basis point increase in cost of capital for our reporting unit, there would have been no impairment of goodwill in 2009.

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Based on the results of our annual impairment testing, the fair value of our reporting unit at April 1, 2009 significantly exceeded its carrying value. No triggering events or changes in circumstances occurred during the period April 1, 2009 (our testing date) through December 31, 2009 that would warrant re-testing for goodwill impairment.

Equity Method Investments

We account for investments in 20% to 50% owned affiliates, and investments in less than 20% owned affiliates where we have the ability to exercise significant influence, under the equity method. Accordingly, our 24.5% interest in Gulfstream and 50.0% interest in Market Hub are accounted for under the equity method.

Revenue Recognition

Revenues from the transportation, storage and gathering of natural gas and storage of LNG are recognized when the service is provided. Revenues related to these services provided but not yet billed are estimated each month. These estimates are generally based on contract data, regulatory information and preliminary throughput and allocation measurements. Final bills for the current month are billed and collected in the following month. Differences between actual and estimated unbilled revenues are immaterial.

LIQUIDITY AND CAPITAL RESOURCES

Known Trends and Uncertainties

We will rely primarily upon cash flows from operations, including cash distributions received from Gulfstream and Market Hub, an available credit facility and potential additional financing transactions to fund our liquidity and capital requirements for 2010. As of December 31, 2009, we had negative net working capital of $8.4 million compared to negative $23.6 million as of December 31, 2008, of which the December 31, 2009 balance included $27.5 million and the December 31, 2008 balance included $50.0 million for the note payable on demand to Market Hub.

Cash flows from operations are fairly stable given that most of our revenues and those of our equity affiliates are derived from operations under firm contracts. However, total operating cash flows are subject to a number of factors, including, but not limited to, contract renewal rates and cash distributions from our equity affiliates, Gulfstream and Market Hub. The amount of cash distributed to us, and the amount of cash we may be required to fund is determined by our equity affiliates based on operating cash flows and other factors as determined by the management of our equity affiliates. While we participate on the management committees of these equity affiliates, determination of the amount of distributions and contributions, if any, are not within our control. We received total distributions from equity affiliates of $144.8 million in 2009, $71.7 million in 2008 and $22.7 million in 2007. The increased distributions in 2009 were primarily from net proceeds received by Gulfstream as a result of their $300.0 million debt issuance in May 2009. As discussed in Item 8. Financial Statements and Supplementary Data, Note 1 of Notes to the Consolidated Financial Statements, a portion of these distributions are classified within Operating Cash Flows and the remainder is classified as Investing Cash Flows. See Item 1A. Risk Factors for discussion of other factors that could affect our cash flows.

As we execute on our strategic objectives around organic expansion opportunities, capital expansion expenditures could be significant, and are currently estimated at $60 million in 2010 and $140 million in 2011. The timing and extent of these expenditures are likely to vary significantly from year to year, depending primarily on general economic conditions and market requirements. Given that we expect to continue to pursue expansion opportunities over the next several years, capital resources will continue to include long-term borrowings on our current credit facility and possibly securing additional sources of capital including debt and/or equity. However, as a result of our ongoing strong earnings performance expected in existing operations, we expect to maintain a capital structure and liquidity profile that supports our strategic objectives and therefore will continue to monitor market requirements and our liquidity and make adjustments to these plans as needed.

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Operating Cash Flows

Net cash provided by operating activities increased $20.5 million to $159.7 million in 2009 compared to 2008. Higher earnings from the Ozark acquisition and our equity affiliates, primarily Market Hub, were partially offset by the timing of payments for services provided by our general partner when compared to 2008.

Net cash provided by operating activities increased $54.3 million to $139.2 million in 2008 compared to 2007. This change was driven primarily by a $49.0 million increase in distributions received from equity affiliates, primarily Market Hub. Effective with our 2007 IPO, Market Hub is required to make distributions of its Available Cash to its partners, including us.

Investing Cash Flows

Net cash flows used in investing activities totaled $249.4 million in 2009 compared to $17.3 million in 2008. The $232.1 million change was driven primarily by:

- the $294.5 million acquisition of NOARK in 2009, and
- $31.6 million of proceeds in 2009 from the liquidation of available-for-sale securities that were held as collateral for the term loan as compared to $123.0 million of net proceeds from the liquidation of such securities in 2008, partially offset by
- a $70.5 million increase in distributions received from Gulfstream as a result of their $300.0 million debt issuance in 2009,
- a $51.9 million decrease in investment expenditures in 2009 as a result of completions on Gulfstream s Phase III and Phase IV and Market Hub s Egan Cavern 4 expansion projects in 2008, as well as reduced spending on Market Hub s multi-year expansion projects in 2009,
- a $26.7 million decrease in capital expenditures primarily due to lower growth projects in 2009 at East Tennessee, and
- the $4.7 million cash portion of the Saltville acquisition in 2008.

Net cash flows used in investing activities totaled $17.3 million in 2008 compared to $205.0 million in 2007. This $187.7 million change was driven primarily by:

- $154.6 million of net purchases in 2007 of available-for-sale securities that were held as collateral for a term loan as compared to $123.0 million of net proceeds in 2008 from the liquidation of such securities. As permitted by the terms of that credit facility, proceeds were used for capital and investment expenditures. This $277.6 million decrease in cash used was partially offset by
- a $60.3 million increase in investment expenditures representing capital contributions to Gulfstream and Market Hub in 2008 used to fund their expansion projects,
- a $4.7 million cash portion of the Saltville acquisition in 2008, and

proceeds from sales of assets in 2007 of $8.3 million.

Capital and Investment Expenditures

	2009	2008 (in millions)	2007
Capital Expenditures			
Gas Transportation and Storage(a)	$ 20.3	$ 47.0	$ 30.4
Investment Expenditures			
Gulfstream	9.8	44.0	18.7
Market Hub	26.9	44.6	9.6
Total capital and investment expenditures	$ 57.0	$ 135.6	$ 58.7

(a) Excludes the acquisitions of NOARK in 2009 and Saltville in 2008.

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Capital and investment expenditures for 2009 totaled $57.0 million and included $40.7 million for expansion projects and $16.3 million for maintenance and other projects. Expansion capital and investment expenditures in 2009 included the completion of Gulfstream s Phase III and Phase IV expansion projects and the continued expansion on Market Hub s Egan Cavern 3 and Moss Bluff Cavern 4 projects.

We project 2010 capital and investment expenditures of approximately $75 million, of which $60 million is expected to be used for expansion projects and $15 million for maintenance and other projects. Given our objective of growth through acquisitions and expansions of existing assets, we anticipate that we will continue to invest significant amounts of capital to grow and acquire assets. Expansion capital expenditures may vary significantly based on investment opportunities.

We continue to evaluate customers needs for incremental expansion opportunities at East Tennessee, Gulfstream and Market Hub. In addition, we are assessing the needs of our Ozark customers for additional transportation services. We expect that significant natural gas infrastructure, including both natural gas transportation and storage with links to growing gas supplies and markets, will be needed over time to serve growth in gas-fired power generation, oil-to-gas conversions, industrial development and attachments to new gas supply.

Our primary business objective is to grow our cash distributions over time. We intend to accomplish this objective through expansions of our existing asset base. In addition, we will continue to pursue strategic acquisitions of transportation and storage assets. Significant 2010 expansion projects, including those of Gulfstream and Market Hub, are expected to include:

- Moss Bluff Cavern 4 construction continues, ultimately expected to increase storage working capacity by 6.5 Bcf to 22.0 Bcf, as well as upgrade top-side facilities and expand pipeline interconnects. The cavern is expected to be placed into service in 2011.

- Egan Cavern 3 was placed into initial gas service in the second half of 2009. The expected final working capacity of Egan Cavern 3 is 8.2 Bcf. The project, which also includes infrastructure improvements, is projected to be completed in 2012.

- Gulfstream The Phase V compression project is expected to be completed in mid-2011.

- East Tennessee Preliminary development efforts will begin on the Northeastern Tennessee expansion project, consisting of pipeline extension, pickup and relays and compression station modifications. The initial gas service date is expected to be in the second half of 2011.

Financing Cash Flows

Net cash provided by financing activities totaled $71.0 million in 2009 compared to $105.9 million cash used in 2008. The $176.9 million change was driven primarily by:

- $212.2 million of net proceeds received from the issuance of units associated with the NOARK acquisition in 2009, and

- $10.0 million of net payments on long-term debt in 2008, partially offset by

- a $22.5 million net payment on note payable to affiliates in 2009, and

$23.3 million of increased distributions to partners in 2009 compared to 2008, as a result of increasing distribution rates and an increase in the number of units outstanding due to the issuance in the second quarter of 2009.

Net cash flows used in financing activities in 2008 totaled $105.9 million compared to $135.0 million cash provided in 2007. This $240.9 million change was driven primarily by:

$300.0 million net issuances of long-term debt and note payable to affiliates in 2007 as compared to a net reduction of $10.0 million in 2008,

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- $230.2 million of net cash received in 2007 from the issuance of common units to the public in the IPO, and

- $74.8 million of distributions to partners in 2008, partially offset by

- $362.4 million of net transfers to parent in 2007, which included an initial cash distribution of $345.0 million to Spectra Energy on July 2, 2007, and

- $12.5 million of dividends in 2007 by East Tennessee to its parent prior to the IPO.

Prior to the completion of the IPO, all of our excess cash flow was distributed as dividends and net transfers to Spectra Energy. As a result, our changes in cash provided by operating activities and cash used in investing activities were offset by cash flows for financing activities.

Funding of NOARK Acquisition. On May 4, 2009, we acquired all of the ownership interests of NOARK from Atlas for approximately $294.5 million. The transaction was initially funded by $218.0 million drawn on our available bank credit facility, $70.0 million borrowed under a credit facility with a subsidiary of Spectra Energy and $6.5 million from cash on hand. This transaction was partially refinanced in the second quarter of 2009 through the issuance of 9.8 million common units to the public, representing limited partner interests, and 0.2 million general partner units to Spectra Energy, resulting in net proceeds of $212.2 million that was used to repay $142.2 million drawn on our bank credit facility and $70.0 million drawn on the credit facility with a subsidiary of Spectra Energy. Effective with the $70.0 million repayment, the credit facility with the subsidiary of Spectra Energy was terminated. The bank credit facility was further paid down with the proceeds from the special distribution of $72.7 million received from Gulfstream in the second quarter of 2009.

Available Credit Facility and Restrictive Debt Covenants. Effective as of July 2, 2007, we entered into a five-year $500.0 million credit agreement that included both term and revolving borrowing capacity, of which we borrowed $194.0 million of term borrowings and $125.0 million of revolving borrowings upon the closing of the IPO. The term loans were repaid in 2008 and 2009 and that feature of the credit facility is no longer available. The revolving credit facility bears interest based on the London InterBank Offering Rate (LIBOR) and $260.0 million is available under this facility.

The credit facility prohibits us from making distributions of Available Cash to unitholders if any default or event of default, as defined, exists. In addition, the credit facility contains covenants, among others, limiting our ability to make other restricted distributions or dividends on account of the purchase, redemption, retirement, acquisition, cancellation or termination of partnership interests, and is also subject to certain financial covenants. These financial covenants include financial leverage and interest coverage ratios. The terms of the credit agreement require us to maintain a ratio of total debt to Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), as defined in the credit agreement, of 5.0 or less. As of December 31, 2009, the ratio was 1.5. The terms of the credit agreement also require us to maintain a ratio of Adjusted EBITDA to interest expense of 2.5 or greater. As of December 31, 2009, the ratio was 16.5. Adjusted EBITDA, and therefore these ratios, are affected by substantially the same economic and other drivers as those previously discussed under Results of Operations. We are not aware of any events that would cause us to not comply with such covenants in the near future. The credit facility does not contain provisions that trigger an acceleration of indebtedness based solely on the occurrence of a material adverse change in our financial condition or results of operations.

Cash Distributions. The partnership agreement requires that, within 45 days after the end of each quarter, we distribute all of our Available Cash, as defined, to unitholders of record on the applicable record date. We have increased the quarterly cash distributions each quarter of 2009 from $0.36 per limited partner unit for the fourth quarter of 2008 to $0.41 per limited partner unit for the fourth quarter of 2009, or 14%. A cash distribution to our unitholders of $0.41 per limited partner unit was declared on January 21, 2010 and was paid on February 12, 2010, which is a $0.01 per limited partner unit increase over the cash distribution paid on November 13, 2009.

Other Financing Matters. As of the date of this filing, we have $1.3 billion available in the aggregate under an effective shelf registration statement on file with the SEC to register the issuance of limited partner common units and various debt securities.

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Off Balance Sheet Arrangements

We do not have any off-balance sheet financing entities or structures with third parties other than our equity investments in Gulfstream and Market Hub, and maintain no debt obligations that contain provisions requiring accelerated payment of the related obligation in the event of specified declines in credit ratings.

Gulfstream has $1,150.0 million aggregate principal amount of senior notes outstanding, none of which is included on our consolidated balance sheets.

Contractual Obligations

We enter into contracts that require payment of cash at certain specified periods, based on certain specified minimum quantities and prices. The following table summarizes our contractual cash obligations for each of the periods presented. The table below excludes all amounts classified as Current Liabilities on the Consolidated Balance Sheets. It is expected that the majority of these current liabilities will be paid in cash in 2010, with the exception of the note payable to affiliate. The note payable to affiliate has a maturity date of 2012, however is payable on demand thus classified as a current liability.

Contractual Obligations as of December 31, 2009

	Payments Due by Period				
	Total	2010	2011 & 2012	2013 & 2014	2015 & Beyond
			(in millions)		
Long-term debt(a)	$ 418.8	$ 10.0	$ 408.8	$	$
Operating leases	0.5	0.1	0.2	0.2	
Purchase obligations	0.6	0.6			
Total contractual cash obligations	$ 419.9	$ 10.7	$ 409.0	$ 0.2	$

(a) See Note 12 of Notes to Consolidated Financial Statements. Amounts include estimated scheduled interest payments over the life of the associated debt.

Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks associated with interest rate and credit exposure. We have established comprehensive risk management policies to monitor and manage these market risks. Spectra Energy is responsible for the overall governance of managing our interest rate risk and credit risk, including monitoring exposure limits.

Interest Rate Risk

We are exposed to risk resulting from changes in interest rates as a result of our issuance of variable and fixed-rate debt and investments in short-term securities. We manage our interest rate exposure by limiting our variable-rate exposures to percentages of total debt and by monitoring the effects of market changes in interest rates. We also enter into financial derivative instruments, including, but not limited to, interest rate swaps to manage and mitigate interest rate risk exposure. See Item 8. Financial Statements and Supplementary Data, Notes 1, 12 and 16 of Notes to Consolidated Financial Statements.

Based on a sensitivity analysis as of December 31, 2009, it was estimated that if market interest rates average 100 basis points higher (lower) in 2010 than in 2009, interest expense, net of offsetting impacts in interest income, would increase (decrease) by $0.8 million. Comparatively, based on a sensitivity analysis as of December 31, 2008, had interest rates averaged 100 basis points higher (lower) in 2009 than in 2008, it was estimated that interest expense, net of offsetting interest income, would have fluctuated by $1.2 million. These amounts were estimated by considering the effect of the hypothetical interest rates on variable-rate debt outstanding, adjusted for interest rate hedges, investments, and cash and cash equivalents outstanding as of December 31, 2009 and 2008. If interest rates changed significantly, we would

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likely take action to manage our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in our financial structure.

In 2008, we entered into a series of two and three-year pay fixed receive floating interest rate swap agreements with Spectra Energy to mitigate our exposure to variable interest rates on $140.0 million of loans outstanding under the revolving credit facility. In 2009, we entered into a series of three-year pay fixed receive floating interest rate swap agreements with third parties to mitigate our exposure to variable interest rates on $40.0 million of loans outstanding under the revolving credit facility. As of December 31, 2009, the total notional amount of our interest rate swaps was $180.0 million.

Credit Risk

Credit risk represents the loss that we would incur if a counterparty fails to perform under its contractual obligations. Our exposure generally relates to receivables and unbilled revenue for services provided, as well as volumes owed by customers for imbalances or gas loaned by us generally under park and loan services and no-notice services. Our principal customers for natural gas transportation, storage and gathering services are industrial end-users, marketers, exploration and production companies, LDCs and utilities located in the southeastern United States, Oklahoma, Arkansas and Missouri. We have concentrations of receivables from these industry sectors. These concentrations of customers may affect our overall credit risk in that risk factors can negatively affect the credit quality of the entire sector.

We had one customer that represented approximately 11% of the gross fair value of trade accounts receivable at December 31, 2009.

Where exposed to credit risk, we analyze the counterparties financial condition prior to entering into an agreement, establish credit limits and monitor the appropriateness of these limits on an ongoing basis. We also obtain parental guarantees, cash or letters of credit from customers to provide credit support, where appropriate, based on our financial analysis of the customer and the regulatory or contractual terms and conditions applicable to each transaction. Over 90% of our credit exposures for transportation, storage and gathering services are either with customers who have an investment-grade rating (or the equivalent based on an evaluation by Spectra Energy), or are secured by collateral. However, we cannot predict to what extent our business would be impacted by deteriorating conditions in the economy, including possible declines in our customers creditworthiness.

We manage cash to maximize value while assuring appropriate amounts of cash are available, as required. We typically invest our available cash in high-quality money market securities. Such money market securities are designed for safety of principal and liquidity, and accordingly, do not include equity-based securities.

Market Hub, our 50% equity investment, also has gas imbalances created primarily by park-and-loan services. Increases in gas prices and gas price volatility can materially increase Market Hub s credit risk related to gas loaned to customers. The highest amount of gas loaned out by Market Hub during 2009 was approximately 4.0 Bcf. The market value of that volume, assuming an average market price of $6.00 per MMBtu, would be $24 million. Market Hub s credit exposure from gas loans is managed consistent with the program described above, and Market Hub obtains security deposits as necessary from third parties and affiliates to cover any excess exposure.

Based on our policies for managing credit risk, our exposures and our credit and other reserves, we do not anticipate a materially adverse effect on our consolidated results of operations or financial position as a result of non-performance by any counterparty.

OTHER ISSUES

Global Climate Change. Policymakers at regional, federal and international levels continue to evaluate potential legislative and regulatory compliance mechanisms to achieve reductions in global GHG emissions in an effort to

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address the challenge of climate change. It is likely that our assets and operations are or will become subject to direct and indirect effects of current and possible future global climate change regulatory actions in the jurisdictions in which those assets and operations are located.

The current international climate framework, the United Nations-sponsored Kyoto Protocol, prescribes specific targets to reduce GHG emissions for developed countries for the 2008-2012 period. The Kyoto Protocol expires in 2012 and has not been signed by the United States. United Nations-sponsored international negotiations were held in Copenhagen, Denmark in December 2009 with the intent of defining a future agreement for 2012 and beyond. While the talks resulted in a non-binding political agreement, to date, a binding successor agreement to the Kyoto Protocol has not been reached.

In the United States, climate change action is evolving at state, regional and federal levels. We expect that a number of our assets and operations could be affected by eventual mandatory GHG programs; however, the timing and specific policy objectives in many jurisdictions, including at the federal level, remain uncertain.

The United States is not a signatory to the Kyoto Protocol, nor has the federal government adopted a mandatory GHG emissions reduction requirement. However, the EPA issued the final Mandatory Greenhouse Gas Reporting rule in 2009 that will require annual reporting of GHG emissions data from certain of our U.S. operations beginning in 2010. This reporting requirement is not anticipated to have a material impact on our consolidated results of operations, financial position or cash flows. The EPA also proposed the Prevention of Significant Deterioration and Title V Greenhouse Gas Tailoring Rule in 2009 to address how GHG emissions would be regulated under the existing Clean Air Act. This proposed rulemaking has not yet been finalized. In addition, several legislative proposals have been introduced and discussed in the U.S. Congress that would impose GHG emissions constraints, including H.R. 2454 the American Clean Energy and Security Act, which passed the House of Representatives in June 2009. To date, similar legislation has not been considered by the full U.S. Senate.

A number of states in the United States are establishing or considering state or regional programs that would mandate reductions in GHG emissions. These regional programs include the Regional Greenhouse Gas Initiative which applies only to power producers in select northeastern states, the Western Climate Initiative which includes a number of western states and Canadian provinces, and the Midwestern Greenhouse Gas Reduction Accord which includes six midwestern states and one Canadian province. We expect a number of our assets and operations could be affected either directly or indirectly by state or regional programs. However, as the key details of future GHG restrictions and compliance mechanisms remain undefined, the likely future effects on our business are highly uncertain.

Due to the speculative outlook regarding any U.S. federal and state policies, we cannot estimate the potential effect of proposed GHG policies on our future consolidated results of operations, financial position or cash flows. However, such legislation could materially increase our operating costs, require material capital expenditures or create additional permitting, which could delay proposed construction projects. We continue to monitor the development of greenhouse gas regulatory policies in the jurisdictions in which we operate.

Other. For additional information on other issues, see Item 8. Financial Statements and Supplementary Data, Notes 5 and 15 of Notes to Consolidated Financial Statements.

New Accounting Pronouncements

See Note 1 of Notes to Consolidated Financial Statements for discussion.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures About Market Risk for discussion.

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Item 8. Financial Statements and Supplementary Data.

Management s Annual Report on Internal Control over Financial Reporting

The management of our General Partner is responsible for establishing and maintaining an adequate system of internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with generally accepted accounting principles. Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

The management of our General Partner, including our Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2009 based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2009.

Our independent registered public accounting firm has audited and issued a report on the effectiveness of our internal control over financial reporting, which is included in its Report of Independent Registered Public Accounting Firm.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Unitholders of

Spectra Energy Partners, LP:

We have audited the accompanying consolidated balance sheets of Spectra Energy Partners, LP and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, partners capital/predecessor equity and comprehensive income, and cash flows of Spectra Energy Partners, LP and subsidiaries and Spectra Energy Partners Predecessor for each of the three years in the period ended December 31, 2009 (collectively, Spectra Energy Partners, LP and subsidiaries and Spectra Energy Partners Predecessor are the Company). Our audits also included the financial statement schedule listed in the Index at Item 15. We also have audited the Company s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits. The consolidated financial statements give retroactive effect to the acquisition of 100% of the equity interests of Saltville Gas Storage Company L.L.C. (Saltville) and the P-25 pipeline from Spectra Energy Corp by the Company on April 4, 2008, which has been accounted for in a manner similar to a pooling of interests as described in Notes 1 and 2 to the consolidated financial statements.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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In our opinion, such consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, after giving retroactive effect to the acquisition of Saltville and the P-25 pipeline described in Notes 1 and 2 to the consolidated financial statements, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in Note 1 to the consolidated financial statements, on July 2, 2007 the Company completed its initial public offering. For periods prior to the closing of the initial public offering, the financial statements were prepared from the separate records maintained by Spectra Energy Capital, LLC for East Tennessee Natural Gas LLC, Market Hub Partners Holding and Gulfstream Natural Gas System, L.L.C., the entities that were contributed to the Company by Spectra Energy Corp, and are based on the historical ownership percentages of the entities operations that were contributed. The financial results of the entities are treated as the historical results of the Company for financial statement purposes and may not necessarily be indicative of the conditions that would have existed or the results of operations if the Company had been operated as an unaffiliated entity. Portions of certain expenses represent allocations made from and are applicable to Spectra Energy Capital, LLC as a whole.

Also as described in Note 1 to the consolidated financial statements, the portion of the accompanying consolidated financial statements attributable to Saltville and the P-25 pipeline have been prepared from the separate records maintained by Spectra Energy Capital, LLC and may not necessarily be indicative of the conditions that would have existed or the results of operations if Saltville and the P-25 pipeline had been operated as unaffiliated entities. Portions of certain expenses represent allocations made from, and are applicable to Spectra Energy Capital, LLC as a whole.

/s/ Deloitte & Touche LLP

Houston, Texas

March 11, 2010

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SPECTRA ENERGY PARTNERS, LP

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per-unit amounts)

	Years Ended December 31, 2009	2008	2007
Operating Revenues			
Transportation of natural gas	$ 150.7	$ 107.0	$ 100.6
Storage of natural gas and other	28.2	17.9	20.5
Total operating revenues	178.9	124.9	121.1
Operating Expenses			
Operating, maintenance and other	24.7	20.2	26.4
Operating, maintenance and other affiliates	35.6	23.4	3.3
Depreciation and amortization	28.5	26.3	26.4
Property and other taxes	7.3	3.1	4.4
Total operating expenses	96.1	73.0	60.5
Operating Income	82.8	51.9	60.6
Other Income and Expenses			
Equity in earnings of unconsolidated affiliates	70.7	61.4	55.6
Other income and expenses, net	0.1	0.9	0.4
Total other income and expenses	70.8	62.3	56.0
Interest Income	0.2	3.5	5.5
Interest Expense	11.5	16.3	16.5
Interest Expense Affiliates	5.2	1.5	0.6
Earnings Before Income Taxes	137.1	99.9	105.0
Income Tax Expense (Benefit)(a)	1.2	(1.4)	(97.9)
Net Income	$ 135.9	$ 101.3	$ 202.9
Calculation of Limited Partners Interest in Net Income:			
Net income	$ 135.9	$ 101.3	$ 202.9
Less:			
Net income attributable to predecessor operations		1.6	156.7
General partner s interest in net income	5.7	2.5	0.9
Limited partners interest in net income	$ 130.2	$ 97.2	$ 45.3
Weighted average limited partners units outstanding basic and diluted	76.4	69.4	66.2
Net income per limited partner unit basic and diluted	$ 1.71	$ 1.40	$ 0.68
Distributions paid per limited partner unit	$ 1.51	$ 1.34	$ 0.30

(a) Includes a $2.5 million benefit in 2008 and a $110.5 million benefit in 2007 related to the elimination of accumulated deferred income tax liabilities. See Note 6 for further discussion.

See Notes to Consolidated Financial Statements.

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SPECTRA ENERGY PARTNERS, LP

CONSOLIDATED BALANCE SHEETS

(In millions)

	December 31, 2009	December 31, 2008
ASSETS		
Current Assets		
Cash and cash equivalents	$ 12.2	$ 30.9
Receivables, trade (net of allowance for doubtful accounts of $0.1 and $0.5 at December 31, 2009 and 2008, respectively)	21.5	11.4
Receivables affiliates	0.6	0.8
Natural gas imbalance receivables	3.5	2.2
Natural gas imbalance receivables affiliates	1.7	2.5
Inventory	5.2	3.0
Fuel tracker	0.6	
Other	2.2	1.5
Total current assets	47.5	52.3
Investments and Other Assets		
Investments in unconsolidated affiliates	536.3	573.3
Goodwill	267.9	118.3
Other investments		31.6
Total investments and other assets	804.2	723.2
Property, Plant and Equipment		
Cost	1,124.3	969.6
Less accumulated depreciation and amortization	179.0	154.4
Net property, plant and equipment	945.3	815.2
Regulatory Assets and Deferred Debits	15.5	10.8
Total Assets	$ 1,812.5	$ 1,601.5

See Notes to Consolidated Financial Statements.

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SPECTRA ENERGY PARTNERS, LP

CONSOLIDATED BALANCE SHEETS

(In millions)

	December 31, 2009	December 31, 2008
LIABILITIES AND PARTNERS CAPITAL		
Current Liabilities		
Accounts payable	$ 3.4	$ 4.4
Accounts payable affiliates	11.4	7.6
Taxes accrued	4.1	2.4
Interest accrued	0.5	0.8
Natural gas imbalance payables	3.6	3.2
Note payable affiliates	27.5	50.0
Fuel tracker		2.8
Other	5.4	4.7
Total current liabilities	55.9	75.9
Long-term Debt	390.0	390.0
Deferred Credits and Other Liabilities		
Deferred income taxes	10.0	8.8
Other affiliates	4.8	5.6
Other	3.3	2.8
Total deferred credits and other liabilities	18.1	17.2
Commitments and Contingencies		
Partners Capital		
Common units (58.7 million and 48.9 million units issued and outstanding at December 31, 2009 and 2008, respectively)	1,015.0	794.5
Subordinated units (21.6 million units issued and outstanding)	308.5	304.7
General partner units (1.6 million and 1.4 million units outstanding at December 31, 2009 and December 31, 2008, respectively)	27.2	21.4
Accumulated other comprehensive loss	(2.2)	(2.2)
Total partners capital	1,348.5	1,118.4
Total Liabilities and Partners Capital	$ 1,812.5	$ 1,601.5

See Notes to Consolidated Financial Statements.

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SPECTRA ENERGY PARTNERS, LP

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Years Ended December 31, 2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 135.9	$ 101.3	$ 202.9
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	28.5	26.3	26.4
Deferred income tax expense (benefit)	1.2	(2.0)	(103.6)
Equity in earnings of unconsolidated affiliates	(70.7)	(61.4)	(55.6)
Distributions received from unconsolidated affiliates	74.3	71.7	22.7
Decrease (increase) in:			
Receivables	(4.8)	3.7	(14.8)
Taxes receivable affiliates	(0.2)	(0.2)	1.5
Other current assets	(0.7)	(1.2)	1.6
Increase (decrease) in:			
Accounts payable	(1.0)	2.5	8.4
Taxes accrued	(0.2)	(1.1)	3.8
Other current liabilities	(4.5)	(1.4)	(4.5)
Other, assets	1.3	1.2	1.6
Other, liabilities	0.6	(0.2)	(5.5)
Net cash provided by operating activities	159.7	139.2	84.9
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(20.3)	(47.0)	(30.4)
Investment expenditures	(36.7)	(88.6)	(28.3)
Acquisitions, net of cash acquired	(294.5)	(4.7)	
Distributions received from unconsolidated affiliates	70.5		
Proceeds from sales of assets			8.3
Purchases of available-for-sale securities		(1,132.0)	(1,439.0)
Proceeds from sales and maturities of available-for-sale securities	31.6	1,255.0	1,284.4
Net cash used in investing activities	(249.4)	(17.3)	(205.0)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of debt under credit facilities	3,159.0	1,785.0	380.0
Payments for the redemption of debt under credit facilities	(3,159.0)	(1,795.0)	(130.0)
Proceeds from issuance of units	212.2		230.2
Proceeds from notes payable affiliates	77.0		50.0
Payments on notes payable affiliates	(99.5)		
Dividends to parent			(12.5)
Distributions to partners	(118.4)	(95.1)	(20.3)
Transfers to parent, net		(0.8)	(362.4)
Other	(0.3)		
Net cash provided by (used in) financing activities	71.0	(105.9)	135.0

Net increase (decrease) in cash and cash equivalents		(18.7)		16.0		14.9
Cash and cash equivalents at beginning of the period		30.9		14.9		
Cash and cash equivalents at end of the period	$	12.2	$	30.9	$	14.9
Supplemental Disclosures						
Cash paid for interest, net of amount capitalized	$	16.2	$	14.3	$	10.3
Cash paid for income taxes		0.1		0.9		6.5
Property, plant and equipment noncash accruals		0.7		1.3		1.9

See Notes to Consolidated Financial Statements.

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SPECTRA ENERGY PARTNERS, LP

CONSOLIDATED STATEMENTS OF PARTNERS CAPITAL/PREDECESSOR

EQUITY AND COMPREHENSIVE INCOME

(In millions)

	Predecessor Equity	Partners Capital Limited Partners Common	Partners Capital Limited Partners Subordinated	General Partner	Accumulated Other Comprehensive Income (Loss)	Total
December 31, 2006	$ 1,093.3	$	$	$	$ 3.8	$ 1,097.1
Net income attributable to the period January 1, 2007 through July 2, 2007	156.7					156.7
Net income attributable to the period July 3, 2007 through December 31, 2007		30.5	14.8	0.9		46.2
Reclassification of cash flow hedges into earnings					(0.3)	(0.3)
Total comprehensive income						202.6
Dividends to parent	(12.5)					(12.5)
Distributions to partners		(13.4)	(6.5)	(0.4)		(20.3)
Net change in parent advances	(373.4)					(373.4)
Conversion to Spectra Energy Partners, LP	(765.7)	452.0	295.2	18.5		
Issuance of common units		230.2				230.2